



# Minimising SEPA Migration Risk: a practical approach

by Jonathan Williams, Director of Strategic Development, Experian Payments, and Ruth Wandhöfer, Head of Payments Strategy and Market Policy, EMEA Treasury and Trade Solutions, Citi Global Transaction Services

“

As a growing number of Citi customers recognise the benefits of SEPA migration before the deadline looms, many are now benefiting from Experian Payments' services.

”

**W**ith the Single Euro Payments Area (SEPA) now a reality, and momentum building towards a migration deadline, companies should be considering their migration plans seriously. SEPA brings a wide variety of benefits, particularly for companies operating across borders. However, every company that is seeking to maximise payments, collections and cash management efficiency should be considering SEPA migration now to leverage the advantages of payments harmonisation in Europe. Every major change project inevitably presents some challenges. Therefore, to help clients implement SEPA payments and collections as smoothly as possible and take early advantage of SEPA benefits, Citi has formed a strategic alliance with leading payments processing provider, Experian Payments, to provide customers with an innovative SEPA data conversion service based on proven, robust processes and technology.

## **New data requirements under SEPA**

Since 2006, the use of BIC (bank identifier codes) and IBAN (international bank account numbers) has been compulsory on cross-border payments in euro. With the introduction of SEPA, however, this information will now be mandatory for domestic as well as cross-border payments. Use of IBAN/ BIC formats for payment instructions results in more secure, efficient payment processing and fewer errors; consequently, it will ultimately be beneficial for all individuals and organisations. These fields also resolve technical issues that exist in some markets (see fig. 1 below).

However, the need to amend payment instructions for all beneficiaries of euro payments brings migration challenges for all companies across the 31 countries covered by SEPA. BIC and IBAN information needs to be collected and recorded for every supplier, employee and other payee paid in euro. Internal systems used for payments origination, or in which payment instructions are stored,

need to be modified to hold and transmit this information to other systems, and interfaces need to be amended. If either the BIC or IBAN is absent, erroneous or incorrectly formatted on a payment, it is likely to be delayed, rejected or penalised.

## **Rationale for Citi/ Experian payments alliance**

Early adopters of SEPA identified various common issues as part of their migration process:

Firstly, during the recent economic downturn, companies have had to prioritise their investments. While SEPA brings tangible benefits for many firms, treasurers were keen to effect migration without major financial overheads;

Secondly, many companies identified problems with converting and upgrading routing instructions for suppliers, specifically IBAN and BIC data;

Thirdly, there were questions over bank reachability and therefore their ability to support SEPA payment instruments; consequently, some companies were concerned that they would not be able to migrate to SEPA in a single process.

To manage these concerns, and ensure a smooth migration to SEPA, Citi and Experian Payments have worked together for some years on individual client engagements. As a pioneering bank in Europe and a leading innovator in European payments respectively, it was a natural development to establish a more formal alliance in order that a wider range of customers could take advantage of the combined benefits offered by the two organisations. Consequently, as a growing number of Citi customers recognise the benefits of SEPA migration before the deadline looms, many are now benefiting from Experian Payments' services. These include data conversion from BBAN (basic bank account numbers) to IBAN and BIC, and validation of this information. While most companies will anticipate including data conversion as part of their SEPA migration plans, validation of

