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Payments: EU Growth Beckons Tech Firms
Credit card, remittance companies line up

A collective yawn was stifled across the Western European banking sector last month when the 15-member European Union added 10 states and 75 million consumers, mostly from the former Eastern Bloc, to its growing girth. But not payments firms, which are finding untold opportunity, particularly in the Central and Eastern European, or CEE, region.

This expanded EU, with 500 million people, now forms the globe's biggest trading bloc, 55 percent larger than the U.S., with whom the two-way flow of trade and investment bypasses $1 trillion annually. The combined GDP of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia and the southern half of Cyprus, is but a paltry 2 percent of the entire EU's GDP. Are these new neighborhoods really worth the bother?

Maybe not now, but they will be. Over the next four years, the CEE economies are expected to grow 3 percent annually, much higher than the 1.9 percent expected from Western Europe. And per-capita GDP, which was %4,800 ($5,828) per inhabitant in 2003, will double by 2013. That means true wealth, as measured in total financial assets, will follow: Today it's only %2,400 per inhabitant, only 8 percent the average in the eurozone.

Foreigners have long had an early bet on the region: Some 74 percent of the 300 banks in the CEE are foreign-owned, though their total assets top %350 billion, only 2.4 percent that of all eurozone banks. Dominant players include second-tier banks like Belgian bank KBC and Austrian banks Erste, Bank Austria Creditanstalt and Group Raiffeisen Zentralbank, with bit parts played by Italy's UniCredito Italiano and Intesa, the Netherlands' ING and and Germany's Commerzbank. "The CEOs of these banks are very optimistic about the future of banking in this region," says Thomas Mengel, portfolio manager for European funds at Kansas City, KS-based Waddell & Reed. "We get the impression that they are positive about growth and mostly expect double-digit growth annually over the next few years." CEE banks are noting high corporate and consumer loan profits-but fee income is lagging.

But opportunity beckons: Only 5.5 out of every 10 households is banked in the assession countries, compared to eight out of 10 households in the rest of the EU. Standard products like credit cards, personal loans and mortgages are not the norm in most of the new countries-and many workers are still paid in cash.

The leading bank across the multicurrency region is Bank Austria Creditanstalt Group, which claims the largest network in the 10-state region. In March it signed a deal with four other Austrian bank to create a joint payments system for a proposed single European platform. BA-CA officials say their aim is to provide a technology infrastructure for credit and debit cards, corporate cash management systems and foreign-payments initiatives that can be used across the region. The 10 new entrants are expected to apply for acceptance to the eurozone in a staggered fashion beginning in 2008.

Remittances will also become a bigger market, predicts Jeff Slowik, evp of Philadelphia-based PayQuik, which is in talks with banks in Poland, Slovania, Estonia and Latvia to install its payments system to capture a portion of the more than $1.22 billion in remittances that return to the region annually. The firm is also wooing banks in Turkey, which hopes to join the EU by 2006.

"It' s a wide open market right now in those 10 states," he says, noting that the $150 billion to $200 billion global remittance market is has been growing 10 percent a year since 1998-and showing no sign of slowing. "With more people moving around and more money being earned, it inherently means more people are sending money back home," he says. "It' s just that simple." The firm has relationships with banks in 36 countries-including original EU members of Germany, France, Spain and the UK-and is in negotiations with banks in Greece and Italy.

In that vein, MasterCard Europe last month launched its single European payments area, designed to help usher new members onto the fast track in licensing its brand across the CEE. The SEPA zone includes all 25 EU states, as well as the three European Free Trade Area countries of Iceland, Liechtenstein and Norway, Members can opt for an overall license rather than doing individual ones when new countries are added in the SEPA zones.

~ **By Karen Kerbsbach**
Bank Technology News June 2004