

SEPA and the payment processing industry...



...to be, or not to be European?



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National governments should be jealous. In contrast to the situation among the common people, Europe is alive and kicking within the business world. Nowhere is this more true than in the financial sector. Banks, payment processors and all other parties involved in payment transactions are playing a crucial role in the integration of the European market, both at the European Commission's urging, but also wholly based on self-regulation. Following the introduction of the common European currency, it is now essential to harmonise the cashless payment transaction infrastructure, such that cross-border euro transactions can be made with the same ease, speed and cost as domestic payments. Between 2008 and 2010, the Single Euro Payments Area (SEPA) will come into effect for this very purpose. For the payment processing industry the question is: European... to be, or not to be?

SEPA is a complex programme affecting both payments and card processing. Over many years, each has undergone differing technological developments and has been subject to diverse domestic legislation. As a result, payment transactions currently exhibit a wide range of differences in and between the various European countries. This holds true for both the systems and their corresponding costs. Depending on the countries of origin and destination, cross-border payment costs as well as domestic payment costs can vary considerably. This is mainly due to country specific and historical events, such as different business models of the banks, the extent to which banks in certain countries cooperated with one another and the volume of cross-border transactions, relating to their economies' openness.

Benefits for businesses and consumers

The existence of one single national and efficiently operating payment processor is an exception. Most European countries either have multiple payment processors or situations where banks arrange transaction payments in cooperation with one another. In the greater European context, such policies have resulted in a patchwork quilt of systems. SEPA's objective is to create one homogenous system from this legacy... with ease, speed and low costs being the benefits for companies and consumers.

Consolidation

The consequences for the European payments industry are readily apparent, especially for payment processors providing inter-bank, even intra-bank and national bank transaction services. Competition will increase greatly, which was an explicit intention of the European Commission from the outset. Transaction volume, economies of scale and scope, and optimal quality are crucial factors for competing in the standardised European payments market. Three to five payment providers (from the dozens currently operating) will probably account for 60 to 70 percent of the total transaction volume within the eurozone, and each is expected to process over 10 billion transactions annually. This volume should be a prerequisite for long-term existence and cost-effective operations. Who will achieve this? Existing players as well as new entrants or even combinations of both. Many contenders will cease to exist, by losing out to the competition or realise in time to transfer to SEPA operations. They might even merge partially or

entirely or find other ways of international co-operation in order to provide necessary business continuity. Some will even realise in time that it is better to transfer SEPA operations to, or merge partially or entirely with other parties that can provide the necessary continuity.

Survival of the fittest

It will be essential for payment processors starting with a strong competitive advantage to remain ahead of the game. Moreover, payment processors should show to the banks and their larger corporations, by means of specific advice and services, that the transition to SEPA can be entrusted to them. Equens is committed to being one of the survivors in the European payments landscape. Equens was established in 2006 as a result of a merger between the Dutch Interpay and German Transaktionsinstitut. The company can build on many years of experience and the excellent reputation of the founding Dutch and German banks. Equens' market share within the eurozone currently exceeds 10 percent, representing an annual processing volume of seven billion payments and nearly two billion switch card transactions. The merger was an important step toward achieving the minimum critical mass required. It was, however, merely the first step. There are more to come. As Chairman of the Board of Directors, I have expressed ambitions to attract other new partners in the short term.

First mover

The market welcomed this first cross-border merger resulting in the first – and currently still only – truly pan-European full-service payment processor. Moreover, Equens' large-scale operations make it one of the largest payment processors in Europe. The announcement of the merger led to an inundation of enquiries about Equens' services from banks and other payment processors throughout Europe. Equens was prepared for this. As a first mover, it had already developed a joint SEPA programme and service portfolio before the merger was formally finalised. This programme consists of a comprehensive portfolio of modular and flexible services. It has been well received by clients that are able to customise solutions to their specific requirements and market positions.

Maintenance of current service levels

With effect from 2008, SEPA will require that the basic level of SEPA payment services be standardised. This level of service will initially equate to an average level as currently in effect among eurozone countries. SEPA will be an improvement for certain countries, while other countries will already have service levels superior to those imposed by SEPA. There is no room for complacency; banks with advanced payment infrastructures will have to maintain and further improve on their levels of service beyond January 1, 2008. Differences between markets and specific customer requirements may require that banks have to provide additional services beyond the SEPA basic services according to the agreed rulebook set by the European Payments Council (EPC).

Additional optional services

Equens is fully geared up to support its clients with a basic EPC rulebook and Cards Framework functionality, and additional optional services for specific community and/or client requirements. The company remains attuned to the latest SEPA developments. Consequently, it is able to adapt its portfolio to the needs of banks, facilitating additional services. Moreover Equens provides conversion or bridging services allowing

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banks to make the transition to SEPA at their own pace and requirements to become SEPA compliant

Future-proof

All SEPA payments will be processed at Equens on a single integrated payment processing platform, called ZVS. This platform provides flexibility and extendibility for future growth thanks to its customisable, scalable and format-independent design. The first joint SEPA payment processing platform release was delivered according to plan. This attests to the system's flexibility and power and the ease with which new functionality can be incorporated. And it shows that the system is future-proof. Single-platform processing will create significant synergy arising from scale (volume) and complementary skill sets. This will lead to several major client benefits: lower processing costs, higher service levels (in terms of speed, reliability and service flexibility), and the possibility to combine several countries' volumes into one system.

Prerequisites for SEPA's success

In terms of operation scale, technology and capacity, Equens has made a giant leap in fulfilling its strategy to become a major European player. However, other conditions need to be met for it to achieve a strong position as a pan-European full-service payment processor. Payment processors operating on the European market must be capable of fulfilling the different clearing and settlement requirements of the various banks and countries. Moreover, a pan-European payment processor has to guarantee its clients cross-border transactions to be effected within the agreed timeframe. Equens believes that availability, reachability and interoperability are the basic prerequisites in meeting these requirements and for SEPA's success. Systematic and consistent access to banks and payment processors is the guarantee for access to every bank account number throughout Europe. This requires open standards for routing, tracking and tracing and connectivity. When SEPA comes into effect, Equens' strategy will be to provide a range of solutions to its clients to guarantee the scope and availability required.

Support from all parties involved

SEPA will need support from all parties involved. A truly euro-domestic payments market offers opportunities, but also requires major investments. Both by payment processors and banks. Whereas benefits can only be reaped in the future, now is the time to make these investments, yet many parties may be reluctant or even incapable to do so. Stakeholders have to examine their current business models and compare these to SEPA market demands now, if they wish to achieve increased efficiency in the short term and capitalise on the benefits and opportunities that SEPA offers in the long term. Those stakeholders capable of adapting their business models ahead of others will gain the competitive advantage and be able to survive on a European level. In fact, the only relevant level. European... to be, or not to be?

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