

SEARCHING FOR THE VALUE-ADDED
SERVICES SEPA CREATES IN
YOUR CORPORATION

What You Should Ask Your Banker

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EXECUTIVE SUMMARY

The underlying driver for SEPA (Single European Payments Area) is the political and economic objective of a single European market. SEPA is viewed as a necessary step in this process, helping to overcome the challenges currently associated with making cross border payments within the EU.

The primary challenge is that currently to make a low value electronic payment within most European countries it will cost a few cents (e.g. via a credit transfer or a direct debit). However, the same value payment, in the same currency, between countries costs many euros, and is hundreds of times more expensive. When it comes to evaluating financial institutions to support corporate payment processing and connectivity options, there are four distinct areas used for evaluation:

1. Connectivity
2. Supported Formats & Technology
3. Direct Debits
4. Reporting

From a bank's perspective, the key question is whether it aims simply to comply with the minimum standards or whether it should seek to add value? If it wishes to add value, how and in which areas? Given the pressures presented by the SEPA timeline what could be phased in over time? This should cause the customer to ask its bank various questions.

Not all banks, by any means, will be looking to support the large corporate clients who will be the major creditors in SEPA direct debit scheme. But those who do wish to attract the business of the large direct debit originators will need to come up with ways of differentiating their proposition. For suppliers SEPA direct debit is more far-reaching, potentially affecting all banks in Europe. This will also have significant impact on how corporations approach collections – specifically around centralization and regionalization. Yet, when it comes to the buy side (the payees), the experience of customers varies from country to country.

Remember, the SEPA guidelines do not prescribe that the debtor bank provides value-added service to their customer, but it does ensure that they will have the necessary information available to them and in good time should they wish to do so. For the user of SEPA direct debit, it will not be a case of uniform solutions from the banks. There will no doubt be differentiation between those who seek to do the minimum to comply and those who strategically aim to add value by expanding service and value. This document is intended to put you on your way to evaluating the various options offered by the financial institutions.

CONNECTIVITY OPTIONS

With respect to types of connectivity, corporations are looking well beyond managing multiple proprietary bank terminals and are looking to networks such as SWIFT to support its multi-channel needs. Corporations are demanding a method for making inexpensive cross-border payments, they will be looking for direct debit, attachment checks, ACH processing and more. The guidance here is to again be very specific and detailed with respect to the various types of connectivity and processing needed. When it comes to SWIFT connectivity, corporations are looking for ease and lowest total cost of ownership. What does it take to setup the relationship and how involved is the bank in helping to facilitate this connection?

1. Does the bank offer corporate access over SWIFT via the Member Administered Closed User Groups (MACUG) service?
2. Does the bank offer corporate access over SWIFT via the SCORE service?
3. Does the bank provide corporate access through the SWIFT Member Concentrator program?
4. Does the bank provide corporate access through any other channel that allows for full automation?
5. What types of transactions can be processed?
6. How many SWIFT MA-CUGs has your bank set up?
7. How many corporate customers of your bank use SWIFTNet FIN?
8. How many corporate clients of your bank use SWIFTNet FileAct?

SUPPORTED FORMATS & TECHNOLOGY

This category is the single most complex and often illustrates core differences between what can be offered from institution to institution. Due to the highly advanced technology and integration requirements, not all institutions will be able to support various payment types, message formats, and other communication vehicles. It is critical that you clearly outline all requirements in detail.

1. Describe the various payment types that you are able to process. Are any of these confined to a particular country?
2. Which payment types can you process electronically?
3. Which payment types can be processed via SWIFT?
 - a) Can the bank receive and process files via SWIFT's FileAct service?
 - b) Can these payment types be initiated via SWIFT's FileAct service?
 - c) What types of payment formats can be delivered to the bank via SWIFT's FileAct service for each of these payment types?
4. Please give an overview of the formats (SAP Idoc, Edifact, SWIFT XML, local formats) that are currently live and used by corporate clients of your bank? Please specify the exact dates when other formats are planned to go live.

5. What is the process of setting up this service? What is the timeframe?
6. Please explain how the security around SWIFTNet FIN and SWIFTNet FileAct is organized.
7. If your bank receives a payment file via SWIFTNet FileAct correctly, but the contents of the payment file contains invalid data, please explain the bank's process for handling the file. In which circumstances will the bank repair errant payments?

DIRECT DEBITS

Due to the fact that low value inter bank payment systems are unique to each country and thoroughly incompatible, one of the most critical deliverables from SEPA will be the ability to make inexpensive, cross border direct debits with the same ease as in-country.

It is expected that Pan European ACHs will start to offer SEPA Direct Debits services by end of 2008. As a result, large multinational organizations operating in multiple markets will be able to collect money easily and cost efficiently. Rather than implementing different mandate schemes, different formats, and different systems it will become possible to have one mandate process and one uniform process to manage all SEPA Direct Debits.

They must also provide a direct debit origination service that allows a Direct Debit originator to create direct debit mandates according to SEPA scheme rules. These will almost certainly be different to those they currently use (days in the cycle, file formats, liabilities in the event of a claim rejection etc.).

Banks have to migrate the bulk of their direct debits and credit transfers off their domestic schemes to the new SEPA schemes by the end of 2010. This migration is a big challenge for Direct Debit originators and high volume corporate payers such as payroll agencies.

1. How many direct debit schemes do you currently support?
2. Do you outsource Direct Debit services?
3. What is the process to be used to activate a direct debit contract between a corporation and your bank? Is this process bank specific?
4. Related to the above, how do you handle direct debit mandates?
5. In how many systems have you implemented direct debit mandate related functionality?
6. On what types of accounts do you allow corporations to set-up direct debits?
7. Which acknowledgement files does your bank send after receiving a direct debit file? Can these files be delivered via a SWIFTNet FileAct connection?

8. What guidelines or rules apply to when and for what a direct debit can be initiated?
9. Can a corporation set-up a direct debit flow for a specific vendor through a 'self service' process?
10. Does the bank support the attachment check payment method? If yes, describe the process from initiating the payment request to the delivery of the check.
11. Via which payment file type can an attachment check request be initiated?
12. What are the costs?
13. What considerations or costs apply if dealing with a non-resident account?

REPORTING

The single biggest issue with reporting is that many times it is only offered in an aggregated format. Without line item detail, corporations are unable to process, audit or book transactions with accuracy and certainty. This can often result in operational issues that drive down STP rates and that ultimately drive up transactional costs. When it comes to reporting, it is essential that your financial institution can provide the level of detail required.

The following document outlines some high level concepts and questions that should be used during initial discussions with your bank.

1. Which types of reporting can the bank provide (end of day statements, Intraday statements, Status messages, ...)?
2. What formats are supported for each of these (e.g. BAI, M940, domestic formats, Edifact,...)?
3. In case a large geographical covering is offered, are the formats for reporting country specific?
4. Is there line item detail? Meaning, do transactions typically display on the electronic bank statement as individual amounts or are they aggregated in each payment file? Is this configurable?
5. Does the customer have the ability to decide how these files are presented
6. What delivery options are available (SWIFTNet FIN, SWIFTNet FileAct, Bank Portal.....)?
7. With what frequency can these files be delivered (on-movement, intra-day, daily, weekly or monthly)?
8. Is it possible to receive bank statements of accounts that have no changes or transactions?

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