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## PERSPECTIVES ON SEPA



- A study of understanding, attitudes and opinion within leading European banks

## EXECUTIVE SUMMARY

### INTRODUCTION

Over the next few years one of the most significant changes to affect the European payments market place will be the establishment of the Single European Payments Area (SEPA) for electronic payments. The European Commission (EC) in conjunction with the European Payments Council (EPC) has indicated that, by 2010, it should be as easy and transparent to make an electronic payment within the EU as it is to pay by cash using the euro. The EC has charged the EPC with overseeing delivery of the SEPA programme and meeting the agreed dates. To facilitate this process, the EPC has produced the SEPA Cards Framework (SCF) which lays out the timelines and requirements for stakeholders to become SEPA compliant.

First Data International believes that the construction of a fully functioning SEPA for cards will bring benefits to European cardholders and consumers and, by opening up the European payments market, will reduce costs and increase efficiencies for banks and processors. We recognise, however, that successful implementation of SEPA within the timescales laid down by the EC depends on the resolve, understanding and active commitment of Europe's banking community. Without industry support, implementation timescales will slip and delivery of the benefits of SEPA will be put at risk.

### KEY FINDINGS

Commissioned by First Data and carried out by PSE Consulting, this study seeks to establish the views of senior banking executives on the impact of SEPA on the payments industry within Europe. The study, which concentrates particularly on payment cards, explores the opinions and views of key decision makers in 30 major European banks and reveals:

- The great majority of banks support the SEPA guiding principle of self-regulation. Most believe that a combination of self-regulation and market forces should be sufficient to drive banks to deliver the SEPA initiative. However, over 70% expect that the EC will eventually legislate to ensure compliance. And some believe that a formal SEPA certification process is necessary to ensure a level playing field.
- Although the idea of SEPA has been debated at length for four years, only just over half the banking professionals interviewed have more than a general understanding of SEPA requirements. Banks are looking for improved communication although there is no consensus on who should be responsible for delivering this.
- Whilst the intent of the SEPA Cards Framework (SCF) is widely understood, many respondents believe that it lacks detail in a number of key areas. This leaves the way open for individual interpretations of the SCF that may damage the programme's integrity. More detail is essential if the key dates of 2008 and 2010 are to be met.
- SEPA implementation depends heavily on the activities of individual banks, many of whom are still in the evaluation and planning phase. With few co-ordinated SEPA change programmes in place, there must be a risk to implementation timeframes.
- The SEPA programme objective is to deliver benefits to consumers, corporations, retailers and banks. Many banks currently see only the cost of SEPA compliance, rather than the opportunities which the liberalisation of markets will bring. In addition to possibly higher prices (albeit for enhanced services), banks see little immediate benefit for consumers - most benefits from SEPA are seen to accrue to large retailers and corporations.
- Domestic debit card schemes are seen to be the likely losers from the SEPA programme. Of Europe's card transactions, 70% are debit and there are over 15 domestic debit card schemes. Study respondents expect most of these to disappear completely or to co-brand with the international schemes. The cost of SEPA compliance will be too great for them to survive. Ultimately, most banks expect the international card schemes (Visa and MasterCard) to have a scheme/brand duopoly across Europe.

- A key requirement of SEPA is that all card payment schemes, both national and international, separate the scheme (membership and brand) from the processing infrastructure, opening the market to greater processor competition. However, one third of banks in the First Data study are sceptical about the extent to which the international schemes will make this separation and a clear majority of banks believe there is a need for an alternative to VisaNet and BankNet.
- Although the formal focus of the SEPA initiative for cards is the euro-zone, many of Europe's banks recognise that market forces will drive those outside the zone also to adopt key SEPA principles. SEPA is likely to become Europe-wide rather than euro-zone only.

### FIRST DATA INSIGHT

The banks participating in this study recognise the European Commission's intentions in creating SEPA and have committed to a programme that will bring significant changes to the European payments industry.

Moving the programme from formulation to implementation and then operation, according to the agreed timetable, creates a number of choices and challenges for stakeholders in the process.

- For the banking industry as a whole, there is the dilemma of whether to keep broad definitions intact to maintain consensus, but then risk regulatory intervention if the end result is judged unsatisfactory
- For European regulators, there is the challenge of how to maintain pressure for change without creating the belief that regulation is inevitable and that, therefore, the industry should wait for it
- Individual banks need to decide whether to view SEPA solely as a compliance issue, to be achieved at minimum cost, or look for new revenue opportunities in a more integrated European market
- For national debit schemes and processors, there is the stark choice of whether to become genuine pan-European players or find a redefined role at a local level
- Visa and MasterCard must choose whether to conform fully to the intention of SEPA or argue that they are already SEPA compliant and attempt to expand their activities without business model changes
- For public sector authorities, there is the issue of whether actively to embrace the early uptake of SEPA services, to kick-start the adoption process
- For service providers, there is the challenge of how quickly to cease support of old technical standards and non-compliant products, given that full implementation could take until at least 2010

How each stakeholder responds to these issues and choices will determine how smoothly and effectively SEPA for cards becomes a reality - and whether the challenging 2008 and 2010 deadlines are met.

## STUDY SAMPLE AND METHODOLOGY

Thirty leading European banks participated in the First Data study, from 15 countries

COUNTRY	BANKS
Austria	2
Belgium	2
Denmark	1
France	1
Germany	5
Greece	4
Holland	1
Ireland	2
Italy	2
Latvia	1
Poland	1
Portugal	1
Sweden	2
Spain	2
UK	3
<b>TOTAL</b>	<b>30</b>

The study sample includes a very significant cross-section of banks.

Many of the respondents are from commercial banks but the study also includes five major banks from the savings and co-operative sector. Just over 50% of the respondents are from banks that only operate in one market, but the study also includes eight banks that are each active in at least three European markets.

Respondents are senior business executives with responsibility for cards and/or ACH operations. Interviews were carried out by telephone, using a structured questionnaire which was sent out before the interview. Several of those interviewed circulated the questionnaire in advance of completion, to provide a consensus view from within their organisations.

### ABOUT FIRST DATA

First Data International is a leading independent payments processor in Europe. The company operates through regional hubs and local operations to deliver a comprehensive range of services across the payments value chain, in local language and with local market understanding.

We have over 20 years' experience of European payments and processing and an unrivalled footprint across Europe with a presence in 18 European countries.

For information about how First Data is helping banks to maximise the opportunities of SEPA, please contact Ian Slater on +44 (0)7973 474 864 or by email to [islater@firstdatacorp.co.uk](mailto:islater@firstdatacorp.co.uk)

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