

Curb your enthusiasm

The business case for SEPA continues to weaken, and many banks have no incentive to migrate as their own national payment schemes are effective. Setting a clear deadline would send out a more positive message, reports **Shayla Walmsley**.

If there is a business case for SEPA (Single Euro Payments Area), it has been in little evidence recently. SEPA fatigue has, though. Markets that have been active for years, according to Javier Santamaria, assistant general manager, Banco Santander, are finding the SEPA outcome “has not been good enough”. Now, with uptake of the new SEPA instruments slower than banks anticipated, the business case for it is getting weaker.

For SEPA Credit Transfers (SCTs), according to the European Payments Council (EPC), 4,500 banks in 32 countries offered SCT

services for euro payments at the beginning of 2010, comprising around 95% of payment volumes in Europe. However, for SEPA Direct Debits (SDDs), the uptake has been – by the council’s own admission – “gradual”. Richard Davies, director, payment products, Logica, forecasts more banks will take up SDDs between now and November, saying they have been holding off for “non-SEPA reasons”, such as the implementation of the Payment Services Directive (PSD) and the distraction caused by the credit crunch. “Management attention has not been on SEPA – it’s been on staying alive,” he says.

For the banks that are already compliant with the new SDD scheme, the laggards offer a competitive advantage. “The choice was to embrace SEPA and go full steam or to be passive and limit investment to treat it as a regulatory project,” says Karsten Becker, senior vice president, Global Payments, Deutsche Bank. “But we recognised from the start that it will play an important role in the future so we invested significantly in a new, dedicated processing platform.” Becker points out that the bank will eventually be able to decommission its national platforms – even if in the meantime it has to fund both.

“It may not be as apparent in the short term, but it will bring substantial benefits in the long term,” he says.

The problem is that not all banks are as SEPA-enthusiastic. Olivier Brissaud, chair of the EPC’s End-users’ Committee, points out that European banks aren’t all pan-European institutions: small banks account for 35% of local business in Europe. “Some will welcome SEPA but others just can’t see what’s in it for them,” he says. “They’re likely to try to find a way of blocking SEPA altogether.” Cross-border payments are being converted to SEPA, with domestic payments more likely to be made using legacy instruments. Only Luxembourg and Slovenia have converted their domestic payments to SEPA, with Finland’s migration in progress. “Critical mass will be achieved first when large euro countries like Germany and France start to move their domestic schemes [to SEPA],” says Erik Seifert, global head, cash management, SEB.

But why would they? Becker says national payment systems are generally highly efficient, low-priced and familiar. “Especially for pan-European corporates, the only reason to migrate to SEPA is if it offers additional benefits in the form of centralisation, rationalisation potential or value-added features,” he says. In contrast, especially for domestic corporates, migration means changing processes and losing some of the features and

functionality they have now. For them to invest, they will require cheaper pricing, which banks cannot provide, given they have to support both SEPA and legacy payment processing infrastructures concurrently.

Mixed messages

Yet, there are some optimistic indicators. Deloitte’s 2009 *Corporate SEPA Readiness Survey* recorded a significant increase in corporates prepared for SEPA compared to the previous year. Eddy Ouwendijk,

“with all due respect, outdated”. Pointing out that in the payments business, end-to-end means customer-to-bank, bank-to-bank and bank-to-customer, Hartsink says that a common set of data has already been agreed. Implementation of the data formats in customer-to-bank and bank-to-customer communication, which is not mandatory but which is strongly recommended, will largely reflect customer demand.

Those corporates prepared for SEPA, according to Deloitte’s survey, saw



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senior manager, Financial Advisory Services and Capital Markets, Deloitte, points out that in a survey due for publication in the first quarter this year, 60% of corporates with a turnover of more than EUR 1 billion claim to be “much more aware” of SEPA, with teams and strategies in place. EPC chairman Gerard Hartsink describes “the notion projected by some” that corporates do not recognise the benefits that SEPA holds for them as

it not only as a compliance issue but also as a business opportunity. But banks will not act without corporate demand, says Davies of Logica – most likely from telcos and utilities, which will see streamlining as an advantage. “They’re asking banks to help them out. The smaller domestic companies – why would they bother? The benefits are not immediately apparent for them,” says Davies. Even if corporates sign up to SEPA, that does not mean

they are satisfied with what banks offer them – in fact, one of corporates' strongest criticisms is banks' tendency to see SEPA as a money-maker for them, rather than as a service to their customers. According to Gianfranco Tabasso, chairman of the European Associations of Corporate Treasurers' (EACT) Payments Committee, banks have not wanted to engage with corporate demand for standardisation. "The original sin is that SEPA was conceived as end-to-end standardisation, but that has not been realised," he says.

If these concerns are not adequately addressed, SDDs – and even, potentially, SEPA – could fail to get off the ground. So are they being addressed? Not by the public authorities that should be adopting SEPA *pour encourager les autres*, according to Santamaria. The public sector continues to lag behind even the modest 5.3% of SCT uptake in the eurozone. If only a few banks and very large corporates see reasons to embrace SEPA, the only option could be to mandate SEPA with the setting of a final end date.

At the end of last year the Economic and Financial Affairs Council identified the setting of end dates for SDD and SCT migration as necessary to "provide the clarity and the incentive needed by the market", ensuring that the substantial benefits of SEPA are rapidly achieved and that the high cost of running both legacy and



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SEPA products in parallel can be eliminated". Hartsink likewise argues that a clear deadline for migration to SEPA "creates awareness, ensures planning security for all market participants and confirms the commitment to making SEPA a reality".

Of course, end dates are already in place for components of the SEPA agenda. Brissaud argues that the SDD scheme is "simply not mature enough" for an end date to be set. "The question is whether it will be

one or several [end dates]," says Tabasso. "Credit transfers could have a deadline within the year. If the same deadline were set for direct debits, we'd be screaming from the rooftops." Scream they may, but corporates and their associations are unlikely to reject – that is, scupper – the SEPA agenda. Rather, as Brissaud suggests, the question is not whether SEPA happens, but how. "It [SEPA] will happen," he says. "It's a question of whether it leaves us rejoicing or with a bitter taste in our mouths." //