Horizontal Integration in the Payments Industry

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Content

- European landscape
- Restructuring of functions
- Impact of horizontal integration
- Cooperation model
- Conclusions

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EPC Eurozone Members (EU13)

	AT	BE	DE	ES	FI	FR	GR	IE	IT	LU	NL	PT	SI
Multi-Country Banks	RZB ERSTE	KBC FORTIS	Deutsche Bank	BBVA Grupo Santander	Nordea	Société Générale Groupe Caisse d'Epargne BNP Paribas Crédit Agricole S.A.			Sanpaolo Banca Intesa UniCredit Group		Rabobank ABN·AMRO ING	Millennium bcp Caixa Geral de Depositos	
Mono Country Banks			Bayern LB WestLB DZ BANK Zusammen geht mehr.	"la Caixa" CECA		Crédit Mutuel Natexis Banques Populaires			BPU banca BancAction				
National Associations			BVR Finanzgruppe Deutscher Sparkassen- und Giroverband bankenverband.de			Fédération Bancaire Française	Hellenic Bank Association	IPSO	ABI		NVB Nederlandse Vereniging van Banken		ZBS The Bank Association of Slovenia
European Associations		European Savings Banks Group							ABE EBA			FBE	

EPC non-Eurozone members (EU12+3) partly active in the Eurozone

	CY	CZ	DK	EE	HU	LT	LV	MT	PL	SE	SK	UK	CH	IS	NO
Multi-Country Banks										SEB Föreningssparbanken	ČSOB	Barclays The Royal Bank of Scotland Lloyds TSB citi HSBC	UBS		DnB NOR
Mono Country Banks	Coop Central Bank			Eesti Pangaliit	MKB		Latvijas Krājbanka	BOV Bank of Valletta p.l.c.	PKO Bank Polski					Íslandsbanki	
National Associations	BA		Finansrådet						B			APACS			
European Associations										ABE EBA				FBE	

European Card Schemes

Europe today

- National / local solutions
- Different schemes, experiences, standards
- Consumer protection laws
- No interoperability of national schemes
- Cross-border complexity and risk

Different domestic brands

ABN·AMRO

Card Processors in Europe

Equens – Payment Services for Europe
Ownership: inter-bank

PBS
Ownership: inter-bank

BBS – Technology that pays off
Ownership: inter-bank

CEKAB

banksys
Ownership: Atos Origin

Luottokunta
Ownership: inter-bank

Atos Origin
Ownership: public

GZS
Ownership: First Data

ServiRed
Ownership: inter-bank

Telekurs Group
Ownership: inter-bank

SIBS
Ownership: inter-bank

Sistema 4B
Ownership: inter-bank

SERMEPA – Servicios para Medios de Pago
Ownership: private

SSB
Ownership: inter-bank

APSS – Austrian Payment Systems Services
Ownership: First Data

ΔΙΑΣ
Ownership: inter-bank

International players

First Data

TSYS

SINSYS

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Our regulators' expectation*

Vision: **"An euro area in which** all payments are domestic**, where the current differentiation between national and cross-border payments no longer exists"**

2008 deliverables **for the Euro area (EU13):**

- **credit transfer** available to customers **from Jan. 2008 at the latest**
- **priority payment** available for customers **from Jan. 2008 at the latest**
- **direct debit** available for customers **from Jan. 2008 at the latest**
- **cards:** elimination of all technical and contractual provisions, business practices and standards **from Jan. 2008**

2008: implementation

- NCB's will facilitate implementation process
- public administrations should be first movers

2010: migration

- SEPA objectives implemented **end of 2010**
- NCB's will facilitate migration process

