



The State of the European Payments Marketplace

The Outlook for SEPA and the PSD

A report by the Financial Services Club

Autumn 2010

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- I. Chris Skinner

Welcome to the second annual survey performed by the Financial Services Club and sponsored by Dovetail, Earthport and Logica, investigating the state of Europe's payments markets. The first survey, released in September 2009, discovered major issues in the implementation of the Payment Services Directive (PSD) which was due in force in November 2009. One year later, the picture is more interesting as the market adapts to these developments. In this report we present the major news and headlines, with comparisons to some of 2009's results.

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Executive Summary

A year after the transposition of the Payment Services Directive (PSD) and implementation of the Single Euro Payments Area (SEPA), European payments professionals are overwhelmingly disappointed with the progress, or lack of it, in harmonising and regulating an integrated European payments market. Meanwhile, new competitors are registering rapidly as new Payments Institutions and are creating major challenges for traditional banks.

- 322 people took the survey representing 42 nations globally
- 52 percent thought the European Union would stay together whilst 24 percent thought it would fail.
- 30 percent believe the euro is critical to keeping the European Union together, compared to just 18 percent a year earlier.
- 78 percent state that the Eurozone will continue to expand across more countries and become a successful reserve currency alongside the US dollar
- 85 percent say the PSD transposition process has been successful, although 51 percent of bank respondents and 36 percent of non-banks believe that derogations actively hindered the transposition.
- 68 percent believe there will be a PSD Mark II to replace the deficiencies of the first.
- 54 percent say that SEPA is not succeeding compared to only 24 percent who think it is.
- Most innovation in payments is created either by non-bank payment institutions (35 percent of vote) or regulators (27 percent of vote).

For the second year, the Financial Services Club ran a survey of payments professionals worldwide to see how successful the implementation of the Payment Services Directive (PSD) and Single Euro Payments Area (SEPA) have been since the PSD transposition in November 2009 and implementation of SEPA's full program of Credit Transfers (SCTs) and Direct Debits (SDDs) at that time.

This year's survey is sponsored by Dovetail, Earthport and Logica, and was completed by over 320 people covering all of the Eurozone and more. Representatives of 42 nations took part during the summer of 2010.

European Union

With the backdrop of the European Union's member states of Portugal, Ireland, Greece and Spain, collectively nicknamed the PIGS, it is not surprising that many people thought the European Union was having problems. Over half of respondents (52 percent) thought the Union would stay together, whilst almost a quarter (24 percent) thought it would fail. Interestingly, a third (30 percent) of the respondents believe that the euro is critical to keeping the Union together, compared to just 18 percent a year earlier. This is also a reflection of the importance of the Economic & Monetary Union in maintaining a stable Europe, with 78 percent of respondents stating that the Eurozone will continue to expand across more countries and become a successful reserve currency alongside the US dollar.

PSD

The responses were supportive of the PSD process, with 85 percent of respondents saying that the process had been successful, with just a few issues related to the use of derogations in some countries. Unfortunately, these issues were significant with 51 percent of the 112 bank respondents

and 36 percent of the rest (non-banks) stating that derogations had actively hindered the PSD transposition.

Other comments were made that, “The 'enshrining' of BIC & IBAN in the recitals of the PSD has been a huge mistake.” Another respondent noted: “There are many uncertainties around the PSD such as the interpretation of the PSD in Swiss banks, the PSD implementation in CEE, the speed of PSD implementation in Southern Europe, and lots of legal documents with conflicting contents.”

For these reasons, over two-thirds of respondents (68 percent) believe there will be a new PSD to replace the deficiencies of the first. However, many would rather have a continually adjusted Directive rather than new Directives drafted every few years.

Meanwhile, 66 percent of bank respondents had seen major change as a result of the PSD, compared to only 31 percent of the non-bank respondents. This is a reflection of the major change initiated by the PSD on banks internal systems and processes, and the launch of new competitors. For example, over 70 payments institutions (PIs) were cited by the survey's respondents as being created since the introduction of the PSD. These included regular suspects such as PayPal and Western Union, to a few new entrants including Earthport and Voice Commerce.

SEPA

In terms of SEPA, respondents feel they know how SEPA operates less well this year. Only 55 percent felt that they understood SEPA well, compared to 62 percent last year. Maybe this is because they do not believe SEPA is working, with an average 54 percent saying that it is not succeeding compared to only 24 percent who think it is. Of the bankers who responded to this question, the percentages rise to 57 percent who think it is working whilst 27 percent think it is not.

The problem relates to a lack of benefits (17 percent), bank (18 percent) and corporate (16 percent) resistance to SEPA, limitation by countries through the use of derogations (17 percent) and, most importantly, the lack of an end-date (24 percent) meaning that there is no motivation to implement SEPA instruments.

This is why the majority of this year's respondents think that the SEPA vision for “all Eurozone payments transactions to be processed as though they were domestic” will be achieved between 2014 and 2017 (43 percent of the vote). This is less optimistic than a year earlier, when 49 percent of respondents thought it would be achieved before 2014. Interestingly, only 11 percent of respondents a year ago thought that SEPA's vision would be realised after 2017, compared to 34 percent this year.

Innovation

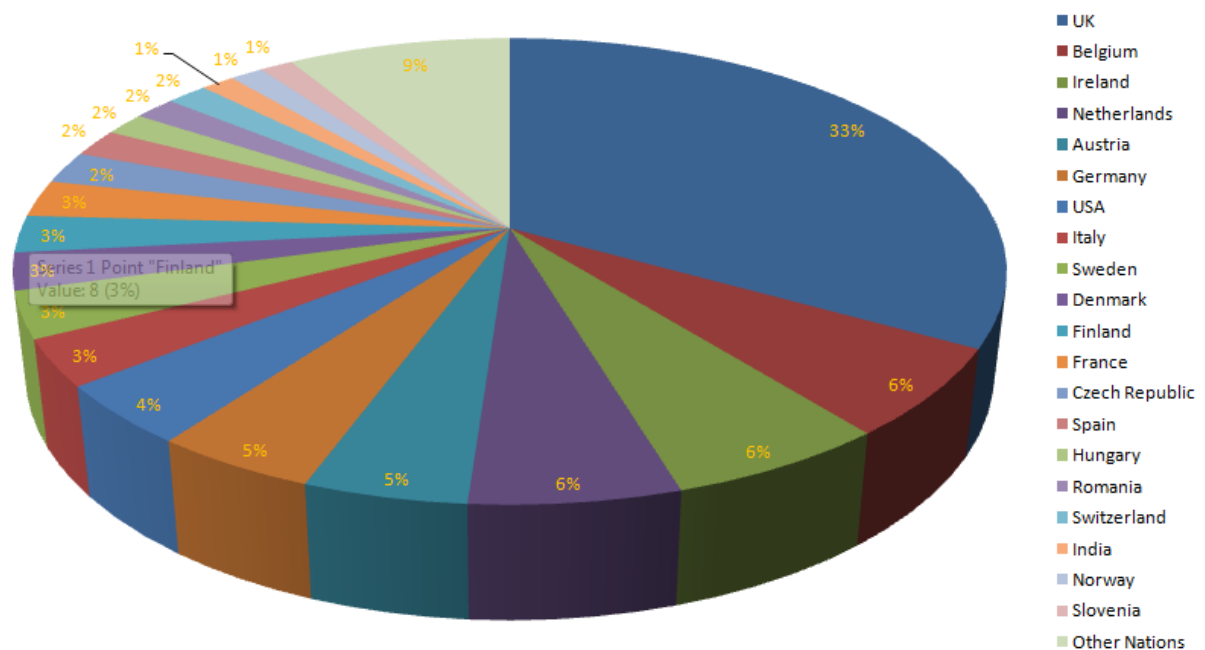
Finally, the survey reviewed the views of respondents on innovation, with most innovation in payments created by either non-bank PIs (35 percent of vote) or regulators and policymakers (27 percent of vote). Less than nine percent of the respondents believe that banks create innovation, although this is disproportionately viewed between bankers, where 17 percent believe they are innovators, and non-banks where only 6 percent believe banks innovate.

This may be because banks are limited by issues of budget, with 41 percent of bankers surveyed stating that this is what stops them innovating.

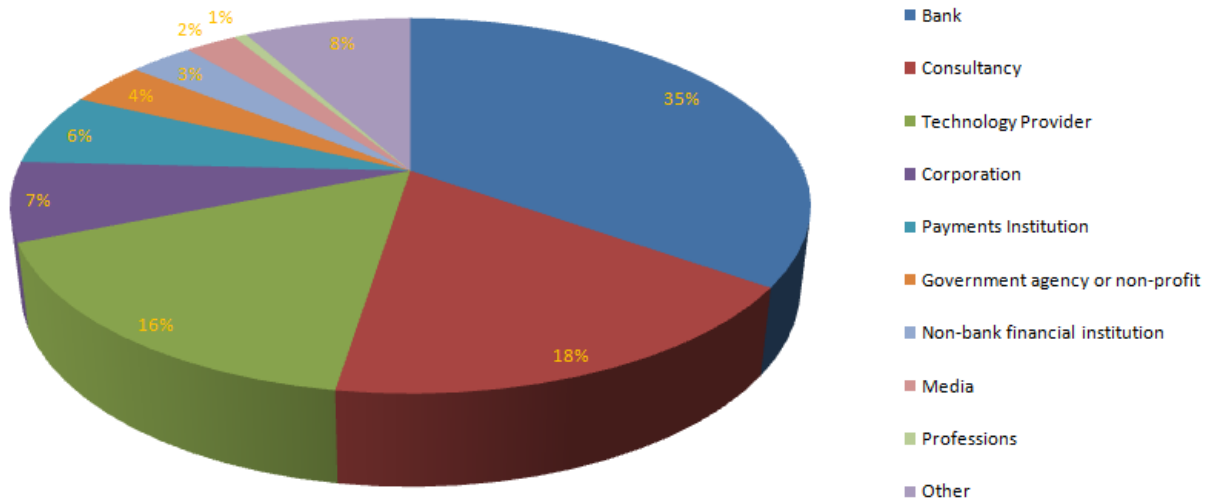
In terms of innovation, the most innovative things our survey audience noted are real-time payments, mobile and contactless payments, and the convergence of payments processing into payments hubs. The least innovative things were felt to be anti-fraud measures using new biometrics, such as voice. This intrigues as one of the major new PIs cited in the survey was Voice Commerce, which uses voice biometrics for customer authentication and identification.

Background

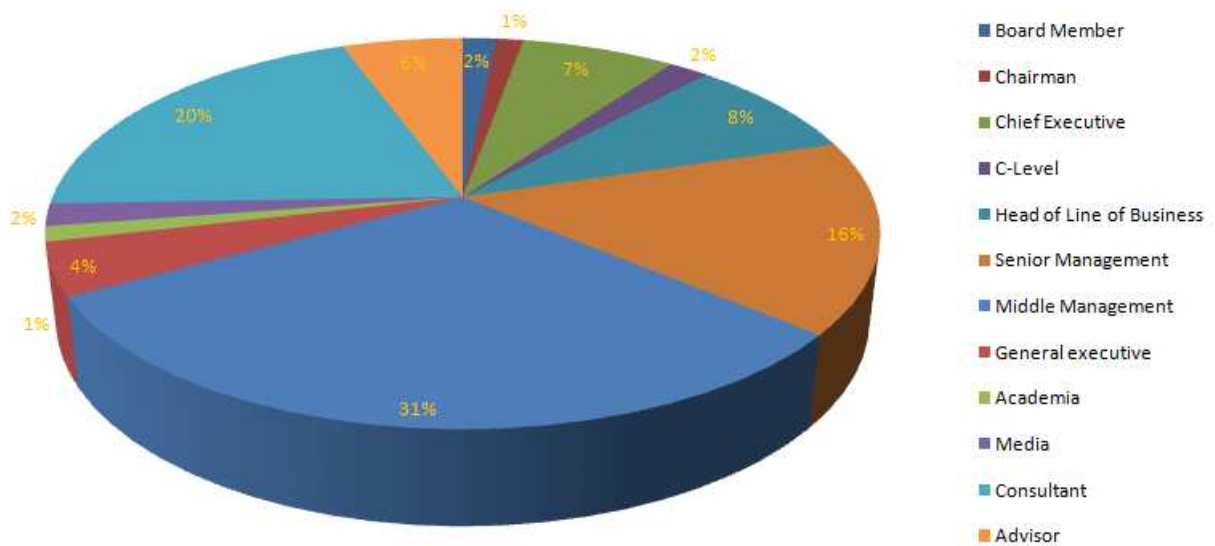
The survey ran during between July and September 2010 and was completed by 322 participants across 40 countries. The core community who work with the Financial Services Club are in the UK, which is why this community is the strongest with over a third of the participants. Of the 16 Eurozone nations, thirteen of these member states participated and represent a major contingent in the survey, with 38% of the vote. Meanwhile, there are also many non-European nations also participating, including strong input from America, India and Hong Kong, as well as views as diverse as Kazakhstan to Malaysia, and Uruguay to the UAE.



In terms of who participated, the largest group is from the banks with over a third of the respondents from this constituency. Consultants and technology providers are the next largest group, and are also just under a third of the votes.



Three out of ten participants described themselves as “middle management”, whilst 38% were senior management or C-level and one in five were “consultants”.



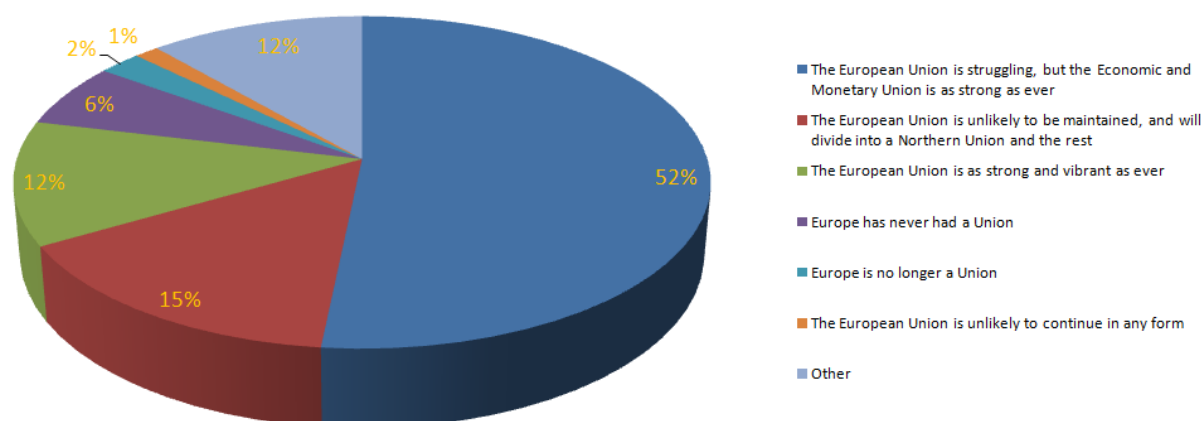
Section One: Exploring developments in the European Union

How strong is the European Union?

The survey began with a discussion around developments in the European Union. At the time, Greece had just had a major shock to their economy over Sovereign Debt and the phrase 'PIIGS' – referring to Portugal, Ireland, Italy, Greece and Spain – had been used liberally to refer to the exposures to debt across Southern Europe.

Bearing in mind that the Euro and the Economic & Monetary Union (EMU) are the core fundamentals of banking change in the EU over the past decade, we began this year's survey with a critical question: *Since the financial crisis began, which of the statements below do you agree with.*

The options ranged from *the EU is as strong and vibrant as ever* to *Europe has never had a Union*.



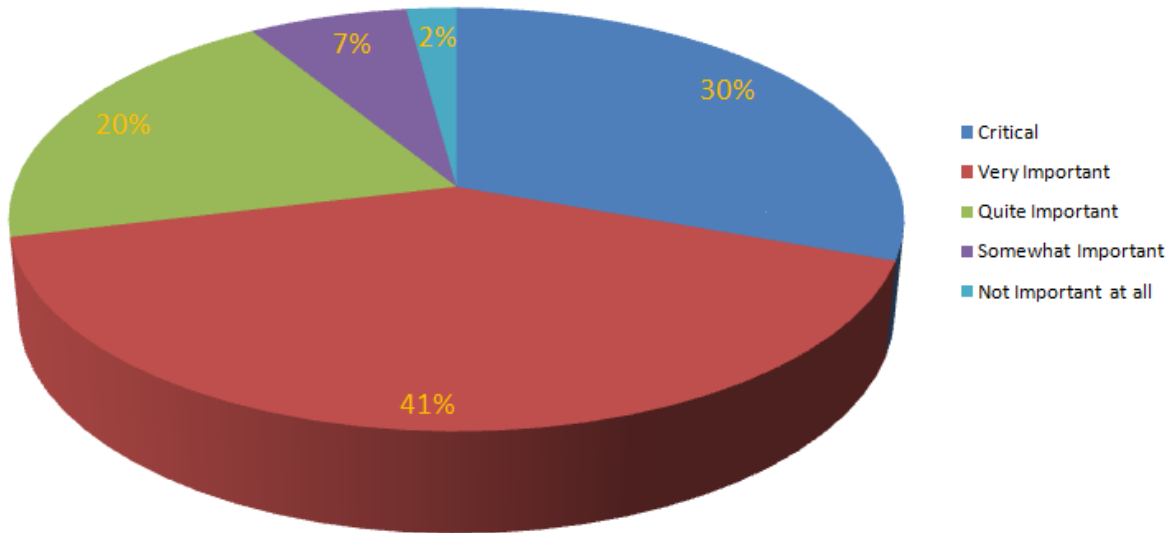
The results prove that our financial audience believe that Europe is going to maintain its' EMU, with over half of the participants endorsing the statement: *The European Union is struggling, but the Economic & Monetary Union is as strong as ever.*

Interestingly, the second most popular answer was that *the European Union is unlikely to be maintained, and will divide into a Northern Union and the rest*, although this may have reflected the sovereign debt crisis of the PIIGS as described earlier.

