

# Citi's Online Academy for Financial Institutions

## **Euro Payment Landscape Webinar**

18 December 2007



# Single Euro Payments Area

The Changing European Payments Landscape

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EMEA, Global Transaction Services, Citi



# Clear Inefficiency in Today's Payments Market

## Delivering the “E” of EMU

- The Euro Delivered “Monetary Union”
  - Economic union is a pre-requisite for a single market
  - EU Vision of free flow of goods, services, capital & citizens across national borders
  - Barriers to a single economy - national infrastructures, legal frameworks, non-standard payment instruments
- Fragmented EU payment systems absorb between 2.5-3% of EU GDP
  - Only absorbs 1% in the most efficient economy
- Presents challenges for organisations and consumers trying to efficiently conduct business throughout the region
- Adds complexity to clients striving for efficiencies in back-office processes
  - Accounts Receivable, Accounts Payable, Treasury Management
- Stands in the way of a true competitive single market

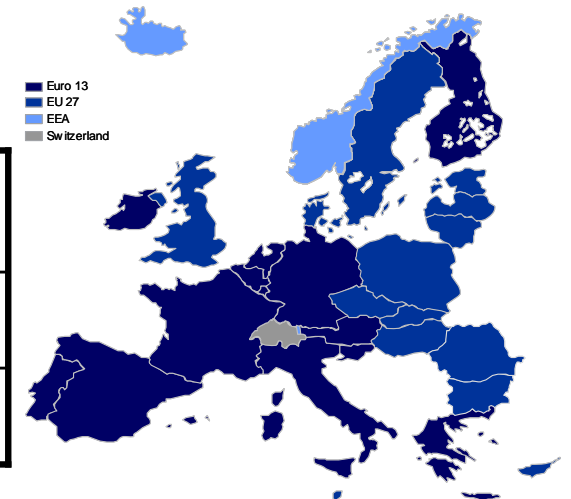
### 📌 SEPA Facts

- Europe comprises many national infrastructures and services, each with their own rules, requirements and characteristics
- This creates inefficiency and complexity for businesses doing business across Europe

# European Union vs. United States

## EU Leaders' Aspire to Compete on the Global Economic Stage

*EU is 20% of the size of US but 60% larger in terms of population*



Region	Exports to Rest of World	GDP	Population	Labor Force
United States	\$1.04 Tn	\$13.2 Tn	301 Mln	151 Mln
European Union (27)	\$1.33 Tn	\$13.7 Tn	490 Mln	222 Mln

*Source: World Fact Book - 2007*

- Single currency across 50 states
- Single same-day payments market (CHIPS & FedWire)
- Single Central Bank System (Federal Reserve)
- Single 'ACH' network for bulk / retail payments
- Customers can operate all US activities from a \$ account in a single location

- **Multiple currencies** across 27 states (Euro in only 13)
- **Single same-day Euro payments** market (TARGET2)
- European Central Bank + **27 national central banks**
- **National ACH in each market** – each with own rules, practices, formats & processes
- Customers require an **account in each national market** for efficient access to bulk / retail 'ACH' payment systems

*EU lacks the harmonisation required to continue growing as a global economic force*

## SEPA: The Vision

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“SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.”

*(Source: European Payments Council Roadmap, December 2004)*

# SEPA: What Will It Deliver?

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## Create a New Single Harmonised Payments Market for Europe

- **Create a single market for low-value, non-urgent ACH payments through:**
  - New set of regional payment products for Pan-European payments
  - Pan-European payment infrastructures (clearing houses)
- **Which will be supported by:**
  - A harmonised legal framework (Payment Services Directive)
  - Information standards like BIC & IBAN
  - New messaging standard (XML) for inter-bank communication
- **Enable customers to operate in the future from a single Euro account**
- **Reduce the number of different payment products required by customers operating across Europe**
- **Create greater integration in the EU Marketplace**
- **Increased competition and elimination of national monopolies**

*“Payments are the oil in the wheels of the Internal Market. It is of major importance that those wheels run smoothly and safely.*

(European Commission)

