

An ACH trailblazer

From 1 May, **Michael Steinbach** will become chairman of the Equens Board of Directors. Here he talks exclusively to **Heather McKenzie** about his plans for the future of the pan-European payments processor

Equens was established in 2006 from a merger between Interpay Nederland and Germany's Transaktionsinstitut. With a combined annual volume of 7 billion transactions and 1.9 billion POS and ATM transactions switched for authorisation, Equens' market share within the euro zone is well over 10 per cent. Steinbach says Equens "will build on over 40 years of experience and the excellent reputation of our founders".

How did your customers react to the merger?

It is gratifying to see how the market has welcomed the merger. This is demonstrated by the fact we received many enquiries from banks and other payment processors across Europe asking about our service offering. Market participants need a partner who is able to provide continuity. With our commitment, outstanding performance and proven reliability we can ensure this continuity. In 2006 we enjoyed the continuing trust of existing clients, but also acquired new clients.

Do you feel there has been an advantage in being one of the first ACH mergers in Europe?

Yes, because Equens as the first truly pan-European full-service payment processor meets exactly the market needs, in particular with regard to the single euro payments area (Sepa). It is of paramount importance that in addition to talking about what we can do in a pan-European and Sepa context, that Equens can also demonstrate that in its daily business

we are fulfilling the different market needs. With bundling 7 billion processed payment transactions in 2006 and 1.9 billion POS and ATM transactions switched for authorisation, we furthermore ensure scale benefits. We are one of the largest payment processors in Europe.

However, our ambitions do not end here. We focus on further increasing our volume, based on the vision that only upscaling will generate benefits for our clients in the form of higher service quality and even lower costs.

What do you expect to be the main benefits of the merger for Equens, and for your customers?

In the consolidating European payments market, clustering of transaction volumes, attaining economies of scale and optimisation of quality are critical factors in competing effectively. By bundling the skills, volumes and expertise of two leading European payment processors, Equens is able to realise substantial synergy and scale advantages. As a result our clients can count on highly competitive services in terms of price and quality. Moreover, we are fully equipped to meet the challenges of the future and can support our current and future clients in making best use of the chances Sepa offers.

Our clients can count on a complete, modular and flexible service portfolio, which can be aligned seamlessly with their requirements. Our services cover the entire back-office payments value chain for payments and debit card processing.

We offer our clients maximum value at minimum cost by translating our large scale synergy effects and own assets into client benefits. We continuously aim to achieve the lowest possible processing costs while complying with the highest standards of quality, reliability and security. And it is up to us to fulfil and deliver what we promise.

Would you expect to see further merger activity in the European ACH environment?

The realisation of Sepa will result in more competition and consolidation. We expect that the current number of processors in Europe will be reduced over the next few years, as a consequence of the urgent need to increase scale. Three to five payment processors will most likely combine the processing of 60-70 per cent of all payment transaction volumes in the euro zone and each is expected to process more than 10 billion transactions per year. So yes, we definitely foresee further merger and consolidation activity in the European payments market.

Is there the possibility that there could be further merger activity for Equens?

Equens is determined to be one of the remaining processors. To that end we have defined a number of clear objectives for 2007: ensuring timely Sepa compliance, gaining new partners during the coming year (clients – meaning banks – and/or payment processors) and achieving substantial progress on the post-merger integration process. In order

to prevail, we need to increase our volume to an annual number of 10 billion transactions. Our strategy aims at pursuing this through further growth by expanding business with our current clients and acquiring new clients and/or strategic partnerships.

As the European payments processing industry consolidates, what do you think will be the key to survival for ACHs?

First of all, scale is of major importance as payment processing is a highly scale-sensitive business. Furthermore payment processors who operate on the European market must be able to fulfil the different clearing and settlement requirements of the banks and/or different countries. Equens is equipped to serve our clients in this respect by meeting the various settlement requirements, such as Euro1, Target2 and Loro/Nostro.

