

JUNE 2006



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.

RESEARCH FINDINGS

SELF-REGULATION OR LEGISLATION?

One of the fundamental principles of the SEPA programme is that it should be self-regulated by the European banking and payments industry. To date, however, self-regulation has not been particularly successful in ensuring that governments and corporations comply with European Union rules and regulations. There has already been over 15 years of discussion and slow progress with regard to liberalisation and harmonisation of the European payments market.

Recent statements from the European Commission and European Central Bank suggest that the pressure is now on for the banking and payments industry to deliver on the SEPA initiative. But will self-regulation be sufficient to ensure compliance?

Representing commercial organisations, it is not surprising that respondents to the First Data study overwhelmingly support the concept of self-regulation.

Comments during interviews reveal a widespread view that the market is the most effective driver towards SEPA

“... the best way is for banks to assume proactively the role of agents of change. We must cooperate with EC and ECB”

“EPC has done what is sufficient and feasible. Regulation will damage investments in existing infrastructure, since regulators do not understand and respect the banks' needs and the structure of systems”

“Self-regulation seems to be more flexible”

“Normally competition is more effective than regulation. The market will drive the change”

So much for the principle. When asked if self-regulation will be sufficient to deliver the SEPA Cards Framework and programme by the required 2008 and 2010 deadlines, the responses indicate a degree of concern.

While almost three quarters of banks remain optimistic that the SCF will be implemented voluntarily by the deadlines set, many of these respondents recognise the challenges involved

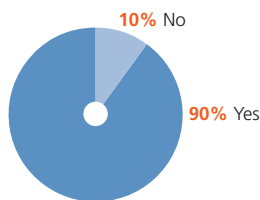
“I believe larger banks will comply. Consolidation or outsourcing of payment systems is likely to occur for smaller institutions who will struggle”

“I believe self-regulation will be sufficient due to membership of global schemes. The position with regard to some national schemes is less clear”

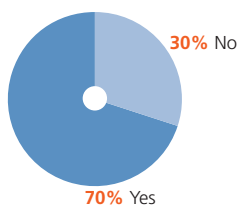
“Only just; the market will force compliance eventually”

“Credit cards should be easy to roll out and implement. Debit cards may be a challenge but should be possible to meet the deadlines”

Should the SEPA programme be self-regulated?



Is self-regulation sufficient to deliver the SCF and programme by the required deadlines?



Those who believe self-regulation will not be sufficient reflect on the importance of a level playing field and clear, consistent interpretation of what compliance really means

“Although my preference is for self-regulation, some sort of regulation would be needed to enforce SEPA”

“Self-regulation is usually unclear and generally inefficient. No incentives/penalties means no standard is in place”

“Phasing out of national instruments by market forces will be difficult because banks cannot force clients to adopt SEPA”

Given recent warnings from the EC, it is clear that there is a threat of legislation should the banking industry fail to deliver SEPA in the required timescales. Large retailer and corporate payment lobby groups are applying pressure on politicians to act. This reality, coupled with the concerns and doubts expressed above, is reflected in responses to a question about the inevitability of legislation.

Despite a strong preference for self-regulation, over 70% of respondents to the First Data study believe that, with the current political agenda of the EC, legislation is inevitable

“The incentives paper is a strong indication that legislation will happen. SEPA relies on the adjustment of legal frameworks at national and European levels”

“It’s likely to be a political decision; the Commission may choose to legislate rather than miss deadlines in the context of some countries’ reluctance to give up their national debit schemes”

“The EC doesn’t appear to trust the banks’ own initiatives, and they appear to want more control”

“The EC will have to step in to regulate the unclear loose ends of the new European system”

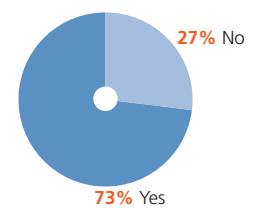
Reflecting the concerns about a level playing field, some respondents indicate that they believe a SEPA certification process will be needed to force compliance to common standards

“SEPA self-regulation is unclear: there is no clear rule to say who is compliant”

“We are still missing the creation of an "upper-certification" body that will endorse the compliance of schemes and processors”

“There should be penalties for non compliance. The broad scope of implementation plans could lead to non-compliance”

Will the EC legislate anyway, to enforce compliance?



