

The SEPA product pipeline

Advancing critical dialogue

What SEPA products are banks preparing to offer their customers?

Since its inception, the Single Euro Payments Area (SEPA) has mainly focused on infrastructure and interoperability. Now all the hard work appears to have paid off and the focus is shifting back to the customer.

“Essentially we already have near 100% reachability,” says Gilbert Lichter, secretary general of the Euro Banking Association and CEO of EBA Clearing, the pan European ACH (PE-ACH). He confirms that EBA Clearing now has 104 direct participants for its SEPA service linking through to 4,100 financial institutions in 31 SEPA countries, plus direct links with 15 clearing and settlement mechanisms (CSM), including all the major countries.

With such a network, the potential is enormous. “Like the euro,



Will reporting rules act as a brake?

SEPA will have a transformational effect,” says Alan Koenigsberg, core cash product executive for EMEA at JPMorgan Treasury Services. “We may not see the impact right away, but in 10 years it will be evident. It will reduce costs for banks and customers, stimulate intraregional trade, strengthen the value chain and even influence global trends. We’re now seeing the first signs of this in the Middle East and Asia,” he adds.

For Christian Westerhaus, head of payments strategy and infrastructures at Deutsche Bank, much of that transformation will come from standardised electronic interfaces. “Ideally we need a single SEPA-wide customer-to-bank XML standard, but a lot of harmonisation is already coming through the ERP vendors,” says Westerhaus. “They have now accepted the SEPA XML standards and that will facilitate migration.”

Koenigsberg agrees. “SEPA was the best thing to happen to ISO 20022,” he says. “Now companies are asking for it and XML across all

How are banks encouraging smaller customers to engage?

markets globally. We’ll start to offer it in 2008.”

Such enthusiasm is beginning to spread. “There is a paradigm shift as the current value distribution in the payment chain is being challenged,” concludes Geoffroy de Schrevel, head of banking and trade initiatives at SWIFT EMEA. “Larger banks start seeing more value in the network and shared reference data rather than in the application provided by their market infrastructure.” He argues that companies will measure SEPA success based on their ability to get rid of ‘sticky’ proprietary channels in favour of a shared, industry-defined corporate-to-bank interface, a common industry messaging infrastructure, and new services provided by banks.

Peter Jameson, SEPA market manager at Citi EMEA Cash Management, believes this is a major opportunity for his firm’s corporate customers to reorganise their operations. “However, there are still account residency and local reporting

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Commission will need to act quickly, as people are beginning to demand these operational benefits. “Improved liquidity, simplified operations, better cash and working capital control, reduced account management: these are the real issues,” says Koenigsberg. “The highest level of service, not the lowest common denominator, is our goal.”

Pace of adoption

There is some debate over how quickly companies will move. “Some companies are saying they will wait for direct debits in 2009, but others appear ready to move forward with credit transfers alone,” says Johannes Majer, managing director of Banking Transaction Services, a shared service provider in the UniCredit Group based in the Czech Republic.

Jameson at Citi does not envisage such a delay. “We see the corporates starting to move irrespective of the direct debits launch date, but they want a global solution and support for all of their subsidiaries to secure the benefits,” he suggests. “They’re telling us first to get the core service reliably in place, and then to start building value-added services.”

“While there appears to be little inherent demand in Eastern Europe except Slovenia [the only CEE country that has already adopted the Euro],” says Majer, “multinationals that convert to SEPA have indicated they want their entire groups or supply chains to convert to SEPA, so it is very important that Eastern Europe is ready.”

Bank enticements

So what strategies are banks adopting to attract their customers to SEPA? “We can offer corporate customers immediate financial benefits with SEPA including BIC/IBAN support to ease transition and a single payments engine to ensure a consistent, pan-European service,” says Westerhaus. “A lot of our innovation will tie in SEPA.”

Others will find financial incentives more difficult. “Given the 2560 rule,” argues Erkki Poutiainen, head of infrastructure at Nordea Cash Management, “there is no room for further price reductions.” So instead Poutiainen will focus on being early to market with new features, such as

rules, which they see as obstacles to centralisation,” he points out.

“Central bank reporting is still a burning issue, in those countries where this has traditionally been done on a payment-by-payment basis,” notes Westerhaus at Deutsche Bank. “Other countries manage with purely survey-based statistical reporting. This should be the way forward.”

Gerard Hartsink, chairman of the European Payments Council (EPC) and senior executive vice president at ABN AMRO Market Infrastructures, is optimistic. “The Commission has assured us they will resolve the issue in their review of Rule 2560, which is now beginning,” he says. “In the short term we expect the minimum reportable value to be raised to EUR 50,000, while in the long term, we would like all countries to use statistical survey methods.”

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execution time and services, to drive tangible benefits.