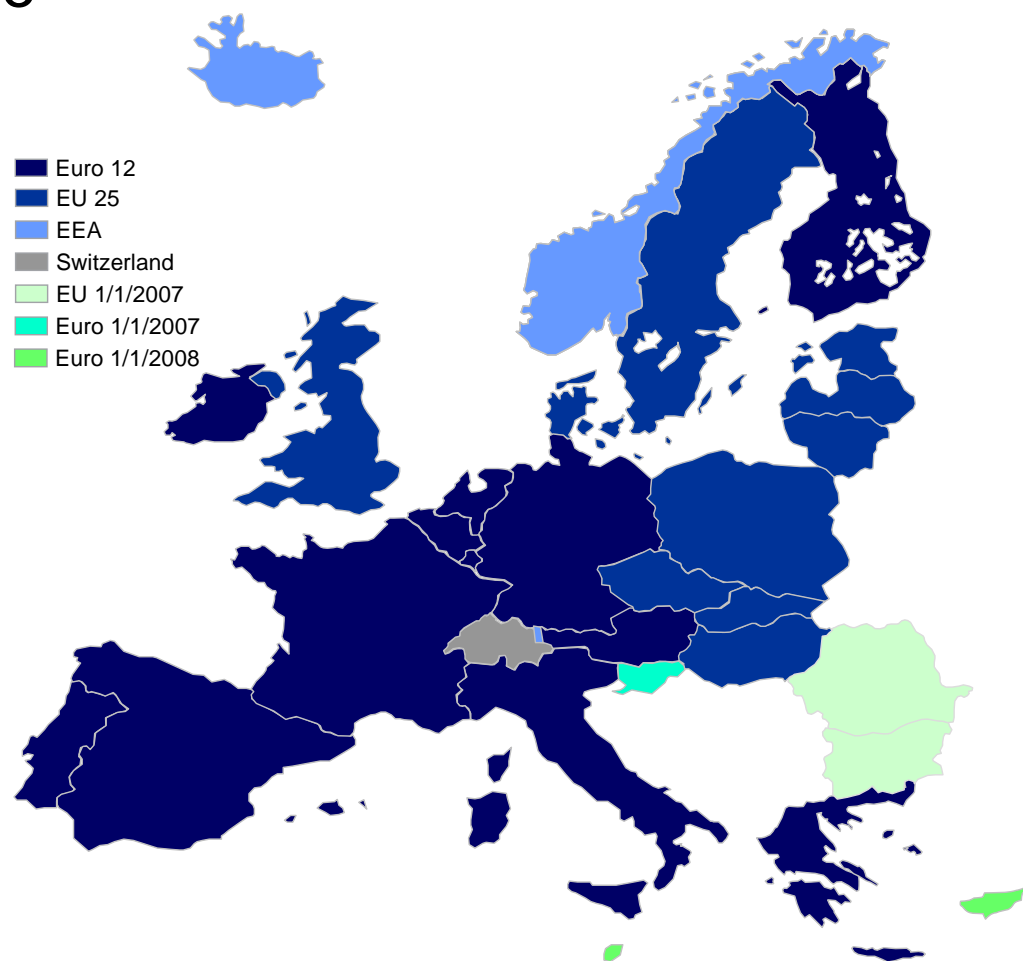
# Defining SEPA

## More Than Just The Eurozone

- 31 Member States:

