



Sepa Industry Snapshot | SIBOS 2007, Boston

## ARE YOU A STRATEGIC SEPA THINKER?

The results of a reader quiz conducted throughout  
August 2007

# Contents

Introduction	3
.....	
1. Sepa Credit Transfers	4
.....	
2. Sepa Direct Debits and the Payments Services Directive	7
.....	
3. Corporate Engagement	9
.....	
4. Changes by 2010	11
.....	
5. SAP Payment Engine	13
.....	
6. About the Authors	15
.....	

## Introduction

In July 2007 SAP, supported by The Sepa Consultancy, asked Finextra to devise a quick, simple and anonymous quiz – 10 multiple choice questions with 3 options each – for a sample of executives in the payments industry. The quiz focused on strategic thinking about the single euro payments area (Sepa). Questions were designed to provide immediate results to the respondents. Feel free to take the quiz on-line until Friday 5 October <http://www.finextra.com/quiz.asp> and visit us at booth B15 at Sibos.

90 bank representatives working in the payments area took the online quiz. They represent 57 banking groups from across the 13 eurozone countries, six non-eurozone EU members and Norway. Where we received multiple responses from a single banking group, they were most often from payments professionals working in different countries within their group's operations.

Several non-European banks participated, but we identified their responses as coming from their UK base for their European payments business.

18 of the 90 responses came from banks that don't operate widely across the region, while 72 responses came from larger banks that have a banking presence (directly or through a subsidiary) in more than one country in Europe.

Where relevant throughout this analysis, we will discuss differences in responses between eurozone and non-eurozone respondees. But because we are working on a small sample, we cannot draw conclusions about the different approaches to Sepa on a country-by-country basis.

## Key findings

As a result of Sepa and the Payment Services Directive (PSD), 63.33% of respondents expect that their payments business may look very different by 2010, as they commit resources to evaluating in/co/outsourcing options, looking for opportunities based on a common European infrastructure and closely monitoring emerging payment segments.

This demonstrates a high-level perception that Sepa is more than just a compliance issue for most banks, and is closely linked with the finding that 60% of the banks believe the PSD is a catalyst for industry change and provides new business opportunities.

To help them address the opportunities, by 2010 38.89% of banks say they will have put in place a single enterprise-wide payments hub supporting all payment types with standardised interfaces to other systems and clearing and settlement mechanisms.

But given that most banks will not have live production systems in place for handling Sepa credit transfers using the XML message types with corporates until at least later in 2008, with direct debits probably coming later still, 2009 will likely be a very busy year for changes in payments business models and the infrastructure that supports them.

## 1. Sepa Credit Transfers

The Sepa Credit Transfer scheme is the next major embodiment of the European banking industry's years of working towards the single euro payments area. The Sepa Credit Transfer Adherence Agreement is the document which binds participants to the terms of the rulebook published by the European Payments Council (EPC). The EPC aims to have all participants signed up by January 2008.

Our market snapshot revealed that 6 of the 90 respondents said they will not have signed the Sepa Credit Transfer Adherence Agreement by January 2008 (**See Figure 1**). All but one of these (a Greek bank) were from non-eurozone countries. Of the remainder, who will have signed the agreement in some form, 17 will have done so for bank-to-bank payments only.

To support the new Sepa Credit Transfers, the majority (86.7%) of banks say they are embracing the new XML message types (**See Figure 2**). Most of these banks say they will use the new message types for both inter-bank and corporate transfers, but a significant proportion of respondents (32.22%) say they are only interested in using them for interbank transfers.

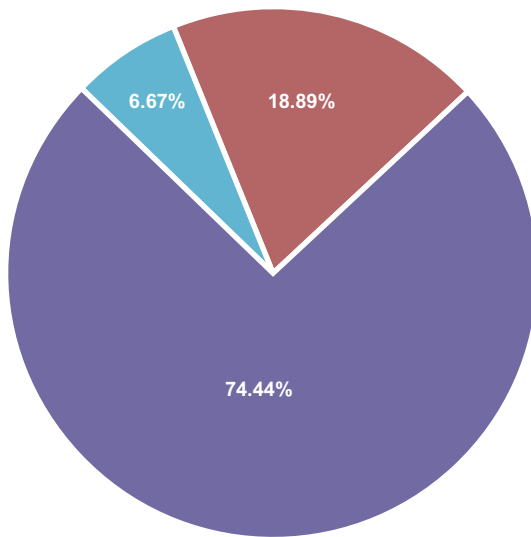
This, along with responses to other questions in the quiz, indicates that there is perhaps a lack of demand from the corporates for the banks to support the XML message types – either due to a lack of awareness about Sepa from many corporates, or because they don't currently believe that the benefits outweigh the costs of changing.

