

# IPFA is becoming operational

Within SEPA, cross-border euro payments are considered domestic transactions among the European countries. This lowers the foreign payment traffic volume without proportionately lowering fixed costs. This is where the International Payments Framework Association (IPFA) offers valuable potential savings to banks.

Most likely, at the end of the years 2012 and 2013, euro payments within Europe will be equivalent to domestic payments as a result of the planned SEPA replacement of the national processes for credit transfers and direct debits. This will further decrease the already low number of foreign payments traffic (FPT) transactions in comparison to the domestic payment traffic.

## Proper FPT not very profitable

Lower volumes notwithstanding, banks have to operate a second system for the FPT, in addition to the SEPA payments instruments. Overheads remain the same, based on existing infrastructures and statutory provisions, such as the Financial Action Task Force on Money Laundering (FATF) or the Office of Foreign Assets Control (OFAC), with a negative impact on the revenue and expense ratio for this business segment.

## Same standard as for SEPA payments

That's why banks are asking for lower costs and more efficient solutions for the processing of their FPT transactions. This is where the IPFA offers a real benefit, especially for European banks: non-European credit transfers are based on the ISO 20022 standard, the same as the SEPA payments. IPFA members can use the same investments they have to make to comply with this standard for the FPT, as well.

Equens as a payments service provider is able to offer banks lower processing fees for FPT by processing non-European low-value payments based on the ISO standard valid for SEPA.

Even though the same ISO standard is adhered to, there are two basic differences between SEPA and IPFA: First, the IPFA is a market initiative, while SEPA pursues a politically based goal. Second, the IPFA is a global system, whereas SEPA applies to Europe only.

## IPFA further along than earlier initiatives

Earlier market initiatives to generate low-cost global processing of low-value payments, such as the WATCH project (WATCH: Worldwide Automated Transaction Clearing House), all failed.

There are two deciding factors that are different between the IPFA and earlier initiatives: This time, the idea was actually turned into a project. In February of 2010 the initiative was made manifest with the founding of the IPFA. Additionally, the direct, trans-Atlantic processing of low-value payments between the U.S. Federal Reserve and Equens, started in October 2010, is proof that this global payment service actually works. The two IPFA members currently exchange payments in euros, U.S. dollars and British pounds sterling.

## Additional currencies and members

Since the IPFA launch, the application has already been expanded to include payments in the currencies of Canada and Mexico. Currently, negotiations are being held about including additional currencies, such as those of Brazil and South Africa.

Thus, there are new arguments in favor of the IPFA, and apparently, membership is a worthwhile cause recognized by other market players: The number of original founding members has grown from 21 to 26 as of the end of 2010. <

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