“As part of the migration of the Finnish national clearing to EBA,” continues Poutiainen, “we are creating five additional optional services (AOSs) to bring the current level of domestic automation across to SEPA standards, such as facilitating automatic invoice reconciliation, to ensure customers do not lose out. We believe most of the AOSs will later be part of the new versions of the SEPA Rulebooks.” Nordea sees national or regional standards only as a transition. “Now we must focus on European or global standards,” he says.

The situation in Central and Eastern Europe is more mixed. Walfried Lemerz, head of infrastructures and transaction services at Raiffeisen Zentralbank Österreich, explains: “Austria was among the leaders to implement



Rule 2560, IBAN/BIC and Step2. We hope to be a front-runner on SEPA as well. There are some signs that the public authorities here will be an early adopter even in 2008.”

However, first movers can have special challenges. “Companies in Austria and Finland committed early to the global EDIFACT standard,” notes Lemerz. “They would have to give that up if they convert to SEPA and there is reluctance to do so until they see the how widely the European standard is used.”

Some of the SEPA advantages are already available to Eastern European companies. “Technically, T+1 is already widely available across eastern Europe, where it is used for corporate payments within group banking networks, so some customers won’t really see much of a difference,” says Majer, although he believes that the SEPA direct debit scheme has some real advantages for customers, since domestic schemes are quite restrictive.

In Italy there appear to be two strategies both supported by SIA-SSB, one of the main national CSMs and the technology provider to EBA. “In the SEPA arena, we currently offer two solutions,” says Mario De Lorenzo, SIA-SSB’s payment systems director. The first is a service approach to translate local payment formats and SEPA payments so that smaller banks can

be SEPA-compliant with no change to their back office. The second is a project approach for early adopters who want to streamline their internal operations and link directly to SEPA via ISO 20022 and XML. “In this way, all our customers can be ready to participate in SEPA in January 2008,” says De Lorenzo. So for many smaller banks, SEPA will simply be used automatically to service their cross-border payments, while some of the larger banks will adopt a more aggressive strategy.

As AOSs materialise and banks engage in various clearing and settlement arrangements, the necessity of relying on a SEPA-wide common routing directory will increase. Such a directory would detail who is part of which AOS, what are the different clearing and settlement arrangements of destination banks, and what are the various routes available to reach another bank. “Significant business benefits will accrue from being able to access such information automatically,” says de Schrevel. “This is a major reference data service that SWIFT will be providing to its community in January 2008.”

Direct debits

Right across Europe there is growing interest in SEPA direct debits. “Many corporates would love to leverage direct debits,”

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confirms Koenigsberg, “but transposition of the Payment Services Directive will take time and there are still some issues to be resolved.”

Here the key question is how to avoid seeking new mandates from retail clients. “This is being addressed in each country with transposition of the EU Payment Services Directive into local law,” notes Westerhaus. The EPC is also carrying out a study to help Member States find the best way forward.

Now that SEPA is about to become reality, many banks are thinking ahead to all the innovations to come. “Urgent, same day payments, known as Priority Payments, should follow in 2008, once the banks have freed up their resources from the main SEPA launch,” says Lichter.

The EPC is also close to finalising arrangements for e-mandates on direct debits. “We are looking at this as an AOS and it looks as though it will be approved,” says Hartsink. SWIFT and the EBA are also interested in supporting it, depending on demand from the banks and their customers. Another initiative has important new revenue potential. “SEPA Online is a proposal for an AOS for SEPA Credit Transfers,” says Hartsink. “It is defined as a potential service that delivers a

payment guarantee to web retailers where the consumer uses the authentication tool of his/her bank to initiate the SEPA Credit Transfer.

Some members see a major opportunity here for the industry.”

“The discussions around e-invoicing are also gaining momentum,” notes Koenigsberg from JPMorgan. “We would like to see SWIFT get more involved here as a moderator.”

Such value-added services will clearly drive volumes once the core service is established. The VocaLink CSM will target them explicitly. “Over 20 UK, European and international banks have joined us so far,” says Martin Wilson, chief marketing officer at VocaLink. “There was huge interest at Sibos when we announced our bank-sponsored, corporate access service. In the UK domestic service we have over 100,000 corporates already connected, so we already have economies of scale and security to add to a bank proposition to its corporate customers.”

Wilson explains that besides data validation and routing, VocaLink tracks payments for both banks and corporates, provides extensive management information and gives online control as well as customer service and support. He also

identifies other potential added-value services, including Faster Payments, which will launch next May in the UK, and e-billing where VocaLink has seven million customers in the UK. Emerging standards from the European corporate treasurers’ initiative, known as Corporate Action on Standards (CAST), will also be supported.

Once the SEPA network is established there appears to be enormous potential to grow the base. As Lichter at the EBA says, “Based on what we hear from the major banks, the corporate sector and technology firms, we are confident that volumes will really accelerate in 2009. We are at that point where we have shot the duck, but it has yet to fall out of the sky.”

This article was contributed by Bob Giffords, Banking and Technology Analyst. Comments are welcome at: Bob.Giffords@btinternet.com



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