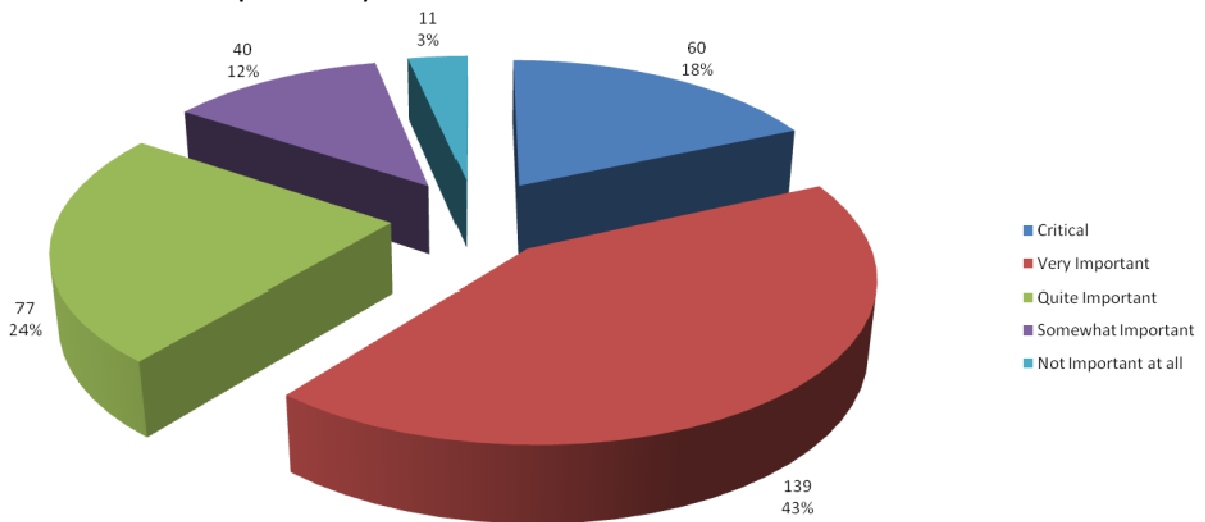
Overall, 63% of participants responded positively to this question whilst only 24% chose the negative options and so it is reasonable to conclude that the financial markets and their participants are still as strong in their belief in the EU and EMU as ever.

This is unsurprising as they are largely responsible for the delivery of EMU infrastructures in the form of SEPA, bearing in mind that two out of three respondents are either banks, consulting or technology firms implementing or enabling the delivery of SEPA.

This is why when asked the question: *How important do you believe an integrated payments market is to Europe's future?* three-quarters of our survey respondents stated that an integrated payments market is either *critical* or *very important* to Europe's future.



We asked the same question a year earlier:

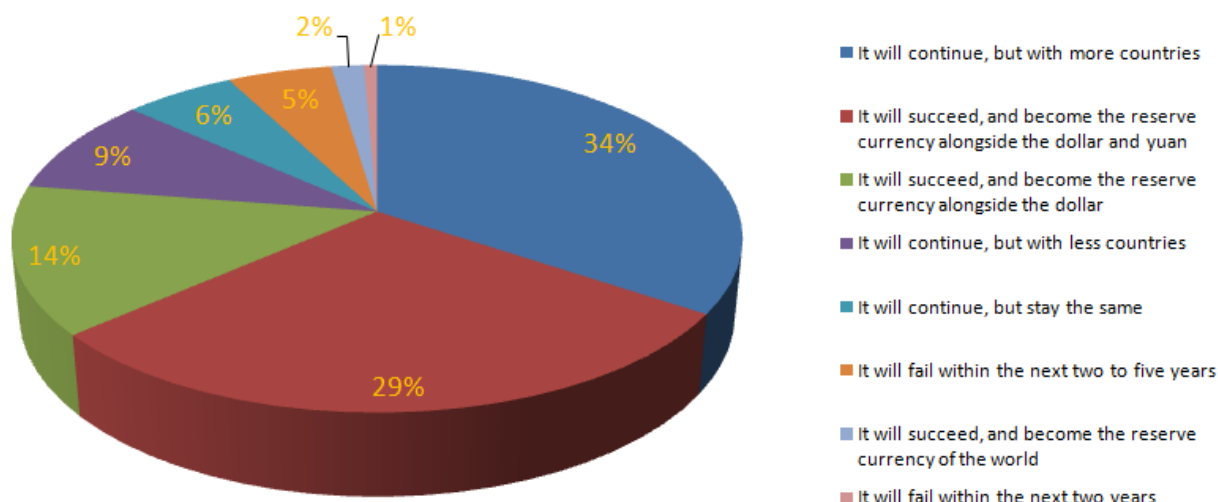


It is interesting therefore to note that respondents today are almost twice as adamant that the monetary union is critical to the future of Europe

Finally, we wondered whether the crisis would change the Eurozone and, if yes, how?

This area was tackled by asking the question: *How do you think the Eurozone and Euro will change in the future?*

In further reinforcement of the survey participant's belief that Europe will work, a third believed that the Eurozone would expand with more countries, whilst a further 41% believe that it will become the reserve currency of the world. Interestingly, as a reserve currency, twice as many respondents believed that this would be on a par with **both** the Yuan and the Dollar, rather than just against the dollar on its own. Strangely, no-one believed that the Euro would be viewed as a reserve currency in its own right, whilst 6% voted that the Eurozone would fail.



How strong is the European Union: the Bankers' versus the non-Bankers' views?

A facet of this year's survey is that we have stripped out the bankers' versus non-bankers views explicitly. These results are included in the answers above.

On the first question, *How do you believe the Eurozone will change?* the similarity of view is remarkably the same:

	Bankers	Non-Bankers
It will continue, but with more countries	35.54%	33.62%
It will succeed and become a reserve currency with \$ and Yuan	23.97%	30.64%
It will succeed and become a reserve currency with \$	14.88%	12.77%
It will continue, but with less countries	10.74%	8.94%
It will continue, but stay the same	4.96%	5.96%
It will fail within the next two to five years	4.96%	5.53%
It will succeed, and become the reserve currency of the world	1.65%	2.55%
It will fail within the next two years	3.31%	0.00%

As can be seen, bankers lean more towards the view that the Eurozone will continue and expand whilst non-bankers towards the Euro gains parity as a reserve currency, but both constituencies are extremely positive about the future of the Eurozone, with over 90% of bankers and non-bankers believing it will continue or succeed.

Interestingly, on the second question: *Since the financial crisis began, which of the statements do you agree with?* the banks and non-banks views are much more diverse, with twice as many banks believing the Economic & Monetary Union (EMU) and therefore the Eurozone is as strong as ever, whilst almost three times as many non-bank votes went to Europe not having a Union.

	Bankers	Non-Bankers
The EU is struggling, but the EEMU is as strong as ever	64.6%	43.1%
The EU is unlikely to be maintained, and will divide	18.2%	13.0%
The European Union is as strong and vibrant as ever	9.1%	13.0%
Europe has never had a Union	3.0%	10.6%
Europe is no longer a Union	3.0%	2.8%
The European Union is unlikely to continue in any form	2.0%	1.4%
Other	0	16.2%

Finally, when it comes to the views on how important the Eurozone is to Europe's future, there is another divergence with non-banks believing it is far more critical than the banks.

How important do you believe an integrated payments market is to Europe's future?

	Bankers	Non-Bankers
Critical	14.6%	38.6%
Very Important	63.5%	29.1%
Quite Important	16.7%	21.7%
Somewhat Important	2.1%	9.0%
Not Important at all	3.1%	1.6%

Since the financial crisis began, how has the Eurozone has changed?

Logica

“The financial crisis has driven Banks to review and bolster their risk positions and risk management, and this has been reinforced by the regulators – there is now more awareness and concern over debt. Bank customers and clients are showing significant focus on debt reduction and for personal customers there is little point in savings while returns are so low.

“In turn Business Cases for wholesale execution of long term payments strategies have been, in the main, been displaced by regulatory minimal compliance projects and more tactical mindsets to payments programs.

“Even an attempt to have more central control / influence over fiscal rectitude in member states has proved difficult - which is a natural consequence of having to pay for the bail out of Greece and the irritation this caused to the German sector.”

Earthport

“Only 10 years ago, the analysts view was that payments would consolidate around a small number of banks, mostly American and European, which would have the resources necessary to achieve critical mass. Today, that prediction seems less likely to materialise; much of the innovation in payments is taking place in emerging markets, and around ubiquitous technologies such as social media – to which consumers have easy access. Europe has lost much of its economic advantage which derived from scale.”

General comments about Europe's plans for a harmonised payments environment?

Logica

“The political drive, In Europe, remains strong, to move to such an environment, and the issue has not changed for a number of years. The last year saw some significant attempts to speed implementation through legal and regulatory initiatives, which are moving things forward. However, until large scale players like government departments and payrolls move to SEPA schemes, few will see any point in spending on migration effort.

“For the most part the market is being ‘pushed’ into SEPA [with end dates for national schemes] and this naturally leads to a resistant attitude. There are still many obstacles to full SEPA implementation, such as SEPA cards, migrations plans to speed up, and the ongoing risk of a ‘mini SEPA’ being created.

“In terms of the PSD, national variants and possible versions are emerging and national currencies exist and will remain, and national cultural and practise differences will remain.”

Earthport

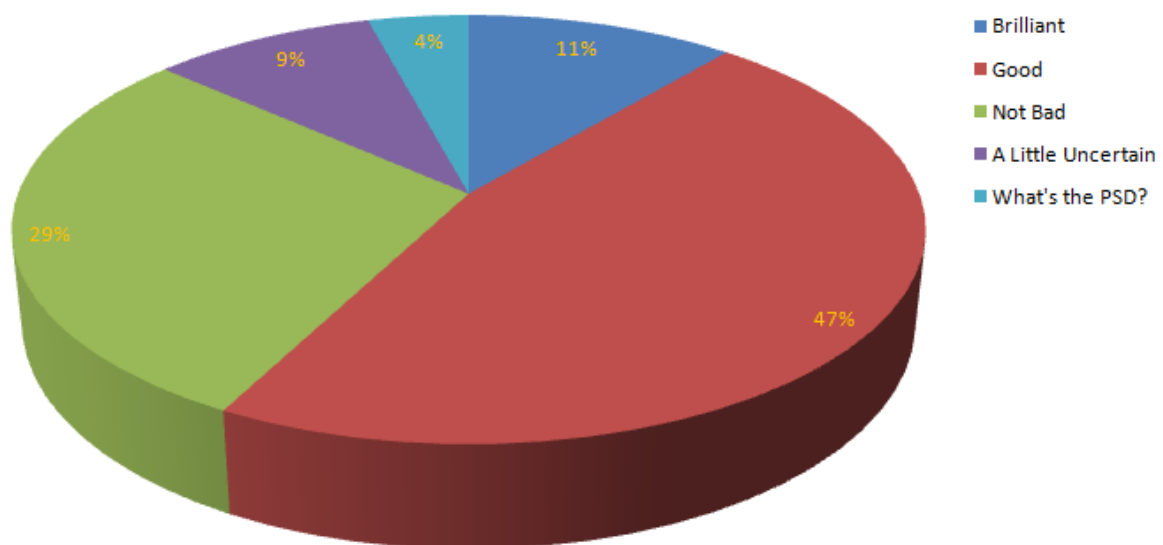
“The original intent of the Lisbon agenda was to make ‘the EU internal market as the most competitive knowledge-based economy globally. The Lisbon Agenda describes the integration of euro payment markets as a prerequisite to realise this vision.’ SEPA is one component in achieving this goal; which are the others?”

Section Two: The Impact of the Payment Services Directive (PSD)

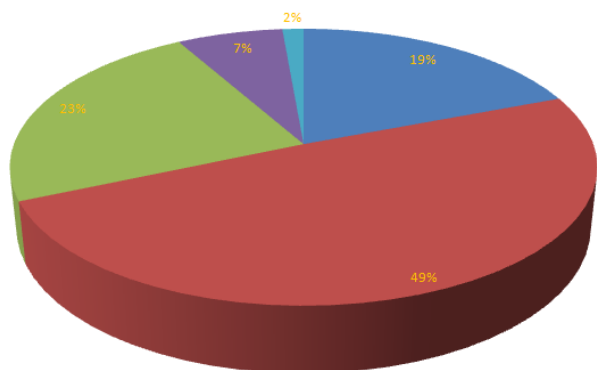
In the 2009 study, we asked several questions about the readiness for the EU with the imminent implementation of the PSD. This year we find out what the impact has been, and can make some comparisons year on year.

For example, when asked: *How much do you know about the PSD?* respondents overwhelmingly stated their knowledge was good or better this year.

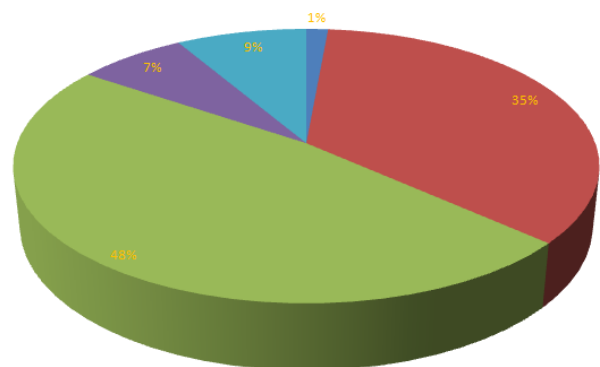
58% of respondents believe their knowledge of the details of the PSD are 'good' to 'brilliant', with 68% of bank respondents believing they are knowledgeable and one in five bankers being subject matter experts. Of non-bankers, very few felt that they knew the PSD well, with 64% stating that their knowledge was 'not bad' or 'uncertain'.



Bankers

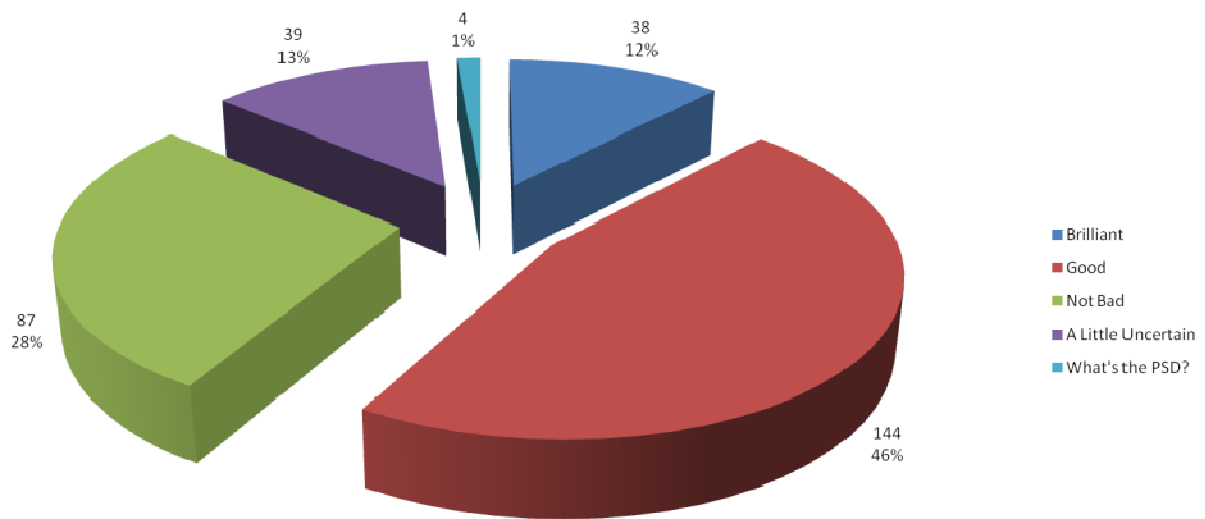


Non-Bankers



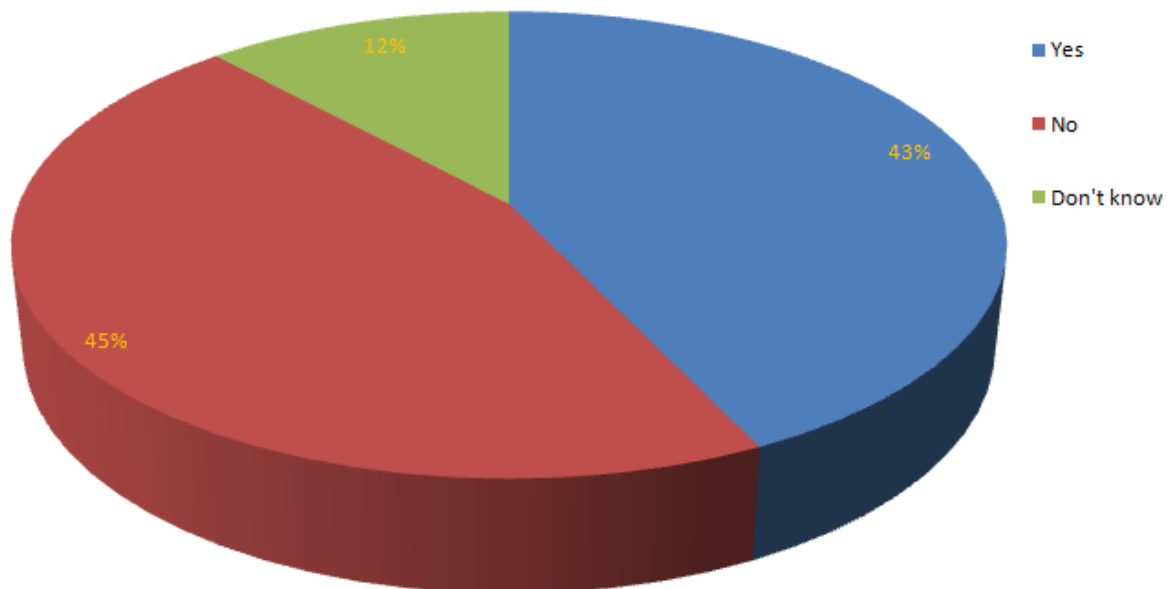
What may be slightly surprising is that, one year on, the knowledge levels of the respondents is saying consistent, with 58% of last year's survey respondents believing their knowledge was also 'good' to 'brilliant'.