Either way, anecdotal evidence suggests that many of the banks who plan to embrace the new message types will not be supporting them in live production systems from day one, and will instead continue to use workarounds while they implement and test new systems during 2008 and 2009.

Substitution of domestic credit transfer schemes with Sepa compliant ones is expected to take place in eurozone countries after a period of parallel running. The length of this parallel running will likely vary by country, and although the European Central Bank is encouraging the industry to make this as short as possible, most banks expect it will occur after 2009. 88.66% of respondents think the Sepa Credit Transfer schemes will substitute domestic schemes in their country after 2009.

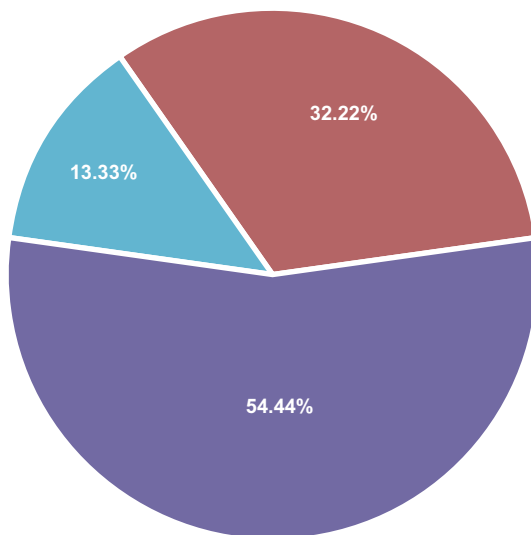
Even in non-eurozone countries it is expected that many of the current domestic payment systems will eventually be replaced with Sepa-compliant ones and the perception of when credit transfer system replacement would take place was broadly similar across both groups – with most answering between 2009 and 2012.

**Figure 1. By January 2008:**



- a) My organisation will not have signed the Sepa Credit Transfer Adherence agreement before 'go live' date.
- b) We will have signed the Credit Transfer Adherence Agreement for handling Sepa Credit Transfer in the bank to bank space only.
- c) We will have signed the Credit Transfer Adherence Agreement to accept credit transfers from corporate customers as well as bank to bank.

**Figure 2. What messaging changes have you made to support Sepa Credit Transfer compliance?**



- a) We're just converting our old message types to comply with the Sepa framework.
- b) We've embraced the Sepa-compliant UNIFI (ISO 20022) XML in the bank-to-bank messaging space only.
- c) We've moved to UNIFI XML for bank-to-bank payment messages.

(Figure 3 overleaf)

## 2. Sepa Direct Debits and the Payments Services Directive

The Payments Services Directive (PSD) was finally passed by the European Parliament in April this year after much delay. It is intended to open the market to competition and remove obstructions to the creation of an EU-wide internal market for payments. The Directive must be transposed into national laws by 1 November 2009 – almost two years after the banking industry introduces the first Sepa payment instruments. But the PSD isn't just about Sepa payments instruments – it also applies to the current payments services for all currencies of the European Community.

**15.56% of the industry snapshot respondents said they don't yet understand the implications of the PSD for their business (See Figure 3).** Among these were five banks that operate only domestically, but a further nine banks that operate regionally also admitted not understanding the implications.

The majority of firms (60%) agreed with the statement that it is a catalyst for industry change and provides business opportunities (something the European Parliament would be pleased to hear). But 24.44% just saw it as a 'tick-box' requirement for achieving Sepa compliance

One of the impacts of the late passing of the PSD is that the initial plan to have a Sepa direct debit scheme go live at the same time as the credit transfers was abandoned. The EPC now expects this will happen at the end of 2008 at the earliest.

