Making Low Value Payments Work for You

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Agenda

- Market trends
- Regional initiatives and models
- US regulation – Dodd-Frank
- Cross-border efficiencies?
- In summary
Market Trends
Low Value Payments

Characteristics:

- recurring?
- high volume?
- non-priority?
- originated in batches electronically?
- includes mass credits and collections?
- STP – no repair?
- lower cost?

What is a low value payment to you?
'Correspondent Banking is not fit for purpose for low value payments'

'The correspondent banking model is still too bank product centric, based on inherently inefficient multiple agreements. The world has changed around us.' [SWIFT]
Four Major Categories of Cross-Border Payments

Enterprise Collecting

- Supplier Payments
- Payroll Retirement Benefits Payments

Consumer Collecting

- eCommerce Purchasing Payments
- International Remittances
Downward Shift in Value of Payments

Corporations making more cross-border purchases of services

- **Global trade growth**
  - Export volumes grew by 14.5% in 2010 and were forecast to expand by 6.5% in 2011, with a shift to lower average value per transaction
  - US exports grew by 15.4% in 2010

- **Increasingly mobile workforce**
  - Global migrant remittances create over 2bn individual transactions per annum
  - The U.S. Bureau of Economic Analysis estimates that in 2010, $37.1 billion in cash and in-kind transfers were made from the US to foreign households by foreign-born individuals who had spent one or more years here
  - World Bank US outward remittance flows $48bn in 2009
  - US emigrants top 10 destinations: Mexico, Canada, Puerto Rico, UK, Germany, Australia, West Bank and Gaza, Japan, France, Philippines

- **Growth in e-commerce**
  - Forecast to be a $900bn category, requiring new forms of low value payment services

"The number of international migrants has doubled in the last quarter of a century, to more than 200m"

52% of total worldwide transfers to India from Indians living abroad were made in amounts of $1,100 and above, and of that category, 63% exceeded $2,200
Regional Initiatives and Models
Global Low Value Capabilities

ACH by any other name...

74% of global respondents to the 2011 EDC Global Trends in Payment Systems survey regard ACH as an important or very important payment product in their country.
Low Value Capabilities - Canada

- Current Landscape
  - Well established ACH systems for credits and direct debit

- Market Development
  - Vision 2020
    - Canadian Payments Association long-term strategy and roadmap for clearing and settlement systems and mechanisms
    - Support the growth of electronic payments
    - Increase remittance data standards
    - Improve STP capabilities
    - Reduce clearing and settlement costs and increase payment velocity – review international models
Low Value Capabilities - Europe

- Current Landscape
  - Well established local ACH systems for credits and direct debit, but significant changes in development

- Payment Services Directive (PSD)
  - Regulatory initiative
  - Legal framework for payment service providers
  - Increase pan-European competition
  - Encourage participation in the payments industry
Low Value Capabilities - Europe

➢ Market Developments:
  – Focus on Single Euro Payments Area (SEPA)
    • Harmonization of payment products, infrastructure and technical standards
    • Increase efficiency of cross-border payments
    • As of 01 February 2014 banks must offer SEPA payment processes
  – UK Faster Payments
    • Real time

➢ Need to Know:
  – Remitter and beneficiary account must be within SEPA
  – BIC (bank identifier) and IBAN (bank account)
  – Central bank reporting requirements
Low Value Capabilities – Asia Pacific

➢ Current Landscape:
  – Capabilities defined by clearing systems and threshold amounts
    • Majority of countries have separate ACH and RTGS systems
    • Indonesia, Vietnam, Philippines and Japan: one clearing system
  – Settlement cycles:
    • Hong Kong, Malaysia and India same day
    • Generally three days
  – Generally ACH systems clear in local currency only
Low Value Capabilities – Asia Pacific

- Market Developments:
  - Singapore G3 Real Time Payments (RTP)
  - Raising threshold amounts
  - Regulators and central banks influencing greater use of electronic payments
    - Regulating prices of ACH
    - Mandating use of ACH for certain payment types
  - Direct Debits on the rise

- Need to Know:
  - Varied capacity and capabilities
  - Disparate pricing
  - Lack of regional standards
  - Threshold amounts and payment system routing rules
Low Value Capabilities – Middle East

- **Current Landscape:**
  - ACH technical and functional capabilities basic compared to developed markets
  - Clearing systems vary by country

- **Market Developments:**
  - Across region, central banks focused on risk mitigation and opportunities of improved efficiencies and industry standards
  - Direct Debits increasing
  - Use of SWIFT standards to promote faster and more cost-effective settlement
  - UAE enhancing in-country clearing system
Low Value Capabilities – Middle East

