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**Session [4C] E-SEPA
– A CATALYST FOR
INNOVATION: Current
e-payment landscape /
Mobile payment: hype or
opportunity? / e-mandate**

the key for an efficient use of SDD / e-invoicing : conditions for success.

The Panel

Moderator: **Wouter de Ploey**, Director in McKinsey & Company's Antwerp office, and Leader of McKinsey's European Payments Practice.

Panellists: **Gerard Hartsink**, Senior Executive Vice-President, ABN Amro Bank and President, European Payments Council

Erkki Poutiainen, Head of Infrastructure Cash Management Services, Nordea Bank

Ruth Wandhöfer, Vice-President, Industry Expert, EMEA Cash Management, Global Transaction Services, Citi

Narinda Viguier, Director of Strategy and Interbank relations at Cedificam, part of the Credit Agricole group

The Debate

Introducing the session, **Wouter de Ploey**, Director in McKinsey & Company's Antwerp office, and Leader of McKinsey's European Payments Practice, asked how critical e-SEPA was to the overall SEPA programme. "Do we really need it, is it critical, is it a by-product?" he asked.

Gerard Hartsink, Senior Executive Vice-President, ABN Amro Bank and President, European Payments Council, said: "My simple answer is 'Yes'."

Turning to the market, he said that although much electronic spending was done within 50kms of the home, some big-ticket consumer goods and services were bought across borders, such as schooling for children. More and more companies and SMEs (small and medium enterprises) were using distribution channels such as the internet to reach dispersed customers, he said. And consumers "go and shop around Europe" during their holidays or other events. "The behaviour of consumers is definitely changing." Younger consumers were used to studying abroad and were especially "e-savvy".

Europe has become a market in its own right. According to Eurostat, he said, 80 per cent of imports and exports moved within the 27 EU member states, and in some states were a very high proportion of Gross Domestic

Product. SEPA was about creating a common technical platform for credit transfers, direct debits, and card payments. "For the core, we need a common platform based on a single technology, which is XML technology. I expect that cards will happen too, over time." In his view, if the industry failed to create SEPA itself, "in the end it will be done by regulation".

In several European markets, e-mandates were already of interest for direct debits, he said. Some markets also showed that mobile phone payments could deliver value for consumers, for example to pay for car parking. Common standards for mobile payments would also provide a platform for other services, such as access to a consumer's investment portfolio, or authentication to access e-government. Consumers were most interested in these add-on services, he said.

Companies were also keen to access corporate buyers and consumers in other member states via services that could be delivered on SEPA, he said. They were "very interested", and saw e-invoicing as a key element too, he said. The European Payments Council had reached agreement to move forward with e-payment channel, and e-mandates, he said. And the EPC had an agreement on how to move forward on M-payments with the 800-member Mobile Operators Association. "It will deliver value, particularly for SMEs," he said. It would also benefit the bottom line of banks. Large corporates had alternative solutions, and were not the main targets.

Ruth Wandhöfer, Vice-President, Industry Expert, EMEA Cash Management, Global Transaction Services, Citi, said she would offer a perspective of the significance of SEPA to a global bank active in Europe. Though electronic payments were a vital corollary to the euro currency, "not everyone has embraced SEPA in the way it should have happened". Public authorities were reluctant to embrace it, and still had paper storage, requiring PDFs to be printed off. Habits, ways of doing business, and legal environments remained fragmented.

As to SEPA direct debits, it remained unclear whether the SEPA mandate could be transferred in every country. For companies like Google, the issue of whether SEPA would happen by 2010 was of the keenest interest, she said. The present uncertainty was felt not just in the banking community, but also by companies that would like to use it, she said.

Although standards on SEPA direct debits were agreed, "we really don't know what is going to happen on D-Day. Would every bank be signed up? If not, it could be like calling somebody with a phone, who didn't have a receiver." The SEPA direct debit is still a risk, and we would like to have a much stronger signal of commitment from the authorities as well that this should happen." Allowing fragmented interchange in a transition period would present problems, she said, and allowing legacy systems to remain in member states could undermine the project.

