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The year of implementation

by Willem Dokkum,
Global Head of Sales Payments and Cash Management, ING Commercial Banking

Start now. If there is one thing that you should take away from this guide, it is that you need to start planning your Single Euro Payments Area (SEPA) migration now, if you haven't already. The 1st February 2014 deadline is swiftly approaching and the months leading up to it will fly by. This is a major project that can take six to nine months or even a year to complete, depending on your organisation's complexity. You can't just flick a switch to make it happen – it requires careful planning.

In the beginning, the frontrunners were those that could identify a clear business case and quantify the benefits to be gained from migrating to SEPA – Electrabel, a subsidiary of GDF Suez and ING client, is one such leading light. To date these have tended to be global corporates that make numerous cross-border transactions, which can see immediate payback from lower costs for cross-border payments. But for those more domestic or smaller corporates that still look upon SEPA as a burden, it is important to understand what benefits SEPA can bring to treasury.

SEPA is a catalyst for rationalising a corporate's banking landscape, by reducing the number of bank accounts and bank relationships, and standardising its payments IT environment, by moving to the ISO 20022 XML format. The IT department, for one, will be relieved to only deal with one format across the whole Eurozone, but needs also to be mindful that there can be different appendices attached to the standard. ISO 20022 XML also provides extra fields that generate more information to improve reconciliation and reporting, as well as supporting centralising concepts such as shared service centres (SSCs) and payment factories. With XML you can do both SEPA and non-SEPA transactions, which means the format can be used in a global context.

SEPA can also be used as a trigger to review and optimise a company's business processes. For example, SEPA introduces common cut-off times for payments that all countries and banks must adhere to. Since the end date was legally adopted in February 2012, SEPA has gained the urgency needed to be on the Board's agenda in order to obtain the funding and IT resources needed for such a major change programme. Today corporates are treating SEPA as a 'real' project, with a dedicated project manager, allocated budget and people. This is an encouraging sign.

However, despite this impetus, SEPA uptake remains low and uneven across the countries involved, as illustrated in a number of industry surveys. For example, according to a recent survey by Steria, 30% of French and German businesses had not initiated activity to migrate to SEPA, whereas more than 75% of UK businesses did not even know the deadline.

The European Central Bank (ECB) SEPA Indicators demonstrate the low level of implementation. As of December 2012, the share of SEPA Credit Transfers (SCTs), as a percentage of the total volume of credit transfers generated by bank customers, amounted to 34.86% in the euro area. SEPA Direct Debits (SDDs) are lagging even further behind at 1.91%. Nonetheless, there are some countries, such as Belgium, which are far advanced in their national migration plans and many lessons can be learnt from their experience.

Not becoming SEPA-compliant carries with it many risks. Corporates could face cash flow and liquidity issues if payments don't go through. In order to help our clients become SEPA-compliant within the timeframe, ING has launched a number of initiatives to help drive adoption. We reached out to all our corporate clients to find out which stage they are at and what help they will need in order to migrate by the deadline. SEPA roundtables, hosted by ING for corporate clients, provide real-life case studies to share best practice and overcome challenges to implementation. We also allocate a SEPA migration manager for large clients that still need to perform in-depth impact analyses. In addition, we have started an information campaign to bring the smaller corporates and small and medium-sized enterprises (SMEs) on board.

By building up our SEPA knowledge and sharing this experience over the years, ING can help clients manage their migration projects as optimally as possible, including a step-by-step plan of approach. We advise them to do a complete analysis of how SEPA migration will affect different business units, so that they have all the data they need before they begin constructing a plan. In addition, at the beginning of this year we launched online training, 'SEPA Get Ready', for every corporate – clients and non-clients alike – which can help you with all stages of your preparations (see page three for a closer look).

Migration to SCT and SDD ahead of the deadline is achievable, manageable and advantageous to all companies. Preparation, however, is crucial and the time to start is now.

