



International Payments: overshadowed by SEPA

In Europe, everyone is talking about SEPA right now. But what does the standardisation of European payment transactions through SEPA mean for the non-SEPA cross-border payments of the banks? The number of transactions, which is low to begin with, will further decline. Banks will have to consider whether it is still worthwhile to process their cross-border transactions themselves.

Michael Steinbach
CEO
Equens SE

Upon introduction of the SEPA Credit Transfer (SCT) on January 28, 2008, all cross-border Euro payments were switched to SEPA in the Euro zone. This already led to a reduction in the number of cross-border payment transactions which, compared to the number of domestic transactions, was already low to begin with. In November 2009, cross-border SEPA direct debit transactions (SDD) were introduced.

According to the Global Payments Report 2010 of Boston Consulting Group, the share of cross-border payments in Europe amounted to 2.3 per cent last year, including SEPA payments. This number will decline further, if non-European companies open a Euro account in the European branches of their banks and make their European payments via SEPA. However, the fixed costs of the banks do not decline to the same degree as the number of cross-border payments.

Own cross-border payment system not very profitable

Despite stagnating volumes, banks still have to operate a non-SEPA cross-border payment system in addition to the SEPA payment system. The fixed costs for this system remain the same due to existing infrastructures and statutory requirements, among others due to the Financial Action Task Force on Money Laundering (FATF) or the Office of Foreign Assets Control (OFAC). The introduction of the Foreign Account Tax Compliance Act (FATCA), planned for the beginning of 2014, will further increase the demands on banks – with negative effects on the cost-income ratio for this business segment. Currently, banks are considering whether to continue processing their non-SEPA cross-border transactions themselves or whether to outsource them to an external service provider.

Outsourcing can give banks more security. On the one hand, they avoid the high fixed costs for the maintenance and development of a cross-border payment transaction system, while on the other hand increasing their flexibility through extended services and a fixed accounting model that is based on the number of transactions. Furthermore, this accounting model allows them to protect themselves against

potentially further declining numbers of cross-border transactions.

In its Global Payments Report 2010, Boston Consulting Group assumes that payment transaction models will in future have to be both cost-efficient and flexible. We share this view, because a marked shift has taken place here in the past few years: while in the past it was mostly standard solutions that were being sold, and rarely a customised solution, the opposite is true today. That's why systems are needed that allow for a flexible configuration of the functions on which the services are based in order to address the individual requirements of clients – particularly those concerning cross-border payments.

Various options for outsourcing non-SEPA cross-border payment transactions

There are various outsourcing options. Outsourcing is currently offered by financial institutions and by independent payment processors.

A neutral, so-called "White Label Service Provider" like Equens has the advantage that only the processing of payment transactions is taken over while the margins from treasury remain with the outsourcing bank. Savings in personnel costs also play a role when outsourcing payment transactions, of course. Depending on the volume, a neutral service provider can take over the back-office employees – because if the volume is high, the competence of the outsourcing bank's employees is still needed, especially for non-STP transactions that need to be corrected manually.

In addition to SEPA, therefore, there is another big issue for European banks. And when, if not during Sibos in Toronto, would you get a chance to talk about something other than SEPA: about non-SEPA cross-border payment transactions.