



**EQUENS**

PAYMENT SERVICES FOR EUROPE

# A complementary channel for interregional payment processing

International Payments Framework  
Association (IPFA)

## PRESENTATION SUMMARY



London  
22 March 2011

Michel Stuijt  
General Manager Market Management

## Content

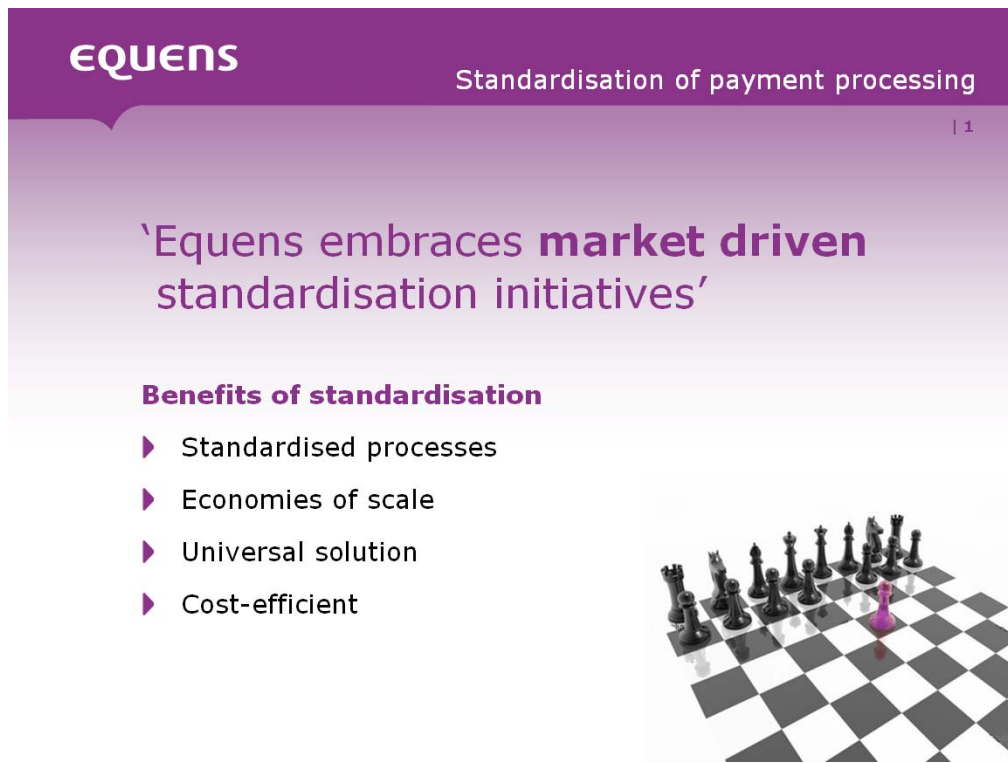


IPS London, 22 March 2011

Michel Stuijt, General Manager Market Management, Equens

1	Standardisation of payment processing .....	3
2	SEPA - The European standard .....	4
3	Working towards a Global standard .....	5
4	How it works – an Example .....	8
5	How to implement IPFA?.....	9
6	Next steps .....	11
7	Contact data .....	12

## 1 Standardisation of payment processing

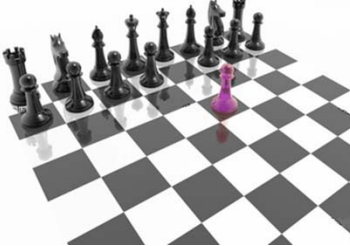
A presentation slide with a purple header. The header contains the 'EQUENS' logo on the left and the text 'Standardisation of payment processing' on the right. Below the header, the main title is 'Equens embraces market driven standardisation initiatives'. Underneath, there is a section titled 'Benefits of standardisation' followed by a bulleted list of four points: 'Standardised processes', 'Economies of scale', 'Universal solution', and 'Cost-efficient'. In the bottom right corner of the slide, there is an image of a chessboard with several chess pieces, including a pink queen piece.