FIRST DATA INSIGHT

Although the industry overwhelmingly supports self-regulation, a significant minority of banks believe this may not be sufficient. Given widespread concern about the blunt nature of any eventual regulation, it is in the interests and in the power of the industry to mitigate this risk.

A large majority of banks believe there is an EC agenda to impose regulation regardless of progress made by the industry towards SEPA. Regulatory authorities need to understand that this belief may lower the resolve of the banks to make self-regulation work.

The argument of some banks that a SEPA certification authority is required seems highly sensible. This would provide clarity for all and remove the risk that the intent of the programme is frustrated by divergent interpretations.

UNDERSTANDING

The view that legislation may be needed to enforce SEPA compliance - and the concerns about a level playing field - reflect considerable uncertainty about the precise requirements of SEPA. Although the SEPA programme will move from the design phase into implementation no later than the end of 2006, the First Data study suggests that senior European bank executives and strategic planners need greater understanding of SEPA at the detailed level if they are to develop effective and timely SEPA implementation strategies.

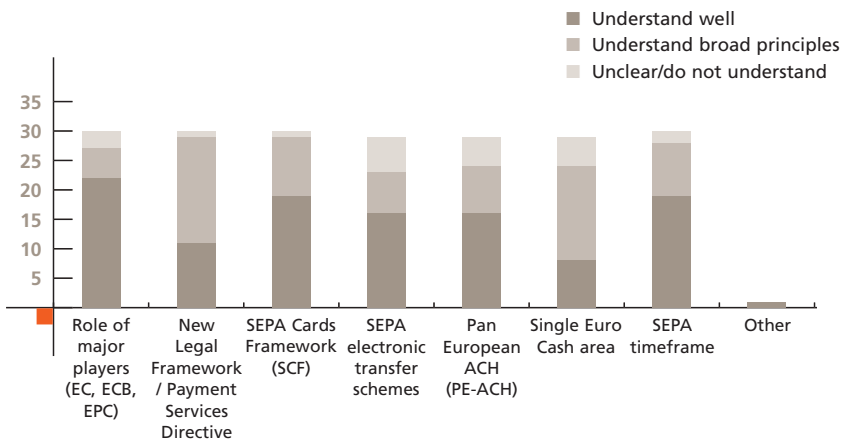
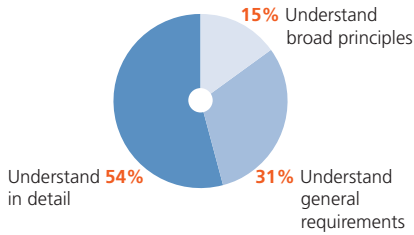
Almost half the knowledgeable cards and payments professionals interviewed for the study claim to understand only the broader and more general aspects of SEPA

“Although I am better informed than the average European banker, I still feel the need for clarity”

“(The biggest challenge is) fully understanding its implications in terms of technical change, and its threats and opportunities”

Looking at this in more detail, it is clear that a reasonable proportion of respondents understand well the roles of the major players and the SEPA timeframe. Those interviewed were clearer about the SCF content than about the new ETS schemes and the plans for cash.

Degree of understanding of SEPA Framework and programme



LEVEL OF UNDERSTANDING OF ELEMENTS OF SEPA FRAMEWORK AND PROGRAMME

“The PE-ACH Framework by itself is clear, but it does not add clarity as to HOW the clearing settlement mechanism in Europe is going to work”

“We understand the EPC requirements for SEPA, although a lack of clarity exists around the interpretation of the SEPA Cards Framework”

“The interpretation and impact of the Payment Services Directive is less clear”

“The SCF leaves a lot of room for interpretation which could lead to diverse interpretations and implementations, threatening part of the SEPA benefits”

