

'Decorating SEPA'

A new era for the payments industry



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The realisation of the Single Euro Payments Area is a certainty. However, it is not yet clear exactly how SEPA will be organised. Fine-tuning SEPA is something the relevant players (banks and processors) must focus on. According to Equens, now is the time to take action in bringing the SEPA business to life. This includes a number of issues that need to be resolved quickly.

We are halfway into 2007 and the contours of SEPA are emerging ever more clearly. Various essential elements, needed to build SEPA in accordance with its architectural design, have already been created or are in the final stages of completion:

1. The SEPA Credit Transfer Scheme Rulebook, the SEPA Direct Debit Scheme Rulebook and the SEPA Implementation Guidelines issued by the European Payment Council (EPC). These documents provide us with common payment schemes using standardised (ISO20022) UNIFI messages, introducing XML as a mainstream technology in payments.
2. The PE-ACH/CSM Framework has been issued by the EPC to provide guidelines for ensuring the SEPA compliance of Clearing & Settlement mechanisms (CSMs), such as Automated Clearing Houses (ACHs), and provide the basis for interoperability.
3. The Payment Service Directive (PSD) for the EU-wide harmonisation of the legal and regulatory environment.
4. TARGET2 of the Euro system as single shared platforms for banks for settlement of their payments with other European banks.

SEPA in fact stands for 'a euro-domestic market for efficient payments between citizens, corporates and institutions in the near future.' The simultaneous introduction of the above-mentioned architectural elements is essential for its realisation. A fully fledged SEPA world will, however, lead to considerable changes in existing business models. It

will offer great opportunities, as well as challenges for all parties, and will require a wide range of practical solutions. These aspects are not handled by the architectural design – they must be dealt with by the 'players'.

Opportunities for all

Traditionally, a payments environment is limited to national borders, comprising the relevant framework of the respective national legal and regulatory environments, the governance, the settlement model and the payment products. As a result, the existing business models and infrastructures are highly specific and based on the interests of the participants in a specific environment (country or area). The different environments have defined the various existing business models and market structures.

This will give payment processors the opportunity to break free from the restrictions of the domestic market and develop business in the euro-domestic market, by either growing (organically or inorganically) or withdrawing and adapting in order to specialise in specific processing elements, products or markets. For processors, the general motto is 'volume does matter'.

Banks are also being given new opportunities. The introduction of SEPA will mark the establishment of a euro-domestic, borderless market for payments. A market comprising over 315 million inhabitants, 17 million companies, approximately 50 billion payment transactions per year, and over 420 million issued cards for the thirteen eurozone countries alone. By positioning themselves in a specific role, banks will

be able to benefit from their presence, network, role and payment volumes, thus realising substantial benefits.

Challenges for all

Banks are well aware of the fact that the introduction of SEPA will see their clients move towards more efficient ways of handling their payments. International companies will be aiming to shift from collecting their invoices in every eurozone country through multiple banks, towards operating from a central position using only one bank. What will the business model look like? Or more specifically – what will the new business models look like? Answers to these questions are essential and needed fast. Quite a challenge.

And while banks are facing these changing demands from their clients, payment processors also need to act. They must offer banks easy, direct, economical processing and in the meantime maintain a high level of quality and offer full reach.

Being in the process of completing this offer in an open and competitive environment, we feel that the architecture offered does not cater to all needs. In other words, the Rulebooks provide excellent guidelines, but we believe that the required content must be provided by the payment processors themselves. A considerable challenge.

A processor's challenge: infrastructural interoperability

The PE-ACH/CSM Framework contains the principles and rules for ensuring the SEPA compliance of PE-ACHs and CSMs and provides the basis for interoperability. However, it does not touch upon how CSMs should – in practice – provide an efficient and flexible 'working infrastructure' needed by banks to cover the Euro-domestic market for payments.

We feel that the decisive element in the realisation of all the virtues of SEPA is true interoperability, meaning interoperability between all players (processors as well as banks) using

standard messages, providing an infrastructural lubricant that creates an open and efficient marketplace for payment processors. By means of its STEP2 system, EBA is providing one of the important links in the SEPA chain. EACHA has taken on the responsibility of providing the missing element and realising interoperability based on standardised STP processing and easy connection to any processor by a bank. CSMs can enable efficient construction of 'contracted' reach, not only delivering real economies of scale in payment processing (based on the high domestic volumes), but also introducing another economic value: the ability to reuse contracts in their communities to secure payments between communities.

Collectively, the architectural elements enable true coexistence of multiple business models used by banks and processors in the pre-SEPA era. In the past these business models (for example, the spoke-and-hub domestic ACHs, correspondent banking, direct/indirect participation models) had the negative effect of participants being locked in closed environments. However, in SEPA the open network design will enable the arbitrage of all inefficiencies, creating a truly competitive European interior market for payments.

Call to action

The respective players must fill in the existing blanks, which is a tough challenge. Banks have to (re)think their current and future business models with regard to payment processing. Processors must focus on their part of the value chain, providing their clients with easy, direct, economical processing, and in the meantime maintain a high level of quality and offer full reach.

However, please bear in mind that the mere presence of the architectural elements will not bring SEPA payments to life, resulting in an end-to-end processing solution. An old rule seems applicable: 20% has been provided by the architectural input, while 80% needs to be decorated by the participants.

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