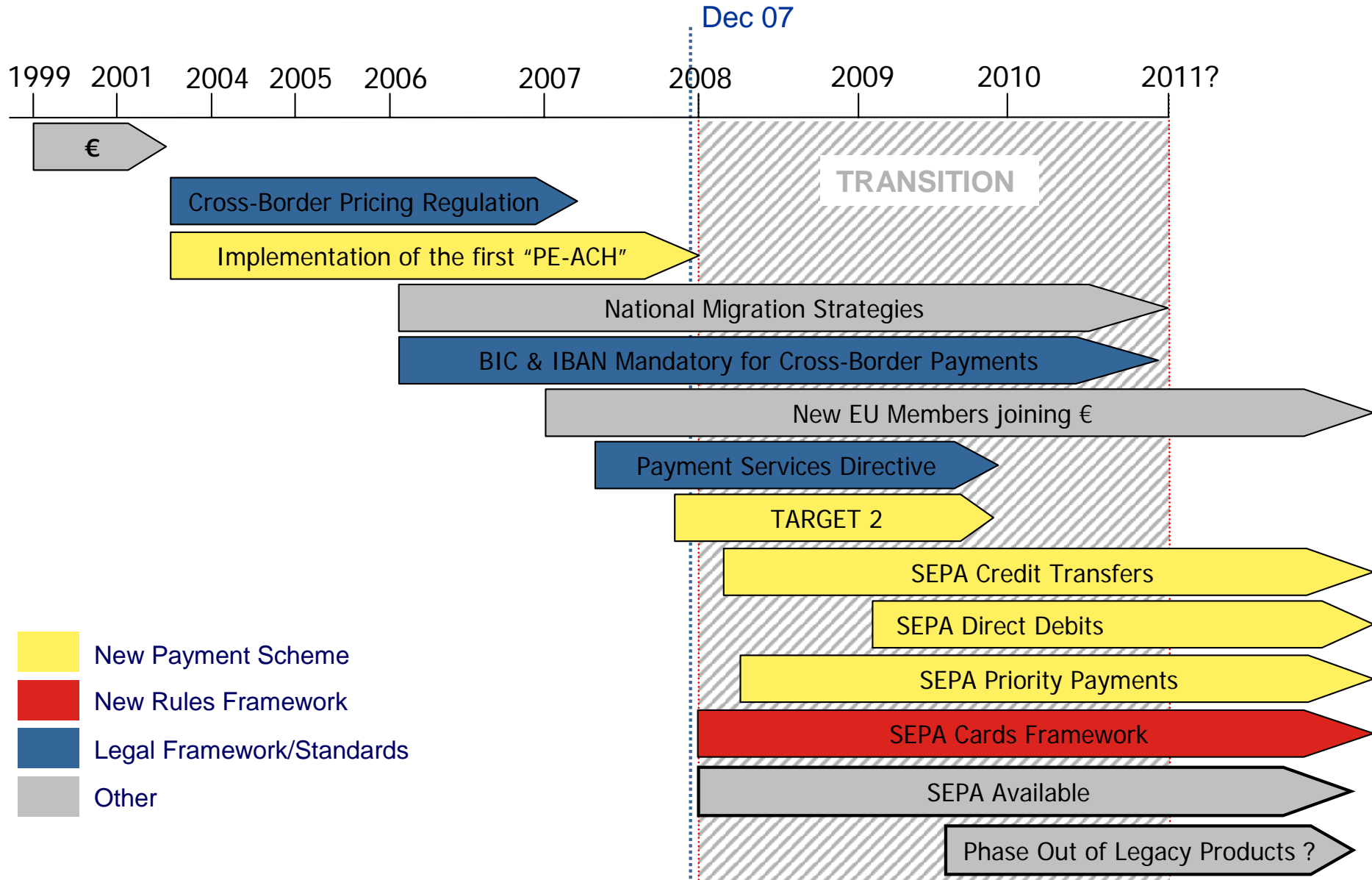
	Euro 13	SEPA 31
Population	310m	470m
Corporates	17m	25m
Banks	7-8k	9k
ACH Schemes	10	20+
Card Schemes	14+	18+
POS	4.5m	6.2m
ATMs	238k	326k
Electronic Transactions	50bn	73bn*

\* Includes non-€ traffic  
k=thousand, m=million, bn=billion



- Key Characteristics
  - Euro payments only
  - Payments within SEPA only
  - Domestic as well as Cross Border Payments

# Current Timeline of Market Initiatives



# SEPA Credit Transfers: In Detail

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Pillar 1

Credit Transfer Scheme

Available from January 2008

- Non-urgent “ACH” payments to/from any participating bank in SEPA
- No distinction between domestic and cross-border payments
- Individual transactions of any value
  - No upper value limit on transactions
- Can be initiated individually or by file from customer to bank
- Supports Euro Payments only
  - Underlying account can be in any currency
- Mandatory use of BIC & IBAN
- Standardised 140 characters of remittance information
  - Addition sub-fields for specific data elements
- Mandatory use of XML by banks as the inter-bank clearing standard
  - No obligation on customers to adopt XML for customer to bank communication
- Maximum cycle of D+3 (reducing to maximum of D+1 by 2012)
  - Some flexibility on cycle time until 2012

# The Evolving Market Infrastructures

## Emergence of Competing ACH's

- **Today: Many entirely national Automated Clearing Houses**
  - Monopolies, no competition, no reach into other markets
- **Tomorrow: New infrastructures emerging with regional aspirations**
- **ACH's competing for the banks' volumes**
- **Value-added services expected from competing infrastructures**
  - Offering choice and service to banks
  - Providing additional features for end users
- **How many Pan-European ACH's (PEACH) will remain?**
  - There will be no single PEACH
- **Landscape will continue to evolve over the coming years**



*Increased Competition = Increased Choice for European Banks*

# SEPA: Impact on European Banks

## European Banks Must Reconsider their Payment Strategy

- Pressure on revenues due to regulation and commercial pressure
- Investment in new products & infrastructure
- Diversion of investment away from core products
- Increased competition due to level playing field
- Longer term opportunities for the larger banks

### SEPA Facts

- **Quote from European Bank,** *“50% of our annual technology budget will be required to support SEPA initiatives, but the SEPA project will reduce our revenues by 30%”.*

### Implications

- **Short-term:** Increased investment costs and risk of falling revenues
- **Longer-term:** Increased competition, pressure from other European banks, requirement to restructure how payments
- **Larger Banks:** Opportunity to create scale and market share – expected consolidation of the European payments market

# SEPA: Relevance For African Banks

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What is the potential impact?

