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European Trend Survey

# Banks & Future 2010

Survey on the European Payments Market

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Innovation forum  
»Banks & Future«

**EQUENS**  
PAYMENT SERVICES FOR EUROPE



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## Abbreviations

AOS	Additional Optional Services
ASP	Application Service Providing
BIC	Bank Identifier Code
bn	Billion
BOP	Back Office Processing
CSM	Clearing and Settlement Mechanism
EACT	European Alliance of Corporate Treasurers
EAPS	European Alliance of Payment Schemes
EBA	European Banking Association
E-Invoicing	Electronic Invoicing
EMV	A global standard for credit and debit payment cards (based on chip card technology) which was founded by Europay International (today: MasterCard Europe), MasterCard and VISA (reference EMV).
E-Payments	Electronic Payments
EPC	European Payments Council
EU	The European Union
FSC	Financial Supply Chain
IBAN	International Bank Account Number
IAO	Fraunhofer Institute for Industrial Engineering IAO, Germany
IPF	International Payments Framework
M-Payments	Mobile Payments
N	Number of Respondents
NFC	Near Field Communication
OASIS	Organisation for the Advancement of Structured Information Standards
PE-ACH	Pan-European Automated Clearing House
PSMEG	Payment Service Market Expert Group
POS	Point of Sale
RFID	Radio Frequency Identification
SCF	SEPA Cards Framework
SEPA	Single Euro Payments Area
SME	Small and medium enterprises
SMS	Short Message Service
SOA	Service Oriented Architecture
TSU	Trade Service Utility

## 1. Introduction

The fourth European Trend Survey »Banks & Future« was conducted at the turn of the year 2009-2010. This survey focuses on trends and developments in the European payment market.

The aim of the study is to identify key trends and developments in the European payment market and to highlight the challenges for banks and service providers. The following chapters will identify and discuss the current key trends in the European payment market. Furthermore, the survey emphasizes challenges in the payment business as well as business areas with future growth potential. The European payment market survey addresses executives and managers from the payment business.

In addition the survey is part of the international cluster of the innovation forum »Banks & Future«, a community of future-oriented banks and service providers, which works on the innovation in banking business.

The authors want to thank all the banks and service providers of the survey for their valuable contribution and support. The authors further thank all project partners from the Innovation forum »Banks & Future«.

We are looking forward to the interesting discussions about the results, trends and developments.

## 2. Overview about the Survey

### 2.1 Background

The European Trend Survey »Banks & Future« is part of the research work of the Fraunhofer Institute for Industrial Engineering IAO within the innovation forum »Banks & Future«. In this research initiative, numerous banks and IT service companies pool their competencies under the scientific lead of Fraunhofer IAO with regard to future trends in the banking sector.

Fraunhofer IAO first established the annual trend survey »Bank & Zukunft« for the German banking market in 2004.<sup>1</sup> In 2007, the trend survey was expanded to the European level under the name European Trend Survey »Banks & Future«.<sup>2</sup> The survey addresses bank managers from different European countries at banks of various sizes in a variety of banking sectors. The actual survey is the first focus survey of the innovation forum. With strong support of Equens and IBM Germany, the European Trend Survey identifies developments and trends in the European payment market.

### 2.2 Structure

The European Trend Survey on payment services consists of four chapters (see Figure 1).

1. Overview about the survey
2. General Trends in the European Payment Market
3. Future Innovation Areas
4. Conclusions

Figure 1: Structure of the European Trend Survey »Banks & Future 2010«

In the first part, »Overview« basic and statistical information about the survey is introduced.

The second part »General Trends in the European Payment Market«, highlights general trend and developments in the European payment market and introduce strategic projects of the survey participants. Furthermore, this section covers information about the status of the implementation of SEPA and the International Payment Framework (IPF), evaluation about the growth potential in cards business as well as evaluation about the usefulness of the IPF.

The third part addresses »Innovations« in the payment market. In this section, experts evaluated the meaning of selected innovations in business

<sup>1</sup> Cf. Spath (Editor) et al. (2005 / 2006 / 2007 / 2008 / 2009).

<sup>2</sup> Cf. Engstler et al. (2007); Spath (Editor) et al (2008).

and technology for the payment sector. In addition, the meaning of inter-organizational process chains is analysed in this part of the market study.

The last part concludes the study and provides an outlook for future developments.

## 2.3 Participants

The survey was conducted between November 2009 and February 2010. Research methodologies used by Fraunhofer IAO include a paper-based questionnaire and an online survey.

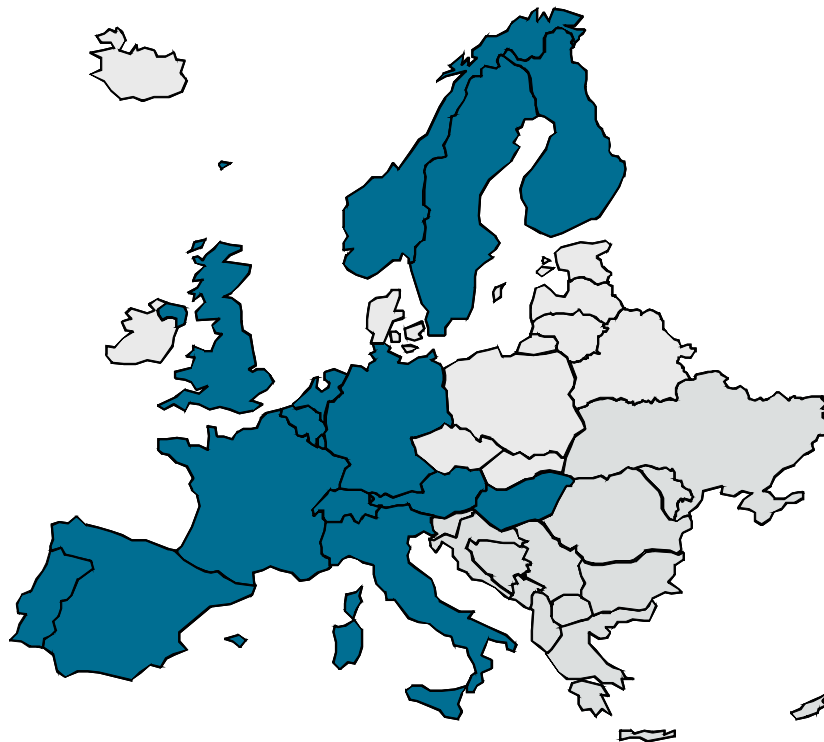


Figure 2: Participating European countries 2010

The survey is based on responses from banks in fifteen European countries. All European countries listed in the following figure are considered in the results.

### Participant structure by country

The participating banks come from all over Europe. The majority are from the Netherlands (32 Percent), Germany (18 percent) and Sweden (10 percent) followed by banks from Finland (7 percent), Switzerland, Italy, Belgium (all 5 percent) and Spain, Luxembourg (all 3 percent), Austria, France, Hungary, Norway, Portugal and UK.

The group of participants encompassed all banking categories, namely commercial and specialised banks (53 percent), cooperative banks (20 percent) and savings banks (14 percent). Further 13 percent did not answer this question.

## High market share in European Countries

The questionnaire on the European payments market was especially distributed to experts in payments at European banks. Therefore, the overall number of participants compared to the 2009 survey is slightly reduced, but the market share of the participants represented in the European countries is high.

Due to the situation and the structure of the European payment market, the number of participants is limited. Therefore, the study addresses the market share of the banks and service providers in the payment sector. In this category the results of the study represent a number of payment experts in Europe. In some European countries, i.e. the Netherlands (90 percent), Germany (80 percent), Finland (70 percent) and Luxemburg (60 percent) a majority of experts answered the questionnaire.

In conclusion, the study represents a great number of expert evaluations, but it must be mentioned that it is not representative. Experiences from other studies show that in the coming years the European payment study will be established in the market and it can be expected that the number of participating experts will increase in the following years.

## Participants of the Survey

This payment survey covers the answers from 60 bank managers and payment experts from European banks.