Communicating SEPA

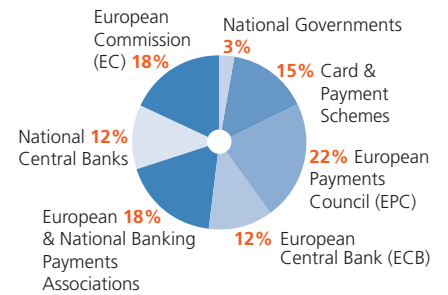
If banks lack detailed knowledge of SEPA requirements, from whom should they be receiving this information? Among the banks in this study, the responsibility for improved and increased communication was seen to be fairly evenly apportioned between the EU bodies (EC and ECB), the EPC, card schemes, national banking associations and national central banks

“We have not received any official information on SEPA – communication is only done through our representatives on the EPC working groups”

“The national central bank... should be doing more on communication, and the EPC should be doing more”

“A huge communication effort is required by everybody – only large institutions are informed and then not much, the smaller players will be left behind”

Who should communicate the SEPA programme?



FIRST DATA INSIGHT

Further detailed definition of a number of aspects of the SCF is needed, to ensure that the overall SEPA vision for cards is achieved. This should be a high priority for the EPC Cards Working Group in the near term.

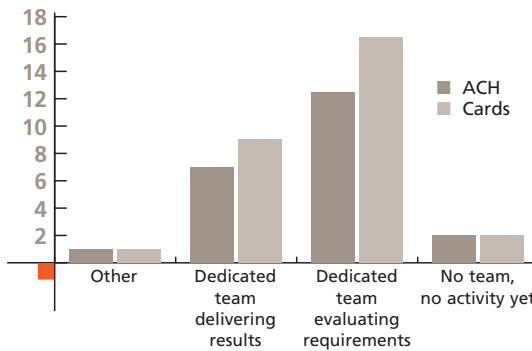
The inconsistent communications approach in different markets may explain why many banks do not yet fully understand what they are required to do. An extensive, co-ordinated communications initiative directed by the EPC would deliver major benefits.

The ongoing wrangling around the PSD is having a significant impact on the overall SEPA programme. The EC should take the necessary action to bring this debate to a rapid conclusion, in order to provide certainty for the industry.

SEPA READINESS

The EPC has developed ambitious implementation timelines for delivering the key components of full SEPA implementation by the end of 2010. While the EPC (as the major player at the EU level with a monitoring role) is responsible for ensuring definition and delivery of the components of SEPA, implementation is the responsibility of banks, national banking associations, card/ACH schemes and other affected organisations.

If many banks are still looking for more detailed information about SEPA requirements, how far advanced are their change programmes in relation to SEPA, for both ACH and card programmes?



HOW FAR ADVANCED ARE SEPA PROGRAMMES RELATING TO ACH AND CARDS?

A majority of the banks in the First Data study do have a dedicated SEPA team in place today. However, the activities of these teams are, at this stage, still focused mainly on evaluating requirements, as opposed to actual implementation.

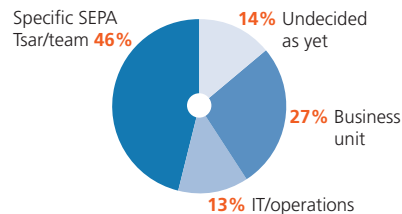
A closer look at who is managing the SEPA effort reveals considerable diversity. While 46% of banks have a co-ordinated SEPA programme structure, 14% have still not taken a decision on how to handle the change. Currently, 40% of the banks are managing the programme at a business unit level, rather than as a bank-wide initiative.

FIRST DATA INSIGHT

It is encouraging that most banks now have a formal SEPA project in place. Based on First Data's experience of supporting banks through Y2000 and the euro introduction, projects of this magnitude require considerable time to execute. Banks with no project structure, or still at the very early evaluation stage, run the risk of missing the deadlines.

As SEPA for cards has both technical and business impacts, a cross-bank project structure seems most appropriate. Organisations currently handling SEPA at an individual departmental level should consider setting up a project co-ordination function.

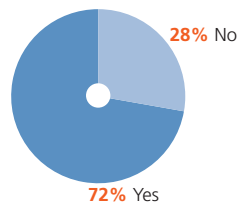
Who is co-ordinating the SEPA programme?



