

VocaLink confident about the payment business

VocaLink, which has been active for over 40 years, opened its first Benelux office in September this year. Banking & Finance spoke with Fred Bär, its Managing Director for Euro Services and Channels, about the key trends related to SEPA and the SEPA Direct Debit Scheme (SDD).

VocaLink is an international payment transaction specialist, with an automated payment platform processing over 9 billion payments annually with 90 million transactions on a peak day. The company also manages a switching platform connecting the world's busiest ATM network with over 60,000 ATMs. Its revolutionary Real-Time Payments platform provides the central infrastructure for the UK Faster Payments Service.

Banking & Finance: "What have been the key trends as seen by VocaLink in 2009?"

Fred: "We see three main trends evolving due to the financial crisis. Firstly, there is severe revenue pressure on all banks. Secondly, the regulatory interventions force banks to invest in changing internal procedures and it is anticipated that there are more regulatory changes to come. Lastly, investments have been slashed in all sectors and areas. They are picking up in a focused way: either to reduce risk or cost. We do not yet see renewed investments in new product capabilities. The payments industry has shown a remarkable resilience during the unfolding of the crisis. We expect this to continue since the volume of transactions is still growing.



▲ **Fred Bär:** "Next to the financial institutions, the obvious first new category is payment institutions."

Revenues however are lagging behind due to pricing pressure."

Banking & Finance: "What do you expect to see in 2010?"

Fred: "Next year I expect that projects within banks will pick up again and that they will adopt a back to basics approach and take the opportunity to become more

efficient and effective. The deepest point of the crisis is behind us, and even if there is a relapse, we expect to see more signs of recovery in 2010. Also the growth in transactions volume will continue next year. With respect to SEPA, I personally expect that the situation in 2010 will be the same as this year. SEPA is continuously anticipated, but with no clear end date it is not happening. In my view, the regulators have to set an end date, in order to end the uncertainty in the market. The market needs to know when to invest and when they can expect to start to earn some money with SEPA. At the moment it is difficult to justify the investment in double infrastructures. One bank on its own cannot do this. The industry as a whole should move at the same time and become compliant with SEPA."

Banking & Finance: "To what extent have banks migrated to SEPA and SDD?"

Fred: "According to the European Payments Council (EPC) some 2,500-3,000 banks adhere to SDD now. This is approx. 50% of all banks in Europe and an important first step in getting SDD off the ground. The EC regulation of April 2009 prescribes that the industry adheres to SDD by November 2010. The banking >

sector created the starting platform to allow the market to use it. Now is the time that the so-called big billers, the telecoms and utilities companies, get on board. At the moment they review SDD, but they are not eager to implement it, since they still have a good alternative in national direct debit schemes. These companies also have to be able to build a business case, which at the moment is still a challenge for them. However, in 2010 they will have to start moving as well."

"As a provider VocaLink also sees a slower growth in SEPA transaction volumes than expected. We offer additional services to help accelerate the migration by providing easy compliance for low volumes and cost saving options on connectivity and transmission of data. The end date remains a critical missing element though. VocaLink is still confident that SEPA will be achieved, be it 3 to 4 years later than originally envisioned."

Resilience even in financial crisis.

Banking & Finance: "Do you see the need for real-time payments in territories other than the UK?"

Fred: "VocaLink together with PWC recently published some research about the UK's Faster Payment Service (FPS). Some industry myths about faster payments were corrected: the research clearly demonstrates that banks which embraced the technology are reaping the benefits already and are accessing new revenue opportunities. Since the study is offering a roadmap for any bank or community seeking to benefit from real-time payments, we have had a lot of interest from all over the world, including the Benelux countries. The Faster Payment Service carries a lot that could be exported to other countries. In the discussions with interested parties, it became clear that

the main topic that has to be addressed is the exportability of the scheme. Can the mechanism be used to carry other similar schemes based on existing debit schemes for the cards market or for the mobile pay market?"

Banking & Finance: "What do you expect of the Payment Services Directive (PSD) which has been implemented on 2 November 2009?"

Fred: "There is a lot of speculation about the consequences of PSD for competition. Although some countries are somewhat later with the implementation, we should expect to see the first effects in 2010. It is relatively easy to set up a payment institution and we expect dozens of new entrants in Europe. We will be prepared for some surprises where we see entrants showing up in unexpected places. They might take away some of the payment business from banks or there might be alliances between banks and new entrants. It is difficult to predict at this stage who will gain what part of the market."

"We also will see a shift in labeling of players in the industry. Next to the financial institutions, the obvious first new category is payment institutions. However many boundaries will shift, vendors will move into service provisioning and unexpected new partnerships and competitive relations will develop.

Fred concludes: "With its proven track record of resilient performance the payment business remains a good place to be, despite legal and market changes. As the past 18 months has demonstrated: even in a turbulent crisis payments keep going strong." >

FRED BÄR

Fred Bär is Director of Euro Services and Channels at VocaLink. Fred's responsibilities include the business management of VocaLink's Euro clearings service offering and the development of value added services.

Prior to his current role, Fred worked as a strategy consultant with the EBA Clearing in Paris and Brussels. Previously he served as Executive Vice President at Equens, the Dutch payments service provider where he had overall responsibility for marketing, sales and business development. During his 8 years at Equens/Interpay, he led the clearing house business unit and the e-purse business unit.

Before joining Interpay, he held management positions at KPN Mobile Telecom, Digital Equipment Corporation and Royal Dutch Shell.

Fred, a Dutch national, is married with 4 children and splits his time between the Netherlands and the UK.