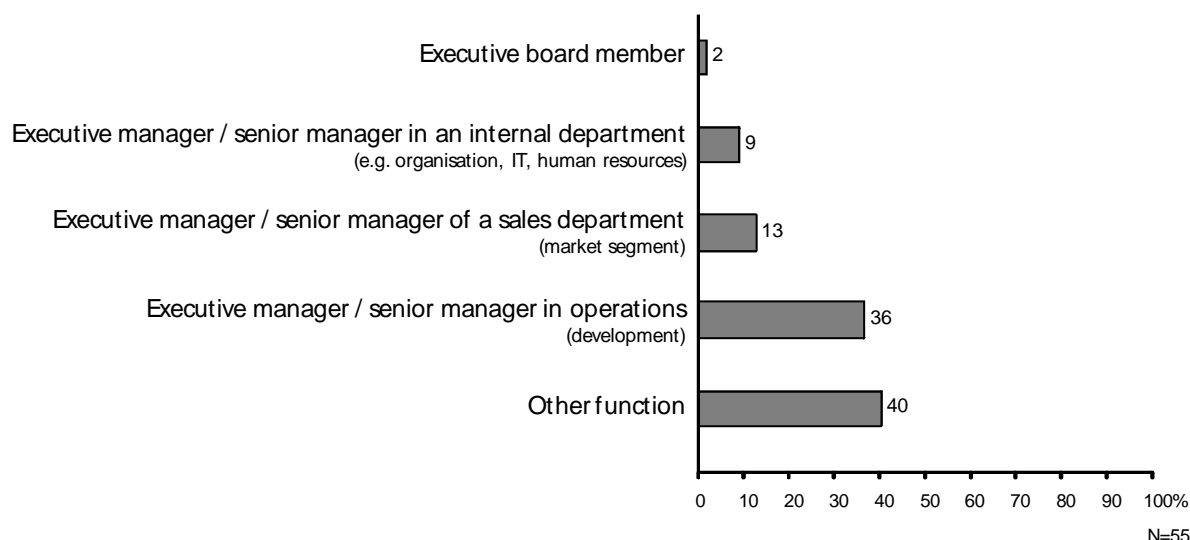


Figure 3: Group of Participants (Positions within the Bank)

The participants of the survey come from different management levels within the banks. Approximately 2 percent of the participants are members of the Executive Board, while 58 percent are executive managers of various departments, and 40 percent are participants from other departments with other roles. It can be resumed that the majority of the participants are from an executive level within the participating organizations.

### European Activities of the participants

Most of the participating organisations are active in 1 to 5 European countries. Approximately a quarter of the participants are offering payment services in 6 to 15 European countries and another 17 percent are active in more than 15 countries. Only one tenth of the payment organisations are offering their services in all European countries.

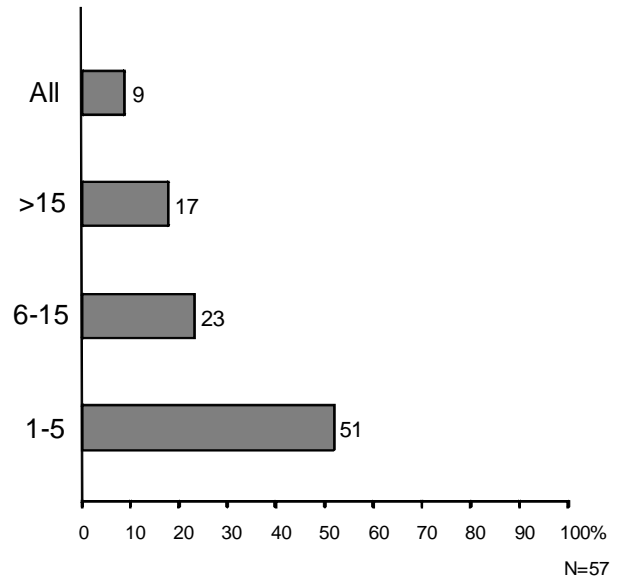


Figure 4: Number of European countries in which banks offer payment services

### Transaction volume

The structure of the participating organisations is analysed based on the number of transactions in the payment as well as in the card business.

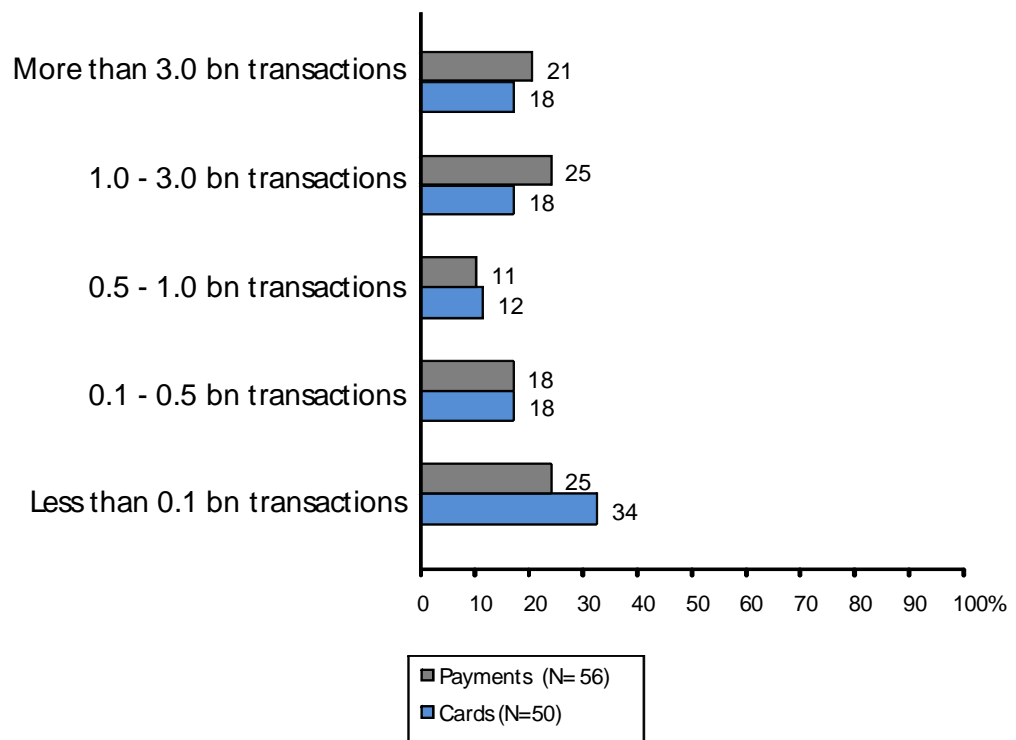


Figure 5: Transaction volume

## Overview about the Survey

The chart highlights that more than 20 percent of the participating organisations manage more than three billion transactions a year in payment services. Further, 25 percent manage less than 0.1 billion payment transactions. The result shows that 34 percent of the participants manage less than 0.1 billion and 18 percent more than three billion card transactions.

### 3. General Trends in the European Payment Market

The European payment market is still in a phase of continuous change. In the context of the changing situation and conditions, there are many challenges and important topics on the agenda of banks and payment service providers. Therefore, the following paragraphs address strategic challenges and analyse important aspects and market developments for banks as well as for services providers.

#### 3.1 Strategic Challenges

The results highlight that most of the participating organisations are actually focussing on the optimization of internal efficiency in cost structures and business processes. Approximately three out of four banks mention that the increase in productivity is the most important challenge in 2010. It can be assumed that due to the implementation of new solutions banks must constantly change their organisational structures and processes. Consequently, the increase in productivity is an important aspect in a market with highly standardised processes and a high number of transactions to realize economies of scale.

