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COVER STORY

Chase, ACH Power Here, Eyes Bigger Share Abroad

■ BY STEVE BILLS

JPMorgan Chase & Co., by far the largest originator of automated clearing house transactions in the United States, is making a bid to play a much larger role in the rapidly evolving international payments market.

The New York financial company announced last week that it has begun processing mass payments in Europe on a new unified payments system, the first in a series of upgrades to adapt its Global ACH service to coming changes in ACH rules in the United States and Europe.

Chris Winter, the head of product management at J.P. Morgan Treasury Services in London for core cash management in Europe, the Middle East, and Africa, said the company is using a payments system from Dovetail Systems Ltd., a British developer of financial technology.

That JPMorgan Chase is using vendor software is notable considering it is famous for its do-it-yourself approach to technology; it originated 3.4 billion U.S. transactions on its homegrown ACH system in 2007, nearly as many as the next three originators combined. (That is the latest year for which figures are available.)

But the complexities of the global marketplace call for a more flexible approach to payments technology, Mr. Winter said in an interview Tuesday. He used an automotive metaphor in noting that many countries have, for instance, their own versions of the U.S. Office of Foreign Assets Control, which banks must check transactions against to block money movement by terrorists, drug smugglers, and other sanctioned groups.

"In the U.S., you've got huge, huge volume and a very straightforward product.



Winter: The industry is likely to streamline processing as prices drop.

You want a Ferrari. It does one thing really well. It runs really fast in a straight line," Mr. Winter said. "Internationally, you have all the different countries, all the different regulators, all the different OFAC filters, all the different clearing systems. What you want is a Ford Explorer — maybe a turbocharged Explorer — with more seat configurations and cupholders than you can shake a stick at."

The global payments operating system is designed to provide that kind of flexibility as the international ACH system undergoes a series of structural changes this year. As soon as midyear, JPMorgan Chase plans to begin originating same-day ACH transactions in the United Kingdom under that nation's Faster Payments initiative, Mr. Winter said.

More change will occur in September when rules from Nacha, the U.S. electronic

payments association, take effect to allow international ACH transactions under the new IAT standard entry class code. In November, direct debit systems are scheduled to be in place to serve the Single Euro Payments Area.

Sepa's credit-push transfers, which marked their first anniversary last month, enable a company to send payrolls, for instance, across the euro zone from a single disbursement account, rather than having to maintain accounts within each nation where it does business.

All the changes could undercut JPMorgan Chase's Global ACH service, through which the bank offers clients a single gateway for payments and collection services across regions, Mr. Winter acknowledged.

"Is there a threat to our existing business? Absolutely," he said. "But as a credible, global player who's here for the long term, we have to accept this, to go with it, and make it successful."

With the current release of its new global payments operating system, JPMorgan Chase said it has begun handling crossborder Sepa transaction processing for corporate clients in Belgium, France, Germany, Ireland, Italy, the Netherlands, Spain, Switzerland, and the U.K.

The next step, a spokeswoman said, is to move the company's current, national-level payments to the new system.

To date, Sepa credit-push transfers have made little headway to displace Europe's patchwork of national-level ACH clearing systems. By some estimates, Deutsche Bank AG, the Continent's largest cash management bank, has no more than 5% of its ACH market share.

Chase Looks to Make Big Leap in Global Payments

But as direct debits come to market this year and Sepa payment-card rules take effect in 2010, corporate clients are likely to choose to consolidate more of their banking with fewer providers, Mr. Winter said. "We are a scale player now. We have invested in the technology to take on more scale at a low incremental cost."

Aaron McPherson, the research manager of payments at the Financial Insights unit of International Data Group Inc. of Boston, said JPMorgan Chase has long taken an aggressive stance in international payments.

"This fits in with their strategy, which is to use technology to extend their reach and be a true global payments provider," Mr. McPherson said. "This is another link in the chain."

Mr. Winter said the industry is likely to

streamline its processing, as cross-border ACH drives down prices and banks continue to suffer from the credit crisis. "The European market cannot afford for 8,000-plus banks to carry out commoditized payment processing," he said.

IAT also promises to cause a surge of ACH activity originating in Europe and bound for the United States, Mr. Winter said. "Over time we will see more U.S.-to-Europe payments rather than vice versa."

Until now the United States has allowed banks to originate some international payments but not to receive them, because the receiving institutions could not do the required OFAC checks on the payments.

Nacha has said the IAT format will accommodate the required information,

such as the identities of the originator and the beneficiary; last July, the organization delayed the rule's effective date by six months, to September, to give institutions enough time to modify their operations and test their systems.

Over the next two years, JP-Morgan Chase plans to convert low-value payment systems around the world to its new system, part of the \$1 billion investment in the Treasury Services unit that the company announced last September.

The conversions will go country by country, ultimately taking in the banking company's operations in Asia, Latin America, and Australia, Mr. Winter said. "We are well positioned to take on a much larger role in the global payments arena." ■



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