The impact of the Single Euro Payments Area on European corporates

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12 April 2009

THE IMPACT OF THE SINGLE EURO PAYMENTS AREA ON EUROPEAN CORPORATES

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Abstract. *Introducerea Zonei Unice de Plăţi în Euro este cea mai importantă schimbare care influenţează asupra pieţei europene a serviciilor financiare, după lansarea monedei unice. Incidenţa proiectului se extinde asupra tuturor jucătorilor industriei de plăţi.Scopul prezentei lucrări este de a sublinia impactul pe care acest proiect il exercită asupra corporaţiilor la nivel european, în termeni de provocări, oportunităţi şi beneficii, precum şi modalităţile prin care acestea pot fi obţinute, ca urmare a colaborării solide cu băncile partenere şi a implementării efective a produselor şi standardelor Zonei Unice. Ca şi rezultat al acestei initiaţive, clienţii, atât consumatori cât şi corporaţii, vor beneficia în mod considerabil de întreaga gamă de noi oportunităţi oferite, în condiţiile în care proiectul promovează eficienţa, competiţia şi inovaţia.*

Cuvinte-cheie: Zona Unică de Plăţi în Euro, corporaţii, turbulenţe financiare, standardizare.

1. Introduction

In its premises, Single Euro Payments Area is an initiative of the aiming at harmonizing the system of cashless payments in the extended Euro zone, creating a coordinated environment of rules, standards and procedures, working as a single domestic payments market in which citizens and economics actors are able to make payments as easily and inexpensively as in their home countries.

The Single Euro Payments Area is a challenging project for the banking industry. Over time it will also affect citizens, corporations and public authorities in Europe. The creation of the Euro was a great achievement, but is it enough? SEPA is necessary if we wish to have a modern, sophisticated and efficient payment market for the Euro. Without SEPA, it will not be possible for the users of payment services to fully reap the benefits of a common currency and an integrated internal market.

The project's benefits are promoted by its initiators both from the political (European Commission) and the banking (European Payments Council) arenas. The corporate market, represented by the European Association of Corporate Treasurers, too has embraced the vision and acknowledged the potential benefits.

Any major market transformation produces winners and losers. But rather than size, the ability to manage the change, reap significant cost savings and reposition the product portfolio may appear to be more important for surviving and prospering in a post-SEPA market.

2. Chances and challenges for European corporate bodies.

From a perspective of little more than twelve months since the SEPA launch, it is clear that we have not witnessed a blockbuster, at least not so far. At the same time, we should all realize the potential benefits that SEPA could bring to business and consumer alike, and to paraphrase, this is "only the end of the beginning".

In 2009, no country is isolated. Trade and business deals flow across all physical state borders, emphasizing the need for widely accessible and secure ways of effecting payments.

The article is structured to answer three research questions:

A. What does SEPA really mean for businesses as a corporate and how should they prepare for implementing the project?
B. What are the SEPA benefits, opportunities and costs for different corporate bodies?
C. How is the credit crisis changing the payments landscape for the european corporations? What does the market analysis show?

A. The SEPA project had its point of no return for banks in early 2008 with the go-live of SEPA Credit Transfers (SCT). 2009 is likely to create more interest for corporate users of payment services to change processes and systems. The most important driver for such change is the implementation of the Payments Services Directive on 1 November 2009, which includes measures that are beneficial for corporate bodies and oblige banks to offer updated services for any EU currency in each of the 31 EU Member States affected by the regulation.

But what does SEPA really mean for businesses as a corporate? This initiative will be a key accelerator in reducing the number of accounts they need to hold through the use of in-house banks and pan-European accounts, as well as ensure interoperability through open formats and connectivity. In particular, SEPA offers multinationals the opportunity to centralize payment and collection initiation by establishing shared service centers or payment factories, as well as reduce the number of bank relationships as consolidation of the banking industry creates truly pan-European banks[1].

Practically, how should corporations prepare for SEPA? Every corporate should undertake some level of impact analysis regarding SEPA-if they not really done so this should be a priority in 2009. This is a discussion that they should have with their cash management banks. Each corporate body must understand where the potential advantages are in terms of migration to SEPA and the immediate advantages that result from the reduced cost of cross-border transfers. This entails understanding issues such as:

- The impact of SEPA on internal systems;
- The profile of their organization' transactions today, how they are being used and what they cost;
- How the new data elements being introduced to account statements will affect reconciliation;
- How will their systems manage the period that requires the dual running of legacy information/data with new SEPA data including BIC and IBAN alongside legacy account details?