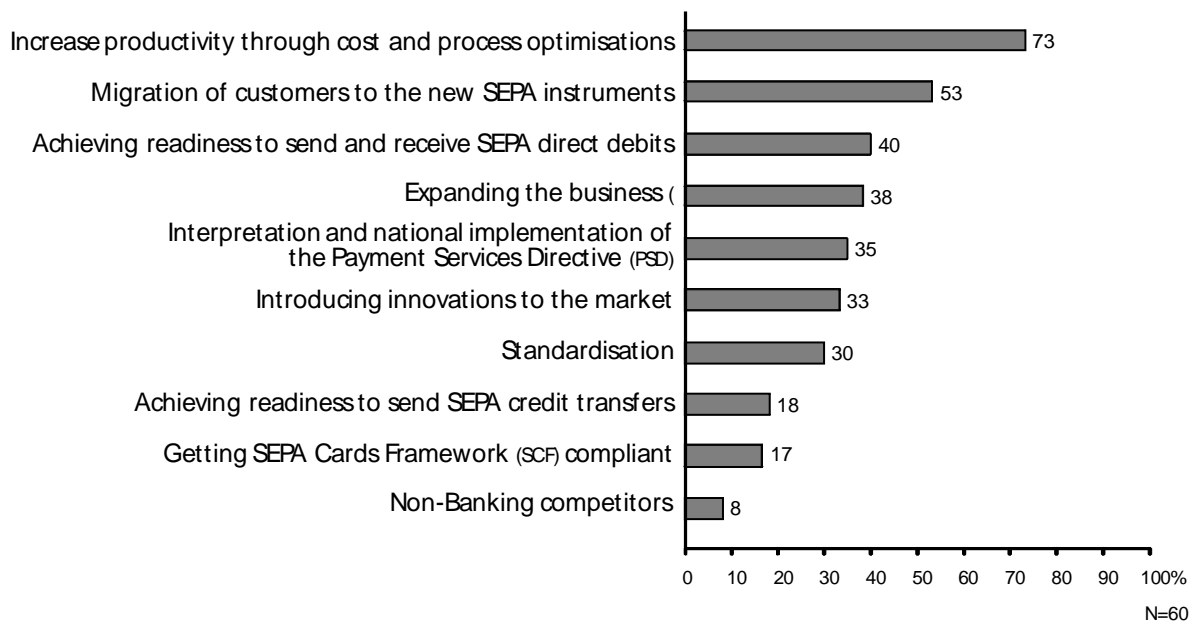


Figure 6: Strategic Challenges in the payment market in 2010

A further challenge addresses the migration of the customers to the new SEPA instruments. For more than 50 percent of the participants this aspect is an important challenge in 2010. After the introduction of the SEPA instruments it is important that customers migrate to and become familiar with these instruments. For banks and service providers, it is highly important that customers use the new instruments to support the increased standardisation in the market and increase the number of users to realize scale effects.

A further challenge for 40 percent of the participants is the internal organisational readiness with regard to sending and receiving SEPA direct debits. This challenge is important because of the SEPA implementation

roadmap of the European Commission. Based on information of the German federal bank<sup>3</sup>, the processes regarding SEPA direct debits must be implemented until November 2010.

For 38 percent of the participants the expansion of their business is of great interest. As seen before the majority of banks and service providers are acting in a small number of European countries. Due to the increased standardisation in regulations, products, processes and procedures, the expansion of business activities in new markets and new products becomes more important for banks.

One third of the participants indicates that the interpretation and implementation of the Payments Service Directive (PSD) is an important challenge. The PSD aims to establish a set of rules applicable to all payment services in the European Union. The target is to make cross-border payments as easy, efficient and secure as 'national' payments within a member state.<sup>4</sup> This shows that companies have difficulties in interpreting and implementation of governmental resolutions in concrete offers to their customers.

Due to the implementation of governmental regulations only one third of the participating banks and service providers see the introduction of innovations to the market as a challenge. There is the risk that due to the governmental restrictions companies do not have time and resources for developing innovations. In the long run, this is a very risky situation regarding the competitive situation of banks and services providers in the international competition.

It can be summarized that the optimization of internal processes and structures has a high priority. Due to the obligation of internal resources for implementing governmental rules, banks and service providers have less capacity to develop and implement innovations.

### 3.2 SEPA and the International Payment Framework (IPF)

The decreasing confidence and trust in banks in general as well as in bank management can be seen as a direct consequence of the global financial crisis.

#### SEPA Migration – First Movers

The introduction of the SEPA Direct Debit scheme in November 2009 was another major milestone of the banking industry to further advance the idea of a single market for payments in Europe. Although the SDD scheme was long awaited and some market participants have long claimed that the real success of SEPA will only start once the SDD is available, the uptake has been quite slow and disappointing until now. In the last couple of years, the banking industry expected large multinational corporations to be the main beneficiaries of the SEPA services and thus expected them to lead the migration. Although this view slightly shifted already in 2009, when only 72 per cent of the participants expected large corporations to be the first movers (compared to 84 per cent in 2008), the expectations even further de-

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<sup>3</sup> See [http://www.bundesbank.de/zahlungsverkehr/zahlungsverkehr\\_sepa.php#sepa5](http://www.bundesbank.de/zahlungsverkehr/zahlungsverkehr_sepa.php#sepa5)

<sup>4</sup> See [http://ec.europa.eu/internal\\_market/payments/framework/index\\_en.htm](http://ec.europa.eu/internal_market/payments/framework/index_en.htm)

creased in 2010 to 61 per cent. During the same time, public authorities and administrations have become more and more the biggest hope for first mover migration and now lead in expectations with 64 per cent.

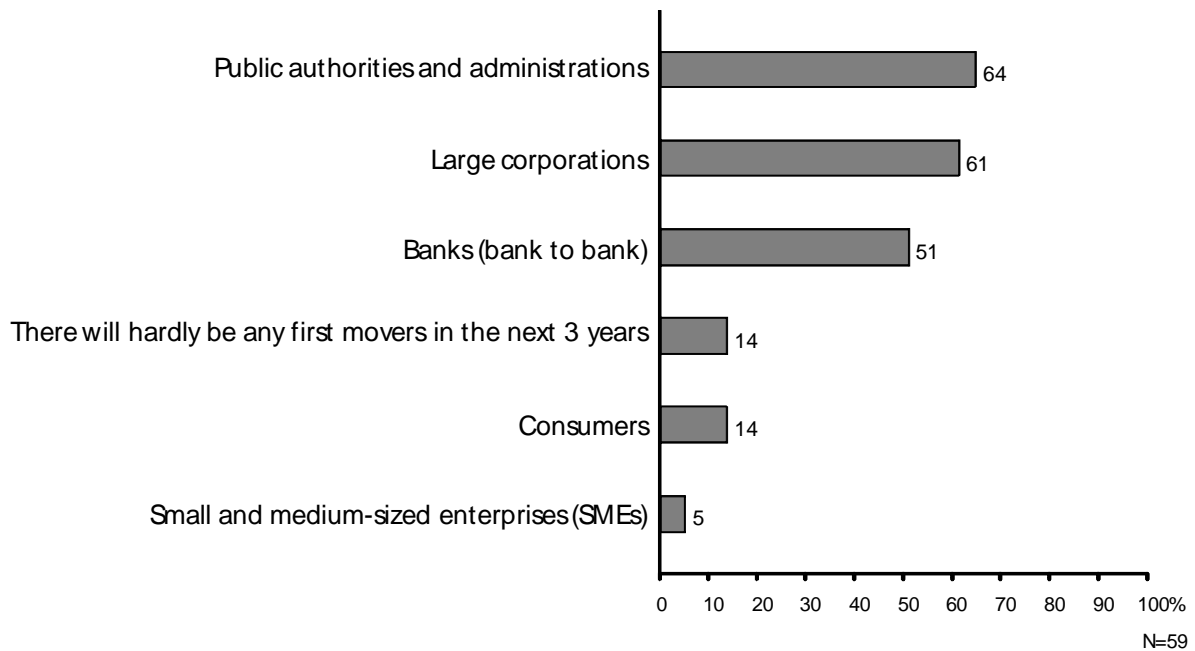


Figure 7: Expected First Movers of SEPA Products in the next 3 years

Interestingly, the expectations that banks themselves could play a leading role has not significantly changed over the last three years with banks ranking themselves only on the third place for migration. The pessimists, although still a minority, again gain some followers with now 14 per cent of the banks not believing in any first movers for a migration in the next three years. Confirming with market realities seems to be that consumers and SMEs will be the latest to adopt the new SEPA services. A migration of these can be expected once an end date for the legacy systems and schemes is announced.

### SEPA End Date – Should the EU Commission act?

The end date question has been discussed in the market for quite a while now. Various consumer and corporate associations, the banking community, the EPC and the EU Commission together with the ECB have had their separate and bilateral discussions in the past until the EU Commission bundled those under the umbrella of the EU Commission chaired Payment Service Market Expert Group (PSMEG) in 2009.

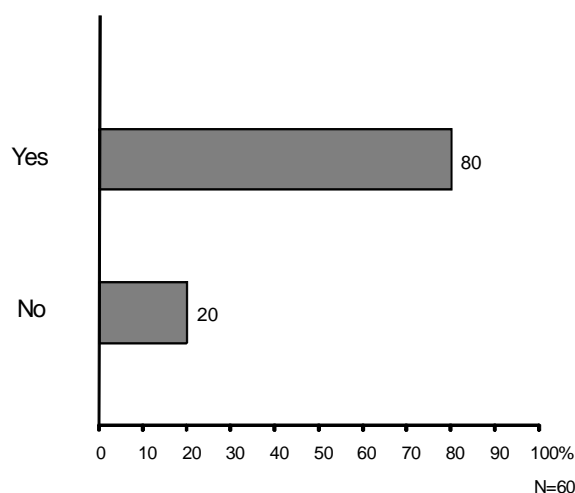


Figure 8: SEPA End Date – Should the EU Commission Act?