**EQUENS** Standardisation of payment processing | 1

### 'Equens embraces market driven standardisation initiatives'

#### Benefits of standardisation

- ▶ Standardised processes
- ▶ Economies of scale
- ▶ Universal solution
- ▶ Cost-efficient

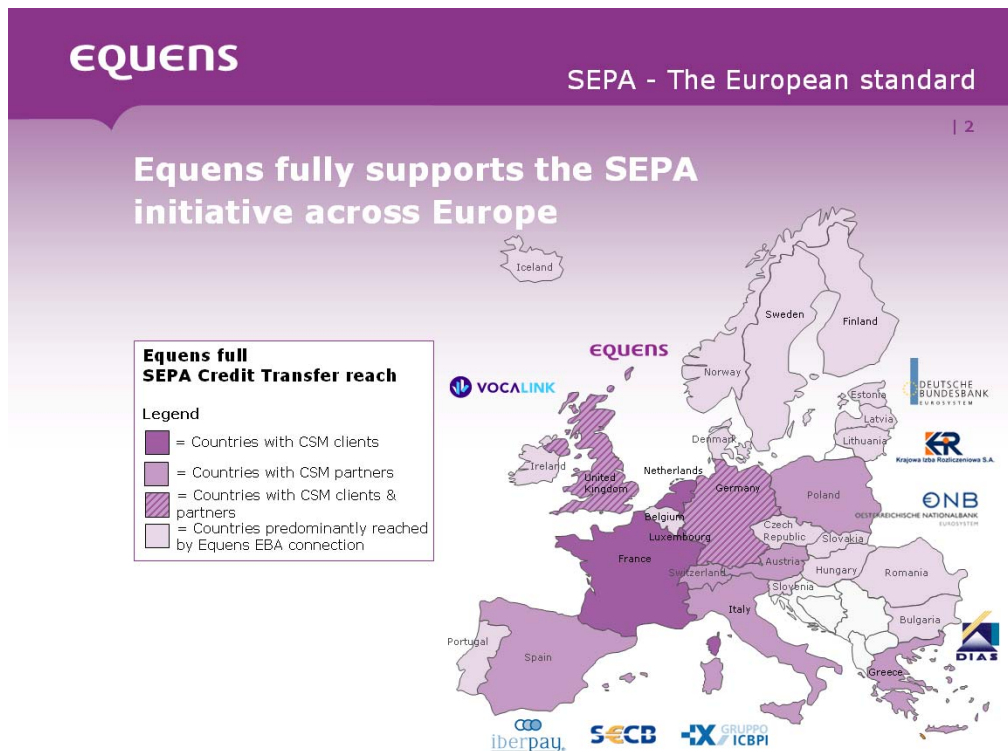


We all know that in the payments world it is a question of standardize or become obsolete. But there are different kinds of standardization. For example this one:

An inventor from one of the old communist regimes came to show his invention on a trade fair in the west. It was a fully automated shaving machine. You just had to put your head in it, push the button and ready you were. An interested trading partner still had some doubts: "Isn't every head shaped differently?" Upon which the inventor said: "Of course, but only the first time!"

This is definitely not the type of standardisation of payment processing I am talking about in my presentation. But it is beyond doubt that we have to take further steps in order to create easy reach around the world. In Europe we have set a decisive step. Maybe not all of you are convinced yet, but I think at the end of the day it was a good thing the European payments community was legally enforced to set up standards for payment transfers and direct debits. It will lead to considerable benefits in terms of standardised processes and economies of scale. However, it is even better when the payments community is taking such an initiative on its own. We prefer to be forced by the market and our clients in stead of regulators, don't we?!

## 2 SEPA - The European standard



Seeing all the possible benefits of SEPA, it is even more evident that processing non-euro payments will continue to lack these advantages, unless we take action. Fortunately, as Equens we were able to join forces with banks and colleagues around the world to establish the International Payments Framework Association, or IPFA. The task we had set ourselves was to develop a Global Standard for the exchange of payments between local schemes. And although there is still a lot of work to be done, together with the Federal Reserve Banks we have proven that it can work. Together we have set up a cost-efficient channel for processing cross-border payments between Europe and the USA. This is possible now for euro, US dollar, British pounds and Swiss francs being sent from the US to Europe and for USD being sent from Europe to the US. Operations have started in October 2010. Some teething troubles still have to be overcome and volumes are still low, but as banks start to discover the possibility, we expect the volume to grow exponentially.

In my short presentation I would like to give you some more background on the working of IPFA, of our experiences with the first implementation and of our work in progress.

