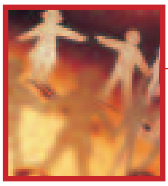

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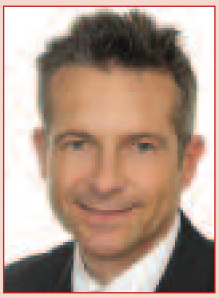
SEPA Migration:

Compliance and Catalyst for Financial Optimisation

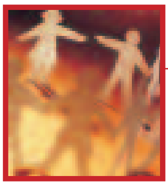
An Executive Interview with Markus Straussfeld, Head of International Cash Management Sales, UniCredit Bank AG



While it may appear that SEPA dominates the treasury media as we lead up to the final migration deadline to SEPA, treasurers and finance managers have different levels of awareness about its implications and the opportunities that SEPA is creating. In this Executive Interview, Markus Straussfeld reviews progress to date, and how SEPA is proving a catalyst for new solutions both within and beyond the Eurozone.

With only a few months now remaining until the SEPA deadline, how far have corporate treasurers and finance managers progressed towards migration?

Companies are at different stages in their SEPA migration projects, and inevitably, some are better prepared than others. Some still underestimate the scale of the project and have not yet prioritised SEPA migration, and this is clearly a cause for concern. Mid-cap companies in particular may be less familiar with the nature and scope of SEPA than their larger peers: in some cases, for example, we have found that finance managers were not aware that SEPA applied to domestic as well as cross-border transactions.



Companies of all sizes are feeling the pressure, however, and treasurers are seeking clarity on what needs to be done to meet the deadline and to find out the ways in which we can support them and alleviate pain points. This includes seeking our advice, expertise and implementation support, but also solutions to ease the migration process, such as mandate management solutions, so we partner with key solution providers to deliver this. SEPA Direct Debit (SDD) implementation is particularly challenging, especially for companies with a large volume of direct debits under existing domestic schemes. SDD is less mature than SEPA Credit Transfers (SCT) and there is a lack of clarity over legal and operational issues such as mandate management and handling, particularly when converting from well-established local schemes such as in Netherlands, Austria etc. The final format specifications for SDD hav not yet been released by CGI (Common Global Implementation) Group which is adding to the pressure on corporates as the 1 February 2014 deadline approaches.

To what extent have companies been able to leverage the benefits of SEPA so far, in addition to focusing on migration?

Centralisation of payments, collections and cash management, standardisation of processes and formats, and simplification of accounts and cash management structures are amongst the key opportunities that SEPA offers. Larger companies in particular recognise this, and SEPA is proving a catalyst for centralising processes into shared service centres which permits further efficiencies, such as implementing consistent payment and authorisation controls and automating processes. The challenge, however, is how to both ensure compliance and implement the benefits of SEPA given the shrinking timescales. While compliance must be achieved by the February 2014 deadline, companies can continue to implement efficiencies and take advantage of the resulting opportunities beyond this date. Consequently, many companies still have a mix of local and centralised activities and the process of centralisation and optimisation will be a gradual one.

A valuable opportunity that SEPA opens up is the introduction of virtual account structures. These are already familiar in countries such as United Kingdom and we are now seeing greater adoption in Germany to facilitate automated reconciliation and posting of collections. A virtual account number is held on each customer record so that although collections are received into a single account, the virtual account number, which is included in the remittance data, can then be matched with the customer record. This allows the convenience of a single account, but permits a high level of automation, so amounts can be reconciled and posted promptly to customer accounts. This enhances working capital management by reducing days sales outstanding (DSO), frees up customer credit limits more quickly and reduces the administrative burden considerably.

For what other innovations is SEPA a catalyst?

One of the most significant opportunities that SEPA has opened up is the ability to standardise the format of information that is exchanged between financial counterparties. SEPA payment methods use XML-based formats (ISO 20022) which is emerging as a global standard, not only for payments, but other financial messages too. At UniCredit, we see this as major opportunity for banks and corporates alike, so supporting XML messaging is a priority for us. By standardising financial messaging not just regionally but globally, companies can rationalise their systems and the range of formats they need to support, interfacing with bank services is more straightforward. Reporting can be produced consistently from different bank systems and integrated into the ERP or TMS in a consistent way, so decisions can be made based on complete and trustworthy information and processes such as reconciliation automated more fully. XML is also opening up new opportunities in financial messaging. For example, camt.086 offers a consistent view over bank fees so that these can be compared and reconciled more easily.

We work with customers to implement XML formats in both SEPA and non-SEPA countries, and convert messages into local formats where necessary. For example, it has been difficult in the past to incorporate Russia into a regional or global payments and cash management infrastructure. As Russia is a major trading counterparty for Europe, particularly Germany, we have invested significantly in our capabilities, and collaborated with other banks and SWIFT, so that our customers can integrate Russia into a wider cash management framework. As a result, customers can now include Russia into physical cross-border cash pools and also use MT101 messages for initiating payments. These are valuable initiatives in supporting greater centralisation and standardisation, but also making better use of liquidity.

This type of initiative is not restricted to Russia: we are also engaged in collaborative efforts to enhance opportunities for cash and liquidity management in countries such as Ukraine, Croatia, Romania and Bulgaria with considerable success.

“Customers can now include Russia into physical cross-border cash pools and also use MT101 messages for initiating payments.”

By this time next year, SEPA will be established across the Eurozone: what do you think treasurers' priorities will be a year from now?

Once treasurers have achieved SEPA compliance and crossed the migration deadline, they are likely to be focused on consolidating and improving processes and replacing workarounds that they may have implemented to meet the deadline with more permanent solutions. We also see companies looking beyond the Eurozone to determine how a centralised and more efficient infrastructure can be leveraged to optimise their payments, collections, cash management and liquidity management in other regions and currencies. While treasurers have focused on SEPA, they may not have been aware of some of the other opportunities that have emerged in recent year that have the potential to enhance not only their operations in the Eurozone but more widely. Understanding and implementing these techniques could bring considerable benefits. For example, we now offer cross-currency, cross-border notional pooling from Germany. In the past, cross-currency pools are typically located in Netherlands or United Kingdom, which is not necessarily attractive if a company does not have significant financial operations in these locations. Furthermore, as the extended period of economic uncertainty continues, many companies see the benefits of working with UniCredit Bank AG which is highly-rated with a remarkable core tier 1 ratio >18 % and reliably headquartered in a stable economy. □