The general opinion on an end date within the PSMEG is also reflected by the respondents of the survey with four out of five banks seeing the need for a fixed end date set by the European regulators. The first reaction to these initiatives was a resolution by the European Parliament in March 2010 that called for a binding end date no later than end 2012.<sup>5</sup>

### The IPF is useful

The International Payments Framework is a worldwide market driven initiative to provide rules, standards, operating procedures, and guidelines to improve non-urgent cross-border payments. The majority of the banks believe that the efforts for the IPF are useful and can increase the efficiency of their non-urgent cross-border payments and thus the value of their service offering.

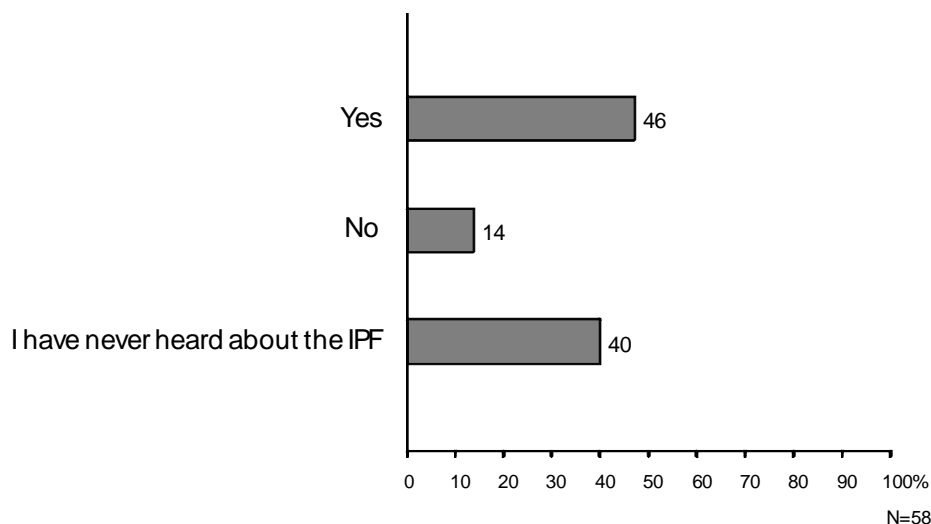


Figure 9: Is the International Payments Framework (IPF) useful?

However, the IPF needs to improve their marketing and communication efforts, because a substantial amount of 40 per cent of the banks has so far never heard of the initiative. It can be expected that the first operational

<sup>5</sup> see <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0057+0+DOC+XML+V0//EN>

implementation of the IPF Framework between North America and Europe, that will start in the first half of 2010, will increase the knowledge of the market participants about this initiative.

### 3.3 Payment Developments

This section will deliver some insights into the specific segment of giro payments. It specifically focuses on the trends in the areas of reachability and Additional Optional Services as well as the criteria that banks view as most important to select their service providers.

#### Reach in Europe

The PE-ACH is still the predominant way for European banks to establish reach - especially for intra-European cross-border payments. Nevertheless, like in the last years banks expect that the significance of the PE-ACH will considerably decline in the years to come. Only 33 per cent of the participants believe that they will use a PE-ACH in 2011 and the years thereafter.

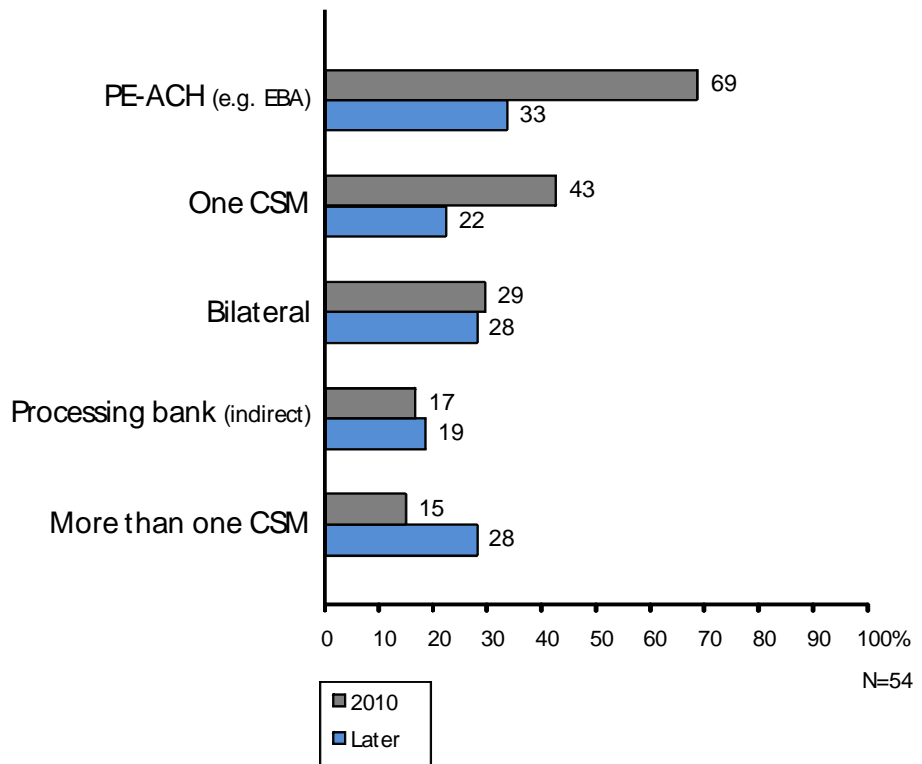


Figure 10: Establishing Reach for Payment Transactions

Noticeably, in 2010 43 per cent of the banks will use only one CSM to establish reach in Europe, which represents a noteworthy change compared to the last years. Apparently, banks were not yet able to implement the connection to multiple CSMs or more bilateral connections with other banks. The hope is still that this will be the case in the next years. Overall, the expectations regarding the use of multiple CSMs, a processing bank or more bilateral connections have not changed compared to 2009.

### Selection Criteria for Payment Services Providers

While last year the banks rated price as their top selection criterion to select their providers, they changed their minds fundamentally this year. Price is still the second most important criterion for them with 61 per cent of the banks stating this - which is an increase by 8 percentage points. Even more important is however, the quality that service providers can deliver with 3 out of 4 banks rating this as their top criterion. Since banks expect the price to become more important again than quality in the coming years, the service providers in the industry might currently not fully fulfil the quality expectations of the banks. Reach is number three of the most important criteria with now 59 per cent of the answers.