Given the fact that all countries have yet to transpose the PSD into their national regulations, it is perhaps surprising that the 12.22% figure for respondents who claim to be taking a wait and see approach to direct debits is not higher (**See Figure 4**). Over half of those surveyed said they are currently working through the business and technical requirements, and are therefore

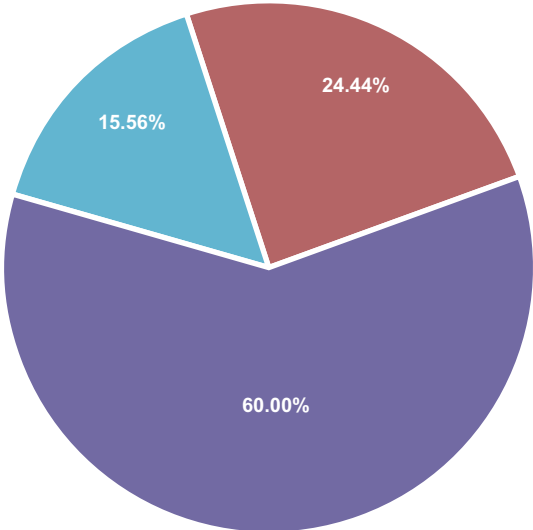
just at a preparatory stage. So far guidance on direct debits has come from EPC Rulebooks, but without country-level transposition banks will find it difficult to reach the implementation stage.

However, 35.56% of respondents claimed to be at a phase 1 implementation stage and designing direct debit products (**See Figure 4**). That may be the case at the more progressive institutions, but completion of this implementation stage will require more detailed clarification from industry bodies and regulators, and **most banks are happy to take a wait and see approach to this given that they are not anticipating a high volume of demand for Sepa direct debit products in the short term.**

Just as with the parallel running of Sepa credit transfer systems, countries will eventually replace their existing direct debit schemes (assuming they have them) with Sepa compliant ones. Again, across all our respondents most activity is expected between 2009 and 2012. But a significant proportion (35.56%) believe it will take until 2013 or later for this to be completed in their country (**See Figure 5**).

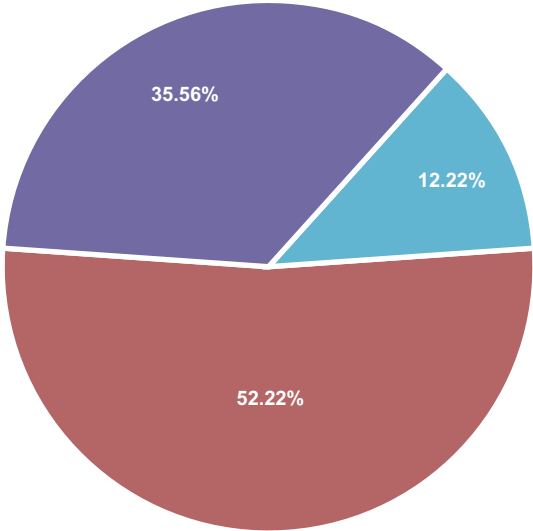
Interestingly, when it comes to predicting when migration to Sepa direct debit schemes will be completed across all Sepa countries it is the non-eurozone countries who are more optimistic. 60% of them believe this will happen between 2009 and 2012. But 68.3% of eurozone countries think this will not happen until after 2013.

**Figure 3. How does your organisation view the Payment Services Directive?**



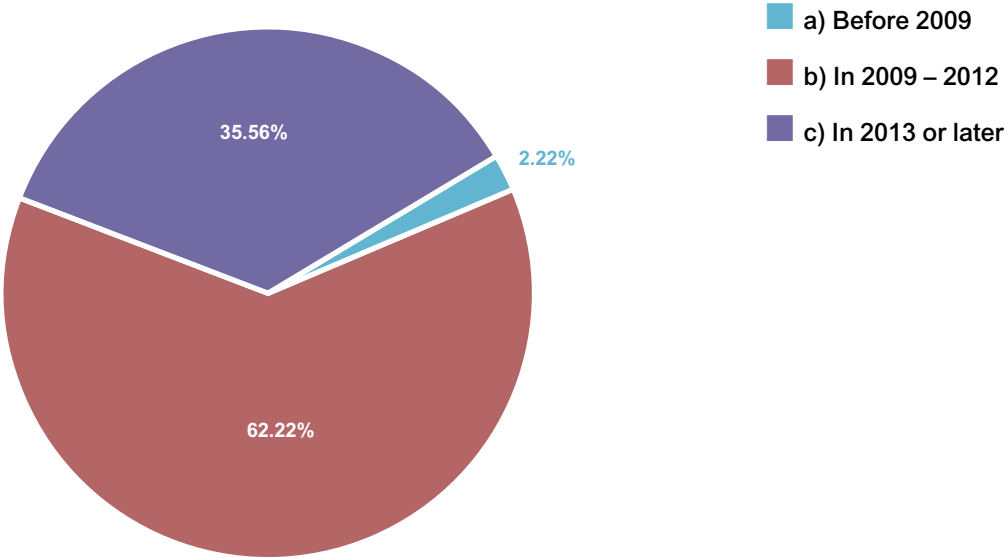
- a) We're still not sure of its implications for our business.
- b) It's the legal framework we've been waiting for so we can tick all our Sepa compliance boxes.
- c) It's a catalyst for industry change and the realisation of new business opportunities.