Moreover, a pan-European payment processor should ensure its clients that any payment sent to any other bank account in the European Union will reach its destination within the agreed time frame. To be able to fulfil this requirement, we consider reachability and interoperability a basic prerequisite for the success of Sepa. The accessibility of every bank account number within the EU can only be guaranteed when there is systematic and consistent access to banks and payment processors. This requires open standards for routing, tracking and tracing and connectivity. Equens' strategy is to offer a magnitude of reachability solutions for our clients to ensure sufficient reach at the start of Sepa.

Based on this strategy Equens already established several reachability solutions such as Step2, multilateral and bilateral clearing. We are currently preparing to establish additional reachability



Michael Steinbach, Equens

solutions until mid-2007, like an "Equens community Clearing" and, as one of the founding members, the European ACH Association (Eacha) approach. Eacha will develop a concept catering for market-wide common, European Payments Council-based technical interoperability between ACHs, which is also usable for banks to link up to other banks or the ACHs of their choice. The Eacha initiative received a lot of interest from all over the world during Sibos last year. It is becoming an important instrument in establishing Sepa reach within the EU-29 region. Therefore we strongly believe the Eacha initiative will offer major benefits to the entire Sepa market place.

We were also the first and until now the only payment processor in Europe to get the permission to implement a Swift MI-CUG. This gives our clients the required "reach" throughout the whole EU-29 region via Swift.

Furthermore Equens participates in the Berlin Group and is among the first companies to implement a Berlin Group gateway to other card processors, in order to ensure the lowest total cost of ownership for our clients' card payments value chain. This gateway supports switching and

processing of debit card transactions independent of the brand, that is, including both national and international brands. Technology-wise, Equens is fully EMV-compliant and its services can easily be adapted to fulfil additional Sepa requirements.

How important will be the role of the European Automated Clearing House Association in this consolidation process and in establishing interrelationships between ACHs?

With the current development of technical interoperability between ACHs, Eacha will – besides other solutions – play an important role in supporting the needed consolidation process and establishing interrelationships. We support this initiative, because it is the role of market infrastructures and payment processors to fulfil their responsibility in establishing common technical solutions for interoperability and reachability to ensure the success of Sepa.

What impact will Sepa have on the role of ACHs in both the short term and in the long term?

In the short-term Sepa will lead to first partnerships and collaborations between ACHs, based on sharing investments, bundling volumes and putting together the strengths of ACHs for a European-wide market approach.

In the long-term this consolidation process will increase, so that in a fully fledged Sepa or euro-domestic market three to five payment processors will most likely combine the processing of 60-70 per cent of all payment transaction volumes in the Euro zone.



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Are there still obstacles with regard to Sepa that have to be addressed by the industry? If so, what are they and how do you think they can be overcome?

Sepa will need the support of all relevant stakeholders. A truly euro-domestic payments market offers opportunities, but also requires a lot of investments. These investments need to be made, while the benefits only can be reaped in the future. Therefore parties involved might be reluctant to actually make investments. In order to really achieve increased efficiency in the short term and thus attain the actual benefits and use the opportunities of Sepa, stakeholders have to think about their current business model and challenge this against the market needs in Sepa. Those stakeholders who are able to change their business models in this respect sooner than the others, will be ahead of the increasing competition.

How has Equens prepared for Sepa introduction and what remains to be done?

We are clearly committed to Sepa and see the opportunities it offers. Moreover, we continuously aim to suit the demands of the Sepa market and our clients in the best possible way. To this purpose we developed a joint Sepa programme and service portfolio as a first mover, even before the merger. Our modular, comprehensive and flexible service portfolio was very well received as it enables clients to choose solutions that suit their specific market position and requirements.

In the short term, the introduction of Sepa means that the requirements for the basic level of Sepa payment services will be the same in all euro countries as of 2008. However, banks that currently enjoy an advanced payment infrastructure will want to be assured they can retain – or further increase – their current level of service after 1 January 2008. Due to variations between different markets and specific customer requirements, banks may therefore require services in addition to the Sepa core layer.

