Equens: European focus and decisiveness

Ben Haasdijk

Ben Haasdijk, Chairman, Equens.

Equens is a fact. The merger between the Dutch Interpay and the German Transaktions institut has resulted in the first pan-European full-service payment service provider with a market share of well over 10%. Whoever wants to be big in Europe has to think European, i.e. in scale and volumes. It is now time to concretise the European philosophy with European decisiveness.

Interpay and Transaktionsinstitut are the first payment service providers to have actually joined forces in Europe. This has enabled Equens to claim a strong position in the European processing market, especially with regard to the Single Euro Payments Area (SEPA). Equens provides pan-European market coverage for the processing of both euro and non-euro payments. 'We are preparing ourselves for Europe by offering extremely competitive rates, a distinctive service portfolio and collaboration in the field of interoperability.'

Competitive rates

Equens processes approximately 7 bn transactions per year, making it one of the largest players in Europe. We will switch to a single integrated processing platform that can easily be adjusted to suit the specific requirements of European clients. This platform is scalable and format-independent and can process both the current domestic and SEPA transactions. By processing all of our transactions via a single platform we can realise the economies of scale and competitive rates that are crucial for a successful future in Europe.

Distinctions in the service portfolio

The product requirements for SEPA have been set down in the EPC Rulebooks and Cards Framework. There are currently major differences in the quality of payment processing between the various euro countries. The SEPA standards are based on the current average situation in Europe. For some countries SEPA will represent an improvement. But there are also countries in which the SEPA requirements fall short of the high quality standards of their domestic situation. This certainly applies to the Dutch market. Consequently, Equens has compiled a modular market-oriented package for both payments and card processing services. 'This enables our clients to choose from various components of the basic SEPA services and supplement these with additional services for additional quality. Our flexible approach and additional, optional services will enable clients to maintain, or even upgrade their current service levels within SEPA. SEPA must simplify payment transactions, but not dismantle them.'

Collaboration for interoperability

Interoperability is one of the major prerequisites for the success of SEPA. Obtaining systematic and consistent access to payment institutions and processors is important in order to guarantee the reachability of every account number within the euro zone. Equens considers collaboration crucial for achieving interoperability and reachability. 'Interoperability demands collaboration. SEPA can only be a success if collaboration takes place in the field of interoperability. Open standards for routing, tracking and tracing and connectivity are a necessary condition. To this end we actively participate in international standardization organizations. For example, we put interoperability on the agenda within the European Automated Clearing Houses Association, in which we hold an executive position. We are also the first payment service provider within Europe to have implemented a SWIFT MI-CUG in order to be able to provide services to clients from the entire EU via SWIFT. Furthermore, we are a member of the Berlin Group.'

With a view to the future, Equens is casting its eye beyond 2007. 2008 is approaching rapidly. 'Throughout 2007, Equens will focus on the large-scale changes that will take place during that year. 310 million consumers and almost 18 million corporates in 17 European countries expect a smooth and timely transition to SEPA on 01 January 2008. Our clients must be ready for that market. Our task is to ensure their smooth transition.'

Byzantium, Payments and the Back Office

Andrew Walton-Green, CEO, Gresham Computing plc.

Front office trading systems have had investment lavished upon them and no wonder. E-Trading, prime brokerage and now algorithmic trading systems represent an easy business case and obvious magnet for front office investment. User friendly real-time dealing systems ensure more trade and now the latest development is personalised real-time data delivered to mobile devices which is proving a differentiator in the brokerage market. In essence, the front office makes the money and hence gets the investment to keep on making it.

Andrew Walton-Green

But while real-time is everything in the front office, the "Byzantine" back office batch processing practises and systems are at best a bastion of inefficiency and at worst, a disaster waiting to happen. Very simply, if the front office is real-time and the back office is batch, the potential for exposure to discrepancies is obvious. There is generally a huge time-lag between front and back office investment. Let me give you a few typical examples of the mismatches that will continue to occur between front and back office unless and until some basic problems with current practise, systems and payment systems are resolved:

- If the front and back office systems are not on one platform or at least share common data, multiple dealers could be doing multiple deals from a single credit database intraday whilst the back office are aware of a non receipt, on a different database, from a specific counterparty. Dealing should of course stop or be curtailed, however, too often, it isn't because the left had doesn't know what the right is up to!

