



Report of 5th EPCA Conference 'Payment innovation beyond SEPA', Amsterdam 4-5 April 2006

The Nine SEPA Essentials

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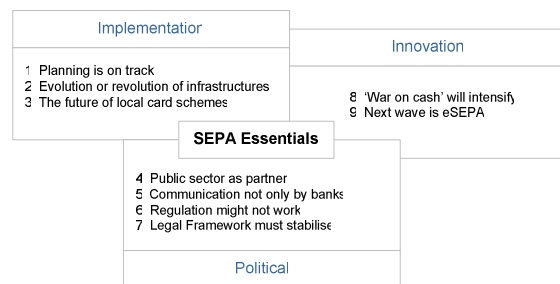
Early April more than 250 professionals from 25 countries, gathered in the Amsterdam Hilton to discuss the opportunities and threats emanating from the introduction of SEPA; the Single Euro(pan) Payment Area. This conference was the 5th annual conference of the EPCA (European Payments Consultants Association) and was organized by Innopay, the Dutch member of the association.

The central theme was 'Payment innovation beyond SEPA', which focused on SEPA as an opportunity and as the starting point for payment innovations. During two intense days 23 high level presentations addressed the SEPA developments from various angles. Both the current status and future opportunities and threats were reviewed.

Keynote speaker Hermann-Josef Lamberti (Deutsche Bank) opened the conference by stressing that SEPA 'will not go away The importance of SEPA for society goes beyond the interest of a single financial institution and therefore the financial community needs to deal with it.'

Nine key topics emerged during the conference which can be clustered in three categories: Implementation, Political and Innovation.

This conference report describes these nine topics and the contributions of the various speakers.



Implementation

1. Planning is on track.

According to Hartsink (European Payment Council; EPC) the SEPA implementation is well on track. Credit Transfer, Direct Debit and Priority Payments will be available by the beginning of 2008. By 2010 a 'critical' mass will be migrated, so SEPA will be irreversible. The cards environment is different though as so far the migration of this environment is only a set of rules and principles (SEPA Cards Framework, SCF) along which all market parties are required to conduct business in a SEPA world. SEPA is also only limited to the payment function of cards. By 2008 merchants must be able to accept SCF compliant cards and issuers must be able to issue compliant EMV cards. Lamberti clearly stated that we have to move now from 'planning mode' to 'project mode' and strongly warned organisations to watch for 'scope creep'. Campos (SWIFT) asked the audience how many organisations actually have a SEPA program today. Only two fingers were counted, which is a worrying result!



2. Infrastructures: evolution or revolution?

Everyone agreed that standards on infrastructure levels are the keys for success. Campos sees no need for new pan European infrastructures, but sees more value in new components which 'glue' everything together. Think of standards, interoperability components and infrastructure improvements. Also Fieseler (DSGV) supported this approach and illustrated this with the German case for debit cards. Haasdijk (Interpay) pointed out that consolidation will be a part of the infrastructure evolution as seen with Interpay taking a top 2 position after the merger with Transaktionsinstitut. Haasdijk also listed seven ways to achieve bank account reachability, illustrating that there is not just one infrastructure solution but that a number of innovative solutions are possible. David Dove (USA, Dove Consulting) provided an overview of the developments in the USA where in almost 20 years the number of network operators has consolidated from 200 to six in 2006. This has occurred without regulation but through pure market forces. Daberkow (Deutsche Postbank) spoke about the commoditizing of processing in a SEPA world. Smaller banks will have to rethink their payment operations and will face the 'make, buy or share' question. Eventually 'bank to bank' business will be a stand alone commodity business. Real time processing is the way to go and banks will have to rebuild their infrastructures to fit this paradigm. Kahkonen (Nordea) showed that Nordic banks are already well on their way in harmonising the local infrastructure for future developments.

3. Will local card schemes evolve into SEPA schemes?

Godeffroy (ECB), Fieseler and Dove see a world with new schemes which evolve out of current 'local' schemes. Godeffroy expressed 'serious

worries' on the lack of planning progress for SEPA cards. Fieseler made a strong case for the German Electronic Cash debit system which will be developed into a SEPA compliant scheme. Dove welcomed other schemes next to the international schemes of Visa and MasterCard because these will stimulate competition, as has been proven in the USA. Van Der Velde (Visa) sees a bright future by stating that every model has been tried before and that nothing has been proven more successful to all stakeholders than the international four party schemes.

Political

4. Public sector as early adaptor.

Hartsink and Lamberti stressed that the public sector must take the lead in implementing SEPA payment instruments, even though their immediate need may not be strong. Godeffroy pointed out that the public sector is typically extremely conservative, but that their support is crucial

5. SEPA communication not for banks only.

Next to banks, the public sector including the central banks, have to play a vital role in communicating SEPA to the corporate, SME and consumer sectors. Lamberti informed that Deutsche Bank has already started with a regular SEPA bulletin for their customers. Luc Migeot (*Ni-Hao Consulting*, representing the voice of corporate treasurers) pointed out that CFO's in general today do not have a good understanding of the opportunities and threats possible for their organisation by the advent of SEPA. Without customer adaption SEPA is never going to happen. Paul Murphy (USA, Murphy Company) illustrated the importance of the on-line channel for communication and preparation for SEPA.