THE BUSINESS CASE FOR SEPA

Many banks are making a slow start in detailed planning for SEPA implementation. The First Data study suggests that this may be due, not just to uncertainty over what is required, but also to a natural reluctance to initiate what many banks see as a compliance programme with significant costs and uncertain return.

Will the costs of implementing SEPA outweigh the opportunities?



Over 70% of respondents feel that the costs of implementing SEPA will be greater than the revenue from increased opportunities. To these banks, SEPA is seen primarily as a compliance initiative: as with most compliance regimes, the cost is seen to be the major factor with the benefits accruing later

“Implementing SEPA will entail huge investment; particularly on EMV compliance and new software development. There will be new revenues, but they will not outweigh the costs, at least in the short term”

“Initially the costs, and particularly the opportunity costs, inherent with compliance will outweigh benefits and delay the ability to capitalise on opportunities”

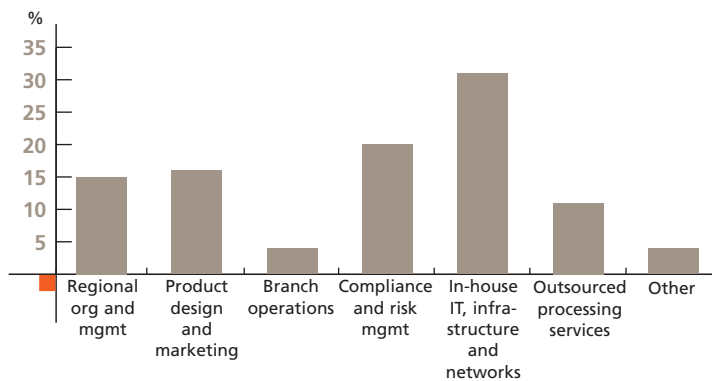
“Costs are additional and real. Opportunities are future, within a changing and competitive market”

“Only the big pan-European banks can benefit from the SEPA programme”

Identifying the costs

When asked where the impact of SEPA compliance will be felt within the bank, almost a third of respondents expect the major impact to fall on in-house IT and infrastructures. Given the technical nature of the SEPA requirements, this is to be expected. Related to this is the finding that outsourcing is seen by 11% of respondents as a possible course of action to mitigate the cost of making large investments in internal IT and infrastructures.

Not surprisingly, compliance and risk management areas are expected to be heavily impacted by 20% of respondents and product design and marketing will also undergo significant change, with the need to react to new market opportunities.

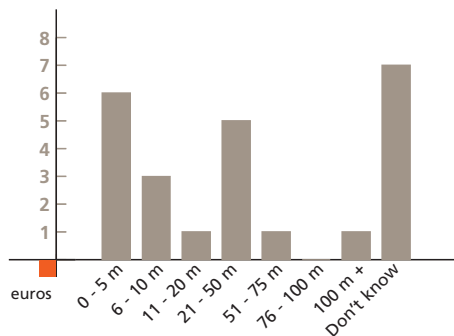


EXTENT TO WHICH BANKS' STRUCTURES AND PROCESSES WILL BE CHANGED BY SEPA

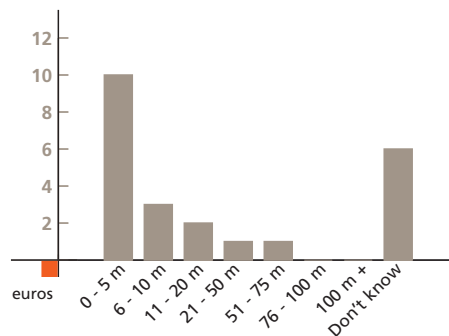
- “In-house IT and compliance and risk management will be the highest cost impact areas”
- “We currently don't outsource, but are considering it to comply and be competitive in the new SEPA world”
- “We see the organisational merger of domestic and cross-border payment departments”
- “We will have to move to ACH processing. This will have liquidity implications”

Exploring the anticipated impact of SEPA, the First Data study asked respondents to estimate the scale of the investment required to become SEPA compliant by 2010. Results naturally vary according to the size of the bank, with larger banks forecasting expenditure of €50-70m and smaller banks estimating €10-20m. In most banks, IT and operations expenditure is at least four times higher than business expenditure. It is significant that there are many respondents who feel unable at this stage to make any assessment of the costs of SEPA compliance.