**Fig 1: Examples of issues in account numbering and IBAN formation**

Country	Issue	Examples
France	During branch transfers and mergers/acquisitions, bank codes frequently change and payments are redirected. During this period, two IBANs may potentially be valid for one account.	IBAN: FR76 1003 7001 2200 0123 4567 881 Relates to bank/branch code (code banque/guichet) – 10037/00122 which is redirected to 10037/33043. The customer's IBAN changes to FR76 1003 7330 4300 0123 4567 893
Germany	Many accounts have sub-account numbers ( <i>Unterkontonummern</i> ) to identify specific purposes; these are reflected as 1-2 digits at the beginning or end of the account number. In general these are not specified by the consumer if zero. Using a simple conversion routine could result in extra zeros being inserted into the account number, giving an incorrect IBAN.	Bank code (BLZ): 10080000 Account (KTO): 78765431 IBAN formed naïvely: DE41100800000078765000 (fails modulus rule) Correct IBAN DE63100800007876543000
Italy	During branch transfers and mergers/acquisitions, bank codes frequently change and payments are redirected. During this period, two IBANs may potentially be valid for one account.	IBAN: IT10 K010 2551 5000 0001 2345 678 Relates to bank/branch code (ABI/CAB) – 01025/51500 which is redirected to 03069/51501. The customer's IBAN changes to IT74 Z030 6951 5010 0001 2345 678
Sweden	For some banks, Swedish IBANs do not contain the domestic bank code. Therefore, although conversion to IBAN can be done, in some instances zeros must be used to reflect the bank code.	Bank Code: 6041 Account: 014086998 Relates to IBAN: SE04 6000 0000 0001 0408 6998
UK	As branches close and merge, accounts can be redirected to other branch codes, and in some cases renumbered. For a period of time, a redirection notice allows these account numbers to be repaired. Currently, there are over 500 such redirections.	Bank code: 429503 IBAN: GB24 MIDL 4295 0321 0000 04 Accounts are redirected to another branch (400250) so the new IBAN for these accounts is: GB82 MIDL 4002 5021 0000 04
NL	Account numbers are portable between banks and no bank code exists in the account number format. Consumers must therefore supply their bank identifier as well as their account e.g., ABNA 0012345679. If they transfer their account to another bank, the IBAN must be updated.	Account number 0012345679 has IBAN: NL74 ABNA 0012 3456 79 when at ABN AMRO, but NL87 HSBC 0012 3456 79 if transferred to HSBC.

IBAN/ BIC information both as part of the initial migration process and on an ongoing basis is vital to ensuring a high STP (straight-through processing) rate. Bearing in mind the potential cost and inconvenience of delayed or rejected payments, it is highly beneficial to ensure early validation of this data.

**IBAN/BIC conversion and validation: A step-by-step approach**

**Step One**

There are a variety of implications of SEPA migration, including the ability to simplify cash management structures, rationalise banking relationships and accounts, and centralise payments and collections more easily. In many cases, companies will wish to appoint a SEPA

bank to help with all aspects of migration and act as their European cash management bank. This bank needs to have expertise and experience with SEPA, and a long-term commitment to European payments processing. Your SEPA bank will help you to understand the implications of the new SEPA payment instruments and the Payment Services Directive (PSD) on your business. Having understood the key impact of SEPA, your SEPA bank should be able to provide you with insights into your preferred payment geography, such as local clearing house migration plans.

**Step Two**

Having embarked on the migration process, it is important to complete it as quickly as possible to avoid having to

maintain two separate sets of data in parallel. Your systems (including customer-facing systems such as websites for online retailing) will need to be able to support SEPA payments, including IBAN and BIC information, which may require vendor support to upgrade these systems, or additional in-house development in the case of proprietary systems. System vendors should therefore be involved in the process at an early stage.

Usually, payment details originate from a variety of systems, so the location and quality of bank account information needs to be examined and the relationship between data held in separate systems established. This will define the number of records that need to be converted, and how many of these



are likely to need correction or enhancement to avoid errors.

### Step Three

To convert and validate IBAN information is a two-stage process. Due to the volume of records typically involved, and the need to update systems without affecting data and systems integrity, it is very valuable to work with an expert partner throughout this stage. Firstly, the process is to identify errors and exceptions inherent in the existing data and codes which may have been retired or redirected. The second step is to update or convert as many records as possible with IBAN data using existing bank account information (BBANs). Key to the success of this process is to identify upfront where errors are likely to be and dealing with these, rather than running a conversion process with a low success rate. For example, it may be necessary to seek more information from the payee. By separating high quality information from lower quality data early on, the conversion can be as efficient as possible.

Once IBAN information has been updated, correct routing of BICs can be added to payment instructions. To do this successfully, BIC data should be accessed from a variety of sources to ensure data integrity, so once again, it is valuable to work with an expert partner to ensure that BIC information is updated accurately.

