The levels of single euro payments area (SEPA) compliance vary across Europe and are particularly low with regard to the SEPA direct debit (SDD) scheme. This article examines the reasons for the significant delay and at strategies that enterprises can adopt for gearing up to achieve compliance in time for the 1 February 2014 deadline.

Why Some Countries are Lagging Behind When it Comes to the Implementation of SEPA and What Needs to Be Done Now:

Looking at how far the SEPA migration has progressed in the different countries and trying to find explanations for the different levels of progress in the payment instruments used, one will not be able to find a single explanation. For example, it might be expected that the SCT schemes would have been easier and faster to implement in those countries where customers and companies largely revert to credit cards for payments, which would thus leave comparatively few credit transfers to be changed to the SEPA format.

For example, Denmark is a country where credit card payments constitute 71% of all payment instruments, which is the highest level amongst the SEPA countries. Denmark has already achieved 100 % of SEPA compliance for its credit transfers. On the other hand, credit card usage in Ireland is also fairly high with a 50% share of payment instruments, but SEPA migration of credit transfers has to date only reached 15 %. Alternatively, one would expect that where a great proportion of payments are made via credit transfer, all national bodies involved - such as the banks and parliament - would be particularly active in managing the migration to SEPA in time so that its status was well advanced.

Yet here again, the figures do not support such a rational argument. Instead, the reasons for these discrepancies experienced so far may rather be found in the respective national settings, infrastructures, the commitment of national actors and local exceptions to SEPA.

Plan A Needs to Work

As the ECB has repeatedly stated, however, there will be no plan B as an alternative to the SEPA migration deadline of 1 February 2014. Companies will therefore have to make their European payments in the new SEPA formats from that date onwards. There is no alternative.

As mentioned above, adapting credit transfers to SEPA is not too difficult a task. So in order to secure a SEPA quick fix, this is where companies should begin. In cases where a company is unable to get customers’ account information updated in time to IBAN and BIC as required under SEPA, most banks are likely to automatically change the format bank account information into the corresponding IBAN and BIC when processing the payment. However, banks are likely to charge for these additional services so the company will incur additional costs.

Generally, it should be in the company’s own interest to be the keeper of such vital customer information. To this end, companies can send their local master account data to the central banks or third parties that convert the old data into IBAN and BIC. They can use the information to update their own master data. It should also not be overlooked that companies will need to make sure that their payments solution is capable of sending and receiving the standardised extensible markup language (XML) formats for payment messages as required under SEPA.

Direct Debits Remain the Crunch Point to SEPA Migration

While the picture for the migration of credit transfers is generally positive, a greater number of countries are seriously lagging behind when it comes to SDDs. The significant delay gives cause for concern, as it may lead to serious liquidity problems. If companies fail to adapt their direct debit schemes to SEPA in time for the 1 February 2014 deadline it may cause disruptions. As an alternative, a number of companies have decided to move from direct debits to creditor-based processes.

As existing national direct debit schemes vary considerably from one country to another, there are several reasons to explain why the progress of migration is so unevenly spread across the SEPA member countries. Germany, for example, is a country where direct debits constitute almost 50% of all payment instruments, as the direct debit scheme is a fairly fast and reliable instrument for companies. Currently, companies can send a direct debit and receive the money on the same day.

With SEPA, however, at the earliest the company would only receive the money after two days (D-2) under the standard regulations. This would have serious effects on the working capital and might partly account for the late adoption of the SDD scheme. Companies have probably been waiting for an alternative to come into operation. The COR1 scheme, which only became operational in November 2013, represents that alternative. COR1 has been introduced to offer companies the opportunity to continue with a direct debit processing within one day (D-1).

It may also be said that the figures provided by the ECB only measure the number and volume of payments that are actually executed, either as an SCT or as a SDD. Consequently, companies may already have achieved or at least well down on the road to SEPA compliance, but may yet not be using the SEPA formats in daily business. A recent poll of Hanse Orga’s customers, taken at a workshop, showed all of around 90 participants confirming that they had at least started or already completed their SEPA project. Compared to the status at the beginning of 2013, this finding is promising.

Nevertheless, even if companies have started their project or are pretty advanced on the SEPA road, they should keep focused on the nearing deadline and start testing their SEPA payments as soon as possible in order to avoid any unpleasant surprises should the systems not work as they ought to. The earlier that enterprises start their testing, the more time will be left to make any necessary corrections. All those who have not yet spent enough time on the punctual implementation of SEPA in their company, need to act now.

