

# Get SEPA-ready ahead of the 2014 deadline

The launch of the Single Euro Payments Area (SEPA) created the vision of a borderless zone for electronic Euro payments across the 33 countries<sup>1</sup> that make up SEPA, where simplicity, standardisation and transparency were key. Now the transition to SEPA has a mandatory deadline: 1 February 2014 for Eurozone countries and 31 October 2016 for non-Eurozone countries, including the UK.

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## Contents

- 1 Introduction / Glossary of terms
  - 2 Your questions answered
  - 3 How do I prepare for SEPA?
  - 4 In the pipeline / RBS perspective / More information
- 

## Glossary of terms

**BIC** – the Bank Identifier Code which identifies the bank that holds the account.

**IBAN** – the International Bank Account Number which identifies bank accounts. It is an alphanumeric identifier that varies between countries but has a maximum length of 35 characters.

**Niche schemes** – payments schemes, typically representing less than 10% of domestic payment volumes, which have an extended deadline for compliance with SEPA of 1 February 2016.

**ERPs** – Enterprise Resource Planning is a software programme used to gather financial data and generate reports.

**XML** – Extensible Markup Language, a simple and flexible encoding format for data storage and transportation, which has been very widely adopted.



From 1 February 2014, the vast majority of electronic Euro payments within Europe, of which there are some 87 billion annually<sup>2</sup>, should be SEPA-compliant and, with a few exceptions, national Euro legacy payment systems will be demised.

Any business that transacts in Euros, both outside the Eurozone and within it, will be affected by SEPA, even though, for non-Euro countries, SEPA is not yet compulsory. SEPA offers companies the possibility of greater payments transparency, operational efficiencies and cost savings. But it also presents challenges and considerations in

becoming SEPA-ready. A survey by PwC in January 2013 suggested that over half of organisations are at risk of missing the 2014 deadline<sup>3</sup>. UK-based entities that don't hold accounts in Europe don't need to worry just yet. October 2016 is the SEPA Credit Transfer and SEPA Direct Debit deadline for non-Euro area countries.

That said, it's still important for all businesses to consider what they do need to do, and when.

<sup>1</sup> At the time of printing, the number of SEPA countries was 33, however this may fluctuate over time

<sup>2</sup> EPC

<sup>3</sup> PwC: SEPA Readiness Thermometer, January 2013

## Your questions answered

### What is SEPA?

SEPA stands for the Single Euro Payments Area, which is made up of 33 countries – the 28 member states of the European Union, plus Iceland, Liechtenstein, Norway, Monaco and Switzerland.

In this area, Euro payments (Credit Transfers and Direct Debits) are being standardised to allow people and businesses to make Euro payments across borders as easily, quickly, securely and efficiently as they can domestically today. The transfer and settlement of bulk domestic and cross-border Euro payments will be standardised in a single electronic format (XML), and conditions, rights and obligations for payees and recipients will also be harmonised.

Essentially SEPA will create a single 'domestic' market for handling Euro transactions across the member countries.

### Who is affected?

Any business that makes or receives Euro payments in the SEPA-33 countries may be affected, and should have a SEPA-readiness plan in place.

### What changes are involved?

SEPA only applies to Euro payments. Sterling payments are unaffected. So, within the UK, Bacs payments (including Direct Debits), Faster Payments and Sterling CHAPS payments will not be affected by the SEPA initiative.

SEPA Credit Transfers (SCT) and SEPA Direct Debits (SDD) will replace existing national Euro denominated payment mechanisms (see SEPA products in brief for a summary of the products).

The introduction of these products will radically simplify the Euro payments market, but it will also involve changes

to systems and processes not only by banks and payment service providers, but also by payment services users – i.e. companies and other organisations.

For example, one of the main changes is that an International Bank Account Number (IBAN) will be required for all Euro payments within SEPA countries, for domestic as well as cross-border payments.

Another major area of change is the introduction of a new standard file format for bulk payments of Credit Transfers (such as payroll) and Direct Debits. This new file format is called ISO 20022 XML and, unusually, the responsibility is on the companies or organisations that originate the payments (rather than banks or payment service providers) to ensure payments are in the correct format before they are transmitted to a payment service provider.

### What is the impact on UK businesses?

Because the UK is not in the Eurozone, it does not have to migrate its national payments system to the new standards in 2014. However, any company that does substantial business within the Eurozone, and makes or receives Euro payments, may be impacted by SEPA and should conduct a risk analysis to gauge the impact and determine a course of action as soon as possible.