**Figure 4. When it come to Sepa direct debits, what stage is your organisation at?**

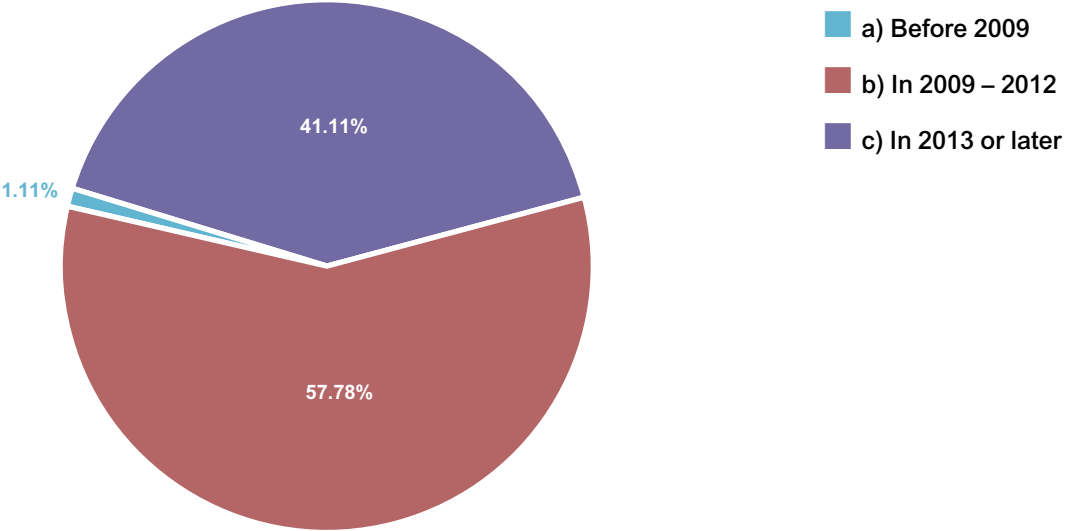


- a) We're not doing anything until the Payment Services Directive is transposed in our country.
- b) We're currently working through the business and technical requirements.
- c) We are implementing the phase 1 business and technical requirements and are now designing the electronic debit products – for example: mandate creation and management, bill presentment and payment, to help enhance our payments business.

**Figure 5. When do you think that the Sepa Direct Debit schemes will be used in your country to substitute the current domestic schemes?**



**Figure 6. When do you think that the Sepa Direct Debit schemes will be fully implemented by all banks in all Sepa countries?**



### 3. Corporate Engagement

There is a fairly even split among bank respondents regarding their levels of engagement with corporates about Sepa, and there was very little difference between eurozone and non-eurozone banks. Most engagements tend to be at an educational workshop level at the moment, particularly targeting mid-market corporates who might not be heavily involved with representative bodies such as the Euro Associations of Corporate Treasurers, which are trying to raise awareness of the issues.