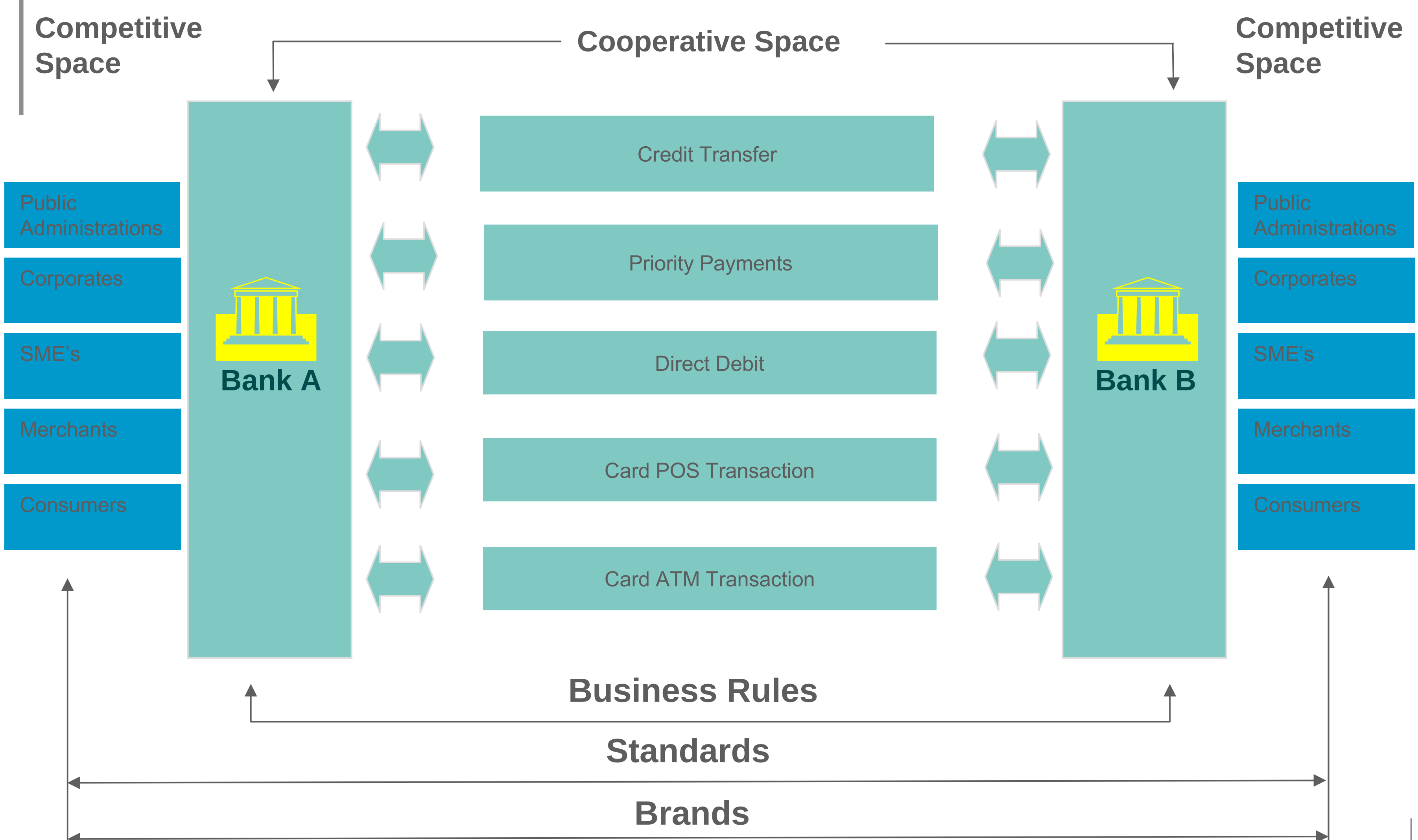
* Governing Council ECB, 4th Progress Report 17 Feb. 2006

Scope of the Payments Services Directive and of the Single Euro Payment Area

PSD Compliance	EUR	Domestic payment instruments and infrastructure (EUR)	SEPA payment instruments and infrastructure (EUR)	EU13	EU27
	Non EUR	Domestic payment instruments and infrastructure (non euro-currencies)	SEPA payment instruments and infrastructure (EUR)	EU14	
Voluntary Adoption of PSD Provisions		Domestic payment instruments and infrastructure (non euro-currencies)	SEPA payment instruments and infrastructure (EUR)	EEA + CH	
			SEPA Compliance		