### Why all the fuss about 2014, when the UK has a deadline of 2016?

There's a longer transition period for non-Eurozone countries, like the UK, which have a later migration deadline of 31 October 2016. On 1 February 2014, the vast majority of domestic credit and Direct Debit schemes within the Eurozone will be shut down, and your business may be indirectly affected.

### SEPA products in brief

**SEPA Credit Transfer (SCT) is a Euro payment where both the sending and receiving accounts are registered with banks (or bank branches) located in a SEPA country.**

- It can be used for non-urgent single, bulk and/or recurrent payments.
- Payments are credited with each party responsible for their own charges.
- SCTs allow more detailed payment information to be transmitted with the credit.
- Payments must be credited to the beneficiary's account within one working day.

**SEPA Direct Debit (SDD) is the new standard for making cross-border and domestic Euro-denominated Direct Debit payments within the SEPA-33, whether the instructions are single, bulk, and/ or recurrent Direct Debits.**

- SDD simplifies collections across SEPA countries, as SEPA Direct Debits will be governed by the same basic conditions, rights and obligations, and includes common rules for rejects and returns.
- There are two components to SDD: a Core service and a Business-to-Business (B2B) service, with slightly different rules.
- SDD will allow corporates to debit their customers in all 33 countries with just a single Euro account.
- The SDD Core scheme offers Direct Debit mandates between creditors and business or individual debtors. The scheme incorporates refund rights of up to 13 months.
- The SDD B2B scheme, as its name suggests, is for mandates between businesses only. The timelines are shorter, and there is no right of refund on authorised transactions in the B2B scheme.

The impact on every business will be different, but the key message is the same: do not delay in conducting a risk analysis of the impact of SEPA on your business. Speak to your Relationship Manager at RBS to find out what this means for you and the products that you use.

## What are the benefits of SEPA for businesses?

Most users will benefit from a simplified Euro payments infrastructure across the 33 SEPA countries, thanks to the introduction of harmonised rules, technological requirements and refund policies.

Major users may also gain from efficiencies and economies of scale, such as:

- The ability to rationalise bank accounts used across Europe: companies that have had to maintain multiple bank accounts in more than one European country to process Euro payments, should be able to

rationalise their accounts, saving on account fees and the administration of them.

- A standardised interface for payments in the Euro area, which facilitates the centralisation of payments processing into, for example, a payments factory.
- Improved transparency and competition in the payments market. This could help reduce costs.
- The possibility of centralising liquidity in the Eurozone, maximising cash management revenues.
- Simplified system configuration, as local formats will be eliminated.
- Improved control and visibility of working capital and transactions.

## What are the niche or legacy schemes I've heard about?

Because of the complexity of the migration of payments schemes to

the new SEPA landscape, some smaller schemes, typically representing less than 10% of domestic payment volumes, have been granted an extended deadline for complying with SEPA standards of 1 February 2016. These are typically referred to as niche schemes. Countries had to register their niche schemes with the European Commission, and a list can be found on its website<sup>3</sup>.

## Will I have to update my Direct Debit mandates to comply with SEPA standards?

Mandates in place before 1 February 2014 will continue to be valid, but you may need to change your new mandate process and forms after this date to ensure they are SEPA compliant.

<sup>3</sup> [http://ec.europa.eu/internal\\_market/payments/sepa/role/index\\_en.htm](http://ec.europa.eu/internal_market/payments/sepa/role/index_en.htm); select "Usage of Member States options"

## How do I prepare for SEPA?

These are the main considerations. Speak to your Relationship Manager if you have questions whilst going through this checklist.

### Analyse your business needs

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- Do you make or receive payments in Euro to or from suppliers, distributors, service providers or customers?
- Are some or all of your payments made in bulk?
- If so, understand how SEPA will affect these payments: ask your bank or payment service provider to help you understand how SEPA will affect your business.

### Perform a detailed SEPA migration analysis

2

- Do you need to upgrade your ERP (plus accounting platforms) to make them SEPA compliant?
- Are your business processes affected by SEPA? For example, due to mandatory SEPA requirements such as new SDD mandates?