Direct Debit Migration to SEPA is More Complex, but Manageable

The migration of direct debit schemes is a more complex task than that of credit transfer schemes. For the first time, companies using direct debits will be obliged under SEPA to have the ability to send all SEPA-relevant mandate data with the direct debit. Where companies have to manage large numbers of mandates, an electronic mandate management system would be advisable to help automate the process and save time.

Moreover, whenever mandate information changed (such as the account number, name or amount), the company could simply issue a new mandate without having to keep the old mandate. With SEPA, however, companies will be obliged to maintain an audit-proof administration and history of mandates. Mandates can no longer simply be re-issued in case of changes, but instead have to be modified and the changes have to be kept track of. In case of B2B direct debits, for example, SEPA requires the creditor to send a copy of the direct debit mandate to the debtor’s bank, which is a process that is already known in some but not all SEPA member countries. An electronic archive of mandates would thus be advisable to streamline these processes.
In business sectors with a complex corporate structure and with a high number of direct debits it can become burdensome to adapt the mandates and the processes to SEPA's requirements and to set up a mandate management system.

How to Best Manage the SEPA Mandates

Mandates may be managed in the central enterprise resource planning (ERP) system - often an SAP system - but only if the software is used with a new release status that is SEPA-compatible. With older systems it is often difficult if not impossible to set up a SEPA-compliant mandate management system. Upgrading the system to a newer version would be a first major step. However, even when up-to-date systems are in place, what do you do, if you have your mandates spread across multiple systems? For SEPA, you need to be able to track all mandates. How do you centralise such information from the different systems? And what do you do, if you have old systems in use that were programmed internally to meet the specific needs of your company? Reprogramming such systems so that they are able to send and receive the new SEPA formats can be a time-consuming and costly task. The above are three key factors that often lead companies to look elsewhere for a solution to achieve an up-to-date, central and SEPA-compliant management system.

In an ideal case, such a solution is an add-on to the ERP system and can thus be directly integrated within the central system. At the same time, the system should be all-encompassing, in order to be able not only to streamline processes within the ERP system but also to include the mandates from external software and internally programmed systems. This can provide the complete picture and optimise processes for the entire system environment.

The type of system selected, whether ERP, cloud-based, or integrated, naturally depends on the specific corporate setting, as described earlier. There are, however, several key features that a mandate management system should be able to deliver.

Advantages of an Integrated Solution for SEPA Mandates

Integrated and centralised approach: A company may have several mandates from one and the same customer dispersed in its different entities. For example, in the case of insurance companies, these might customer mandates for different insurance types that are kept by the individual subsidiaries so that no central overview of group-wide mandates exists. The mandate management system should provide global visibility of all mandates.

XML formats: Direct debits will also have to be sent to banks in the XML format in future. The ideal mandate management system helps automatically retrieve direct debit information from the different corporate entities, convert old direct debit formats to the XML format and streamline the sending of all direct debit information to the banks to ensure process efficiency.

Electronic Document Archive: Companies need to archive their mandates, and with SEPA business-to-business (B2B) direct debits banks need to see the mandate too. Therefore, companies must be able to send mandates to the bank. With a mandate management solution, treasury should be able to electronically archive all mandates and related correspondence, store the documents with the mandate in the system and send the mandate including the attached document directly to the bank.

Enrichment and Conversion of Existing Mandates: Companies can maintain the existing direct debit mandates of their customers under SEPA; however these have to be enriched with further information (creditor ID, mandate reference) that help tracking the mandate. An electronic mandate management system can help with the updating and enriching of existing mandates within the system. Companies, however, need to inform their customers in time that their existing mandates will be automatically migrated to SEPA and will remain valid until further notice from the customers.

Returns handling: Under SEPA the deadlines for returning a direct debit have been harmonised for all countries. A mandate management system should enable an automated tracking of returns and updating of mandate data in the ERP system.

Conclusion

SEPA can be a complex task, but it has to be tackled and undertaken soon. Time is running out and there is no Plan B! Thus, all enterprises in the SEPA area must have their financial and accounting system and all other related processes to SEPA adapted in time for the 1 February 2014 deadline. When tackling SEPA, it makes sense to look out for solutions that enable a fully SEPA-compliant and integrated payment process and solutions to ensure a mandate management as required by the new regime. Integration in the central ERP system, automated processes, and intelligent functions - including enrichment and conversion engines - should be key features to look out in order to achieve compliance with the SEPA regulations.