- In an efficient organization, the front and back office systems are in perfect synch. But, on how many occasions does an 'efficient' treasury operation pay before receipt? It shouldn't happen in the post Allsopp new electronic world, however, as most operations people are aware, all to often it still does.

- The round sum transaction is the norm when dealing with institutions and inter bank dealing. The problem occurs when trying to match a specific intraday payment to a specific transaction. Typically, the payment information received intraday is too brief to identify just which round sum transaction has been received. Don't worry, you will find out tomorrow when the remainder of the information arrives in overnight batch!
The internal risks can be categorised into the following silos:-

Poor Design:
A failure to address the inherited legacy systems to enable front and back office to work in unison is a failure of management at the highest level. This unnecessarily exposes the business to risk and those risks could potentially sink the whole business. Once built, the systems need constant tweaking to ensure that the ever expanding list of instruments offered by the front office have their counterpart covered off in the back office.

Poor implementation:
If the systems and information are available but the dealers or treasury departments are still allowed to disregard the exposure, this is again a failure of management at the operational level and as well as poor design.
The external risks are more difficult to address.

Lack of real-time payment data:
One of the biggest blocks to risk reduction; better use of liquidity and real-time account management and hence profitability is the lack of real-time payment information. Internal systems can only ever be as up to date as the external information delivered to them.
Too often payment data is neither real-time nor of sufficient quality to facilitate real-time reconciliation.

There are exceptions. Some payment exposures are dealt with through bespoke solutions for the investment market such as PvP settlement, available in the FX market. However, these solutions tend
to be limited in scope since they only covers a specific membership and specific currencies, for example.

Today, however, a huge amount of trade is done on open account where the reliance for payment information falls on the general global banking market. There are a mixture of bespoke solutions offered by banks but the essential problem is that cross border transactions tend to get slowed up by multiple banks batch processing systems. Further, even when intra-day payment information is available, the level of detail on intra-day notification means that too often, it is impossible to match a payment to a specific trade. Over and above this, the lack of common reference data is still a major stumbling block.

Gresham is working with over 30 global banks to try and address some of these payment issues. It requires a collaborative approach since solving it is a global problem. However, the prize, as I think you will agree, is well worth the effort.

SEPA – the changing face of payments

Jerry Norton, Director, Strategy, Global Financial Services, LogicaCMG

Jerry Norton

The initial implementation of Single Euro Payments Area (SEPA) compliant schemes and the migration from national schemes will affect a broad spectrum of companies from banks to small businesses as well as public administrators, consumers and, of course, market infrastructures.

A critical business issue arises when those different parties are expected to interpret new requirements and specifications. There is a need for feedback and alignment between the many designs that are created. This issue is exacerbated when the designs are developed in different countries and where a different body owns the migration process.

From the European Commission perspective national central banks and country banking associations have the responsibility to manage the SEPA initial implementation and migration. Although not necessarily part of its formal responsibilities the EPC is expected to provide in essence a function to monitor and report progress, maintain a risk register and coordinate a SEPA-wide testing strategy. The EPC has a roll-out committee which is examining the practical issues around implementation and is looking at scheme testability and co-ordination.

The practical responsibilities for interpretation are organized and managed at three different levels: the European Central Bank, national country communities and individual banks or credit institutions, not forgetting the CSMs and the corporates, small and medium enterprises (SMEs) and public bodies.

On a basic, pragmatic level, the very large communities of banks, corporates, public administrators and consumers will, if left to their own devices, converge on the last moment for implementation and testing. That will lead to a great deal of replicated effort, spent on proprietary test harnesses and test data. But it will also lead to a peak demand for resource and help and all exactly at the same time. Gridlock is not inconceivable.

To meet its monitoring responsibility, the EPC itself requires transparency of progress of the initial implementation so that the overall status of the SEPA programme can be reported.

If that wasn't enough financial institutions are facing many further challenges in 2007. The first wave of TARGET 2 countries are expected to go live in November and the Basel II regulations come into force. In the UK there is an additional payment scheme to manage, with the introduction of faster payments, which will also take effect in November. Aimed at making telephone and internet payments quicker and reduce the clearing cycle for standing orders, this is a radical change which banks cannot, and should not, underestimate. Not only will this