2009 Survey:



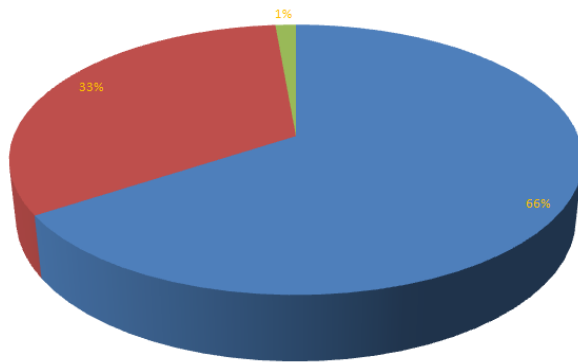
Bearing in mind that the PSD was implemented in most nations in November 2009, we began this year's review by asking whether the respondents had seen any major changes as a result of the Directive.

Have you noticed any major change as a result of the PSD?

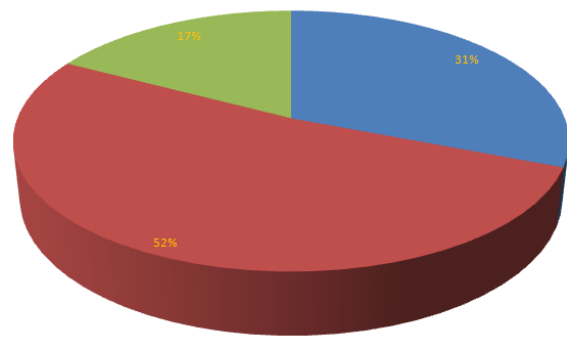


There was a clear divide in the audience to this question between the yay's and nay's, but delving beneath the surface between the bank and non-bank views it is clear that this is because banks are feeling an impact whilst those serving and dealing with the banks are not:

Bankers



Non-Bankers



Although 45% of respondents say there has been no change since the introducing of the PSD, two-thirds of bankers are saying there has been a big change.

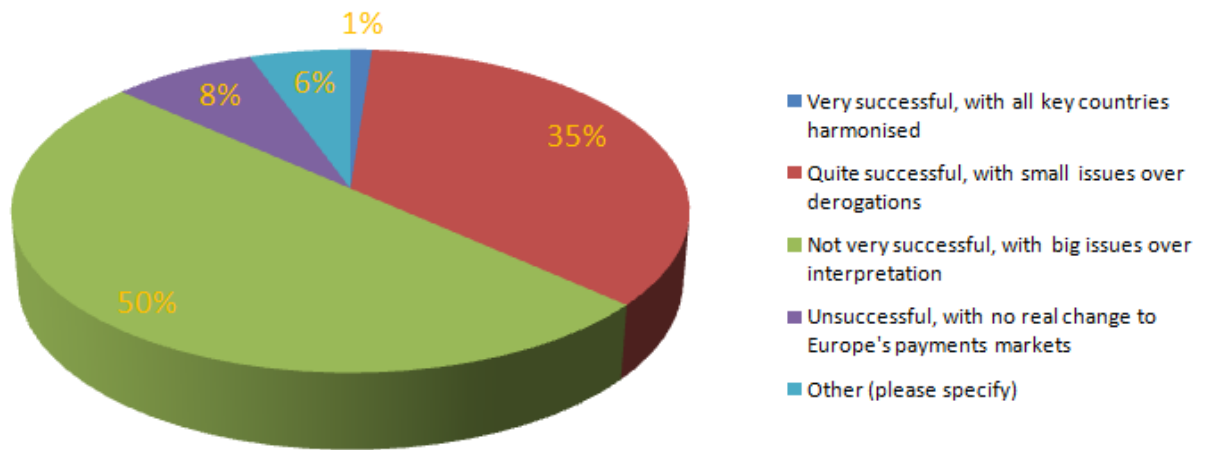
Within these responses, there are some interesting commentaries, with the general themes being faster and cheaper payments with same day clearing and settlement; changes to pricing strategies; shorter payment chains through the elimination of intermediary banks; changes in contracts between bank and clients; more transparent transaction pricing and charging; and so on. Conversely, other comments included a view that the adoption of the PSD is not harmonised and interbank charging has increased significantly, and that there has been little change and what has occurred is more tokenism than true adoption.

- “The only real change is the panic induced desire to be deemed as PSD compliant and get the certification. Not genuinely adopt the Directive, and take action within the real meaning of PSD.”
- “The changes that I have seen have been primarily within my own FI (and with others). Much work was done internally, but as a multinational PSP, we are still awaiting some countries to finalize the transposition. Transparency and harmonisation have not been realised, since we still must explain that each country still has their own particular version of the harmonisation directive. “
- “Banks are struggling hard to find a way to charge for their transactions to cover the losses caused by implementing PSD regulations”
- “Banks have changed practices, products and methods for informing and communicating with customers”
- “Companies are now focused on what can be achieved, it's not theory anymore”
- “Many still see the PSD as a bank-to-bank act of legislation.”
- “The 'move your account for you' offers have started appearing (as the UK had 15 years ago!) shows that accounts are becoming more portable and banks looking more at the value in their customers.”
- “Corporates are more aware of their payment T&C. “
- “It is becoming easier to operate on a pan European basis...whether as a result of PSD or just factors such as changes in bank ownership.”

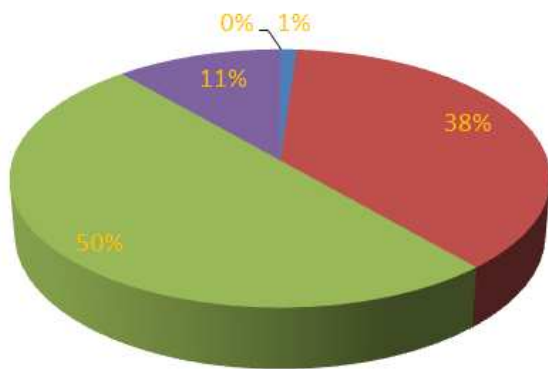
- “It is not correspondent banking anymore, but a brutal "bazaar" where every bank haggles regarding charges and payments.”
- “IBANs start to become common place. “
- “The implementation of ISO 20022 standards has begun.”
- “In Italy, the PSD has brought transparency in contracts, shorter value dates, more professional services, and also more formalism.”
- “Issues related to the ability of businesses to protect themselves from fraudulent activity and other operational risks around processes such as payment recalls etc in the Euro Zone.”
- “Interbank charging practices within Europe have changed - especially for payment intermediaries. Some banks have increased "ancillary" charges as a means of recovering lost revenue.”
- “Life is more complicated for payment providers whilst consumers don't have a clue!”
- “More payments being routed with SHARED charges”
- “Not yet, but the impact will come over time. In 2012 D + 1 execution time will be mandatory. In addition the SEPA Migration End date regulation will force change.”
- “Over 70 Payments Institutions have registered by August 2010, and these will start to have an impact in 2011-2012. “
- “So far, focus has been limited to updating Standard Bank Conditions. Upcoming changes are the transparency in pricing, which will be a challenge.”
- “The banks I bank with - in several countries - have all sent information to explain customers’ rights and obligations, and branch staff (at least on the Continent) are aware of the PSD.”
- “Loads more bank T&Cs are coming through my letterbox....”

One of the more notable comments was from a Nordic colleague, who stated that: “we have gone backwards here in Finland”.

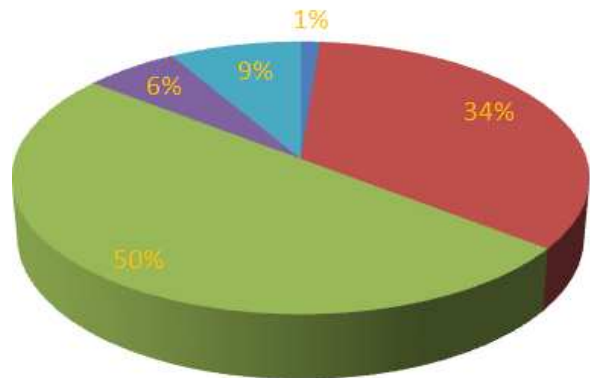
Although respondents may have noticed some change, thanks to the PSD, the success of the program is questionable. For example, in answer to the question: *How successful do you think the PSD process transposition has been?* most respondents were clear that it has been unsuccessful, with an average 50% saying there have been big issues with interpretation.



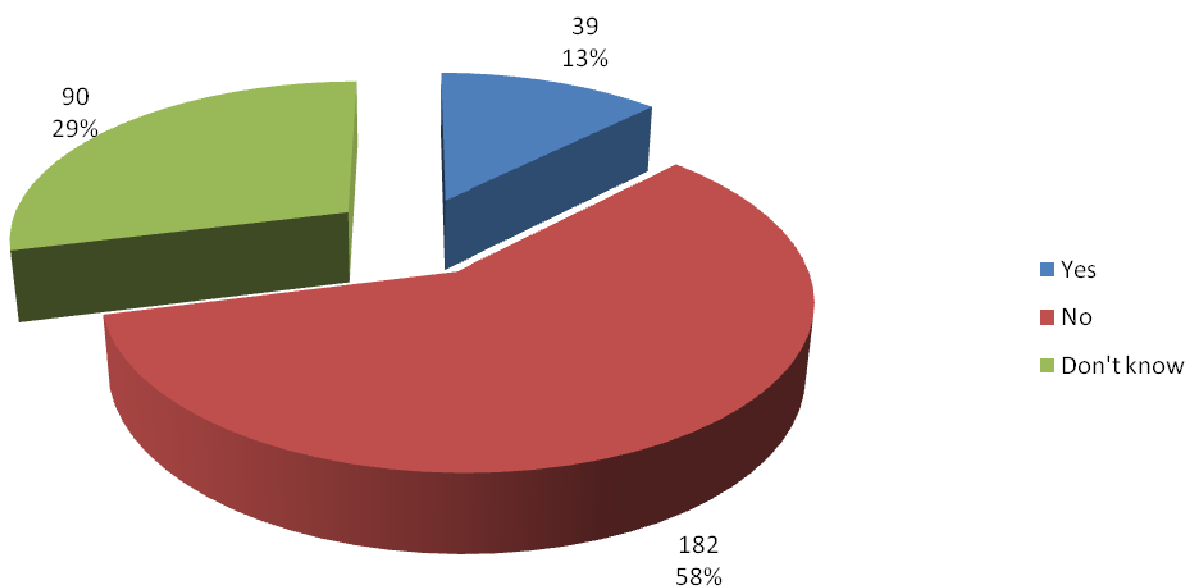
Bankers



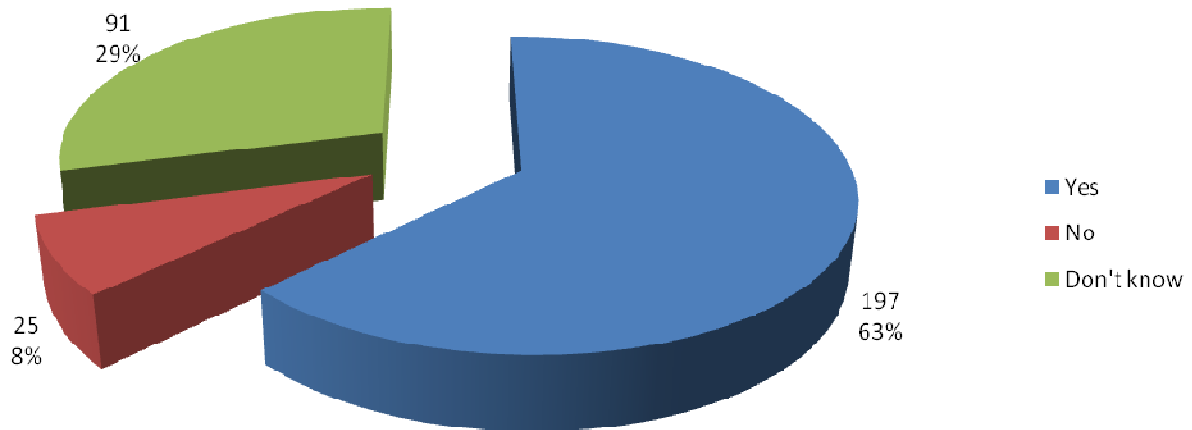
Non-Bankers



Again, this does not surprise too much as last year, the majority believed the PSD was being implemented inconsistently: *Do you believe that the PSD is being implemented in a consistent manner across all of the countries of Europe?*



And 63% saying that the transposition was being interpreted in different ways thanks to derogations: *Allowing for localised optional services, do you think there are different interpretations of the PSD's text at a local level?*



As a result, we asked whether the use of derogations helped or hindered the transposition of the PSD this year.

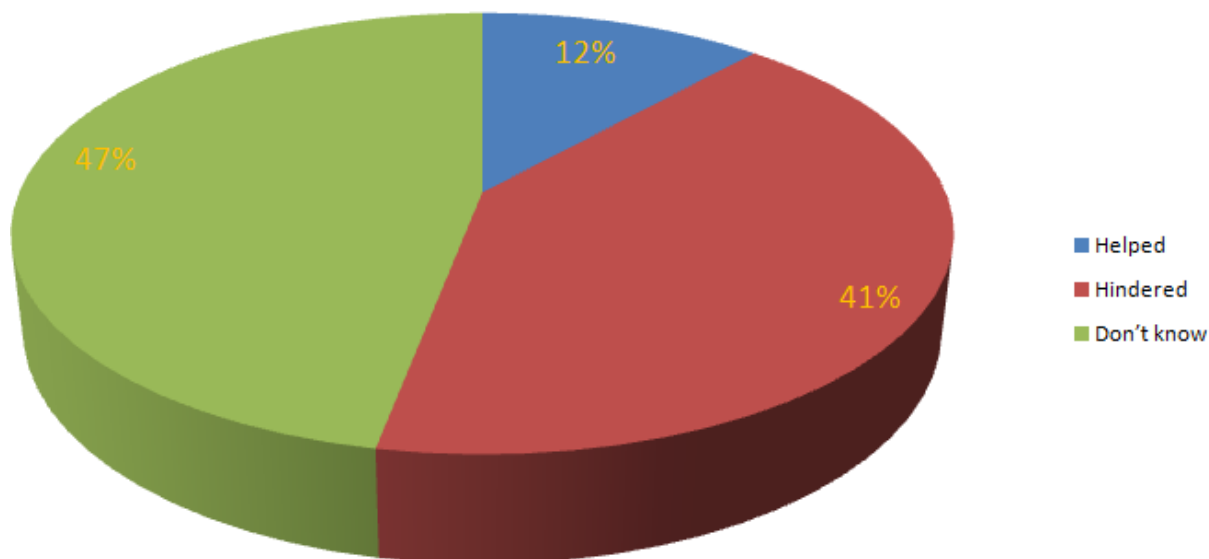
A 'derogation' allows European member states to delay the implementation of an element of regulation into their legal system over a given timescale, such as five years, or can decide not to enforce a specific provision in a treaty due to internal circumstances.

