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SEPA Challenges for Corporates and Banks

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Among all but the biggest and most active corporates there is still a worrying lack of understanding about what SEPA will mean in terms of opportunities and challenges.

Corporates need to intensify their efforts to get to grips with what SEPA will mean for them, in particular working in conjunction with other companies in similar businesses to develop an understanding of the impact on their specific operations. Not every corporate will be able to take advantage of SEPA in the same way; while many will be able to rationalise their banking relationships for the whole of Europe down to focus on a single bank, insurance companies, for example, will still be under a regulatory obligation to maintain separate accounts for their own and clients' monies.

There is also a need for banks to step up their focus on how to help their corporate clients prepare for SEPA. Because the banks themselves have a great deal of work to do to prepare for the new environment and the introduction in Europe of new SEPA products for credit transfers, direct debits and card payments, there has been a tendency for the requirements of corporate customers to slip down the banks' priority lists. This issue has been compounded by the tremendous pressure the banks are under from the whole raft of regulatory change being imposed upon them, not just SEPA but MiFID and the ever more onerous anti-money laundering (AML) and know your client (KYC) challenges.

European banks are beginning work on new products to offer their corporate clients under SEPA. There is a clear opportunity for them to provide online, direct access to payment methods, enabling corporates to take control of their own payments, both inbound and outbound, to improve their liquidity management. We are seeing some progress by the banks in this area, but it is slow; corporates need to apply pressure to encourage their banks to speed up this development of value added service provision for the new environment.

Corporates' Relationship With SWIFT is Changing

The good news is that the bank owned co-operative SWIFT, which in itself wants to encourage greater take-up of its services by the corporate community in order to generate new sources of messaging volumes and secure its own franchise going forward, is working hard to encourage its member banks to offer new services to corporates. Historically, the corporates' relationship with SWIFT has been a challenging one, since the banks have been reluctant to open up their network to corporations and risk being disintermediated in their own relationships with their customers. But SWIFT's new offerings for the corporate community are much more powerful than their past efforts have been. There are genuine opportunities for corporates to participate in these services and reap a number of benefits, including easier SEPA compliance, reduced costs through use of standardised communications with multiple banks and increased efficiencies as a result of rationalised 'single-window' connectivity to their banks.

Dealing With IBANs

There is one major SEPA-related challenge which corporates are grappling with that they should certainly look to their banks for assistance. This is the obligation for corporates to quote both an International Bank Account Number (IBAN) and a Bank Identifier Code (BIC) on their invoices. The European Payments Council (EPC), the body that is overseeing the introduction of SEPA, unveiled on 1 January 2006 a rule that the IBAN would be the only beneficiary customer account identifier and the BIC the only bank routing designation accepted by EU domiciled banks in the SEPA environment.

The issue for corporates is that BICs are not among the codes they have traditionally had to deal with, or enable their systems to recognise and use. There are technology solutions available that will automatically add the appropriate BIC if only the IBAN is quoted. This is also the type of value-added service that banks could provide to their corporate customers going forward, to ease the burden of SEPA compliance for them. So far, the banks have been slow to recognise this opportunity, but if the corporates apply pressure, the probability is that once a few leading banks start to respond, the rest will have to follow and help solve the BIC/IBAN difficulty for corporates.

In addition, SWIFT is responding to calls from its customer base to enrich its existing database services in the BIC space, in order to address the need for mapping to IBANs. Its BIC Database Plus service already contains the national codes of financial institutions located in many countries. These codes are commonly used in the IBAN of a user.

SWIFT Initiatives Could Ease the Pain

Indeed, a number of ongoing SWIFT initiatives offer a range of opportunities for corporates, and certainly the top 2,000 corporates worldwide should be working to start taking advantage of these services. In January, SWIFT announced that its enhanced corporate-to-bank access model - the Standardised CORporate Environment (SCORE) - is live and commercially available following a three month pilot.

SCORE enables corporates listed on regulated stock exchanges in Financial Action Task Force member countries to interact in a standardised way with participating financial institutions via a closed user group on the SWIFT network. The new model, while still having its limitations - for example, excluding private companies - is recognised as a vast improvement on the earlier options for corporates to access SWIFT, which limited communication to one bank per closed user group.