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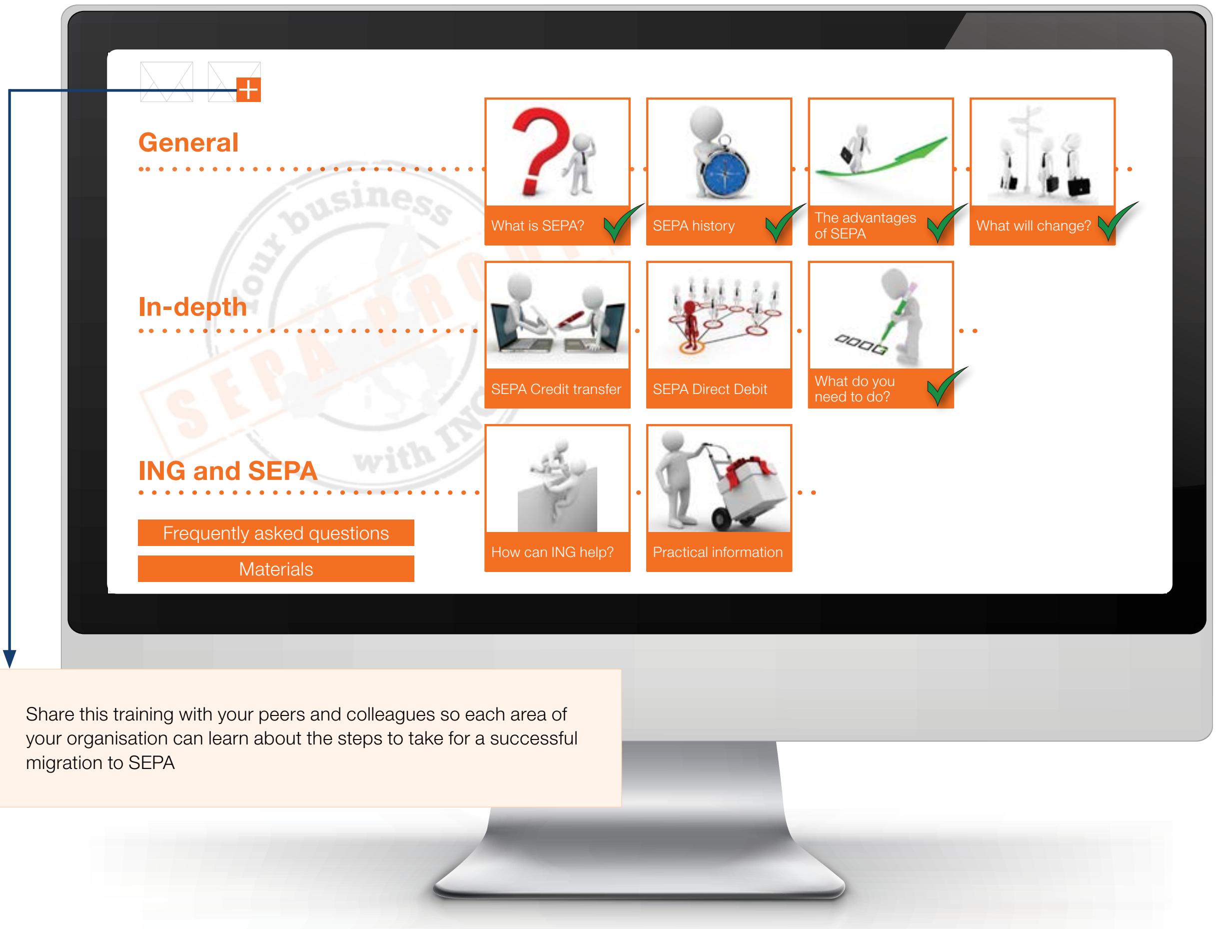
SEPA Get Ready, online training to support you

Are your colleagues or employees asking you about SEPA? Do you need more information to start your migration project? Do you need assistance in planning your approach in order to gain the most benefit out of SEPA?

If you answered yes to any of these questions, then check out ING's online training, 'SEPA Get Ready'. The online training is free and can be used by every corporate in Europe, whether or not they bank with ING. The main aim is to inform corporates as to the impact SEPA will have on their business processes and help in a successful migration to SEPA. As the 1st February 2014 deadline approaches, it is critical that corporates take steps today to ensure they are SEPA-compliant in time.

The 'SEPA Get Ready' training is designed to guide corporates in mapping out the necessary preparations for migration. The training modules go through the different phases of preparedness and help corporates build a step-by-step implementation plan, assessing which business units will be affected. This is not just a treasury or IT project, but will also touch HR, legal and sales departments.