Scale of investment for banks' full OPS & TECHNOLOGY SEPA compliance by 2010



Scale of investment for banks' full BUSINESS SEPA compliance by 2010



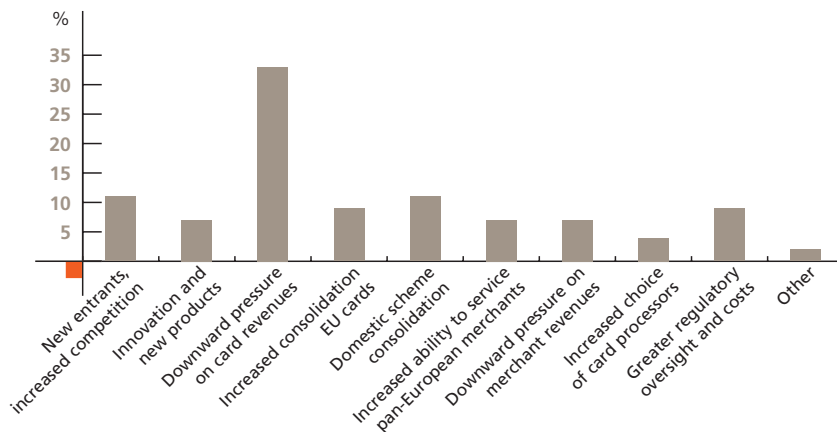
SCALE OF BUSINESS AND OPS/IT INVESTMENT REQUIRED TO BE SEPA COMPLIANT BY 2010

- “We do not anticipate major costs to our business, other than routine transaction costs”
- “Our main costs are the migration to EMV and Chip, although these implementations were going ahead irrespective of SEPA”
- “Most of the investment has already taken place. There is now an effort to package products for the new environment”

Opportunities

Although few banks believe that they will see a positive financial return from SEPA before 2012, SEPA is expected ultimately to deliver significant benefits for banks and their customers. These include opportunities for banks to deliver enhanced service offerings and to capitalise on more efficient/lower cost processing options that will arise from increased competition and consolidation in the market.

The First Data study explored respondents' views on market changes and the benefits both to banks and their customers that will result from SEPA.



MOST SIGNIFICANT MARKET CHANGES FROM SEPA AND THE SCF

Unsurprisingly, negative changes are most significant to study respondents at this stage, with the potential reduction in revenues being the primary concern. This is seen as a combination of downward pressure on card revenues, increased competition from new entrants and a reduction in revenue from merchants. A third of the banks see increased downward pressure on card revenues as the most important market change, although the SCF specifically avoids any intervention in interchange and charges.

“Downward pressure on revenue streams. This is the ultimate expectation from the powerful consumer and retailers’ lobby, given the expected reduction in cost”

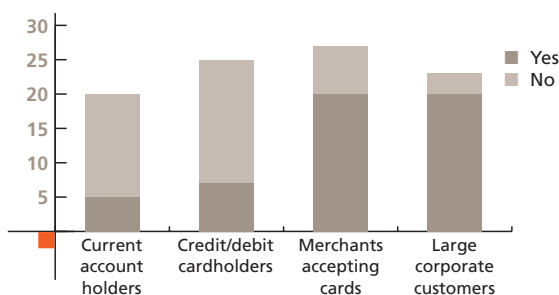
“This is bad news for banks. In the short term there will only be a downside, we will lose money”

Respondents do identify some positive changes, with the consolidation of both domestic and EU card schemes being seen as significant. The ability to service pan-European merchants and the ability to innovate and deliver new products are also seen as important, although smaller domestic banks are worried about pan-European banks entering their markets and offering pan-European services.

“Up to now, national schemes have been a deterrent to offer pan-European products – these will go under SEPA”

“Removal of barriers will open up domestic markets to competition”

The banks also appear unconvinced of the benefits that SEPA will bring to their customers.