But let me first explain why Equens is one of the driving forces behind the IPFA initiative. The starting point is that of a truly a pan-European payment processor. We have offices of our own in Germany, Italy, Finland and The Netherlands. And via our extensive CSM network we are directly connected to eight CSMs, DIAS in Greece, Iberpay in Spain, ICBPI/Banca d'Italia in Italy, KIR in Poland, OeNB in Austria, SECB in Switzerland, VocaLink in the UK and soon Deutsche Bundesbank in Germany. This makes it possible to offer full SCT and SDD reach throughout Europe.

### 3 Working towards a Global standard



The slide features a purple header with the Equens logo on the left and the text 'Working towards a Global standard 1/2' on the right. Below the header, the text 'Foundation of the IPFA: International Payments Framework Association' is displayed next to the IPFA logo. A purple heading 'Goal of the IPFA:' is followed by a quote: 'Establish business rules, standards and operating procedures for the processing of cross-border payments based on the ISO 20022 standard through a contractual framework'. The ISO logo is positioned to the right of this quote. A purple heading 'IPFA – a growing membership organisation:' is followed by a bulleted list of membership details.

**EQUENS** Working towards a Global standard 1/2 | 3

**Foundation of the IPFA:**  
International Payments Framework Association

**Goal of the IPFA:**  
'Establish business rules, standards and operating procedures for the processing of cross-border payments based on the ISO 20022 standard through a contractual framework'

**IPFA – a growing membership organisation:**

- ▶ 26 banks, CSM's and software vendors
- ▶ Australia, Brazil, Canada, Europe, South Africa and USA

Of course doing business doesn't stop at the European border. This was acknowledged by several parties, who decided to establish the IPFA. It is a growing membership organisation now consisting of 26 banks, CSMS, associations and software vendors. They are based in Europe, the US, South Africa, Brazil, Australia and Canada. Our aim is to establish business rules, standards and operating procedures for the processing of cross-border payments based on the ISO 20022 standard through a contractual framework. This framework enables end-to-end straight-through processing (STP) of locally originated non-urgent credit transfers to reach markets around the world. It provides IPF participants with an efficient process, with all the advantages of increased scale and automated processes.

### Advantages of the IPFA: International Payments Framework Association



- ▶ **No surprises:** no deduct from principal amount
- ▶ **Clarity:** guaranteed delivery time of payments
- ▶ **Major cost reduction:** due to straight through processing
- ▶ **Efficiency:** IPFA members operate directly



How does it work? Let me stress that IPFA is completely different from an initiative from a couple of years ago known as Watch. Some of you will remember it, some of you may even recall the sleepless nights because of the local standardisation requirements that looked like the old communist shaving machine from the beginning of my story. The IPFA initiative is definitely not meant to change payment schemes within countries. It uses the ISO 20022 format which serves as an exchange format that local country formats are mapped into or out of. So it is some sort of an overlay. This mapping is the relatively limited work two connecting members will have to do in order to make use of the IPFA framework. In other words, the IPFA provides a framework to make it easier to implement payment processing between country formats where a member serves as a gateway. IPFA interoperates with local formats – it does not replace them. And it makes use of existing international communication networks.

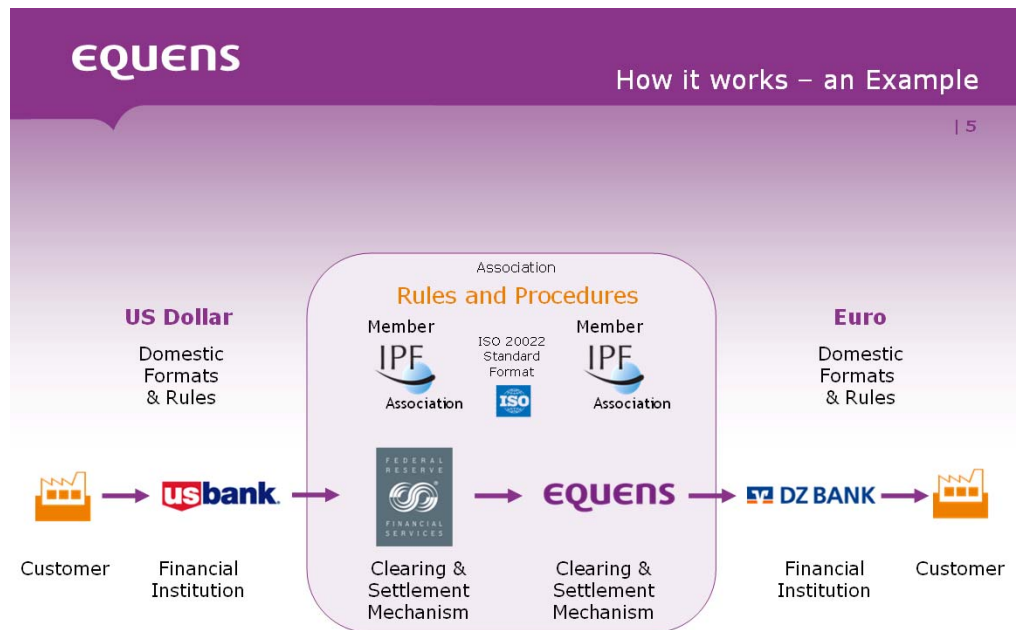
Important to know is that according to the IPFA procedures, payment instructions will only be sent together when settlement instructions are also available. IPFA payment instructions will always trigger settlement as well. It is the same procedure as used within EACHA, the European Automated Clearing House Association, which has proven to function very satisfactorily because it eliminates risks as much as possible.

