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Edith Rigler

SEPA: The proof of the pudding is in the testing

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We have all been through it, one way or the other. You buy a new device. In the store, you test it and it works beautifully. When you come home and try it again, however, it no longer works. What could be wrong? Is it a sudden flaw? Is it the connection? Have you been sold the wrong product? Whatever the problem turns out to be, you wish that you could have performed end-to-end testing, in your own environment, from the beginning to the end to ensure that everything worked just fine.

This example is not unlike the situation that many financial services institutions are facing at the moment. In just a few weeks, payment providers and users have to be "SEPA-ready", and will have to follow new rules and standards when making and receiving euro payments throughout Europe. The so-called Single Euro Payments Area (SEPA) end-date of February, 1 2014 has been mandated for the euro zone countries by the EU authorities. The deadline is looming and cannot be ignored. Only the new rules and standards will be legally permissible after the end date, replacing the old rules and standards in full.

Banks and businesses have been working hard toward meeting this deadline and becoming SEPA-ready. Some claim that they have been ready for a long time, and indeed have marketed their readiness to their clients. Some see their readiness as a competitive differentiator and claim that they have been SEPA-ready for months or even years. The definition of "ready", however, is in reality about as obscure and undefined as the assurances you were given that the new device which you bought at the start of this article had been thoroughly tested.

Payments business is a network business

The big difference between the general consumer and stakeholders in the payments arena is that the payments business is a network business. No one in the payments business can act alone. Obviously it takes someone to initiate a payment and someone to receive that payment, but unlike a cash payment, at least one bank, if not several, plus a clearing house, are also in the chain. Thus the new software/system/platform which claims to be SEPA-ready can only be considered to be ready if it has passed the litmus test, i.e., that the payment which party A made to party B has truly passed through the bank(s) and the clearing system.

It is also worth remembering that although payments are not exactly at the top of everyone's mind, the market is unforgiving when it comes to incorrect or late payments. Consumers expect their salaries to be paid on time, businesses expect to receive payment for their invoices on time and governments are not amused when tax payments arrive late.

Errors can be expensive

For a consumer, not being able to test end-to-end may simply result in frustration and time wasted trying to figure out what exactly did not work, and why. For businesses and banks the criticality of testing and fixing bugs are much more relevant, and costly. Practical experience has shown that the cost of not testing at all, or of insufficient testing, can be significant. Clear2Pay, an internationally active software house supporting financial institutions globally in their payments processes, has reported that the cost of errors which occur as a result of incorrect testing or lack of testing can be enormous.

This view has been supported by studies undertaken by U.S. software engineers Barry Boehm and Victor Basili. Their work on measuring and quantifying the software development process showed that the cost of correcting bugs during coding is \$937, the cost of correcting bugs during the testing stage is \$ 7,136, and the cost of correcting bugs after software has been released is \$14,102 per bug. Aggregating these figures for a whole country presents a rather gloomy picture: according to their estimates, software bugs cost the U.S. economy \$60 billion per annum. This translates into a whopping \$6.8 million per hour, \$113,333 per minute or \$1,888 per second.

According to Van den Berg AG, a SEPA payments specialist provider with many bank and corporate clients in Germany, many financial institutions have taken the mandatory move to SEPA as an opportunity to consolidate previous multiple payment systems into one, thus automating their banking processes, and optimising financial operations generally. That said, there are vast differences in data quality between countries and industry sectors, and the introduction of the new SEPA direct debit has proved to be a real challenge.

The new payment instrument is more complex than the existing direct debit system as it comprises many different features, rules and specifications. Germany is Europe's largest direct debit country, and Van den Berg has said that there is a great risk that German financial institutions may miss the target. By the end of November 2013, only 10 percent of direct debits were processed in the SEPA format. The result of a survey conducted by ibi research shows that 46 percent of the financial institutions using direct debits will face serious liquidity problems if they are unable to issue direct debits for more than 15 days. This may lead to a domino effect. A firm unable to issue SEPA direct debits will not be able to pay its bills.

How to test whether your organization is SEPA-ready

There are some basic requirements if financial institutions wish to ensure that they are testing appropriately for SEPA readiness:

1. Testing must be representative. A valid SEPA test must ensure that the right message sets are tested, i.e., those payment types that conform to regulation and bank usage.
2. Testing must be realistic and practice-oriented, i.e., it should simulate real business scenarios.
3. Testing process must produce detailed reports which show what went wrong, and why, and where, in the payments chain. A report that simply states that a test did not work out is of little use.
4. Tests should be repeatable.
5. Tests should be variable, i.e., enable a change of just one variable at a time and simulate its impact.
6. Tests should allow for updates in regulatory requirements or SEPA Rulebook updates.

Adequate testing will be essential

Appropriate testing is a serious business which should not be taken lightly and squeezed in at the end of a payment process change. In fact, testing is a critical component in the product development life cycle. Professional project management is essential. A testing manager must be made responsible for planning the testing process, determining the test phases, assigning resources, developing test cases, ensuring testing is executed, analyzing feedback and identifying opportunities for improvement. Perseverance and attention to detail are important traits for the test manager.

While many businesses may claim they have been SEPA-ready for a while, and to have tested the SEPA processes in their own organization, they may not have tested the functional richness of the new SEPA payment instruments, or have tested them with the whole chain of parties in the payments process. Given that the SEPA deadline is just a few weeks away, it is advisable to test now rather than risk failed payments. While the move to SEPA will ultimately provide significant benefits, financial institutions have been spending large amounts introducing the new SEPA standards, so that it seems foolish to jeopardize those benefits by inadequate testing. Author Biography:

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