SIGNIFICANT BENEFITS FROM SEPA FOR BANKS' CUSTOMERS

Over 77% of respondents do not see any short-term benefits to the consumer from the SEPA changes, whether for current account holders or cardholders. Indeed, some banks even see potential disadvantages for the consumer, particularly where local scheme value-added services could disappear. In addition, some banks see the cost of SEPA compliance eventually being passed on to the consumer

“Most clients already have the instruments/cards to pay abroad”

“Our customers can already use their debit cards all over Europe. Cross-border payments account for a very small percentage of transactions”

“There is a risk of losing value-added services currently provided by domestic card schemes”

“There will be significant costs and changes from implementing SEPA, so the chances of any of the customers deriving benefit is slight”

The picture is more encouraging for merchants and large corporate customers, with 75% of respondents seeing definite advantages for these groups. Benefits are seen to accrue from the consolidation of operations and business processes across European businesses, standardisation of EFTPOS terminals and software, leading to lower maintenance costs and the reduction in merchant fees.

“Large multi-nationals have already looked at best cash management structures. They can consolidate euro accounts and rationalise IT & Ops”

“In the rebalance between merchants and cardholders, the latter will lose out”

“Long term, there are chances to build standardised ECT/EFTPOS systems over larger geographical regions. This will result in lower maintenance and implementation costs for retailers”

In conclusion, most banks see little short-term benefit to the consumer in terms of current accounts and card transactions. Many of those interviewed still perceive SEPA as addressing cross-border payments and only a smaller number believe that SEPA will impact and change national payments markets as well.

FIRST DATA INSIGHT

Banks are understandably heavily focused on the cost implications of SEPA and whether there is a positive business case for the change. However, since the industry - through the EPC - has fully committed to SEPA, attention should now be concentrated on how best to achieve its objectives.

The major cost impact that concerns many banks is the migration to an EMV environment. This is clearly significant in some markets but, in reality, these investments will be required anyway in the coming years. Banks will be looking for suppliers and partners, especially processors, who can generate cost efficiencies from operating within a SEPA context.

Although their main focus is on cost impacts, some banks are already actively looking at the product and market opportunities that will be generated by SEPA. As the programme is implemented, more banks will be seeking to identify and exploit these new business opportunities.

IMPACT OF SEPA ON CARD SCHEMES

The SEPA Cards Framework is designed to promote competition between Europe's card schemes, banks, processors and network providers. Historically, Europe's debit and credit card structures have been complex, with at least fifteen domestic debit card schemes currently in existence. In many cases, the management and processing of these domestic schemes is tightly linked, creating markets with high levels of vertical integration.

The aim of the SCF is to open up these existing structures to acceptance of other national and international cards, thereby promoting competition both in terms of scheme brands and processing options. The international card schemes (ICS) have also imposed restrictions that have had the effect of limiting competition. A well-known example here is the requirement that all cross-border Visa and MasterCard transactions must pass through their own networks.

To create a more open and competitive card payments market place, the SCF requires open scheme membership, the separation of card scheme/brand from processing and network inter-operability if a scheme is to be SEPA compliant. In the SEPA environment, international and domestic schemes will compete for members, banks will sell new pan-European card products and the expectation is that processors and network providers will offer new, lower cost services.

Respondents to the First Data study see little future for most of the domestic debit card schemes, with the majority intending to migrate their domestic brand completely, or co-brand with an ICS brand. Only 17% of those interviewed expect to retain their domestic brands.

Comments indicate that the disappearance of most domestic brands will be due in large part to the perceived cost of SEPA compliance – and also that co-branding is, itself, seen as a transitional solution. The expectation among an overwhelming majority of European banks is of an eventual brand duopoly across Europe of Visa and MasterCard. In theory, SEPA will allow for new card scheme entrants but respondents see the investment in such schemes as too costly

“The domestic brand will eventually disappear. The co-brand is likely to be a transitional solution”

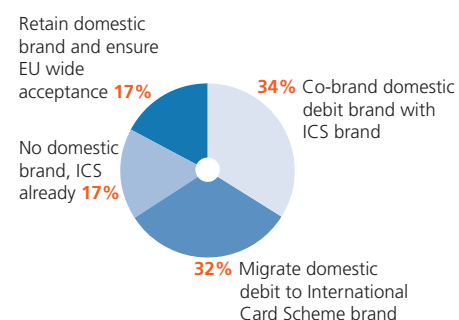
“We foresee a duopoly with Visa and MasterCard”