Using the IPFA channel has several potential advantages. Let me mention three major ones.

- Firstly, there is no deduct from the principal amount. When an initiator wants to transfer 1.000 Euro, the beneficiary will receive 1.000 Euro on his bank account. So no surprises on both sides. Of course, foreign exchange services are a different matter if – for instance – USD have to be converted into euros. Usually the forex work will be done by the originating bank as they will receive the revenues. But if the beneficiary account is in euros, the beneficiary bank may do the work as defined in the contract between the bank and the beneficiary. What I want to make clear, is that this is beyond the IPFA territory.
- A second advantage is that payments will be transferred within a guaranteed delivery time, so this will create clearness on both sides.
- And the third possible advantage is that the total cost of payments should be reduced because of the straight through processing directly via an IPFA member.

Let me stress that IPFA is not THE way of transferring funds from one region to another. But we think it is a very useful and potentially advantageous addition to the existing options. IPFA doesn't want to interfere in existing correspondent banking relationships between parties with intensive mutual payment traffic. But think of banks in different regions to which payments are transferred only occasionally. It will save a lot of costs and trouble to process these directly via an IPFA member in stead of routing them via several time consuming and possibly costly steps.

#### 4 How it works – an Example



Until October last year, IPFA was only theory, but since the end of that month it became reality when Equens and the Federal Reserve Banks successfully processed the first automated clearinghouse payments via the new standardized channel. U.S. Bank and DZ BANK were the first banks to use it.

How does it work in practice? Suppose a customer of U.S. Bank in Atlanta wants to transfer a payment to his supplier of medical equipment in The Netherlands. The Dutch supplier is in the position to invoice in euros, so the buyer then orders his bank to convert the necessary amount of dollars into euro and send it to the account number at – say – ING in Amsterdam. U.S. Bank charges his customers for the costs for the foreign exchange.

The U.S. Bank then sends the payment instruction to the Federal Reserve Bank of Atlanta, which as an IPFA member is able to convert the payment information automatically into the required IPFA format. This payment instruction is then sent over to Equens. In this case the instructions are automatically converted into SEPA format and sent to ING in Amsterdam. The settlement follows a somewhat different, but always simultaneous route to DZ and hence to ING. This means that DZ Bank won't see the individual instructions. The whole process is fully STP. The total required time can be as short as 48 hours, but is guaranteed within 72 hours.

## 5 How to implement IPFA?

**EQUENS** How to implement IPFA?

| 6

### Major tasks to get started


1. Create a **workable contract** with your IPFA counterpart
2. **Mapping** the local format to the **IPFA ISO 20022** standard

**Support:**

- ▶ Use of an **umbrella contract**
- ▶ Use of existing **global channels** and **rules**

**Expectations:**

- ▶ IPFA offers **funds** for the support of the **mapping work**
- ▶ Potential to be **operational** in only **3 to 4 months**
- ▶ **Timelines** will be **shorter** each time



Of course we have only started and the volume is still low. But a walk to Rome always starts with a first step. And we have learned a lot!

Of course it was the very first time ever to set up and actually use such an STP channel, so on both sides we took ample time for preparations. And – although both being established players in our regions – we have learned a lot more about how our payment systems really work. I'm sure experiences from both sides will be very useful for implementations to follow.

