

PARTNERS FOR PAYMENTS



- Action needed to get SEPA going
- SEPA needs a deadline
- A concerted effort will pay off

There is little doubt that Europe will see more regulation of financial markets, but in the meantime the market must get to grips with SEPA. ING's **Sander Cok** tells *Future Banking* that only a concerted effort by banks, corporates and competition authorities can give Europe the payments environment it needs.

Over the last year the dramatic events in the world's financial markets have led everyone to reassess the future, and most would agree that an inescapable result of the current turmoil will be more regulation. Consequently, there is even more pressure to integrate current regulation speedily and efficiently.

Among corporates the adoption of new payments infrastructure resulting from the Single Euro Payments Area (SEPA) has so far been anything but rapid. A lack of clarity already existed on many issues within SEPA before changes in the structure of the banking market muddied the waters further.

Many financial services providers feel action is urgently required to get SEPA going, and they have been actively lobbying regulators to provide the necessary impetus. They recognise, however, that the competitive environment is not what it was

when the idea for SEPA was hatched.

'One thing is for sure, we'll get more regulation. We've been expecting it at the European level for the last year,' says Sander Cok of ING Wholesale Banking Products.

'The new phenomenon is nationalisation, which makes the picture very different. Banks are too important to be allowed to fail, now some are even nationalised. There is a strong belief in competition, especially in Brussels, but that model does not seem to work any more.'

Although no one can predict the future with any great accuracy, there is one thing of which Cok is sure – implementing SEPA and making way for the next wave of regulation will require a concerted effort by all stakeholders.

A deadline for SEPA?

It is vital to achieve critical mass for SEPA, and thus establish a common platform for users and service providers, but banks

cannot make this happen on their own. Their corporate customers and the regulators, too, must work together.

'SEPA moves too slowly. The market-driven approach is not working, there is a lack of incentive. There is no business case for infrastructure and everyone is waiting. It is a political goal not without responsibility. There needs to be cooperation between banks, corporates and politicians,' Cok says.

Some banks have been working hard to develop new products. ING's process of innovation in payments has many strands, including e-invoicing and mobile applications, but Cok feels that the real driver must come from regulators, which need to incentivise the move to SEPA.

Incentives are a thorny issue. At the moment Europe's competition authorities are seeking to abolish Interchange – the money a merchant's bank pays to its customer's

bank when merchants accept payments – for direct debit or card payments. This could be a problem for the banks.

'We need incentivised business models. It can be difficult to get people away from less efficient payment instruments. Some of these are free to consumers, so it is hard to discourage their use. There is a political desire to abolish Interchange, but we have costs on the issuing side. We need time to develop new business models,' warns Cok.

'Innovation will suffer if we can't get our costs back.' Cok also shares a belief that is increasingly widely held among banks: SEPA needs a deadline. The compelling theory is that setting a time limit on SEPA will focus the efforts among corporates to move to the new payments infrastructure.

'We need an end date for it, otherwise there is no start date. Politicians hesitate on this issue, saying that it is too early to begin those discussions, but it is clear we need the end date to kick-start SEPA,' he says.

The turmoil in the world's financial markets further hampers efforts to make the changes required by a project on the scale of SEPA. Budgets are at risk not only among some of the banks that must develop new products, but also among many of their corporate



European Union - not even the introduction of the Euro to replace domestic currencies.

'The Euro was a different story. There was no new infrastructure, less IT was needed, and it was very clear to people what was to happen. Awareness of SEPA is quite low and it has less political commitment than the move to the Euro. Realistically we do need a clear roadmap, because SEPA has many more parameters than the Euro,' he says.

In his eyes, SEPA is more complex even than the Y2K conversion project. After all, both Y2K and the Euro has something SEPA does not – a clear end-date.

His message to corporates is to embrace SEPA by working with service providers to bring their concerns to the regulators, and to push for greater clarity on the timeline for migration. For finance directors, the task

is to understand the implications

of SEPA and to help steer organisations towards involving themselves with the wider effort to inject life into the new payments arena.

Calls for an end date for SEPA migration are growing louder, particularly in regard to SEPA Credit Transfer, as many feel that this will push the market towards critical mass.

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clients, which must nevertheless prioritise the transition to SEPA payments models. Whatever the conditions in the market, SEPA is here to stay, so the powers that be must make it work.

'The European Commission's Internal Markets Committee says we need a realistic roadmap, and that it is too early to start the discussion on an end-date. But I would underline this need for realism for such a huge project,' says Cok.

An unprecedented change

For Cok, SEPA has no equal. He sees no comparable project in the history of the

From there, the standard on which to base new development will be set.

'We can't be too naïve or enthusiastic,' warns Cok. 'But we have to recognise that co-existence of the current situation and SEPA will be very expensive.'

'Banks in different countries already need to co-operate so that customers can make payments, but all countries have different infrastructure. Cooperation is familiar to banks in the payments space, but what we need now is better co-operation with consumers and politicians, which is why this is one of our priorities when we lobby the regulators.'

SEPA in brief

- While consumers have been paying with cash in euros throughout the eurozone since 2002, non-cash payments such as credit transfers, direct debits and card payments between countries have proved expensive and complicated.
- To push the process forward, the EU adopted a new law in December 2001, which dictated that the banks had to charge the same fees for cross-border and national payments.
- The costs for processing cross-border payments were still high though and banks could no longer pass on the costs to the customers, which drove the banks to create the European Payments Council (EPC) in 2002. The EPC is in charge of the SEPA project.

In describing what he would like to see happen, Cok likens the involvement of the regulators to the role of a football referee helping to ensure that the pitch and the teams are prepared for the game. Though the referee works with the teams before kick-off, once the whistle blows and the game starts his role clearly shifts to one of governance.

While he does not yet see competition authorities playing this role, Cok does welcome the fact that they are at least willing to hear ING and what other banks are telling them. He nevertheless knows that there is a gulf between hearing the message and acting on it. In the meantime, he accepts that ING will continue to push for a clear deadline, and will encourage corporates to support its efforts.

'I want to be realistic about SEPA, so I feel that the regulators must realise that we like plans and goals. We like to know our destination. The original plan for this journey was too optimistic. More standardisation will follow, but now we need cooperation and realism to overcome the SEPA fatigue that is in the market now,' says Cok.

He also reminds us that beyond the major task of giving SEPA some traction among corporates, lie the benefits of a harmonised, low-cost payments infrastructure. With a concerted effort he believes these benefits can be realised. Finance directors must, therefore, be instrumental in getting their organisations to engage with SEPA and push it through. FBA