“We can use existing pan-European schemes, (there is) no business case yet to create new ones”

“Our domestic market is developed successfully with Visa, MasterCard and American Express. Alternative solutions would not be cost effective”

“An EU-wide brand is needed”

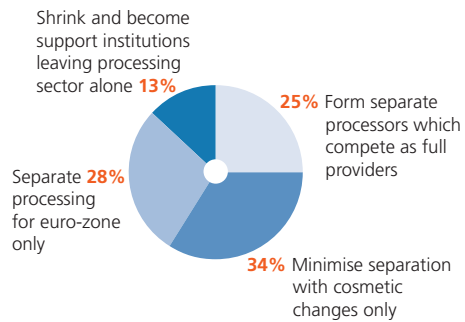
Banks' preferences for card issuing strategies



Separation of scheme and processing

The SEPA Cards Framework developed by the EPC requires the separation of card schemes from processing. And the recent European Commission Paper on Incentives makes specific reference to the need for the international card schemes to separate their schemes (ie. brands and rules) from their processing infrastructures.

Predicted outcome of ICS separating schemes and processing

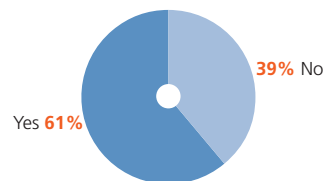


Only 25% of banks in the First Data study believe that the ICS will fully separate their schemes from their processing infrastructures and compete as full processing providers. A third of respondents believe that the schemes will attempt to minimise separation and make cosmetic changes only - and they recognise that this will be a difficult situation to police and enforce.

28% of respondents feel that the ICS will separate their processing for the euro-zone only, despite recent ICS comments.

Although European banks expect a Visa and MasterCard payment brand duopoly, there is clear support for an alternative to VisaNet and BankNet for interbank card processing/switching.

Is there a need for alternatives to VisaNet and BankNet?



What is unclear is whether alternatives will be created. While some respondents state that such a service could be provided by commercial processors, the most talked about potential alternative is a Berlin Group-type bilateral arrangement. Sixty six percent of the First Data study participants who seek an alternative are not supportive of a Euro Alliance/Berlin Group approach, although views are mixed

“Possibly, between countries with an equivalent cost base”

“As a competitor to international card schemes, protects investments and has bank governance”

“It may help to retain efficient and state-of-the-art payment solutions”

“Under consideration if there was more competitive pricing”

“We would like a similar choice, if not the Berlin Group”

“It is a step back to the 1970s”

“Theoretically viable, but I doubt its ability to challenge the international card schemes”

“Too complex to create from scratch. Group members will not reach an agreement”

“Too expensive. There is potential for some interlinking for online processing via an international brand”

“We cannot see an important reason to pursue this strategy. Would need to understand the business case in more detail”

FIRST DATA INSIGHT

It is clear that Visa and MasterCard are likely to dominate debit card branding in future, with many national schemes being phased out. Only a very limited number of national schemes will have the necessary scale and business model to prosper in a SEPA environment.

Given that separation of scheme from processing is a key principle of SEPA for cards, it is a concern that a third of banks believe the international schemes will only make cosmetic changes. The principle of separation in the SCF should now be defined in much more detail, so that the real intention of the requirement is achieved.

Despite the likely branding dominance of MasterCard and Visa, there is a strong bank demand for alternative systems to BankNet and VisaNet, to provide choice. Any alternative service provider would have to recognise the reality of the brand prevalence of the international schemes.