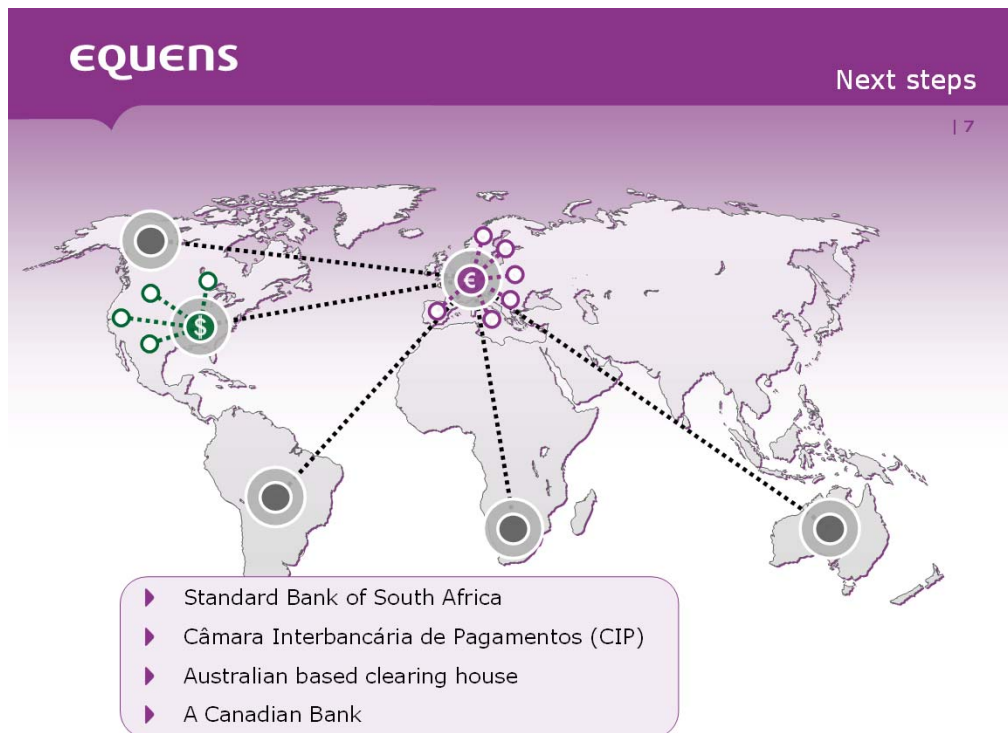
Actually one has to be prepared for two kinds of tasks. The first one is to make a workable contract with your IPFA counterpart. However enthusiastic both sides start negotiations, it may turn out to be quite a job to make the cooperation legally compliant on both sides, because of the differences in regulations. To prevent double work in the future, we have developed an umbrella contract with the several checkpoints to be attentive to. We can use this as a model for the next occasions.

The second type of work is mapping the local format to the IPFA ISO 20022 format in such a way that it fits both sides best. In this case these were International ACH Transaction (IAT) and formats that are used in European, mainly MT 103. For this we exchanged several examples how a file could look like in order to be as compatible as possible with the local standard on both sides. I must admit that as Equens we played a home game as ISO 20022 is very similar to SEPA. Of course it depends on the local situation how much conversion work will still needs to be done. Based on our experience we have developed a high level planning with the different steps that have to be taken. And to make the

threshold as low as possible, the IPFA has funds available for the support of the mapping work.

Although it can cost effort and time to create the ideal file, no further investments are required as the IPFA network uses existing global channels and rules. And also the required time will become shorter every time. In principle it should be able to implement a working IPFA connection within 3 to 4 months. However, the next implementation will prove whether this is realistic in practice.

## 6 Next steps



And indeed there will be next times, as Equens has an agreement with the Standard Bank of South Africa, which is actually working on the conversion, and also have entered into negotiations with the CIP in Brazil. Furthermore we are talking with one of the biggest clearing houses of Australia and are having preliminary but promising contacts with a Canadian bank. On the other side of the Atlantic, the FED is in contact with several institutions in Latin-America.

So we can conclude that the IPFA is making real progress. The proof of real success will be the second connection. At Equens we are looking forward to it. Based on our experience from the first time, I know we are not only able to act as a reliable partner, but also we are able to give support to make an implementation as smooth as possible. And – important to stress – with every respect for national standards.

## 7 Contact data

Thank you for your kind attention!

In case you have any questions or would like to elaborate on this subject, we would like to invite you to contact us.



You can find more information on the International Payments Framework Association (IPFA) on: [www.internationalpaymentsframework.org](http://www.internationalpaymentsframework.org)