- SEPA delivers a new set of products, services and infrastructure to support **intra-SEPA** payments and collections
  - The new “ACH” for Euro transactions within the new ‘domestic’ market
  - SEPA will not support transactions to/from Europe
- Only banks domiciled in the 31 SEPA countries can participate
  - Banks outside SEPA are not able to participate in the new Pan-European ACH
  - Euro transactions to/from banks in Africa will continue to use the current model
    - Via correspondents into same-day Euro Clearing systems.
- Consequence:
  - Although SEPA is a critical project for the European banking industry, it has less relevance to banks outside Europe
  - The current means of settling Euro through correspondents will continue
  - African banks should continue to focus their efforts on obtaining the best Euro Clearing service from their European correspondents banks

# SEPA: Relevance For African Banks

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## What could impact African Banks?

- European banks are investing significantly in SEPA
  - Have they sufficient resources left to invest in their core Euro Clearing services?
  - Amid distraction of SEPA, are they continuing to focus on their overseas bank clients?
- Are Inter-bank charges increasing for non-European banks
  - SEPA + legislation will reduce the revenues available to European banks for services offered to European customers
  - Could this lead to an increase in charges for banks outside Europe where they can continue to charge?
    - Charge BEN, Charge OUR, Non-STP charges, Investigation charges, IBAN charges
- The Impact of IBAN
  - Today IBAN is only mandatory for “intra-EU/EEA” commercial transactions (MT103)
  - This is expected to continue for the foreseeable future – no mandatory requirement for African banks
  - Banks in Africa must understand their own correspondents advice, rules and charges
  - SEPA may lead some European banks to request IBAN for payments coming into EU/EEA
    - No rules requiring this – but some banks may impose their own rules

# SEPA: In Summary

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## How Should African Banks Respond to SEPA?

- **Limited opportunity to participate in SEPA**
  - A concern for European banks for intra-SEPA transactions
- **Remain close to market developments**
  - To understand any impact on your current/future Euro payment flows
  - To keep your clients educated and informed on trends in Europe and differentiate yourselves within your home markets
- **Challenge your correspondent banks**
  - Ensure they continue to enhance the “non-SEPA” Euro Clearing products
  - Ensure they do not impose unnecessary charges, using SEPA as the driver
  - Request that they keep you up-to-date with ongoing developments in the payments market
- **Adopt IBAN where possible**
  - Encourage your customers to use IBAN when remitting EUR to Europe
    - Good practice to do so, as IBAN will increasingly become the standard
  - But recognise that this is not mandatory, hence push back on any IBAN-related charges from your correspondents

