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THE IBS INTERVIEW

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A new-look Eurogiro is intent on becoming a major player in the payments sector, in Europe and beyond. Deutsche Postbank CIO, Dirk Berensmann, has been central to defining the new strategy



Dirk Berensmann,
Deutsche Postbank/Eurogiro

'Why send big volumes via third party clearers like PEACHs and ACHs if you can send them direct and avoid third party costs?'

The changes taking place at Eurogiro reflect the current state of flux in the payments sector. With all due respect, the entity hadn't changed a great deal in its first 15 years of existence, albeit successfully expanding mainly within its traditional postal bank sector. However, a restructure reflects a notable new chapter, with the network provider looking to become much broader and more commercial. At the helm is Dirk Berensmann, CIO of Deutsche Postbank and recently appointed chairman of the new Eurogiro Holding A/S. He has been central to the shift in outlook and now has responsibility for heading the new-look organisation. Why the changes and what role might Eurogiro play in the rapidly evolving payments landscape?

Eurogiro's original *raison d'être* stemmed from the inability of the postal organisations to join Swift. They had the option of using third party banks for exchanging payments or setting up their own network. The postal banks typically have high volumes of low-value retail payments and remittances, so they opted for the latter route. All shareholders and governance was in the hands of the postal banks and, for a long while, the network was closed to anyone else. The postal organisations were monopolies so there was one per country, with the number of countries gradually increasing. The resultant creation, with its headquarters in Denmark, is now the world's second largest network provider for cross-border payments. Today, it has 60 members and annual payment volumes of

30 million. However, in stark contrast to the largest player (Swift), it has a mere 20 or so staff members. 'There was always a clear cost focus so we have a very cost-effective way of doing things,' says Berensmann.

Having said that, for Eurogiro to have competed with Swift would have been plain stupid, says Berensmann. In fact, Swift is one of the networks used by Eurogiro, with 20 to 25 per cent of its traffic via this route. Similarly, what looks like a potential rival – Western Union – is one of Eurogiro's strongest partners. Eurogiro markets Western Union's products as well as its own. For instance, Eurogiro has a two-day remittance offering alongside Western Union's cash transfer in a matter of minutes, with a clear price differentiation between the two. In fact, the biggest remittance volumes are still through unofficial systems, one reason why there is deemed to be a huge opportunity, says Berensmann.

The low cost base of Eurogiro was one of the advantages identified when the new strategy started to be defined. The review stemmed from the changes taking place in the payments sector, particularly as a result of SEPA. All of the original founders of Eurogiro backed the need for change but the question was, what sort of change? Berensmann headed the working group to look at the alternatives. SEPA was felt to be both a threat and an opportunity. On the one hand, it is a threat to traditional business because many payments will go into

the SEPA systems. On the other hand, this was felt to create an opportunity for Eurogiro.

Berensmann explains that with so much of the focus on the big SEPA volumes, there is the question of what happens for non-SEPA cross-border traffic. 'If banks are changing their internal payment systems, they will also probably have to change their non-SEPA payment systems,' he feels. One aspect of the changes which is becoming clearer could be seen in some of the announcements at Swift's recent Sibos show, says Berensmann. 'Large volumes will be direct, through bi-lateral clearing between banks,' he feels, taking advantage of the homogeneous data formats. 'Why send big volumes via third party clearers like PEACHs and ACHs if you can send them direct and avoid third party costs?' If this occurs, what about the smaller volumes that are left? Does it make sense to retain big correspondent networks and internal systems purely for this traffic? 'Eurogiro could play a role here, particularly for mid-sized banks, if we can offer a cost-effective alternative, become more competitive and maintain or improve our service levels,' he says.

The strategy review started around two years ago. For the first year, the way forward was unclear because there was so much uncertainty about the development of the payments market as a whole. Instead, the focus turned inward, and it was felt that Eurogiro had two key advantages and one disadvantage. On the plus side was felt to be Eurogiro's support for both payments and remittances. The latter, with – by definition – cash at one or both ends of the transaction, are ever more important and only likely to increase in the foreseeable future.

The other perceived advantage was the reach of the postal organisations within their countries. 'They have the biggest and best branch networks and access to customers, especially where banking is not that developed,' says Berensmann. However, the disadvantage was felt to be the proprietary nature of Eurogiro, due to its set-up and governance, which were basically there for historical reasons. The need to address this was agreed unanimously, he says, and it was felt that restructuring should be market-oriented, with a clear focus on the business.

As a result, a new structure was agreed at a meeting in Lisbon on 26th October, with a transformation of the previous single entity into a group structure. Three subsidiaries are being set up and these will be spun off from the present Eurogiro Network A/S in May 2008 but will be active from 1st January.

Eurogiro Holding A/S will be responsible for strategy and services for the entire group, including human resources, marketing, finance and legal services. As mentioned, Berensmann becomes chairman of this company.

Eurogiro A/S will be responsible for worldwide network coverage and client management. Current clients and contracts will be transferred, unchanged, to this new company. Henk Kruidenier, ex-ING, will be chairman.

