



## Unfinished Business

Why the SEPA Project Needed More Time



Luca Poletto, BNP Paribas - 11 February 2014

In this interview with gtnews, Luca Poletto, head of SEPA at BNP Paribas Cash Management, explains the background to the recent six month extension granted to European corporates for compliance with the single euro payments area (SEPA) deadline, and the advantages he believes the new regime will bring over time.

**gtnews:** There was a very consistent message sent to companies, from bodies such as the European Payments Council (EPC), that the 1 February 2014 deadline for the migration of payments to SEPA would not be extended? Was the late granting of six months' extension to 1 August therefore a surprise?

**Poletto:** It wasn't a total surprise. While a number of major corporates that BNP Paribas advises planned to complete their migration in time for the 1 February deadline, they didn't begin their roll-out until a fairly late stage. Only then did they discover that they had a few unanticipated problems. It was evident that in several countries a fairly large proportion of small and medium-sized enterprises (SMEs) weren't going to be ready in time.

The final two months of 2013 and January 2014 saw a sizeable increase in both the number of SEPA credit transfers and direct debits (SCTs and SDDs) across the eurozone generally. However, several countries are evidently still lagging - particularly where their small and medium-sized enterprises (SMEs) are concerned. This was even the case in the major economies of France, Germany, Italy, Spain and the Netherlands.

**The extension was given as it seemed unlikely that 100% SEPA compliance would be achieved either for credit transfers or direct debits by the original deadline. Are specific countries or companies in specific industries mainly responsible for the disappointing percentages?**

There has been some suggestion that countries in Northern Europe were more ready than those of Southern Europe, but this is overly simplistic. Take the Netherlands as an example; as recently as last October its SEPA migration rates were still relatively low but in just the two months of November and December it caught up very quickly.

Even Spain and Italy were lagging at a relatively late stage but over those same two months managed to get their migration rates to between 80% and 90%.

The response from individual countries has been uneven. Some have decided that the full extension period of six months is not necessary for migration to be completed. Belgium and Ireland for example have limited the extension to two months rather than six - they should be able to finalise the migration process fairly promptly. The fact that both adoption and reaction has varied from one country to another will have an impact on pan-European corporations.



*You could view this in a positive light as a sign that the remaining migrations will be completed sooner rather than later. At the same time it also indicates a lack of harmonisation across the eurozone. Those countries that believe they can complete the process in less than six months are obviously the ones with superior migration rates.*

**Is this six month extension a sensible concession or simply accepting the fact that SEPA targets wouldn't have been reached in time for 1 February? Do you expect companies to use the extra time for an orderly transition or simply to put off any action for a further six months?**

*It's possible that, as a result of the six months' extension, companies might be tempted to hold off until June or July but there is a major effort in both communication and support to persuade them there is no reason for further delay. Banks are supporting the migration efforts of those clients that have left it until fairly late and local solution providers are providing further support. Anyway, the especially large remitters are continuing to roll out their migration projects, without adding any further delay.*

*But it needs to be stressed that the extension really is a very last chance for companies to meet the migration deadline, so volumes over the next few weeks are likely to reflect very high levels of activity. We'll probably need to give a good deal of help and support to the SMEs though.*

**Countries such as Finland have been praised for being early adopters of SEPA payment instruments. What were the main reasons and why have other European countries been less enthusiastic?**

*Finland's story is a fairly simple one as they took an important decision to switch over from their existing direct debit system early on.*

*But in addition to Finland, Belgium's story is worthy of mention. In Belgium, the banks decided to push clients to adopt SEPA fairly early on. Creditors quickly discovered the scheme's many advantages and the possibility of collecting payments cross-border. Belgian companies have a particularly high number of pan-European clients, which might partly explain why their reaction to SEPA was more enthusiastic than those of corporates in many neighbouring countries.*

*Particularly as far as domestic payments were concerned, many large companies running a purely domestic business were perfectly happy with their existing schemes. Germany is a prime example of a major eurozone member where clients were comfortable with the prevailing direct debit scheme and the advantages of SEPA weren't immediately achievable. The story was much the same in France, Italy and Spain.*

**Non-euro area countries such as the UK have until the end of October 2016 to complete their SEPA migration. However, would it be sensible for them to work towards the 1 August 2014 deadline rather than wait an additional two years?**

*Well, we're not talking about particularly large volumes here and there is a strong case for them to aim for a shorter migration period rather than holding off for a further two and a half years. The major banks are already offering SCTs and SDDs in the non-eurozone countries and many of the companies based there recognise that it is good business sense to complete the process in the next few months and ahead of schedule in order to exploit the additional opportunities that result.*

**Based on BNP Paribas' experience with clients, is SEPA regarded by companies as something that will bring benefits or merely an expensive exercise in compliance?**

*We've seen a range of attitudes, the individual response depending on the particular client. The bank has a number that decided they'd be among the early adopters and we started to help them with their SEPA projects as early as 2010-11. These companies, many of them having a pan-European profile, appreciated the benefits of centralisation and recognised there was a sustainable business case, so decided to adopt SEPA early on.*

*There were also clients with a substantial volume of both domestic and cross-border activity, which appreciated the benefits of one single scheme such as the ability to have all remittance information gathered together.*

*On the other hand, in all eurozone countries there is a pool of clients whose activities are either wholly or largely domestic and generally they tend to regard SEPA as more of a compliance exercise than something that offers advantages.*



**With the benefit of hindsight, could the authorities have planned and promoted the migration to SEPA any better? If 'yes', what improvements would you suggest?**

*The task of communicating and promoting SEPA directly to final users has been a massive campaign, undertaken largely by the various banking associations as well as by individual banks. For example, some banks have gone further and organised marketing initiatives such as local events in order to better communicate the message.*

*The authorities have certainly done some of the work, but a greater effort rather earlier on would have helped the banking system to provide all stakeholders with greater awareness about the advantages of SEPA, which weren't always clear especially when it started in 2008-09.*

**Are you confident that once the SEPA regime is firmly established, companies will come to appreciate the benefits over time? Are other regions of the world considering their own versions of SEPA – and if 'yes' where?**

*After this frantic migration period, companies will certainly recognise the certain benefits that come from using - in 33 countries - a single, harmonised credit transfer or collection scheme, supported by standardised formats, extendible to other operations as well.*

*I'm not aware of any specific regions attempting to adopt this type of payments solution, but there have been individual countries that have decided to run local schemes based on extensible mark-up language (XML), Romania being one example.*

**Will we still be talking about SEPA a year from now – or will it be so well-established and widely accepted that it will have ceased to be an issue?**

*I'd certainly hope so. By February 2015, the job should largely have been completed in the eurozone countries. We'll then be managing two rather smaller-scale projects, these being the migration of niche products and the migration process of non-eurozone countries, which will still have more than a year to run.*

*Clients will also attempt to adopt SEPA in a wider sense, using XML in a pan-European perspective and we'll have also to manage smaller geographies for more local schemes.*

*In addition, we should also mention that in Portugal, Spain and Italy - due to official approved waivers especially - some smaller companies have a further two years in which they can continue using the local format, so for these the real migration deadline won't be until February 2016.*