



## Bite the bullet

Smaller players in the market need to take heed of SEPA

Whether Europe's banks like it or not, the Single Euro Payments Area (SEPA) is set to become a reality by 2010, and with it, the differences between prices and levels of service for domestic and cross-border retail payments will be eliminated. The Eurosystem has made it quite clear that if the banks backtrack on their promised deliverables to achieve SEPA, it may consider regulatory measures to enforce its creation. It has also stressed its belief in the importance of implementing pan-European standards for STP as a prerequisite for accomplishing SEPA for all payment instruments.

For corporate and retail bank customers, SEPA is clearly good news. For the banks, however, it creates challenges: they face a loss of revenue from the elimination of charges for international transfers and increased competition as "domestic" franchises become meaningless. They must undertake significant IT projects to ensure their infrastructures are ready to play in the post-SEPA world.

On the flip side of course there are opportunities to be capitalised on by banks with an appetite to do so, not least a pan-euro zone customer base to target with innovative payments products. And while in the short term there will be some pain and cost involved in migrating to a SEPA-ready IT infrastructure, over time, investment in modern, efficient payments systems and adherence to standards and STP best practices should yield benefits in terms of cost reduction and far greater business agility.

The stakes are so high that banks should lose no time in embarking upon strategic reassessments of their payments businesses. Some of the biggest banks are making headway with their preparations but there seems to be less activity among the tier two and three players. These are exactly the institutions at greatest risk of being crowded out of the payments business post-SEPA as competition intensifies and the benefits of scale operations come into their own.

Small and medium players must innovate in order to streamline costs and keep adding value in an environment where payments are commoditised, or be forced to outsource. Within the next six months, these players need to formu-

late their strategies for surviving SEPA, in order to begin executing them next year.

Survival will depend on the degree to which banks prove successful in doing two things: reducing their costs as far as possible, and compensating for lost revenue with new products and services. Reusable components based architecture, IP based communications and J2EE computing approaches are just some of the technologies banks can tap into to reduce the cost of their payments operations over time.

Unlike the payments solutions of the past, the offerings on the market today are modular and facilitate a gradual move from old systems to new, as well as scaling to meet the requirements of banks of all sizes. They also accommodate emerging XML based standards for payments messaging, such as ISO 20022, thus helping banks capitalise on industry efforts to improve STP.

The systems banks put in place to handle the obligations of SEPA must also enable them to create and provide new products and services quickly and cost-effectively, if they are to offset lost earnings in the new environment. European banks can learn some useful lessons from those in the US, where a long-commoditised payments environment has forced institutions to innovate and exploit the potential of STP to its fullest. For example, extending automation to provide personalised customer service at lowest cost and maximum efficiency.

Systems that can carry out intelligent message repair and that take a content based approach to understanding and processing payments messages will be an essential part of the IT backbone. This will allow them to maximise the benefits of their investment in STP to create value-added services.

The arguments for banks of all sizes to bite the SEPA bullet now, and get their business and IT projects under way as soon as possible, are unassailable. Those that fail to reshape their strategies and IT infrastructures to fit in the post-SEPA world risk losing out to the competition in a potentially fatal way. Since they have no choice but to prepare, it would seem those that take a pioneering approach can only gain by jumping on the SEPA bandwagon without delay.

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