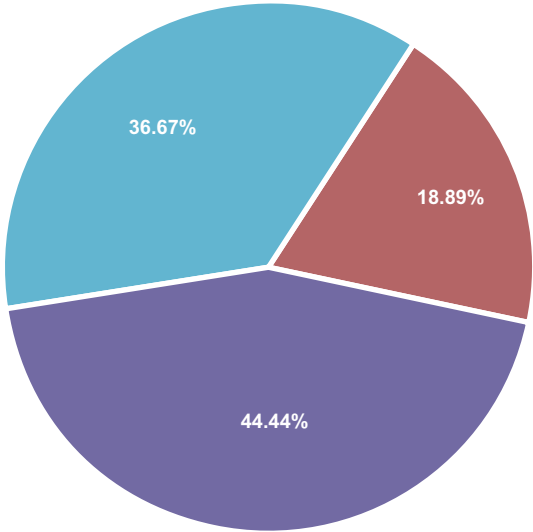
**The majority of banks do have goals in mind for Sepa and their corporate customers, but 36.67% of respondents say they haven't really worked out the implications for corporate customers as they're still formulating their own Sepa strategy.**

18.89% of banks say they have plans in place to aggressively target cross border business, helping them to consolidate bank accounts across Europe (See Figure 7). Almost all of these are, not surprisingly, banks that currently have operations and customers in more than one country. In terms of business opportunities, most banks are targeting the top end of the mid-market corporate sector for new Sepa-related business, as these corporates have fewer and less entrenched banking relationships than the large multinationals, which are often locked into credit facilities and are also more likely to cherry-pick services from multiple banks.

**The largest percentage of respondents (44.44%) are engaging with corporate customers about the financial supply chain benefits of Sepa (See Figure 7).** This is seen as a sweet spot for banks, as most corporates want to achieve tighter integration of their physical and financial supply chains. But corporates need to be convinced that the Sepa instruments are at least equivalent to the best of the existing domestic schemes, particularly with regard to bank reporting and the electronic account statements which are today the basis for updating ERP/treasury systems.

Banks expect there will be a slow but steadily increasing demand from corporates for the Sepa payment instruments, and for this reason many won't have live systems in place for supporting the XML message types until later in 2008 and beyond. But when they do, and the corporates have also made changes to their ERP systems to support the standards, then the 140 character reference data component should help improve areas such as remittance advice, bank reporting, automatic reconciliation and electronic payment initiation.

**Figure 7. What level of engagement have you had with corporate customers regarding Sepa?**



**a) We've had some discussions with corporate customers about Sepa but won't work out the implications for them until we've got our own Sepa strategy formulated.**

**b) We are already talking with key corporate customers about helping them rationalise the number of accounts they hold with banks in Europe, dependent on the liquidity and tax implications.**

**c) We are involved in discussions with our corporate customers about using Sepa as a catalyst for greater standardisation and integration of the financial and physical supply chains.**

## 4. Changes by 2010

2010 is the end date of the EPC's current roadmap for Sepa. By this stage, the industry is expected to have migrated a critical mass of payments to run only on Sepa payment schemes within the eurozone. Although the period of parallel running of domestic schemes may run beyond this time, most expect that by this stage the impact of Sepa and the PSD on the European payments landscape will be much clearer. For this reason, we asked quiz participants to picture how their payments business and infrastructure is likely to look in 2010.

**63.33% of respondents expect that their payments business may look very different by this time. This is very close to the 60% figure for respondents who view the PSD as a catalyst for industry change and new business opportunities (See Figure 8).**

It is not clear how much effort banks are currently putting into evaluating in/co/outsourcing options, looking for opportunities based on the common European infrastructure and closely monitoring emerging payment segments. But this does demonstrate a high-level perception that Sepa is more than just a compliance issue for most banks.

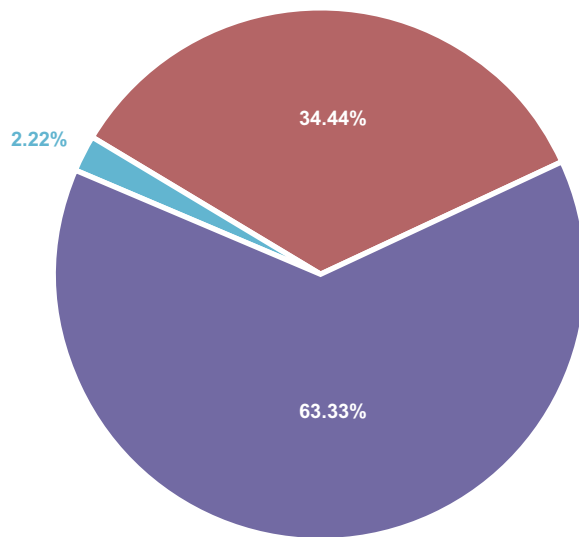
Along with the nature of the payments business, most banks accept that the infrastructure that underpins it will also need to change by 2010. There has been much talk in recent years about how the current duplication and siloed nature of payment systems in banks will need to be addressed if banks are to adapt to the new cost pressures of Sepa. And technology vendors and consultants have reacted by creating single payments architectures or hubs that can help consolidate existing payments systems into a common platform.

