

A grand scheme

The Euro Alliance of Payment Schemes (EAPS) is a pan-European debit card 'scheme of schemes' that aims to be an alternative to Visa and MasterCard in Europe – like the Monnet and PayFair initiatives. Ugo Bechis, chairman of the EAPS board and head of SEPA payments at UBI Banca, speaks to **Ronan McCaughey** about the business case for EAPS and how it can benefit stakeholders in the payments process

Why was EAPS established?

EAPS was created as a pan-European debit cards initiative that aims to expand the usability of European domestic debit schemes.

The international schemes, such as Visa, MasterCard and American Express, seek to generate profits and deal with member banks as their licensees and distributors. In contrast, European domestic schemes have the scope to serve their members and are concerned about their banks' profitability.

The background of EAPS was to create an alternative to the debit products of the international schemes and to ensure that the governance of the initiative is controlled by European debit schemes.

Following a consortium phase between 2005 and 2007, EAPS was established in 2007. Six domestic payment schemes in Europe founded EAPS and control 100 percent of the company.

What are the latest developments at EAPS?

The main news from EAPS in 2010 will be the development of transactions. The difference between EAPS and the other so-called European scheme initiatives is that EAPS is a reality in the sense that we are already operating transactions, with more than 1 million transactions in 2009.

Within the cards value chain, we always talk about a scheme, but the

chain is also about the clearing and settlement of funds, in addition to processing transactions.

One major change in the cards industry to take effect in 2010 is unbundling – where networks are separated from their processing business. This will probably be the most important development in the cards industry in the year ahead.

In the past, almost all payment schemes were structured and run

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as a vertical silo, with scheme and processing activities run from the same company. For example, strictly speaking at the European level, Visa and MasterCard operate both network and processing activities.

Processing will now have to be separated from a payment scheme. That is the most important structural difference that will affect the cards industry in 2010 and the years ahead, as any project should be structured so that the scheme and processing activities are separated.

However, under SEPA, a network will no longer be able to make this



Ugo Bechis, EAPS

processing decision mandatory. That means all the business models should be independently viable.

How can EAPS persuade all the stakeholders in the payments process that it is commercially viable?

Unfortunately, the reality in 2010 is that networks have to be separated from their processing business. The main point is that EAPS was established as a concept with no involvement in processing activities. EAPS is actually about simplicity. This means we leave it to our participants to utilise their national processors and national switches. This will foster competition, which is one of the main objectives of SEPA. We also believe that freedom of choice in terms of processing will lead to mergers and a new benchmark of processing efficiency.

Another advantage of EAPS is that it is a very efficient scheme. National schemes operate on a cost-ratio of 1:5 compared with international schemes.

Given that debit interchange fees will converge in a few years time, EAPS and the national schemes are also more cost effective than international schemes. EAPS does not define an interchange fee; interchange fees are agreed on a bilateral basis between the EAPS' partners.

Finally, EAPS offers an alternative for large banks and payment institutions

that are interested in providing acquiring services to European retailers.

Given that globalisation is increasing, how can EAPS compete in such an international environment?

The geographic scope of EAPS is Europe, which will cut down on fraud and have a significant impact on the net profitability of the schemes participating in EAPS. If a consumer wants to use a card outside Europe, the international schemes can offer credit cards.

In this respect, EAPS has noticed that more and more banks change their plans and apply a two-card strategy. They start offering cards with full international coverage only to those customers with a proven record of using the card abroad. By doing this, fees from the international card schemes can be saved on the majority of cards.

What is your relationship with European policymakers? How do they view EAPS, compared to the Monnet and PayFair initiative?

We are in regular dialogue with the European policymakers, and understand that the European authorities have three expectations: firstly to see a European solution – something concrete instead of a hypothesis; secondly, they would appreciate a low-cost initiative that

fosters competition; finally, the policymakers expect efficiency at all levels of the value chain, which includes a high level of processing efficiency.

However, they look favourably at any initiative that may lead to improvements in terms of economies

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of scale. We believe that EAPS fits best within the authorities’ expectations.

Is EAPS willing to collaborate with Monnet and PayFair to create one alternative scheme that can challenge the dominance of Visa and MasterCard in Europe?

EAPS is a scheme of schemes. We are open and have contact with both PayFair and Monnet. As far as Monnet is concerned, we have already addressed the French stakeholders and the German banks behind the scheme, which are already within EAPS. This is because the German banks behind Monnet are already part of the German debit scheme. The German banks are considering something new as part of the Monnet initiative. However, if that does not go ahead, they are already within EAPS. The question is how the German

banks want to position themselves within the cards industry.

Why has EAPS recently widened its membership?

Up to now, the membership had only been open to SEPA Cards Framework-compliant card schemes.

The widening was necessary as there are some European countries without national payment schemes, such as in Eastern Europe. Banks and payment providers can now join EAPS without being dependent on a domestic scheme. The same principle allows individual players to join EAPS in which no common decision from a domestic scheme has been taken.

How do you expect the European cards and payments market to evolve?

The cards business and value chain was a simple affair in the twentieth century, based on a few rules and a vertical model. However, there are new rules in the twenty-first century. The separation of a network and processing will be the most dramatic change the industry has undergone so far. From 2010, the rules of the game are different. They have changed already and will change even more.

Any business model needs to find a balance between the interests of the acquiring/retailer side and the issuers and cardholders. What we can say is that national schemes and business models are already established and balanced, and they have been recognised as more efficient than international schemes when debit activity is concerned.

This efficiency is what EAPS makes available to all players in the European card market. ●

A third way

EAPS, Monnet and the merchant-focused PayFair network all have separate plans to offer pan-European debit card acceptance and establish a credible third scheme to challenge the dominance of Visa and MasterCard. European authorities have been also been pushing for the creation of a third cross-border debit network in Europe in order to boost competition and make the payments system more efficient.

Critics argue that even if a third pan-European debit network is launched and successfully rivals Visa and MasterCard in Europe, the debit cards would still have to be co-branded with either of the international network brands for global acceptance. Others argue that banks might be reluctant to invest in another payment network as they have already invested heavily in Visa and MasterCard.