

SEPA and the question: what business are we in?

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Following the official start of SEPA on 28 January, the European payments market will within the coming years be transformed into one homogenous system with ease, speed and low costs as benefits for companies and consumers. The challenge for payment processors and banks is to literally start thinking borderless and break free of all existing conventions and historically developed partnerships. Now that SEPA is inevitable it is time to examine the opportunities.

The upside potential for payment processors is clear. SEPA will help create a much larger market. But competition will also increase considerably. The number of payments within the euro zone – currently approximately 55 billion – will not increase significantly as a result of SEPA. And since an annual volume of at least 10 billion transactions is considered a prerequisite for long-term existence and cost-effective operations, the consolidation process that is already underway will intensify. How will payment processors survive this battle now that the relative protection of the national payment environments has disappeared? I can mention three important means of survival.

First of all, with proven technology. This includes the own payment platform with the capability to offer the corresponding range of products and services in a modular way, easy and rapid configuration, and interoperability and reachability throughout the euro zone.

On a market the size of SEPA, scale is also important. Banks will want a maximum guarantee of continuity and a scale that guarantees efficiency and low costs.

Finally, what can also be advantageous is, if a payment processor has proven experience with a SEPA-related transition process in which systems from two different national payment environments were merged into one SEPA-proof payments platform.

Equens scores highly with regard to all of the above. As the result of a merger between the Dutch Interpay and German Transaktionsinstitut in 2006, Equens is the first truly pan-European payment processor, with a completely SEPA-compliant, modular service offering and payment platform. Its market share within the euro zone currently exceeds 10%, representing an annual volume of 7 billion transactions and 2 billion POS and ATM authorisation transactions. After the recently announced establishment of a joint

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Equens was founded by
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für Zahlungsverkehrs-
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new company – Equens Italia – together with the Italian Seceti, this amount will rise to 8.7 billion and 3 billion respectively. Equens also plays a leading role in Europe in the field of interoperability and reachability. It was, for example, partly on the initiative of Equens that the European Automated Clearing House Association (EACHA) was established. This will enable the different European ACHs to operate alongside one another, but also in accordance with the same interoperability standards. Equens, Iberpay, Seceti, STET and VocaLINK – which collectively account for 18 billion transactions per year – recently announced that they will exchange cashless SEPA payments in accordance with this framework.

This interoperability and reachability enables banks to choose freely which community to connect to. Their choice can be based on the capabilities of that specific community, such as reach within the community. It can also be based on the capabilities of bilateral connections between the communities, costs per transaction, or Additional Optional Services (AOS). In this way, market dynamics will lead them to their most suitable processor(s). And once TARGET2 – the central clearing system between the national central banks – is fully operational, the traditional correspondent banking system can gradually be phased out further.

The challenge for the banks is to make the right choice from the different payment processors that pay court to them. In this respect they are in the ideal situation of a buyer's market. But at the same time, international competition among banks will increase as a result of SEPA. Therefore a harmonised European funds transfer market requires clear strategic choices. Which market segments do we want to serve and with which (payment) products? Should we place the emphasis on customisation for wholesale clients or rather on efficiency and STP for the retail market, or both? Where will our customers be located in the future and what does this mean for the choice of a payment community? In short: what business are we in and which processing solution suits me best? Payment processors do ensure that (almost) everything is technically possible. However, the strategic decisions are up to the banks.