Today, one of the most important challenges is to make the case for SEPA to a corporate audience that has shown some reluctance towards this initiative. While many of the larger multinationals have been able to see the potential benefits from the early stages-cost savings through greater operational efficiencies and further centralization potential, to name but a few-there are corporate bodies that are yet to be convinced that SEPA will yield any tangible benefits for them. A very fragmented development towards the full SEPA vision is foreseen. There will definitely not be a „one-size fits all"solution for SEPA adaptation. To passively sit and wait for solutions to come is however not an option. It will take time before SEPA has replaced current payments practices but future positioning needs to be planned now. Such activities, except from seeking advice from their banks, could be:

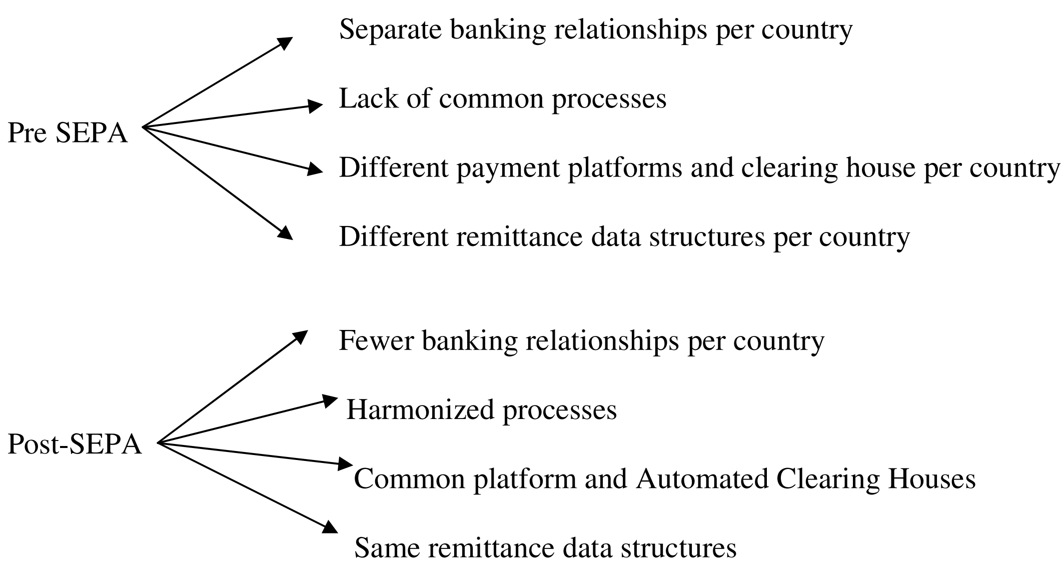
- To take part in discussions on how payment references and invoices should be standardized on European level;
- Raising investment budgets for format adaptations;
- Restructuring of accounts receivables and/or payables to a payment collection factory or a shared service centre.

[1] Gtnews, 2008, *Survey Reveals Corporates View SEPA as an Opportunity but Further Clarity is Vital*, from http://www.gtnews.com/feature/328.cfm

Depending on various factors such as customer segment, presence on different national markets, desired pace of adapting to new standards and overall cash management needs, corporations' own SEPA roadmaps should look very different. A deep competence on each local market combined with an overall perspective on SEPA and how it from case could best be integrated in the cash management solutions is the advice that every corporate body now should seek from its bank.

B. Corporate bodies should not underestimate the opportunity that is presented through SEPA. Equally, SEPA should not be considered as a stand-alone project impacting cross-border transactions only if it does not represent exclusively a way of reducing cross-border payment fees; if analyzed and embraced, SEPA presents an opportunity for significant process, risk management and cost- related improvements.

Fig. nr.1-Benefits of SEPA for Corporations



Source: Asymmetric Solutions Limited, from http://www.merchantbanking.fortis.com/Documents/SEPA/SEPA_Outside_In.pdf

The most obvious opportunity that SEPA provides to a corporate is the ability to centralize and rationalize the accounts payable process. SEPA brings along an instrument, the SEPA Credit Transfer-SCT, which can be used both for domestic and cross-border Euro transfers within most of Europe. This means that in sixteen Euro-countries the different national payments types and data formats can be substituted with one single payment type. There are, however, still some limitations concerning non-vendor payments[2], e.g. the SCT may not fully support tax or salary payments in all countries. There is also a counter-force to harmonization as some countries regard the standard SEPA payment as inferior to existing payment types. For example in Finland, reconciliation of receivables is already highly automated, something that standard SEPA payments not have been able to support.

