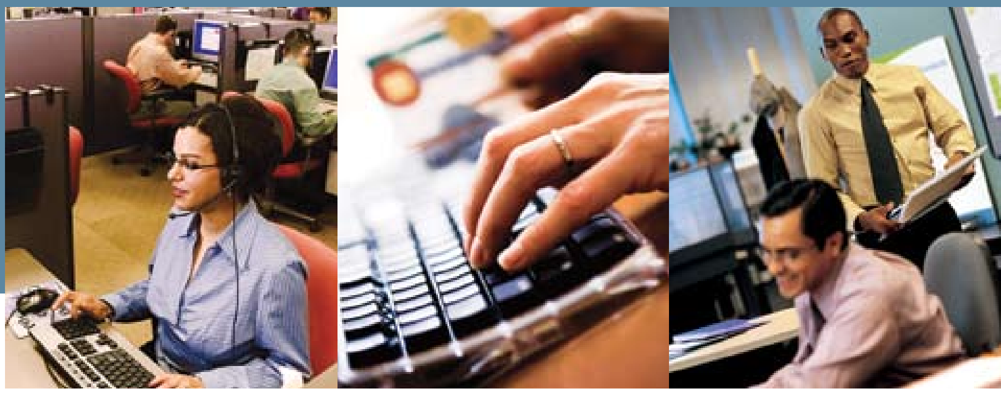
Implementing SEPA: Insights From the French Market



ACI Worldwide Research Study
Executive Summary
26 January 2007

EVERY SECOND. EVERY DAY.

Implementing SEPA

Introduction

The Single Euro Payments Area (SEPA) project forms part of the Lisbon Agenda, a commitment that Europe becomes "the most dynamic and competitive knowledge-based economy in the world by 2010." To compete with major economies, Europe must create a unified domestic economy with common processes to drive efficiency and make inter-country trade easier.

The SEPA vision is designed to ensure that, within the SEPA region, consumer and corporate financial institutions will receive the same service for euro credit transfers, direct debits, card payments and cash withdrawals irrespective of the country in which they are based.

The European Central Bank (ECB) expects the banking sector to adopt the rule books and frameworks, which were developed by the European Payments Council (EPC) and must be implemented by the end of 2010. The initial focus is the Eurozone, but the goal is that the principles will eventually be adopted across the European Union (EU).

SEPA goes beyond previous change programmes because it affects the entire financial and business community and every banking customer — both consumer and corporate institutions. It will have a wide-ranging impact on the payments business, leading to harmonisation at every level of the industry. The adoption of European-wide standards will facilitate this development, enabling different strands of the payments business to move closer in terms of format, content, timing and payment type.

Two major, high-level trends will impact European banking and payments during 2007: increased regulatory intervention and increased competitive pressures. These trends will also drive banks' strategies for the SEPA migration period and beyond.

ACI Worldwide, a global software vendor that also serves the Pan-European area, commissioned PSE Consulting to establish the views of senior banking and retail executives about the impact of SEPA on the French payments industry. The study explores the views and opinions of approximately 20 key decision makers.

The research was conducted in France at the end of 2006, after the Comité National SEPA had begun the implementation process with the publication of its "SEPA Migration Plan" in October 2006. The aim was to ascertain how well advanced French banks were with SEPA preparations.

Key Findings

French banks believe co-branding delivers SEPA compliance. Sixty-nine percent of French banks surveyed perceive Cartes Bancaires continuing as a co-brand with Visa and MasterCard to facilitate SEPA compliance in France. In a recent press release, Cartes Bancaires confirmed that it will implement full co-branding before the end of 2007.

However, the ECB sees co-branding as a short-term, temporary approach to SEPA compliance during the migration period of 2008 to 2010. Its continuance would perpetuate the existing multiplicity of schemes protected from competition bynational borders. The ECB also believes that if co-branding were to become permanent, then SEPA would not benefit from competition or economies of scale, since national schemes would route only cross-border transactions through the international card schemes. Thus, the French banking community must make some crucial decisions before mid-2007 if its domestic card schemes are to become SEPA-compliant.

French banks do not believe that the Euro Alliance of Payment Schemes (EAPS) will become the third force scheme in France. At this stage, 59 percent of French banks do not perceive EAPS as a credible third card scheme. More than 69 percent expect Visa and MasterCard to create a duopoly in France. However, although several believe that a credible third card scheme will emerge to challenge Visa and MasterCard in the longer term, only 41 percent would use an alternative network to those provided by Visa and MasterCard.

French banks believe a third-force card scheme will emerge in France. Many respondents said they are concentrating on the French market perspective, which means they are not well placed to take advantage of any opportunities arising from

SEPA in other markets. This is important, since new revenue streams will be needed to replace an expected fall in the income from traditional payments business. Most respondents saw greater benefits in corporate markets than for retail customers who would benefit from not having to hold accounts in non-euro currencies.

SEPA will streamline acquiring in France. Within the SEPA, cardholders should not face any technical hurdle or obstacle at any point-of-sale (POS) terminal. The technical acquiring conditions of competing schemes in the SEPA should be such that merchants are indifferent to what brand of card they accept.

