



The benefits of SEPA can only be realised through communication and partnership between leading banks and their clients, says Deutsche Bank's **Christian Westerhaus**.



# SEPA: WHAT ROLE DO BANKS PLAY?

The Single Euro Payments Area (SEPA) – due to go live on 1 January 2008 – will transform the domestic and cross-border euro payments landscape across the EU. The European Commission-backed initiative will create standardised payment instruments and schemes for euro payments – eventually replacing the numerous national schemes currently in operation, as well as fostering commercial harmonisation within the Eurozone and the wider EU and EEA.

It is a major project and will be a major achievement. Yet significant barriers remain. Perhaps the most protracted issue revolves around the EU Payments Services Directive (PSD). This Commission directive,

published as a first draft in December 2005, aims to establish a common set of rules and regulations for payment services providers – complementing the work of the European Payments Council (EPC).

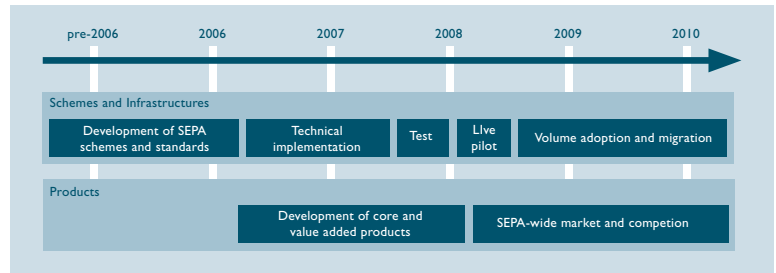
The EPC is developing the standards for credit transfers and direct debits – the two key SEPA instruments. Meanwhile, the PSD's role with regard to SEPA is to set out the legal conditions under which electronic payment services can be offered with respect to EU payments in any currency. This includes definition and harmonisation of market access requirements for payment service providers, clarification of transparency and information requirements for electronic payment services, and standardisation of rights and obligations of payment service users and providers.

This is beyond the scope of SEPA, which needs only legal certainty with respect to key direct debit functions. Yet debates over the details of the PSD – which are inevitably split along country lines – meant that final approval of

Banks are leading the SEPA implementation process and have a vital role to play.

They should be partnering with their corporate clients to make the transition easier.

Banks need to communicate the benefits and keep their clients updated on any progress.



the new legal framework was not achieved at the end of 2006, as scheduled. And this may create knock-on delays for the full introduction of the SEPA direct debit.

**Investment required**

While not a significant setback (Q1 2007 is now the likely date for final approval), it has allowed an element of doubt to creep into the SEPA process – especially for corporations. Yet this should not be the case. After all, major corporates are likely to be the primary beneficiaries, even if initial investment is required.

SEPA is focusing on two high-volume/low-value payment schemes – credit transfers and direct debits – as well as a framework for card payments. These are major commercial collection and remittance tools, requiring new infrastructures and systems that will need to be installed and tested, with staff trained for their operation. And committing to SEPA will require corporates, whatever their size and trade patterns, to eventually replace their business partners’ existing national account numbers and bank identifiers’ repositories with International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs), which are not commonly used in domestic payments at the moment. Other new data elements in the SEPA formats include a defined reference field or a direct debit mandate number – all of which may impact existing systems and processes.

This is a big commitment for corporates. And given that euro payment schemes already exist and function on a domestic level – even if divided into national and cross-border infrastructures – any setbacks or barriers may encourage corporate apathy with respect to SEPA’s designed replacement of the existing schemes.

It is here that the transaction banks – those leading the introduction of SEPA in their domestic eurozone countries – can play a vital role. First, the transaction banks should be active in explaining the benefits of SEPA’s introduction to their corporate client base. Second, they should take a partnership approach in order to help corporate clients across the threshold of SEPA implementation.

Certainly, explaining SEPA’s benefits should sweep away any latent or creeping apathy towards its introduction, as the benefits can outweigh the costs. For instance, the introduction of a single euro payments area will result in the harmonisation of instruments, formats and rules for national and cross-border euro payments. This will help corporates to

According to the SEPA timeline, development and testing should be completed by the end of 2007, ready for a live pilot starting on 1 January 2008.

consolidate payment accounts in one country, as well as centralise their cash management function and operations – perhaps streamlining down to just one bank-corporate interface. And such transparency gains and rationalisation of procedures and administration – as well as data and payment processing – should also improve working capital management.

Meanwhile, cash flow and liquidity planning can be improved through defined execution timelines and certainty on expected amounts. And delivery of full remittance information and a dedicated reference field will further allow efficiency gains in the reconciliation processes – ultimately reducing costs. Finally, there are the benefits to smaller companies, which include the fact a pan-European direct debit instrument eases overseas expansion.

**Role of transactional banks**

Yet this needs to be communicated – making the role of the transaction banks vital if SEPA is to win the confidence of Europe’s corporates. Certainly, Deutsche Bank has been fulfilling its part. We have kept clients abreast of developments with newsletters, brochures and a SEPA-specific website. We have also invited our clients to attend a series of SEPA forums across Europe that outline the processes and schemes and offer a roadmap for clients. And we have been undertaking numerous workshops that focus on the more technical aspects of the project.

As a leading transaction bank, Deutsche Bank will be fully compliant by 1 January 2008. This means we will spend 2007 working closely with our clients as the technical implementation and product development is finalised. Such a partnership approach is key, in our view, to enabling a smooth migration as of January 2008, and ensuring that corporates consider the investment in SEPA an effective use of resources. FBA

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Christian Westerhaus is the head of payments strategy and infrastructures for cash management at Deutsche Bank AG, responsible for managing the payment product economics and the channel for product development and delivery infrastructure issues. He has been an active member on various committees, including the European Payments Council (EPC), the Contact Group on EURO Payments Strategy (COGEPS), the European Banking Association, the Heathrow Group and the German Bankers’ Association. He is also a board member of the EBA Clearing Association and a chairman of EPC’s electronic direct debit working group.