



A Finnish Case Study of Outsourcing Payments Processing

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This article looks at one Finnish bank's decision to outsource its payments processing and the lessons learnt from the migration project.

The OP-Pohjola Group is a Finnish financial services group with more than 4.1 million customers in Finland including 3.2 million banking customers and 1.6 million insurance customers. In 2005, the bank made the decision to outsource its payments processing. A key factor in the OP-Pohjola Group's decision to outsource was the introduction of the single euro payments area (SEPA), which highlighted the fact that the bank's existing payment systems and infrastructure would not be able to handle the new SEPA formats or instruments. The bank didn't want to invest in a new system, nor did it want to have to make further changes as a result of SEPA going forward. As a result, it made the decision to outsource its payments processing to a service provider with the necessary software solution.

This is the first case of a Finnish bank outsourcing its payments processing to a service provider based abroad. The OP-Pohjola Group expects to gain a market advantage from its decision because it can now implement a new cost structure. For instance, the bank has reduced its internal costs in terms of the core payment process and has no obligation to make future investments in SEPA. At the same time, it can retain its payments customers and the ability to grow business from these relationships.

OP-Pohjola Group's Reasons: Why Outsource?

- Replace existing cross-border payments IT system.
- Ensure that new investments fully support the OP-Pohjola Group's long-term strategy: to expand and grow within the payments market in Finland.
- Ensure that payment products and services are competitive, high quality and cost efficient.
- Have a well-defined and predictable cost structure.
- Maintain a high STP rate to minimise the manual processing of payments.
- Avoid heavy investment in making systems SEPA compliant.
- Ensure that multinational corporate clients' needs are supported.
- Ensure that sufficient resources and knowledge are available for future product development and maintenance.

Choosing a Partner

Once the OP-Pohjola Group decided to outsource, the next step was choosing the right partner. "We wanted to work with a service provider who would give us a solution to meet our needs in the long-term over the next 10 to 15 years," says Petri

Aalto, head of payment systems development at the OP-Pohjola Group Central Cooperative. "Cost-efficiency, security, functionality and installing a high quality process were also fundamental factors. In addition, we wanted a solution where the cost structure would remain consistent going forward without any unexpected pricing changes that might affect our customers."

Aalto also underlined the fact that the bank wanted to make an investment in a solution that would continue to be SEPA-compliant. "We started to look for partners in 2003/4 and, at this time, many software vendors did not have a clear vision of SEPA or its impact on payments processes and infrastructure," he says. "We wanted a service provider that had a deep understanding of the payments market and any developments in this area."

In addition, it was important for the OP-Pohjola Group that its outsourcing partner provided enough resources to make sure the project plans were realistic and deliverable, as well as appoint the right people capable of managing the project efficiently. "Both organisations had to have the same understanding of the functionality and processes involved, particularly when there are language and cultural differences," claims Aalto.

Indeed, it is vital that an outsourcing relationship has alignment and synergy in terms of business culture because an open partnership will ensure the success of the working relationship. After careful consideration, Equens was selected as the outsourcing partner.

The Migration Project & Lessons Learnt

The major component of the migration project was the integration work between the two organisation's infrastructures. The migration project started in January 2006 and was completed in spring 2008, which was later than expected. This was due to the fact that the integration of the systems was a complicated process and that a complex interface from a technical perspective had to be built. Many of the issues that arose resulted from the cultural differences between the companies and making sure that everyone was in agreement about action points and next steps.

At the end of the migration project, Equens is now able to run domestic payments, bulk payments from other euro countries, EU regulation payments, cross-border payments and high value payments for the OP-Pohjola Group across its payments infrastructure and platform. All euro payments are processed across the same platform, which ensures standardisation as well as a high level of STP.

What lessons were learnt from the migration project and what advice would the OP-Pohjola Group offer other banks that are considering outsourcing? "It is important that there is the same understanding on both sides and that your own organisation understands what it will be like to work on an international project compared to a typical internal project," emphasises Aalto. "As a result, strong project leaders are essential within the organisation to drive the project forward. To make the integration phase as easy as possible, it is also important to use standardised interfaces and technology."

To ensure the success of any outsourcing partnership, trust and understanding are vital. "Your outsourcing partner must have a clear vision of the future and any market developments because the industry is currently in a period of transition on both the product development side and in terms of market infrastructure," affirms

Aalto of the OP-Pohjola Group. "Your partner should be able to adapt to these changes and help you to do so within the timeframe required."

Key Factors to Consider When Outsourcing Payment Processing

- Take advantage of your service partner in providing standard functionality, service level agreements (SLAs), interfaces and security standards, etc.
- Have the same understanding in terms of using processing tools.
- Choose a service provider that has extensive expertise in payments and in the market environment.
- Make sure your service provider has plans for new market developments, i.e. secured long-term investment.
- Make sure your service provider fulfils regulatory, client and international rules for risk analysis, data security and contingency processes.
- Ensure your service provider has a proven track record and can build on existing platforms.
- Prepare your own staff to work in an international partnership.