Share this training with your peers and colleagues so each area of your organisation can learn about the steps to take for a successful migration to SEPA

The information is divided into three levels:

1. **General:** including SEPA's history, its advantages and an explanation of the changes it will bring about. This can be used for communication, marketing and administration teams who need a high-level understanding of SEPA and its purpose in harmonising the payments landscape across the Eurozone.
2. **In-depth:** including technical details regarding SEPA Credit Transfers (SCTs), SEPA Direct Debits (SDDs) and what each company needs to do to become SEPA-compliant such as changing to the ISO 20022 XML format. This is useful for IT and development departments to enable them to truly understand the extent of the change project. In order to achieve success, it is important to treat this as a genuine project and appoint a SEPA manager and team who are fully responsible for executing the project.
3. **ING and SEPA:** including products and services that the bank has developed to help corporates migrate to SEPA. Examples of these include: Format Validation Tool, MyStandards and Mandate Manager made up of three components – migration service, document handling and transaction handling.

Access the free 'SEPA Get Ready' online training

'SEPA Get Ready' is available on the internet and as an app for iPads (go to the App Store and download ING CB Insights app). This training can easily be shared with other business departments, so please forward the link to your colleagues and peers using the share buttons on the introductory page. We hope you find it useful.

www.get-ready.ingsepa.com.

Available on the App Store

Download the ING CB app for iPad and complete the SEPA Get Ready

Ireland

- SCTs: 6.7%* of total credit transfers (3Q12).
- No extension on 1st February 2014 deadline. Full conversion to ISO 20222 XML.
- Website: www.ipso.ie

UK

- SEPA end date: 31st October 2016.
- UK corporates need to challenge the mind-set that this is just a European project.
- Some large UK corporates are outsourcing IT, mandate management and file conversions to third parties.
- To date, no legacy instruments for euro payments will remain after the deadline.
- Website: www.paymentscouncil.org.uk

Belgium

- SCTs: 60.5%* of total credit transfers (3Q12).
- No extension on 1st February 2014 deadline. Full conversion to ISO 20022 XML.
- Legacy instruments: No niche products will continue. Money orders, cheques/circular cheques, invoice cheques and bills of exchange are out of scope with SEPA end date regulation.
- Website: www.sepabelgium.be

France

- SCTs: 35.0%* of total credit transfers (3Q12).
- France needs to have bank-to-customer debit/credit notification (camt.054) in place before companies, especially the big billers, will move to SEPA.
- The country will introduce a facility (ISO 20022 camt.022) to inform business customers about bank account number changes (CAI).
- No extension on 1st February 2014 deadline. Full conversion to ISO 20022 XML.
- Legacy instruments: télérèglement and titre interbancaire de paiement (TIP) will be looked at by the French community in view of end-date regulation. Specific credit transfer, cheques, LCR (bills of exchange) and e-money are out of scope of SEPA end date regulation.
- Website: www.sepafrance.fr

Spain

- SCTs: 40.9%* of total credit transfers (3Q12).
- Together with Austria and Germany, Spain has chosen to make the direct debit optional COR-1 scheme mandatory.
- To date, no legacy instruments will remain after the deadline.
- Website: www.sepaesp.es

Netherlands

- SCTs: 2.5%* of total credit transfers (3Q12).
- No extension on 1st February 2014 deadline. Full conversion to ISO 20022 XML.
- Legacy instruments: Acceptgiro will be converted to IBAN-Acceptgiro; Digitale Nota will be adapted to SEPA; urgent domestic payment has no SEPA equivalent to date; iDEAL will be converted to SEPA iDEAL.
- Website: www.betaalvereniging.nl

Source: European Central Bank

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Finland

- SCTs: 100%* migration.
- Full conversion to ISO 20022 XML.
- Finnish legacy direct debit scheme is to be phased out and replaced by local direct payment solution or with SDD before 1st February 2014.
- Two additional optional services (AOS) apply: AOS1 is the 'acceptance date', or the date on which the debtors account is debited for SCT, meant for beneficiaries to calculate late payment interest. AOS2 allows for additional invoice and/or credit note remittance information to ease reconciliation by the beneficiary.
- Website: www.suomenpankki.fi

