SEPA: Are You Ready?

Single Euro Payments Area

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The industry has become familiar with payment types such as ACH, FedWire, and CHIPS. Recently a new payment method has been brought to the forefront, SEPA. The Single Euro Payments Area (SEPA) is an initiative to provide end-to-end processing between 27 EU member states plus Iceland, Liechtenstein, Norway, Switzerland, Monaco, and Croatia expected to join as of July 1st 2013. Since the EMU members adopted the Euro as their common currency, moving money across European borders has become a question, due to payment regulations in each country. SEPA answers this question by allowing credit transfers, direct debits, and card payments in a uniform fashion throughout the Euro zone. SEPA is a combined process that will break down the barriers to e-commerce payments just as ACH, FedWire, and CHIPS payments did long ago.

Getting to know SEPA

Banks have recently begun forcing companies to conform and comply with the new formats for SEPA payments. SEPA is a payment type similar in nature to ACH or FedWire in that it is treated like a domestic funds transfer. There are two types of payment schemes: SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD).

- *SEPA Credit Transfer (SCT)* enables payment service providers to offer credit transfer services throughout SEPA for either single or bulk payments. The common standards aid payment initiation, processing, and reconciliation based on straight-through-processing (STP).

- *SEPA Direct Debit (SDD)* enables any direct debit scheme based on the following concept: Company A requests money from Company B, with their prior approval, and credits the payment to itself. Company A and Company B must each hold an account with a payment service provider (PSP) located in SEPA. The accounts may be in Euro or in any other SEPA currency.

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Standard Format

The payments are conformed to a single format, ISO 20022, which is structured in XML. ISO 20022 is a messaging standard for the financial services industry used to transmit information related to securities, payments, financial reporting, international trade, and FX. The delivery method of these files can be through SWIFT, SFTP, FTP, or uploaded manually through the bank's website.

In an ISO 20022 file formatted in XML, you can have multiple payment types such as FedWire, ACH (domestic or international), checks, and SEPA payments.

To be considered a SEPA payment you need to meet the follow criteria:

- Originate from a country in the Euro zone
- Be in the EUR currency
- Must contain an International Bank Account Number (IBAN), and the SWIFT BICbank identifier.

If these criteria are not met, the payments can be sent as a regular wire, and the difference would be the price and timing of the payment. Overall, SEPA is just another payment type that can be used in Europe to save on costs and provide enhanced efficiency to consumers and businesses.

ISO International Organization for Standardization

Benefits of SEPA

Organizations around the world are wondering what the risk/reward will be around this unified concept. Do the benefits outweigh the costs? Let's start by addressing some of the key benefits of SEPA:

- Simpler concept
- Less expensive to send and receive Euro payments – due to competition among banks to earn your business, which brings prices down
- Easier to operate across borders within Europe
- Eliminate the need to deal with multiple payment solutions
- More efficient and faster payment transfers
- Multinational corporations benefit due to operations in Europe with local subs
- Centralized payment process
- Equal clearing time limits fraud levels
- Reliability and control
- Harmonize fees and eliminate cross border charges
- Reduction in bank accounts – one account for all of SEPA
- No hidden fees – bank will be subject to inform the business what they will charge, along with no hidden charges such as float income or value dating.
- Manage payments in different countries all in the same currency

Operational Risk of SEPA

As you can see there is a substantial amount of upside to implementing SEPA payments within any organization, but along with benefits there are also risks, which include:

- Failure to implement/comply with regulations may result in fees and penalties
- Potential costly implementation
- Drain on company resources
- Daunting task to switch at the last minute
- Operational compliance risk
- Monetary loss due to late delivery of payment
- Outdated technology which forces higher conversion costs

Are you ready for SEPA?

SEPA migration countdown is February 1st 2014, and October 31st 2016 for non-Euro area members. This timeline is rapidly approaching, not giving you a significant amount of time to become SEPA compliant. Not only is your whole organization's Euro payments and collections at risk, but SEPA will impact several different areas across your organization including; systems, payroll, and treasury. This will result in substantial efforts required on your end to become SEPA compliant and you will be responsible to abide by the rules and regulations set in place. With ever changing technology and innovation, companies will always need to address and conform to new standards. Resource constrained organizations should start looking at a payment factory to consolidate the control and workflow around SEPA payments. In conjunction with SEPA, your system should be capable IBAN lookup/creation, payment infrastructure, file creation and maintenance, access to SWIFT or direct bank connections to send payment instructions, and approval controls around the whole process. Having a system in place will alleviate the pressure on IT departments to become compliant and place the burden instead on a viable payment factory. By being proactive, you will ultimately increase your company's value, everyone's goal at the end of the day.