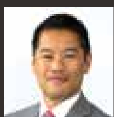
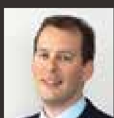
PARTICIPANTS

Paul Dirken, senior executive vice president, Rabobank Nederland Commercial Clients

Mark Hartley, chief innovation officer, Clear2Pay



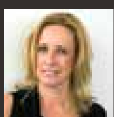
Tino Kam, product director, Transaction Services, Royal Bank of Scotland



Nick Verbeke, EMEA finance director, Clear2Pay

HOST

David Bannister, editor, *Banking Technology*



Conny Dorrestijn, head of corporate marketing, Clear2Pay

PAYMENTS: LOOKING FROM THE CORPORATE VIEWPOINT

As deadlines for the implementation of Single Euro Payment Area payment formats loom, the industry is at an inflexion point: after years of preparation on the bank side of the fence, corporates now face the task of changing their systems.

For corporates banks and payment systems providers, what has been called the SEPA end date is no such thing – it is really the SEPA *start* date, and there are many challenges ahead.

One of the keys to the successful navigation of these challenges will be understanding customer needs and developing a different form of bank/customer relationship.

Tino Kam, product director, Transaction Services, Royal Bank of Scotland, says that there is great diversity in the bank's client base. Covering the wholesale multinational corporates means that he is not only dealing with European clients, but also US and Asian companies. "They all have different needs," says Kam. "Some have regional treasuries looking at having efficient cash management and others have more advisory needs, asking how they can do forecasting," for instance. This comes on top of the "plain vanilla" collections, payments, connectivity, cash management and investment services that banks provide to corporates.

"There are very sophisticated treasurers internationally focussing on treasury optimisation and centralisation who are very demanding. But we also have domestic-focused clients such as the Media & Telecommunications or Utilities sectors who have a huge in-country customer base you have to collect from," he says.

Over at Rabobank. Paul Dirken, in charge of commercial clients, counts 43% of Dutch companies (around 750,000) as his clients, and 85% of the Dutch agriculture and food segment. For many of these clients Rabobank is their single financial services supplier. "As a cooperative bank we have very firm roots in the food and agriculture segment, which is also a very international industry," he says. "The Netherlands are globally the second largest exporter in this segment and we follow our clients to over 46 countries worldwide. The knowledge we have accumulated over the last 100+ years around sectors, innovation such as crop and seed breeding and equipment have resulted in a deep sector niche approach to banking. We support this – and other sectors – with research and development, financing products but also collaboration with government and industry bodies. Our other major segment is SME, the entrepreneurs that make our daily economy tick and they too face many challenges in terms of cash flow, liquidity. For them SEPA migration is obviously today more of a headache then a solution to a problem that many of them do not see or have."

Nick Verbeke, finance director at Clear2Pay, brings a background in finance from the corporate perspective – before joining Clear2Pay he worked at a range of corporates, including Scania, Schenker, Invitrogen, PwC, Deloitte, Stanley & ZNA hospital group.

One of the issues facing corporates like himself is the need to simplify their structures – even in a relatively small company like Clear2Pay. "We have grown organically over the last 10 years but also by buying companies because we want to be in the top league of payments technology. We have 30 entities, all with separate finance systems – and various bank accounts at the local level, rather than one corporate banking relationship. We would like to move there, though," he says. "My role is to integrate everything to make sure we have an efficient cash management capability with a clear view around the world."

That sounds like a typical client scenario, says Kam: "Companies grow very much by buying other companies – they grow very fast and the back offices get left behind. The chances are that from a finance point of view you don't have good visibility of what your cash position is and there is an opportunity to improve efficiency as well. The challenge remains the same – the thing you need to know is where your cash is and implement cost-effective operations."

In the immediate future, a challenge for corporates will be checking account details inhouse and those of their suppliers and customers, says Verbeke. "For us, the biggest effect of SEPA coming in is in the data validation – all of the customers and suppliers bank accounts need to change. We are lucky in that we have large customers but in relative terms not that many; in my previous company we had a lot of smaller customers, the sheer volume created a bigger problem."

