Corporate statement

The irreversible road towards SEPA

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The first six months of SEPA Credit Transfers have proved that an irreversible process is underway. Manfred Schuck, General Manager Marketing & Sales Equens SE, provides a status update and explains what further developments can be expected in the SEPA Payments market.

History

SEPA was the result of many years of preparation. These preparations involved the realisation of the prerequisites that ultimately enabled the start of SEPA's operational phase. Politics and the market, each playing their respective roles, developed four basic elements. Firstly, EPC issued the Rulebooks for SEPA Credit Transfer and Direct Debit and the SEPA Implementation guidelines, defining the basic payment products for SEPA. The EPC also issued the PE-ACH/CSM Framework, which provided guidelines for the SEPA compliance of Clearing & Settlement Mechanisms and created some interoperability basics. The European Commission backed these market efforts with the Payment Service Directive for the EU-wide harmonisation of legal and regulatory environments. Finally, the European Central Bank's Target2 created a single shared platform enabling European banks to settle their payments with other European banks.

In order to make SEPA practicable, existing payment infrastructures assumed their roles in the development and provision of services for SEPA. The European Banking Association (EBA) extended its services in order to cater for cross-border exchange of SEPA Credit Transfers. Furthermore, recognising that the preconditions were not sufficient to ensure the realisation of STP processing from bank to bank, domestic ACHs developed an alternative for EBA when issuing EACHA's Interoperability Framework. This framework allowed for the exchange of payments across existing payment communities and their settlement using Target2 Fiduciary Accounts.

Current situation

On 28 January SEPA was launched, initially with Credit Transfers. After six months the volumes still are somewhat modest, with approximately 200,000 SEPA Credit Transfers being processed on a daily basis. There is evidently still a degree of caution regarding SEPA. While banks are essentially ready and gradually starting to promote its use for cross-border transactions, their customers are still reserved. In order to gain a real boost, SEPA requires the large-scale migration of domestic payments towards the SEPA payment products.

Besides tens of millions of non-SEPA transactions, Equens currently processes around 50,000 Credit Transfers each day, 10,000 of which are settled by means of our own CSM. Equens has adopted the EACHA interface specification for bank-CSM and CSM-CSM connections in order to build international reach. To date, connections have been established with Iberpay and ICBPI, and we are currently in the process of connecting banks in a variety of other countries to our CSM solution. This will lead to considerable reach in Q4 of 2008. In addition to our own reach we have created reach for interested clients via EBA STEP2 in accordance with ECB's promotion for infrastructure interoperability.

Outlook

After its take-off, the pace of the migration towards SEPA will largely be determined by further changes in the market. These changes require cooperation on the one hand and competition on the other.

End-users will be motivated to migrate to SEPA products if they offer them better functionality, greater convenience and/or lower prices. Functionality and convenience can be realised through further standardisation. E-mandates and e-invoices may offer end-users functions that convince them of the advantages of SEPA, but only if they are offered in a standardised manner. Transparent interoperability is required to launch these functions throughout Europe. Additional standardised functions and interoperability require a continuous high level of cooperation between industry players.

Cooperation between market and politics will also help ensure the acceptance of SEPA. If institutional bank customers are willing to migrate to SEPA as early adopters this will accelerate the migration process considerably. From the perspective of volumes, this will give the industry a clear reason for investing in SEPA and facilitate the adoption of its products in adjoining markets. This would provide an important boost for the acceptance of SEPA.

Although cooperation leads to efficiency and widely supported added value, it does not automatically result in lower prices. Offering new functionalities will generate costs that must be recouped. In order to prevent price increases, investments must be made as efficiently as possible.

Further consolidation (especially in the processing market) will lower the investments and increase scale. Some M&A-driven consolidation has already taken place, resulting in companies such as Equens, VocaLink and SIA-SSB. This process will continue. An alternative that helps to lower investments is the sharing of single platforms on a commercial or cooperative basis. The sharing of platforms may eventually lead to full consolidation.

Moreover, the entry of non-industry shareholders of infrastructures will improve the investment capabilities and entrepreneurship of market players. Today there are some examples of banks trying to sell part or all of their shares in infrastructure providers.

Furthermore, shareholders of some incumbent ACHs require a focus on domestic exchange, thus minimising investments, while connecting to processors other than the domestic processor in order to realise critical reach within SEPA. It is just a matter of time before large-scale migration to SEPA leads to the exchange of former domestic payments through a limited number of pan-European providers.

Commercial investments, entrepreneurship, international consolidation and migration will lead to a healthy level of competition between a limited number of large pan-European processors. This competition will result in lower prices.

Expected developments

A number of changes will occur in the years to come:

- Current EACHA-like standards will be used to create further interoperability between processors and banks
- Existing standardisation will evolve into new standardisation for additional functionalities and further interoperability
- SEPA-wide standards will lead to translation of domestic payments into SEPA interbank payments
- Example role model of institutional parties will increase the penetration speed of SEPA
- An increasing number of market players will fully embrace SEPA as the new reality on which to base their decisions
- Legacy costs will be phased out as the result of a deadline for SEPA migration.

SEPA was initially received with caution, but has now passed the point of no return. From hereon in we must all make the transition as swiftly and efficiently as possible for all the actors.

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