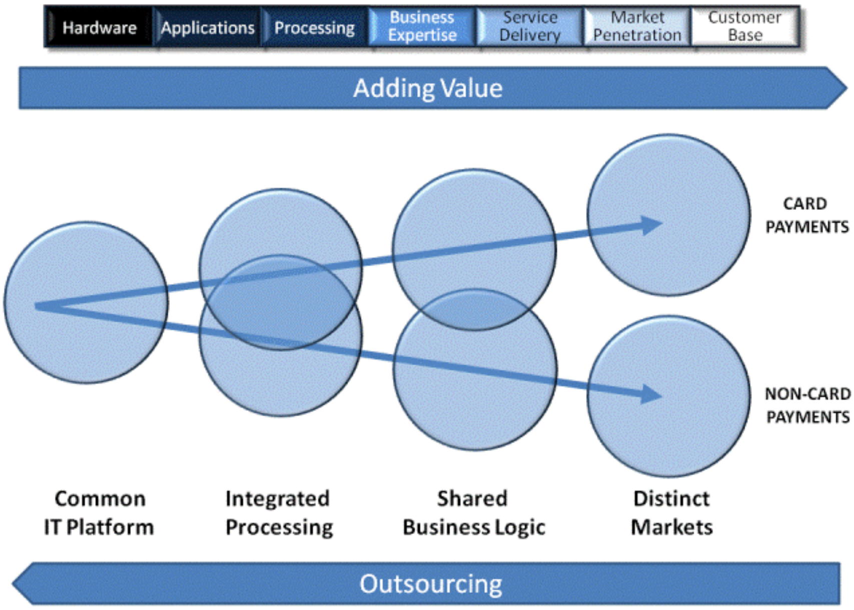
THE POST-SEPA PAYMENTS LANDSCAPE

PAYMENTS CONVERGENCE

Driven mainly by the move towards a Single Euro Payments Area (SEPA), the European payments processing landscape is changing rapidly. Three types of convergence are underway:

- **Geographical Convergence.** Payments processing across different european countries is harmonising and cross-border payments are becoming more similar to domestic payments. As a result, smaller domestic processors are being replaced by larger pan-European processors which are able to leverage economies of scale. This is true of both card payments, with the increasing dominance of large international processors such as First Data, and non-card payments, with small domestic Automated Clearing Houses (ACHs) giving way to larger pan-European ACHs or "PE-ACHs", such as Vocalink.
- **Industry Convergence.** The processing of card payments (debit and credit cards) is converging with the processing of non-card, ACH payments (direct debits and direct credits). This is reflected in the emergence of organisations which process both card and non-card transactions, for example Equens, which was formed from the merger of a belgian card processor, Banksys, with a German ACH, TKI.
- **Value Chain Convergence.** The distinctions between players at different stages of the payments value chain are beginning to blur. In particular, there is an increasing tendency for smaller organisations to outsource processing activities to larger, more efficient players upstream in the value chain. This is true of smaller banks outsourcing to larger banks, banks outsourcing to payments processors, and processors outsourcing to IT companies, as illustrated below.



CONVERGENCE SCENARIOS

The table below illustrates various convergence scenarios:

Post-SEPA processing scenarios

	DOMESTIC	PAN-EUROPEAN
BOTH	Emerging integrated players (eg Vocalink; Equens; SIA-SSB) *"New processing model"*	Post-SEPA, pan-European, integrated processors *"Ultimate objective (none yet)"*
CARDS	National Card Associations (eg BCC; Carte Bancaire) *"Dying Breed"*	Card Schemes (eg Visa; MasterCard) Specialist Processors (eg First Data; TSYS; Elavon; PSPs) *"Increasingly powerful"*
NON-CARDS	National ACHs (eg STET; Iberpay) *"Many still strong"*	PE-ACHs + Interoperability (eg EBA Clearing) *"SEPA influence"*

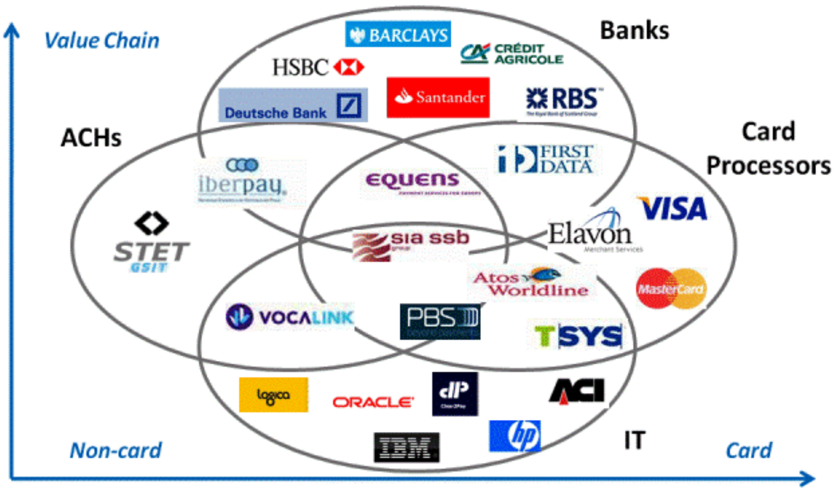
The table below illustrates various convergence scenarios:

- The **yellow arrows** illustrate the ongoing consolidation of domestic processors into pan-European processors, already referred to.
- The **blue arrows** illustrate the emergence of PE-ACHs such as Equens and Vocalink, which have aspirations to process both card and non-card payments on a pan-European basis.
- The **red arrows** illustrate the possible movement of the international card companies, and other large card processors such as First Data, all of which already operate on a pan-European basis, into non-card, ACH processing.

POSSIBLE WINNERS

Which organisations will emerge as winners in the post-SEPA payments landscape? To find out, Collin Consulting Ltd carried out an informal survey of the opinions of a small number of payments industry experts, in effect asking them to vote for key players in four categories: banks; card processors; non-card processors, and IT companies. And the payments landscape which emerged looked like this:

Likely winners in the post-SEPA payments landscape



Interested? Please contact Nick Collin on nick@ncollin.demon.co.uk or **+44 (0)207 833 8765** with comments or questions.