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## **The Majority of Current Payments Transactions are not meeting SEPA Compliance Standards**

**-- National Migration and Implementation Plans are Key to Success --**

**London, 15<sup>th</sup> September 2006**

The success of the Single Euro Payments Area (SEPA)<sup>(1)</sup> is heavily dependent on the speed and quality of national migration and implementation plans, finds this year's *World Payments Report*<sup>(2)</sup> from Capgemini, ABN AMRO and EFMA. The use of "SEPA-type" instruments differs widely across the countries studied and plans must be aligned across Europe to ensure a consistent SEPA implementation in time for the 2008 deadline, according to the study.

While alignment of national plans will be critically important, the report concludes that a "critical mass" of SEPA-compliant products could be successfully achieved during the migration period starting in January 2008. In the six eurozone countries studied<sup>(3)</sup>, 85% of all non-cash payments are already made using SEPA-type instruments (some form of direct debit, credit transfer, or card payment). Of those volumes, 13% are already SEPA-compliant, while 45% are not compliant but show a manageable gap towards compliance. The remaining 42% currently fall significantly short of SEPA standards.

The existence of significant gaps between the SEPA requirements and current national practices means the road to implementation and migration will be challenging. Banking communities will have to define clear implementation and migration plans; while on the European level, the European Payments Council must ensure that the national plans are aligned to avoid a new European fragmentation, the report argues.

Banks may stand to lose 38-62% in payments-related revenues<sup>(4)</sup> (a decrease of EUR18 billion to EUR29 billion by 2010) according to the report. As a result, banks face the challenge of minimising internal costs, upgrading their pricing strategies, and creating incentives (in particular for consumers) to move to more cost-effective electronic payment solutions to preserve profitability.

While some unresolved issues remain with regard to the Rulebooks for SEPA payment instruments, the tools are now in place for banks to start their preparations for the SEPA implementation in January 2008. “The implementation and migration journey to SEPA will not be easy. Banks will need to address their pricing strategies and sourcing options for payment activities and for some, this will mean strategically repositioning their whole payments business,” said Ann Cairns, Chief Executive Officer, Transaction Banking, ABN AMRO. “Despite these challenges, the building blocks are now in place to make SEPA achievable. Ultimately SEPA will benefit the payments market.”

The SEPA objective of developing and increasing the number of non-cash payment transactions is yet to be realised, the report finds. The shift towards non-cash payment transactions differs across European countries and there is no overall evidence that European countries are converging towards higher volumes of non-cash payments.

The impact of SEPA is causing banks to carefully consider how they will make the technical and operational changes required to become compliant. Ann Cairns comments: “Banks must urgently analyze the short term impact to comply with the January 2008 agenda both from a regulatory, marketing and operational point of view. They also need to assess whether staying in the payments processing business will continue to be profitable over the longer term.”

Bertrand Lavayssière, Managing Director, Global Financial Services, Capgemini adds: “SEPA provides the right momentum for banks to think about strategically repositioning their payments business. Given costly investments needed to meet SEPA compliance, increasing competition from new players and decreasing payment revenues, banks have to find significant levers to preserve their profitability. Addressing sourcing options and repositioning the payments business within a bank can provide these opportunities in addition to cost improvements.”

In its second edition, the *World Payments Report 2006* covers nine countries, reviews current national payment instruments and takes a look at their evolution over the last five years with respect to SEPA compliance. The report explores the relationship of cash volumes by country, the number of non-cash transactions and how payments pricing inefficiencies are affecting the payments business.

The *2006 World Payments Report* includes hard and soft competition scenarios and a new active scenario that benchmarks European non-cash payments use across countries, where both volume increases and potential revenue opportunities are explored.

The *World Payments Report* is available at [www.wpr06.com](http://www.wpr06.com).

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<sup>1</sup> The Single Euro Payments Area (SEPA) project aims to create a domestic payments market across the eurozone. It is scheduled to be launched in January 2008, when banks are expected to offer new SEPA euro payment services to their customers. SEPA payments services should be made available to customers from January 2008 and critical mass should be achieved by 2010. The overarching goal of SEPA, as formulated by European authorities, is to create a more competitive and transparent euro payments area. The assumption is that the single euro payments area will benefit consumers and corporations alike. The eurozone countries are those that have adopted the euro as their national currency. The 12 countries in the eurozone are: Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, The Netherlands, Portugal and Spain. Slovenia will join the eurozone in January 2008.

<sup>2</sup> The *World Payments Report 2006* is a collaborative effort from Capgemini, ABN AMRO and EFMA that investigates the critical implications of the SEPA for the users and providers of payments services in the eurozone. This report explores the issues banks need to address to successfully adapt their payments business model to the newly harmonised and profoundly transformed SEPA environment. This report will be published on 15th September. To download your free report copy, visit [www.wpr06.com](http://www.wpr06.com)

<sup>3</sup> For the compliance assessment, nine countries were evaluated (six eurozone countries and three non eurozone countries). Five eurozone countries were covered in last year's report – the Netherlands, Germany, France, Spain and Italy were chosen because they accounted for 87% of EU12 non-cash transactions volume in 2003. Austria is the sixth eurozone country added this year. Also evaluated are the non eurozone countries of Poland, Sweden and the UK.

<sup>4</sup> In the scope of the report, bank revenues comprise only those that can be allocated directly to payments transactions. But they take account of those accrued from both initiating and receiving payments. Revenues include for example, interchange and float/value-dating, but not interest on balances or account fees.

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