In other words, derogations are viewed by many as EU opt-outs that are allowed within a Directive's implementation to ensure that countries can harmonise, but are not forced to completely rearchitect their processes.

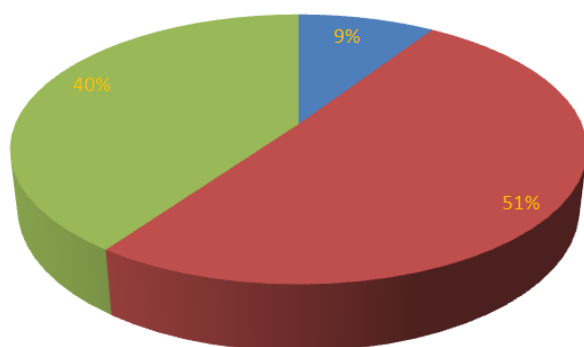
For example, the direct debit processes in Italy with value dating are very different to those in the UK. Hence, derogations allow the implementation of a SEPA Direct Debit structure, legally enforced and recognised, without both countries having to reverse or re-engineer existing direct debit schemes completely.

There are 23 derogations in the PSD that cover these anomalies and many believe this is an issue.

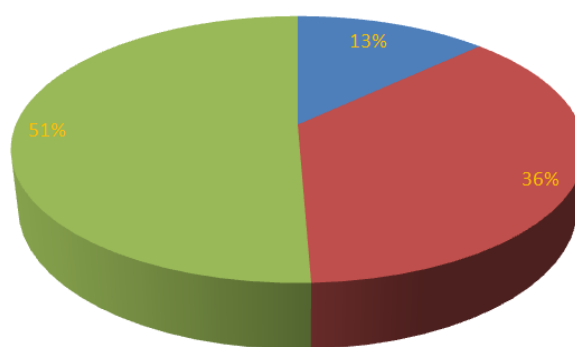
For example, in answer to the question: *Did the use of derogations help or hinder the transposition of the PSD?* the majority (41%) voted that they hindered the PSD's implementation, compared to only 12% that thought they helped. The bankers responding to the survey were even more sceptical about the use of derogations, with 51% stating that they hindered the process compared to only 9% that thought they helped.



Bankers



Non-Bankers

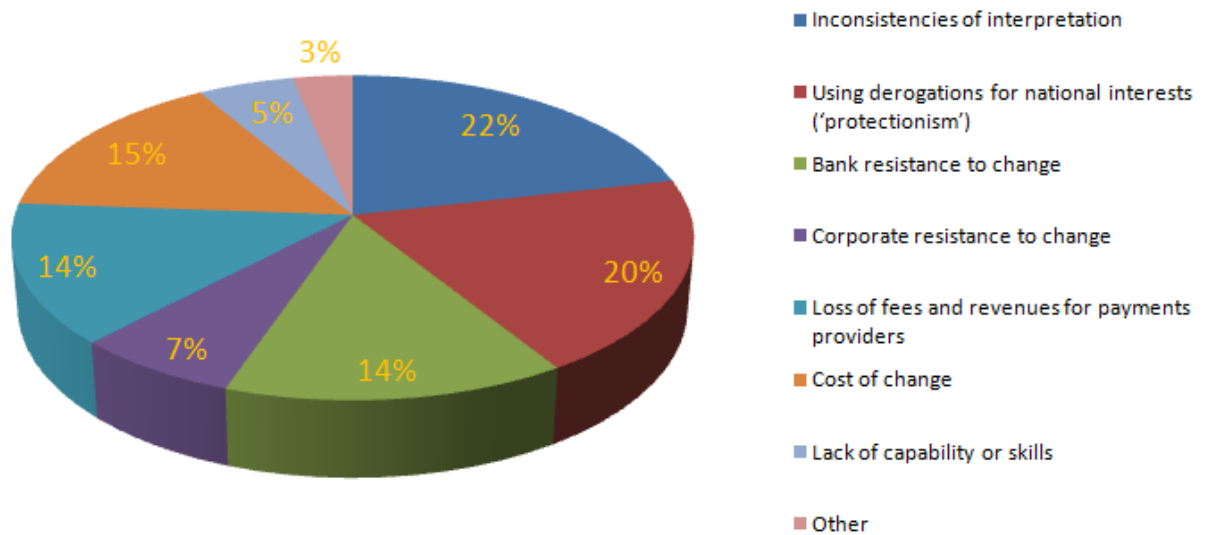


Mind you, derogations were necessary according to many. Here are a selection of comments made specifically about derogations:

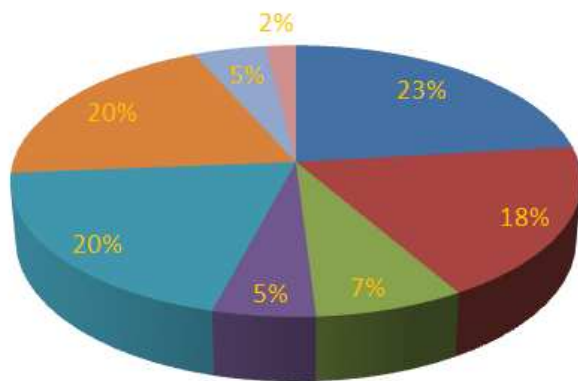
- “Derogations were necessary to reach agreement on the PSD.”
- “The derogations were requested by the Member States and the PSD could not have been transposed WITHOUT taking their wishes for derogations into account. Therefore I would say the derogations were a necessary evil.”
- “Without 'derogations' some Banks would have had no option but to outsource their Payments Processing. Perhaps this would have been a positive outcome. Meanwhile we have a complicated scenario regarding the true positions of all participation financial institutions.”
- “Without the derogations it would never have been transposed in a number of key markets”
- “Without the ability to derogate, the likelihood of a smooth transposition would be small - Governments feel that they need to 'win' against the EU regulators and this provided an easy route to do so. It has also set the scene for some changes in the EU market as certain states now have slightly more favourable conditions for certain parts of the payment chain - despite the Commission's wishes, it is now possible for a small amount of regulatory arbitrage.”

- “The derogation allows countries to move forward while retaining their unique country flavour. This is acceptable while the majority of payments are still local. When the balance tips and a critical mass of payments becomes cross border, the banks will dismantle those components which are no longer relevant or cost-effective.”
- “It would have been better to have gone for a process with less variation...but the fight would have been bigger and taken longer.”
- “It helped the transposition process but restricted the degree of harmonisation achieved.”
- “It helped at first to get acceptance. Danger is that local deviations will continue to fuel local political stakes.”
- “It merely allowed, some may say encouraged, many governing bodies to defer and delay adoption of the PSD for a variety of national interests and a few valid ones!”
- “Banks naturally do not want to give up float, value dating in particular, and fees that are 10x those of domestic charges so PSD is a hard sell.”
- “It might have helped transposition in individual countries but at the same time it has reduced the SEPA harmonisation and therefore weakened the overall result”
- “The derogation that will be most cumbersome is the possibility to apply PSD to micro enterprises in the same way as to consumers.”
- “Derogations and localisations are a root cause of the lack of progress and a symptom of the inability to stimulate an appetite for systemic progress.”
- “Derogations limit the benefits of standardization and create uncertainty with banks and companies.”
- “Flexibility must be in the rule itself and not in its transposition”
- “Gold plating and derogation are major obstacles for a single market”
- “Still a great confusion over implementation. In my recent project we had to devise a different implementation strategy for each European country as each Regulator had approached things slightly differently”
- “Still inconsistency on usage of charging options (e.g. lifting fees). Some countries have broadened scope to more (non-EU) currencies, and / or payments crossing EC boundaries. This made PSD hard to implement for large network banks. Some countries implemented the micro enterprise clause, but others didn't (as allowed under the PSD, but again this made it hard to implement for large network banks). Transposition process itself was a joke in terms of enforcement of a single implementation date.”
- “We have instances across the countries within this bank where there have been different interpretations and so we are even further from a single set of T's and C's for our customers who use us in many countries.”

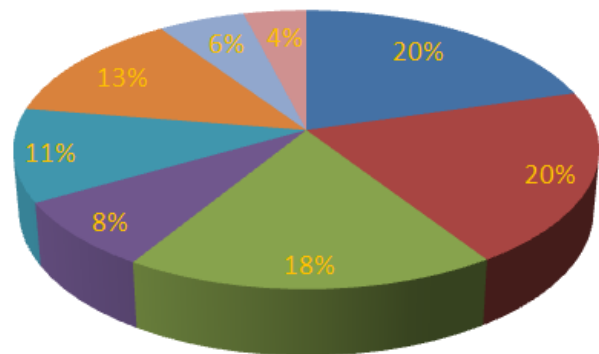
As can be seen, derogations are a hot topic, but they are not the major blockage to a successful implementation as other issues exist with harmonising European payments, not the least of which is the lack of a compelling business case. For example, when asked: *What do you believe is the biggest barrier to the success of the PSD?* the number one reason is the inconsistencies of interpretation (22%) and derogations being used to protect national interests (20%). These two together add up to 42% of the vote going towards protectionism. After these, the cost of change (15%) to implement the PSD, bank resistance to change (14%) and banks' loss of fees (14%) were cited as the other big issues.



Bankers

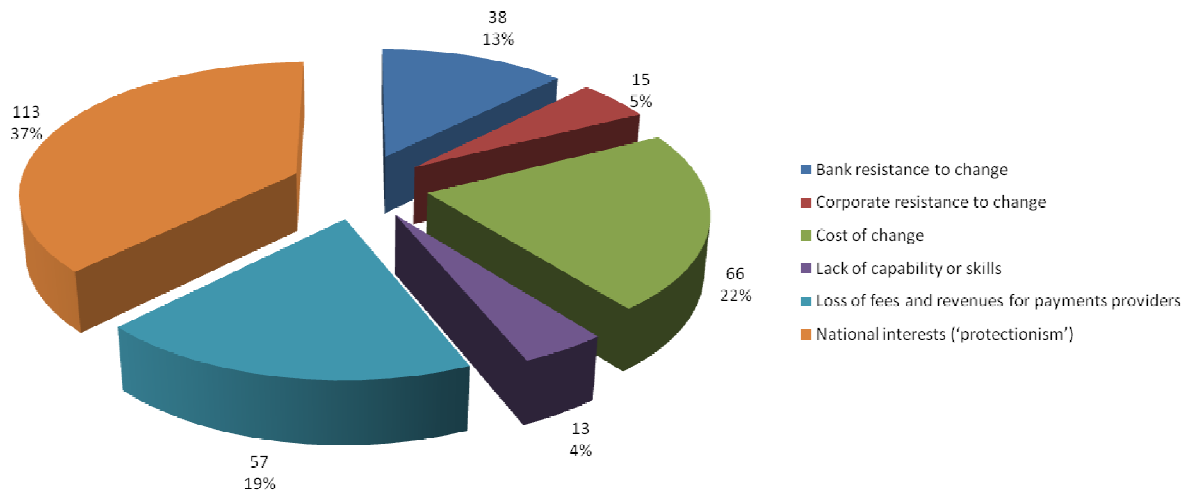


Non-Bankers



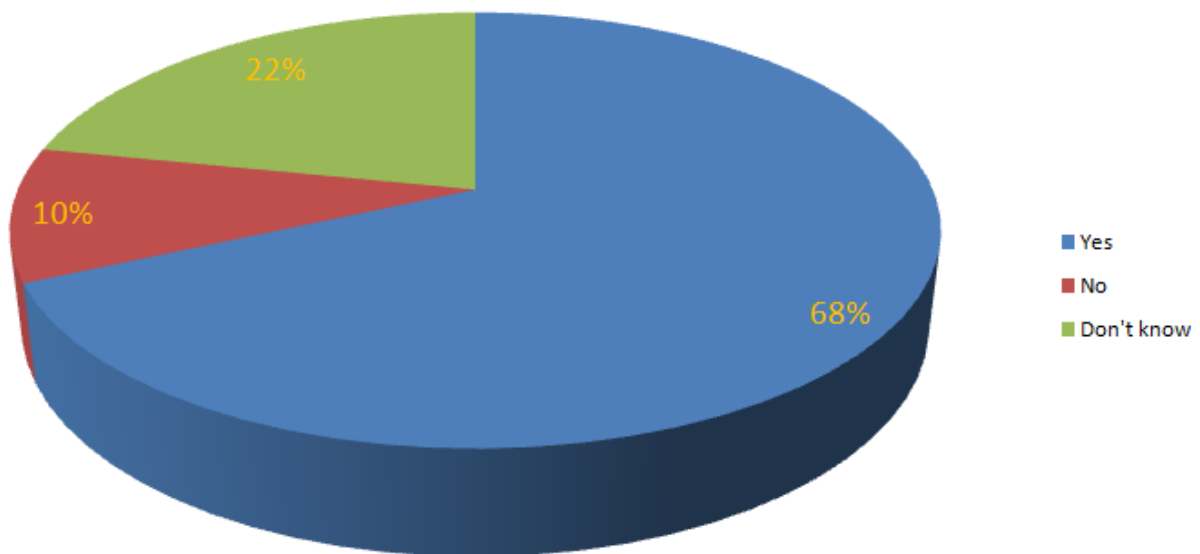
Unsurprisingly, bankers believe that the cost of change and loss of bank fees are the biggest barriers to the PSD's success after derogations, with one in five voting for each of these. Interestingly, non-banks voted that bank resistance to change was the biggest barrier (18%) after derogations, whilst the bankers thought this to be the case.

On another note, the 2009 Survey also shows that the views a year ago were slightly different. Last year, 37% voted for protectionism (42% this year in total), whilst 22% thought the cost of change was the next major barrier (15% this year) and then 19% voted for bank resistance to change, compared to 14% this year.

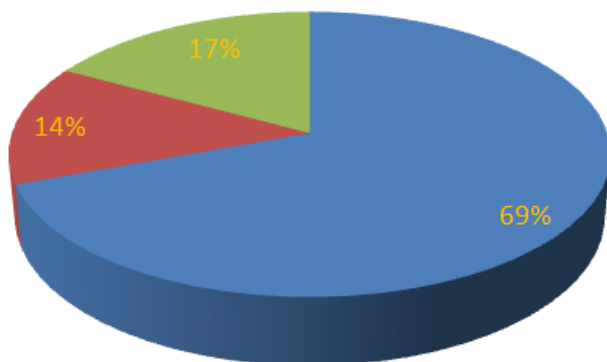


On another note, the European Commission has been adamant that they will not introduce a new PSD, but many of us believe that when the review of the progress of the PSD takes place in 2012, there will be another PSD with major revisions to overcome the inconsistencies created by derogations.

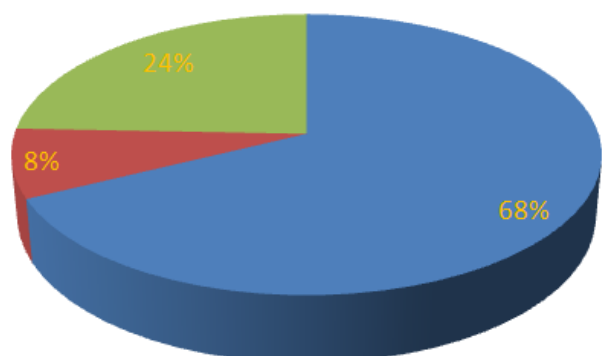
Therefore, when asked: *The PSD will be reviewed in 2012. Do you think this will result in a PSD Mark II?* an amazing 68% of respondents said 'Yes' although, of the bankers responding, more voted that it would not (14%) than those from the non-bank audience (8%).



Bankers



Non-Bankers



In a final commentary on the PSD, we asked if respondents could name any new payments institutions in their countries. After all, the PSD is meant to encourage competition and hence there should be some.

In total this year respondents believe that there are over 70 new Payments Institutions including: Amazon, Amex, ATOS, Carapy, Carrefour, Caxton FX, Chase Paymentech, Coinstar, Concardis, CredoRax, CurrencyFair, Dah abshiil, DebitECG, Diners Club, Easypay, Edge, Equens, Experian, Fexco, First Data, Itella, JCB International, Luup, Moneygram, Montrada, MTEExpress, Nochex, Ogone, PaybyMobile, Payex, PayFair, Paysquare, PBS, Realex, RIA, SIX Pay, Tesco, Travelex, Visa (through their Cybersource subsidiary) and World First UK.

The companies that survey respondents named most often as new European payments institutions in 2010 were:

- #1 Western Union
- #2 PayPal
- #3 Mobile carriers (generally)
- #4 Earthport
- #5 Voice Commerce

This compares with last year's responses where the main names included PayPal and Western Union again, but also Equens, VocaLink, First Data and TTT Moneycorp. Although the latter were mentioned, they were not conspicuous in terms of number of mentions.