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E-invoicing and e-mandate were critical. E-mandates would become “very tangible next year” but e-invoicing had a longer time horizon. “If a company is very advanced, but the VAT (Value Added Tax) authority isn’t, there is a mismatch, and it cannot work if that is not rectified.”

As to mobile payments, Europe was heavily regulated, and many mobile operators could see quicker, greater profits in emerging markets where there was less established payment competition. The lack of banking infrastructure in emerging markets, combined with remittances, offered considerable opportunities there, albeit as an easy initiative between two players. To work in Europe, the system would need facilities to allow consumers to switch operators or banks.

Introducing **Erkki Poutiainen**, Head of Infrastructure Cash Management Services, Nordea Bank, Mr de Ploey reminded the audience that Nordic countries were frequently leaders in electronic transaction innovation. Mr Poutiainen said that his focus was on the value of financial services to customers and the customer need. To succeed, SEPA needed “an end-to-end focus, from the customer perspective,” he said. The customer didn’t care about the payment itself. The customer wanted to purchase something, or collect revenue. So the challenge was in the mass market – “from many to many”. This required all stakeholders to be on board.

Core SEPA was happening first in the bank-to-bank infrastructure – necessary, and an historic achievement. But for the customer, the signals were still hard to discern. In bank-to-customer some elements were still unclear, whilst in customer-to-customer – “the real domain” – a lot of the dialogue was happening between the customers. The process had to be “expandable” to provide an end-to-end solution.

Regulation currently prevented innovation, in security and confidence issues as well as payment services. “That is an expensive bill.” On the other hand, within the collaborative SEPA framework, market forces should set the content of innovation. Regulatory support, for example in setting an end-date, was vital, he said. That would remove uncertainty. Banks were accused of being slow to realise SEPA, but the failure to harmonise taxation and VAT regimes would also have a huge impact.

E-invoicing would not be a monopoly for banks, but their participation would be vital to make it happen. “E-invoicing is impossible today. The moment you send an electronic invoice to another company you are a criminal, because you are dealing with an illegal document,” he said. Plenty remained to be done outside the payments sphere. But e-invoicing could be built on the payments infrastructure and its electronic channels. Trust and proven transaction capability for secure transactions with large numbers of counterparties offered an opportunity, he said. Banks could offer a highly secure global messaging environment, and a natural link to commercial parties when they needed finance for ordering and

purchasing processes. Banks could “combine and integrate” these processes, including reconciliation, end-to-end. So there was much to gain from collaborative standards development. But e-invoicing could not work without full stakeholder involvement.

Mr de Ploey observed that panel members seemed largely to agree that E-SEPA was necessary to make SEPA a success. Yet even at a national level, it was hugely challenging to get stakeholders to agree on e-invoicing initiatives. Similarly, although m-payment initiatives were happening at a national level, even between telecoms companies and banks “these are very difficult conversations. People talk a different language, they have different jargon, they are looking at the market and business models in a very different way, with different objectives.” Was it realistic to try to do such difficult things at European level?

Mr Hartsink answered that it took the EPC four years to conclude that it was really making a step forward to use the card network to support mobile phone payments. Since m-payments were a reality in some markets, including France, “why don’t we complete the model for the rest of Europe?” But a clear agreement was needed among all participants in the payment chain that SEPA was the right model. Whilst mobile operators were tempted by m-payment opportunities in emerging markets, they also understood they needed innovation to support their existing networks in Europe, Mr Hartsink said. Though some banks were reluctant to cooperate, some telcos had learned that the payment business was really more than messaging. “Managing counterparty risk is a different issue.” The current dialogue was centred on the content on the phone chip, and the standards around it, he said. He was, however, confident that the EPC could come to an agreement with the GSM association of mobile operators.

