

AS THE DEADLINE FOR SEPA DRAWS NEARER, **CHRISTIAN WESTERHAUS**, HEAD OF PAYMENTS STRATEGY AND INFRASTRUCTURES AT DEUTSCHE BANK, LOOKS INTO THE LATEST DEVELOPMENTS AND THE ULTIMATE CONSEQUENCES FOR EUROPE'S BANKS.



SEPA: FROM THEORY TO PRACTICE

With approximately 15 months to go before the planned implementation of the Single Euro Payments Area (SEPA), banks have finally come to terms with the fact that the initiative of the European banking industry to create a domestic payments market across the eurozone is no longer a distant possibility but rather a stark reality.

Indeed, much of the groundwork has already been laid following the agreement and publication of the business rules for making SEPA payments in March 2006. Certain elements have yet to be finalised, such as the availability of the new data formats, pan-European implementation guidelines, a robust end-to-end test scenario, as well as a common public legal framework with regard to SEPA direct debits. However, the entire initiative is gradually moving from a concept to an implementation stage and, as a result, most banks will now have completed a thorough analysis of the financial impact of SEPA, and consequently taken steps to position themselves accordingly.



What SEPA means to banks

While it is widely held that multinational corporates will gain long-term benefits, taking advantage of, for example, consolidated payments operations, centralised liquidity and optimised payables and receivables processing, the outlook for banks in general is less encouraging. Indeed, the introduction of SEPA will intensify competition in an already fiercely contested industry and bring about an extensive price upheaval. At the same time, banks have to invest in new technology, create innovative solutions to remain competitive while continuing with their rationalisation programmes.

The ramifications are far reaching and affect all banks, although the extent depends to a certain degree on a bank's size and scale. However, there are already signs that banks are strategically positioning themselves – either as distribution banks in which non-core payment functions are carried out in the most cost-efficient manner or as true transaction banks offering the full range of transaction banking and cash management products and services.

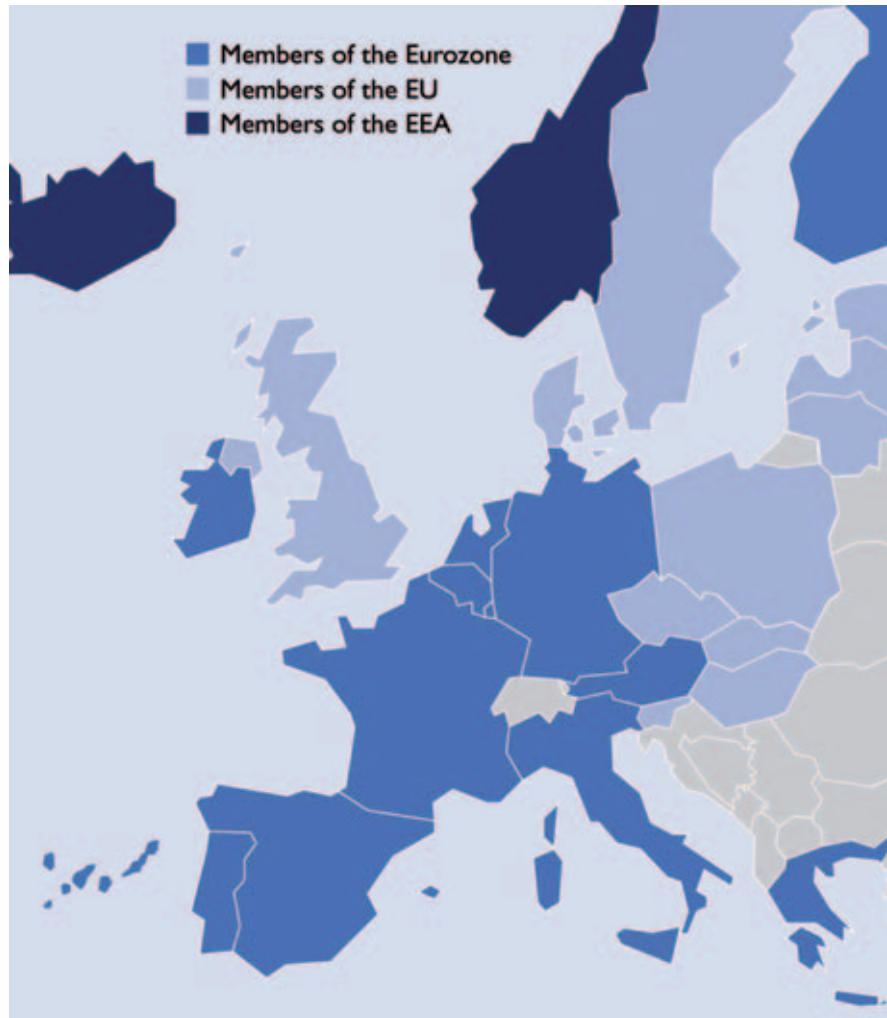
With regard to the former, this typically involves outsourcing payment-related activities to a partner bank or utilising white-labelling solutions. This enables such banks to reduce costs while maintaining profitable revenues. The other strategic possibility involves adopting SEPA in its entirety, thereby acknowledging the investment's long-term advantages.

These banks will characteristically have a pan-European presence, scale, scope and, importantly, the ability to increase their processing volumes directly and in partnership with other banks. At the same time, these banks will offer insourcing to other financial institutions, re-engineer their pricing models and develop new SEPA products.

Market presence

Deutsche Bank has clearly positioned itself to embrace SEPA full on, with the aim of maximising the advantages it has projected. There are few banks in Europe that can match its scale, one of the most vital elements in developing and executing a successful SEPA strategy. By operating in numerous countries throughout the eurozone, the bank will be able to increase the efficiency of its European payments operations as straight-through-processing rates rise to match domestic levels – virtually 100 per cent. Furthermore, it is committed to investing in technology, developing innovative solutions while offering a pan-European processing platform for SEPA transactions, thereby affording process optimisation.

These benefits, of course, work both ways. Clients on the one hand can leverage the bank's position to gain from economies of scale, ultimately leading to increased efficiency and cost saving opportunities. By putting SEPA to work, Deutsche Bank will not only be maintaining its leading cash management position in Europe, but also increasing its market share. FBA



Countries encompassed in the SEPA initiative

CHRISTIAN WESTERHAUS

Christian Westerhaus is the head of payments strategy and infrastructures for cash management at Deutsche Bank AG. He is based in Frankfurt and is responsible for managing the payment product economics and the channel for product development and delivery infrastructure issues.

Additionally, he has been an active member on various committees including the European Payments Council (EPC), the Contact Group on EURO Payments Strategy (COGEPS), the European Banking Association, the Heathrow Group and the German Bankers' Association. All of these groups focus on the further development of payment systems. He is also a board member of the EBA Clearing Association and a chairman of EPC's electronic direct debit working group.

Prior to his appointment to head of development, he was the head of global clearing and SWIFT projects with HypoVereinsbank in Munich. Between 1988 and 1999, he was responsible for domestic and cross-border payments at Bundesverband Deutscher Banken.



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