Finally, there were a number of other general observations and commentary on the PSD included:

- "A decision needs to be made to complete the implementation of the PSD and SEPA to bring everyone into line or disband the whole thing completely and let us concentrate investment on other business that actually benefits the customers."
- "I have a question about the definition of a SEPA end-date. What does it actually mean in practice? How will it be enforced? Will it result in a further act of adherence, as opposed to the original aims of improving the way monies flow across the EU for the benefit of the consumer, however defined? You could equally challenge the current governance structure for future guardianship of the EU in respect of PSD and SEPA."
- "As long as the political, economical and financial influence and impact is not clearly defined and organised, the issue and importance of PSD will remain small."
- "While client interests must obviously be protected, there should be sufficient recourse or indemnity limits placed in order to protect businesses. This should extend to pan European client authentication standards for clients and any payments made that will reduce the risk of money laundering or other fraudulent activity to a minimum."
- "Banks are still very local, despite the effort of a few of them to appear European. It is not enough to do business beyond your initial country to be truly European."
- "I think it is important to keep in mind the competitiveness of the European banks and of the European financial markets in general, as well as the role of the Euro currency in international finance and trade as a major motivation and goal."

- “If focus is exclusively on the PSD / legal framework for payments execution, harmonization will fall short, related areas need to be included in the harmonization such as tax legislation, aspects of private debt legislation and regulatory reporting.”
- “The PSD needs to be simplified, standardised, and lead by requirements of business and consumers.”
- “This is a political ploy by the EU to ‘demonstrate’ that ‘progress’ is being made. More smoke and mirrors, I'm afraid, especially if the process around the first round of the PSD is indicative of how round two will be approached.”
- “Don't know about the PSD, but the regulation (EC) No 924/2009 on cross-border payments in the Community should be revised. The principle of same price for domestic and cross border payments inside EU should not be restricted to payments below 50.000, but should apply to all payments inside the EU.”
- “I do not believe the market can support a PSD Mark II approach. What we need instead are adjustments to the current PSD over time.”
- “If need to get all EUR payments on SEPA then we need a date for all closure of the legacy systems and also the D+3 needs to be sped up to at least next day or same day.”
- “Keeping in mind the various stakeholders in the PSD process, 2012 is far too late for a review by the EC. Major corrections will have to be made in 2011, or the complete process will end up in a mini-SEPA.”
- “PSD will continuously be updated as this is the Payment Legislation of EU and as such it needs to be updated as do any other legislation based on changes in the market environment, technique etc.”
- “There are some changes mooted in the SEPA end date legislation such as universal account opening and essential requirements. There are also elements in the Guidelines on Vertical Restraints published earlier in the year that will most likely impact the next draft and make it more about the open market than about universal standards.”
- “We need to see the opening up of banks' account interfaces, to allow for a secure aggregated offerings and services to be built on top of the basic banking services by any new entrant: an 'unbundling' of banking. This is of course broader than the PSD, but is in the best interest of customers. The problem is that it completely depletes banks' traditional competitive advantage.”
- “The 'enshrining' of BIC & IBAN in the recitals of the PSD has been a HUGE mistake and this needs to be addressed.”
- “The exemption of non-traditional payment instruments from the PSD is a huge flaw and has given PayPal-like businesses the chance to grow to bank size without bank responsibilities within their proprietary instruments.”
- “The learning of the original directive implementation and the protectionist issues in particular, need to be addressed on a geographic basis and then within PSD II.”

- “There are many uncertainties around the PSD - i.e. the interpretation of the PSD in Swiss banks, the PSD implementation in CEE, the speed of PSD implementation in Southern Europe, and lots of legal documents (regulations, resolutions) with conflicting contents.”
- “While you have an array of member state options as allowed, it is my view that each will clearly ‘see’ their options only one way. That is what is best for them. Without a governing body that can review the options relative to a FI with the common good in mind, hidden agenda's will prevent the PSD from fully fulfilling the vision as published in December of 2007.”

Maybe the two most critical comments about the PSD were that it was created because “Eurocrats need to justify their existence” and that the real question is: “how to get rid of it and start from scratch.”

Generally, as can be seen, there is not a great deal of support or endorsement for the PSD itself, but then does anyone enjoy being forced to change through new regulations and rules?

Have you noticed any major change as a result of the PSD?

Earthport

“Yes. As a Payment Service Provider, Earthport is now under the regulatory oversight of the FSA, which in turn provides greater protection for its customers.”

Logica

“To date the impact has been fairly minimal in the marketplace but we feel it will have more of an impact going forward as potential inconsistencies in PSD implementation are resolved. The future impact of the PSD will address Transparency, Execution times, Value Dating and Refunds, and will have a significant impact on Products, Systems, Risk Management, third party supplier agreements, Business processes and capabilities – to date the impact in these areas is still being analysed by all parties.

“Specifically, the prospect of D+1value for payments is starting to gain attention and there is uncertainty over the full impact of the issue of transparency, and how much this is really understood or reflected in day to day practices. In particular, it is questionable how many banks have the ability to charge their counterparty irrespective of the end ordering clients price.”

How successful do you think the PSD process transposition has been?

Logica

“To date this has been unclear, and given the magnitude of the underlying ambition and the current economic crisis, this is somewhat understandable. Outside of the Payments organisations there is still little or limited visible market presence or awareness.

“The EC and the banking industry have attempted to anticipate and assist in resolving potential inconsistencies but there is still a way to go. There is still a lack of consistency at each individual national legal and scheme based on both interpretation and even less of enforcement or review.”

What do you believe is the biggest barrier to the success of the PSD?

Logica

“Lack of public awareness and expectation – PSD is supposed to address customer experience – but no-one is setting new customer expectations. The PSD purpose is unclear and may no longer be a priority, its scope is multi currency and that’s the key area where European payments convergence will happen. It merely illustrates the ability of national governments and economies to exercise discretion.

“A key area is the take up of this whole subject by corporate businesses – they need to understand the implications of the PSD onto their business and how the services they use may change. At present this is not understood nor has it been clearly articulated to them by the banks. The multi – national corporations should benefit from a certain degree of standardisation, but for many others, the near term benefits of the PSD do not seem too compelling.”

The PSD will be reviewed in 2012. Do you think this will result in a PSD Mark II?

Logica

“ This will be difficult as it will be seen as another EU initiative in the wake of SEPA and PSD Mark 1. In addition, it will still be difficult to understand the status of the current PSD and if it has been completed and if any extra is required - what measure of success will be used against the original expectation?”

Earthport

“Yes. There is a clear need for additional regulation for other providers of payments services, for example in credit card acquisition processing.”

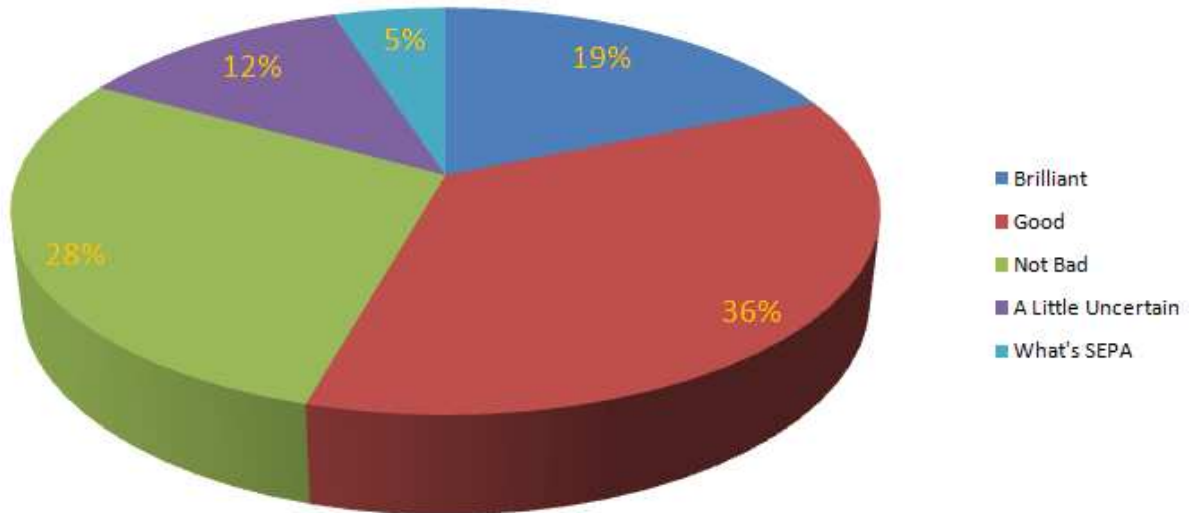
The PSD is meant to encourage new competitors in the form of non-bank payments institutions. Can you name any such institutions?

Earthport

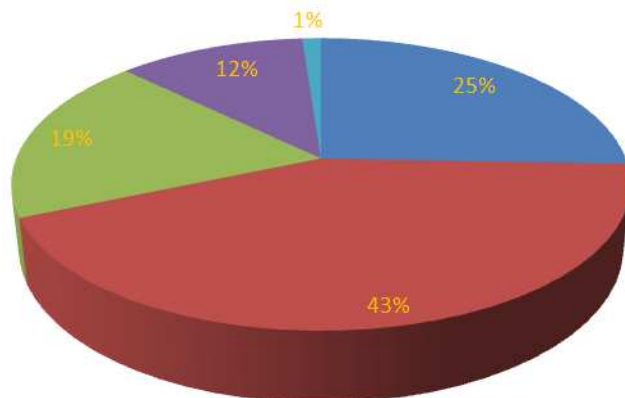
“Yes several. Most if not all were established payments services providers prior to the PSD; the effect of the PSD has been to regulate and hence make them safer, rather than to catalyse new entrants.”

Section Three: The Development of SEPA (the Single Euro Payments Area)

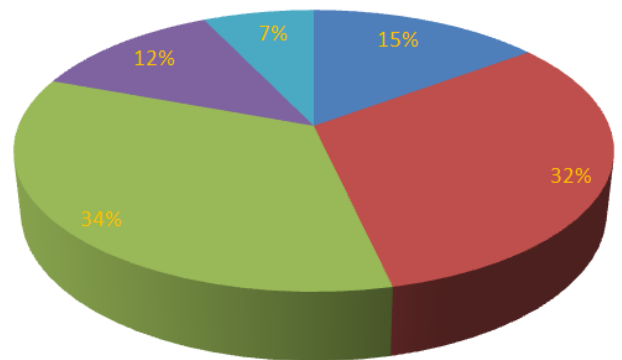
As with last year's survey, we then discussed the development of SEPA in depth, commencing with the general question: *How aware are you of SEPA's details – how SDDs and SCTs operate, etc?*



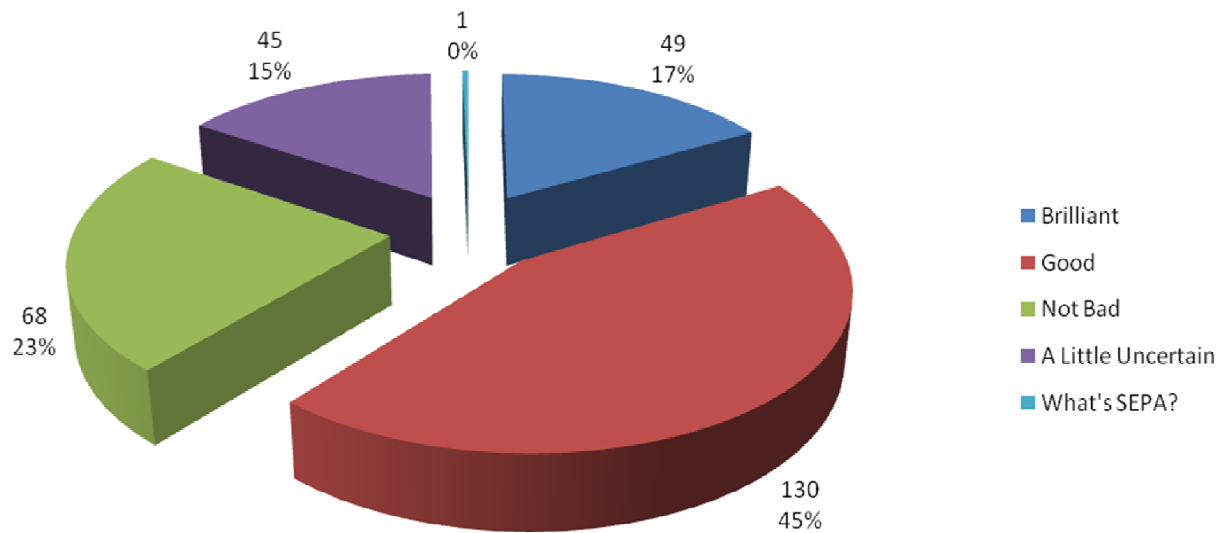
Bankers



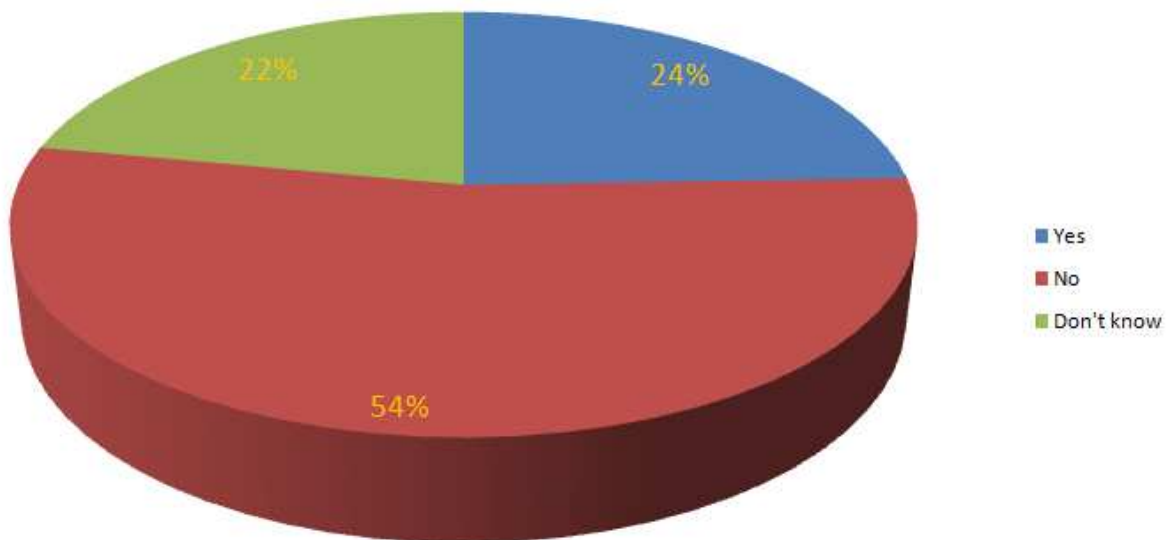
Non-Bankers



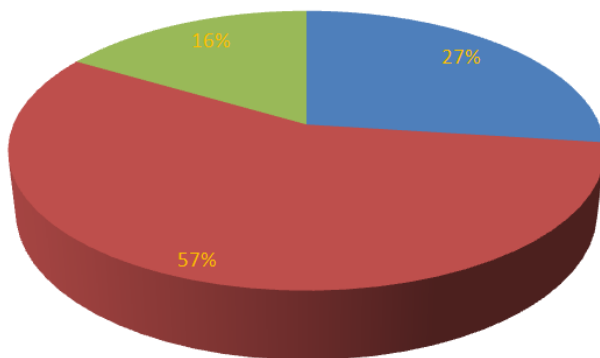
It was pleasing to see that 68% of bankers have a brilliant or good knowledge of SEPA, compared with 47% of the non-banks, although it was noteworthy that the general score this year of 55% having a good to brilliant knowledge is lower than last year's survey results, where 62% felt they were good to brilliant. Having said that, the 'brilliant' respondents were higher this year at an average 19% of those surveyed, compared to 17% last year.



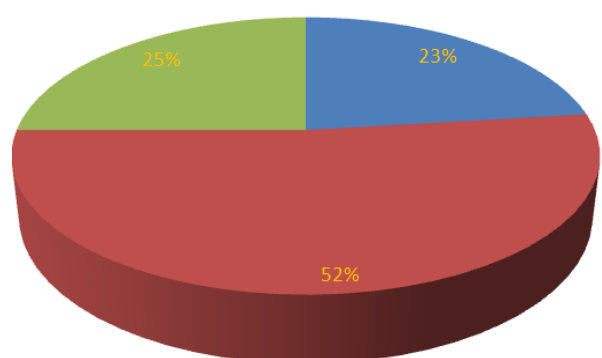
Bearing in mind that SEPA is now a year old – the SEPA Direct Debit program went live on 2nd November 2009 – we first wanted to find out how successful the service is and asked: *Is SEPA a success?*



Bankers



Non-Bankers



Unfortunately, as can be seen, the majority of respondents – 54 percent – say ‘no’. Various reasons were given for this, with the majority saying it is too early to say whether SEPA has been a success. They were saying that the lack of an end-date was a big issue here, as SEPA is otherwise just a slow-burn. Here is a selection of comments made:

“A ‘global’ bank, active in many EU countries, does not need SEPA to serve its clients quicker and with more efficiency.”

“The complete migration to SEPA will take a long time. Corporates, and public authorities, are barriers to a swift migration.”