But 13.33% of quiz participants expect that many of today's systems will still be in place by 2010, though with better integration. Swiss and Scandinavian respondents made up half of this category **(See Figure 9)**.

Over a third of banks (38.89%) expect that by 2010 they will have implemented a single enterprise-wide payments hub supporting all payment types with standardised interfaces to other systems and clearing and settlement mechanisms.

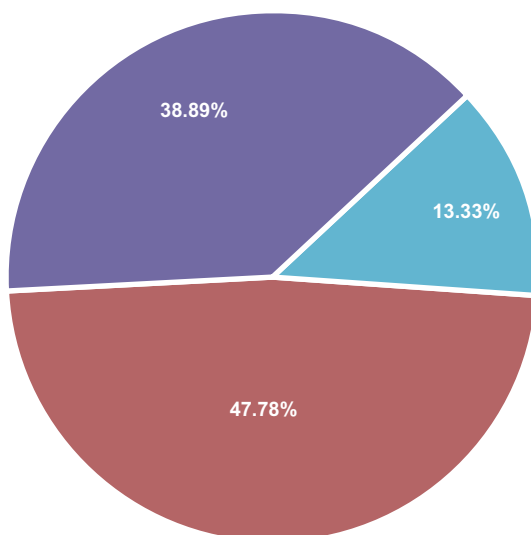
But a larger percentage of banks won't go quite this far. Almost half (47.78%) will instead have implemented some level of shared platform for their payments business – linking together high and low value or domestic and Sepa payments on a common infrastructure, but still maintaining some separation.

**Figure 8. By 2010, what will your bank's payment business look like?**



- a) We currently do not know – your guess is as good as mine.
- b) Probably much the same as today – but with the basic priority payments and Sepa instruments supported.
- c) Possibly very different – we're evaluating in/co/outsourcing options, looking for opportunities based on the common European infrastructure and closely monitoring emerging payment segments such as mobile and peer-to-peer.

**Figure 9. By 2010, what will your bank's IT infrastructure**



- a) Many of the same systems as today, with some duplication across individual platforms for domestic and Sepa payments, high and low value transactions and different lines of business, but with pretty good integration.
- b) Some level of shared payments platforms, tying together either high and low value transactions or domestic and Sepa payments.
- c) A single enterprise-wide payments hub supporting all payment types with standardised interfaces to other systems and clearing and settlement mechanisms.

## 5. SAP Payment Engine

### Leverage the Sepa Challenge with SAP

The SAP® Payment Engine application within the SAP for Banking solution portfolio can help banks achieve timely Sepa compliance, gain an edge over their competitors, and reduce costs. In addition to helping banks become Sepa-compliant by January 2008, the application can ensure a path for migrating domestic volumes onto the new platform over the next two to five years.

SAP Payment Engine streamlines all payment processes and standardizes interfaces with surrounding software by replacing multiple, siloed applications with one central payment hub. The application helps banks set up flexible business models along the payments value chain by supporting shared-service centers and insourcing models that allow banks and service providers to offer generic services to other banks.

SAP Payment Engine is highly scalable and is specifically designed to meet the requirements of top-tier banks and IT service centers. It links all external clearing channels and internal core banking functions. In addition, it can process the volumes of retail payments that top-tier banks and large IT service centers require, allowing them to achieve economies of scale that effectively lower the cost of single transactions. Banks with lower volumes will find that running SAP Payment Engine lowers their total cost of ownership as well.

### Batch and Real-Time Processing

SAP Payment Engine offers both batch and real-time processing and reporting 24x7 without any interruption in end-of-day processing. Such real-time functionality makes it possible to give your customers valuable information – such as confirmations of payment orders and payment exceptions – when they need it. Real-time functions for bookkeeping let you give customers up-to-date information on intraday payment bookings. With SAP Payment Engine, you can manage the complete life cycle of payment transactions based on a comprehensive

status concept for all objects and process steps. The status concept provides online reporting, enabling the bank to offer real-time access to status information for internal staff and customers.