Germany

- SCTs: 6.7%* of total credit transfers (3Q12).
- Legacy German payment instruments are close to the SEPA design.
- As in other countries, the German legislator ruled that current local direct debit mandates could be automatically migrated to SEPA without the debtor signing a new mandate.
- The German community has adopted the COR1, an expedited D-1 direct debit extension to the SDD scheme, as a local variation.
- Legacy instruments: Germany will retain the Electronic Direct Debit (ELV), which is collected via cards in shops in order to bypass card-acquiring mechanisms until 1st February 2016.
- Website: www.sepadeutschland.de

Austria

- SCTs: 17.9%* of total credit transfers (3Q12).
- Like Germany, Austria will support the SDD Core in its D-1 variant, allowing for a one-day lead time instead of the normal five or two days in the SDD scheme.
- In addition, Austria announced that the local credit transfer product that provides the beneficiary with images of the customer's original paper instruction form will continue as a niche product until 2016.
- Website: www.austrianpaymentscouncil.at

Italy

- SCTs: 13.9%* of total credit transfers (3Q12).
- Italy will introduce four new text formats in addition to the existing PAIN 001 and PAIN 008 for credit transfers and direct debits.
- Legacy instruments: one of the main direct debit products, RIBA, will remain available as payment product after the SEPA end-date.
- SEDA, the successor to the current system of debtor account number validation for direct debits, has not yet fully matured. The EBA will establish a platform in support of this Italian additional optional service, however the go-live date has not yet been set.
- Website: www.bancaditalia.it/sispaga_tesor/ssp/sepa

Central and Eastern Europe

- **Slovakia.** SCTs: 1.4%* of total credit transfers (3Q12). The country intends to prolong the use of the so-called 'symbols' that facilitate easy reconciliation of commercial payments. Once mandatory for central bank reporting, the national practice still has market relevance for businesses' financial accounting. Website: www.nbs.sk/en/payment-systems/sepa
- **Slovenia.** SCTs: 98.3%* of total credit transfers (3Q12). Website: www.sepa.si

For more in-depth country information please read interviews overleaf.

Belgium: leader of the pack

Francois de Witte
Head of Sales International Cash Management
ING Commercial Banking, Belgium,
Luxembourg and Asia

Belgium is a front-runner in the migration towards the Single Euro Payments Area (SEPA). The share of SEPA Credit Transfers (SCTs) in the country reached more than 60.5% of total credit transfers in September 2012 and the share of SEPA Direct Debits (SDDs) exceeded 15%. Today, more than 12% of ING's customers have completed their migration projects, which represent approximately 30-35% of ING's processing volume.

The energy company Electrabel, a subsidiary of France's GDF Suez group and an ING client, is a leading light for corporates across Europe. As one of the biggest billers in Belgium, generating some 18 million direct debit payments annually, Electrabel completed migration to SDD Core in 2011. The company began its SCT step-by-step migration project in the first quarter of 2009, some 1.8 million credit transfers, which concluded in 2012. To facilitate a smooth transition, it set up a dedicated SEPA implementation team of 30 people, with ten working on the project full-time.

Within the Belgian context, Electrabel identified its main challenge as transitioning from a legacy direct debit model based on the 'debtor-driven mandate flow' (DMF) to the 'creditor-driven mandate flow' (CMF) for SDD. In the CMF model, the biller is responsible for storing the original mandate, which means a change in the company's business processes. Other challenges included converting customer account data to IBAN and BIC (although BIC will be not be mandatory for domestic payments as of 1st February 2014 or cross-border payments as of 1st February 2016; upgrading its enterprise resource planning (ERP) system; existing mandates migration; and changing systems to respect SDD Core timelines for initial (five days prior) and subsequent (two days prior) collections.

The Belgian Steering Committee's strategy relies on the biggest billers to act as a catalyst in the SDD migration process. To facilitate this process, the National Bank of Belgium, ING and 30 big billers met in early 2013 to provide the latest migration information. The focus is now on helping SMEs make the transition.

