

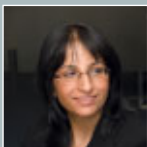


The bank-to-corporate conversation contains many opportunities for misunderstanding. In partnership with Experian Payments, Banking Technology brought together the two sides to talk about how developments in the payments landscape can be harnessed to advantage.

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Jonathan Williams: A lot of the issues are around how the different banks service their corporate customers. Inevitably there are differences and that leads to problems on the corporate side and potential for confusion across multiple banking relationships.

Kevin Hood: We currently have quite a complex banking environment in terms of the number of banking partners we have, and we are making efforts to streamline. Having major banking partners then presents issues which need to be carefully managed.

Susan Wedgbury: I work very closely with our treasury team and accounts payable and receivable. We are working to move all of our European banking, as far as is practically possible, to one banking service provider. There are challenges with that piece of work: we might want to move to one provider, but that one isn't always going to be able to provide all of the payment options we might want in all of our European locations. Another challenge is implementing a faster, more streamlined payment process centrally.

Bindy Dabhi: I head cash management process within the shared services centre for a number of clients. I'm concerned with how we serve our clients through streamlined payment services, when they may bank with one bank or a number of banks, that has resulted in a number of connections to all UK banks.

Banking Technology: *There seems to be some common threads: an element of internal process improvement; a reduction in the number of banking relationships; and a pan-European implementation. How are the changes in the banking world affecting those issues?*

Dabhi: From my perspective, there is a wealth of information about SEPA, and a lot to wade through to get to the detail that's relevant. There's a lot of confusion among people I meet in similar work areas – what is it that we need to do? What is it that we need to change? And what will happen if we don't – is there going to be any negative effect?

Is the onus on us, or are these changes being catered for within the banking system? Do we need to invest. What we are looking to our banks for is support, to tell us 'you need to do this, this and this; and you need to do it by this date'.

Hood: Our concern in relation to SEPA is about the risk relating to international bank account numbers. We want to see much more clarity on the timelines for when IBANs become mandatory for domestic payments. We're potentially sitting on a major issue, with huge customer and vendor databases, not all of which have an IBAN. We're getting the first exposure to this in Italy where it is becoming mandatory.

Mark Hale: That's a worrying conversation for several reasons. In terms of the IBAN question, IBAN has been required to be communicated between contracting parties for years now, so there should be no issue with that. As for the requirements to use IBANs for euro payments within SEPA, that's already a requirement – banks are entitled to reject this, but most of them won't.

Because euro volumes are relatively low in the UK that might be the source of your problem, but in Italy it shouldn't be a problem.

Hood: In Italy the issue is more to do with individuals not providing their IBAN. Europewide, the picture we're getting is that the IBAN may be on individuals and corporates bank statements, but there is insufficient awareness of the importance of communicating this.

Hale: Behaviourally, that's where the industry hasn't thought about it enough really. SEPA is a supply-side driven initiative that comes from the politicians. Banks have said that they will





deliver it and have been busy sorting out the issues in the interbank space, so while they have talked to customers, they haven't really got into the nitty-gritty of the issues.

There are simple possibilities, of course – putting IBANs on debit cards would help because people tend to carry them with them.

Williams: Part of the problem with SEPA stems from the way it was driven, originally as a political process that was meant to be for the benefit of citizens, corporates and Europe as a whole. It wasn't meant to be beneficial for banks – but if you look at who's done the design and the systems, it's predominantly the banks, through the European Payments Council, the European Commission, and corporates are in third place. Citizens will be the main beneficiaries, but they have been least involved.

Banking Technology: *Once the hurdles are overcome, do the corporates see clear benefits?*

Dabhi: It will enable straight through processing and reduced bank charges, which will help our clients. It is difficult to drive as the benefits are not clearly understood.

Hale: It is a shame because in the design and delivery of SEPA the negotiation between the banks and the EC has been ongoing, so the unhindered commitment to do it wasn't there. If that had been done and dusted and everyone was working towards delivery then they might have thought more about communication, which certainly hasn't been done very well.

Gary Wright: There has been a lot of dialogue in the banking industry about what SEPA is going to look like, how we're going

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to position ourselves, and the issues of regulation, competition and so on which means there has been an overly long focus around the banks.

What I'm finding when talking to our corporates is that there are varying degrees of understanding of SEPA. Unlike notes and coins, which hit us in the pocket, this has crept up and it has not been very joined up.