Source: EBA Association

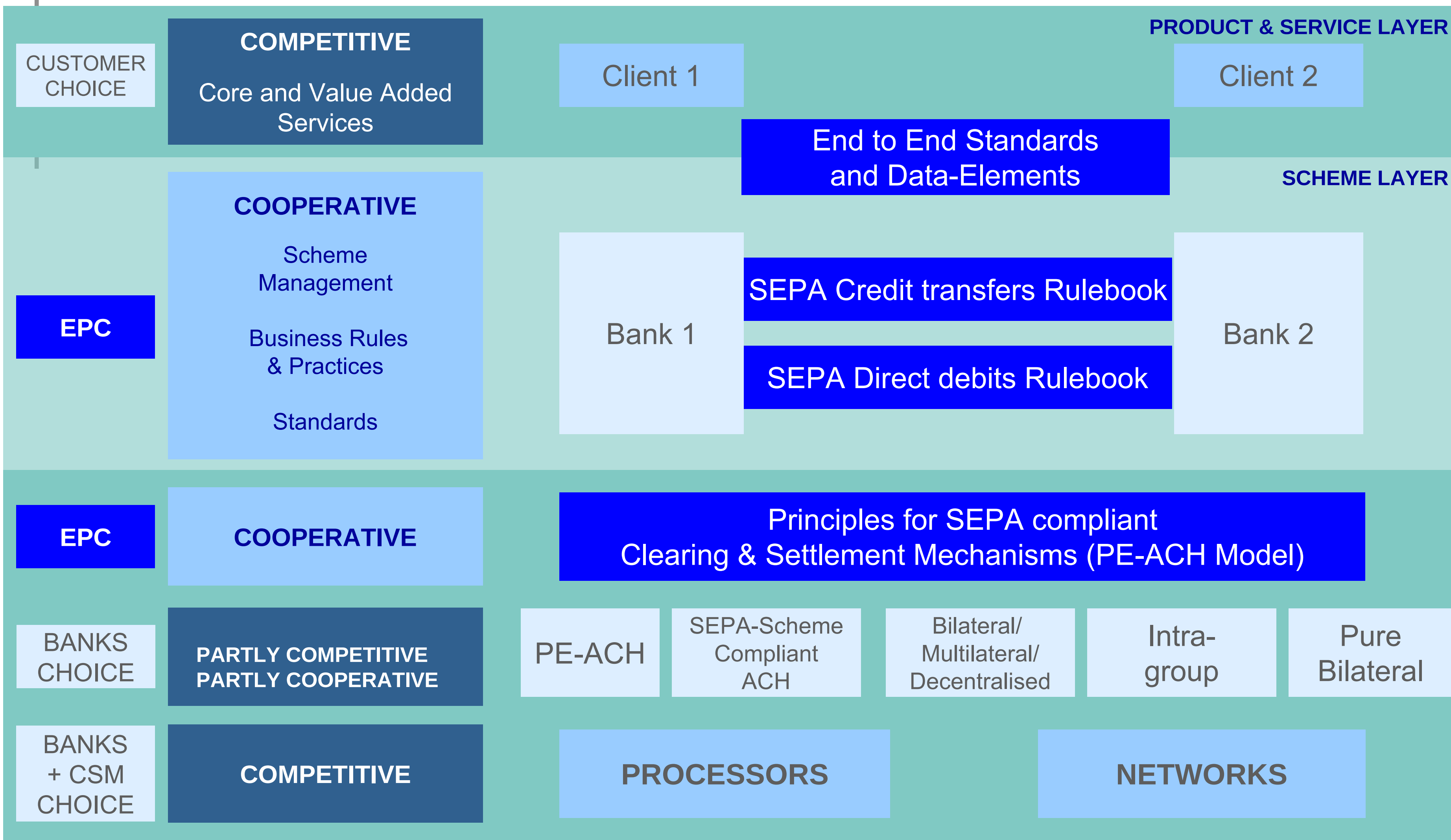
Competitive and cooperative space in SEPA (two side market)