The third piece has the current working title of NewCo A/S, with responsibility for the development of new multi-lateral services for large banks and large payment transaction service providers. Chairman is Deutsche Bank's global head of cash management, Paul Camp. The CEO, a new appointee, is Tjeerd Rienstra. He worked for a long time for ABN Amro and then for service providers to banks, on the technical and operational sides, most recently in the area of mortgage processing. There was a deliberate decision to look beyond the payments sector to fill this post, says Berensmann, because Eurogiro wanted someone with broad knowledge and a different perspective. The final piece is IT/OPS A/S which, as the name implies, will be responsible for system infrastructure. Berensmann is chairman of this company.

Current Eurogiro Network A/S CEO, Henrik Parl, will leave when this entity becomes no more, in May. The parting is entirely amicable, says Berensmann, and reflected Parl's desire to look for a new challenge after eleven years at the helm.

One benefit of the restructuring will be to allow Eurogiro to form joint ventures with other network providers and IT companies if it feels fit, says Berensmann. There will be clearly demarcated remits for the group entities which should support Eurogiro's 'ambitious growth strategy'. The focus will still be on cross-border payments for retail and wholesale financial service providers and on businesses involved in cross-border cash payments. The stated aim

is to have 100 members using the network and an increase in annual volumes to 45 million by 2010. It has separated shareholder governance from the executive and it is open to new shareholders 'if they are committed to adding value' at a strategic or business level. In fact, there is interest from potential new, 'quite significant' shareholders, Berensmann says.

The new ambition was already evident in the announcement of a tie-up with Citibank, somewhat before the Lisbon meeting (IBS, October 2007). While Citi is a large remittances handler in its own right, even a bank of this size has problems reaching customers in some countries, says Berensmann. Other such partnerships are 'in the pipeline'. But isn't the competitive nature of Citi a concern? This was a key decision that needed to be taken when looking at the new governance, he says. Was Eurogiro going to remain an exclusive, closed set-up or was it going to be open? It was unanimously agreed that it should be the latter, that it would be 'better to be a small part of a very big entity rather than a large part of a very small one'. In principle, Eurogiro is now open to everyone.

From a geographical perspective, there is a particular initial focus on Asia. There are 'exploding' economies and increasing numbers of migrants within the region so there are ever more cross-border payments but without clear systems for the exchange of those payments, says Berensmann. Eurogiro has started a small subsidiary in Singapore and he can foresee either an extension of the existing network to the region or the creation of 'Asiagirol', using the expertise and model of the existing business. Eurogiro already has some reach in Asia Pacific, in Australia, New Zealand, China and Japan, 'but it could be a lot more'. One focus will again be the postal banks, although it has had 'quite interesting requests' from some commercial banks in the region. The big banks will concentrate on the high-value business, as usual, he feels, so the opportunity is the mass retail business. There have also been some discussions regarding Africa and he feels the South African banks might be partners, with all of them looking to expand their presence in the African continent.

New joiners will either be 'sending organisations' seeking to take advantage of Eurogiro's existing capabilities to expand

their offerings, or 'receiving organisations' that can add to Eurogiro's reach by providing distribution in their countries.

Berensmann is confident that the existing infrastructure can support the ambitions, partly because there has been a refresh of its systems in the last couple of years. One aim will be to simplify connectivity. Eurogiro won't usually be the only network provider so it may not make sense to install a second infrastructure for connectivity. It works with Swift because of the need for a standard gateway to the Eurogiro network. However, it will need to keep its own infrastructure because not all users are eligible to use Swift. Eurogiro will also look to work with payment system providers to incorporate such a gateway as standard within their offerings. There is already a fair amount of interoperability, with Swift, credit card companies and the Federal Reserve, Berensmann points out,


and he cites ING's decision to use Swift rather than Eurogiro's network for Eurogiro services as evidence of this.

Partnerships will be important: 'As a small company, we can't develop all of the business on our own'. The payments business is ever more cost sensitive so Eurogiro will not add hugely to its overheads. One benefit is its ability to draw on the expertise within its members, through workgroups and customer councils. The best knowledge is in the operations, not at the centre, says Berensmann. One type of partner is probably existing Clearing and Settlement Mechanisms (CSMs), he adds.

On the subject of standards, Eurogiro uses market standards as much as possible, says Berensmann, and has had to develop its own where they have not existed. He believes that Swift's current Remittances Workgroup is likely to adopt Eurogiro's standards. And Eurogiro's pricing model is

unlikely to change, based either on a fixed fee and almost no transaction costs or a very small fixed fee and transaction charges, depending on the business model of the customer. As with Swift, it has been consistently seeking to reduce the charges to its users.

Having been selected two years ago to lead the review, Berensmann now has the challenge of turning the strategy into reality. He feels that the change of governance has removed the main drawback of the old Eurogiro, so that it can now build on its strengths and forge an important role in the new payments landscape.

Not surprisingly, Berensmann describes it as an exciting challenge. It sounds as though new partners, initiatives and perhaps shareholders are all imminent, so the next chapter in the Eurogiro story is likely to unfold quickly. 

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