

PwC SEPA Readiness Thermometer Prepare a Plan B

August 2013



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Contents

Executive summary	4
Introduction	5
State of SEPA readiness by 1 February 2014 (as at 1 July 2013)	7
Prepare a 'plan B'	14
Respondents' demography	17

Executive summary

In June 2013, we surveyed 150 corporate respondents on their state of readiness for SEPA. This survey follows up on a similar survey we did in January 2013 among 293 respondents.

The good news is that it seems that more companies are actively working on SEPA readiness, that the effort and resources have increased since January and that the understanding of the task at hand has improved significantly.

The bad news is that 34% (was 55%) of companies are still at risk of not being ready in time, because either:

- they have not planned their readiness project (26%). Companies without a proper plan in place clearly have a far from complete understanding of the scope and effort required, which makes it difficult for them to be properly prepared for the SEPA deadline; or
- they have planned to start their readiness preparations in Q4 2013 or even January 2014, or even later. We expect a significant rise in the need for support from banks and consultants between now and the deadline. As many companies will have planned to do their preparations around October and November 2013, and this simultaneous migration could increase the pressure on banks and consultants, as well as leaving companies short of time. This may result in delayed testing and therefore additional difficulty in keeping the project plan on track.

A substantial number of respondents admit to being behind schedule. 1 February 2014 may seem far away, but given the 2013 summer holiday period and the system freeze around year end in many companies, the effective time available is shrinking rapidly such that few companies can afford any set-backs. A few companies even admit they will not be ready in time.

The results do not look good for the economy at large: if one in three companies has difficulties meeting the requirements, 'plan A' is no longer good enough. A surprising 46% of the respondents admit to not considering a back-up plan. Those companies that are thinking about an alternative are typically relying on their bank or a third-party cloud solution to come to their rescue.

But a back-up plan cannot be implemented overnight. It needs preparation and does not typically provide a shortcut for all aspects of plan A. In the second section of this report, we included the outline of a possible plan B. We recommend companies that are not yet SEPA-ready consider this guidance.

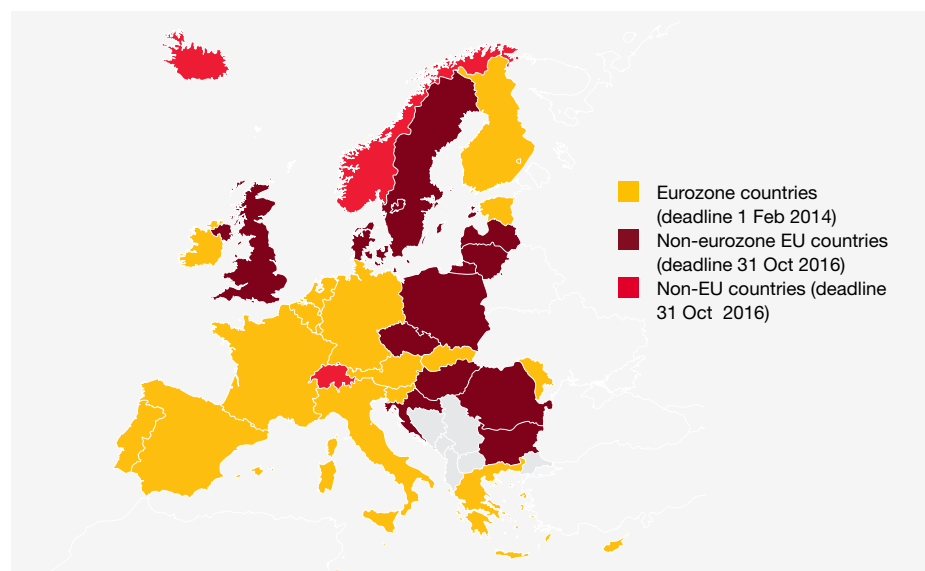
Introduction

We are witnessing a silent revolution. As of 1 February 2014, national clearing of credit transfers and direct debits in eurozone countries will migrate into a common, pan-European infrastructure. As of that deadline, the monopolistic competition between national clearing houses will cease to exist. Regular domestic payment transactions will migrate to SEPA transactions. In two years' time, all other SEPA countries will follow suit, and other domestic payment methods in eurozone countries will be brought within a standard SEPA scheme.

The consequence of the February 2014 milestone is that domestic credit transfers and direct debits – anywhere between 40% and 95% of in-country transaction volumes – have to be migrated from legacy payment formats and infrastructures to the SEPA scheme. Success is not only important because of the ‘prestige’ of the project; it is also an economic necessity, as reliable and uninterrupted payment processing is the backbone and lifeline of businesses and is important to the trust between and confidence in business partners.