# Questions & Answers

## Further Information:

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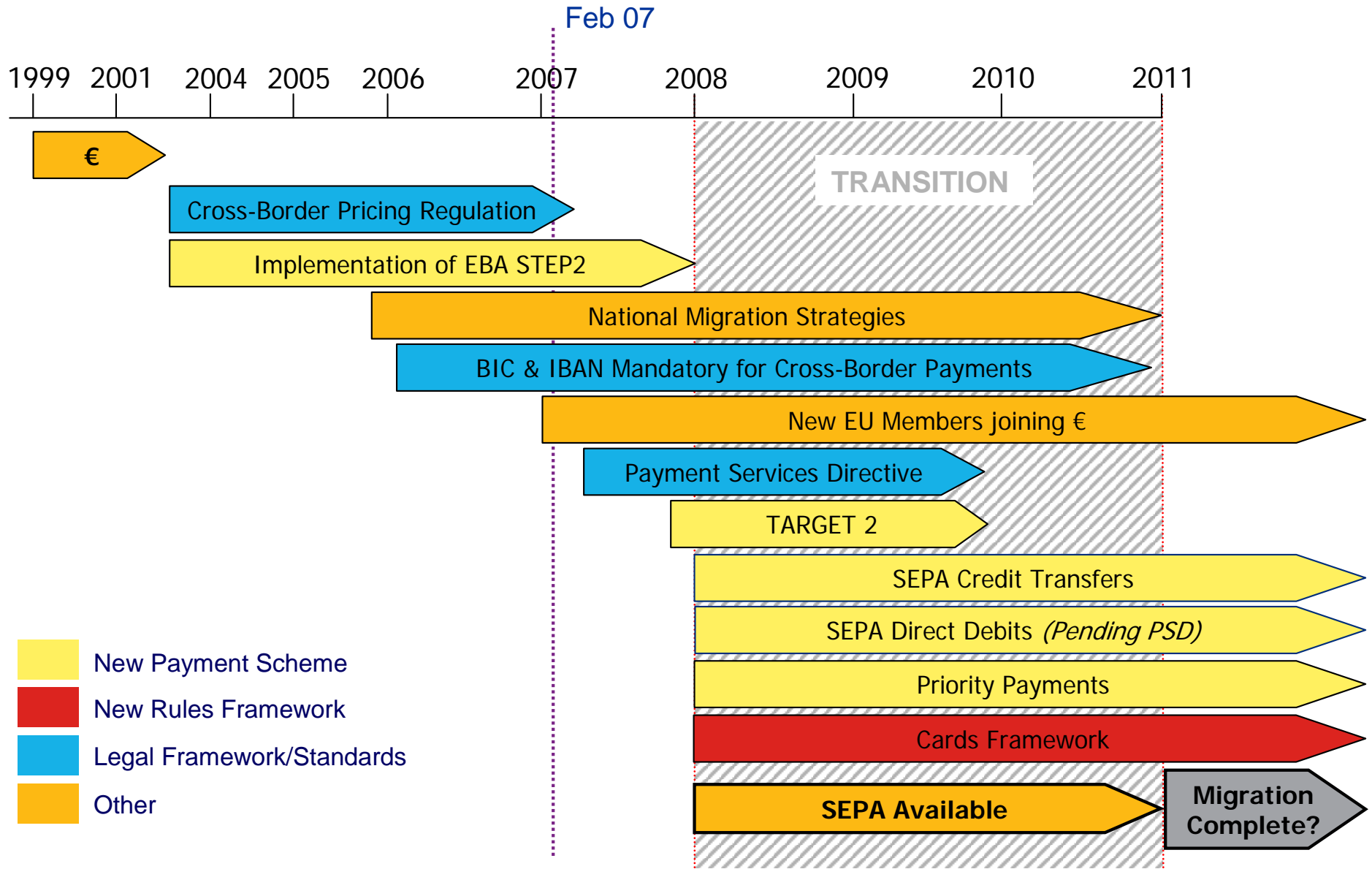
# TARGET2 Euro Clearing

**Dejan Miladinovic**

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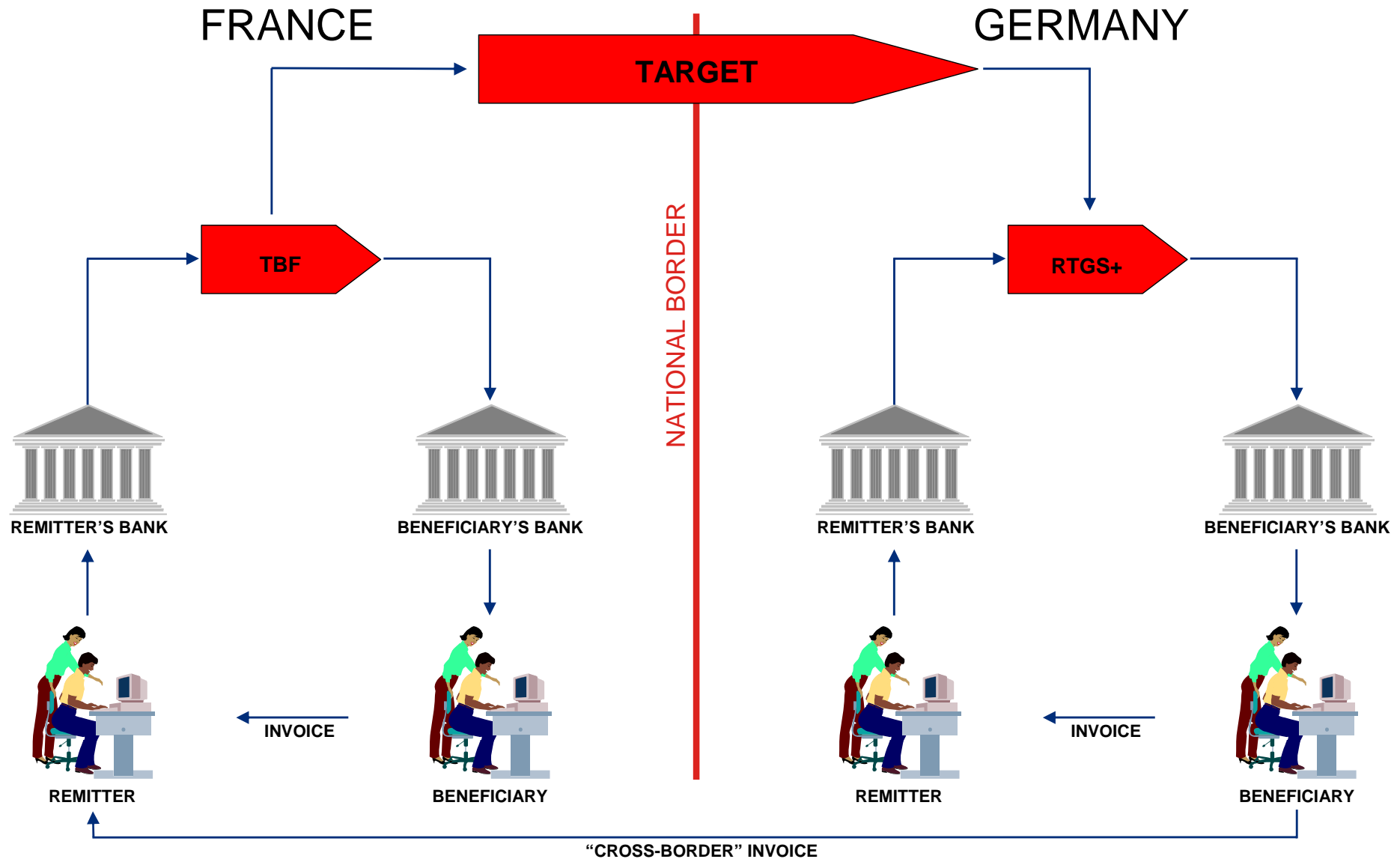