EPC Approach

- **Unbundling the payment functions in three layers**
  - Value propositions of banks
  - Scheme layer
    - Business Rules
    - Standards
    - Brands
  - Infrastructure layer
- **Creation of:**
  - Rulebooks with business rules and standards
  - Frameworks with principles

Positioning SEPA Payment Schemes



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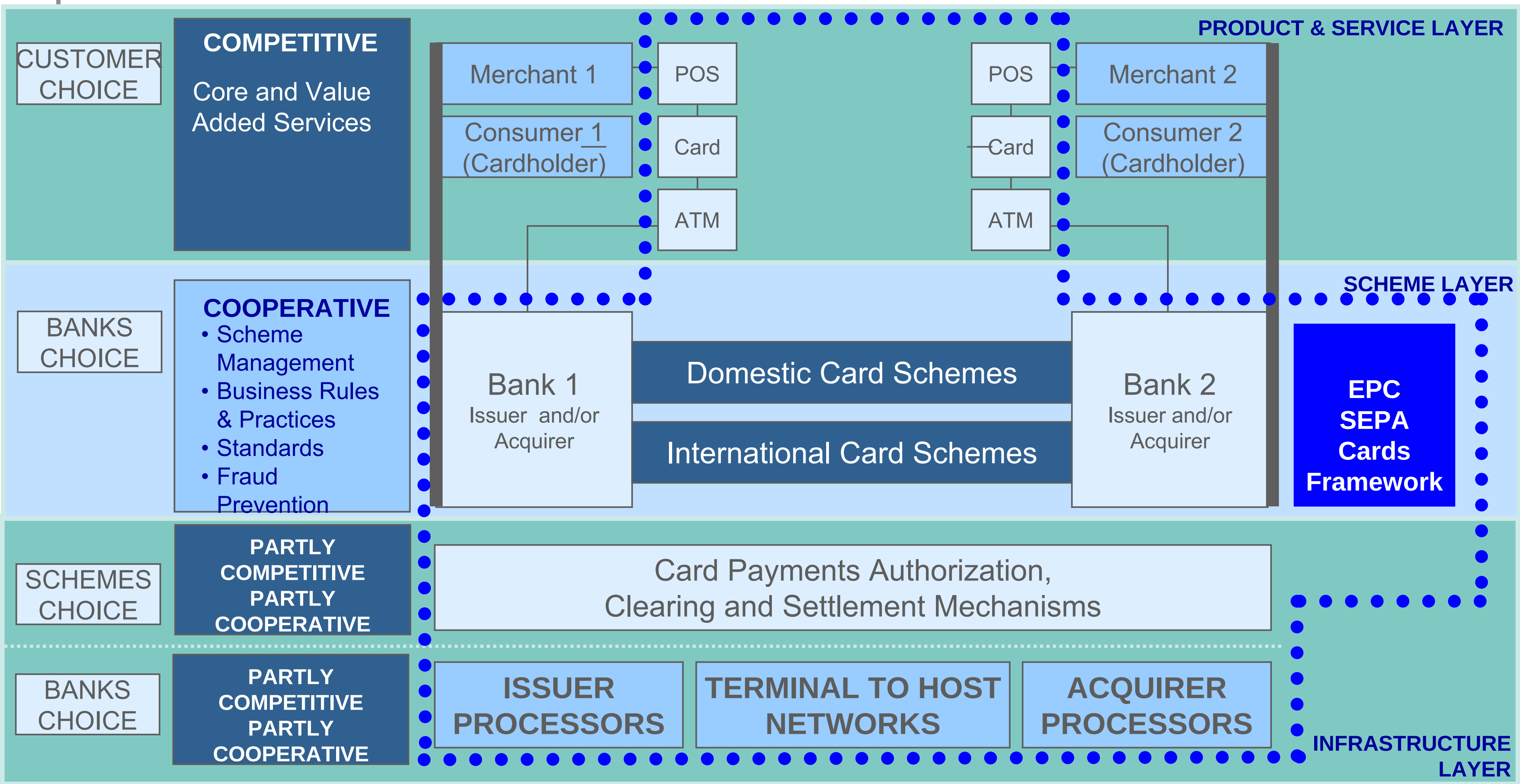
Scheme functions of card value chain



