Chain reaction or slow burn

How fast is Europe moving toward more harmonization of the financial supply chain?

In line with the spirit of the Single Euro Payments Area (SEPA) initiative, Europe is moving steadily toward tighter convergence of its physical and financial supply chains. Yet, in a 2007 IBM Financial Supply Chain study, twenty leading European banks and corporations did not always see eye-to-eye on the topic. To remain competitive, banks must act now to prioritize collaboration in several areas: with corporate customers to create the innovative financial supply chain-based products they need, and through representative bodies, both to influence the creation of payments standards and to establish legislative consistency across borders.

European banks and their corporate customers are familiar with the SEPA initiative’s goal of processing all Euro payments in the same way, within the Euro area or across national borders in Europe. However, its context should be considered to fully grasp its significance. The European Commission (EC) laid the groundwork in 2000 with its action plan known as The Lisbon Strategy, whose aim is for Europe “to become the most competitive and dynamic knowledge-based economy in the world” by 2010. SEPA is a key component of such effort: the European Union (EU) ultimately seeks to remain competitive in an increasingly multilateral world, and a single market for payments is expected to improve the EU position through enhanced internal competition. The effect of SEPA spans from opening up markets; providing a level playing field; encouraging new and innovative services; and increasing market transparency for both providers and users.

To better understand current perceptions and activities related to potential physical and financial supply chain convergence in Europe, we conducted the 2007 IBM Financial Supply Chain study, tapping into the insight of 20 leading banks and major corporations across Europe.

Our study suggests that the European banking sector has yet to announce additional banking products that support or leverage greater integration of the financial supply chain. Meanwhile, non-bank competitors are entering the market and could pose a threat to the banking industry if it is too slow to act.

Today’s view from the bankers and corporate treasurers we spoke with is that over the next five years, progress toward supply chain convergence will necessarily be modest and vary significantly by industry. As a result, fragmentation does not seem to be going away in the near future. Supply chain-based financial products will likely still be country-specific and solutions are expected to remain customer-centered, to a high degree. However, our respondents reported that building upon SEPA’s standards could accelerate and broaden the spectrum of potential services to the benefit of the industry.

Toward supply chain convergence

A combination of forces currently influences Europe’s payments landscape, including banks and their corporate customers, various legislative bodies and non-bank market entrants. As bank customers demand rapid and accurate monetary transactions regardless of geographic distance or political boundaries, banks must remain on top of what is happening, not only to comply with “the rules,” but to profit as well.

As the region moves toward improved financial supply chain convergence, new and innovative banking products and services are increasingly needed. But thus far, the majority of banks haven’t rushed forward with many offerings to
fill such needs. In fact, the supply chain-based financial product market is largely unmoving at this time, while non-bank competitors are entering the fray and blitz market share from slow-acting banks.

Our interviews were conducted with both Tier-1 banks and large corporations. Study findings showed that banks and corporations agree that today there is limited convergence of the physical and financial supply chains, and between payments and invoicing, though both expect the outlook to improve (see Figure 1). Each also recognized that the development of standards is vital in this effort.

On other points, however, the figure also highlights some very different perceptions between the two. Overall, banks were less sure than their customers to the extent to which SEPA standardization alone contributes to supply chain convergence. In another contrast, banks were much more aware of current initiatives to further converge supply chains than their corporate customers.

Important actions for banks

European banks can begin moving toward improved supply chain convergence with a plan that assigns target completion dates for important high-level tasks, such as deadlines for making legacy systems SEPA-compliant, and verifying that banking CEOs and CFOs have SEPA-related items on the 2008 agenda.

Beyond setting those milestones, this study leads us to five specific recommendations for banks:

• Eliminate silos within financial institutions and corporations
• Focus on core competencies
• Step up two-way communication with corporate customers
• Work through representative bodies toward regulatory standards
• Promote systems and tools that simplify processes supporting cross-border payments.

Above all, banks that want to lead in the changing European payments landscape need to prioritize collaboration: to influence technology and regulatory standards, and to build trust and educate by example – developing working and extendable models with leading corporate customers.

FIGURE 1. Key perceptions of banks and their corporate customers.

Source: 2007 IBM Payments Convergence study.