The macro-economic benefits of SEPA – once fully implemented – are easy to summarise: SEPA provides alternative, competing transaction processing options that are 100% transparent to the payer and payee. It also improves higher quality and consistency in payment reference information at each step in the process, which improves traceability and automation. The SEPA payment processing will therefore reduce the cost of doing business in Europe. As with any other infrastructural change, it is a pre-requisite

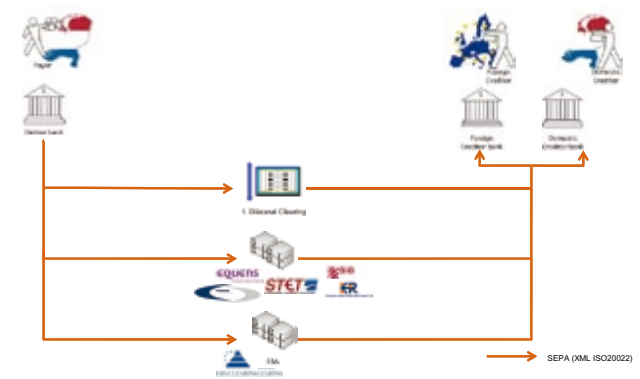
Figure 1 – SEPA conversion milestones



On a micro-economical level, stakeholders – such as (local) banks, businesses, consumers and politicians – have differing opinions about these benefits. They feel

We collected input on some 20 topical questions from across our network in January 2013¹ and did so again in June 2013. The questions in June 2013 have zoomed in on project planning, project delays and expectations regarding the deadline.

Pre-SEPA (Cross Border) Payment



1 [Click here to see January 2013 SEPA readiness report](#)

State of SEPA readiness by 1 February 2014 (as at 1 July 2013)

Understanding of scope and impact is still far from complete...

With seven months until the deadline, including summer holidays and year-end IT freezes, it is surprising that still 26% of respondents claim they have no readiness activities planned. This number has not gone down since our January survey.

This number is significant given the incomplete understanding of what SEPA readiness entails. We observe a widespread inconsistency in scope definition – in particular, for companies that have not planned their readiness activities (Figure 3). For instance, you would expect companies with SEPA direct debit in scope to include the implementation of SEPA-compliant Mandate Management (45.8% difference for companies that have not planned SEPA readiness). You might also expect all companies to include a review of Vendor Master Data from their project scope (1/3 of all companies did not include this in the project scope).

... but respondents are ambitious

Figure 4 suggests that the main drivers behind the SEPA readiness effort are process efficiency and bank rationalisation. This does not differ much from our findings

Figure 3 – Scope items mentioned by respondents that have and have not planned their SEPA readiness project

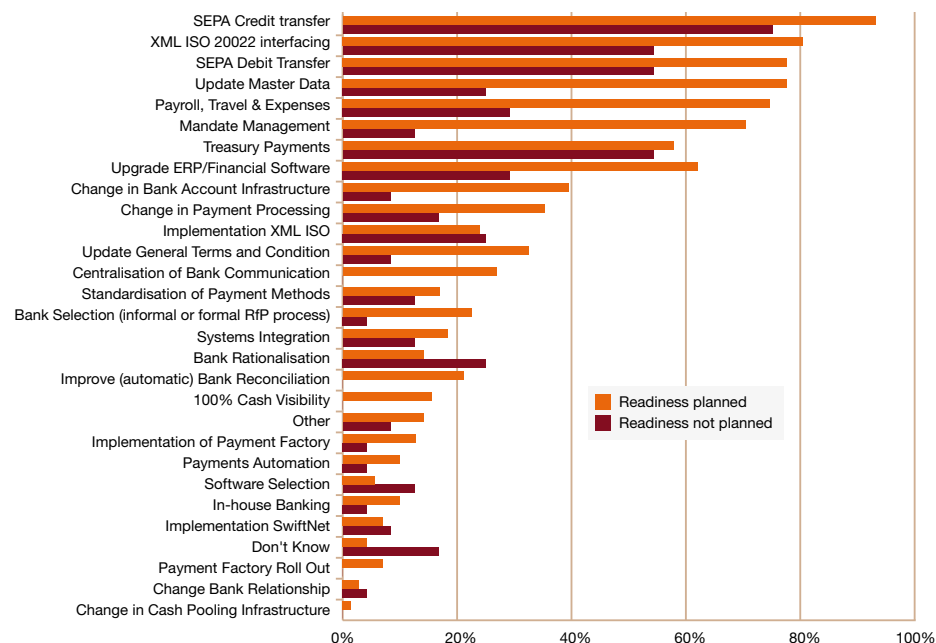
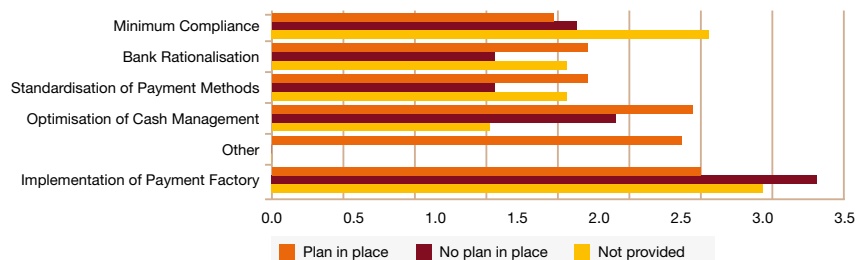


Figure 4 – Project objectives



back in January. However, minimum compliance is now cited by 64% (+20%) respondents as a key driver. Companies from Southern Europe typically also include reduction of banking charges as a key objective, whereas cash-management optimisation is mentioned primarily by large multinationals.

Those that have planned their readiness project seem realistic in their planning...

Respondents clearly have an immediate focus on minimum compliance, as the scope to be completed by 1 February 2014 is tangible and typically relates to business continuity (Figure 5). It seems that companies now realise that compliance is a bigger issue than anticipated, as we see that more respondents are placing greater emphasis on a second phase after the deadline. The discrepancy in this area between companies that have and have not planned their readiness again reinforces the impression that respondents without a plan highly underestimate the project. Only 42% of them think they need to work on project scope after 1 February 2014, against 90% of those with a plan.

