

FROM COMPLIANCE TO BUSINESS BENEFIT

Executive Summary

All parties in the payments industry will be influenced by SEPA although the impact will be radically different for each party.

Customers, both consumers and corporates, are looking for providers who can deliver education and services that help them understand and respond to SEPA. The providers must be able to demonstrate their ability in relevant research and innovation.

Small and national schemes have a clear choice – develop, merge or exit the market.

Banks will be impacted throughout their payment business. They must consider SEPA as a business opportunity that permeates all their operations, rather than a challenge to be overcome. Until it becomes clearer which banks will rise to the opportunity, winners and losers among banks is an open question. The situation is complicated further by many other regulatory issues and new entrants to their markets. For all these reasons, we believe that banks must put regulatory requirements and usages changes at the heart of their Payments Change Programmes.

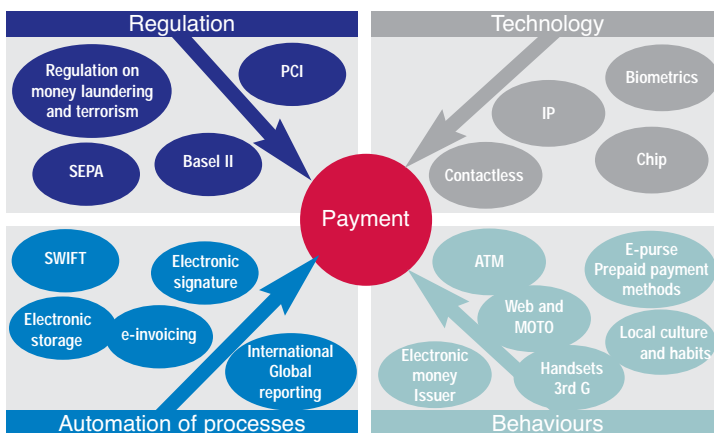
Card schemes and processors will also see significant change because there will be a tremendous volume of transactions migrating from existing infrastructures.

In our view the key points around SEPA adoption are:

- > The structural changes predicted for the payments industry will happen.
- > There will be political challenges along the way but the essence of the current SEPA directive will be implemented.
- > There will be a fundamental difference between technical SEPA compliance and deriving the business benefits that SEPA offers.
- > Whilst SEPA-compliant products will emerge by 2008, it remains to be seen how aggressive and successful the migration of the existing domestic traffic will be.

In our view all this will take a number of years. During that time PE-ACHs and banking organisations will form and restructure. The race to derive business benefit rather than merely comply with SEPA will determine the real winners and losers. It will not be a 'big bang' change. There will be a slow evolution and it will be different for each Euro zone country. It is on this last point that SEPA's success will be assessed in the long term.

The changing world of payments



All parties in the payments industry will be influenced by SEPA although the impact will be radically different for each party.