

# Sourcing will strengthen banks' market positions

Michael Steinbach

**T**he financial market is subject to considerable and structural changes. The current economic climate, technological developments, market trends and increasing competition will require banks to adapt to the changing environment. Banks will also need to seriously reconsider their operational models concerning payments. What are the barriers in this respect, and which considerations should be taken into account? Michael Steinbach, Chairman of the Board of Directors of Equens SE, has good arguments for banks to have a close look at today's and future sourcing possibilities in the area of payment processing.

## Why should banks consider sourcing?

"In reassessing and optimising their operational models, banks have several options. First of all they can take efficiency measures and work on optimisation of their internal processes. Another option is to join forces with other banks. And last but not least, they can look at sourcing options offered by external service providers. Since the crisis, banks are more than ever considering the sourcing of activities that can be performed cheaper and more efficiently by third parties."

Is payment processing a logical 'candidate' for sourcing? "Payment processing is one of the most likely areas to consider as clear benefits can be obtained here. After all, what is the point of building and maintaining systems yourself and maintain procedures when these have to comply with the same SEPA standards that apply to all European banks? By sourcing all this to a reliable partner, banks can reduce operating costs. It creates flexibility and it will free scarce resources for core business activities. However, this is not an easy decision to make since payments processing is strongly embedded in the internal organisation."

## What factors should be considered?

"While investigating their sourcing options, banks need to take into account which activities they want to outsource. Are these purely payments related, or are also cards activities involved? Are only standard functionalities

required, or should your sourcing partner also be able to handle specific market or client needs? From efficiency perspective and in terms of a future-oriented solution it is strongly advisable to choose a partner who can cater for all the required services and processes."

## What are important factors for banks in the decision-making?

"Sourcing processes – whether they involve a standardised service or full outsourcing – require building a relationship of mutual trust. Banks have to select extremely solid sourcing partners who can guarantee long-term continuity. This is only possible when a sourcing partner has reached sufficient scale to facilitate a low cost price, but at the same time has an earnings model that leaves room for investment in innovation and keeping systems and processes compliant with regulations. In today's market price is highly decisive, but banks really should carefully consider the aspects of continuity and capabilities for continued state-of-the-art services. Offering excellent payment services is vital for banks. Doing this together with a future-proof sourcing partner banks can raise their commercial profile, while at the same ensuring a flawless operation."

## What could be differentiating factors?

"In former times, a sourcing partner was merely a supplier. Today, the role of a sourcing partner has changed more and more into a consultancy partner. To fulfil this role, you need certain skills. For instance, you need to know exactly how a bank operates. This is of crucial importance, as in considering the sourcing of payments you need to look at the entire infrastructure of the bank. Furthermore, besides offering scale, scope and a full range of basic and client-specific services, you need to do more. As a future-oriented sourcing partner you should also need to provide an HR model, which helps banks to deal with the social burden which is often related with sourcing decisions. We recognise this as well and are therefore prepared to discuss models with the individual bank for taking over employees involved in the outsourced activities."

### Which processing activities can be outsourced?

“Looking at the market, this decision in most cases entirely depends on the requirements of the bank and the needs of its customers. For Equens this means we are able to take over parts or the entire payments processing value chain, starting from the sphere of the payer to the sphere of the beneficiary, and all the steps in between. And varying from international, SEPA-compliant to domestic payments, and from tailor-made bilateral corporate solutions to standardised collective mass payment solutions. Above this, we have the knowledge and experience to connect the payment processes to all other relevant banking processes and systems with the required interfaces, such as customer databases, and the different product systems.”

### And cards?

“Good question, especially since we are a dual processor, offering both payments and cards services. Together with our subsidiaries PaySquare and montrada we cover the full value/functionality chain of cards processing. We thus offer our clients issuing processing, issuing processing services,

switching, acquiring processing, acquiring processing services, and commercial (merchant) acquiring for debit and credit cards, including prepaid solutions. We are ready for the fundamental changes the cards market is going through, especially in the area of acquiring. Large European retailers need more services on a pan-European, SEPA basis as they want to avoid having to deal with many different domestic schemes. When banks are not able to follow their customers into Europe, retailers often want to arrange their own central processing. This will lead to an intensified relationship between merchants and acquirers, which will push banks to the background on this point. For quite some banks it is not feasible to set up an organisation to provide the required international acquiring services. To support banks in overcoming possible lags in their offering and lose market share, we offer them a white labelled complete acquiring business model, including a complete dedicated organisation for processing, risk management, call center for questions from customers et cetera. This way, banks are able to continue to offer acquiring services to their merchant customers and remain independent.”

## About Equens



Michael Steinbach

*Equens is a leading pan-European payments and cards processor, with roots and offices in the Netherlands, Germany, Italy and Finland. Recognising, understanding and optimising the processing of payments and cards – both domestic and international - has been Equens' core competence and core business from the outset. The company has more than four decades of experience to build on. Its national roots and local expertise allow Equens to meet national and bank-specific market demands right across the payment processing chain. With clients and partnerships in multiple European countries banks can rely on European market coverage and full reach throughout Europe. Equens even offers reach beyond SEPA – via the IPF Association and a 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 an explicit European growth strategy, ensures long-term continuity.*

[www.equens.com](http://www.equens.com)