Another remarkable difference between respondents that have and have not planned their SEPA readiness is the number of departments involved in the project. Those that have a plan in place involve on average 7.5 different departments in the project; those that have not planned their SEPA readiness involve only 3.9 departments. When comparing

Figure 5 – Project scope to be completed before and after 1 February 2014

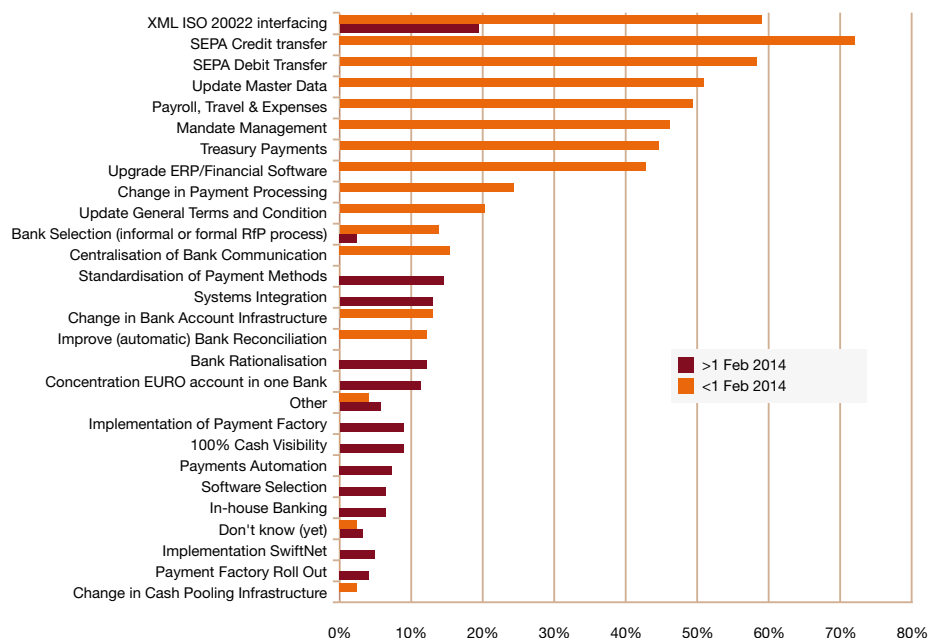
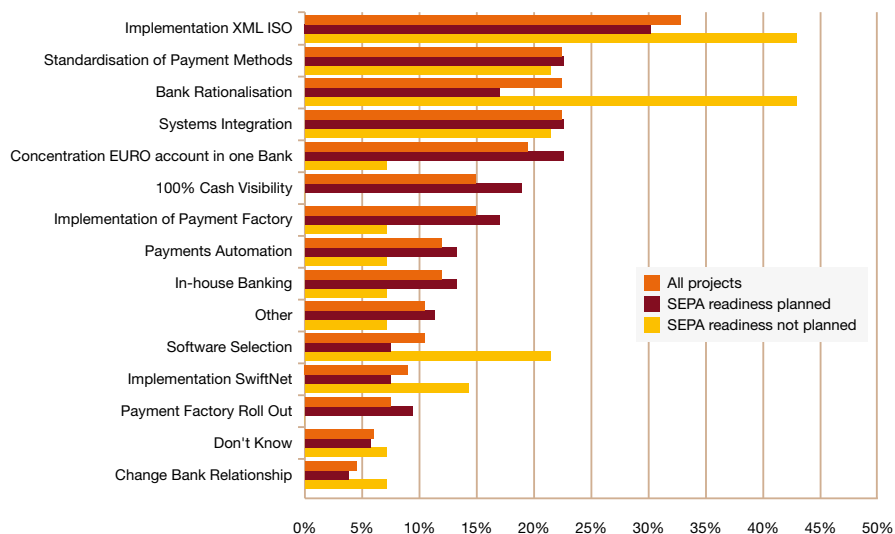


Figure 6 – Scope moved to second phase as % of projects in their category



this with the findings in January, respondents involve on average two extra departments. We also see a significant increase in involvement of legal and above all HR departments compared to the January findings (Figure 7).

... those that have not are less realistic

Half of all respondents (52%) indicate that they will complete the first phase of their project in Q4 of 2013; 17% planned their completion in January 2014 or have not provided this information (Figure 8). Respondents without a planned SEPA readiness project tend to be planning to complete closer to the deadline. They are also more optimistic about being on track. Whereas 40% of the respondents with a plan in place report having experienced delays, 74% of those without a plan report still being on track (Figure 9).

Another dimension to be considered is the actual stage of the readiness project (Figure 10). Respondents that have no planned activities are on average fairly early on in the project; 94% are implementing or are still in an earlier stage of the project, as opposed to 64% of respondents that have planned their readiness. As they progress, it is likely that the majority of these respondents will face delays due to their incomplete understanding of the scope.