Ms Wandhöfer said the urgent need was to ensure SEPA was embedded in the market and in use before moving on to even more challenging projects like e-invoicing and m-payments. “There is a risk we are moving to the third step ahead, when the first step isn’t really getting traction.” Against a background of financial markets turmoil, many institutions would be hard-pressed to fund investments in SEPA direct debits, let alone more distant projects, she said. Whatever the objective, there had to be proper commitment from EU member states, authorities and across borders to get it done.

Mr de Ploey asked whether it wasn’t better to let national initiatives prevail and deliver results, rather than pursue an unattainable vision of pan-European platforms. Best practice could then provide a model for harmonisation later. Mr Poutiainen concurred, saying he didn’t want to support “the illusion” that pan-European solutions were currently attainable. He cited the case of a company with the technological capacity

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to provide electronic signatures to the standard desired in Germany and the UK, but which was still striving to ensure its product would be legally watertight. "If they have half a dozen countries within Europe that process might take one year. The technology implementation could be done in two months," Mr Poutiainen said. But the potential benefits of e-invoicing were unquestionable. Communities should proceed with their plans, whilst sending signals about possible common directions.

A Paypal manager observed that whatever regulation was adopted should be "technology neutral". Implementing the Payments Services Directive was already challenging. But unless Europe pulled its socks up "very soon we are going to be behind the US. We are already behind Asia."

Mr Hartsink said Europe was a technology leader, and the central banks of Russia and Brazil were evaluating the SEPA model, whilst in the US, the Federal Reserve banks in New York and Washington were looking at Europe's XML standards.

One questioner suggested that the large number of banks and telcos in Europe compared with say Africa, made collaborative innovation much more difficult. Wouldn't the innovation come from the likes of Paypal who controlled their process end-to-end? Ms Wandhöfer said it was true that Europe was fragmented, "but we just have to make the best of it". She concurred that it was more challenging, but said there were also strong drivers for innovation in Europe.

Mr Poutiainen said that banks couldn't isolate SEPA from all the other challenges in banking. Banks were threatened by innovation from outside, he said, and "if we can't be more flexible in collaboration, and in partnership, we will lose part of this business". Mr Hartsink responded too, saying that thus far, many customers seemed to prefer the combination of trustworthiness and price offered by banks. And more than 4,300 banks had signed up to start the SEPA credit transfer, and invested in it. Although Paypal, a Luxembourg bank, was an attractive value proposition "I don't; yet see that their market share will be 10 per cent in five years."

Though mobile operators were making inroads into the payment market in Africa, markets there often lacked good banking infrastructure, he said.

The audience was asked whether they preferred to use cards or a mobile phone to pay for parking. Cards were hugely preferred. One member of the audience explained that she had a company mobile, and didn't wish to carry a second simply to make private purchases. Another member of the audience highlighted security concerns about card payments for internet purchases.

A Visa executive asked whether banks shouldn't spin-off their payments businesses, motivating managers who run them to be as innovative as possible. Mr Poutiainen said he had already proposed that idea to his own bank. Ms Wandhöfer said that whilst it was easier for a single player to innovate, that might not solve the problem. Mr de Ploey said the entanglement of payments with current accounts and general ledger might make separating them very difficult.

But did Europe really have an appropriate institutional and legal environment to facilitate innovation, asked an audience member. Mr Hartsink said the SEPA programme was a mixture of co-regulation and banking co-operation. But many bankers had mixed feelings about the behaviour of the public sector, he said. "The public sector at European level is not always aligned." To get 27 EU finance ministers, competition authorities, and central banks to agree was "really a challenge". Though 4,300 banks had agreed SEPA principles, 15 central banks couldn't reach an accord, he said. "It's bizarre." He also remarked that some finance ministers said one thing at Ecofin meetings, and another when they returned home. Ms Wandhöfer and Mr Poutiainen agreed.

Summing up, Mr de Ploey said there was optimism and a belief that e-SEPA was needed to make SEPA a compelling proposition, but that being realistic, there were "a number of challenges" arising from fragmentation of the banking industry, regulations and behaviour of public institutions, but that shouldn't prevent pragmatic progress.