

SEPA represents a major opportunity to turn regulatory compliance into tangible business benefit

Executive Summary:

The dream of full European harmonisation is fast becoming a reality. Increasingly, movement of labour and goods is benefiting from the foundations laid nearly half a century ago with the creation of the European Economic Community, cemented through the Maastricht treaty in 1992, and further enhanced with milestone events such as the introduction of Euro note and coin in 2002. Further collaboration on economic, environmental and social improvement continues to build on the advances made to date. The Single European Payment Area (SEPA) plays an integral role in this development, bringing with it both fundamental changes to the underlying infrastructure of the banking industry and practical improvements in the day-to-day trading activities of the European Community's corporate bodies and citizens.

Changes in regulation are potentially complex activities. The need to strike a balance between common application of the regulation and a workable process in each of 25 countries at present, and more in the near future with further planned expansion in 2007, underscores this. With potentially 500 million people affected by the changes as EU citizens, and many more as trading partners, care in both planning and execution of the changes is of paramount importance. PIPC has an enviable track record in delivering complex change programmes, both in regulated and non-regulated environments across a broad range of industry sectors including Financial Services, Retail, Government and Public Sector, Telecommunications, Technology and Oil, Gas & Utilities. Our approach is pragmatic and focused on delivering tangible outcomes that deliver business and customer benefit alongside regulatory change. For this reason, PIPC is consistently asked to support clients in delivering their mission-critical initiatives.

Commercial advantage gained through efficient delivery

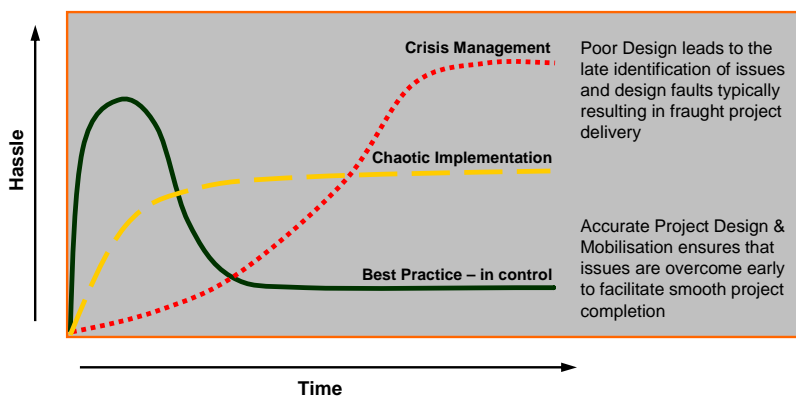
Regulatory change programmes are often viewed as the sole preserve of the Risk and Compliance departments, and managed through a separate portfolio from the 'business' change initiatives. This disassociation with the business creates a barrier to efficient delivery, driving up cost and diluting sponsorship. Added to this, regulatory change by the nature of its scale and ambition sets compliance deadlines that lie far beyond the standard business change horizon. This brings with it a 'mobilisation inertia' which ultimately causes programmes to become costly and complex as they begin too late and then struggle to meet the deadline. SEPA requires a collaborative effort between business units –as the internal customer of the change- and risk and compliance departments –who together with the project groups will shape and deliver the change. Therefore, a fully representative, business-wide Steering Committee must take full and early ownership of the programme to ensure the solution is fit for purpose.

In ever-more competitive markets, such as Financial Services within Europe, with its recent flurry of mergers and acquisitions, greater prominence of lower-cost channel providers and increasingly sophisticated customers, controlling cost in both programme and daily transaction terms is critical. Although SEPA will be a mandatory requirement, managing the cost of meeting the requirements is a key concern for affected parties. Viewing the change as an opportunity to deliver business benefits through lower payment costs, and improved efficiency through an effective programme structure, judiciously executed in line with a clear plan, holds the key to success.

SEPA must be managed as a programme within the overall change portfolio

Successful programmes deliver benefits in line with cost, timescale and quality objectives set out in advance. As with any other change initiative, SEPA must clearly establish at an early date how these measures will be achieved. Given the defined window for SEPA implementation running into 2010, careful thought and planning must be invested in setting a series of clearly defined milestones along the delivery route. As with any other programme, proactive communication – particularly around what will not change as well as what will – is essential to involve and inform relevant stakeholders within the business and customer communities. PIPC’s approach to programme mobilisation is to determine the ‘building blocks’ for success at an early stage, and manage these rigorously through to completion. The critical building blocks for SEPA can be described as;

1. **Stakeholders:** who are they, what is their interest and to what degree are they involved
2. **Outcomes:** what are we aiming to deliver from the programme to meet SEPA requirements and deliver the business benefits? This is expressed in a ‘delivery roadmap’ set out at an early stage
3. **Programme governance:** ensuring appropriate controls and processes are in place to manage risks and issues, dependencies on other initiatives or entities are identified, and a clear decision-making process is agreed at inception
4. **Structure:** the programme team is appropriately resourced and funded to deliver the programme, and is integrated within the overall change portfolio
5. **Communication:** internal and external, inbound and outbound. This is a critical function of the central Programme Management Office (PMO) to provide timely, relevant and accurate information to all interested parties



The adjacent diagram shows how getting this right at the mobilisation stage allows smooth and controlled delivery, whereas failing to address programme management fundamentals at the outset creates a ‘wave of uncertainty’ during the critical delivery phase.