Figure 7 – Departmental involvement in SEPA readiness

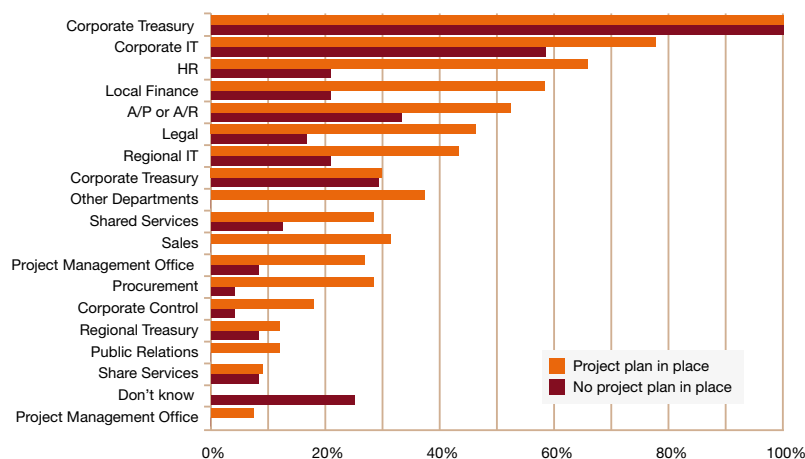


Figure 8 – Expected completion date by category

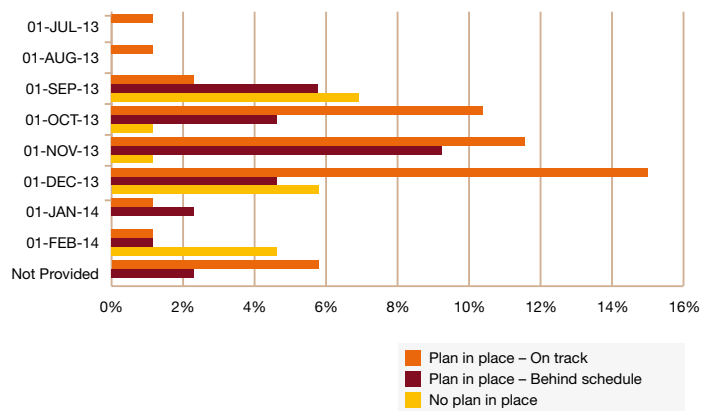
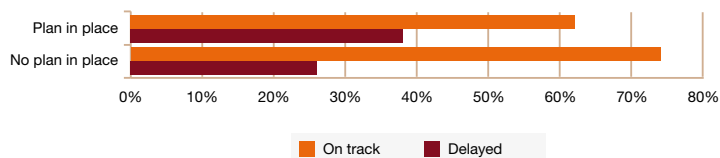


Figure 9 – Project status compared to original plan / idea



Companies seem to have increased resources dedicated to the SEPA project when compared to the results of our January 2013 survey. On average, companies deploy 4.6 external and 5.6 internal resources to the project (Figure 12). Currently 38% of all respondents indicate that they deploy no external resources, as opposed to 56% back in January. All respondents, including those that do not deploy external resources on their projects, look for assistance outside their own companies. Cash management banks are the external consultant of choice for SEPA (Figure 11). This holds true all the more for respondents that do not deploy external resources. Seventy per cent of respondents without external resources on their projects look to their banks for guidance.

Figure 10 – Actual status of the project

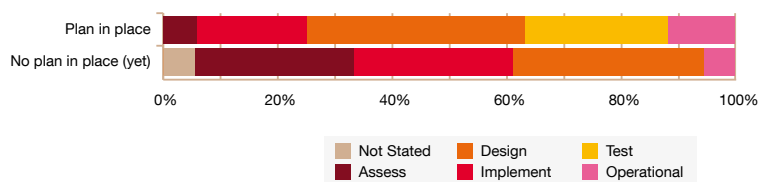


Figure 11 – Primary SEPA readiness consultant used by respondents

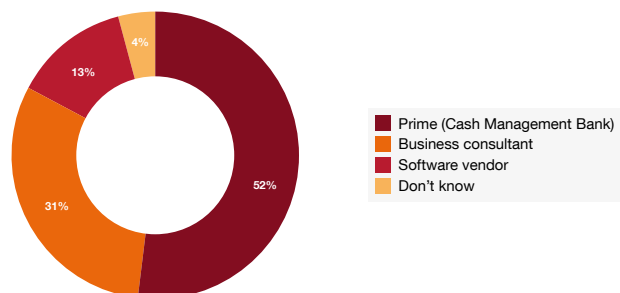


Figure 12 – Project staffing

Percentage of respondents	FTE External										
FTE INTERNAL	None	1 FTE	2 FTE	3 FTE	4 FTE	5FTE	6-10 FTEs	11-15 FTEs	>15 FTEs	I Don't Know	Grand Total
None	4.36%	8.14%	3.49%	3.49%	4.65%	1.16%	6.98%	1.16%	2.33%	2.33%	38.37%
1 FTE		1.16%	8.14%	1.16%	1.16%		1.16%	1.16%	2.33%		16.28%
2 FTE		2.33%	3.49%	1.16%			2.33%		2.33%		11.63%
3 FTE					2.33%	2.33%		1.16%			5.81%
4 FTE				1.16%							1.16%
5 FTE						1.16%	1.16%	2.33%			4.65%
6-10 FTEs						1.16%		1.16%			2.33%
>15 FTE					1.16%				4.65%		5.81%
I Don't Know		1.16%		1.16%	1.16%		1.16%		1.16%	8.14%	13.95%
Total	4.65%	12.79%	15.12%	8.14%	10.47%	5.81%	12.79%	6.98%	12.79%	10.47%	100.00%

Few respondents indicate encountering serious issues during testing with their banks, although we should point out that half of the respondents have completed their testing or are currently seriously testing with some or all of their cash management banks.

