



SEPA and the PSD: Transforming challenges into opportunities

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Mario De Lorenzo
SIA-SSB Director of Payment Systems

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The Current Scenario



SEPA

- Investments for standardisation
- Decreasing average revenues per transaction and increasing pressure on margins
- Stronger competition from abroad

PSD

- Investments for compliance
- Reduction in revenues and margins
- New players entering the market



Banks must rethink or enhance their strategy in order to remain competitive

What are the main issues that banks need to address?

Can they transform challenges into opportunities?

Challenge no. 1: SEPA and PSD break down barriers



Risks

- SEPA is becoming a single market therefore domestic barriers are no longer considered an obstacle
- Greater competition in all countries from Global players

Counter-measures

Banks need to clearly define their position and answer the following questions:

- **What type of geographical coverage do you want to provide?**
 - Large International bank, European bank or Regional Bank, National bank
- **Who are your target customers?**
 - Corporates, Retail, Financial Institutions
- **What type of services do you want to deliver?**
 - High value services, Low cost services, Customised and ad-hoc services

Opportunities

- International players can sell services in different markets
- Large national players can use their competitive edge to increase the number of customers and revenues
- Niche players can concentrate on a specific target becoming leaders in their chosen field

Challenge no. 2: SEPA and PSD drive consolidation



Risks

- Multi-country players will fully benefit from formats standardisation and harmonised legal framework
- Large volumes are required to reach economies-of-scale and increase competitiveness
- Broad-based solutions portfolio will become more and more a competitive advantage

Counter-measures

Depending on their strategic position, banks can adopt different strategies in order to reach the right size, the desired geographical coverage, the required product portfolio

Opportunities

- Eliminate non-strategic assets and concentrate on most relevant and competitive assets
- Merge with players sharing or complementing your strategic goals
- Create consortiums in order to combine forces and cooperate with other smaller non-competing players
- Partner with a trusted solution provider able to enrich the overall business proposition and to create synergies on volumes
- Become outsourcer for profitable activities in order to increase revenues

Challenge no. 3: SEPA and PSD require investments



Risks

- Large players are better positioned to afford needed investments
- New players won't be suffering adaptation investments

Counter-measures

- Assess the current situation in terms of IT platforms, delivery channels, internal processes and procedures
- Distinguish key and competitive services from commodities
- Decide what are the most effective development options:
 - Build in-house
 - Purchase software
 - External services

Opportunities

- Reduce operational costs through a structured program, covering also organisational aspects
- Increase delivery capabilities through flexible architectures
- Set the ground for future new services
- Re-evaluate outsourcing options

Challenge no. 4: Outsourcing, in-sourcing, in-house?



Banks evaluate outsourcing as a solution to reduce costs, while they consider in-sourcing as a potential new source of revenue

Risks

- The outsourcer can supply the service to several banks and therefore can build economies-of-scale, but customisations may become more expensive
- The outsourcer can supply the service using low cost off-shore resources introducing new management and governance costs
- Higher risks may occur if the outsourcer cannot guarantee same level of reliability
- Unless the outsourcer is able to implement customised services in a very short time, the bank will face lower levels of flexibility
- Contracts and agreements can create additional workload and reduce time-to-market

Opportunities

- The outsourcer can introduce innovative and up-to-date solutions as requested by other customers
- Compulsory investment and innovation costs are always shared between all customers
- By focussing attention on specific areas of expertise, outsourcers can provide high-level services at the lowest possible cost

Challenge no. 5: SEPA and PSD reduce margins



Risks

- Various different forms of revenue are destined to decrease or disappear
- Increased competition will bring down existing revenues

Counter-measures

- First and foremost banks need to retain current customers and revenues
 - Adopt competitive pricing structures
 - Improve SLA
 - Work towards improving transparency and gaining the trust of customers
- Intensify investments in innovation or identify strategic partners
 - The *wait and see* approach may introduce delays that will be difficult to recover later down the line

Opportunities

- Gain market share through innovation
- Leverage SEPA standards to fulfil customers expectations on existing services
- Find extra source of revenues launching brand new services in the e/m-space
- Be proactive in addressing Public Authorities needs
- Carefully assess revenue potential in Realtime payments
- Explore fields currently covered by other players (e.g. Money Transfer operators)

Challenge no. 6: PSD open the door to new players



New Payment Institutions will provide citizens and companies with payment services that are in direct competition with banks

Risks

Why can new Payment Institutions become a threat?

- They can leverage a large number of customers
- Their IT systems are smaller and more flexible
- Some can already manage cash-based financial services
- Some can provide customers with high technology services e.g. Telco

Opportunities

Why does room for cooperation still exist?

- Banks can provide new Payment Institutions with financial services and share new customers and revenues
- Payment Institutions can accelerate innovation processes and banks, leveraging their experience and infrastructure, can introduce new solutions
- Payment Institutions need to comply with all national laws and rules, banks can provide support and expertise

Challenge no. 7: Identify ideal partners



Banks can identify new partners or leverage existing partners for:

Developing new products

- Software provider
- Technological provider

Outsourcing

- Providing reliable, scalable and cost-effective platforms
- With the capacity to manage large volumes in order to guarantee competitive prices

Risks

- Partners with insufficient experience may result in inferior services and have a negative effect on the bank's reputation

Opportunities

- Specialized providers usually use state-of-the-art technology and systems
- The right partner can provide skills, expertise and solutions for payment systems modernisation, as well as temporary and tactical solutions while restructuring
- Outsourcers can provide Value Added Services for banks with the aim at reducing their investments and/or complementing their value chain
- Efficient providers are able to deliver customised solutions at competitive prices

SIA-SSB: a partner you can trust!



Why is SIA-SSB a trusted partner?

- More than 30 years at the forefront of innovation, developing cutting-edge initiatives to promote banking environment modernisation, e.g.:
 - Pre-settlement and Clearing services for both non-SEPA and SEPA payment instruments
 - Central Database Management services
 - Interbank, Government and Corporate Networks Provider
- Since 2002, partnership with EBA Clearing for implementing and operating STEP2
- Trusted Service Provider at both domestic and international level, e.g.:
 - Cards Processor Services
 - Access Services
 - Corporate space services
 - Outsourced services
- Group with specialised subsidiaries and wide range of products / solutions, including comprehensive proposition for restructuring payments architecture, adopted by three of the top four Italian banks
- Sound experience in complex system integration projects (e.g. RTGS implementations in Sweden/Norway/Egypt)

SIA-SSB: helping you rise above the challenges



Trust

- Created by and for the banking system, SIA-SBB is owned by banks and provides financial institutions with services that are second to none in terms of security and efficiency

Large volumes and efficiency

- With over 14 billion transactions processed every year, we can guarantee high quality services at the lowest processing cost

Innovation

- SIA-SSB continually invests in innovation and ground-breaking services in order to anticipate the needs and demands of customers. By way of example, we are currently working on offerings for the following services and products:
 - e-Invoicing
 - e-Mandate
 - e-Payments
 - Remittances
 - Real Time Payments
 - VAS and AOS for SEPA Direct Debits

Cooperation

- SIA-SSB aggregates communities in order to define requirements for common and cooperative services in order to build solutions which create value for all stakeholders



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