Equens is fully geared to support its clients with a basic rule book functionality plus additional optional services, enabling us to suit community, or client-specific, needs. We are

continuously tuning in to the latest changes in the Sepa landscape, such as the recent developments regarding the Payments Service Directive. As a result we can adapt our portfolio to the needs of banks, taking into account the desired additional services such as Creditor and Debtor Mandate Flow for direct debit. We also provide conversion or bridging services (using SwiftNet File Act and MI-CUG) that allow banks to make the transition to Sepa at their own pace and in the degree they require, while already being Sepa compliant.

Moreover, we will process all Sepa payments on one integrated payment processing platform, named ZVS. This platform offers greater scope for the future, as it is customisable, scalable and format-independent, thus flexible and easy to connect to. ZVS will enable us to provide our services on a modular and flexible basis. The first release for processing Sepa payments on the future joint platform was ready on time, which attests to the flexibility and power of the system and the ease with which new functionality can be incorporated. The processing on a single platform will yield substantial economies of scale, which will also lead to lower costs for clients. **IP**

DIARY

April

15-18

Payments 2007 Chicago

Hosted by Nacha, the US electronic payment association, Payments 2007: Knowledge – The Currency of Success, takes place at the Hyatt Regency Hotel. It will feature more than 140 sessions in six tracks: The Payments Biz; Corporate Payments Solutions; Automated Clearing House; eCheck; Global Focus; and Card Solutions. Nacha says the event will offer “exclusive” access to the decision-makers and agents of change who are shaping the payments system. Speakers are expert practitioners who will give their views on mission critical issues, including the implications to the payments system of US Congressional and Federal regulatory measures to address internet gambling, high-risk businesses, and international ACH transactions.

www.nacha.org/conferences/Payments2007/default.htm

17-20

15th Annual International Payments 2007, London

The International Payments Summit is regarded as Europe’s premier payments event. More than 120 speakers are featured in the four-day programme, including John Murphy, head of trade at ANZ Group, Eric Sepkes, vice-president and director of global FI strategy Citigroup, Julie Monaco, core cash management business executive, JP Morgan Chase Treasury Services and Aliza Knox, a senior vice-president at Visa International. Two non-bank speakers are Stéphane Garelli, a commentator on the international competitiveness of companies and Kjell Nordström, an associate professor at the Institute of International Business at the Stockholm School of Economics and author of Funky Business - Talent Makes Capital Dance, and Karaoke Capitalism: Management for Mankind.

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DIARY

May

15-16

5th International Epcac Conference, Frankfurt

This conference is organised by the European Payments Consulting Association, a pan-European association of independent national consultancies, each of which has expertise in payment systems and payment products. Speakers will include Gertrude Tumpel-Gugerell, member of the executive board, European Central Bank, Francesco Vanni d'Archirafi, chief executive, Global Transaction Services Emea, Citigroup, Hermann-Josef Lamberti, member of the board of managing directors, Deutsche Bank, Gerard Hartsink, chairman, European Payments Council, Michael Steinbach, the incoming chairman of the board of directors, Equens, Philippe Menier, deputy chief executive, Visa Europe, Marc Aguilar, general manager payments services, Fortis and Lázaro Campos, head of the banking industry division, Swift and incoming chief executive. Sessions will cover issues related to Sepa, standards, corporates, prepaid cards and contactless payment cards.

www.epcacconference.com

July

2-3

Second Annual European Conference on Sepa, Amsterdam

Organised by ICBI, the company behind the International Payments Summit, this conference last year attracted about 120 banking and corporate representatives. The event is aimed at heads of cash management, heads of low value payments, IT and operations directors, payments network managers, corporate treasurers, heads of policy and payment infrastructure and representatives from card companies.

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