The general impression that surfaces from this information is that 31% of all respondents run a substantial risk of missing the 1 February 2014 SEPA deadline². This may be seen as a substantial reduction compared to our findings in January, when we calculated an increased risk for 55% of all respondents. However, should in February 2014 one third of businesses be unable to process payments without delay or without manual intervention, the wider economy and also the banking industry will suffer the consequences.

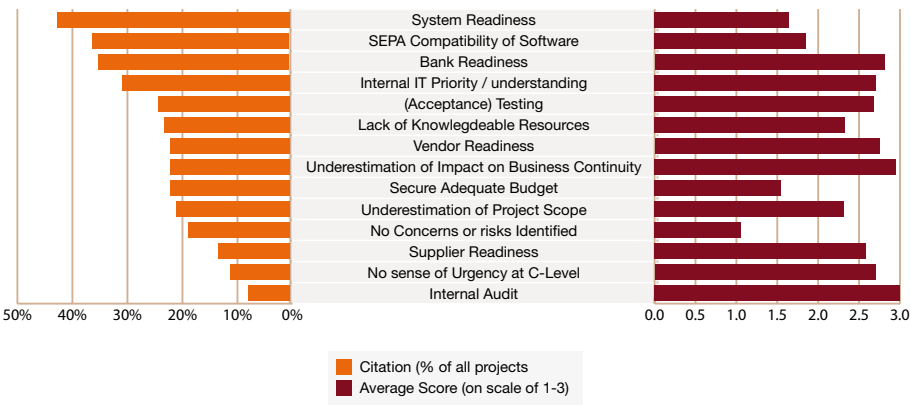
Keeping an eye on the risk

Respondents are to a large extent in agreement about the biggest risk related to the SEPA readiness project: more than one-third of the respondents mention system and bank readiness, and the priority of IT, as their main concerns. Bank readiness is not ranked with the highest urgency, which is in line with our findings on business partner readiness. A second league of concerns, quoted by 20-25% of all respondents, relates to project

Figure 13 – SEPA readiness-testing with banks



Figure 14 – Top project risks / concerns



2 This number is calculated as the fraction of respondents still implementing, designing or assessing their solution, or not having provided this information, multiplied by the fraction of the population multiplied by the reported average delay whereby the likelihood for those respondents that have not planned their readiness is deemed to be twice as big as for those that have planned their project. For this evaluation and calculation, we also took into consideration general risks such as unavailability of testing resources and system freezes at year end.



resourcing and execution. Some 10% of all respondents seem to have issues creating a sense of urgency at executive management level within their company.

Understanding software vendor and client readiness

When queried on the expected readiness of trading partners, banks and system vendors by 1 February 2014, respondents are showing more faith in their banking partners than any other business partner; the average score is close to 100%, and the standard deviation is the smallest.

Respondents have a more varied opinion about their software vendors. This is congruent with the above result that system-related issues rate relatively high on the risk map. This is a particularly explosive finding so close to the deadline. When a company does not have or does not know when it will have access to

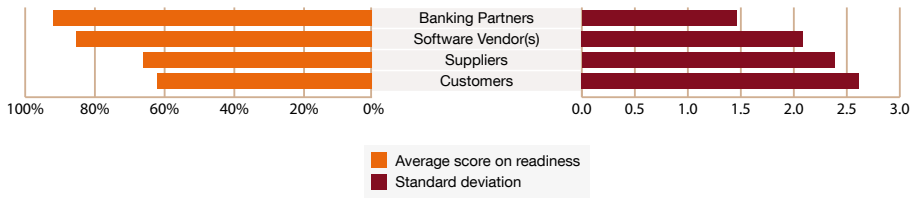
SEPA-compliant applications, it is not an issue that can be fixed overnight.

The poor appreciation of customer readiness relates to the macro economic impact of failing to meet the 1 February 2014 deadline, as discussed above. Should one-third of all customers be unable to pay in February 2014, the liquidity position of all companies may be impacted by the delay in cash flow that this will cause. It is therefore important for all companies to start discussing SEPA readiness with their customers and suppliers.

What about the deadline?

The message from the European Payments Council (EPC), released in its newsletter in April, has been clear: There is only plan A, act now! In its newsletter, the EPC dismisses erroneous statements from the regulators about postponing this deadline. Local regulators followed suit quickly with their own warnings to corporates, again reminding them of the deadline of 1 February 2014. In some countries, the central banks felt that too little was being done and too slowly; they sent letters to the CEOs of the top listed companies.