6. Regulation might not work.

Too strong political intervention in the SEPA process might lead to banks pulling back from payment services, according to Hans Van Der Velde (Visa). Do not force things. Banks deserve and must prepare a healthy business case to guide their organisations through SEPA.

7. Legal framework has to be stable.

Lamberti, Van Der Velde, Godeffroy: The legal situation of all 25 nations has to be harmonised in order to make SEPA happen. Take care of new category players (payment institutions) who can influence the level playing field!

Innovation

8. The 'War On Cash' will intensify.

A major part of a Bank's payback on SEPA investments has to come from reducing the usage of cash in society. Cash is a bleeder for banks according to Hartsink and Rom Colthoff (Cappgemini). However users have to be incentivised for using electronic payment methods. Both Van Der Velde and Perez (Mastercard) presented their solution to increase debit card usage for amounts below €25. Klopper (Dutch Central Bank) sees also contactless payments as a strong weapon in the 'War On Cash', given the strong uptake in USA and Asia. EPC (Hartsink) has published the 'SECA'-Framework: Single Euro Cash Area. The cooperation between banks, merchants and central banks is key to making this a reality. Other payback sources for banks are direct pricing (less cross subsidy), lower sourcing costs and more Straight Through Processing (STP).

9. The next wave is eSEPA.

SEPA will lay the foundation for all sorts of innovative services in the payment value chain such as e-invoicing, m-payments, e-payments, e-identification. SEPA is not the end game, it is the starting point for the next wave of innovation. Salmony (Transaktionsinstitut) points out that for corporates, direct payment costs are only 5% of the total costs of transactions. Who is addressing the other 95% opportunity? The experiences with e-invoicing in Finland show a tremendous business case of more than €100 billion per year on inbound invoices on a European scale! Godeffroy and the European Commission would like to see an EPC approach on these value added services. Daberkow (Deutsche Postbank) also stressed that payments are broader than clearing and settlement, but sees for eg e-invoicing not as part of the current SEPA domain. Holsberg (Rabobank) provided a lively example of competitive cooperation between (Dutch) banks leading to a major innovation in e-payments called iDeal. The on-line iDEAL scheme has spectacular growth figures and takes an active role in harmonising this category of payments with the other schemes in Germany, Austria and Denmark. Holsberg asked for further action within the EPC context, instead of the current 'monitoring mode'. Klopper (Dutch Central Bank) also stressed that EPC should not stop with the current scope but should continue to develop standardized 'e-' and 'm-payments'. Hendry (Hendry Consulting) provided a challenging view by stating that payments eventually will come for free, but that the information surrounding the payments will be charged. Finally, Klopper had a message for all delegates: keep innovation simple!



Feedback

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| <ul style="list-style-type: none"> - Do you have feedback / comments that would allow us to improve our next conference? - Did you find this summary of the conference useful? - Do you have questions or need more information? - Do you need support within your own organisation? | <p>For all questions or comments please contact:</p> <p>Mr. Douwe Lycklama
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Speakers

Hermann-Josef Lamberti	<i>Member of the Board of Managing Directors Deutsche Bank, Frankfurt</i>
Jean-Michel Godeffroy	<i>Director General European Central Bank Frankfurt</i>
Gerard Hartsink	<i>Chairman EPC, Brussels</i>
Ben Haasdijk	<i>CEO Interpay, Utrecht</i>
Johannes van der Velde	<i>Deputy chairman and non-executive director Visa, London</i>
Lazaro Campos	<i>Head of the Banking Industry Division, Member of the executive committee SWIFT, Brussels</i>
Bernd Fieseler	<i>Managing boardmember DSGVO, Berlin</i>
Javier Perez	<i>President Mastercard Europe, Brussels</i>
Martijn Rom Colthoff	<i>Principal Consultant Capgemini, Utrecht</i>
Mario Daberkow	<i>General Manager Services Deutsche Postbank AG, Bonn</i>
Adam Parfiniewicz	<i>CEO GTech-PolCard, Warsaw</i>
Luc Migeot	<i>Ni-Hao Consulting, Paris</i>
Paul Murphy	<i>Murphy & Company, Ballwin (MO,USA)</i>
Michael Salmony	<i>Dept. General Manager Transaktionsinstitut, Frankfurt</i>
John Holsberg	<i>Senior Vice President Rabobank, Utrecht</i>
Petri Aalto	<i>Head of Payment Development, OP Bank Group, Helsinki</i>
Katarzyna Przybyla	<i>Commercial Card Director Citibank Handlowy, Warsaw</i>
Olli Kähkönen	<i>Manager Strategy and infrastructure, Nordea Bank, Helsinki</i>
Mike Hendry	<i>Hendry Consulting, Shepperton (UK)</i>
Philip Klopper	<i>Executive Director Dutch Central Bank, Amsterdam</i>
Harry Smorenberg	<i>CEO SCC, conference chairman</i>
Douwe Lycklama	<i>Director Innopay, conference host and organiser</i>