

Interview: Michael Steinbach

Nick Carver spoke with the chairman of Equens
about the merger with Seceti and his strategy for SEPA

Nick Carver

We are now only a matter of weeks away from the first day of the Single Euro Payments Area (SEPA). Has testing thrown up any concerns with regard to reachability?

We won't fully know until we go live – this is the nature of launching a totally new technical standard. Several issues were foreseen and one, that definitions in some fields are very weak, is taking some ironing out.

Can you give an example?

Here we really get down to the nitty-gritty – but take the characters in data fields, which we say can only be numbers or have to be placed in a specific order. Others say this data field can also accept letters or are sorted in a different order. So we have a problem.

Isn't this potentially a big problem if it is something as fundamental as bank account numbers?

What it means is that you have SEPA standards technically, but you have a lot of subsets. When you look in detail at the data fields, let's say the SEPA dataset from Germany, it is perhaps different to the SEPA standard from Italy. Both are SEPA compliant, but on a technical level – in detail – they are slightly different. This is not a major problem, but it means you need to know that and at the end it is a change in the software. However, I believe that as SEPA promotes consolidation these different types of subsets will slowly but surely disappear.

Whose job is it to arbitrate on this type of dispute? Is there a referee or judge who makes the decision?

There are several referees! If it is an issue to do with basic SEPA compliance, related to the scheme and the content of the signed adherence document, the Scheme Management Committee of the European Payments Council (EPC) takes care of it. Otherwise the banks and processors involved will try to solve disputes amongst themselves, as they have done in the past.

You mention consolidation, and Equens is a prime example of this. There has been a period of tremendous change with the mergers firstly of Interpay and TAI, and now Seceti. What challenges has this presented?

Take the organisational ones first. After just one year we have nearly finalised the merger between Interpay and TAI. Now with the next one on the horizon, we have the advantage of the lessons we have learned, but it is of course clearly an enormous organisational resource challenge. Processing wise, we have to finalise our migration plans, what we call the post-merger integration process for Interpay and TAI. In parallel, together with Seceti, we will investigate, if we need to adjust these migration plans according to the planned consolidation of processes and systems. This is to maximise the potential for synergies overall and realise them as soon as possible.

How is the organisation divided between the Netherlands and Germany?

We have a fully integrated approach. As you know, we have our holding model: the headquarters are in Utrecht with two operational subsidiaries, Equens Deutschland and Equens Nederland. We have these country companies – but we are not organised along country lines, we have a functional organisation. We have

brought together the finance department, communications, marketing and sales, and IT will follow in January 2008. By the end of 2007, we achieved three-quarters of all post-merger integration.

I am very proud because this is a considerable achievement. We merged two totally different companies. On the one side you had Interpay, an automated clearing house that was a monopolist in the Dutch market founded by banks there. On the other you had TAI, which was founded after a cost merger in the banking sector and focused only on its core business – “payments processing” – with a lean structure. When I look at all this, together with cultural elements, I am really proud of what we have achieved.

Now of course we have another merger in front of us and we can learn from this to meet the timelines we set together with our colleagues from Seceti. At the end of the first quarter or during the second quarter of 2008, we want to sign the contracts and set up Equens Italia as a 50-50 joint venture.

How will this affect your ownership structure?

The 100% shareholder of Seceti is the Istituto Centrale delle Banche Popolari Italiane. In the future they will own 50% of Equens Italia and they will have a minor share in the Equens holding company. After two to three years, at most, we will move to a full merger.

What’s the attraction of merging with Seceti?

Scale and strategic fit. Seceti is the second biggest payments and cards processor in Italy. They have a market share of roughly 40% of Italian processing. There is a big overlap in our businesses and offerings: payments, processing credit transfers, direct debits, processing of cards issuing and acquiring, ATM hosting, point-of-sale terminals and so on. This means there are opportunities for cost-saving synergies.

Second, Equens’ and Seceti’s strategic intentions are aligned. We believe in SEPA meaning a completely euro domestic market

without national borders. This will come sooner or later, and now is the time to position oneself. We can’t afford to wait and see how the market develops.

At the beginning of this year Equens cut 400 jobs. Will there be cuts from the new merger?

In cost synergies we also look to reduce staff if possible. But at this moment I would not say that this is the case because Seceti is a lean company. They employ 200 people for a market share of roughly 40% in Italy. From my current point of view there will not be too much reduction of personnel. It’s more to get synergies from bundling the processing of payments and cards and expanding the business overall.

What about the systems?

I am not married to systems – I am a businessman. My task is to get the best price and the best service to my clients, meaning the banks. This means we are not defending systems. We have to be open to the best system or the best process or the best product which ensures a maximum of benefit, reliability and security. So I look very openly at the solutions our Italian colleagues have.

Will you look to expand further?

We are open for further expansion in the European landscape. We believe in the euro domestic market. We want to get even lower prices, lower costs so that we can bring further benefits to the banks.

Michael Steinbach

Michael Steinbach became chairman of Equens’ Board of Directors in May 2007, having previously been the company’s deputy chairman. He had been spokesman of the Board of Directors of TAI since July 2003. Before joining TAI he was a director of DZ BANK AG, where he headed the payments department. During his career he has gained extensive experience in payments. He is a member of many significant national and international payment committees.



In terms of volumes, how many transactions are you processing? Is this a critical mass for your business?