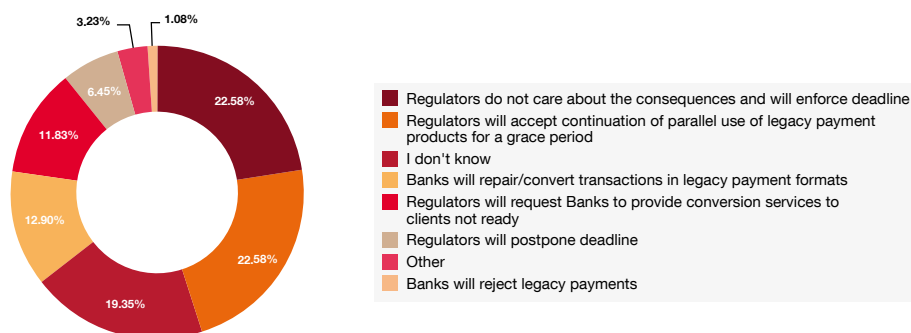
Figure 15 – Anticipated partner readiness



In the July update of our January survey, a clear image emerges that corporates still expect this deadline to be negotiable. Merely 20% of respondents believe that the regulators will strongly enforce the deadline and disallow legacy formats to be processed by the banks. Almost half of the respondents expect a grace period (22%), during which banks will still process legacy formats or otherwise repair or convert (25%) the files to SEPA-compliant format. A few respondents (6.5%) still expect an actual postponement of the official deadline.

These responses are likely to be due to disbelief that regulators will put the European financial system to the test and to the inconsistent messages sent by regulators and banks. In some countries, banks and regulators are debating penalties for conversion services; in others, they are openly debating a transition period where conversion services are allowed.

Figure 16 – Expectations regarding the 1 February 2014 deadline



Clearly there is inconsistency of views between companies and the regulators. If the corporate sector plans for a postponement that does not occur, this may lead to severe disruption in the international payment infrastructure. Our survey also indicates that corporates are skeptical about the readiness of their clients: approximately 40% expect that their customers will not be compliant in time. In the first few months after the

deadline, companies should anticipate a slowdown of their cash conversion cycle by, say, up to 15 days, as clients may have difficulties in executing payments. This is an issue for companies whose margins are low and are therefore highly dependent on efficient working capital management. This could cause severe disruption to supply chains and increases in working capital requirements.

Prepare a 'plan B'

With approximately six months until the deadline and no 'plan B' being offered by the regulators, companies are forced to rethink their approach to SEPA compliance. One-third of all respondents shared with us their thoughts on back-up planning. Almost half of this group admits to not having a plan available; another 16% rely on assistance from their bank. Although challenging for all, those that operate cross-border, or have many operational entities and/or rely on in-house build solutions, may find themselves short of time. In addition to the internal complexities, external risks arise from a growing shortage of supporting resources at banks, consultants and IT vendors.

Assess the current status and take shortcuts...

The risks of non-compliance are unacceptable to many corporates; the risks will force senior management to take stock of their current status and assess the need to change course. We recommend those who fall into that category assess the project planning, staffing and SEPA readiness of the IT landscape. During this assessment, they would need to determine whether work-arounds would solve the time issue. Work-arounds can be found in decreasing the scope of the project or outsourcing some parts of the complex procedures.

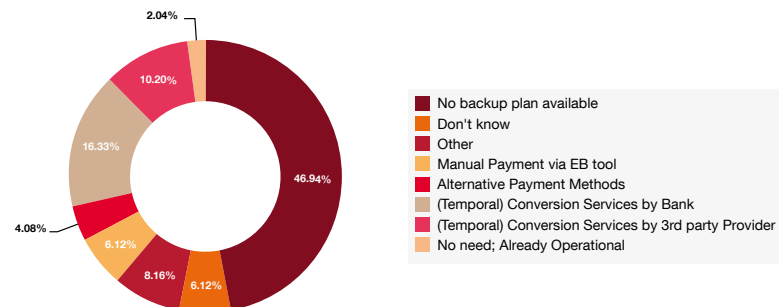
Experience has taught us that SEPA projects take on average 6 to 12 months. However, heavy direct debit users, decentralised

organisations and corporations using in-house developed IT systems may need up to 24 months. Although allocating more resources to the project seems to be the obvious answer, other solutions may prove to be more effective.

...by decreasing the scope (temporarily)...

Many corporates operate complex financial logistical infrastructures based on many different bank relations and IT systems. These companies may face migrating tenfold their ERP systems and bank interfaces in order to become SEPA-compliant. Instead of implementing separate XML Pain messages for all those bank interfaces, you may want to limit the amount of banks you use for making payments or direct debiting.

Figure 17 – Back-up plans





The simplest way of decreasing bank interfaces is to start by assessing the amount of banks used in multiple countries. Quite often global cash management banks are able to cover several countries with the same interface, which can heavily reduce the amount of required bank interfaces. Where local entities use several local banks for payments, they may also choose to prioritise one or two banks and migrate the others after the deadline. In an ideal situation, you have one SEPA-compliant bank interface per country before the February deadline; however, SEPA does offer the possibility of covering all countries from one bank interface.

Another, perhaps easier and quicker, approach to reducing the scope of the SEPA project is to assess the payment products that are in scope of the project. Experience has taught us that credit

transfers are easier and quicker to implement than direct debits. For this reason, you might choose to change the payment solutions offered to the client. Quite often corporates already have alternatives available, such as e-invoicing or online payment formats, which could be used as alternatives. Having such alternatives in place will reduce the stress of setting up mandate-management solutions and will reduce the time and effort. It should be noted that this solution is the least preferred from a Treasury point of view because of the possible impact on liquidity. Late payments and/or increasing receivables may void the benefits gained by reducing the SEPA scope.