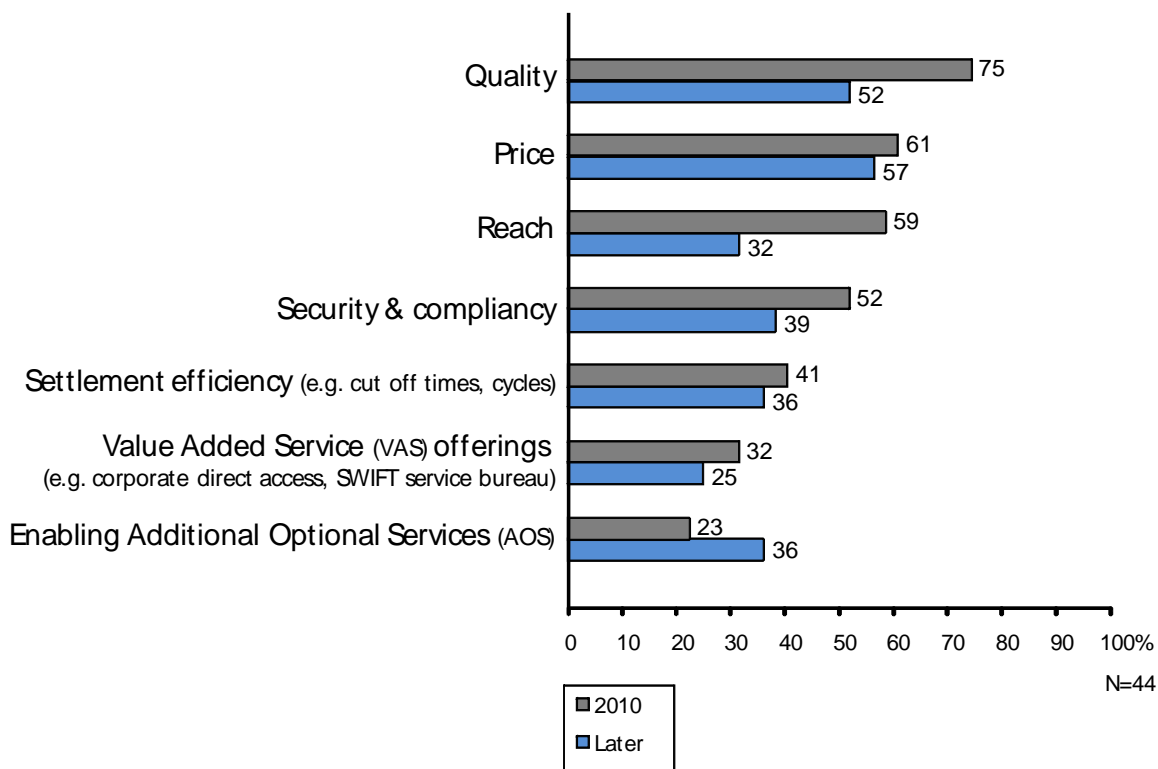


Figure 11: Selection Criteria for Service Providers

This is expected to change significantly in the coming years as the industry expects the reach problem to be solved and thus become less and less important. The top three are followed by security & compliancy and settlement efficiency again as in the last two years. Providing value added services has become more important this year that enabling additional optional services (AOS) to the banks for the first time since the start of this survey. 32 per cent of the banks expect their service providers to be able to offer them services like SWIFT service bureau, corporate direct access, etc. Additional optional services are currently only interesting for 23 per cent of the banks, which might be attributed to the slow migration to SEPA instruments. This would explain the fact that banks believe AOS would become more important in the future again.

### Additional Optional Services needed

Although additional optional services are still not a huge priority for the banks, they will become more important in the future again. Banks will then have their focus shifted from simple IBAN and BIC or format conversions, to the new e-mandate and e-payment services that can be built on top of the SEPA credit transfer and direct debit rulebooks. E-mandates will be the first priority for banks with 55 per cent focussing on this topic, closely followed by the e-payments with 51 per cent.

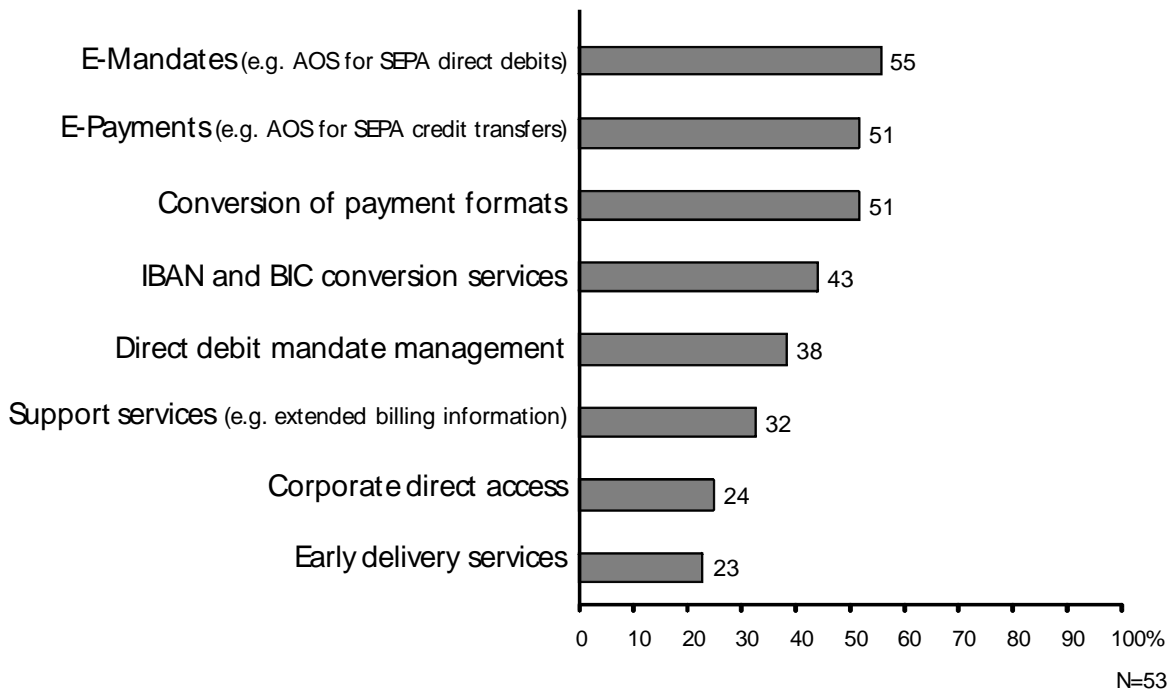


Figure 12: Interest in Additional Optional Services

Interestingly, the banks dramatically reduced their expectations on direct debit mandate management services. Only 38 per cent (compared to 54 per cent last year) believe in the success of mandate management services. Support services, corporate direct access and early delivery services will remain niche options for banks in the near future.

### The Value of AOS

For the first time the banks were asked to provide an indication of the value that additional optional services could provide to them, by answering if they in principal see AOS as paid services or as enhancements of existing services which should in principal be already included in the price of these. The fact that 2 out of 3 banks would be willing to pay an extra charge for AOS seems to indicate that banks do see the value AOS could deliver to their clients.

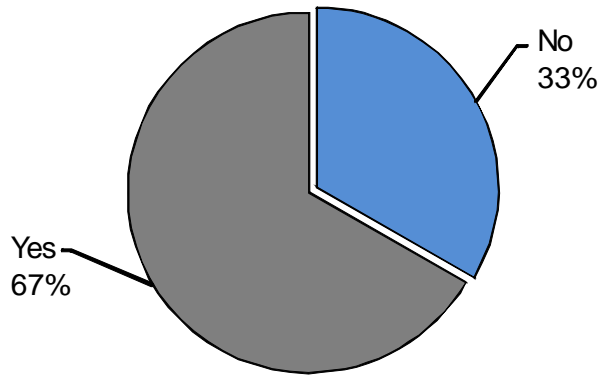


Figure 13: willingness to pay for AOS

### 3.4 Cards Growth

The cards business is still one of the most important business segments for many banks. With a constant market growth each year in all European countries the expectations are also growing and consequently banks view this segment as a very attractive one. The strategies to cope with the growth are divers. This chapter allows a deeper look into these strategies.

#### Expanding Cards Business

Although last year the portion of the banks that wanted to grow their cards business in general - independent if on the issuing side, acquiring side or both - was a bit higher, still the absolute majority (76 per cent) of the banks plan to grow this business segment.

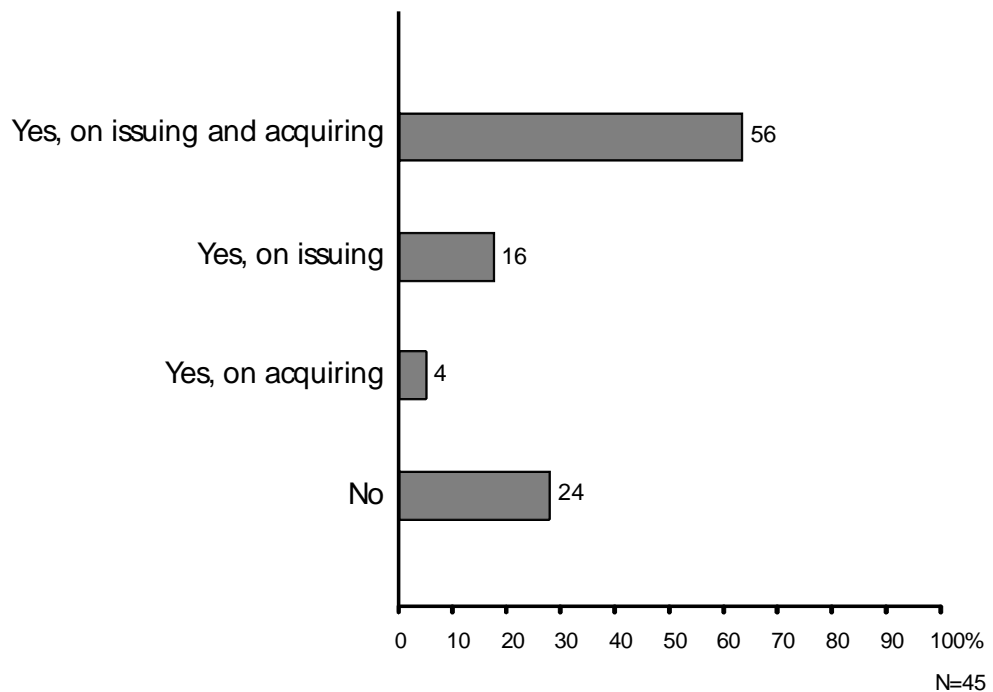


Figure 14: Expansion of Cards Business

This shows that not only the growth potential still seems to be huge in all countries, but moreover that banks still believe in the business value of cards. Since according to the ECB still 7 out of 10 payments are made in

cash the predominant challenge for the industry remains the ongoing chase to reduce cash transactions.

