

SEPA will dramatically change the way payments are handled in Europe. While some finance directors are aware of this, others seem to have put it on the back burner. Mark Hale, director of payments and settlements UK for Barclays Bank, asks how high on the agenda SEPA should be.

# THE CLOCK IS TICKING



**A**mong the many regulatory changes to Europe's financial and business landscape, the move to SEPA could be among the most significant. However, attitudes among CFOs differ widely.

Mark Hale, director of payments and settlements UK for Barclays Bank, says: 'SEPA is a positive political vision. It is the logical next step from the introduction of the euro and is a big step towards a single market.'

Creating a single market of 470 million customers, all of whom can be reached equally easily and cheaply for credit transfers, presents a huge opportunity for corporates. However, capitalising on this requires close examination of its potential implications and careful analysis to define which approach suits a business best.

Hale says: 'It is not a zero-sum game. As less competitive states open their markets more companies will compete with them. With SEPA there is an estimated 3% of the EU's GDP at stake. This will go to some firms and be drawn away from others, creating winners and losers.'

The same sense of opportunity also applies to banks, whose service provision will be significantly affected by SEPA.

**'To enjoy the benefits, benefits of SEPA, banks and corporates will have to invest in IT.'**

## Level playing field

How well banks and corporates capitalise on the opportunities of SEPA depends on how they approach not only compliance, but also the SEPA environment's potential to deliver competitive advantage. Some may be able to improve revenue flows dramatically, while all should be able to make savings from the efficient payment structures that will be in place. However, no single approach fits everyone.

Hale explains: 'CFOs have different visions and operational footprints, which will affect how they approach SEPA. UK companies, for instance, may have a different approach to those in euro-denominated countries.'

Similarly, the banks that provide services to the 25 million corporates in Europe also have a chance to bring in more business. If they can take a lead in the process and win a proportion of business that will, in some senses, be rationalised for euro payment within the eurozone.

Hale explains: 'Moving from 29 separate countries to a single market of 470 million people in which you can reach every customer as easily and cheaply as any other for credit transfers will bring many changes to the market, some of which we cannot yet anticipate.'

- Banks need to start preparing for SEPA now.
- Investing in IT systems is essential.
- Getting involved in the migration process provides a competitive edge.

## The euro's crowning moment

SEPA is designed to create an integrated market for euro-denominated payment services by removing the distinction between cross-border and national payments within the euro area. Some, including the European Central Bank, consider SEPA as marking the moment the introduction of the single European currency is complete.

In the post-SEPA environment, consumers, businesses and governments will be able to make cashless payments throughout the euro area from a single payment account anywhere within that area through a single set of payment instructions. Cross-border payments will, in theory, become as simple, quick and efficient as domestic payments.

SEPA brings 29 countries – the eurozone, the European Economic Area and Switzerland – into a single market of 470 million potential customers, all of whom can be reached equally easily and cheaply for credit transfers. For corporates, this represents a huge opportunity.

These changes will threaten the business of some banks, while improving that of others. The competitive risk comes from clients' ability to use a single bank for all their euro payments within the zone, rather than maintaining banking relationships in each member state to facilitate payments and cash management.

Hale notes: 'The benefits of SEPA are obvious – end-to-end automation, improved STP and less manual intervention in the payment process. However, to enjoy those benefits, banks and corporates will have to invest in IT.'

Banks will also need to be closely involved with the legislative process – as Barclays is – in order to advise clients on how to deal with SEPA and to ensure that they are offering SEPA-compliant services.



'In order to provide the right advice, banks need to sit at the top table, as we do.'



### The trick of timing

The approach to SEPA is complicated by other factors. SEPA comes at a time when there is more regulatory pressure than usual in the market, with many new pieces of legislation covering business and the financial services sector coming into force in the next two or three years.

In some quarters, this has been used as a reason to procrastinate over the implementation of SEPA. However, Hale believes that no matter what competitive and regulatory pressure exist in the market, organisations in Europe must cope with the burden. If they fail to do so, the loss of opportunity may have more dire consequences than the initial stretching of resources to accommodate the change.

'Life is complex. There is always significant regulatory change, though it is true there is a great deal right now,' admits Hale.

However, he feels that banks and their clients must embrace the move to SEPA and carve out the competitive opportunities that arise from it. Timing is crucial, particularly as the deadlines for SEPA are rapidly approaching. From 1 January 2008, for instance, a new direct debit regime will come into force across 29 countries. This will give companies extended reach into Europe, with greater confidence in payments that are settled faster. However, they will only be able to realise such benefits if they and their banking partners are fully prepared.

Furthermore, there are some disincentives encouraging organisations to remain as they are. As SEPA does not represent a 'big bang' shift in core systems and processes, one option is for organisations to retain their current infrastructure and payment model. According to Hale, this is slowing down the response of some banks and corporates. And while this approach may suffice in the short term, longer term it is likely to lead to competitive disadvantage.

A further complication is the fact that SEPA is not the only piece of new European legislation affecting payments. The EU is formulating a new legal framework, which attempts to take another step towards creating a more level playing field across the region. The Payment Services Directive (PSD) will, among other things, enable non-bank entities to provide payment services. The directive, which is meant to be in place by January 2008, also outlines new obligations for corporates and banks. From 2010, for instance, all payments will have to clear in D+1. Action, therefore, is required now to accommodate both this new legal framework and the demands of SEPA.

Some of the details in both pieces of legislation still need ironing out. SEPA, for instance, requires further work to make it applicable to countries in the EEA and to Switzerland. Following that, there is the lengthy process of transposing the legislation into the domestic statute books of the relevant countries. Current deadlines might be optimistic, but they still indicate that rapid action is required.

Hale points out: 'It is important to avoid confusion during the implementation of both PSD and SEPA. The legal framework applies to all payments in the EU while SEPA applies to 29 countries and only affects euro payments. To provide the right advice, banks need to sit at the top table, as we do.'

Barclays has certainly taken a lead role in SEPA, having made significant investments of resources to support the European Payments Council.

Hale says: 'The banking industry is being encouraged by the EU to help with the migration to SEPA so that the move is market-led. The question is when to make

the change. Some of the changes will be dramatic, but it depends on how the market approaches it. However, the change is certainly a chance for organisations to reposition themselves.'

Whether that repositioning represents an improvement or a loss of business depends on how well banks and their clients grasp SEPA in the short-term. FBA

### Mark Hale

Mark Hale joined Barclays treasury department in 1995. He became director of payments and settlements in 2004. He chairs the European Payments Council Credit Transfer Scheme working group and the UK industry European Payments Council working group within APACS. He also represents Barclays on the plenary of the European Payments Council, the UK industry in the EPC Coordination Committee and is board director of Voca Ltd and CHAPS Co Ltd. Hale holds a degree in computer science and economics from Queens University Belfast and is a chartered accountant.