... or by (partial) outsourcing

Some corporates, typically those who use legacy software, may find that updating IT systems is simply not feasible. Likewise, companies that have heterogeneous IT

landscapes may find a large IT stake in their SEPA project. Such companies should assess the possibilities of outsourcing part of their payment infrastructure to conversion-software providers, which often operate 'Software as a Service' (SaaS) platforms. These SaaS solutions may be positioned between the company and the bank.

Such SaaS solutions can be used, in their simplest capacity, to convert legacy credit transfer payment files; or more comprehensively, as full-service solutions covering the direct debit process, including mandate management. The file conversion will allow the corporate to upload legacy payment files to the platform and download the SEPA-compliant XML format, which can then be sent to the bank. Quite often they also offer a conversion for the electronic bank statement into your legacy formats. Some of the SaaS solutions

also offer a similar service for converting direct debit payments. These are more complex due to the required mandate-related information, which needs to be included in the XML messages. The process from collecting mandates until digitalising and storing the digital-mandate-related information for inclusion in the payment file is included in the service.

Sooner rather than later

Unfortunately, outsourcing the payment file conversation does not let corporates off making all required changes for SEPA. Updates of master data, communications to clients, updating of bank contracts, etc, are still required before one is truly SEPA-ready. Another unfortunate fact of file conversions is the loss of control mechanisms on the payments. The current control mechanisms such as hash totals may no longer be available when the file is converted. This introduces the risk that your payment files can be changed during the conversion, which may go unnoticed. We highly recommended assessing the offered security around outsourcing solutions to minimise such risks. Other points to consider are the costs associated with outsourcing and the dependency on a single external party for an extended period of time.

Before making a decision on outsourcing, you should determine the period for which this outsourced solution will be in place. Where the outsourcing is permanent in

nature, you should carefully assess the associated risks and costs. Because the marketplace is flooded with numerous conversion services, all with varying quality and offered services, it is wise to start a selection process before selecting a partner. Specific SEPA expertise is required in order to make the right selection. It's also important to notice that SaaS solutions are not put in place instantly – the roll-out of the conversion service may take up to six weeks.

With the risks introduced by SEPA...

Some of the risks associated with non-compliance are the inability to make or receive payments, loss of automated processing of payment information and serious increases in payment receivables due to unpaid bills by non-compliant clients. All these risks will have an effect on the company's liquidity position and may increase the working capital requirement. Those companies with low operational profit margins or those that heavily rely on working capital may need to prepare for distortions in their processes.

...it's better to be safe than sorry

Have you considered what will happen when your systems are no longer able to produce payments on your 'go live' date? With the deadline drawing near, you may find that there is little time left between your 'go live' date and the SEPA deadline to repair your systems if you make a mistake. So we highly recommend establishing

a back-up plan in which you define the actions you need to take to continue with business as usual.

The back-up plan should provide a clear scenario that can be followed should you be unable to make payments after the 'go live' date. The easiest scenario is to temporarily switch back to the legacy payment schemes which will give some time to make the required changes. This would only be possible if there is sufficient time before the deadline. Consequently this option will not be available for the 34% of companies that plan their readiness uncomfortably close to the February 2014 deadline. The alternative option is to prepare for using a conversion service to produce SEPA-compliant payment batches. It is vital to understand that conversion services are not easily turned on and that such a solution should be carefully prepared. Also, switching back to legacy systems may not be possible either, without careful planning beforehand.

In addition to the payment batches, you might also include a communication plan to inform your stakeholders about delays, have a credit facility standby to cover short-term liquidity dips (in case your clients are unable to make payments) and prepare alternative payment products, such as bill payments, online money transfer schemes or other payer initiated payment schemes, to be able to get paid.

Respondents' demography

PwC contacted key individuals at non-financial organisations between 26 May and 1 July 2013, requesting the completion of an anonymous survey on SEPA readiness. 150 respondents completed the survey. They responded to an average of 13.5 out of the 19 questions.

The respondents came from 12 different European countries (Figure 13). The respondents' population has a bias towards the north-western part of the eurozone. This bias is even stronger in the updated version. Given the higher degree of automation and fewer non-SEPA compliant legacy products in these markets, the results will be less representative for the southern European countries and companies that conduct European cash management from outside Europe.

Respondents come from a diverse industry background. No industry dominates the population.

The company turnover as represented by the respondents is more balanced than in our January 2013 survey. However, similarly to January 2013, large and very large organisations and multinationals

Figure 18 – Respondents by country

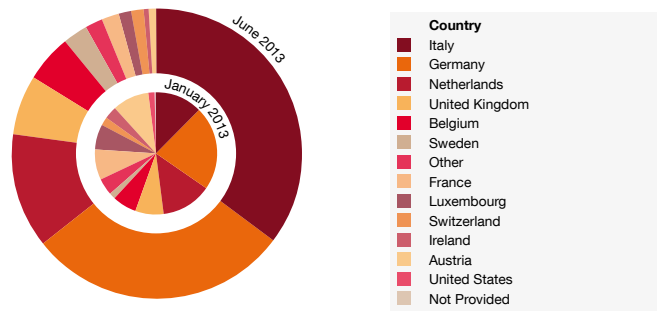
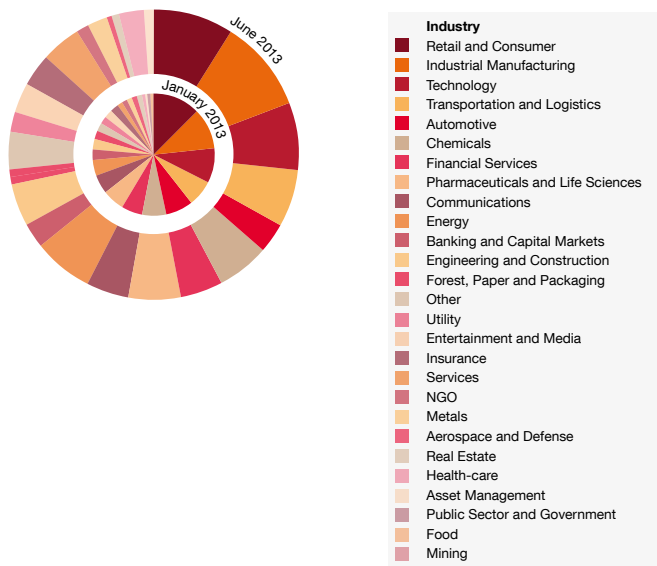