**How to expand**

The top three strategies for issuing banks to grow their cards business are the same as for acquiring banks. Apparently, the two sides of the industry have found a consensus how to jointly grow the market. The top priority for both to achieve that market growth is to introduce new functionality like contactless chips or the issuing of EMV compliant cards. The introduction of complete new products like pre paid cards that was last year's top priority has shifted to the third rank. Rank number two is still occupied by the simple expansion of card holders and acceptance points.

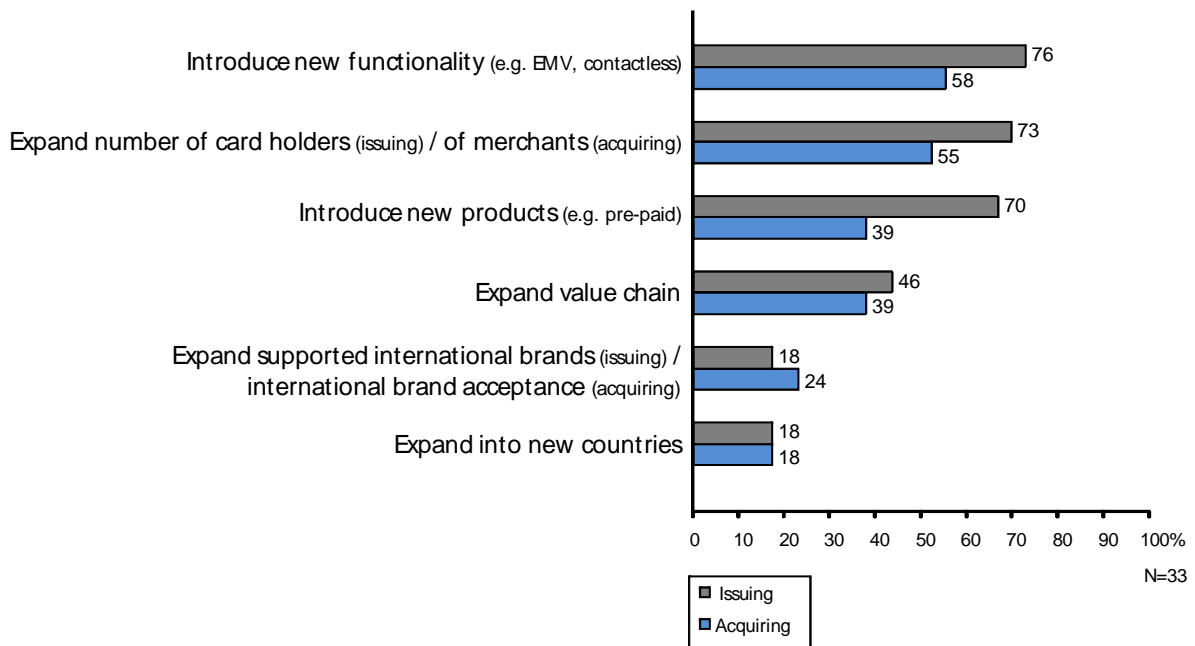


Figure 15: Strategies for Growth in the Cards Business

While the strategies to grow the market have not changed from last year the trust of the industry that this is the best way to achieve this has been fortified (e.g. the rating of the introduction of new functionality increased by 26 percentage points on the issuing and 28 percentage points on the acquiring side compared to last year). The expansion of the value chain is still seen as a possible fourth way to grow the cards business, but banks are apparently not yet fully convinced of this way. Geographical expansion is still only a niche strategy for expansion and might be more interesting to large international banks that still have some white spots on their European map.

## 4. Future Innovation Areas

Innovations are essential for ensuring the competitive situation of banks and payments service providers. They drive the future growth in most markets and in the payments industry this is not different. An important aspect for innovation especially in the payment market, with its high density of regulation and standards, are the customer behaviours. For companies in the payment market it is of great importance to establish a systematic management of innovations to create new ideas and solutions, which helps them to increase their competitive situation. The hope for higher revenues, lower costs or increased brand value and thus the hope for higher business value are the main drivers for banks to spend part of their resources on innovations.

### 4.1 Innovation for future growth

The question which innovations will be the leaders in the payments business is year after year one of the most interesting ones. While in the last years banks always expected E-Invoicing to be the most promising innovation this year a significant change of expectation occurred. The top innovation this year with a substantial increase in its rating of 24 percentage points is now E-Payments. This is even more astonishing since banks also rated E-Invoicing a little higher (69 per cent compared to 63 per cent last year).

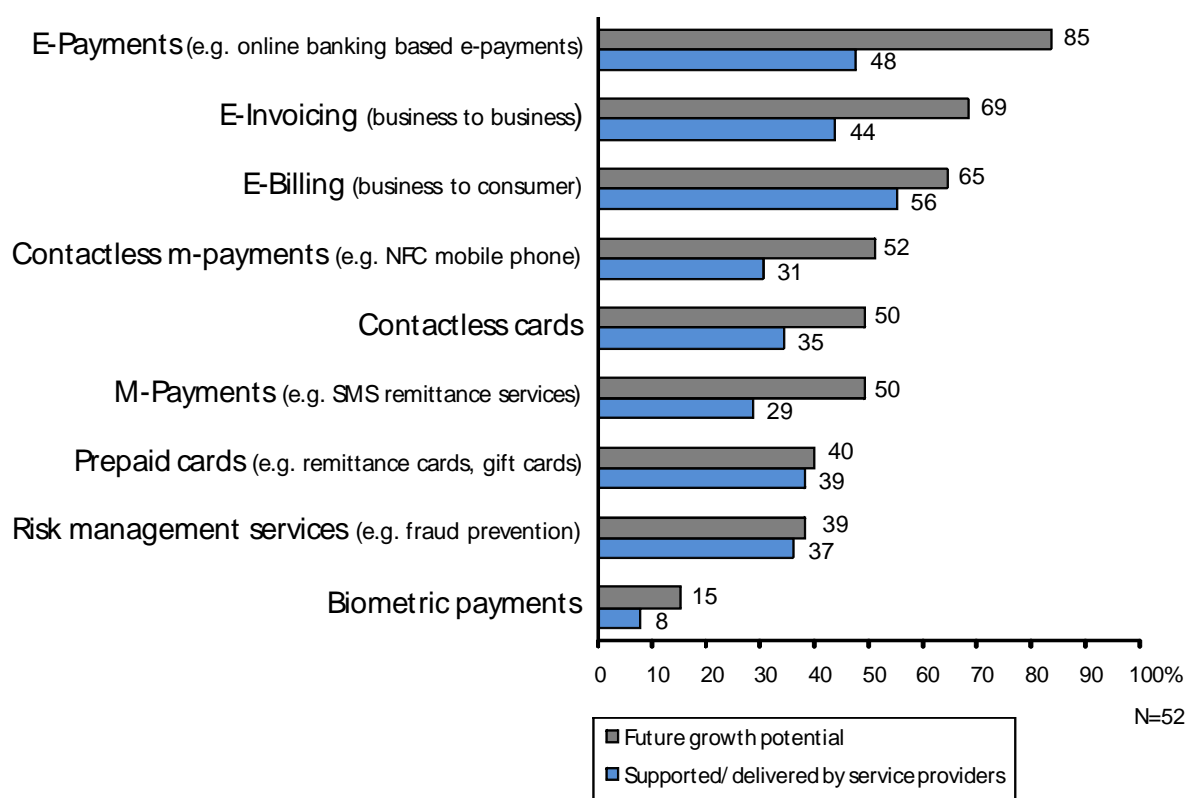


Figure 16: Innovations driving future growth in the Payment market

E-Billing could also gain 15 percentage points to 65 per cent, but did not change its place as number three. It appears that the finished E-operating model and the almost finished E-Payments framework of the EPC gave an

unexpected high push to the expectations towards E-Payments. Still very unclear to banks seems to be the whole arena of mobile and contactless payments, which shifted a bit amongst each other, but neither in the overall ranking nor significantly in their ratings. Quite stable is also the ranking of risk management services, pre-paid cards and biometric payments, which remain the bottom three.