“What do we actually have after seven years? EPC.... SCT which is a simple credit transfer that we are, in principle, able to do for the last 500 years? Theoretically we have SDD but it is an unclear situation with eMandate (as an option - whatever this is).... We have until today no ‘eSEPA’, which means, no new and modern services like ePayment, mPayment, eInvoicing, even though the discussions are also going on for seven years and the banks lost ground and new service providers entered the market in the meantime. So... would be SCT alone enough to call it ‘success’?”

“For European banks: no! We spend the last three years in IT-projects without a business case but with the necessity to fulfil the legal requirements. Innovation was to fall by the wayside. Tremendous cost cutting effects due to SEPA are not in sight for the EC: SEPA is a political cornerstone with illusory targets. In fact, SEPA will raise the payment cost for banks and retail customers and reduce costs for multinational corporate clients.”

“SEPA will not be a success until SDD is really launched and migration of SDD is progressing.”

“If you wanted 100% market share and had 7% after 2 years, would you consider your project a success?”

“I say yes within the context of it is not a failure. There continues to be more to do to further expand the file format structure to be respected by all institutions.”

“Infrastructures adopted the SEPA payment schemes Most banks support them Consumers with the help of their banks are adopting easily SEPA payments Corporates need to jump on the opportunity given to them to have harmonized European standards (very often superior to their existing national standards).”

“Look at the volumes, the lack of migration within the EU entities. This is not, never has been, nor shall be a ‘market-driven process’. Banks ‘cooperate’ under political threat of having uninformed politicians make banking product decisions.... Doesn't really instil confidence in clients to migrate. When do we expect final country migration plans? When will the EU Parliament mandate an end-date? Who is really stepping up to the plate in this?”

“SEPA cannot be a success until it is fully implemented i.e. the payment infrastructure and instruments are implemented and have a pan-SEPA reachability. However it must be understood that SEPA will have a significant impact on the EMU area and minor impact on the non-EMU area.”

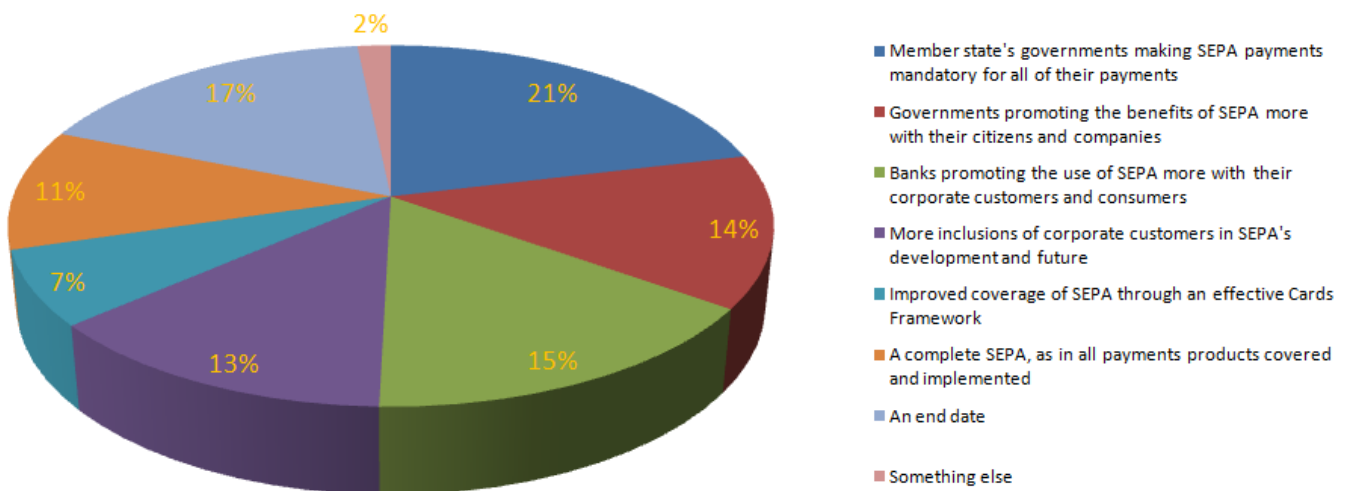
“The outputs of SEPA are extremely minor, compared with the efforts, resources, money and public energy, spent for its developments and implementation.”

Several people did also comment that we need to define success:

“Define success and for who. I think there are some real positives from it - forcing banks to invest in their payment systems for example - but equally some where the success is less tangible.”

“Depends on how you define success. If getting global banks to move to a common standard is the measure, then the answer is an accidental yes. If the measure is getting Europe onto a common standard, the answer is no.”

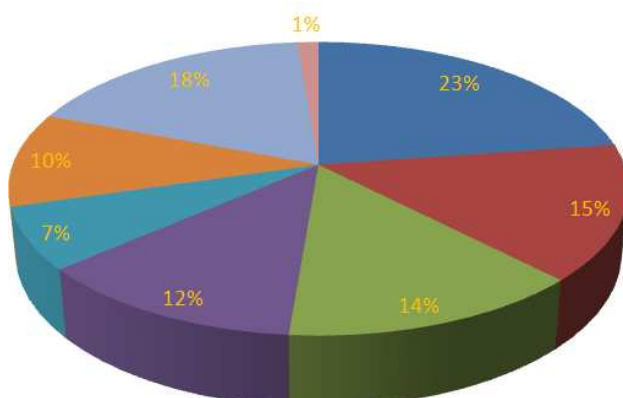
Bearing in mind that the majority were saying that SEPA has not been successful so far, we then asked: *What would make SEPA more successful?* and it is clear that unless the end-date is an issue but, more importantly, the lack of government’s enforcing SEPA instruments is also a key.



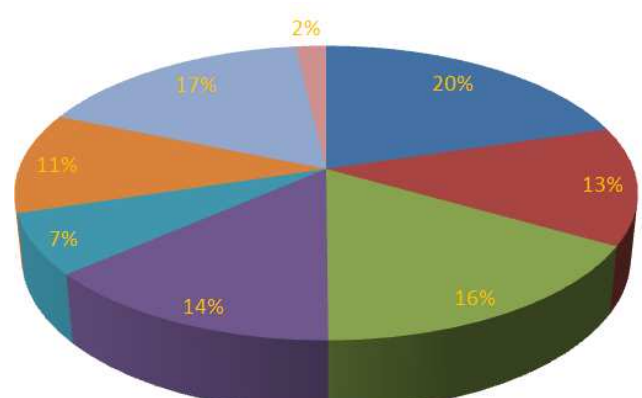
21% of respondents stated that SEPA would be far more successful if member state’s governments made SEPA payments mandatory for all of their payments. This was born out by one survey respondent, who stated that: “Countries like NL, BE, IT and FR are moving forward better than other ones, mainly because of the move to SEPA of public institutions. Only those entities moving to SEPA will provide enough critical mass and a public acceptance of a end-date for legacy payment instruments.”

Interestingly and unsurprisingly, banks emphasise the lack of government promotion as a way to make SEPA more successful, whilst non-banks stress that banks need to do more to promote the benefits of SEPA to their customers.

Bankers

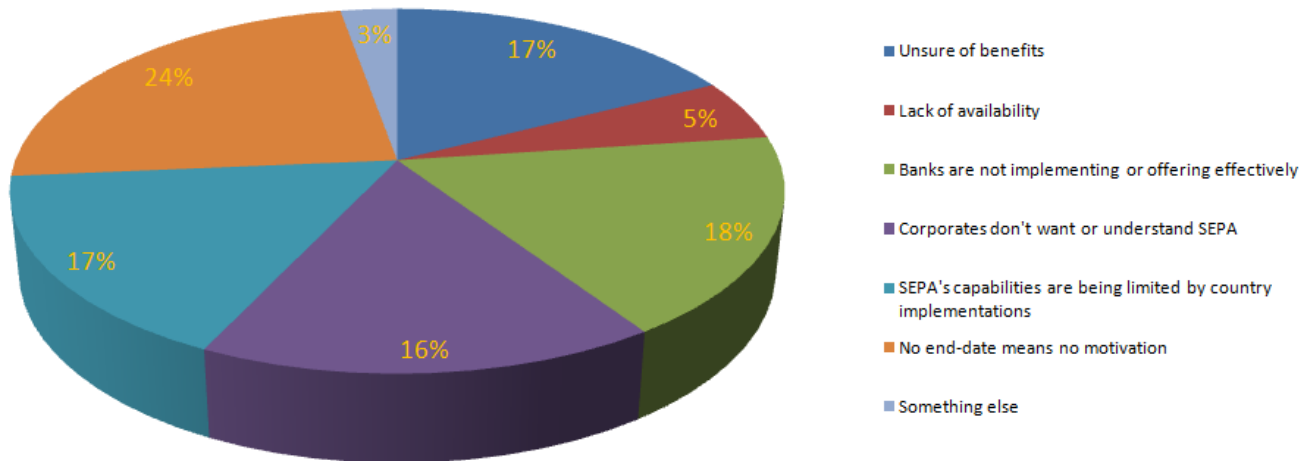


Non-Bankers

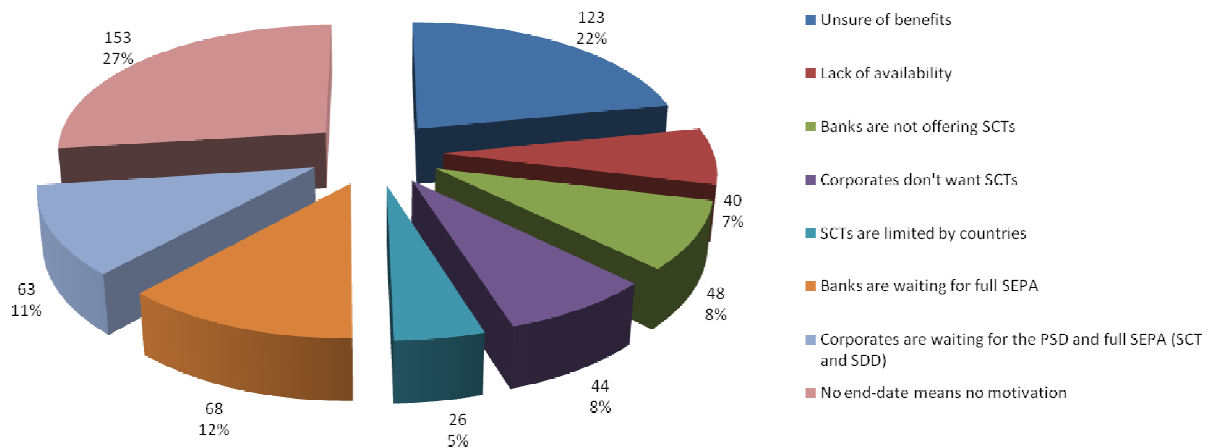


Obviously, we want SEPA to be successful, and so if the mandatory usage of SEPA instruments were enforced by member states' governments, what else might block progress?

This was made clear by the corollary question asked this year: *What is restricting SEPA's success?* and, like last year, the lack of benefits and no end-date appear as the top two reasons.



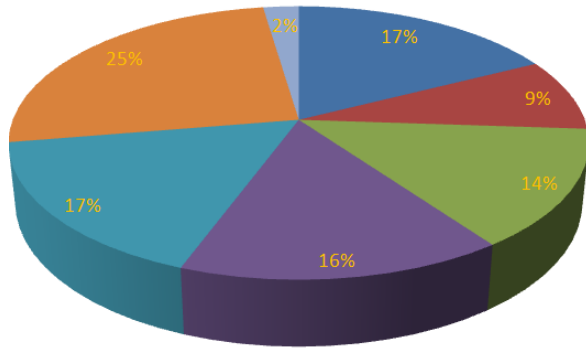
Strangely enough, we knew that no end-date was an issue a year ago. In 2009 survey, we asked why SEPA Credit Transfers (SCTs) had been slow to take-off. The answer came back overwhelmingly that it was due to the lack of an end-date and no clarity of benefits.



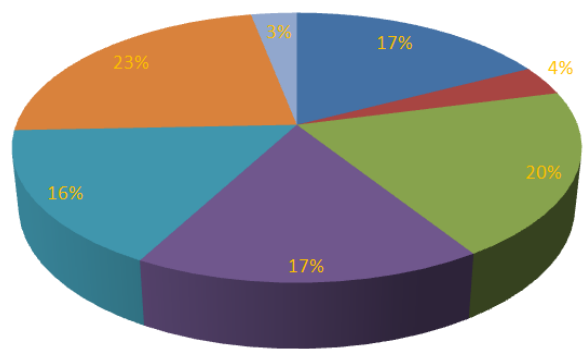
The difference this year is that other issues have also emerged, with banks not implementing SEPA, corporates not wanting it and country limitations all emerging as equal issues to the lack of an end-date or business case.

This is concerning and, even more concerning, is that both the banks and non-banks believe all of these issues have equal weighting:

Bankers



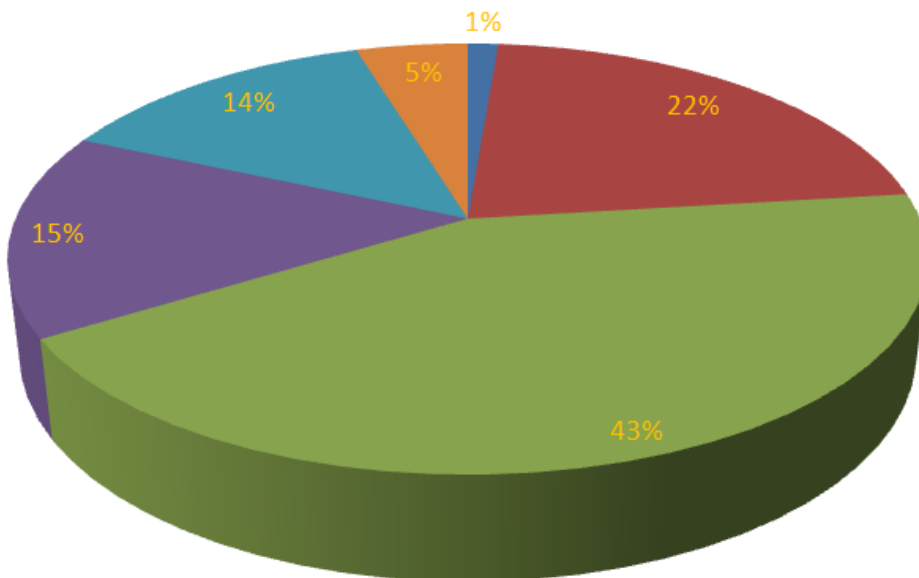
Non-Bankers



As can be seen, the combination of no business case, no end-date, no compulsion or reason for banks or corporates to adopt SEPA, and member state country barriers to the usage of such instruments are all a bit of a sucker punch for SEPA right now.

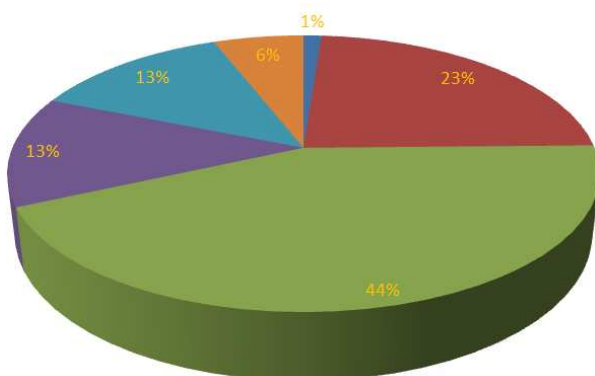
In fact, the lack of optimism about SEPA's progress is notable this year, and is illustrated well by the next question of when respondents believe that the SEPA vision for "all Eurozone payments transactions to be processed as though they were domestic" will be realised?