But he is optimistic that there will be advantages in the longer term. "I hope it will make the payments execution faster and we can see more quickly where and when payments are being made," he says.. "My dream is what I call 'click and play': when money is transferred from one account to another, you should be able to press a button and refresh all the balances. With SEPA it might happen in Europe – I would like to see this across other currencies too."

"2014 is the start of SEPA, not the end date. SEPA will be the foundation of a lot of innovation"

In the meantime, with the deadlines looming, many see SEPA simply as a compliance issue, says Kam. "For a lot of our corporates there was a kind of wait-and-see approach. They have started to move but some companies will probably be too late, which is a challenge," he says. "The bigger multinationals will get there on time, though there will be lots of end-of-year wriggling The bigger challenge is for the smaller domestic SME clients validating their data, adjusting their IT solutions and they are not seeing this as a priority. We are supporting our corporate clients with conversion services and enrichment services to try to accelerate the migrations where possible and to minimise the cost of migration. We have been doing it for a couple of years already and now for the rest of this year you will see an increase of demand of that, for instance we are introducing self-service end-to-end testing for our corporate clients."

"My dream is what I call 'click and play': press a button and refresh all of your balances"

At Rabobank, Dirken is positive about the new environment SEPA will bring, but agrees that there will be short-term pain, particularly for smaller companies. "Let me start by saying that I firmly believe we will all over time benefit from SEPA, but we also have to accept the migration is an underestimated exercise with still a long way to go until February 2014," he says. Large corporates will put SEPA projects in place, however we also have small SME clients, clubs and associations as clients and you can imagine that they each have a different SEPA journey. In order to pro-actively support all these different types of clients we have put a special programme into place: We offer our top 1000 customers a project manager on a name basis to support them in their migration, the next 110,000 companies will also get dedicated support from our local banks and we have developed a self-service tool kit for the remaining commercial account holders who need additional care. We see payments services as the backbone of our relationship and that is why we have put such a competitive support package in place."

Mark Hartley, chief innovation officer at Clear2Pay, says that part of the issue is that corporates don't see SEPA as their problem. "Fundamentally, the regulatory momentum is being imposed on the banks and it is seen as a bank-to-bank issue," he says. "The business community has been left to do its own thing and there is no real benefit for a lot of corporates or small businesses. I would imagine from a corporate treasurer's perspective what they would expect from a bank is 'you do the payments. I'm just going to send you a file and I don't care whether it's SEPA, BACS, CHAPS FedWire or whatever – you do the payments.'"

Hartley also points out that there are differences between the relatively straightforward SEPA Credit Transfer and the more complex SEPA Direct Debits

"Credit transfers are very easy but direct debits? You have 30 countries with 30 different direct debit systems that have taken into consideration the national requirements of their customers. Worse still, each country thinks their system is better than the others," he says. "I think if we are not careful what you will see over time is the recreation of those national direct debit systems within the SEPA system – which will potentially defeat the purpose of the whole thing."

Kam agrees with that and says that "the challenge will be to balance these in-country requirements with ensuring a harmonised offering across the countries. The next stage is to further improve the user friendliness of SDD and for example create an E-mandate solution across the different countries, but there is also the issue of accelerated direct debits – D-1 instead of D-2 or D-5 – being introduced in countries like Germany and Spain. The good news is that once it has been implemented in Germany, due to its portability, it will be easier to implement this in other countries and will facilitate a pan-European standardisation of processes," says Kam.

Dirken says that SDDs present challenges for corporates too. "In particular the large SDD players, such as cable companies, feel that with the current system they are much better protected against mal payment than in the new system which is more customer friendly. They are now faced with a lot of work on the mandate management side and have to figure out how to deal with the issue of having a longer exposure with the longer recall time that is being granted to consumers. The SDD system in the Netherlands was perceived to be near perfect so there is very little appetite to change, but they will. Companies operating internationally, and in particular service-based e-commerce companies, will see the benefit sooner."

Corporates operating outside Europe have other considerations, says Kam. "We have a lot of US companies that have treasuries in Europe and they are aware that SEPA is helping Europe to create a more effective and efficient environment for corporates," he says.

"We see payments services as the backbone of our relationship and that is why we have put such a competitive support package in place."