### Confirm what you need from customers and suppliers

3

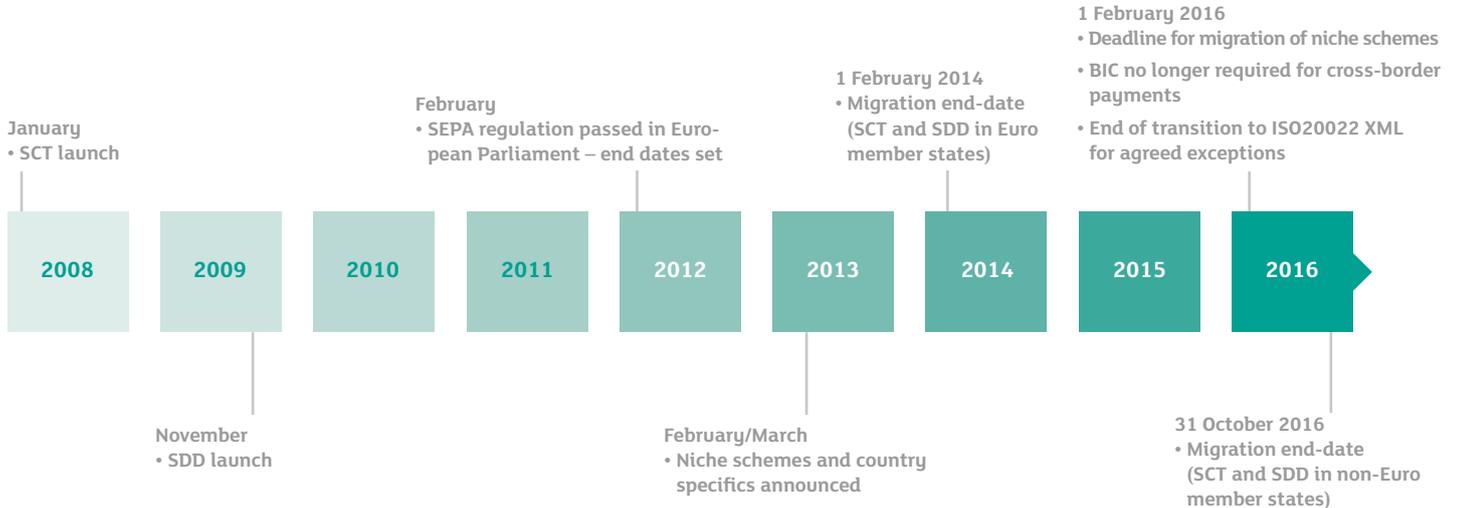
- Obtain and enrich your ERP with BIC & IBAN – this is critical for UK clients now.
- For SDD Core: can you re-use legacy mandates?
- For SDD B2B: are my customers reachable? Consider the impact of setting up new SDD mandates.

### Decide on your approach and planning

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- Prioritise like-for-like migration as a first step.
- Plan for a phased migration approach (SCT/SDD, Countries, ERP, Bank relationship).
- Consider a payments conversion service for speed and ease of transfer.

## In the pipeline



## RBS perspective



The SEPA vision is simplicity itself: an integrated payments market for electronic Euro payments across 33 countries, where all transactions are undertaken using common standards, systems, processes and rules.

But achieving that simplicity is challenging. PwC's SEPA-readiness survey at the start of 2013 showed that the majority of organisations across SEPA were struggling to meet the 2014 deadline, and that one in five had no readiness plan in place.

SEPA will impact every organisation differently, depending on the nature of its business, its operating model,

its systems and processes. This makes it hard to generalise about the risks and opportunities, but what we can say is, 'act now'. Assess the impact of SEPA on your business, put in place plans to ensure a seamless changeover, and then also look at what cost and other efficiencies you may be able to achieve in the medium to long term. ”

## Where do I go for more information?

RBS: [rbs.co.uk/perspectives](http://rbs.co.uk/perspectives)

The European Payments Council is the principal European payments body, and its website offers comprehensive advice and guidance on all aspects of SEPA: <http://www.europeanpaymentscouncil.eu/>

For the UK, the Payments Council represents the UK's position on SEPA. Further information is available at: [http://www.paymentscouncil.org.uk/what\\_do\\_we\\_do/european\\_payments/](http://www.paymentscouncil.org.uk/what_do_we_do/european_payments/)

The European Commission: [ec.europa.eu/internal\\_market/payments/](http://ec.europa.eu/internal_market/payments/)

The European Central Bank: <http://www.ecb.int/paym/sepa/>