- Unsure of benefits
- Lack of availability
- Banks are not implementing or offering effectively
- Corporates don't want or understand SEPA
- SEPA's capabilities are being limited by country implementations
- No end-date means no motivation
- Something else

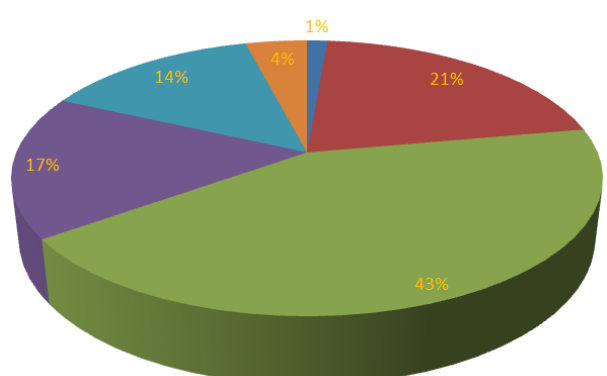


- It is already
- Between 2011 and 2014
- Between 2014 and 2017
- Between 2017 and 2020
- After 2020
- Never

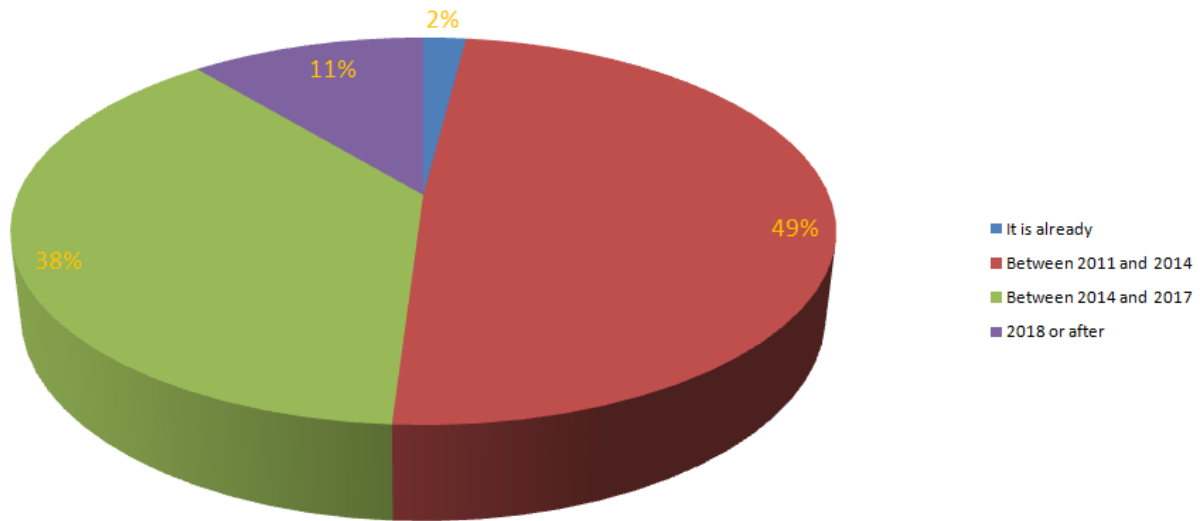
Bankers



Non-Bankers



67% of respondents believe SEPA’s vision will be realised after 2017. Surprisingly, a year earlier, everyone was more positive in answering this question, with almost half of respondents believing that the SEPA vision would be realised before 2018.



This less than optimistic view reflected in this year’s survey is maybe more to do with tiredness of the process, scepticism with the lack of progress and general apathy towards the developments of SEPA when no end-date has been agreed, even though there has been a year of discussing an end-date.

Here are a few of the issues and questions raised by the lack of SEPA progress:

“A legislated end date seems to me of highest importance right now.”

“An end date is critical for corporates as it will enable us to allocate budget to this project and put it on top of the priority list. Otherwise, corporates have more important, business related projects.”

“Currently SEPA settlement cycle is slower than what we already achieve for cross border payment.”
 “Depending on the national legacy infrastructure even an end date will not put an end to national legacy processing - (truncated) cheques, some card transactions (e.g. at the ATM) will still be processed in national legacy formats and preclude old systems from being sunset. Thus a more complete product coverage would help, even though nobody wants to promote cheques - either all agree to get rid of ALL of them like UK or agree on standards how to settle them.”

“Development and implementation of eSEPA i.e. completely electronic and standardised end-to-end SEPA customer services. SEPA should be re-engineered for the future not harmonisation of legacy outdated paper processes.”

“Finding a compelling business reason for companies to invest in adapting their ERP systems. Nothing will get done without a successful business case. Consumers also need to accommodate the new IBAN structures. Why should they contemplate remembering bank account numbers that have doubled in length?”

“National or European incentive payment schemes for adoption rather than penalties for non compliance which results with lobbying to local government for derogations.”

“Once the member governments begin to mandate SEPA payments, those that are lagging behind will finally make the structural changes to their systems to more fully support SEPA. Once a few of the major players in essence ‘move the herd’, the rest will accept the effort needed and embrace SEPA.”

“Properly including cash in SEPA by performing a detailed analysis of the real cost of cash and allowing instruments to be compared properly.”

“Corporates are always mentioned - but this always implies large corporates. The average payment customer is a small enterprise or a private individual. If this individual does not work for the EU and has no cross-border need, then the benefits of SEPA are negligible.”

“It must be understood and accepted that the majority of EU citizens and Corporates are not doing cross border business. Therefore the idea of being able to create a pan EU (EMU) reach is of very little interest. From a society perspective there is an interest to enlarge the market in which EU citizens and Corporates are able to do business but from an individual perspective/corporate perspective the interest is general low or non existing”

“The EPC is poorly governed and consequently the output and commitment of its members is poor.”

“The main point is definitely the unattractiveness for both corporates and banks of the project from a financial perspective due mainly to the lack of innovative features induced by the scheme.”

“I think that we already reached a level where the SCT is a success (cross border) and where national implementation may gain profits, whenever new payment infrastructures on a national level will be established. SDD is a product with a very limited target audience (cross border) but may be a success in countries where no direct debit solution was in place before. e-invoicing and e- and m-payments are projects for the competitive space and should not be regulated by the EC.”

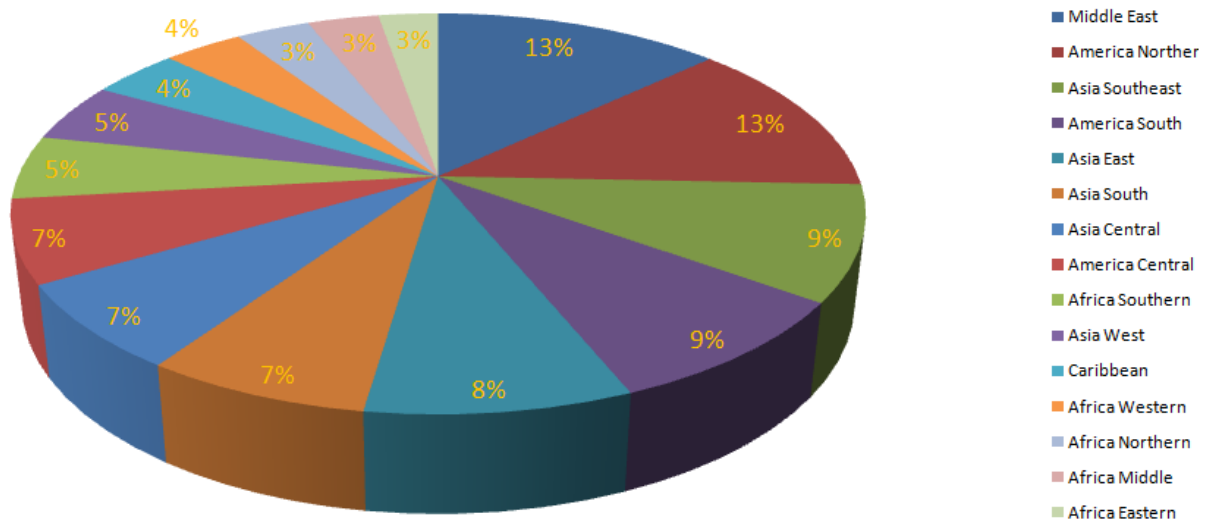
“The ‘kick-off’ or the enforcer will be the SEPA end-date regulation and the vision of being able to pay and get paid pan EMU will in most parts be realised between 2014-2017, However the timeframe for when EU citizens and corporates will take advantage of the possibility to be paid and get paid is a totally different story.”

“The end date legislation will force this to happen - but it ain't going to be pretty.”

“The proposed end date legislation will make this bracket realistic - however the dates should have been set 3 years ago.”

Finally, and just to see what views the question would generate, we asked where other area(s) of the world would benefit from consolidation towards pan-regional infrastructures like SEPA?

This proved interesting as some regions already have such consolidation plans in place – such as the Gulf Cooperation Council’s plans for a currency called the khaleeji – whilst many of us may believe that North America already has such a systems through Fedwire and CHIPS. Nevertheless, and even with these two regions being known as consolidated payments infrastructure areas, it was interesting to find that Asia and Latin America were cited as the next regions ripe for consolidation.



Is SEPA a success?

Logica

“Progress has been continuous over the past years, but there are still some significant barriers to full implementation. The risk of a mini SEPA still exists unless the key areas of contention are addressed – final end date for migration, the value proposition for SEPA solutions and services, and the business case. Transaction volumes continue to fall way below expectation and this has to change demonstrably for SEPA to be considered a success.”

Earthport

“SEPA is an EU integration initiative....designed to achieve the completion of the EU internal market and monetary union.’ SEPA is yet to deliver sufficient value and benefit to be deemed a success against the objectives set for the industry in the Lisbon agenda.”

What would make SEPA more successful?

Logica

“In order to accelerate SEPA migration stakeholder buy in by the Corporate and Public sector needs to increase significantly. These stakeholders need convincing of the merits of SEPA migration. Many banks are still unsure of the business case, instead being especially aware of the implementation costs in times of economic crisis.

“Corporates still need to be convinced of the business value of moving to SEPA instruments and there needs to be far more interaction between banks and corporates to address the value of SEPA across the end to end financial supply chain.

“The Public sector could act as a key catalyst for change in this area, but again the awareness and impact upon their payments value chain is clear and unproven.

“A practical initiative could be a scheme that could deliver end to end STP rates and services that benefit the users, as opposed to “a silo” bank to bank compromise that keeps multiple steps in the chain, each of which has the ability to interpret, delay and add cost to the process.”

Earthport

“A revision and re-statement of its goals and objectives, encompassing all of the various stakeholders but in particular the primary beneficiaries of better automation – corporates of all sizes including SMEs and government – would provide a clearer framework against which success can be assessed.”

What is restricting SEPA's success?

Logica

“There is an absence of perceived value to users across all parties. A scheme where many dates and timeframes are variable and flexible across multiple economies services to confuse and weaken the benefits.”

Earthport

“Limited market uptake. However, success should be shown through by stakeholders agreeing that the new services are demonstrably better than those provided by the legacy models, rather than simply retiring the legacy alternatives.”

Is there anything you believe is critical to the success of SEPA which is currently not being covered or discussed.

Logica

“Active marketing of SEPA based services. Financial institutions are changing their approach to payments because of the credit crunch and international competition forcing them to cut costs or develop new fee-based revenue streams.

“Aggressive competitive marketing by those banks that have already invested heavily in new services and have the IT to support them.

“The fragmentation in legacy payments systems, which differ between business areas and territories, is a major block to progress – this needs to be resolved in the SEPA business case and value propositions.”

Earthport

“At least 10% of European citizens have transactional needs beyond the Eurozone; and many small businesses, which are critical to economic growth, face greater challenges and inhibitors when transacting internationally. SEPA might be more valuable to the end users, if it were also to focus on trade between the Eurozone and the rest of the world, in addition to intra Eurozone transactions.

“SEPA’s scope is limited to payments; yet improvements to associated transactional information may have far wider economic benefits. For example, the challenge of reconciling receivables against invoices is one of the largest backoffice costs to businesses worldwide.”

Section Four: Innovations in Payments

In the final section of the 2010 study, we reviewed the things that people see as being innovative today. This section began by asking respondents to define how they saw innovation and we garnered a wide selection of definitions and views. Innovation is:

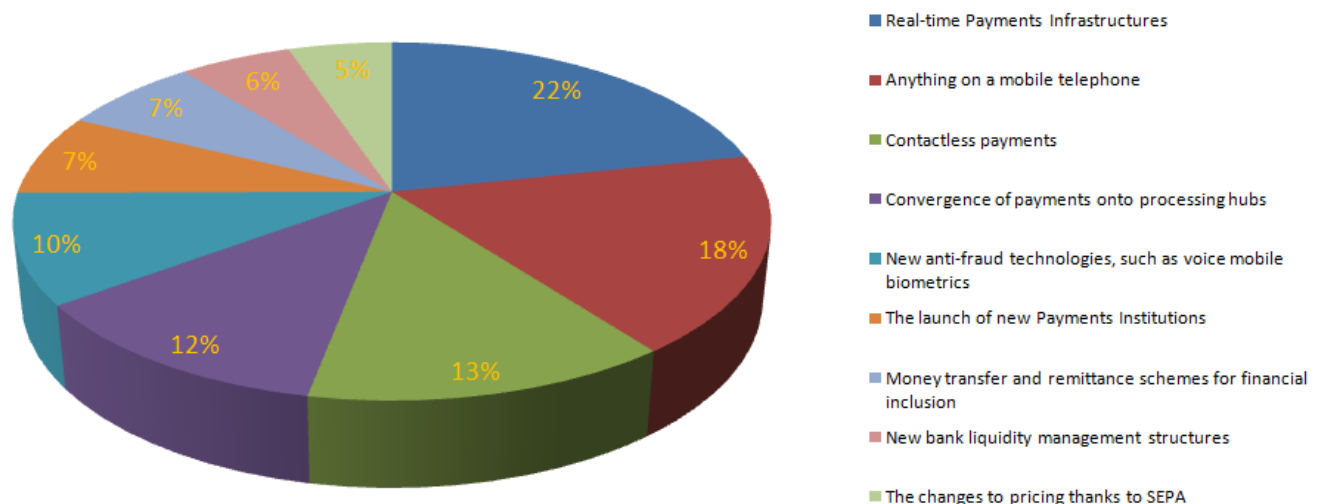
- “Anything that facilitates one or more of the following: - new business models - new payment customer experience - new technology - new product innovation models based on customer experience. Basically anything that wakes banks up to follow or get scared.”
- “Finding a new way of doing something. It's mostly development, collaboration, iteration, plagiarism and luck. It's almost never a brilliant idea, invention or flash of insight.”
- “A constant search for new products, services or changes in quality, availability or cost in the existing ones.”
- “Any system, product or procedure that achieves a defined objective in a way not previously exploited.”
- “Banks doing the same thing but charging more for it”
- “Being different by offering clients what they want rather than what you think they want”
- “Changes in the way something is done or used that had not been possible before, because of lack of customer desire, cost, technical capability, political or economic viability reasons ...”
- “Creating new products and services that make life easier / more comfortable for consumers and businesses. Innovation doesn't need to be disruptive per se: it can build on existing capabilities. But I guess new user experiences do have to be a part of it.”
- “Creating new ways for customer to run their lives / businesses without the constraints of the past.”
- “Creating value by doing things differently.”
- “In banking terms it tends to be around innovation in product delivery, embracing service and channel. However, it is largely constrained by thinking that is narrowly focused on what banks do today and is an extension of that proposition (added value) as opposed to a dictionary definition of the word.”
- “In Joseph Schumpeter's words: ‘Durchsetzung neuer Kombinationen’ i.e. the practical application of new ideas and technologies.”
- “New processes / new user interfaces / new availability of services to transfer your money to some-one else. the payment core product remains the same: transfer of (store of) value from one owner to another. Whether the store of value is held as a bank account , a balance on a telco or retailer, or otherwise.”
- “Not a revolution, in my opinion, but are new or better products, which make payment for customers more comfortable, easier to handle, but banks must be allowed to charge customers for such innovative solutions.”

- “The virtual removal of the payment process, thereby it becoming a fully integrated part of the financial transaction not the ‘difficult and costly bit at the end’ (contactless, fully reconciled) AND providing users of payments systems much greater control and transparency of the process, such as UK Faster Payments and mobile access.”
- “The work of visionaries that are able to understand what is next and how to get there first. Being able to fully understand what the current payments landscape is today and the development of a better way to achieve the same objective at a lower cost or better service level is innovation. “
- “There is one more element in innovation, that is defined in the saying, ‘innovation without execution is an illusion’. The second aspect of innovation is presentation to stakeholders that this innovative concept is indeed deliverable and will result in more turnover and profit.”
- “There are two types of innovation: (a) product innovation and (b) process innovation. In payments I would say we need continuous process innovation - the customer is happy if his payments are being made faster, safer, cheaper, and more securely. ‘Product innovation’ is currently not being seen as either desirable, understandable nor safe - the ‘innovative’ investment products which led to the crisis have given product innovation a bad image.”

One of the more intriguing comments was this one: “Living without innovation, by resisting it or dodging it, is basically the one-way to the parking lot where Europe might find itself and get overtaken by other nations. Hence, innovation is the best way to a sunny spot in the future!”

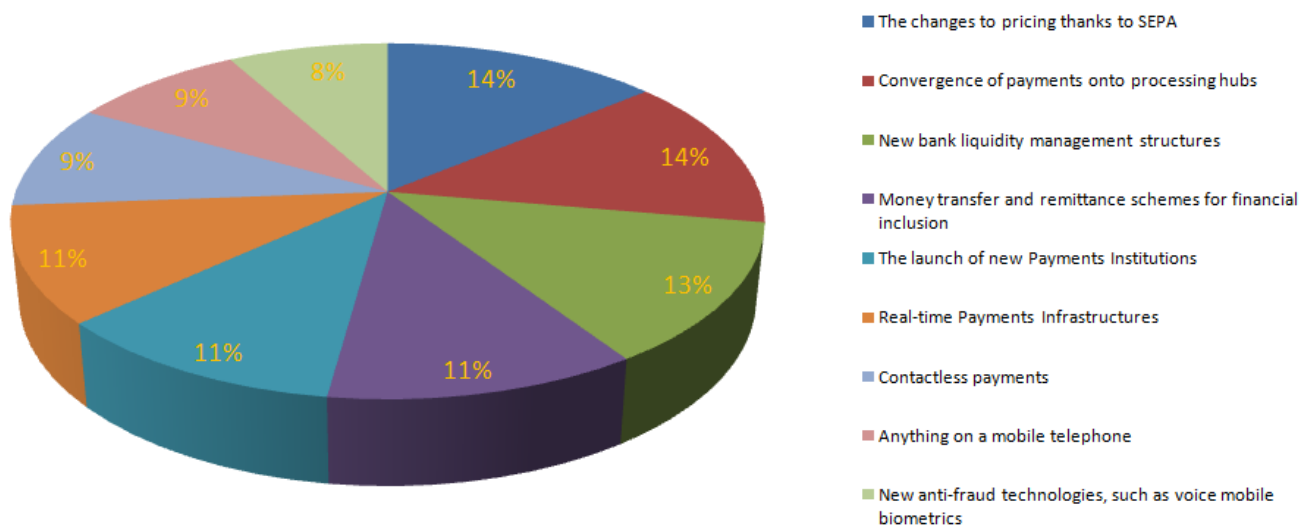
So, with that as background we explored the things that people believe are most and least interesting from an innovation viewpoint in payments today, and here are the results.