This will make acquiring a volume game where a large turnover and number of transactions are required to ensure a profitable business. It will also lead to increased competition with larger banks looking to establish an acquiring business across geographical borders. Smaller banks are likely to either sell their acquiring portfolio if it is not seen as core business or partner with an acquirer processor.

Larger merchants will also become increasingly sophisticated and international, thereby also less loyal towards national acquirers. Against this backdrop, participants in the survey were asked about their strategies for acquiring. Seventy-five percent of respondents said they would become full acquirers or partner with another acquiring bank or processor. No banks in the survey currently have explicit plans to sell their acquiring portfolios.

French banks expect SEPA to increase payments charges. More than two-thirds of those interviewed expect prices for credit cards and direct debits to increase as a result of SEPA. This will be of concern to many of the key SEPA owners and stakeholders that do not want SEPA to become a reason for rising prices.

French banks will miss opportunities to integrate high- and low-value payment systems. Many French banks plan to perpetuate the existing traditional payment silos, at least in the short term; the greater majority of respondents said they intend to modify existing payment processing packages to handle the requirements of SEPA. This means that French banks are potentially missing out on opportunities for economies of scale and cost reductions.

However, the French banks at least tacitly agree that convergence of high-value and low-value payments will take place in the payments market. Fifty percent of respondents consider their TARGET2 implementations part of their SEPA projects, even though many believe SEPA primarily concerns retail payment traffic.

STET is the preferred CSM in France. Almost 80 percent of those interviewed would prefer to use the STET clearing and settlement mechanism (CSM) if it became SEPA-compliant, rather than any existing or emerging Pan-European automated clearing house (PE-ACH). Because of the large volume of domestic transactions STET will handle, it should obtain sufficient critical mass to operate as a PE-ACH, if it achieves the requisite Pan-European "reachability." This may show that where banks have the option of using a national solution for SEPA in preference to a Pan-European structure, they will do so. In this regard, 60 percent believe STET will become a PE-ACH during the 2008–2010 time frame.

French banks believe government agencies and corporate institutions do not fully understand SEPA. Sixty-seven percent of survey participants are concerned that many corporate institutions, government agencies and public administrators are not sufficiently informed about the details of SEPA. Big corporate treasurers understand; however, the scope of change is not penetrating to the remaining large organisations. This could potentially impact SEPA implementation in France.

The majority of French banks want a formal SEPA certification process monitored in France. Even though the SEPA programme is self-regulatory, nearly 80 percent of respondents believe there should be a formal SEPA certification process. The majority said that this process should be monitored at the French national level by the Banque de France and the French national banking association Fédération Bancaire Francaise (FBF) rather than at the European level by the EPC.

However, the process of SEPA compliance certification by national bank groups could lead to issues of interpretation causing a lack of interoperability between markets and the "one market" concept to fail.

The majority of banks choose to modify legacy platforms. The majority of organisations intend to modify their in-house systems to make their IT platforms and processes SEPA-compliant. This may represent a risk, given the tight time frames for SEPA implementation, because of the other calls on in-house IT resource — e.g. Basel II, SOX, AML, MIFID etc. — and the potential testing overhead. This will also limit new product development for exploiting non-French SEPA markets with new products; it is potentially a short-term expedient, with a risk that they will not be able to handle future requirements of SEPA.

Given the changes SEPA required to foreign payments processing, 67 percent of banks said they would consider centralising all euro payments processing — domestic and foreign.

Late delivery of card standards and the payment services directive (PSD) may impact SEPA implementation in France. Nearly 20 percent of French banks see a lack of communication or influence — outside the inner circle of the largest French banks represented on the EPC — as a major inhibitor to achieving SEPA time frames. This lack of involvement in the decision-making processes is amplified by concerns about delays in the delivery of card standards and the Payment Services Directive (PSD) necessary for implementation and in many ways mirrors smaller banks' concerns about other major projects, like EMV rollout.

Why ACI for SEPA?

ACI Worldwide has Pan-European presence with offices in major European cities. Our systems have been developed as the ACI Payments Framework™ to facilitate the convergence of retail and wholesale systems via an enterprise payments hub. Customers can license ACI software in a number of different ways — from pure sales to hosted services. ACI's software fully complies with EMV and industry regulations.

Every second of every day, more than 800 customers around the world rely on ACI solutions to process payments, manage risk, automate back-office systems and provide application infrastructure services. More customers use ACI software to manage higher payment volumes, of greater diversity, across more platforms and geographies than any other provider in our field. Since 1975, ACI has provided software solutions to the world's innovators. We welcome the opportunity to do the same for you.

ACI WORLDWIDE . OFFICES IN PRINCIPAL CITIES THROUGHOUT THE WORLD . WWW.ACIWORLDWIDE.COM
AMERICAS 1.402.390.7600 . ASIA/PACIFIC 65.6334.4843 . EUROPE/MIDDLE EAST/AFRICA 44.1923.816393
AFL3479 03-07