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Master the SEPA End-Date Regulation with SAP Payment Engine

by Kolja Ewering, SAP AG

The standardization of payments across the European Union (EU) with the Single Euro Payments Area (SEPA) initiative is intended to simplify banking for consumers, corporations, and banks, much like the introduction of the euro a decade ago simplified paper currency exchanges. Making banking easier is just one of many benefits of the SEPA initiative that makes electronic cross-border payments as inexpensive, efficient, and safe as domestic payments.

As mandated by the European Commission and European Payments Council, SEPA eliminates differences between domestic and cross-border euro transactions throughout the euro zone. The end result upon complete transition to SEPA is that consumers, businesses, and governments can make cashless payments from any account using a standardized set of payment instruments. Although parts of SEPA have been in place since 2008, the final transition will take effect on February 1, 2014, which is when all domestic and cross-border euro credit transfers and direct debit transactions have to be processed according to the SEPA scheme. On that date, all domestic payment processes and formats (excluding some niche payment products for which exceptions have been defined) will become obsolete.

Overcoming SEPA Challenges

SEPA regulations bring challenges, since most banks need to make major changes to their IT landscapes to support the new XML-based payment schemes and new processing requirements and to align with their business strategies. For smaller financial institutions, outsourcing SEPA transactions to financial institutions that become compliant is an option. To operate under SEPA's unified payment scheme, banks must standardize their formatting and processing requirements and migrate all of their payment transactions to a SEPA payment instrument. A transaction within Germany, for example, will use the same format and processing requirements as a transaction from a German bank to a French bank. Banks will also need to be able to handle the high volume of domestic payments that must be migrated to SEPA payment schemes.

Banks have several options to achieve compliance. One short-term solution is for banks to maintain their existing IT infrastructure and implement solutions to convert between SEPA formats and current domestic formats. However, this option will no longer be viable once domestic formats are phased out in 2014. Another option is to modify legacy software to allow for the migration of SEPA payments to a domestic platform, though this option is only feasible for banks with legacy systems that are flexible enough to adopt SEPA requirements such as XML-based formats or the specific business processes for direct debits. The third option is to create a platform expressly designed to achieve SEPA compliance. For banks interested in this long-term solution, SAP developed the SAP Payment Engine solution to help consolidate multiple platforms onto a single SEPA-compliant platform.[1]

One Platform, Multiple Benefits

SAP Payment Engine offers banks several competitive advantages (see **Figure 1** on the next page). Its ability to efficiently transact a high

[1] SAP Payment Engine is pre-integrated with SAP for Banking and does not require extensive integration work. Although it is beneficial to be running SAP for Banking, it is not a prerequisite to implementing SAP Payment Engine.

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Key features	▪ Central payments hub ▪ Ability to set up flexible business rules ▪ High scalability ▪ Standardized interfaces ▪ Management of complete payment life cycle
Key benefits	▪ Lower TCO ▪ Increased operational efficiency ▪ Streamlined payment processes ▪ New revenue streams ▪ Fast adoption of new legal and market requirements

FIGURE 1 ▲ A snapshot of the key features and business benefits of SAP Payment Engine

With SAP Payment Engine, banks can efficiently and cost-effectively migrate to the new SEPA payment schemes.

volume of SEPA payments on a single platform helps streamline banking processes, reduce costs, and improve the quality of service for customers. Due to the phasing in of SEPA adoption, many EU banks are now only processing a small percentage of transactions on the SEPA platform. For large and medium-sized banks that process millions of payments each day, SAP Payment Engine is scalable and built to handle the massive volume of transactions — both domestic and cross-border transactions — that must be migrated to the SEPA platform by the deadline.

SAP Payment Engine consolidates multiple payment systems into one central payments hub, allowing banks to increase and monitor profitability related to their transactions. A central payments hub enables greater operational efficiency with higher straight-through processing rates, offering a single point of configuration for payments products and processing rules, and reducing the total number of interfaces from incoming and to outgoing channels. With standardized interfaces to other applications, SAP Payment Engine helps streamline payment processes.

SAP Payment Engine was first implemented in 2008 by a large German bank that processes roughly 20 million transactions on peak days and wanted to become SEPA-compliant before the deadline. The solution fulfills requirements for large Tier 1 banks (like this early adopter) that are processing a heavy volume of transactions. At the same time, SAP Payment Engine is scalable for Tier 2 and 3 banks that process even as few as a half million transactions a day, or for banks outside the Single Euro Payments Area that process domestic and classic cross-border transactions.

While banks outside the Single Euro Payments Area may not have a touch point with SEPA, they can still use the existing cross-border functionality of SAP Payment Engine to identify the most cost-efficient payment process via correspondent banks, and define their domestic payment schemes using the converter framework of SAP Payment Engine with little effort. The solution can also assist banks outside the Single Euro Payments Area with their domestic payment formatting by recognizing and mapping format structures that are predefined by the customer and the country in which the bank operates. These formats can easily be defined using the converter framework — and in some cases without having to write any code.

Outsourcing Payment Processes

For a Tier 1 bank that viewed strategic investment in SEPA compliance as a competitive edge early on, a clear advantage was drawing new customers who make a lot of euro cross-border payments, or who were looking to consolidate multiple accounts in different countries to a single SEPA-compliant account.

A less obvious advantage, however, is the market for SEPA-compliant banks to capture new revenue streams and increase their ROI by processing payments for smaller banks looking to outsource their processing requirements. Banks that choose an intermediary converter framework solution will either need to make a long-term investment in their legacy systems or outsource their payment processing to SEPA-compliant banks before the 2014 deadline. SAP Payment Engine can handle this insourcing by defining within a system separate organizational units. The insourcing bank processes the payments from the outsourcing bank on the SEPA platform in the organizational unit of that bank, and then posts them to the account management system where the customer accounts are located in the outsourcing bank.

This model benefits both smaller and larger banks, helping them reduce their costs. Smaller banks that don't process many SEPA transactions won't want to invest in a new solution, and larger banks that do invest in the SAP Payment Engine solution can offset their costs by performing outsourcing services for those smaller banks.

Learn More

For more details about SAP Payment Engine, visit **www.sap.com/services-and-support/custom-application-development/industry.epx**. ■