Douwe Lycklama & Harry Smorenberg

SEPA: why should CFOs enter the debate?

With the imminent introduction of the SEPA, the European Commission and the European Central Bank envisage a more competitive and transparent European payments market. This will lead to lower back-office costs for companies, but companies need to enter the debate to ensure they are aware of the changes.

The effect of the single euro payments area (SEPA) on both the financial services sector and on large businesses and retailers at point-of-sale is enormous. They have to recalibrate their payments strategy in the next few years, commercially as well as operationally. This is yet another imperative for the financial sector that has been plagued by all kinds of regulation to which it must conform (Basel II and Sarbanes-Oxley, to name just two). SEPA is a similar development, although in this case banks have practiced self-regulation in order to avoid legal measures. Pessimistic predictions from various consultancy firms indicate that European banks will have to invest up to EUR10bn in an operation that will eventually reduce their payment-related revenues (by EUR10-20bn). The only way that the banks can earn back their investments is through the war on cash (currently an economic drain for banks), increased efficiency and new products and services that will bring new customers.

Effect on the end user

As yet it is the banks' customers, large businesses and retailers, who will see the immediate benefit from SEPA. And it will be easier for them to shop around for the best payment service deal.
There are quite a few developments ahead for companies and retailers: more electronic transactions, possible charges for cash payments and new cards (it is possible that in time domestic debits cards will be replaced by cards that internationally are

▲ *Douwe Lycklama: "The banks' main concern is how they are going to sell SEPA to their customers."*

more broadly accepted). The payment systems used by businesses will also have to be revised. The good news is that there will be more standardised connections, which will reduce the risk of lock-in through technical infrastructures. In addition, European payment products will pay more attention to payment-related information for automatic reconciliation and perhaps straight-through processing (STP) will finally be realised. This will allow companies to potentially make considerable cost savings, since 60-80% of payment costs are connected to the preparation and processing of payments, and exceptions are expensive. It will also allow for a complete tracking and tracing of payments throughout the chain. Bank accounts in foreign European countries will no longer be needed: foreign transfers within Europe will be a thing of the past. The difference between residents and non-residents will disappear as a result of a further harmonisation of legislation and regulation. In short, there are good times ahead for the CFOs and treasurers of companies.

Bank challenges

As a result of the far-reaching developments outlined above, every European bank will have to reconsider its position. What new products and services do we offer to existing customers? What new (geographic) markets do we enter now? But also, what new entrants will we encounter? In the new European payments environment, all this will become more of a reality than it is today. In addition to the revenue-related aspects of SEPA, there are also cost-related aspects. Banks will have to revise their operational payment tasks. This is where the issue of 'make, buy or share' raises its head. In this new competitive arena, everything will be determined >

by efficient processing. Smaller banks will cluster together or outsource their payments to larger players. Clearing houses such as Interpay and its German counterpart, Transaktionsinstitut, are finding new European partners. Mastercard and Visa have started to leverage their existing volumes and have quickly put on a European face to compete in the big card game. In addition, European Commissioner Kroes has increased the pressure on these two giants to allow more room for new players and costs to be reduced dramatically.

In Europe there are currently some 9,000 banks that are all assessing the effects of SEPA. According to the planning of their association, the European Payment Council (EPC), 2006 and 2007 are the years in which new payment products will be designed, implemented, piloted and

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launched. The designs for the new credit transfer and direct debits that were made by the various interbanking study groups have been formally approved by the plenary general meeting of the EPC.

Lack of corporate involvement

Financial professionals such as CFOs, treasurers and cash managers are not yet really involved in the discussion surrounding the effects of SEPA. It is the study groups of the eurozone banks (via the EPC), the European Central Bank (ECB) and other stakeholders that are actively looking at implementation and existing timelines. There has been one round of consultations with the European Association of Corporate Treasurers (EACT) concerning the designs of new payment methods.

On recent SEPA-related platforms the first finance experts are starting to make themselves heard. Recently the EACT discussed this subject on its European Payments Consulting Association (EPCA) platform in Amsterdam. Arguments were heard in favour of a more active communication between the financials on the one hand, and government and corporates on the other. After all, the success of SEPA depends on their active participation as well. The ECB, together with the local central banks, realize the need for a communication campaign aimed at citizens, companies and governments, to inform them of the possible changes that are coming their way, in the same way as when the euro was introduced.

Only two years to go

As of 2008, banks will be able to offer SEPA products: European credit transfers, but also European direct debits. Retailers will have a single contract for accepting plastic money from all over Europe. The banks' main concern is how they are going to sell SEPA to their customers. Although there are considerable benefits, in the short term it will be more complex for businesses. Why would a company that only collects domestic payments switch to a European payment product? Isn't everything going well as it is? That is why communication about SEPA has been put on the political agenda as well. The European banks, united in the EPC, shifted the political responsibility back to government by arguing that government services (such as the IRS and social security services) should be among the first users of SEPA products. But, it is those government services in particular that benefit little from SEPA in the short term, because few international payments are currently involved.

Lower back-office costs

SEPA very clearly offers opportunities to CFOs. It is possible that in the longer term the direct costs involved in payments may be reduced, although as far as the Netherlands are concerned that is by no means a certainty. What is much more important than the direct costs of payments, are the costs involved in preparation and processing. Existing processes can be optimized further and back-offices (now located in different countries) can be centralised in one location. Connections to banks can be standardised and software has to be adapted.

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Furthermore, all kinds of value-added services are in the making, such as e-invoicing, e-payments and e-identification. Even politicians realise the enormous social interest of these developments because of the potential enormous efficiency involved. This fits in perfectly with the Lisbon agenda to turn Europe into the most competitive economy in the world. As such, SEPA is not so much the destination as it is the starting point. These value-added services >

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also offer major opportunities to CFOs. Banks, however, via the EPC, aren't in the mood for extending the scope of these SEPA-related additional services. They first want to focus on getting the job done for payments. However, this attitude leads to a scattering of offerings of value added services, which can already be seen in the various local offerings of e-payments and electronic bill presentment and payment (EBPP), which undermines the potential of SEPA.

It is, therefore, important for CFOs to get an overview of all the aspects involved and, step by step, reap the benefits of this changing environment. Getting an overview of all the aspects involved is not an easy matter. Often, payments have been assigned to different departments without much coordination from above. The interests involved were never so high that an alternative approach was needed. Perhaps it is time for a change. >|

Douwe Lycklama is partner in Innopay, an independent consulting firm for transaction (related) services and Douwe can be reached by e-mail: douwe@innopay.com

Harry Smorenberg is Managing Director of Smorenberg Corporate Consultancy (SCC) and a well-experienced marketing and communications strategist with an extensive background in the Financial Services Industry. Harry can be reached by e-mail: harry@smorenberg.nl