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SEPA Success Subject to Incentives from Regulators says 2007 World Payments Report

London, September 13th - It is unlikely that a critical mass of SEPA¹ payment instruments will be achieved by the end of 2011, unless regulators provide incentives in order to mobilise European public administrations and corporations to adopt the new SEPA instruments. This is a key finding of the World Payments Report 2007², published today by Capgemini, ABN AMRO, and the European Financial Management & Marketing Association (EFMA). The report, now in its third year, considers world payments trends, with a particular emphasis on developments towards a Single Euro Payments Area in Europe.

The public sector could contribute 29% of the required volumes to reach critical mass for the new SEPA credit transfers and direct debits, and if corporate payments volumes for these instruments were added, then critical mass of SEPA transactions could be reached or even exceeded by 2010, says the report.

“Many domestically-focused corporations are reluctant to work towards SEPA implementation, arguing that it should be the responsibility of banks and regulators to fulfil their business requirements. Regulatory as well as business incentives are therefore vital to attract these parties to act.” said Patrick Desmares, Secretary General of EFMA.

The report’s authors analysed SEPA implementation and migration plans published earlier in 2007 for the 13 current eurozone countries and found that none expects to achieve a critical mass of SEPA payments before the agreed deadline in just over three years. Some countries would even like to retain legacy payments as long as demand exists.

“Reaching a critical mass of SEPA credit transfers and direct debits quickly is key to keeping payments costs down and managing the revenue impact of SEPA and of the Payment Services Directive,” commented Bertrand

Lavayssière, Capgemini's Managing Director of Global Financial Services. *“For banks, slow adoption translates into increased costs as a result of maintaining both legacy and new payments services.”*

Report analysis and interviews conducted with major European banks for the 2007 report confirm last year's findings: that banks will see direct payments revenues decline by between 38% and 62% in some parts of the market by 2012.

The report suggests that, to stay competitive in the new payments landscape, banks will need to reassess their operating models in Europe, and may choose one of three strategies –niche player, low cost producer or industry leader – and it goes on to suggest that many banks will need to outsource at least part of their payments activities.

“Strategic sourcing partnerships – including outsourcing, offshoring and white-labelling - will play an increasingly important role as the payments industry focuses on globalisation, regulation and performance,” said Ann Cairns, CEO, Transaction Banking, ABN AMRO. *“The report shows that Europe's banks have a small window of opportunity in which to consolidate their payments position.”*

The World Payments Report 2007 reveals that 58% of banks already plan to, or are, outsourcing all or part of their payments activities in the next five years. Sixty-eight percent plan to offshore this activity as well.

Other key findings of the World Payments Report 2007 are:

- Cash remains the predominant payment instrument in Europe, and there are still no clear initiatives to replace cash in order to reduce the cost of cash to society.
- Europe needs an “any card at any terminal” solution. The card market is growing at over 10% per year and will remain the leading non-cash payment instrument. Banks should consider forming a new European debit card scheme to replace existing national schemes.
- The Payments Institutions created under the Payment Services Directive are unlikely to present a serious competitive threat for banks until 2011.
- The top 10 banks in the 2012 European market will each process approximately five billion transactions per year.
- Banks are repositioning their business models and turning to open architectures to enhance product offerings, outsource/insource payments and provide integrated services to their clients.

Copies of the report are available for download at www.capgemini.com/wpr07 and for EFMA members at www.wpr07.com

¹ **SEPA**

The Single Euro Payments Area (SEPA) project aims to create a domestic payments market across the eurozone. SEPA payments services should be made available to customers from January 2008 and critical mass should be achieved by 2010. The overarching goal of SEPA, as formulated by the European Commission, is to create a more competitive and transparent euro payments area. The assumption is that the Single Euro Payments Area will benefit consumers and corporations alike. The eurozone countries are those that have adopted the euro as their national currency. The 13 countries that are in the eurozone and surveyed for this report are: Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, The Netherlands, Portugal, Slovenia and Spain. Four non-eurozone countries - Denmark, Poland, Sweden and the UK – are also included in the survey data for the report.

² **The World Payments Report 2007**

First published in 2005, The World Payments Report 2007 from Capgemini, ABN AMRO and EFMA explores the evolution of payments transactions and the current payments landscape.

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The European financial management and marketing association (Efma) is the leading association of banks, insurance companies and financial institutions throughout Europe. On a non-for-profit basis, Efma promotes innovation and best practices in retail finance by fostering debate and discussion among peers supported by a robust array of information services and numerous opportunities for direct encounters.

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