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SEPA – A PAYMENT PROCESSOR'S PERSPECTIVE

The challenge is to stay ahead

Michael Steinbach*

What will the future SEPA look like from a payment processor's perspective? The expected outcome of the European harmonisation is a consolidation of the current payments processing landscape. Three to five payment processors will most likely combine the processing of 60% to 70% of all payment transaction volumes in the eurozone and each processor is expected to process more than 10 billion transactions per year. This consolidation will produce significant potential for synergies due to economies of scale arising from volume bundling and complementary skills. This will result in two key benefits for banks and their customers – lower processing costs and higher service levels.

AHEAD OF CLIENTS' DECISION MAKING

On 1 January 2008, the processing of SEPA credit transfers and SEPA direct debits will commence. The processing of these payments is based on the agreed new rules and technical standards developed by the European Payments Council (EPC). However, payment processors will also have to be ready for the processing of SEPA payments well ahead of that date, as European banks will be deciding at least until mid-2007 whether to handle their SEPA payments themselves or to outsource (parts of) the back-office payment value chain.

Whatever decision they take, a payment processor with European ambitions must be able to show banks they are SEPA

compliant, ready to process SEPA payments and ready to support them in preparing for the migration process. This means they must have their processing technology and service offering in place. Secondly, they must have the volume to guarantee continuity and low costs (by winning large clients and/or by mergers and acquisitions). And last but not least, they must be able to guarantee that any payment sent to any other bank account in the eurozone will reach its destination within the agreed timeframe.

AHEAD IN TECHNOLOGY AND PRODUCT PORTFOLIO

The first condition to become a pan-European payment processor is to have the technology and product portfolio in place. This requires a clear business strategy as a starting point. Equens' business strategy focuses on two main activities – payments and card processing. That strategy can be put into practice using the ZVS® payment transaction processing platform, which has already proved with ease that it can accommodate new developments. This platform does not rely on a single format. It can easily handle other pre-formats such as specific domestic formats, SWIFT formats and SEPA formats. With minimum investment costs for switch-overs, processing takes place in the standard internal ZVS® format. This means easy connectivity at low costs for clients of Equens.

Based on the business strategy and the flexibility of the processing platform, Equens



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was the first mover in developing a comprehensive SEPA programme and product portfolio during 2006. Equens has opted for a dual-track in its SEPA programme. On the one hand is a modular service offering for the entire back-office payments value chain, consisting of both basic and additional services. With this modular portfolio clients can individually choose the services they require and there are customised solution packages for specific individual client needs, where a client wishes to differentiate itself from other competitors.

AHEAD IN CREATING ECONOMIES OF SCALE

The second condition is attainment of a scale that creates the efficiency required to be able to compete in a market that is increasingly marked by competition on price. In this regard Equens, created by the merger between the Dutch Interpay and the German Transaktionsinstitut, is again a first mover in the European market. The number of transactions processed in 2006 was seven billion. Equens' objective in 2007 and onwards is to gain new partners – banks and/or payment processors. That means seizing opportunities when they arise.

Clearly, a new partner will have to fit in with Equens' European ambitions. Even so, there will be many challenges to successful further expansion. It is like extending and simultaneously refurbishing a train that is moving ahead at full steam. In other words, simultaneously continuing to meet clients' requirements, adapting to new SEPA requirements and managing the integration process from a technological as well as a corporate culture perspective.

AHEAD IN REACHABILITY AND INTEROPERABILITY

The third and final condition is meeting the requirement of reachability and interoperability. This means that a European payment processor has to offer a sufficient range of reachability solutions for their clients at the start of SEPA in

2008. This is a basic prerequisite for the success of SEPA. Equens has already established several reachability solutions, including integration with STEP2, and multilateral- and bilateral-clearing between banks.

Moreover, Equens is currently developing additional reachability solutions, like Equens-community-Clearing and (as one of the founding members) the European Automated Clearing House Association (EACHA) approach. EACHA will develop a concept catering for market-wide common, EPC-based, technical interoperability between ACHs, which can also enable banks to link up to other banks or the ACH(s) of their choice.

Equens also obtained permission to implement a SWIFT Market Infrastructure-Closed User Group (MI-CUG). This gives its clients the required 'reach' throughout the EU region via SWIFT. Furthermore, Equens is a member of the Berlin Group and among the first companies to implement a 'Berlin Group' gateway to other card processors in order to ensure the lowest total cost of ownership for its clients. Moreover, Equens is also on the board of the European e-Business Interoperability Forum. With regard to technology, Equens is fully EMV-compliant and its services can easily be adapted to fulfil additional SEPA requirements.

A PAYMENT PROCESSOR PERSPECTIVE

One of the main tasks for a payment processor with truly European ambitions is to create certainty for its clients when it comes to preparing for SEPA. This means staying ahead of all relevant developments in client needs, technology, scale and reachability/interoperability. Only a few players will be able – or be prepared – to make this multiple effort.

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