Beside these business innovations, technological innovations are of great importance in the payment sector.

## 4.2 Technological advancements

For about 64 per cent of the participants the most important technological advancements are security and mobile technologies - closely followed by contactless technologies with 55 percent.

This result is similar to the findings in the German banking study »Bank & Zukunft 2010«.<sup>6</sup> Based on this study more than 90 percent of the participating banking experts evaluated security solutions as high priority technology in banking for 2010.

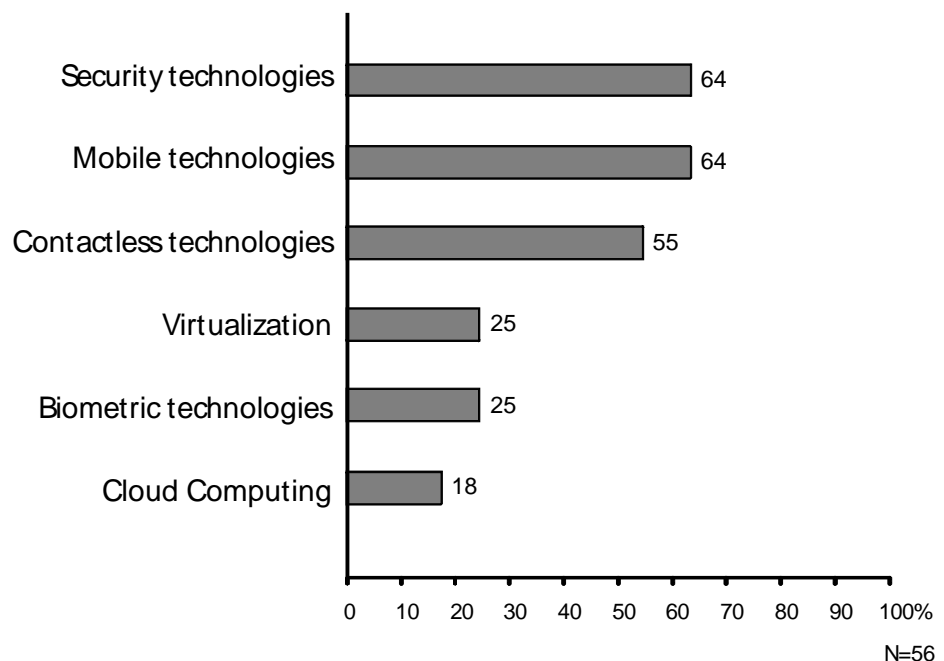


Figure 17: Technological advancements

It is also interesting to observe, that the meaning of mobile technologies has been increasing in the last years. After a first hype in the early years of this century, now mobile technologies will be mature enough to be an important channel for banks and service providers. Due to the increased dissemination of smart phones and mobile computers, banks are forced to develop and establish feasible and sustainable business concepts for mobile solutions. On the other hand, it can be assumed that mobile technologies will be the most important field for innovation in banking and payment in the following years. In the context of innovations in mobile technologies,

<sup>6</sup> See Spath (Ed.), Praeg, Vocke, Engstler, 2010

the importance of contactless technologies will also increase in the following years.

Topics discussed in public like Virtualization, Biometric technologies and Cloud Computing are currently not on the top list for banks. Only 25 per cent of the banks see advantages coming from those technologies like Virtualization and Biometric technologies. For Cloud Computing it is even less 18 percent.

On the other hand the results show that the relevance of other leading technological innovations like cloud computing and virtualization as well as biometric technologies is actually not highly relevant for most of the participating payment experts. It can be assumed that for these technologies the concrete business solution in the payment market is not obvious or currently not yet relevant due to the low market penetration or maturity of these technologies.

It can be summarized, that the payment sector discovered the most important fields of technological innovations for banks for the following years. Currently, the payment sectors may not be the lead market for these innovations but it can participate in these developments and create new solutions and services in this market.

### **4.3 Chain reaction**

The trend that is not only present in payments, but generally in the financial services sector, is the integration of the supply and the financial chains. This section offers a distinct view on the status of supply and financial chain integration and the requirements to be met in order to provide high value services to the market.

#### **Supporting new services to integrate supply and financial chain**

Most of the banks (38 per cent) support the integration of supply and financial chain by offering new services like e-payments, e-invoicing and e-billing as well as contactless and m-payments. 19 per cent of the banks answered that they are in an early stage or plan to start with the services in the future. 25 per cent of the banks are not planning to offer new services. Comparing with the results of 2009 (with yes answered 32 per cent of the attendees) the commitment of the banks to invest in innovative services is still growing in order to create business value.

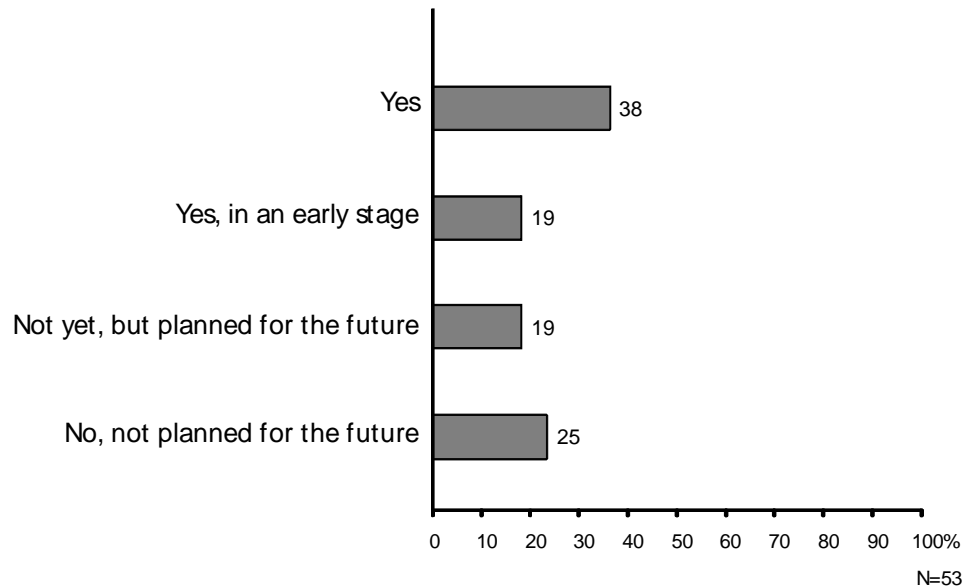


Figure 18: Supporting new services to integrate supply and financial chain

### Integration of Supply and Financial Chains

Currently, only a minority of banks (4 per cent) consider the supply and financial chains to be integrated to a great extent. The vast majority of 76 per cent see at least a partial integration whereas about 20 per cent do not see any integration at all.