EPC Design Deliverables

Primary Deliverables*

- Credit Transfer — ● SEPA Credit Transfer Rulebook
- Direct Debit — ● SEPA Direct Debit Rulebook
- Cards — ● SEPA Cards Framework

Complementary Deliverables*

- Cash — ● SECA (Cash Framework)
- E-payments for web retailers
- M-payments

Value added service deliverables (out of scope of EPC Governance)

- EBA Association: Priority Payment Protocol
- EACT and EBA Association: E-invoicing
- Authentication services for e-government services

***EPC Roadmap December 2004 and EPC Declaration 17 March 2005**

SEPA Cards Framework

- **SEPA Card Framework** (approved July 2006)

- Provides a single framework for the **payment function of cards** for
  - **Banks** e.g. Issue EMV cards with PIN from Jan 2008
  - **Card schemes** e.g. Unbundling scheme from processing functions
  - **Service providers** e.g. Unbundling scheme from processing functions

- **Cards Standardisation** in SEPA (approved December 2006):
  - **4 domains**
    - card to terminal
    - terminal to acquirer
    - acquirer to issuer
    - certification process
  - Focus to create (adopt) **global standards**: ISO, EMVco, a.o.

Public Policy Provisions for SEPA for Cards

- **Governing Council** ECB (17 November 2006):
  - Emergence of a European card scheme
  - The interchange fee issue
  - Fostering competition
  - Acquiring and acceptance practices
  - Processing
  - Standardisation
  - Data protection
  - Fraud
  - Monitoring card payment prices
  - SEPA compliance
- **EPC response** on the ten recommendations of **SEPA for Cards** (April 2007)

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Impact for Customers

- **Customers**
  - Impact on:
    - Consumers
    - Mono Country Corporates, Merchants and SME's
    - Multi Country Corporates, Merchants and SME's
    - Public Administration
  - Impact on:
    - Service levels
    - Flexibility in choice of payment service provider
    - Costs
    - New services

Impact for Society

- **Regulators**
  - Economic Policy
    - Lisbon Agenda
    - Competitive Financial Sector
  - Central Banks view
    - For euro payment instruments with reachability to all bank accounts
    - Contribution to a more integrated financial sector
    - Support for Euro currency
  - Competition Authorities
    - Enhanced competition
    - ensurance of level playing field
    - Increased market transparency for both providers and users

Impact for Suppliers

- **Banks** (and payment institutions**)**
  - Business Model:
    - Delivery Model
    - Sourcing Model
  - Bank Type:
    - Mono Country Banks
    - Multi Country Banks
- **Schemes**
  - SEPA Card Framework compliant
  - Unbundling scheme functions and processing functions
  - Adapt or Die
- **Card Processors and Clearing Houses**
  - Volumes!
- **Vendors**
  - Opportunities and threats