Figure 19 – Respondents by industry



are relatively well represented in the response population. This may bias the survey to highlight issues concerning more complex IT and multi-territorial aspects of SEPA readiness. Small and medium sized businesses might face less complex issues, and could benefit from solutions within the electronic banking tools of their house banks. However, this report does not provide an understanding of focus of these market segments on SEPA readiness.

The respondents' population still has a strong bias towards a treasury perspective when compared to January: 66% of all respondents have a position in central or regional treasury. However, we see that more European head offices are involved than before. However, like earlier this year, we do not see a significant difference in approach and focus between treasury and non-treasury respondents.

Although we have a clear indication from the survey that next to treasury, IT and local finance staff are also involved, the survey is not able to provide a detailed and conclusive opinion about significant differences between the key stakeholder departments. Analysis of the responses by treasury and non-treasury respondents suggests there are some differences in focus and concerns, but the data is insufficient for relating that to the

Figure 20 – Respondents by company turnover

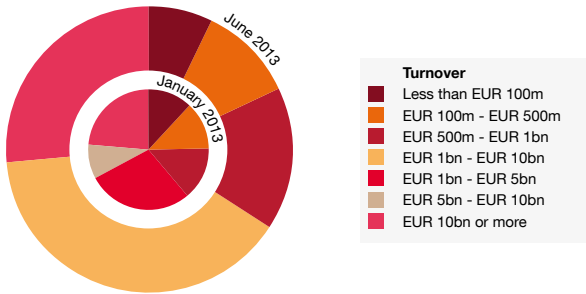
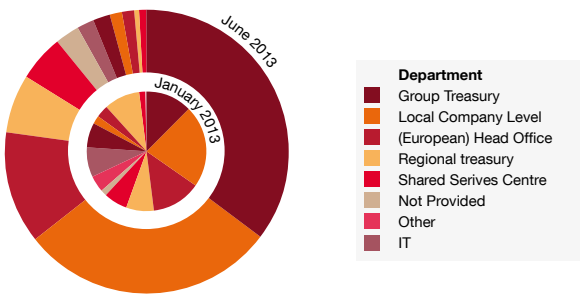


Figure 21 – Respondents by department



perspective of the respondents. Treasury respondents seem to be more ambitious in goal-setting for treasury functions; non-treasury respondents may already have a focus on key aspects of payment processes. Treasury respondents also seem to have a higher degree of nuance in

their assessment of their trading partners' SEPA readiness. But the survey does not highlight significant differences in the assessment of SEPA readiness between treasury and non-treasury respondents.

More information

If you want to know more about SEPA readiness or how we can help you with your SEPA projects, please contact one of our SEPA specialists:

Bas Rebel (Netherlands)	+31 88 792 3824	bas.rebel@nl.pwc.com
Jens Kohnen (Germany)	+49 211 981 1826	jens.kohnen@de.pwc.com
Didier Vandenhoute (Belgium)	+32 2 710 9634	didier.vandenhoute@be.pwc.com
Tom Cools (France)	+33 1 565 78246	tom.cools@fr.pwc.com
Angela Marconato (Italy)	+39 0 348 150 5637	angela.marconato@it.pwc.com
Emiel Kuiken (Netherlands)	+31 88 792 3978	emiel.kuiken@nl.pwc.com

If you want to do more with your treasury to identify, realise or create value for your business as a whole, please contact your local PwC Treasury partner:

Sebastian di Paola (Global Leader, CTS, Switzerland)	+41 58 792 9603	sebastian.di.paola@ch.pwc.com
Damien McMahon (Belgium)	+32 2 710 9439	damien.mcmahon@be.pwc.com
Thomas Schröder (Germany)	+49 211 981 2110	thomas.schraeder@de.pwc.com
Pieter Veuger (Netherlands)	+31 88 792 5157	pieter.veuger@nl.pwc.com
Ernes Zelen (Netherlands)	+31 88 792 7199	ernes.zelen@nl.pwc.com
Anders Akner (Nordic region)	+46 85 553 4259	anders.akner@se.pwc.com
Yann Umbricht (UK)	+44 20 780 42476	yann.umbricht@uk.pwc.com
Robert Vettoretti (Asia Pacific)	+86 21 2323 3223	r.vettoretti@cn.pwc.com
Shyam Venkat (Americas)	+1 646 471 8296	shyam.venkat@us.pwc.com

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