

Increasing efficiency in global payment processing

Working on reach around the world



Michael Steinbach,
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One of the components of Equens' mission is to fulfil its clients' needs in terms of payment and card processing, today and in the future. This means providing full reach throughout the SEPA area, which consists of virtually the whole of Europe. SEPA will lead to considerable benefits in terms of standardisation, larger volumes and lower costs. However, at the same time it will become increasingly apparent that processing non-euro payments still lack these advantages and will become relatively more and more expensive. At Equens we clearly recognise the need of our clients, the banks, to come up with a solution that gives them advantages for processing these payments similar to the ones offered by SEPA. That's why we are thinking ahead - beyond SEPA - and started to connect with partners abroad and overseas in order to work on global standardisation as well. To create seamless reach around the world we are participating in the International Payments Framework (IPF). As part of IPF, Equens will start by providing reach to the world's leading economy, the United States. For this we collaborate with the Federal Reserve Banks. Since the announcement of the strategic partnership in April 2009, concrete steps have been taken.

Europe is not the only region where efforts are being made towards standardising intraregional payments. In the United States, NACHA (the National Automated Clearing House Association) is breaking down the walls between national payment systems by means of its new International ACH Transaction (IAT) rule. The Federal Reserve Banks and Equens have reacted promptly and are implementing the IPF standard for the processing of payments from the

US to Europe and vice versa. This first concrete elaboration of the strategic partnership for cross-border payments is based on an increasing market demand for efficient processing of low-value cross-border credit transfers on a global level. Starting in early 2010, the Federal Reserve Banks and Equens will offer banks a cost-efficient channel for processing cross-border payments in euro, US dollar and pound sterling.

Breaking down barriers

Compared to the number of domestic transactions, cross-border payments are characterised by relatively low volumes and high associated fixed costs. The cross-border service offering from the Federal Reserve Banks and Equens will support banks in further reducing their processing cost base, and strengthen their competitive position in the market. By offering a standardised channel for cross-border payment processing, banks will not have to worry about the complexity of maintaining different cross-border systems. This will also greatly reduce the need to maintain an extensive correspondent banking network for cross-border payments.

Creating the global standard

The partnership between the Federal Reserve Banks and Equens is no coincidence. Both organisations are founding members of the International Payments Framework (IPF). This is a membership organisation that consists of over twenty banks and central banks, CSMs, associations and software vendors based in Europe, the US, Canada, Brazil and South Africa. Its aim is to establish business rules, standards and operating procedures to improve cross-border credit transfer payments based on the ISO 20022 standard through a contractual framework binding the members to

these business rules, standards and operating procedures. The Federal Reserve Banks and Equens will be the first implementers of this innovative cross-border processing scheme.

Easy implementation for new countries and currencies

The IPF rules will enable interoperability between existing domestic or regional payment systems, the exchange of transactions in multiple currencies, and settlement that will leverage existing procedures. The rule-making body of the IPF will provide an overlay structure that facilitates interoperability between Clearing and Settlement Mechanisms (CSMs) and banks, with the member banks providing transaction volume (e.g. bank to bank, bank to CSM and CSM to CSM). In three to five years, the IPF is expected to enable multi-currency, non-urgent payments to any other member organisation – whether through a Clearing and Settlement Mechanism or directly through member banks – utilising the same standardised process and operating procedures. This will allow member organisations to incorporate new countries and/or currencies quickly and efficiently, lowering processing costs and eliminating the complexities in international non-urgent payments.

'Gate openers' for the transatlantic traffic

Equens and the Federal Reserve Banks are building a bridge between their respective geographies with a transfer protocol based on the IPF ISO 20022 standard, which is very similar to the SEPA standard. They will act as 'gate openers' for the transatlantic traffic by translating the incoming messages into the common IPF standard, send them

over the 'bridge', where they will be taken up and further put forward to the recipient financial institutions. Thanks to this collaboration, the banks in the United States will be able to transfer payments to all countries whose domestic currency is the euro. It will also be possible to send pounds sterling to GBP accounts and US dollars to USD or euro accounts held in Europe. Furthermore, clients of Equens, the banks, will be able to send US dollars to any bank or credit union in the US.

New participants are welcome

The above will be phase one in a process in which banks and processors from other parts of the world are welcome to participate. Equens is searching for partners in geographies that are likely to benefit immediately from connecting to the initiative. We are already in contact with financial institutions in Canada, South Africa and South America, and are looking to make contact with leading financial institutions in the Asian and Australasian regions.

Gateway to the world

Our collaboration with the Federal Reserve Banks and participation in the IPF offer our clients added value, as they will no longer need to handle multiple agreements regarding processing payments with individual correspondent banks. This also applies to the maintenance and development of the respective IT-systems. Moreover, banks will benefit from the economies of scale and be able to increase their efficiency in processing their multi-currency transactions. This will help them achieve considerable savings in the back office. Our specific aim is to provide sustainable financial benefits to our clients – in SEPA, and beyond.

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