

UNICREDIT CASE STUDY: ENEL

Enel, a global leader in power and gas production based in Italy, sought out the cash management services of UniCredit for its SEPA migration process. It is full of praise for the rapid and successful resolution of the issues that followed



Enel is one of the leading players in the power and gas markets across Europe. It is Italy's largest power company and Europe's second largest in terms of market capitalization. The company operates across 40 countries and four continents, overseeing power generation from more than 98GW of net installed capacity. Enel employs 71,000 people to distribute electricity and gas through a network spanning 1.9 million km and serving 61 million customers.

Enel has been listed on the Milan Stock Exchange since 1999; with 1.2 million retail and institutional investors, the company has the largest number of shareholders of any Italian company. The Italian Ministry of Finance is one of Enel's most important shareholders with a holding of 31.24% of the company's stock.

Enel is ardently committed to renewable energy for sustainable development. The company operates a wide range of hydroelectric, thermoelectric, nuclear, geothermal, wind and solar renewable power plants. In 2013, over 42% of the power generated by Enel was carbon-free.

Enel is an innovative company and it was the first utility in the world to replace traditional electromechanical meters with smart meters, making it possible to measure energy consumption in real time, as well as manage

contractual relationships remotely.

Approximately 32 million Italian retail customers are equipped with smart meters installed by Enel and the company is deploying an additional 13 million smart meters to its customer base in Spain. This tool is key to the development of smart grids, smart cities and electric mobility.

SEPA: Creating a level playing field in Europe

The Single Euro Payments Area (SEPA) project, championed by the EU since 2002, is designed to include non-cash euro retail payments as part of European integration with the aim of fostering efficiency and competition within the euro area.

An integrated market for electronic payments for the euro is believed to be necessary for the proper functioning of the market to benefit businesses as well as consumers. By replacing current national payment schemes with a common EU-wide payment scheme - reliant on open standards and common rules - SEPA has laid down the foundations for proficiency in the chain of payments.

Within the framework of SEPA, all retail payments in euros are regarded as domestic transactions. The distinction between domestic and cross-border payments within the euro area is eliminated.

The EU's SEPA Migration End-date Regulation established

1 February 2014 as the deadline for the euro area's migration to SEPA credit transfers (SCTs) and SEPA direct debits (SDDs) denominated in euros. Enel handles approximately 20 million direct debit transactions a month. For the company to continue to give its broad customer and client base the most efficient service, the transition to the SEPA payments system was of the utmost importance.

To prepare for the transition, Enel enlisted UniCredit's cash management services towards the end of 2012 to assist with the migration project. Innovative by nature, Enel decided to tackle the task early so as to become a market leader in SEPA payments.

Enel has built a long and secure relationship with UniCredit over the past 20 years. While Enel works with 10 banks altogether, UniCredit proved itself to be one of the most reliable and innovative and eventually became the main treasury bank for the company during the demanding time of transition.

Giovanni Vattani, head of payment systems at Enel in Italy, considers UniCredit to be on a different level to other banks. "For UniCredit it was obvious that their problems would have been as important as our problems. They took a personal approach to build and maintain a relationship with us. No problem has been too difficult for them to overcome," he says.

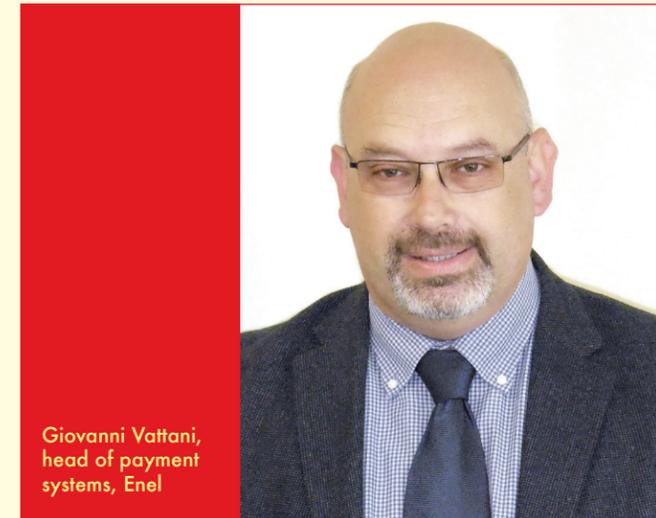
Overcoming setbacks after migration

Institutions in Italy, and Europe more generally, have taken two different approaches of SEPA migration. Some corporates and institutions opted for basic compliance with SEPA regulations, which would have a minimal effect on their enterprise resource planning systems.

