

SMART SOURCING

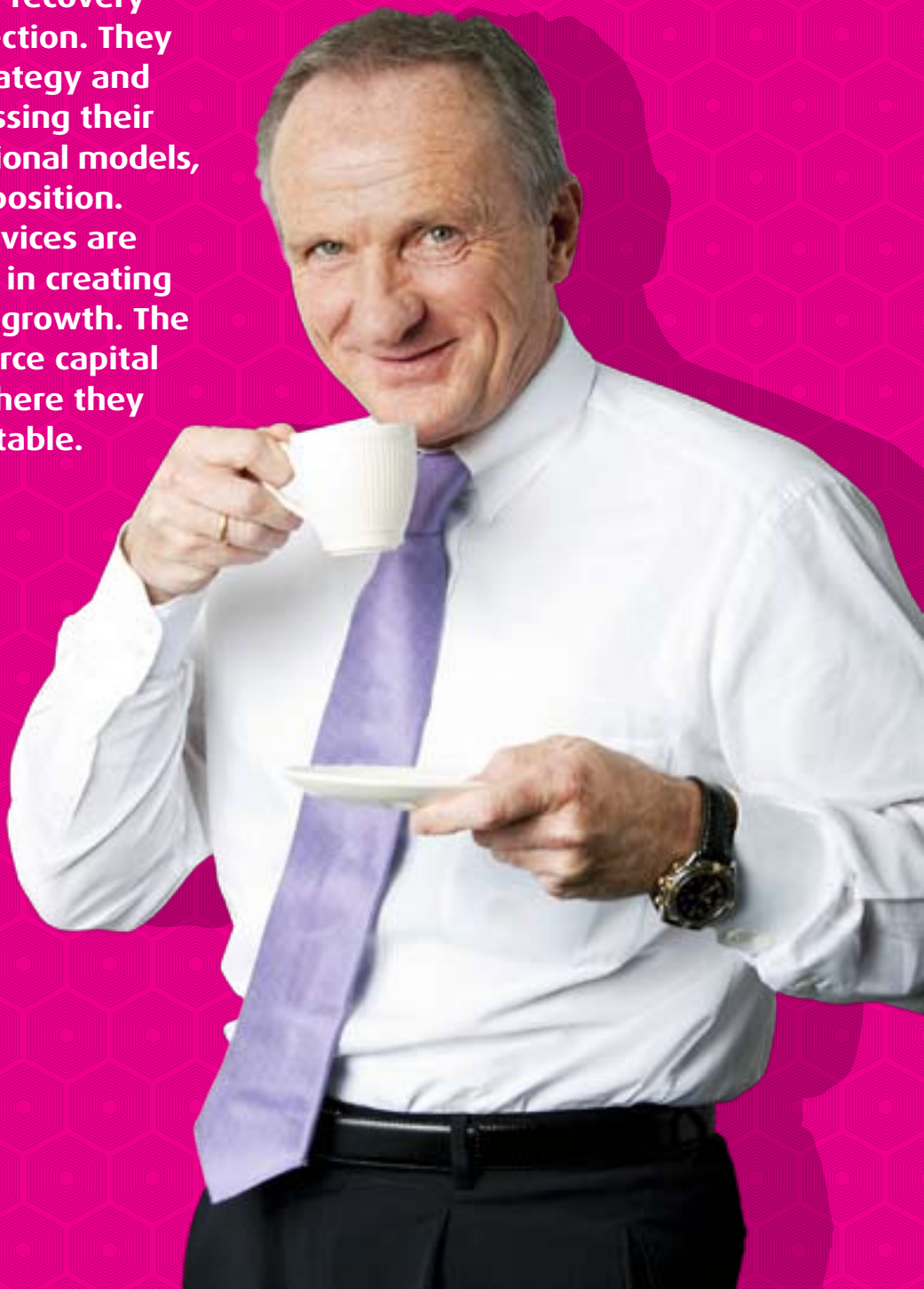
Following the crisis, when it was a case of 'all hands on deck', banks are seizing the current period of early recovery as an opportunity for reflection. They are reconsidering their strategy and ambitions, and are reassessing their core competencies, operational models, cost control and financial position. Stability and quality of services are more important than ever in creating a foundation for renewed growth. The challenge is to use the scarce capital and available resources where they are most likely to be profitable.

By **Michael Steinbach**,
Chairman of the Board
of Directors of Equens

There are two developments in progress. First of all, banks are shedding activities that are not generating sufficient earnings, or no longer tie in with the redefined core activities. Secondly, based on the reassessment of the operational model for the future, there is the mounting discussion regarding the sourcing of activities that can be performed more cheaply and better by third parties, but without putting the banks' own market position or the continuity of their vital processes at risk. In my opinion, the latter is an essential addition, given the lessons learned in the past. I firmly believe that the payment and card processing segment offers interesting opportunities in both respects.

