The introduction of Single European Payments Area (SEPA) is the most important initiative implemented within the payments landscape since the introduction of the euro in 2002. SEPA aims to create a single common market within Europe where individuals and corporations will be able to send and receive euro payments across Europe as quickly, easily, and inexpensively as if they were operating within their own home market. SEPA includes the 27 European Union member states, Norway, Iceland, Liechtenstein, Switzerland and Monaco. For complete information on SEPA, visit www.europeanpaymentscouncil.eu.

Recent changes introduced in the SEPA B2B Direct Debit Mandate require debtor banks to ensure that each collection is authorized by checking it against mandate information. Debtor banks and debtors are required to agree on the verification to be performed for each direct debit. Additionally, in order to provide certainty to creditors, the B2B scheme does not allow the debtor to obtain a refund of an authorized transaction.

This study examines these changes and their associated medium / long term impact on the Order to Cash process of organizations operating within the affected countries. Genpact hypothesized that the changes would reduce overall Direct Debit adoption in these countries, thereby impacting both cash flow and the cost of collections performance. However, we also believed that this reduction would not be permanent, and that in order to maximize the benefits offered by SEPA, organizations would be required to review and transform their Order to Cash process.

To test the above set of hypothesis, we interviewed key stakeholders across a range of companies from the SEPA member states. Key findings are presented here, along with the focus areas within the Order to Cash process that organizations think would be important in addressing this impact on adoption.

**Overview of SEPA direct debit**

SEPA Direct Debit allows a creditor to collect funds from a debtor's account, provided that a signed mandate has been granted by the debtor to the creditor. Each must hold an account with a credit institution located within SEPA, and the credit institution executing the direct debit transaction must be a scheme participant. Advantages for creditors include the ability to determine the exact date of collection, automation of exceptions handling, and collection of domestic and cross-border direct debits across all 32 SEPA countries. Advantages for debtors include a simple means of paying bills throughout
the SEPA countries, and easy reconciliation of debits on account statements.

Because the SEPA format is currently only being used for one in thirteen credit transfers, the European Commission has decided to intervene by means of a regulation setting an end date for the parallel operation of national systems and the new SEPA system.

Transforming the OTC process - The key to maximizing SEPA business benefits

Genpact conducted a three-month primary research study in July 2011, interviewing AR Process Managers and Finance Directors from organizations in 13 EU countries across 5 industry segments (Banking, Healthcare, Manufacturing, Retail, Services). Details regarding the interviews, the questions asked and the results are included in the Annexure.

Genpact entered the study with three primary hypotheses:

<table>
<thead>
<tr>
<th>GENPACT HYPOTHESIS</th>
<th>CONCLUSION</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>That the SEPA B2B changes would reduce adoption of Direct Debit by some companies, thereby impacting both cash flow and the cost of collections performance.</td>
<td>PROVED</td>
<td>A significant 67% of respondents did think that there would be at least some reduction in the Direct Debit adoption. A primary reason for this, noted by 78% of respondents, in nearly all countries, was the perceived issue of better control over payments, as the B2B scheme does not allow the debtor to obtain a refund of an authorized transaction.</td>
</tr>
<tr>
<td>That any reduction would not be permanent, because the business benefits of implementing SEPA are significant and cannot be ignored.</td>
<td>NOT TESTED</td>
<td>Genpact believes companies will either adopt the changes on their own or, through some date-driven mandate, be forced to comply with SEPA implementation.</td>
</tr>
<tr>
<td>That to maximize the benefits of SEPA, organizations would be required to identify areas within their finance process, specifically Order to Cash, that would have a significant impact on adoption and implement solutions to address them proactively.</td>
<td>PROVED</td>
<td>Approximately 62% of respondents thought that adoption of SEPA would require companies to optimize their billing and dispute management processes if their customers were required to continue Direct Debit as a payment mode. Additionally, 67% thought that SEPA adoption would require organizations to invest in systems for customers to review and approve invoices efficiently.</td>
</tr>
</tbody>
</table>

These results supported Genpact’s original belief that transforming the Order to Cash (OTC) process would be critical to realizing the full benefits of SEPA adoption.
Critical focus areas in end-to-end OTC process transformation

Order to Cash is a highly interconnected process, in which upstream processes greatly affect productivity and effectiveness in other areas. Our survey revealed two particular areas noted by executives as critical to achieving maximum benefit from SEPA adoption, that would in turn force a general end-to-end transformation of the OTC process:

Billing and dispute management

As noted above, a majority of respondents saw Billing and Dispute Management as a critical area of focus within the OTC process. Organizations would have to deploy best-in-class operational processes to ensure that the invoices presented to customers are accurate, and if not, that the Dispute Management process can identify and resolve them quickly.