SCORE pilot programme participants included corporates Alstom, Arcelor Mittal, CIBA, Danone, Gaz de France, General Electric and Microsoft, and banks ABN AMRO, Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, HSBC, ING, JPMorgan Chase, Nordea, Societe Generale and UBS. While it is likely to take time for Europe's corporate community as a whole to move towards using SCORE, we should expect to see significant take up in 2008.

The initial focus of SCORE is cash management and treasury messages, but SWIFT plans to add services including exceptions and investigations, trade services and investment services in the future. The breadth of services SWIFT is developing in an attempt to maximise its appeal to the corporate community is important, and increases the opportunity for corporates to make efficiency gains through connectivity to the network.

Banks to Develop Value-added Services for Corporates

The SWIFTNet Trade Services Utility (TSU) represents another opportunity for banks to offer value added services to corporates. The service is designed to enable banks to deliver a range of financial supply chain solutions to empower their corporate clients to manage receivables and payables more accurately and reduce working capital requirements. Via the utility, banks will be able to extend value-added transaction and financing services related to cash flow, from the buyer's initial order, through reconciliation, to payment to the seller. A pilot of the SWIFTNet TSU began in February 2006 with 19 banks, and at Sibos in Sydney in October 2006 SWIFT announced that 18 of them - including ABN AMRO, Citigroup, JPMorgan Chase and The Bank of New York - have contracted to use the commercial product that SWIFT says will go live when the banks are ready and after the conclusion of further volume testing.

Also at Sibos, SWIFT announced the initiation of testing compliance of payments with SEPA standards across the eurozone, starting in Q3 2007. This will be done in conjunction with the EPC, as well as EBA Clearing and 17 banks and, according to SWIFT, corporates will also be able to participate. The co-operative says this testing will generate a number of benefits, including encouraging strict compliance with SEPA core mandatory standards, reducing the price of SEPA implementation by sharing costs among stakeholders, helping to smooth and speed up migration to SEPA and, perhaps most importantly, helping to avoid the emergence of variations to the SEPA ISO 20022 standard.

Enforcing adherence to standards is one of the things SWIFT has done best in its work over the years with its member banks, and it is also one of the key advantages SWIFT can bring to the corporate community. Access to standardised communication using ISO 20022 messages for SEPA related services will certainly help corporates to improve STP and thereby reduce the cost and increase the efficiency of their interaction with banks going forward.

Challenges Lie Ahead for Banks, Corporates and SWIFT

But while the corporate community in Europe certainly stands to reap significant benefits by increasing its use of SWIFT and taking advantage of value added services offered by the banks in conjunction with SWIFT, challenges remain. It will inevitably take time for the entire community to migrate over to using ISO 20022 standards, and in the interim - and perhaps forever - corporates will need to continue using other standards for communication. They may want to take advantage of the SWIFTNet TSU to integrate the payments and invoice processes, but they may not want to give their banks such great visibility on their invoices, and choose to use other services instead.

On top of these challenges, the fact remains that, despite recent efforts by SWIFT to ease the burden of onboarding to its network for new users such as corporates, creating and maintaining a SWIFT infrastructure is a major undertaking. It is really only worth joining SWIFT if the corporate can be sure that all of its internal departments that want to be hooked up can do so via a centralised infrastructure for maximum efficiency - and that it will be protected from the onerous task of having to re-engineer its infrastructure and to cope with the regular changes to SWIFT messages that occur.

These challenges may be ones that the corporates seek help from their banks to address. It is more likely, however, that all but the biggest corporates will opt to use one of the emerging service bureaux being set up to offer SWIFT connectivity on an outsourced basis to firms wishing to avoid having to set up and host SWIFT hardware and software themselves. This may change once they become accustomed to the service and can be sure the benefits of connectivity would justify investment in the infrastructure in-house.

As corporates look at potential service bureaux offerings, they need to be sure their chosen provider has a technology infrastructure in place that can handle multiple modes of communication, across SWIFT and across other IP networks, using not just ISO standards but any standard they require. I would advise corporates to also look for providers whose infrastructure separates the business layer from the technology layer to ensure ease of coping with changes to SWIFT messages, as well as being able to support value added services such as invoice and cashflow matching and reconciliations.