The right choices

For the majority of banks, continuing payment services is essential for growth and stability. However, full or partial outsourcing of intra-bank and inter-bank processing services is a possibility. In doing so, it is imperative that a bank makes the right choices. Equens



can play an important role in this respect by, in consultation with the client, taking a close look at every aspect of the processes within the bank, and jointly determining where profits could be made through outsourcing. This can then be achieved through anything from standardised solutions to full outsourcing of client-specific services. In other words, ‘smart sourcing’.

Reinforcing competitive position

Banks are being forced to modify all of their payment processes in order to make them fully SEPA compliant. This became even more important following the ‘SEPA resolution’ of the European Parliament of March 2010, which called for the European Commission to set a deadline no later than 31 December 2012.

Equens has seized the arrival of SEPA as an opportunity to develop processing solutions for the whole intra-bank and inter-bank payment processing chain. Our solutions consist of a variety of service modules that together cover the whole of this chain. Banks can outsource parts of the chain to us individually or in different combinations. On their behalf, we can take care of each of their process steps. As we already work for a large number of banks in Europe, our clients benefit from our economies of scale and scope. This allows us to balance business cases more quickly, and also shorten the time to market for new services, which in turn reinforces the competitive position of the bank.

Domestic services remain within SEPA

SEPA payments currently account for only 2 percent of the overall payments volume. Even after the large-scale migration to SEPA, there will still be a need for country-specific functionalities. Banks in the various European countries will, partly at the request of their own customers, want to provide the level of service they currently provide in their domestic market. SEPA must not result in lower service levels, anywhere. Consequently, we have chosen the core

CSM services as the basic component for our portfolio, extended by a wide range of optional Value-Added Services (VAS). The VASs are geared to the various service levels that the different European countries have become accustomed to.

Importance of local expertise

Many parties lack the knowledge of local markets and the experience to respond to specific market demands (with the exception of the current local players, but they lack the necessary volume!). However, this is essential in enabling banks to offer the level of service they already offer in their domestic markets. The origins of Equens and the European growth model that served as its foundation mean that we offer significant added value in this respect. The Dutch part of our organisation has been providing a wide range of services for banks for years, not only in the area of clearing & settlement, but also in terms of functionalities that can be used for a much wider range of activities. By contrast, the German part of Equens has a different background, and has always focused on the back-office processing of payments within the actual banks. This also applies for the Italian and Finnish operations. Our European presence, combined with our broad experience, allows us to respond efficiently to the varying local market situations and demands.

Independent sourcing partners

Another justifiable requirement that banks make is that a payment processor should be independent and have card and payment processing as its core activity. This is fully understandable. After all, as a bank you want to be sure that your interests and those of your customers come first. Processing has been Equens’ *raison d’être* for many years. We are not affiliated to one specific bank, and occupy a brand-independent position in the cards market. Our broad presence in Europe allows us to operate independently, set our own course, and define a European growth strategy that focuses on our customers.

Time and confidence

In our experience, banks like to play it safe when it comes to sourcing, especially where fundamental capabilities such as card and payment processing are concerned. Sourcing processes are time-consuming, and require building a relationship of trust, whether they involve a standardised service or full outsourcing. Rightly so, in my opinion. Banks need extremely solid sourcing partners who can guarantee long-term continuity. This in turn provides sufficient scale in the processing market. We know from experience to what extent banks can benefit from economies of scale by sharing substantial parts of the infrastructure. Johan Kestens of A.T. Kearney also points this out in this magazine. Sufficient scale leads to economies of scale that facilitate a low cost price, but also result in an earnings model that leaves room for investment in innovation. This allows the needs of the bank to continue being met. After all, it is vital to keep looking ahead!

Deeply rooted processing experience

Equens is a truly European company, with roots and offices in four European countries – the Netherlands, Germany, Italy and Finland. Our biggest asset in a Europe with growing SEPA traffic – also domestic – is two-fold. First of all, payment processing has been our core business for years, which means we have more than four decades of experience to build on. In addition, our national roots and local expertise allow us to meet national and bank-specific market demand right across

the payment processing chain. With clients in ten, and partnerships in six European countries we offer European market coverage. We offer full reach in Europe, and even beyond SEPA – via the IPF Association and our strategic partnership with the Federal Reserve Banks. The organisation is bank and brand-independent and has a stable governance structure with shareholders all over Europe. This, combined with our European growth strategy, enables us to offer long-term continuity.