

VocaLink Awards Submission

13 – Award for innovation in outsourcing

1 Summary

The BankGiroCentralen (BGC) and VocaLink strategic alliance can be described as an “industry first”. As part of the national infrastructure, outsourcing their processing, IT development and support of the Swedish payment scheme to a non-domestic player is a bold move, and the first of its type.

This groundbreaking partnership can be seen as a catalyst to refresh thinking on scalable and flexible commercial and economic models for payments. Examples of how this type of commercial model could affect the evolution of payments ecosystems worldwide in the following ways:

- National payments infrastructure providers, like BGC, now have the commercial option to outsource instead of investing in upgrading or transforming legacy systems and building the necessary technical knowledge to develop new products swiftly
- Banks would have an increased choice of payment channels
- Payments providers in emerging economies or Pre-SEPA countries can leapfrog into new technologies and products
- Risk and cost can be managed given the right commercial framework
- Governments can enhance their payments infrastructure and national competitiveness
- End-users (businesses and individuals) can have access to market-driven payments services including faster payments, e-bill presentment, and mobile payments/m-commerce.

2 Background

BGC operates one of the most sophisticated Automated Clearing House (ACH) services in Europe. It needed to upgrade its technology to make it future-proof, accelerate product development, and cut costs. And give their customers (the banks) broader product portfolios and quicker delivery of new products at a lower development cost.

Sweden is well known as an early adopter of new technology. It is home to some of the world’s largest and best-known telecoms companies. Both private and public sectors are at an advanced stage of technology integration and the people of Sweden therefore have high expectations of technology providers.

The Swedish banking community has embraced technology as a way of reducing paper and moving customers to advanced electronic payments systems.

As the intermediary of retail payments between the banks and their customers, BGC takes responsibility for the smooth running and continuing developing this national system. Payments that pass through the system originate in various ways, from on site through their branch network, to online. Additional services from BGC include e-invoicing and a range of PKI services.

2.1 Already in the lead

VocaLink is Europe's leading payment processor and is a pioneer of the UK's Faster Payments service, which went live in May 2008. VocaLink also has a successful track record of open innovation including transaction services launched in partnership with other specialist providers such as:

- **OneVu** - offers electronic bill presentment and payment services to deliver electronic bills through online banks
- **MONILINK™** – a mobile banking application for mobile phones and PDAs
- **Immediate Payments** – delivering real-time payment services
- **Prepaid Cards** – providing banks with access to prepaid, reloadable Maestro™ cards.

2.2 Future-proofing: the need for alliance

BGC share many of the commercial challenges that banks grapple with in today's changing environment. At a fundamental level, they must reduce the cost of their customer services while simultaneously improving service levels and meeting regulatory requirements.

Although Sweden is not in the eurozone, it is still affected by the Single European Payments Area (SEPA) and the Payments Services Directive (PSD). And, if Sweden adopts the euro in future, this will alter the payments landscape for BGC services substantially – increased competition is inevitable.

These issues drove BGC to take on a major examination of their business processes, looking at alternatives to meet short-term and strategic business objectives.

BGC is the ACH for Sweden, so throughout their review it was critical to minimise the impact on customers of any new systems implementation. In other words, the cutover to any new system must be seamless.

Following their thorough review, BGC concluded that while the volume of transactions is substantial, the Swedish market was not large to provide a return on the large-scale investment required to upgrade existing systems to meet future challenges.

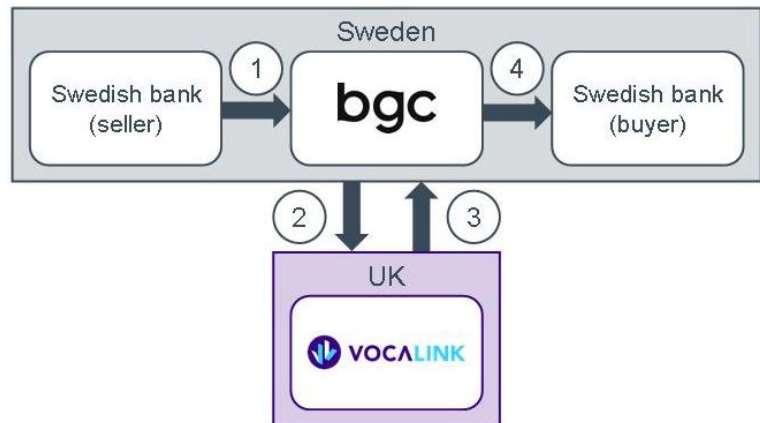
3 An industry first: The BGC and VocaLink partnership