"Virtualisation allows other accounts to hang off a central account, which the customer is managing and the bank doesn't really have to be involved"

"For companies outside Europe doing a lot of business in Europe, they either already have a regional treasury, or a global treasury sitting outside Europe with a lot of European-based accounts. Their challenge is to make sure that it happens in Europe because of compliance, but from a non-European perspective, it is not a priority. US companies are more and more aware of what is happening, and are also quite sophisticated: from a treasury point of view they are already on the curve. Asian companies are less affected to begin with but they are getting more interested in what is happening in Europe and also in the US. At the end of the day, it is a global challenge."

Hartley says that the issues around SDDs go deeper: "One of the downsides of SEPA Direct Debits, when you talk about the challenges corporates have with liquidity management and working capital visibility, is that some of the rules about refunds could actually damage that capability," he says. "When a debtor asks for a refund that will have implications on how revenues are recognised. There are also implications around fraud – some

of the national direct debit schemes have irrevocable direct debits so SEPA will help in that scenario. It will be interesting going from country to country to see what the implications are. As I said earlier, I think over time you will get national versions that are culturally where people want to go to and that is potentially going to be quite difficult for organisations that operate in different countries and for suppliers who are supposed to be producing a standardised product – that word standard doesn't really exist does it?"

And yet standardisation is at the heart of the benefits that SEPA is expected to bring, which is one reason Hartley says "this perceived end date is actually the start date" – the time from which future benefits will start to accrue.

"There are so many things to come out of this," says Hartley. "The format changing to ISO 20022 means you should be able to get more information that will make payments more meaningful in terms of the information you can exchange between customers and suppliers. Software vendors who have been building systems over the last 5-10 years have pretty much internally adhered to the ISO 20022 standards and that has been adopted in various parts of the world. The Singapore G3 system, for instance, is using ISO 20022. And the introduction of IBANs and BICs is a positive – even though some countries haven't converted yet, which means there are going to be plenty of conversion issues. It is going to be an interesting period from February next year."

Kam also sees 2014 as a beginning. "I agree that this is the start of SEPA not the end date. Once we get over this hurdle we're talking to our clients about how we make better use of SEPA," he says. "Yes, you have an easier payment method, which is great, but standardisation and harmonisation across Europe can also facilitate transparency and reconciliation and improve STP rates. A large number of our corporates already had payment factories in place but were not able, to date, to centralise their accounts receivables because of the local arrangements they have. With SEPA the hope is that they can also centralise accounts receivables, which is a great benefit. You will also able to review and optimise the number of accounts – and maybe reduce the number of bank relationships you have in a region, which will give more efficiencies. SEPA will be the foundation for a lot of innovation from a product point of view and a technology point of view."

As a corporate finance man Verbeke says that simplification of his account structures and banking relationships, plus a clearer picture of the company's money flows, would be a great benefit.

"The first thing I would like to do is to connect to one bank as a worldwide player but it is not always practical in real life," he says. "So as a more realistic second-best scenario I would at least like a system where we can connect more than one bank to see all of the accounts in one place. Visualisation is the most important aspect: I want to see where all the money is and be able to forecast what is coming in and what is going out. And we want to be able to standardise and centralise the processes of all of the regional teams. There is a big element of control over finance. In fact we would like to see at the bank end what we already do for corporates with our corporate payment hub."

Kam points out that banks are already heading in this direction with their products. "Banks have a solution for global cash management," he says. "You start by creating an overlay of all of your accounts as a first step, so at least you know where your cash is, and then separately from that you can look at how you want to manage your local bank relationships – and then perhaps over time migrate to a more regional approach. That would depend very much on what the company wants to do in the future."

The fact that every company will have different thoughts about what it wants to do in the future means

that banks have to really understand different industries and their business models. "You have to understand the challenges of each industry: is it business-to-business or business-to-consumer? In business-to-business you don't have many issues with connectivity and you' might be less worried about direct debits being reversed – you know your suppliers and you have good relationships with suppliers. In business-to-consumer you're more concerned about keeping hold of the money coming in – you don't want 10% going back out."