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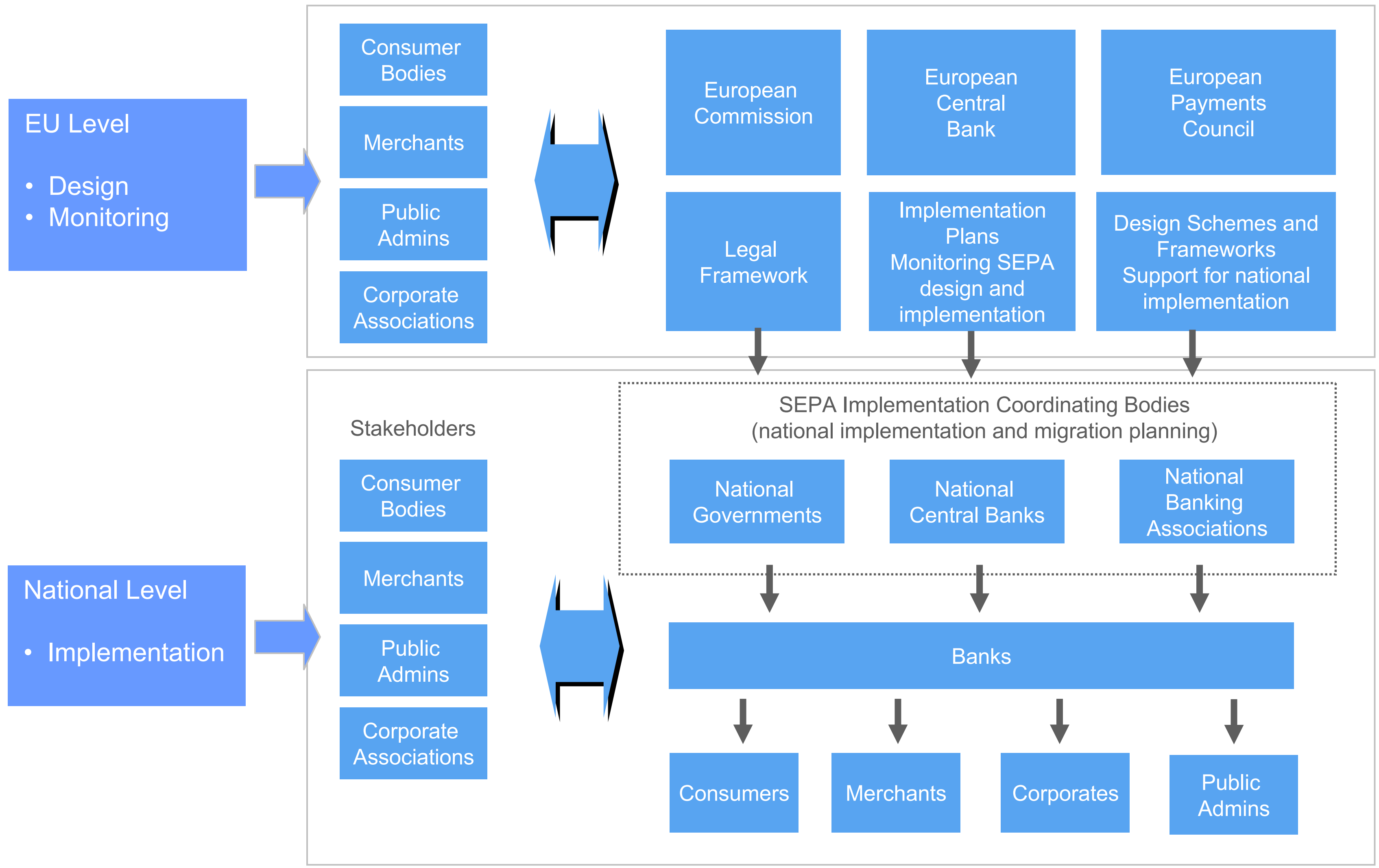
Cooperation model with SEPA stakeholders



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Conclusions

- The European Council and the Governing Council of the ECB expect deliverables with concrete deadlines
- The approved Payment Services Directive (PSD) will harmonise the legal environment and will be transposed into the law systems of the EU27 countries before November 2009
- The EPC was able to create commitment for a vision, for an EPC Roadmap and for the creation of harmonised business rules and standards for the January 2008 SEPA deliverables
- All suppliers in the value chain of payment services (banks, schemes, service providers) are reviewing their business models
- Horizontal integration is taking place on the bank layer, on the scheme layer and on the service provider layer. In particular the manufacturing functions of the value chains will be restructured
- Customers of banks, schemes and service providers are expected to benefit from the harmonisation for and consolidation of the Euro(pean) payments markets