Most interesting



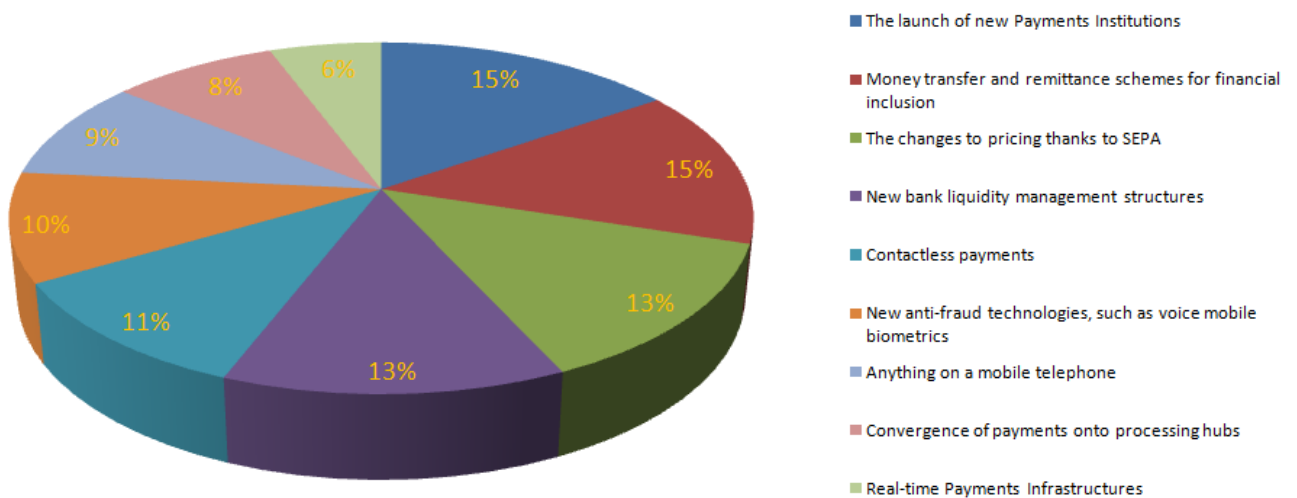
Most interesting are things to do with real-time payments, such as the UK’s Faster Payments Service, and all things related to contactless and mobile payments.

Quite interesting



Quite interesting are the more regulatory driven programmes, such as SEPA pricing and new bank liquidity management structures, much of which will force convergence of payments services into processing hubs to gain efficiencies of costs.

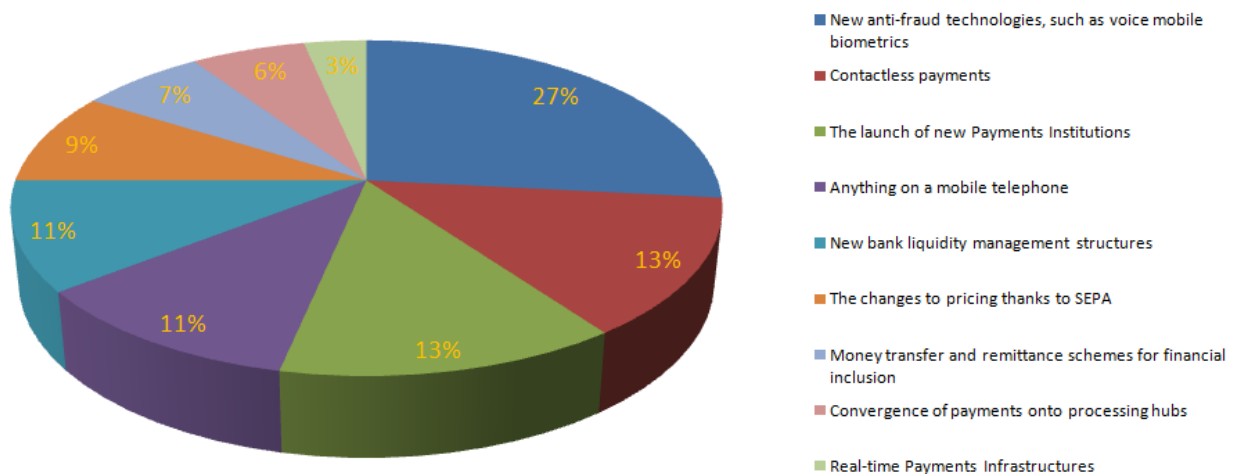
Of note



Noteworthy areas of innovation include the new payments institutions and their activities and the developments of mobile transfer and remittance service providers.

This brings us to our final selection of lack of innovation: the least interesting areas.

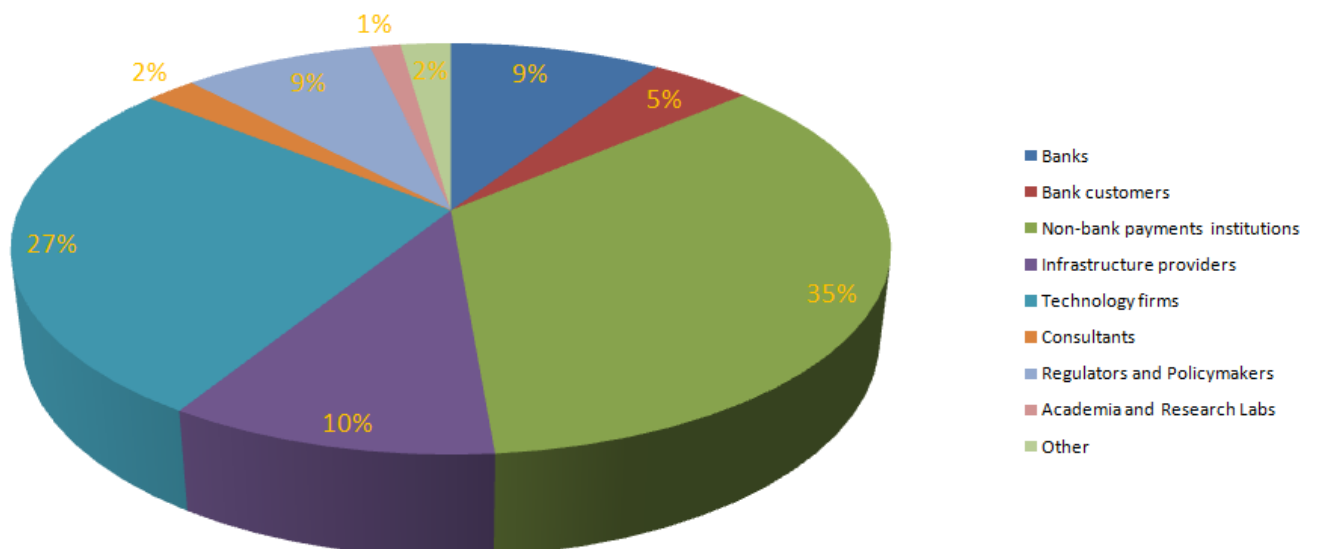
Boring



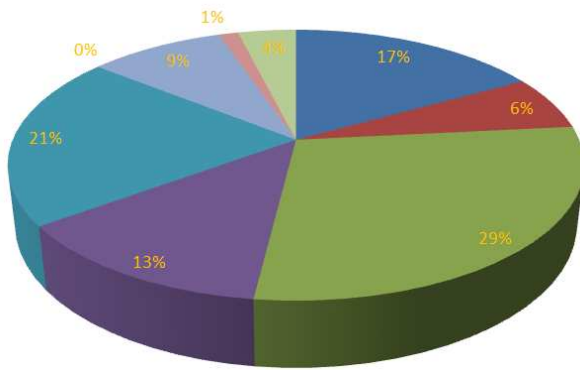
The most boring areas to consider today are using things like biometrics for anti-fraud, as well as some things that some people find quite exciting like contactless and payments institutions.

What intrigued here is that several people had named Voice Commerce as a key new payments institution in an earlier question on SEPA. Voice Commerce uses voice biometrics for customer identification and authentication. Interesting therefore that the survey respondents find this the least interesting area of innovation.

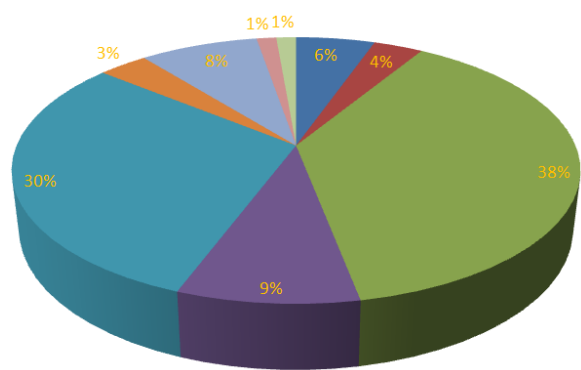
In terms of where innovation is generated and created, respondents cited non-banks: *Which constituency creates the most innovation in payments?*



Bankers



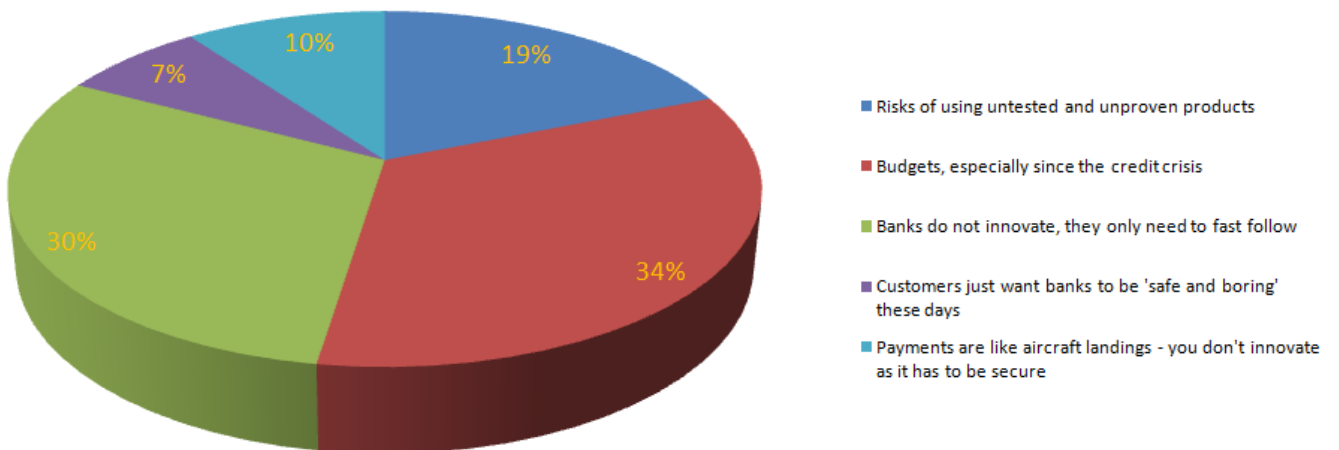
Non-Bankers



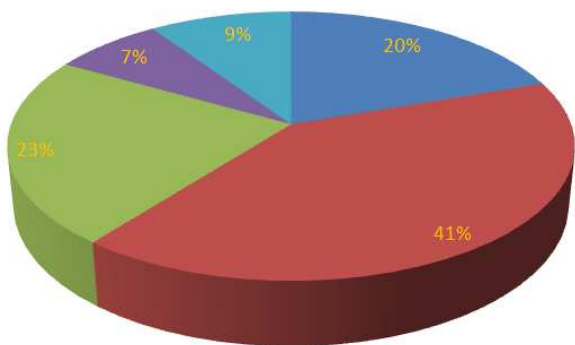
Again, unsurprisingly, the banks voted that they are far more innovative than non-banks think they are, but all nominated non-bank payments institutions and technology firms as the key instigators of innovation and change.

Why aren't banks more innovative?

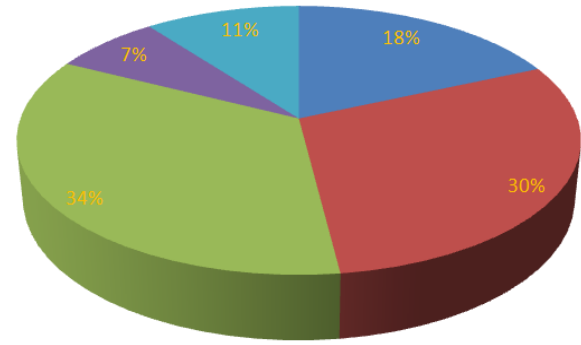
Probably because they shouldn't be, because of the risks involved. Or maybe it is the budgets. Certainly the lack of budget was nominated as the biggest issue by over a third of those surveyed: *What constrains innovation in payments?*



Bankers



Non-Bankers



What do you see as being innovative in payments?

Logica

“Many banks will need to innovate around value added services, exploiting the numerous technology options and the increasing level of mobile penetration in the industry. Value Added Services will need to be developed to retain current and new corporate clients in the longer term, and to preserve revenue. To meet the need of these corporate clients banks will need to show innovation in service offerings, provide Global coverage with local support, and provide value added services such as SEPA SDD mandate management, e-invoicing, and IBAN-BIC services.

“Many organisations are looking to the technological innovations in Payments in Asia, which is taking many and varied forms. In particular, the mobile market has produced many successful initiatives, from m-payments to contactless cards. As a result of this both Banks and alternative service providers have been able to provide convenient payment services to customers.

“Some organisations are looking at simpler business models such as the PayPal model - anybody to anybody, any currency, anywhere to anywhere immediate, low cost payments.

“Another area of investigation is the Auto-top-up value cards for micropayments, tickets and newspapers – in the UK we have the potential expansion of the Oyster Card.

“Paper statements could soon become extinct if Banks would recognise the customer need for permanent records and use email/internet to send PDF versions of information and statements instead of expecting customers to extract and download from online systems.

“Data Management will become a key issue in payments strategy going forward. This will involve best practice provision of management information, rather than data, in a form that adds value to the whole of the payments value chain, facilitates STP and provides dynamic exception management.

“There is now a growing interest in banks and other institutions in the value of accurate and timely data and information relating to liquidity, counterparties and intraday issues.

“Finally the introduction of Payments Factories and Payments Services Hubs, as an option, is now on the strategic agenda of many Transaction Services Organisations as a viable strategy in their future Target Operating Model.”

Earthport

“The increasing use of newer technologies including mobile, prepaid card and social networking is driving considerable innovation in the remittances market. Whilst some banks do not see this as an attractive market:

- “At a recent conference, a French bank stated that they did not want to be in remittance services because they don’t want “poor, foreign workers” in their branches.
- “At an industry event, a global bank said ‘ We make 1% of the value of each transaction but if we get one transaction wrong it could cost us over \$100m in lawyer fees and \$1-2bn of lost business’

“others see it as a way to grow:

- “Remittance services are a customer recruitment tool. Cost effective safe secure money transfer is the bedrock of a wide range of commercial services, including student loans and supply chain financing’ - Alex Milan, Managing Director, Philippine National Bank Europe”

Who is innovating?

Logica

“Banks that see Global Transaction Services as a key to their future strategy are starting to look to innovation in order to differentiate what is otherwise simply a scale business; many have recruited executives from the internet sector to lead their innovation in products, services and new channels.

“Some leading Banks are looking to forge strong business partnerships with alternative service providers, telecom operators, and other transit agencies. There are many service provider models being developed and Banks will need to enter into such relationships with a strong view as to their position and business opportunity in the whole payments value chain.

“In addition to banks some innovative organisations are those who are seen to be supporting real world personal or business activities – internet shopping, social networks, etc

“Who sees it as vital?

“Most large transaction banking groups do, though they find the balance of budget requirements between run compliance and change very difficult. The business case for innovation is still difficult to justify in times of economic crisis – the true leaders will be investing now to capture the leading edge during the upturn in the economy – most banks, at present, are adopting a ‘follower’ strategy which has developed into a somewhat conservative attitude towards innovation.”

Earthport

“Much of the innovation is taking place in countries which do not yet have well established, ubiquitous, payments schemes. Many of these nations are not the natural place for innovation in payments to take off, but for broader economic reasons, are also set to supersede the ‘developed’ economies in other ways.”