Following a major evaluation of their options, BGC chose to outsource the processing and development of the Swedish payments system Bankgirot to VocaLink. There were several criteria that informed BGC's choice:

- VocaLink already processes over 15% of European payments on a modern technology platform that has proven to be reliable and scalable.
- The scale of the VocaLink operation is also of great commercial importance: BGC and its customers will benefit from this in the form of greatly reduced processing costs.

As well as systems expertise, VocaLink has recent experience of undertaking major systems implementations. In 2006, they delivered a complete technology refresh culminating in the delivery of a new payments platform for the UK banking industry. This award-winning programme involved the largest ever customer migration in the UK banking industry. Its successful implementation ran with no disruption to service delivery. BGC had watched this migration closely.

What made this particular relationship unique was that BGC would be outsourcing the processing of payments as part of Sweden’s “national infrastructure” to a 3rd party who is located outside Sweden. This means that in a simple debit card transaction where the shop owner’s bank would seek to obtain payment from the funds from the purchaser’s Swedish bank account would be processed in the UK. Historically, BGC’s would have processed the payment between the shop keeper’s bank and the purchaser’s bank using facilities in Sweden. Under this new alliance, VocaLink would therefore process BGC’s customer’s payments between the shopkeeper and buyer from a UK-based facility.



4 Benefits for BGC and VocaLink

The alliance has been a radical change for BGC. With no precedent set, VocaLink and BGC were free to explore and exploit the synergies between them while keeping the relationship on a firm commercial footing that centred on “win-win” outcomes. Benefits of the alliance to BGC include:

- Retaining all of its current responsibilities with the Swedish banking community, firms and public agencies, including regulators
- A reduction in costs
- Mitigated risk through a comprehensive multi-site business continuity capability compliant with the demands of the regulators
- Accelerated deployment of a strategic solution
- A strategic alliance with VocaLink for the development of new products and services for the Swedish market
- A focus on those aspects of the business where they add most customer value.

Commenting on the benefits of this revolutionary agreement, Gunnar Öhlund, Deputy Managing Director BGC said “In selecting VocaLink we have revolutionised our business model and secured the future of BGC at the heart of the Swedish payments infrastructure. VocaLink’s scale and proven capability in delivering large payment industry projects is unparalleled. We now have a true alliance that will deliver value to all parties.”

For VocaLink the deal has opened up the market across Europe and provided a partnership platform for leveraging Faster Payments technology and the SEPA solutions within the Scandinavian and Baltic territories.

5 Moving forward

BGC and Vocalink plan a swift 18 month phased development, testing and integration plan for BGC products from the 1st half of 2009. This is largely due to Vocalink's ability to deploy a new decoupled platform for BGC using Vocalink's existing software and technology infrastructure that will ensure that BGC's own payments services will not affect or be affected by Vocalink's other clients and services.

Operationally BGC will retain control over the marketing and 1st line customer service and operations in Sweden for their customer base, and rely on Vocalink to provide the processing, IT development and support out of the UK.

6 Benefits for the outsourcing industry's ecosystem

This relationship has the potential to go beyond standard outsourcing and will act as a catalyst to refresh thinking on scalable and flexible commercial and economic models for payments could have the following effects in the future if this type of outsourcing relationship proliferates:

- National payments infrastructure providers now have the commercial option to outsource instead of investing in upgrading or transforming legacy systems and building the necessary technical knowledge to develop new products swiftly
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