# EURO payments market



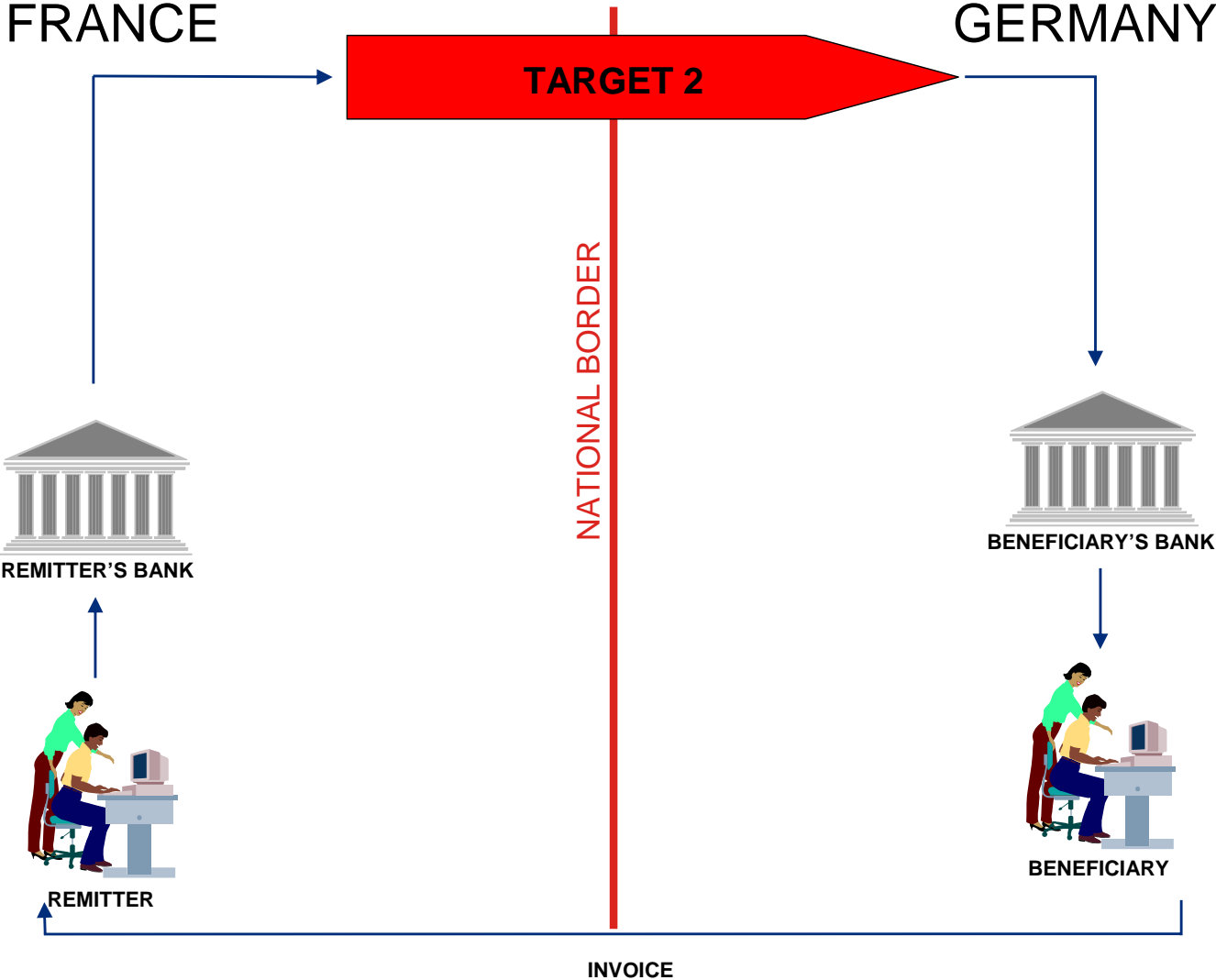
# TARGET

Interlinking network of national RTGS systems



# TARGET 2