We've been putting lots of information out in the market, which has been both helpful and frustrating – helpful in getting to hear what's going on, but unhelpful in getting to what it all really means.

What we've tried to do is ask corporates to have a point person in the organisation. I think what you, the corporates, want is almost a roadmap of where we are going and what you need to do – because you have a mixture of ERP upgrades, TMS upgrades, focus on treasury areas, cash management, reporting and so on.

We have to step into an earlier stage of customers' cycle on those issues and help to influence some of the decisions. It's a much more collaborative approach where we need to step into each other's world much more.

Photo: Philippa Gedde

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Hale: If you talk to people in the banking industry, they will say that the roadmap is clear and will talk about the Crown Plaza Declaration. And at the European level, they will say that their roadmap is absolutely clear – January, SEPA credit transfer; end of 2009, Payment Services Directive compliance; after that, launch of direct debit.

Gary's point is a good one. There needs to be a person in place in all corporates who can say 'here is the Crown Plaza Declaration, and this is what we need to do about it ...'

Banking Technology: ... Is everyone here familiar with the Crown Plaza Declaration?

Most: No ...

Hale: ... well, this is part of the problem. At conference after conference the EPC stands up and says 'we published it, it's out there in the corporates'. The failure to communicate perhaps needs a national push, not just from the banks but also from the politicians.

Williams: SEPA is delivering credit transfers and direct debits, but these are bank products. If a corporate comes along and wants to make a payment, what's in it for them? I think there are no direct benefits for corporates in SEPA – there are benefits that can be extracted, but there are no direct benefits. Trying to make a business case for updating an ERP system is hard.

Dabhi: Very hard.

Hale: I have to say that approaching it on a business case basis is not going to be terribly helpful. The business case is at the macroeconomic level and is about making Europe more competitive – it's for the greater good. Banks would say there is no business case for them either.

It's a mandatory change that is part of the progress towards a single European market that all member states are committed to.

Wright: If you look at the implications operating as you do, there are a number of things that are woven into day-to-day banking anyway. Customers are looking at how they can handle elements of transactional data more effectively, so they are looking at upgrades and so on.

What we've said is that there are things that are going to happen, such as the launch of credit transfer and SEPA direct debits, but corporates and treasurers are saying that in a business-to-business direct debit opportunity, we'd like to engage now and get early sight of how that might pan out.

Then there is a debate below that level where some people like it because it's the collection of monies across borders, but they have problems with the mandates. How do they get their paper mandates novated to electronic form?

There are going to be things that disadvantage banks: people can reduce the number of banking relationships they have, and it might be entirely appropriate for them to do that – one of the costs we have found is that the inconsistency of moving funds has caused them to have local bank accounts that they fund centrally.

SEPA is going to be a disadvantage to banks anyway ...

Hale: It's supposed to be – Europe is over-banked, in the view of the competition authorities. It is a mature, stable and uncompetitive market, so creating what the Swedish competition authorities call an asymmetric shock is a good thing.

As Gary says, it gives corporates a chance to look at their business models too. And where perhaps you might not have wanted to do much cross-border activity because of the uncertainty, SEPA removes that uncertainty: it builds in the opportunity for payment factories and shared service centres, which give you more opportunity to think about sourcing in Poland or the Czech Republic or Slovakia, or wherever.

Banking Technology: Do the corporates see it that way?

Dabhi: It is a business opportunity to expand out there. We are looking to expand in Europe, but although you say it is mandatory, we still have to make a business case. When I talk about a roadmap, I want to work with our banks so that I know the dates of when I have to do things and can plan the investment over a couple of years.

Hale: So you've got a timetable and gone to the banks to develop a roadmap, but you're not convinced?

Dabhi: No, not convinced.

"I want to work with our banks so that I know the dates of when I have to do things and can plan the investment over a couple of years."

Hood: There is a lack of clarity coming from the banks; in terms of the information we get, it's very piecemeal. We ask for specific requirements, and for different countries we get different answers. I don't see a unified roadmap, so we struggle to develop a strategic approach to addressing the issues. We recognise that this road map will include a role for corporates' too and we would also like to see this clarified.

Williams: Is it that the information is too late for planning?