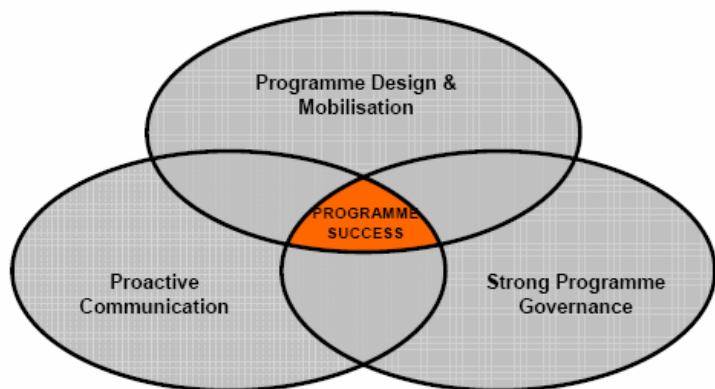
Positive approach, positive outcome

As previously outlined, regulatory change programmes often suffer from poor internal press and are reviewed as cost-led, isolated initiatives that are rushed through at the 11th hour. An up-front assessment of the market opportunity to deliver lower-cost payment services to corporate and individual customers as a result of meeting the SEPA requirements is a prerequisite for successful business engagement. There is an element of ‘do as you would be done to’ in this sense. For a regulatory change programme to be compared on an equal footing with other business-led change initiatives, it must play by the same rules. This requires a robust business case to define exactly who will benefit from the changes brought about by SEPA, what this will be worth, and how the improvements will be measured.

A simple first step is to assess the requirement for business and process change to meet the new regulation. This current state review will undoubtedly highlight impacts and dependencies on other existing programmes of work focusing on the same areas. By coordinating effort on process and system change within the overall portfolio, time, cost and effort can be saved. This seemingly obvious approach is often overlooked, partly due to the polarisation of regulatory change initiatives in the Risk and

Compliance area, and the resulting poor stakeholder engagement. Again, inclusion in the overall change portfolio, robust governance and control through the central PMO can easily avoid such a pitfall.

PIPC is focused on driving business benefit for its clients, and has a strong track record of realising substantial value from delivering successful programmes. Taking a business case from concept to reality is core to successful programme delivery. Our willingness to share risk with our clients by underwriting benefit realisation is testimony to our ability to deliver.



PIPC's Mandatory Change model emphasises the importance of proactive communication, robust programme governance and managing risks and issues from Day 1 through effective programme design and mobilisation. These are the hallmarks of successful programmes.

SEPA – part of your growth strategy?

The opportunity presented by a single process, pricing model and delivery structure for payments within the European Union is significant. Providers with business interests in multiple European geographies will be able to tap into substantial economies of scale. This will enable them to pass on operational savings to their customers in the form of lower prices, a core tenet of the SEPA vision. From a customer perspective, a single operating model for payments enables individuals with pan-European interests (for example, expanding SMEs, or the growing number of EU citizens with second homes in other member states) to make low-cost, straightforward payments using the single passport function throughout the Union. In addition, Financial Services institutions with current or planned European operations will benefit from a single payments model, scalable to accommodate extension into further territories as both they and the EU continue to expand.

SEPA has been likened to the introduction of Euro note and coin in terms of the scale and reach of the change it involves. As an opportunity, it could be likened to the change in mindset brought about by what is commonly referred to now as the 'low-cost flight' effect. Previously, many Europeans (and those in countries with a strong tradition of domestic tourism in particular) considered short breaks in Europe travelling by air to be an unrealistic aspiration both from an economic and a convenience standpoint. With the advent of the low-cost airline, a massive shift in customer perception was achieved. Suddenly, myriad destinations were being served by affordable flights making a shopping trip, ski holiday or social visit a real option. The market grew exponentially, with the lower-cost providers now operating more flights to more destinations than the more established flag-carriers. The customer demand for the service grew, as new 'uses' for short-haul European for travel emerged. Added to this, a substantial substitution effect was evident, as market share was gained from alternative transport means and spend categories.

SEPA is a close parallel to the low-cost flight example for the payments world. Opening up a simple, convenient and affordable channel for making cross-border transactions has the potential to greatly increase the volume of payments made and in turn realise the economies of scale sought by providers to recover the investment costs. Demand clearly exists; cheques are still in common use with around 9 billion drawn annually across Europe. Customer aversion to cross-border payments currently centres around cost, speed of delivery and absence of a single, simple process to follow. For larger players with

established Europe-wide operations, the scale argument is a compelling proposition. Smaller retail and corporate financial service providers also stand to gain significant revenue streams by offering cost-effective cross-border payment services to their customers. Perhaps more importantly, any inability to offer a comparable service as their larger counterparts may drive customers and their business away.