At the other end of the scale, companies such as Enel have taken on board a much more thorough project, implementing fully-fledged adjustments to their core systems and internal processes to take advantage of all SEPA functionalities from the beginning.

The migration from older credit transfer and direct debit payment schemes to the new SEPA scheme was relatively smooth for Enel as it worked closely with UniCredit to ensure the most efficient migration possible. However, once the new payments system came into being at the start of February this year, Enel experienced some difficulties with certain transactions. Indeed, the transition efforts impaired banks, customers and the domestic corporate banking network.

In some instances, different interpretations of particular rules led to the missed delivery of reconciliation files between banks. In other cases, the corporate banking network had issues managing instruction files that



Giovanni Vattani,
head of payment
systems, Enel

were 10 times larger than in the old data format. This led to delays and difficulties in delivering them to banks.

In particular, the interpretation of reason codes created one of the biggest problems for Enel. Mismatches between senders' and recipients' approaches to the SEPA implementation led to misinterpretation of reason codes. Where the full implementation of SEPA had not taken place, the use of the old direct debit data format on one side of the transaction meant that complications could arise on the other side.

"In Italy, the new system of SEPA uses a larger number of reason codes than in the previous system, and so, in some cases, customers still using the old file format had trouble understanding the real reason their payments had been rejected," explains Fernando Santini, cash management sales expert, vice president, at UniCredit in Italy.

"One of the main reasons for this issue was that other corporates hadn't invested enough in new treasury activities prior to the implementation of SEPA. They were of the understanding that because they currently had a low number of unpaids on their system, this would remain the case," he says.

"While implementation had gone smoothly under the direction of UniCredit, what we discovered was that banks and some other institutions did not properly test out the new functions. Indeed, for us, it was difficult to thoroughly implement the testing phase in part because of the huge number of transactions we complete daily. In some cases, the client was being affected and this was not acceptable to us. We needed to address the situation as quickly and efficiently as possible," says Vattani.

UniCredit's one-to-one customer model

Given the scale and intricacy of

some of the issues, it could be expected that finding a workable resolution would be a lengthy process. This was not the case. In less than two months, UniCredit, under Santini's leadership, was able to address the issues the migration process had brought to the fore. UniCredit's one-to-one customer assistance model made the difference, says Vattani.

As well as formal monthly meetings from the beginning of the transition process, UniCredit and Santini offered around-the-clock support to all departments in Enel affected by the migration. Moreover, all business was conducted in a transparent and constructive manner and a solution was crafted and implemented in a partnership between Enel and UniCredit.

UniCredit solved the problem that Enel was experiencing from the mismatch in reason codes, allowing Enel again to provide the best service to its customers.

There were a couple of other issues that needed to be resolved, however. For instance, Enel had questions on how to populate the sequence type flows with the SDD information and how to use the first or current direct debit. UniCredit advised it thoroughly on how to overcome this issue with the adoption of a new process. This is no longer an issue for the company.

"We dealt directly with various departments including product development, communications and finance to deal with their specific issues," says Santini. "Collaboration was of the utmost importance to us in order to serve our client to

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the highest standards."

"The most important outcome is that we now have a streamlined approach to the solution of any problems we face thanks to our partnership with UniCredit. Unfortunately, this has not happened with other banks that are working with us to solve similar problems. In some cases, the issues are still ongoing," says Vattani.

"UniCredit is second-to-none when it comes to advice surrounding SEPA migration and solving the various problems that followed and they remain our most trusted banking and cash management partners," he says.