SAP Payment Engine provides workflow control and an open software architecture that allows customer- and country-specific enhancements without changing its streamlined core processes. The application lets banks handle various payment types, formats, and channels across lines of product and lines of business. It also lets them consolidate existing legacy or third-party payment applications. In addition, its flexible product configuration helps banks define and implement new payment products rapidly, with little or no additional programming.

Sepa regulations change the payment schemes used today. To support the Sepa schemes SAP Payment Engine complies with the EPC rulebooks and implementation guidelines.

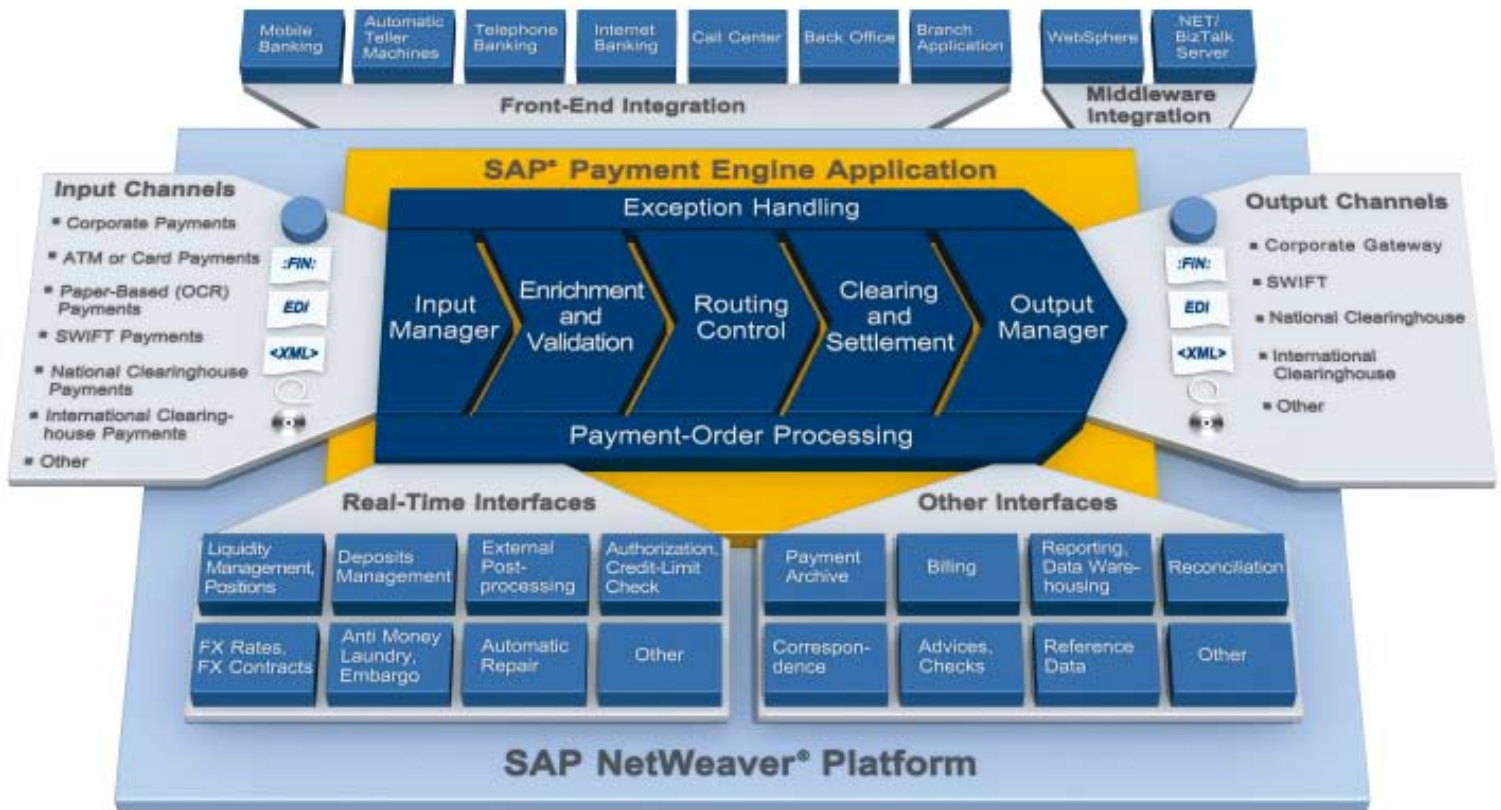
### Addressing the Sepa Requirements

By addressing the new European cross-border transaction schemes with SAP Payment Engine, banks can leverage the IT efficiencies gained by streamlining business processes on a multibank, multichannel platform and easily scale them to handle increasing transaction volumes. In addition to optimizing IT systems, SAP Payment Engine fosters customer loyalty by making it easy for your corporate clients to conduct instant cross-border payments under the Sepa initiative. The application provides compelling opportunities for U.S. and Asian banks to compete more effectively within the European Union by providing an instant payment infrastructure for their corporate customers.