Improving billing accuracy would require transformation of upstream processes such as Customer Master Data and Order Management as well. In effect, this would mean an end-to-end transformation of the entire OTC chain.

Achieving such transformation requires a scientific, end-to-end process improvement approach, coupled with detailed insights, knowledge of granular benchmarks, and strong Lean/Six Sigma operational expertise to ensure the desired levels of improvement.

Electronic invoice payment and presentment

In addition, best practices require implementation of technology solutions to automate the billing and dispute management process. Investments in Electronic Invoice Payment and Presentment (EIPP) and dispute management solutions would be needed for organizations to enable efficient customer review and approval of invoices. If a dispute occurred, EIPP facilitates fast, accurate identification and resolution.

Lastly, the research findings also tell us that B2B Direct Debit will not result in invalid deductions or partial payment made by customers where it is not due. Organizations will not, therefore, see an increase in revenue leakage or cash flow impact on this account.

Genpact SEP (Smart Enterprise Process) approach - Science of managing business processes

Genpact’s Smart Enterprise Process (SEP) is a proprietary process management framework that breaks down barriers between an enterprise’s silos, interlinks businesses processes in a continuum from the start of the value chain to the eventual business outcome.

SEP makes possible the continual improvement and adjustments of individual processes to change and improve outcomes. SEP leverages benchmarks, metrics and business insights to provide enterprise management with more than just an understanding of how each function in the process chain is performing, but an ability to collect normalized data for better and more informed decision-making.

SEP leverage Genpact’s 200 million-plus transaction database to map and analyze core end-to-end processes with microscopic precision. SEP is based on Genpact’s deep knowledge of more than 3,000 different processes for over 400 clients enabling it to diagnose effectiveness from within and across industries with remarkable clarity for massive financial results.

Conclusion

The introduction of Single European Payments Area (SEPA) is a significant initiative implemented within the payments landscape and offers significant benefits to both debtors and creditors in a B2B scenario. The recent changes introduced in the SEPA B2B Direct Debit Mandate will have a reduction on the overall Direct Debit adoption in these countries, thereby impacting both cash flow and cost of collections. However, best-in-class, matured organizations, will proactively address the challenges causing this reduction and therefore minimize the overall impact quickly, ahead of their competitors, and start getting the benefits offered by SEPA.

In order to maximize those benefits, organizations would be required to review and transform their Order to Cash process, with an increased focus on the Billing and Dispute Management processes. This would require a scientific, end-to-end transformation approach. Organizations would also increasingly look at technology tools such as EIPP and Dispute Management solutions to make the related processes more streamlined and efficient.
About Genpact’s order to cash practice

Genpact is an industry leader within Order to Cash (OTC), having nearly 25 years of experience in providing these services to clients. Accounts Receivable, Cash Applications and Collections are a critical part of our Order to Cash capability. Over 3,500 employees manage OTC processes for large corporations across 15 centers in the U.S., India, Latin America, Eastern Europe, the Philippines and China. The scale and depth of our current experience includes:

- Managing and collecting over $100 billion in annual A/R
- Researching and resolving over $2.4 billion in annual deductions or short payments
- Processing and applying over $180 billion in cash

Complementing our deep process expertise, our strong suite of technology bolt-on applications, including Akritiv and eBilling, automate key processes such as Billing, Collections, Cash Application and Deductions Management.

Genpact’s vision for our clients is to tangibly impact their balance sheet through superior business process and technology management. In addition to delivering both one-time and ongoing cost benefits to our clients, Genpact delivers significant value by improving performance on key business outcomes such as Order to Bill Cycle time, DSO, Revenue Dilution, Past Due %, and Bad Debt %. Savings delivered by improving critical outcomes are usually 4-5 times higher than through controlling costs alone.

Genpact delivers these improvements through our proprietary, Smart Enterprise Processes (SEP™) methodology, a groundbreaking, rigorously scientific means of managing business processes. We conduct a detailed assessment of client processes, compare them against best-in-class performance, and build a detailed improvement roadmap. SEP™ focuses on optimizing process effectiveness in addition to efficiency to produce superior business outcomes. Services are delivered from a global network of centers to meet a client’s business objectives, cultural and language needs, and cost reduction goals.