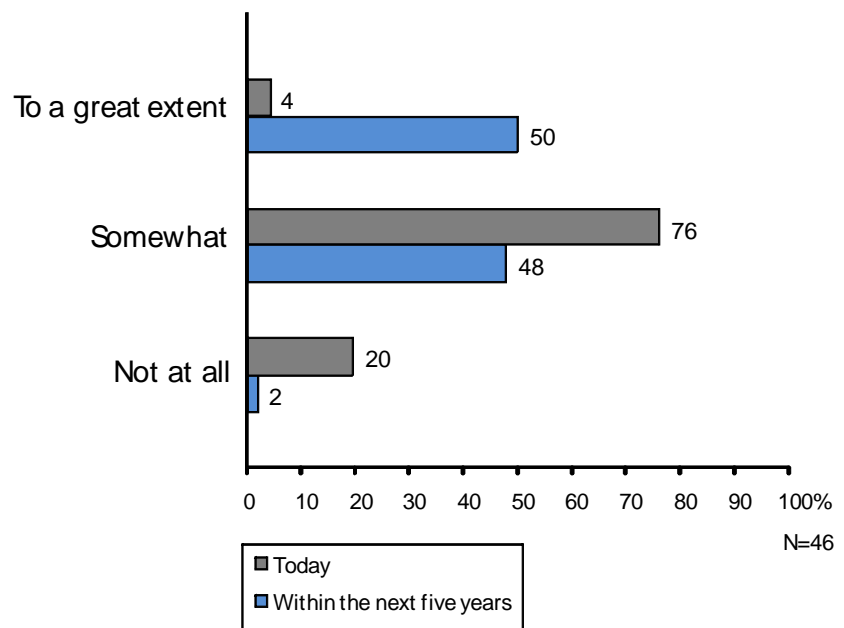


Figure 19: Integration Level of Supply and Financial Chain

Conversely, within the next five years a dramatic shift is expected by the participants. Only 2 per cent of the banks expect supply and financial chains not to be integrated at all and only 48 per cent believe in a partial integration. The majority of 50 per cent is expecting a deep integration of the chains to happen.

### Success Factors for Chain Integration

Commonly agreed standards or interoperability of different participants is currently seen as the major hurdle to be taken. 85 percent of the banks see this as the top success factor starting to integrate supply and financial supply chain. In the meantime, Low entry costs and clear models for process flows can help according to 64 per cent of the participants. Compared to the results of 2009 the success factor Low entry costs has increased about 10 per cent and the clear model of process flows has increased about 20 per cent. Data synchronisation between the participants of the supply and financial chain is also a critical factor and increased about 10 per cent compared to the results of 2009.

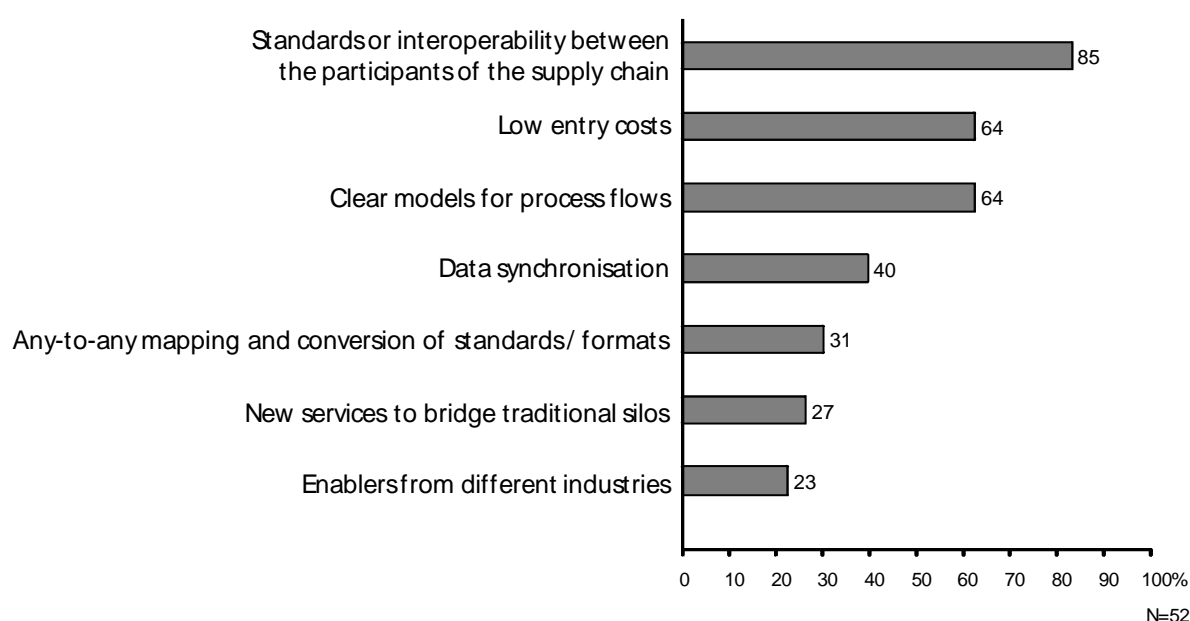


Figure 20: Success Factors for Supply and Financial Chain Integration

The future of banking will not take place within a bank, it will take place in dynamic value networks, which will be generated based on customer demands (customer centric banking value networks). This is one result of a scenario work within the innovation forum »Bank & Zukunft« in which future development in the market structure as well as in the organisational structures of future banks were analyzed.

Therefore, the capabilities of banks for integrating partners in their value chains as well as the competence of banks to integrate themselves into customer's value chains will be one of the most important competences for banks in the following years. Therefore, banks have to build up new organisational role concepts as well as open interfaces for business processes and technologies.

## 5. Conclusions

The European Trend Survey provides an overview of challenges and future innovations in the payment market. As a result, the following aspects address the central findings of the survey:

### Challenges

The 2010 Study illustrates that the improvement in efficiency in processes and optimization cost structures is the strongest challenges in the payment sector. Due to the organisational and technological change during the last years, it is necessary to optimize existing structures to be able to realize scale effects.

### SEPA Implementation

The SEPA implementation is an ongoing process, which will be a highly important topic for the following years. There are still open issues in implementing the SEPA rulebooks and framework in the European banking market.

### Public authorities as first movers

The current Trend survey highlights, that this year the participants evaluate public authorities as first movers with regard to the SEPA implementation. During the last years large corporations were evaluated as first movers. This indicates an increasing responsibility of the public sector by implementing and disseminating new standards in the market.

### International Payment Framework useful but widely unknown

The actual market survey shows that the International Payment Framework is still unknown to many banks and payment experts. However, experts who know the framework support it as a useful initiative for the internationalization of payments.

### Payment Developments

The participating payment experts evaluate PE-ACH as the predominant way to establish reach for intra-European cross border payments. Currently, the participants favour one CSM in the market but this will change in the future.

### Provider Selection Criteria

Similar to the results of the German trend survey »Bank & Zukunft 2010« the payment study shows that quality is the top priority aspect by evaluating a service provider followed by price and reach.

### Cards business

The cards business is an important segment for many banks. The survey illustrates that many banks plan to expand their card business on issuing and acquiring and indicate that banks see a growth potential within Europe.

## Conclusions

### Innovation areas

Beside the fact that the payment market is characterized by a high standardization and regulations, there are many options for innovation. The study highlights e-Payment, e-Invoicing and e-billing as the most important areas for innovation.

### Technological innovations

The increasing use of technological innovations in the IT context will become more important for the payment sector in the near future. Due to a changed customer behaviour and use of new IT solutions there is a need to adapt the service offering for private and corporate customers in the payment sector.

### Chain Integration

A general trend in the banking sector is the increase in integration of supply and financial chains. In this area the research work of innovation forum »Banks & Future« developed solutions of implementing value networks and shows how new business solutions can be created by integrating supply and financial processes. The payment survey illustrates the meaning of standards in value chain interfaces and the integration of process flows within a network of different partner organisations.

The future of banking will not take place within a bank, it will take place in dynamic value networks, which will be designed and implemented, based on customer demands (customer centric banking value networks).

It can be summarized that the European payment market is actually characterized by many governmental regulations and restrictions. Furthermore, activities for implementing SEPA instruments cover many resources within companies and there are only a few capacities for developing innovations. However, the study highlights business segments, which are highly relevant of the development of innovations in payment products and services.

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## The Innovation Forum »Banks & Future« – a Conjoint Research Initiative

Within the innovation forum »Banks & Future« numerous banks and IT service companies have pooled their competencies with regard to future trends in the banking sector under the academic direction of Fraunhofer Institute for Industrial Engineering IAO (Germany). Their objectives are to conjointly identify market potentials and structural and technical optimisation potentials, as well as to bring together users and producers of technologies in the banking sector and to initiate the necessary innovation processes. An important aspect of this research initiative is the exchange of experience between members and between users and developers of banking technology.



From the beginning of the research initiative in July 2004, the research activities have included an annual trend survey in the German banking market, which was expanded to a European Survey in 2007.

Results of the research work on the »Branch of the Future« are presented at a show case in Stuttgart which is also a testing and learning environment for technical innovations and new business processes. The show case was inaugurated in summer 2007.



Photo: Show Case at Fraunhofer IAO, Stuttgart

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