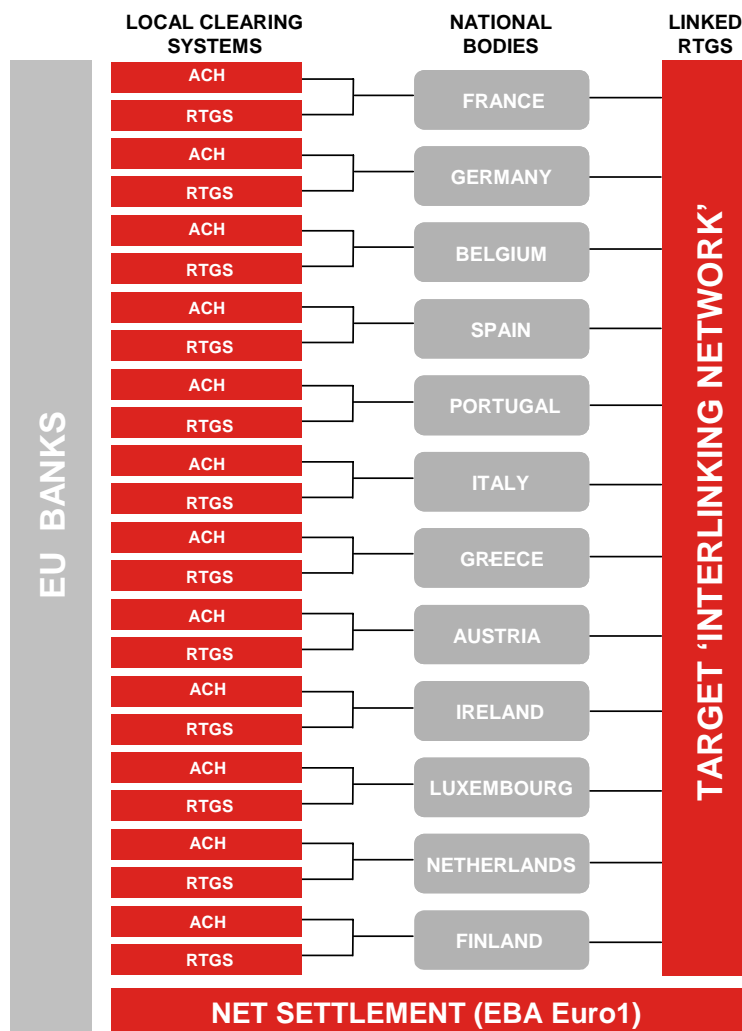
Single Shared Platform (SSP)



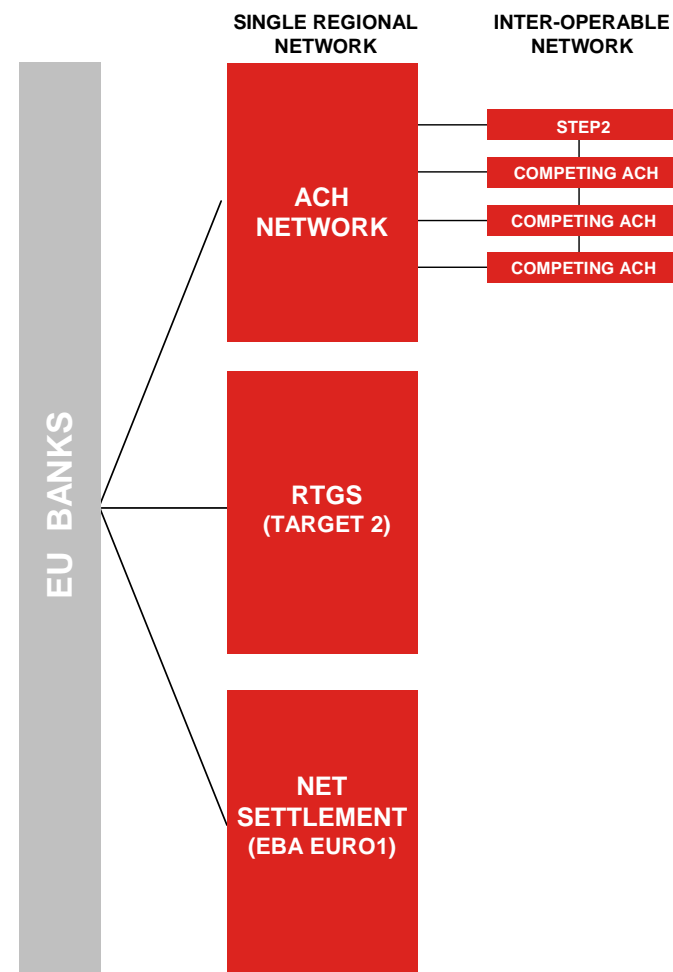
# Impact on Market Infrastructure – The EU Vision



