

FROM COMPLIANCE TO BUSINESS BENEFIT

New Entrants

We see three major potential new entrants spurred on by the introduction of SEPA: Payment Service Providers (PSP), telecommunications operators and retailers.

Payment Service Providers - Acquiring

Typically, a PSP can connect to multiple acquiring/issuing banks and card schemes, thereby making the merchant less dependent on financial institutions. This applies to both domestic and international markets. Furthermore, a PSP can offer reconciliation services, risk management and multi-currency functionality.

The New Legal Framework provides more freedom for "payment service providers" like acquirers. It is proposed, that, for example, acquirers will not have to have bank status or be more than 50% owned by a bank. It is the EU's intention to liberalise the market for non-banks at less cost. However, the qualifications for becoming a payment service provider still need to be defined if a PSP wants to operate across the whole of the EU.

There is potential for PSPs to use new technology such as the contactless card or mobile payments as a means to enter the European payments market. The PSP's can offer merchants online services like Single Message for accepting electronic payments by credit card, or other payment methods such as payments based on online banking,

Telecommunication Operators – Issuing & Acquiring

Telecommunication operators can have an 'access' role in the payments value chain. Payment acquisition and approval can naturally sit within the technology remit of these service providers. Early adopter experiments in Japan and the US have shown that such a role is feasible. One can realistically expect this type of service to pick up in a similar way to that of internet payment providers,

An example of mobile payments development in Japan is DOCOMO, which has sold more than 1 million mobile phones with the capability to make payments. In addition, there are more than 20,000 point-of-sale devices ready to support the service. DOCOMO has a partnership with the Japanese company JCB, whose role is to accept the mobile pre-payment.

A European example is COPROTO in Norway, which uses the concept of 'a wallet on a mobile phone' linked to home banking. This too is a pre-payment service and mobiles are pre-loaded via an Internet payment linked to an Internet banking service.

Telecommunications providers are therefore set to change the means of facilitating and capturing payment transactions. With common transactions available in the Euro zone and cross-border mobile telephone roaming in place, this form of transaction can only increase once SEPA is introduced.

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Retailers – Issuing & Acquiring

Larger retailers have long been interested in financial services as an extension to their core businesses. In addition, they are major players in the business of payments transactions acquired “on us”. As key corporates processing large volumes of payments, these organisations will be looking to rationalise their banking relationships in the same way as any other large business.

As distributors however, retailers are likely to develop their own financial services offerings on the back of existing customer relationships. The use of co-branded financial services is now well established; large retailers often issue their own co-branded “private” & “banking” cards. In this context ‘private’ and ‘banking’ means transactions originating in the retailers’ own stores.

Generally speaking, retailers will incentivise customers to move from cash to pay-before or pay-now cards, in order to reduce the cost of handling cash. When you also factor in the growing e-retailing trend it becomes clear that retailers, like banks, will be key players in a post-SEPA Europe.

However, retailers must decide how far they want to move into the payments value chain. They will need to fold their financial services offering, particularly payments, into their overall customer proposition.

One major positive factor for these new entrants is their significant customer bases. These provide the opportunity to exploit both cross-selling opportunities and opportunities to generate payments transactions. Retailers will nevertheless need to reassure customers that they are a ‘trusted financial services’ brand; as trustworthy as traditional brands, particularly in the area of payments security. One of the key success factors for retailers will be their ability to change customer attitudes and behaviours more towards electronic transactions in both ‘clicks and mortar’ – online and in-store.

