



Maximizing SEPA

Attention to technical standards and new merchant needs critical to European expansion

By Brian Todd

As the march to full implementation of the Single Euro Payment Area (SEPA) drags on, ISOs should be preparing for the opportunities. SEPA, which makes all electronic transactions—credit, debit, and ACH transactions—uniform in cost and processing infrastructure, will abolish some old practices and bring unity to payment processing in Europe.

As SEPA slowly becomes the standard, the key for ISOs looking at European expansion is to pay attention to the technical standards and ensure the solutions they are selling will fill a merchant's needs.

Consistency of Cost

In introducing SEPA, the European Union (EU) and the European Central Bank (ECB) in Frankfurt sought to standardize electronic transactions, while lowering costs and the hassles associated with cross-border transactions for European consumers and businesses. The ECB predicts economies of scale will enable savings of more than 300 billion Euros each year.

However, while much fanfare was made in Europe about SEPA's Pan-European ACH becoming operational on Jan. 28, 2008, the initiative is far from fully implemented. Deadlines have passed for credit transfers, but direct-debit and bankcard transactions to the SEPA network are not scheduled until later this year. Meanwhile, parallel systems will run, especially for ACH payments. National banks and processors will co-own legacy systems—a common occurrence in Europe—and hope to make their system a player in the SEPA marketplace.

ACH and direct debit are vital parts of the electronic transaction marketplace, but the bigger concern for consumers, merchants, and payment institutions is the deadline to make bankcard transactions compliant. Because SEPA mandates uniformity in security and infrastructure as well as cost, more hurdles need to be cleared.

Standards and Solutions

While SEPA standards encourage the migra-

tion from magnetic stripe cards to smart cards and PIN verification, Europe has experienced mixed success implementing card and terminal standardization. Some countries have successfully deployed card terminals that can read smart cards, and others have succeeded at getting smart cards into the hands of consumers, but few nations have been successful at both.

Getting the right cards and terminals is only part of the problem. The next step is to get merchants to find a SEPA-compliant processor that can handle their needs.

Processors can become SEPA compliant in one of three ways. "They can migrate to an international scheme—such as MasterCard—that is SEPA-ready, they can make their local scheme compliant with SEPA standards, or they can co-brand a local scheme with an international one," explains Luke Olbrich, vice president of SEPA Solutions for MasterCard Europe.

International players, such as Visa and MasterCard, now have the world of local European transactions open to them—a market segment that represents roughly 95 percent of all electronic transactions in Europe. Because international players already have SEPA solutions in place, Olbrich says there is a political fear that local processing schemes will be shut out by these giants.

"The ECB would like to see a European solution, but there's not an appetite to build something to simply say there is a European alternative to these companies," Olbrich says, referring to MasterCard and Visa "that were founded in the United States."

Opportunities With Merchants

As the situation plays out, some smaller processors may fold under the weight of infrastructure and pricing standardization.

"A number of smaller processors will find it increasingly hard to continue as the market opens up, and the process of consolidation will continue," says John Chaplin, vice president of integrated network development for First Data Corp. in Greenwood Village, Colorado.

But not all change is bad. In the past, retailers needed to sign contracts with each national bank's payment processor so they could accept cards from across the continent. Under SEPA, merchants will be looking for one solution that best fits their needs, giving ISOs an opportunity to compete to sign retailers to new agreements.

"Competition for retailers has taken off, so retailers are shopping for the best deal," Olbrich says. "Retailers are looking for economies of scale."

Uniform pricing across borders doesn't mean a bank or processor can't package services to fit a particular marketplace, Olbrich notes. Those services only must cost the same whether taking transactions across borders or within a national border in the SEPA zone. So setting prices comes with knowing the needs of your market as far as where their customers—and their payment cards—will come from.

Chaplin agrees, adding that it's a mistake to think that there isn't room for different levels of service or different pricing and interchange fees. "The merchant must not be charged a different price for a Dutch or Italian card," Chaplin says. "However, the interchange between the banks can and still does vary. It is the prevailing local interchange rate that will largely determine the level of merchant charges."

Increasingly, major retailers and other merchants see Europe as a single market. Many would love to replace the current business model of a card acquirer for each of the markets in which they operate with a single pan-European acquirer.

"This will take time to achieve because of the continuation of national business rules and local debit card products, but the trend is clear," says Chaplin. "Even though the timing may slip and some features will change along the way, we see [SEPA] as an irreversible process." **TT**

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