## SAP for Banking

SAP for Banking provides banking specific (transactional banking, CRM, risk management) and banking relevant (financial accounting, human resources management, procurement) services and solutions created on a single enterprise SOA enabled business process platform (BPP). With more than 600 customers in 60 countries worldwide, SAP for Banking provides an integrated set of tools and automated processes to manage every aspect of the front- and back-office banking environment-from high-volume

transactional banking processes and customer relationship management to financial accounting, cost controlling and profitability and risk analysis. Based on the open architecture of the SAP NetWeaver® platform, SAP for Banking helps companies expertly manage transactions and relationships across the institution to quickly identify and exploit market opportunities and easily tailor new products to the specific needs of individual customers. (Additional information at [www.sap.com/banking](http://www.sap.com/banking))



## SAP Bank Relationship Management

Many corporations today find it difficult to connect with their banks. Global companies typically maintain dozens of bank communication interfaces, each based on different protocols and technologies. This results in high total cost of ownership, a lack of payment-flow transparency, and significant working-capital inefficiencies. With the SAP® Bank Relationship Management application, a company can seamlessly connect to its bank, track the entire payment life cycle and significantly improve straightthrough processing rates and internal compliance.

The SAP® Bank Relationship Management application, part of the mySAP™ ERP Financials solution, helps companies address inefficiencies associated with managing multiple bank communication interfaces. Offered within the SAP Financial Supply Chain Management set of applications, SAP Bank Relationship Management helps increase efficiency, lower costs, and streamline processes.

For more information about SAP Bank Relationship Management, SAP Financial Supply Chain Management, or mySAP ERP, please visit the SAP Web site at [www.sap.com/solutions](http://www.sap.com/solutions) or visit our booth B15.

## 6. About the Authors

### Finextra

Finextra Research is the leading newswire for the global financial technology community, with 2.5 million page views and 80,000 unique visitors per month. More than 25,000 financial technology professionals worldwide receive our free daily and weekly e-mail newsletters. Finextra additionally operates its own annual conference and exhibition for the capital markets industry, Finexpo, and collaborates with the Euro Banking Association to produce the annual pan-European payments conference EBAday. Finextra is also the official online news vendor for Swift's annual financial technology conference Sibos.

Finextra additionally hosts an online professional networking and blogging service for the global financial technology industry – [www.finextra.com/community](http://www.finextra.com/community) – and is the exclusive operator of the Finextra50 fintech stock index.

### The Sepa Consultancy

The Sepa Consultancy Limited is a specialist consultancy created to support industry in realising the Single Euro Payments Area & in the creation of value-added programmes for all types of market participant. This includes financial institutions, corporates, market infrastructure players and technology companies.

### SAP

SAP is the world's leading provider of business software\*. Today, more than 39,400 customers in more than 120 countries run SAP® applications-from distinct solutions addressing the needs of small businesses and midsize companies to suite offerings for global organizations. Powered by the SAP NetWeaver® platform to drive innovation and enable business change, SAP software helps enterprises of all sizes around the world improve customer relationships, enhance partner collaboration and create efficiencies across their supply chains and business operations. SAP solution portfolios support the unique business processes of more than 25 industries, including high tech, retail, financial services, healthcare and the public sector.

---

(\*) SAP defines business software as comprising enterprise resource planning and related applications such as supply chain management, customer relationship management, product life-cycle management and supplier relationship management.

[www.sap.com/contactsap](http://www.sap.com/contactsap)

THE BEST-RUN BUSINESSES RUN SAP™



© 2007 by SAP AG. All rights reserved. SAP, R/3, mySAP, mySAPcom, xApps, xApp, SAP NetWeaver, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary. Printed on environmentally friendly paper.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.