Equens processes 7.3bn payments annually and roughly 2bn card transactions. With Seceti these numbers will increase to 9bn payments and 3bn card transactions. We have a market share of about 10% in Europe and with Seceti this will increase to 14–15%. We think that a processor needs to process more than 10bn payments a year to survive in the new integrated European market.

When looking to expand, do you look at particular national markets that you want to take on, or do you look at particular clients whose business you want to bid for?

Both. We focus on getting new clients – meaning banks throughout Europe – and second we also of course look for new processing partners throughout Europe. Of course I am aware that not everybody believes in this euro domestic market. Some will try to maintain national borders as long as possible, but from my point of view this is the wrong strategy. This European market will come.

Who are is trying to keep the national borders intact?

There are different interests, but you cannot say it is just the banks or governments and so on. There are different interests in countries. But overall it is important to remember it is also a politically driven project. Nobody will stop this.

How will Equens be positioning itself in the new market?

Our ambition is to consolidate payments processing on one platform and come to a level of prices which is far below those a year ago.

We offer everything to do with card and payments processing. For the payments we process paper-based national, cross-border electronic, national electronic, euro, dollar, South African rand – whatever you want. We process cheques too, as well as provide an interface to high-value payments through TARGET2.

In addition to this we offer what you might call value-added or innovative services. Take the SEPA direct debit, where there are new developments in mandate handling. We will offer to process this new mandate handling. Then there is the retail petrol market, which we are looking to expand into. Here we will have to be able to process private label cards, but also “normal” cards like Maestro, MasterCard and Visa as well as national debit card schemes or in the near future possible new European debit card solutions.

We have services in place for contactless payments too. There are two pilots in the Netherlands, where we contribute the technical infrastructure for this so you can pay with your mobile. Now we are setting up a pilot in the biometric sphere where you can pay with your fingerprint, which will start in February 2008, and then of course that heavily discussed product in Europe: e-invoicing.

How are you managing to fund this investment when the prices you charge are set to fall under SEPA?

First and foremost, we are a profit centre. But at the same time we are not there to maximise shareholder value. So what does this mean? We have to earn money to pay our employees, our mortgage, rent and the developments in our systems. This means that our prices have a margin. But each and every synergy above that goes into price reductions for our clients. So, for example, the merger of Equens will generate cost synergies that will largely be reflected in price reductions of 30% by 2010. Innovations like those I mentioned earlier are a kind of investment and are funded out of revenues.

You stressed that banks were your clients. Is it Equens policy not to deal directly with corporates?

No, we can do business with corporates directly, but only in a way that is aligned with our banks. For example, if a corporate comes to us directly we are happy to work with him, however, we will inform our client – meaning the bank – whose customer he is. We do not want to compete with banks. We have agreements with corporates, but the main contract stays between bank and corporate.

Do you have any plans to change this?

We have already changed and the move into petrol market is an example of this. What we see now is global companies increasingly asking processors to help them with European-based solutions. We connect to them directly.

Who do you see as your rivals?

When you talk about competitors you have to be very careful, as we are in a market that is not yet developed. You have to look closely at what the competitors are offering. When you do this you see that service offering is different. There are processors that only offer clearing and settlements function, others, like Equens, offers the whole back-office payments and cards value chain, including clearing and settlement functions.

In October there was the announcement of interoperability ahead of SEPA. How is SEPA changing the dividing line between the competitive and cooperative space?

When it comes to reachability and interoperability we have a role as processors to ensure, together with other stakeholders, that from 28 January each and every SEPA payment can be processed to the end beneficiary. To do this we need to connect to each other and to exchange payments. Even if it is only one payment on 28 January there would be nothing worse than to say I cannot reach the end beneficiary. This is why we signed this interoperability agreement between the Group of Five¹ as we call ourselves, based on the technical concept of the EACHA. At the same time we are competing for volumes. But in the end there will be consolidation. There are 25 to 30 processors in Europe today, but in four to five years there will be five at most.

Two new countries have joined the euro area, are confident that you will be able to reach them?

Yes. There is the model I just mentioned, the Group of Five, there is EBA's Step2, there is the Equens

community, meaning payments from bank to bank which we clear on our platform at Equens, and then there are bilateral agreements, which is good old correspondent banking.

Is bilateral clearing a worry as it potentially excludes you?

No. We are a one-stop shop for payments and cards processing. This means we support bilateral, we support multilateral, we support EBA, we support the EACHA model and we support the Equens community. Banks do not have to connect technically to different clearing gateways; we take care of all of it.

So two banks can outsource their bilateral clearing to you?

Sure. What we are offering them is, in a modular way, the whole back office payments and cards value chain. So each bank can individually decide, based on its strategic decision, what they define as their core activities, the range of back office services they want to buy in from Equens. At the same time they benefit from our scale and scope. So we are not dependent on the clearing gateway. We can support bilateral deals, if that is what the banks want to do.

Who will be the winners and losers from SEPA over the next five to ten years?

The winners will be the first-movers who already have a SEPA strategy in place, and – most importantly – are already acting on it. A SEPA strategy can be defined as seeing, using and capitalising on the opportunities presented by a euro-domestic market without national borders, trying to grow and gain market share, and managing and being aware of the pitfalls.

The losers will be the followers who are taking a defensive “wait-and-see” approach. When they wake up they will see that the SEPA market already exists and that they are losing or have lost market share in a much broader and more competitive euro-domestic market with new rules. It goes without saying that Equens will be – is – one of the first-movers!

¹ Equens, Iberpay, Seceti, Stet and Vocalink