➢ Need to Know:
  – IBAN introduced in Saudi Arabia, Lebanon, UAE, Bahrain with Qatar, Oman, Egypt and Pakistan by late 2012
  – Qatar, UAE and Egypt mandate a Purpose of Payment for all domestic currency transfers
  – UAE companies registered under the Ministry of Labour mandated to route salary payments through the Wages Protection System (WPS), a proprietary payment system managed by both the Ministry of Labour and UAE Central Bank
  – Understand payment limits by clearing system
Low Value Capabilities – Latin America

➢ Current Landscape
  – Availability and effectiveness of ACH varies substantially by country
  – Countries are at different stages of economic and technical development, which impacts capabilities
  – Low use of electronic payment systems in favour of paper
  – Large unbanked population
  – Direct Debits heavily used in Argentina and Uruguay and moderately used in Mexico and Panama
Low Value Capabilities – Latin America

➢ Market Development
  – Government reforms putting programmes in place to drive adoption of electronic payments
  – Central America: semi-regional clearance for Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica
  – Mexico: central bank initiated regulations, pricing discounts and functional enhancements to ACH
  – Brazil: leader in cross-border clearing initiatives (IPFA)
  – Strong regulations in Brazil and Argentina may impact ACH capabilities for non-resident companies
  – Panama, Mexico, Uruguay and Chile support clearing capabilities for multiple currencies

➢ Need to Know
  – Cut off times vary greatly by country
US Regulation – Dodd-Frank
US Consumer Payments – Dodd-Frank 1073

- Consumer protection for international remittance transfers
- Challenges lack of transparency and predictability of open loop models
Dodd-Frank 1073 – Key Provisions

- Full fee disclosure at the point of, and time of, origination
- Guarantee of amount of final funds delivered, to be delivered at time of origination
- Guarantee on when funds will be received
- Right to cancel a transaction up to 30 minutes after its submission
Consumer Payment Considerations

- Consumer demand and volumes will grow
- Legislation in favour of non-banks?
- Certain banks will move out of consumer cross-border
- Do corporates need to re-evaluate banking relationships?
- Retain market share by outsourcing to specialist payments service providers

“The new protections will significantly improve the predictability of remittance transfers and provide consumers with better information for comparison shopping”
Cross-Border Efficiencies?
The 6 Stages of a Cross-Border Payment Using Correspondent Banking

1. **Payment to supplier in Germany**
   - New York Customer
   - Instructions In New York

2. **FX**
   - 103
   - 202 COV

3. **SWIFT**
   - 910

4. **Settlement In Europe**
   - € Correspondent
   - TARGET2
   - € Correspondent

5. **Frankfurt Supplier**
   - 4 messages:
     - 3 SWIFT
     - 1 TARGET2
A Better Way?

Payment to supplier in Germany

New York Customer

Instructions In New York

Validation Operations Processing

Frankfurt Supplier
In Summary
## Options for Reach

<table>
<thead>
<tr>
<th>Options</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>Traditional correspondent banking</td>
<td>Reach to any banked beneficiary</td>
</tr>
<tr>
<td></td>
<td>Expensive for low value</td>
</tr>
<tr>
<td>Establish own accounts in destination countries</td>
<td>Control and reach</td>
</tr>
<tr>
<td></td>
<td>Costly and resource draining</td>
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<tr>
<td>A global bank</td>
<td>Integrated service including delivery channel capabilities, flexible file formats and local support</td>
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<tr>
<td>Global ACH-based PSP</td>
<td>Managed service for transparency and reach to any banked beneficiary</td>
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<tr>
<td>Closed loop provider</td>
<td>High transparency and certainty</td>
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<td>Limited reach</td>
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Low Value Payments Considerations

- Holistic visibility and predictability
- Control
  - Foreign currency exchange rate options
  - Warehousing of payment data
  - Segregation of duties
- Cost savings
  - Bulk payment for foreign exchange conversion
  - Reduction of processing costs
- Increased efficiencies
  - Streamlined payment and account reconciliation
- Identify a partner with global experience
Low Value Payments Considerations

Investigate domestic capabilities:

- Account number requirements
  - BIC, IBAN, Transit and Routing codes
- Features and functions
- Currencies
- Cut Off Times
- Settlement Cycles
- Clearing Rules and Regulations
  - Value Dates
  - Direct Debit Mandates
  - Recourse
  - Returns and Rejects
- Reconciliation