It is important to note that the Belgian authorities have taken a clear decision not to delay SEPA implementation, so we need to be ready for 1st February 2014. Corporates that are not ready in time may face a serious business challenge. And although ING can foresee the need for conversion services for a limited period, companies should start the implementation now so that they can deliver the project in time without having to implement what could prove to be costly workarounds.

France: a good starting place

Esme-Jane Wells
Head of Payments and
Cash Management Department
ING Commercial Banking, France

France is well advanced in the migration to SCTs (35%), but there has been little progress on SDDs (<1%). Since September, ING has seen increased activity with a number of big billers launching request for proposals (RFPs), clearly showing that they will implement change programmes in the course of 2013.

Most of ING's large clients (CAC 40) have migrated to SCTs, whereas smaller subsidiaries of the bank's home country (Belgium, Netherlands, Luxembourg, Poland and Romania) corporates need to become more involved in the process. However, moving to SDDs is more complicated. In France there are currently two mandates: the direct debit request the debtor provides to the creditor and the direct debit authorisation given by the debtor to their bank. SDDs are based on a double mandate within a single document sent by the debtor to the creditor, who is responsible for keeping it – this implies considerable change in a company's business processes.

The French community has worked on specifications for making legacy end-of-day reporting SEPA-compliant (AFB120+), so is not in any hurry to adopt the XML version (camt.053). French corporates are, however, mainly concerned with unpaid items because processing chains and reconciliation systems are set up to use the French format, AFB 240, which will not be made SEPA-compliant. Therefore, France needs to have bank-to-customer debit/credit notification (camt.054) in place before companies, especially the big billers, will move to SEPA.

Another major concern for large French billers was related to having SEPA equivalent messages in place to inform a counterpart of the change of a client's bank and/or account identification (DCD) or to ask a bank to verify these details (DVD). Rather than being faced with many rejections, there is a certain period in which the creditors send their collections and the debtor bank replies alerting the creditor to new account details. The French banking community has provided XML specifications to support inter-bank exchange of change account information (CAI) messages and this service is gradually being introduced by banks, but there is still uncertainty regarding interoperability of these messages depending on which clearing and settlement mechanism is used.

Two niche products will remain until 1st February 2016: inter-bank payment orders (TIP) and electronic payment orders (télérèglement). It is expected that French banks will not actively promote format conversion services, except at the very front end of the processing chain.

Germany: more than ticking a box

Codru Vlasceanu
Head of Payments and Cash Management
ING Bank, a branch of ING DiBa AG Germany

In Germany the large stock-listed corporates, the DAX 30, are more advanced in their SEPA migration. It is estimated that more than half have migrated, or at least have converted their suppliers, customer and staff databases to IBAN, tested and routed SEPA transactions through their banks. However, moving down into the mid-corporate or SME market, many haven't started yet – which is worrying since the end-date is set in stone. It's not too late to start, but it is high time.

German companies are highly efficient and thinly staffed in finance and treasury departments. Clients say that their biggest bottlenecks are head counts, staffing, time, budgets and IT resources. Fortunately, the legacy German payments instruments are similar to the SEPA design. In addition, several things have been clarified from the German perspective, such as whether the legacy direct debit mandates are still legally valid in principle – which they are.

But the devil lies in the detail, which can be found locally and also across the whole SEPA zone. The German community, for example, has adopted the COR1, an expedited D-1 direct debit extension to the SDD scheme as a local variation. Under SEPA, the initial direct debit collection details need to reach the bank five days prior to the collection date; subsequently the information has to be delivered two days before. For some clients it is important to collect as quickly as possible – with the legacy instrument a company could submit today and collect tomorrow. Therefore, the D-1 option will be introduced by April and autumn 2013, respectively for Austria and Germany.

There is also the ability for countries to carry on with specific niche products until 1st February 2016. Germany, for example, will retain the Electronic Direct Debit (ELV), which is collected via cards in shops in order to bypass card-acquiring mechanisms.

The general feeling is that this has been solely a technical migration until now, eg conversion to IBAN for domestic payments and the ISO 20022 XML format without taking advantage of the theoretical benefits that SEPA can offer in the euro area, which is centralisation first and foremost. But migrating to SEPA is more than ticking a box or switching a switch. In many ways ING expects there to be a second phase to SEPA – after corporates have become accustomed to the new instruments, they will then use SEPA to optimise their payment flows.