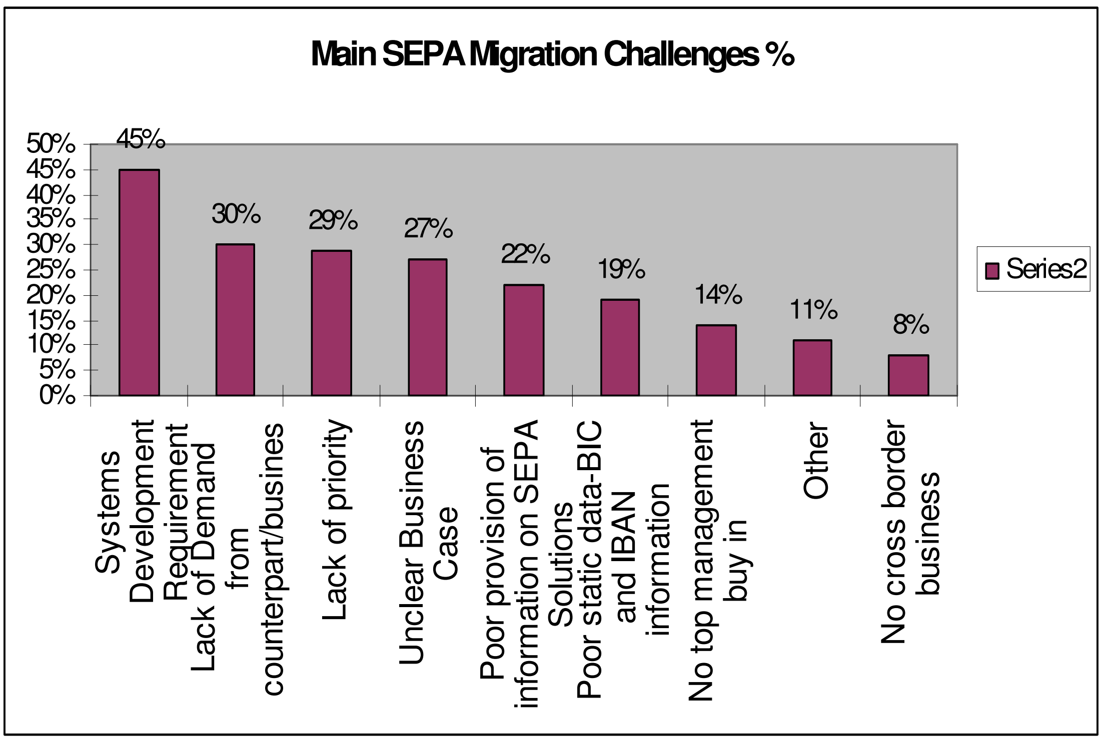
[2] Macknight, J., 2009, *SEPA-Lost in transposition*?, from http://www.vocalink.com/SiteCollectionDocuments/gtnews_SEPA%20article.pdf

Corporate bodies with operations in several countries are now able to create (and receive) a single aggregated file for all payments (domestic and cross-border) and submit those to a single institution within standard clearing and settlement timeframes. Entities with large volumes of direct debits and credit transfers can now to shop around for banks a clear and settle at best service, and lowest costs, inclusive of additional bank services, in any country.

Even for smaller, mainly nationally-oriented companies, SEPA is expected to provide benefits as competition in the banking sector increases, leading to a broader range of banks and banking services to choose from.

As we stand today, the majority of the European corporate bodies understand the benefits of SEPA. The question is: if so why aren't more taking action with their adoption plans? A study conducted by Gtnews in 2008, "The Taking Stock of SEPA" clearly showed that the main hurdle impeding corporate adoption is the "systems development requirements"- 45% of the respondents agreed on this point.

Graphic nr.1-The main challenges for corporate bodies to SEPA migration



Source: gtnews „Taking Stock of SEPA", survey 2008, from [*http://www.gtnews.com/feature/328.cfm*](http://www.gtnews.com/feature/328.cfm)

As the graphic reveals, there are a variety of stumbling blocks and each corporate will have a different view on this depending on their organizational structure, location and business operations.

