Report

Biting the bullet on SEPA

Are banks ready for the Payment Services Directive?

Not all bankers want to talk about the Single Euro Payments Area (SEPA) just at the moment. Their diaries are blocked solid with the economic crisis, perhaps, or their reluctance to be interviewed suggests an order of priorities in which SEPA does not feature near the top. Either way, with the SEPA Direct Debit (SDD) currently piloting and due for implementation in November 2009, some form of “no comment” has been a surprisingly common response to the invitation to discuss that imminent SEPA deadline.

This may be a mistake. Introducing his information paper ‘SEPA Roll-Out: Sailing through Rocky Waters’ of December 2008, Geoffroy de Schrevel, head of banking and corporates initiatives, EMEA, SWIFT, says: “Time is pressing as the SEPA Direct Debit will be a bigger challenge to implement than the SEPA Credit Transfer (SCT).” [The SCT was launched in January 2008.]

Paul Taylor, managing director, Europe, VocaLink, notes that, “Banks have been handling real-time transactions, in the form of cards, for years. The challenge here is that mass payments are being put into a similar category. Systems will have to be industrially scalable.” But the size of the challenge is not the only reason to take those calls on SEPA and SDD. If one emerging theme of the current crisis is the need for a move ‘back to basics’ in banking, then SEPA may offer at least part of the roadmap to recovery.

Discussing payments in general and SEPA in particular, Daniel Szmukler, head of communications and corporate governance, EBA Group, points to the need to keep in sight the medium-term outlook for the industry, making sure that it develops in a healthy direction. In practical terms, as Szmukler explains, a key part of this is to facilitate Europe-wide rather than nationally generated transactional solutions – thus, SEPA. But SEPA is not only part of the future; it could almost be described as what’s left of the present. “The payments business is still healthy, and continues to bring in a stable flow of revenue,” says Szmukler.

DEADLINE PRESSURES

So SEPA does not simply represent a way to get ‘back to basics’; it is the evolution of a business area that has continued to generate revenue through the crisis. And we have little more than six months in which to prepare ourselves for the next step.

What decisions can bankers no longer put off, as the SDD deadline approaches? First, there are the practical implications of the shift from a national or multinational perspective to one in which the planned euro payments area becomes a single, effectively ‘domestic’ space without internal borders. Discussing the Payment Services Directive (PSD), the mandated legal framework for standardising payments practice across SEPA, Taylor says: “It’s not just going to be a country-by-country change. Multinational banks, and banks with multinational clients, will also have to move to the PSD’s T+1 processing timeline.”

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> *Paul Taylor, VocaLink*

"I believe that European solutions will be key in the future and that they will contribute in an essential manner towards shaping the post-crisis landscape, even if today many remedies are formulated nationally," says Szmukler.

In January 2009, VocaLink completed a widely publicised SDD pilot with ABN AMRO, Royal Bank of Scotland (RBS), the Bawag PSK Group and corporate customers of those banks. "The pilot has allowed us to engage our corporate customers and demonstrate the tangible benefits of the SDD scheme to them," says Joseph Laughlin, member of the management board at Bawag PSK. For Laughlin, these include "greater transparency and control in cash management for corporate treasurers, the ability to move money more efficiently across borders in Europe, and improved visibility of the financial supply chain."

Joseph Laughlin, member of the management board, Bawag PSK

At the same time, however, the pilot took place in a "safe, virtual environment" and was thus a low-cost exercise devoid of operational or reputational risk. The reality of the SDD implementation is that, in the short term, it will require banks' SEPA-compliant solutions to compete with the range of soon-to-be-legacy local direct-debit LVP solutions that are currently embedded in European transactional banking, and to outperform them while maintaining cost equivalence. Then in the medium-term, they will need to develop a co-operative space in which infrastructures can converge and banks' payments platforms can be integrated. To summarise: beat them then join them. The driver for cooperation is cost: the PSD has mandated price uniformity, so any potential margin is on the cost side. In his paper, de Schrevel insists that, "It is even more important to encourage existing market infrastructures to cooperate and leverage their respective capabilities instead of investing in yet another platform."

Perhaps not surprisingly, de Schrevel calls for bankers "to think and act outside of the legacy boxes". But the clear implication here is that thinking outside the box should entail, first, getting to grips with the challenge, and second, working with the competition to beat it using pre-existing platforms and methodologies.

QUESTIONS OF TRANSPARENCY

There is one other issue raised by the SDD implementation that goes beyond European payments harmonisation and into the wider challenges facing the industry today. "With the advent of SDD, banks are increasingly concerned about the traceability and the transparency of the data coming to them and leaving them," says Taylor. Notwithstanding the transparency and visibility gains delivered in the VocaLink pilot, the SDD implementation raises the issue of whether due-diligence, 'know-your-counterparty' rules will prove 'industrially scalable' within the PSD time-frame.

With this in mind, in the current regulatory climate, is not altogether surprising that de Schrevel ends his information paper on a note of caution. "At this point in time, the short term future for SEPA is still uncertain but ultimately it should produce the expected results in terms of innovation and reach," he says. But one other possible explanation for the apparent lack of a sense of urgency about SEPA is that the word "ultimately" does not quite have the same ring as, say, "by November 2009 at the latest". D

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