Netherlands: focus on impact analysis

Gregory Cronie
Head of Sales Cash Management
ING Commercial Banking,
the Netherlands

The Dutch are normally front-runners in adopting new initiatives, but ‘SEPA fever’ has not yet taken hold in the Netherlands – SCTs make up only 3.09% of all credit transfers in the country as of November 2012. That presents a challenge. Over the years ING has been proactively contacting our clients to make sure they have begun and advising them on their SEPA migration planning. However, we can see that migration still has little traction across the board.

In order to facilitate sharing of ideas and experience between companies, ING is organising roundtables of 20-25 corporates so they can learn from each other and understand different approaches to SEPA migration. An important aspect of these meetings is to have a case study presented by a company that has already migrated, or at least is knee-deep in migration, to provide a real-life example.

ING wants to prevent all the big billers, in particular, from waiting until the end of the year to migrate. That might create a severe bottleneck in terms of the resources the bank and other service providers could offer. It is clear that the Dutch authorities will not waver from the deadline of 1st February 2014, so we must not wait any longer to begin the migration.

One complication for the Dutch market is that the SDD is significantly different than the legacy direct debit scheme in processing time and information. It is clear that a B2C company with a large number of direct debits will need to change its business processes, as well as its IT.

Corporates should scrutinise their financial supply chain (FSC) processes, including order-to-cash (O2C) and purchase-to-pay (P2P), to see which departments, forms, systems and processes are impacted.

There are also encouraging signs in the Dutch market, with government-related bodies taking a lead such as UWV, which is responsible for unemployment and disability benefits. Other clients are centralising the collection process, from a decentralised country-by-country process to a centralised cross-border collection process making use of SDDs.

And finally, only one legacy product, AcceptGiro, which is commonly used to make transfers by individuals, will survive after 1st February 2014 and it will be made SEPA-compliant in due course.

UK: not just a European project

Elizabeth Hayes
Payments and Cash Management Consultant
ING Commercial Banking, UK

Although there is broad understanding among UK FTSE 250 corporates as to what SEPA is, there hasn’t been much action to date. This may be because the end-date for corporates based outside of the euro area is 31st October 2016, which has led to a ‘wait-and-see’ approach from many UK corporates.

One of the specific challenges facing UK corporates is the mind-set that this is just a European project. However, even domestic companies that do not have treasury operations in the EU will likely engage in trade with European companies, or will do so in the future, as the EU remains the biggest trading partner for the UK. Implementing SEPA will mean faster settlement, simplified processing and lower costs for cross-border euro payments.

For those UK companies that have treasury operations in EU countries, SEPA could be seized as an opportunity to centralise and harmonise payments and IT systems. From a group or regional perspective, instead of taking a country-by-country approach, a UK-based treasury headquarters can use this opportunity to simplify its ERP landscape across the region, as well as centralise SEPA collections and payments in order to shift these from expensive to low-cost countries. This will take upfront investment, but it will cost less in the long run and treasury will gain more if the head office takes a coherent, uniform approach across the region.

Interestingly, some large UK corporates are outsourcing IT, direct debit mandate management and ISO 20022 XML file conversions to third parties, whether banks or technology vendors. For example, one of ING’s UK clients which won’t be ready in time for the end-date has asked its banks to continue converting files on its behalf. Corporates need to be aware that this will only be possible under certain circumstances in certain countries after 1st February 2014.

In order to help prepare for migration, ING UK ran a SEPA client event in October 2012 and will run other events throughout the year for our treasurers or their project teams to attend. We are planning one for the end of April, and are hoping that by that point corporates will have started their SEPA project and will have specific questions about implementation.

Corporates must be ready for the end-date, but the benefits of SEPA can be reaped today – there is no reason to wait.

SEPA Get Ready

Your online SEPA training

Available on the App Store

Download the ING CB app for iPad and complete the SEPA Get Ready

With less than a year to go, are you ready for SEPA? Are your colleagues asking you for information to start the migration project? We have designed the SEPA Get Ready to help your company understand the impact of SEPA and prepare for the changes to come. Share the SEPA Get Ready with your colleagues to get your business on track for a successful migration.

www.ingsepa.com

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