Nothing ventured, nothing gained. There is, however, a price to be paid for progress. The transition to SEPA necessitates considerable investment and administrative adjustments, and will cost a lot of money and effort. Companies and organizations using less efficient methods of paying and collecting money may possibly end up paying higher charges than is now the case. Here lies an additional difficulty: the extra investments and costs are often more visible at individual level, whereas the benefits can be expected to be greater at macro level. For this reason, communication is important. Furthermore, the cost-benefit ratio will vary from one country to another. In a country where payment flows are already relatively efficient, this ratio may turn out to be fairly unfavorable, particularly in a short term.

In responding to the changes brought about by SEPA and the Payment Services Directive in Europe, corporate users have a lot to learn from similar payment services initiatives in other countries, such as Australia.

The need to improve payment service is not unique to Europe[3]. In many countries and regions, such as Japan, China, in the Middle East and Australia, there are projects under way that aim to upgrade payment services to meet modern requirements. In Australia, for example, the Australian Payments Clearing Association (APCA) published an Australian roadmap for low value payments in December 2008. This roadmap includes a high level vision of Australia low value payments leading out to 2018, as well as a short-term industry solution path for the next few years to work towards.

C. The pan-European payments landscape is evolving rapidly with the introduction of the SEPA project. Couple this with the ongoing impact of the credit crisis, whose effects spread to the wider economy, corporate bodies face numerous challenges and place a premium on efficient cash and liquidity management, especially where they manage a variety of euro denominated accounts in different Member States.

The present financial turmoil has clearly shown the importance of liquidity and cash management and the superiority of retail deposits as a source of bank financing. In addition, the focus on driving further working capital efficiencies has never been as important. There are plenty of opportunities for improvement, though, and corporate bodies should look to take advantage of the tools and techniques that are available today. For corporations, SEPA can provide advantages to sell cash and liquidity management services; for consumers, it can help attract retail deposits. Moreover, payments are a profitable business in its own right-providing a regular, reliable source of income with average annual volume growth of 8-9%[4].

The way to survive in today's climate is to be pro-active and more quickly. Due to the credit crunch, all corporations need to „go back to basics"[5] in terms of pan-European liquidity management.

The increasing automation of daily treasury operations is enabling corporate treasurers to take a more strategic role within the company. The treasury role now encompasses group-wide business solutions; working capital, risk management, productivity management; involvement in dispute resolution; a collaborative role with the CFO; and a leading and more visible role as a key decision maker in regional and global activities.

This is particularly important against the backdrop of the credit crunch, as the priorities in terms of liquidity management have changed in the last few months. For example, guaranteeing the availability of funds and that those funds are used to their maximum potential have asserted themselves as the priority for all corporate bodies right now.

The credit crisis has had profound effects on the world of financial services and there will be a new financial market model as a result. In this light and despite the crisis, payments remain an attractive business and one where a bank will wish to maintain its competitive edge. To capitalize on these investments, it is crucial that SEPA migration is kept on time and on track-the redundant cots of running duplicate payments systems must be avoided.

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[3] Buschman, T., 2009, *2009: A Good Year for Corporate Users of Payment Services*, from http://www.gtnews.com/article/7520.cfm

[4] Lund, B., 2009, *The Status of SEPA in 2009*, from http://www.ebaportal.eu/Content.aspx?PageGuid=4aa4bb85-c195-4bb1-bfc3-492047a25060

[5] Brissaud, O., 2008, *Credit Crunch-Impact on corporates*, from http://www.gtnews.com/article/7251.cfm

Conclusion

SEPA will bring a wide range of well documented advantages for a large group of corporate bodies in the Euro zone. In addition, however, there are over eight million companies operating in the accession countries, an increasing proportion of which are engaging in exports and imports to and from the Euro zone. These companies, often with substantial euro-based activity, both payables and receivables, will sees substantial cost reductions post-SEPA making it easier to do business competitively compared with companies in the Euro zone. These benefits will be accentuated even further once euro conversion takes place.

Once corporate bodies take full advantage of the opportunities SEPA creates, such as reduced costs through efficiency savings and reduction of their bank accounts, they will be able to benefit from a more standardized approach to Europe' s payment systems and potentially grow their international customer base. This will truly be arrival of SEPA.

In summary, developments within SEPA are quite mixed and complex but there is a very strong momentum for change. It is a fact that SEPA, and change in general, provides opportunities for organizations with a pro-active and dynamic mindset, while it represents a threat to others. This is therefore a good time for corporate bodies to challenge the abilities of their banks while remembering that opportunities are rather seized than served.

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