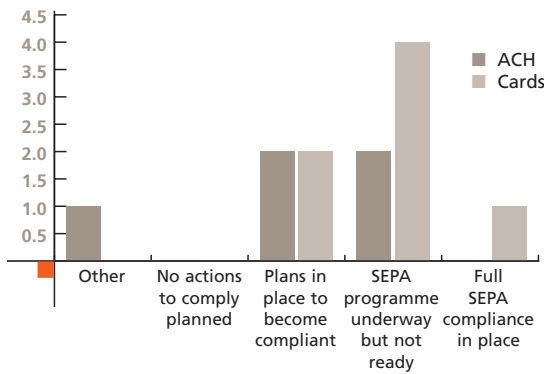
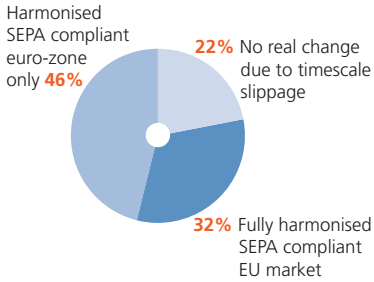
EURO OR EUROPEAN PAYMENTS?

While the focus of the EPC is on SEPA adoption across the euro-zone, it is clear that many of Europe's banks recognise that market forces are likely to drive towards a different conclusion.

Almost 80% of respondents state that SEPA will be a reality by 2010. While 46% of banks believe that SEPA will be delivered across the euro-zone only, for ACH services, 32% of respondents acknowledge the market pressure to create SEPA compliance across the pan-European market. In relation to cards, while there are differing views on how compliance will be achieved, a similar proportion of banks believe that the SEPA reality will be Europe-wide and not euro-zone only by 2010.

This finding is supported by study respondents from outside the euro-zone.

Likely outcomes of SEPA programme by 2010



SEPA IMPLEMENTATION OUTSIDE THE EURO-ZONE BY 2010

Most banks from outside the euro-zone expect to have a SEPA programme underway or plans in place by 2010. Many banks are already actively planning to achieve SEPA compliance at an early date. Market forces are expected to drive SEPA compliance outside the euro-zone.

“Market forces will drive the two zones together by banks taking up increased opportunities”

“We see SEPA as an enabler, even though we are based outside the euro-zone”

“We believe that large UK banks and organisations like VOCA have no choice if they wish to increase their market outside the UK. Smaller banks will probably do very little”

FIRST DATA INSIGHT

While the SEPA programme is officially focused on the euro-zone, several major banks in the wider EU see a strategic necessity and a business case to adopt SEPA standards and principles. We expect that all major banks with European ambitions will comply with SEPA principles and that SEPA will become, de facto, a Europe-wide reality.

CONCLUSION

The banks participating in this study recognise the European Commission's intentions in creating SEPA and the changes that this will bring to the European payments industry. A significant majority of banks are concerned that, despite the preference of all stakeholders for a self-regulated, industry-led approach to SEPA, the European Commission will regulate anyway. The possibility of regulation is heightened because of practical difficulties in implementing programmes that, in some areas, are not sufficiently defined - and also because of concerns that some players will not make the required movement to ensure a level playing field.

Against this background, it is not surprising that most banks are currently more focused on the immediate, negative impact of the changes they must make, and see SEPA chiefly as a compliance programme. A minority of banks are, however, already exploring how they can utilise these changes to better serve their clients throughout Europe.

The majority of banks are now actively planning for SEPA but, in many cases, this is still at an early stage. There is consensus that the deadlines of 2008 and 2010 are a significant challenge for the industry.

DEFINITIONS**ACH**

Automated Clearing House

EC

European Commission

ECB

European Central Bank

ECT

Electronic Credit Transfer

EFTPOS

Electronic Funds Transfer at Point of Sale

EMV

Europay MasterCard Visa programme to implement CHIP & PIN security for card transactions

EPC

European Payments Council, the decision-making body for the banking industry in relation to European payment issues

EU

European Union

euro-zone

12 countries using the euro as legal tender

ICS

International Card Schemes

IT

Information Technology

PE-ACH

Pan-European Automated Clearing House

PSD

Payment Services Directive

SEPA

The Single Euro(pean) Payments Area

SCF

SEPA Cards Framework

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
TOTAL	30

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

For general information about our company, or if you are a journalist, please contact Suzi West on +44 1268 297179 or email suzi.west@firstdatacorp.co.uk

First Data's Presence in Europe

- = First Data Operations
- = First Data Offices
- = Additional First Data Clients