### Ongoing advantages of IBAN/BIC validation

While the migration process to SEPA will vary in length and complexity for each company, particularly if they have a large number of retail customers, it is an excellent opportunity to enhance the completeness and accuracy of bank account information, resulting in a higher STP rate, fewer errors and lower costs. However, in order for this to be a long-term benefit, data needs to be maintained over time to ensure that new records are stored accurately and changes to instructions are correctly reflected in relevant systems. Once again, use of specialist tools from expert providers can increase data integrity and process efficiency significantly.

### The decision to migrate to SEPA

While many treasurers have put off the decision to migrate to SEPA, particularly during the crisis when there were other priorities and investment requirements, this is not a situation that can continue indefinitely. With a probable migration deadline of 2013, many companies with more complex euro payments and cash management requirements will need to start planning their migration projects now.

Furthermore, banks and service providers are likely to experience more resource constraints as the deadline approaches, so it is preferable to engage earlier in order to secure access to the expertise required for a smooth migration. Working with an experienced SEPA bank and a specialist payments processing provider is a valuable means of reducing implementation risk and maximising the potential advantages of SEPA – harmonisation, efficiency and reduced cost. □

### Jonathan Williams Director of Strategic Development, Experian Payments



Jonathan Williams is Director of Strategic Development for Experian Payments, the payment specialist division of Experian, the global information services company. He is responsible for identifying and developing new and innovative product ideas, managing media, industry and public relations and customer communications and communicating with industry and customers. Spanning both technical and marketing disciplines, Jonathan focuses on the commercial opportunities created by market change, industry or technological developments.

Jonathan joined Experian Payments after promoting strategies for growth as European Business Development Manager for Fujitsu Telecom. He has held engineering and IT roles at British Aerospace, University of Cambridge and Advanced Telecommunications Modules Ltd as well as senior marketing roles at Virata Corporation and Content Technologies (now Clearswift).

Jonathan speaks at conferences worldwide and has addressed audiences at Sibos, EBA Day, International Payments, ACT Annual Conference, Payment Strategies and the Federal Reserve conference on Payments and has recently contributed to the book *The Future of Finance after SEPA*. He also contributes articles to publications including the Journal of Payments Strategy and Systems, Banking Technology and SPEED.

Jonathan holds an MA in Theoretical Physics and a postgraduate qualification in Computer Science from the University of Cambridge and is the Experian representative to the Euro Banking Association (EBA) and the Payments Council.

### Ruth Wandhöfer Head of Payments Strategy and Market Policy, EMEA Treasury and Trade Solutions, Citi Global Transaction Services



Ruth is responsible for leading Citi's Payments Strategy and Market Policy within the EMEA Treasury and Trade Solutions business of Global Transaction Services. As such, she has responsibility for shaping and influencing the evolution of the external regulatory and market/standards environment within the EMEA Treasury and Trade business in a direction which is most beneficial to Citi's strategic interests and our clients' needs. Her responsibilities also include leading the GTS PSD implementation project and driving the product evolution and thought leadership in relation to all aspects of Citi's response to SEPA.

Ruth is highly regarded across the European banking industry for her in-depth knowledge of the regulatory, market and competitive landscape and in particular is acknowledged as one of the foremost authorities on the Single Euro Payments Area (SEPA) and the EU Payment Services Directive (PSD). She holds a number of influential external positions, including the Chairmanship of the European banking industry's PSD Expert Group (a joint initiative of the three European Credit Sector Associations), membership of the Plenary of the European Payments Council (EPC) and membership of the EU Commission's recently established Payment Systems Market Expert Group.

Before joining Citi in mid-2007, Ruth worked for the European Banking Federation (EBF), and prior to 2003 she worked in financial management in the banking sector as well as in the European Commission DG Economic & Financial Affairs. She speaks five languages and has completed studies in various countries, including an MA Financial Economics in the UK, an MA International Politics in France and an LLM in International Economic Law in Belgium/UK.