Learn more at www.genpact.com/ordertocash

Annexure

Research Questions

1. What will be the impact of the introduction of SEPA on customers’ existing direct debit adoption?
   1. Significant reduction
   2. Little reduction
   3. No impact
   4. Don’t know yet

2. What do you perceive your top challenge to be in the implementation of SEPA?
   1. High cost for resolving inaccurate transactions
   2. Significant administrative costs for implementation
   3. Better control of payments made by the debtor
   4. Inability to refund authorized transactions
   5. Other – please list:

3. Do you agree or disagree with the following statement: The introduction of SEPA will require organizations to significantly optimize their billing and dispute management processes.
   1. Agree
   2. Disagree
   3. Don’t know yet

4. Do you agree or disagree with the following statement: The introduction of SEPA will require organizations to make investments for their customers to review and approve the bill efficiently (e.g. through an electronic bill presentment and payment tool).
   1. Agree
   2. Disagree
   3. Don’t know yet

5. Do you agree or disagree with the following statement: The implementation of SEPA will result in customers increasingly taking invalid discounts and deductions.
   1. Agree
   2. Disagree
   3. Don’t know yet
Industry demographics

Industry breakup

- Manufacturing: 45%
- Services: 35%
- Healthcare: 8%
- Banking, Financial Services, Insurance: 5%
- Retail

Country breakup

- Belgium: 2%
- Cyprus: 2%
- Denmark: 10%
- Finland: 20%
- Germany: 20%
- Hungary: 5%
- Luxembourg: 5%
- Netherlands: 8%
- Norway: 3%
- Portugal: 8%
- Spain: 5%
- Sweden: 3%
- Switzerland: 2%
- Netherlands: 5%
- Norway: 3%
- Cyprus: 2%
- Finland: 2%
- France: 2%
- Italy: 2%
- Spain: 5%
- UK: 2%
- Other: 5%

Research timeline

Interviews were conducted in July 2011 to validate our hypotheses and also to test the associated questions listed above. A total of 40 interviews were conducted throughout July, with data validated and analyzed in August 2011 for publication in September.

Survey results

Impact of SEPA on customers’ existing direct debit adoption

- Little reduction: 28%
- No impact: 25%
- Significant reduction: 10%
- Don’t know yet: 5%

Top challenge to be met in the implementation of SEPA

- Better control of payments made by the debtor: 38%
- Significant administrative costs for implementation: 40%
- High cost for resolving inaccurate transactions: 10%
- Inability to refund authorized transactions: 7%
- Others: 5%

The introduction of SEPA will require organizations to significantly optimize their billing and dispute management processes

- Agree: 62%
- Disagree: 35%
- Don’t know yet: 3%

The introduction of SEPA will require organizations to make investments for their customers to review and approve the bill efficiently

- Agree: 67%
- Disagree: 28%
- Don’t know yet: 5%
The implementation of SEPA will result in customers increasingly withholding part payments, taking invalid discounts and deductions

- Agree
- Disagree
- Don't know yet

Research results

Included below are the key messages that emerged from the responses we obtained through our interviews and discussions.

Impact of SEPA on customers existing direct debit adoption

- Approx 67% of the respondents think that there is going to be at least some reduction in Direct Debit adoption
- Only 25.3% think there would not be any impact

Top challenge to be met in the implementation of SEPA

- Significant 78% of respondents are concerned about control over the payments made by debtors and administrative costs
- The issue of better control over payments was raised by almost all countries where interviews were conducted. This could be, therefore, one of the primary leading reasons for the impact on Direct Debit
- The issue of higher administrative costs was raised in approximately 50% of the countries, with the maximum in Finland

The introduction of SEPA will require organizations to significantly optimize their billing and dispute management processes

- 62% of respondents think that introduction of SEPA will require organizations to optimize their billing and dispute management process if their customers would have to continue Direct Debit as a payment mode

The introduction of SEPA will require organizations to make investments for their customers to review and approve the bill efficiently

- 67% of respondents think that introduction of SEPA will require organizations to make investments for their customers to review and approve the bill efficiently.

The implementation of SEPA will result in customers increasingly withholding part payments, taking invalid discounts and deductions

- Most respondents don’t agree that there would be an increase in the ratio of customers withholding part-payments or any other undue advantage such as taking invalid discounts or deductions, with 40% thinking this could be the case
- However, the above breakdown primarily includes feedback by only the Manufacturing and Services sectors; the respondents from other sectors do worry about this change in customers’ attitudes

About Genpact

Genpact is a global leader in business process and technology management services, leveraging the power of smarter processes, analytics and technology to help its clients drive intelligence across the enterprise. Genpact provides a portfolio of process-driven services strengthened by its industry vertical domain expertise, analytical insights, and intelligent technology solutions for better business outcomes.

www.genpact.com
© 2012 Copyright Genpact. All Rights Reserved.

About the Author

Prakash Hariharan is Vice President and currently heads the Order to Cash Solutions and SEP team at Genpact. He has over 12 years’ experience in various roles spanning account management, sales, large scale program management, solutioning, quality across various industries and geographies.

Prakash completed his MBA from IIM Lucknow & BS Engineering and is a Six Sigma Black Belt.

To contact the author, please write to prakash.hariharan@genpact.com