



## Europe Without Borders – Also for Payment Transactions

By Michael Steinbach

A unified eurozone for cashless payment transactions has been a reality since 2008 – only that it is not mandatory and is therefore little used. Now SEPA direct debits and transfers are to become obligatory. This will require investment in new infrastructure and present many opportunities.

Six years after the euro was introduced on 1 January 2002, the standardization of cashless payment transactions began in January 2008. The aim is to create a Single Euro Payments Area (SEPA) – a unified European payment transaction zone. Cashless payments in euros are to be settled in a standardized format between participating nations across

Europe. Banking customers will no longer experience any differences between domestic and cross-border payments in euros. This will be particularly advantageous to companies active all over Europe. They would be able to centralize all their European payment transactions in a single country and settle them through a single bank. This would streamline

the entire settlement process, simplify liquidity management and reduce transaction costs. Further savings would result for companies in the SEPA-zone, given that SEPA payments are only to cost as much as domestic payments. Starting in 2012, customers will have transferred amounts at their disposal after a maximum settlement period of one business day, which will additionally improve their liquidity. SEPA furthermore affords banks the possibility of offering their customers additional services, such as managing SEPA direct debit mandates or prior communication of direct debits that have already been received by the bank.

### SEPA will be more widely adopted

But we are not quite there yet: Up until the present, framework conditions such as formats, processing procedures and rules for cashless payment transactions have varied considerably from country to country. The single nations still regulate their payment transaction markets themselves. The standardized format has therefore not taken hold to the desired extent since SEPA credit transfers and direct debits were introduced. According to research conducted by the European Central Bank, SEPA credit transfers currently constitute a mere 9.6% of total credit transfers in the eurozone. The transaction figures of payment service provider Equens bear this out: In 2010, they processed over 100 million SEPA transactions. However, this constitutes an infinitesimal percentage of the 9.7 bn in transactions processed by the company annually.

The reasons were many: In the case of direct debits, a legally reliable transition scenario from the old procedures to the new SEPA direct debit process has long been lacking. Only slight adoption of the new standard for transfers had been observed due to the obligatory use of the new but longer IBAN (International Bank Account Number) and BIC (Bank Identifier Code) instead of the customary bank account number and sort code. The European bodies therefore wish to make SEPA payment obligatory by law.

Various different proposals have been under discussion at these EU bodies. Suggestions range from a transition period following the law's entering into effect to prescribing a fixed date for migrating to SEPA.

### Experienced partners helping to implement the standard

For banks and internationally active companies at the Frankfurt financial centre, including Equens' majority shareholder, DZ BANK AG, these discussions in the EU bodies form the cornerstones of important decisions. This is because mandatory introduction of a standard format for payments within the SEPA zone is going to require investment in internal infrastructure, in order for it to be possible to settle payments in SEPA format. While planning their implementation processes, banks and companies may consider whether they could decrease or even avoid internal investment by entering into a partnership with service providers like Equens. As is always the case when new products and processes are introduced there is going to be competition among service providers in the area of processing SEPA transactions, which will determine not only the price, but also the scope of service and the overall usefulness for the customer. Banks will benefit, as will their business customers in Europe by extension. Intensified competition will presumably be accompanied by consolidation among payment transaction service providers, after which the 25 clearing houses settling payments in the SEPA zone today will be reduced to four or five. As the largest payment transaction service provider in Germany, Equens intends to be one of these companies – in order for Frankfurt to continue to play a leading role in European payment transactions in the future. ■

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