

# FROM COMPLIANCE TO BUSINESS BENEFIT

## Evolution of the Banking Infrastructure

The SEPA initiative brings standardisation based on rules and standards. A Single Shared Platform to process payments will have to be implemented in the Euro zone with a standardisation of the payments instruments:

There will be one instrument for credit transfers: SEPA Credit Transfer, and a new one for direct debit: SEPA Direct Debit. The result will be a dedicated scope for cards operations and a Pan-European Clearing System based on Clearing Houses (ACH).

### Clearing Houses (ACH)/Payment Schemes

Clearing Houses are typically the national clearing operations in each of the Euro zone countries, which clear either paper or electronic transactions. In addition, this category covers either national or cross-border payment schemes which operate in the Euro zone.

A key threat is the potential demutualisation and consolidation of the industry. Those that are good at executing will take over those that are not. The cost of becoming a PE-ACH will undoubtedly be challenging, and the winners will be the first to gain critical mass from new business.

In the short term some ACHs will be able to retain business through their geographical position and by servicing nationally based banks. But this is not a sustainable option. In the longer term, smaller players need to decide if they compete, merge/migrate or exit the market.

The speed at which consolidation progresses remains to be seen: but it is likely to be driven by the degree to which national payment instruments are retained. In this way smaller ACH's could have an opportunity to retain national and geographical focus with country specific instruments which are not supported by PE-ACHs.

While it will be possible for a national player to become a cross-border clearing house, the move will be driven by efficient clearing in the home country being replicated in each new country.

Larger players need to decide whether to expand services within the value chain in which they operate, or expand into associated SEPA areas such as card processing. This will require a review of the payments products offered in each country. If SEPA-compliant products are a good substitute, the product set will have to be changed by each ACH.

Current ACH's may be able to specialise in a market where critical mass counts. This is likely to be in the value-added services of Internet payments and mobile payments. An alternative could be to establish rival systems to the current operations, based on real-time gross settlement.

To achieve their pan-European ambitions, ACHs will have to demonstrate the ability to:

- > Leverage new technologies for business transformation, and demutualise effectively to support the changes
- > Raise the necessary capital and merge successfully with other ACHs.

Overall, the picture presented is not simply a straightforward race for SEPA compliance. The consolidation of the industry will take a number of years because of the amount of investment needed and the ability to make it work.

The race to derive business benefit rather than merely comply with SEPA will determine the real winners and losers.

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