Hartley says that corporates will always have multi-bank relationships. "For whatever reason – possibly just to keep banks on their toes – you may have one relationship for cash management and a different relationship for loans, for instance," he says. "The ERP system vendors would have you believe that their packages do everything that is required but of course they don't. Then you have connectivity issues – one bank's FTP connectivity is going to be very different from another's. The challenge of different ERP systems – potentially even within the same company – and multiple bank relationships creates a many-to-many situation that is very difficult to manage. There are obviously solutions like payment factories and middleware that allows standardisation between various ERP packages using a centralised reformatting engine that talks to different banks, which allows a corporate treasurer to manage multiple relationships."

For banks, this is creating a world in which they have to recognise that they cannot 'own' all of the client relationship, or service all of a client's needs internationally with their own resources.

"I believe the banks are trying to provide value-added services for their corporate clients," says Kam. "That could be helping clients to optimise and gain more efficient solutions like corporate payments and introduce new things like in-house banking solutions. But banks are not able to do this on their own any more – so you look for partnerships with vendors and with other banks. This is also a better way to create solutions. I don't believe in proprietary solutions. We try to listen to our clients and help them facilitate value-added services in accounts receivables STP, self-service and transparency. And we secondly try to have solutions in place where we are partnering with technology vendors who can deliver the solutions for us. Maybe another discussion is how we can make sure those innovations roll out quickly and agile and create a win-win system."

Dirken is adamant that this is a major issue for banks: "As a bank we aim to take distractions away from our clients and we do so by getting very close to them; we see how they cooperate to innovate and so do we. But you will see that partnering is not an easy topic for banks. As a bank all we have is our label and our trust and you want to protect that reputation. When you extend that image into a partnership, you also become vulnerable to the actions of your partner in your client base. Our customer wants an extension of the Rabo experience with the same values attached. At the same time we want to extend our reach and one does that so much easier with partners, as we did in our leasing company – De Lage Landen – whereby we extended our financial leasing product through a JV with for example a large medical manufacturer into an international market. They sell our leasing product abroad alongside their equipment and we now have a joint venture with a product offset in 36 countries without having to run regional offices. We learn from these exercises and apply this across the board and in payments too."

For Hartley, there are other issues that are changing in the bank/client relationship, such as price flexibility. "Now there often is no pricing associated with a payment because banks are recognising that a payment is becoming a commodity. The bank needs to understand that a payment is the result of a transaction, and the latter is much more important to the corporate."

Moving forward from this is the concept of self-service. "No organisation knows its business better than the organisation itself. In the past you went to see your bank manager and they sold you a product, but we believe that self-service is the way forward," he says. "Once a bank has a payments or deposit taker relationship, the customer, whether it's a small or large business, should be allowed to determine what their needs are and manage their accounts."

This can be done by introducing the concept of virtual accounts, which customers create and manage themselves. "Virtualisation allows other accounts to hang off that central deposit account, which effectively means the customer is managing and operating the account and the bank – once they've done the KYC and initial investigations – does not really have to be involved in that capability. That improves customer service and efficiencies within the corporate. They may need to operate a particular kind of account – why does the bank need to be involved with that?"

Self-service is also a key element in Rabobank's innovation approach.

"Our clients in retail and hospitality can now offer MyOrder to retail customers. If you as a consumer drive along the road to get petrol, you can order a coffee and snack through MyOrder with the petrol station and pay in one click, it will be waiting when you arrive," says Dirken. "The petrol station or restaurant owner can offer this through a stand-alone version: the menu and prices are available through a web interface, or integrated in their cash register system, whereby the order is instantly printed like through the hand held device of a waiter, and integrated in the full accounting system. For a consumer it is great to order when you like – think of the busy beachside terraces - and have instant service and payment in one action, and at zero additional cost. With one simple text message clients register and receive the app on their phone. We feel that this is a great example where we add value and experience to both our commercial and retail clients alike."

With innovations like this, the world of corporate payments looks exciting once past the hump of SEPA implementation, but Verbeke brings the conversation back to the here-and-now when asked what corporates require from banks in the medium term.

"In one word: globalisation," he says. "A bank that is present all over the world, that is active and can help by being more than just a banker – if you are talking with the right people they can help you more and you can work together. In the past a bank wanted everything from you and if you didn't do that they didn't like you very much as a client. Now we find ourselves in more of an open environment and we are working in partnership to find the best solution."