Hood: If I'm honest, it is always going to be too late – we need it three or four years in advance. The issue we have is that the only way to get IBAN details is to ask all of our suppliers for them, and they ask why? The reason is not yet clear to them and the incentive to provide additional information is not yet there. We want to see much stronger effort from all parties to make the new requirements clear. If this does not happen, we will get to the stage where payments may start to be rejected.

Banking Technology: *The expectation among banks seems to be that large corporates will push the adoption down their supply chain. Is that not happening?*

Hood: It's something we have put effort into. The problem is the amount of work that creates for our organisation, so we have begun to look at technical solutions, for instance to generate IBANs from the information we already have.

Williams: The EPC put a letter out this year very clearly making the national banking communities responsible for providing those migration services.

Hood: It would be a huge benefit to corporates, but we haven't seen an easy solution.

Wright: The message I hear all the time is 'shield me from this, please' – whether that's about Swift connectivity, message types, standards or whatever. Corporates have a myriad issues surrounding them, so there is a consultative element, rather than just a solution.

That's why the roadmap is important. There's about 70% that is generic and the rest is personal or specific, and that's where the play is for the corporate and bank relationship.

Banking Technology: *Aside from SEPA, what other issues are affecting corporates?*

Williams: We could certainly talk about UK Faster Payments.

Wedgbury: The fact that it didn't come about last year means that there was a lot of work done on it, and our bank has been very good about communicating what it is. What I don't know, and want to, is when we can use it for corporate payments and start replacing CHAPS payments? I'm anticipating – and this is perhaps optimistic – that it will be sometime next year.

And I still don't really know what it's going to cost.

Banking Technology: *Which is central to the CHAPS replacement issue, isn't it?*

Wedgbury: The £10k limit means that some payments, particularly to employees, will be affected – so it probably traps 10-15% of our CHAPS payments – but it's when the bigger payments will be affected that it'll have an impact. So I'd like to see a roadmap for that, though I can see where the banks are coming from.

Hale: Faster Payments is clearly going to change the market. Although the initial limit is going to inhibit take-up, it is likely to have a significant impact on the volume of CHAPS traffic over time. As that limit increases, it'll force banks to look at it as they originally looked at it, which was as a high-value payments system.

I'm not terribly sure that customers will demand it on the retail side. Most of their payments, like salaries, are scheduled and so won't be affected. Where it might have an impact is that, unlike CHAPS, it has a proposition, which is around urgent payments.

Wright: These things have evolved over time. The £10k position is really a holding position to let the industry adapt to the change that reflects the cautious way we approach these things. Until it increases it won't deliver all of the benefits customers and corporates are looking for.

Banking Technology: *Will it have an impact on a wider European, or even international, level?*

Wright: Until the complex and costly infrastructure is streamlined and the embracement of BIC and IBAN enables the data to be machine-readable, as it were, across banks and industries, you don't get the benefits of price compression.

There is a big debate going on, and there is a certain amount of protectionism that is going to have to shift, and is shifting, towards the new European scheme. The issue on the back of that is that it's not helpful either for corporates or banks to have dual-operating of schemes.

Banking Technology: *Corporate access to Swift is another issue that is changing the landscape.*

Wedgbury: As a BACS Bureau, it is possible that we might be approached to provide Swift connectivity for our clients, so we need to know what the best option is. Should we connect to Swift or go through another bank. And the banks are saying that they can support either – which leaves us with a choice. We don't want to build something that will be redundant in 18 months, so getting the information on what choice we make is important. Is there any value in connecting to Swift now? Do we build that capability for our customers and take advantage of it ourselves? It is a choice we face.

Wright: Again, this is an area where there is a need for an advisory, consultative approach. Corporates of all sizes – perhaps not the very large multinationals – are now recognising that there is a benefit to using Swift messaging and Swift standards, but don't know what exactly that benefit is.

You can go to Swift and buy an interface kit – it'll cost you £19,500 – and it gives you, out of the box, all you need to connect to Swift. What it doesn't give you is servers, and of course you'll need expertise and backup.

Hale: Part of the problem here is a question of perspective. We describe bank infrastructure and the bank supply chain using bank acronyms. Actually, what corporates are saying is 'we don't have a roadmap'. The challenge for banks – and the opportunity – is to change their language in relationship management and customer-facing areas. If you look at the language of corporates, mapping what banks do and what corporates do – the banks that are going to do best are those that speak the language of corporates.

Wright: I have to back that up. The language you use, and understanding your pressure points, leads to a dialogue, and that leads to solutions.