## Disparate National Infrastructures



## Single Pan-European Infrastructure





# TARGET2 - Roll out

## Citi London

- Direct Participant via Deutsche Bundesbank
- Hold A/C in the Payments Module (PM) of Shared Service Platform (SSP)
- Other Citi branches/entities - either Indirect Participants or Addressable BIC

Group 1	Group 2	Group 3	Group 4
<i>19 Nov 2007</i>	<i>18 Feb 2008</i>	<i>19 May 2008</i>	<i>15 Sep 2008</i>
Austria	Belgium	Denmark	Reserved for contingency
Cyprus	Finland	Estonia	
Germany	France	ECB	
Latvia	Ireland	Greece	
Lithuania	Netherlands	Italy	
Luxemburg	Portugal	Poland	
Malta	Spain		
Slovenia			

# TARGET2 Euro Clearing

## Access through existing EUR account with Citi

### •Addressable BIC

- Any institution with BIC
- Settle through Citi's a/c in PM

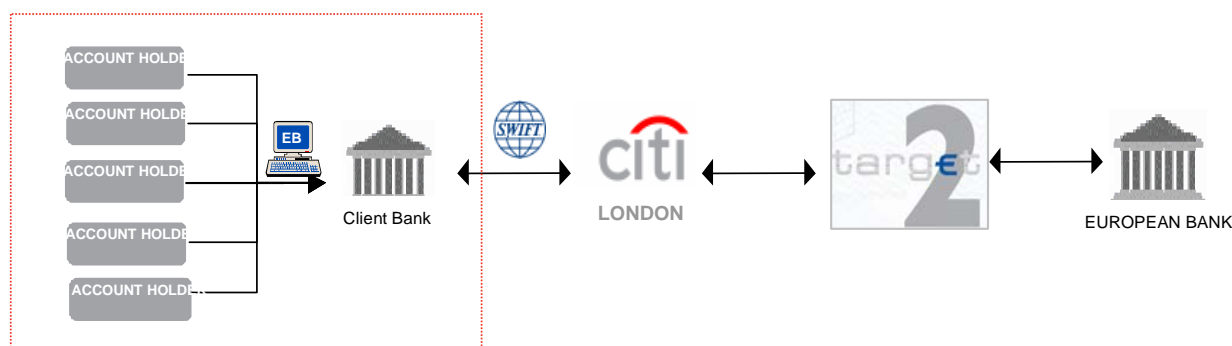
### •Indirect Participant

- EEA institutions with BIC
- Benefit from Settlement Finality Directive (SFD)
- Settle through Citi's a/c in PM

### Implementation:

- Account opening (if necessary)
- T2 Registration form
- Legal agreement (under review)

## T2 process map



# Key features

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- TARGET2 Directory
  - Information on each institution that can be addressed in the TARGET2 system
- Payment Prioritisation
  - Normal (code word: //RT) (*under development*)
  - Urgent – processed with priority through Citi and T2 ( /T2URGENT/ ) (*under development*)
  - Highly Urgent – reserved for CLS payments ( /CLSTIME/ )
- Settlement Confirmation
  - Available via Payment Flow Manager Services

# Benefits at a Glance

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**Simple Implementation** –Citi allows you to transact through **existing account set-ups**

You can **improve the STP rates** of incoming payments and avoid delays in receipts by being listed in TARGET 2 directory, which ensures that your incoming payments are routed correctly by originating institution.

You can **avoid the costs** associated with setting up and maintaining access to the TARGET 2 system, enabling you to maintain an **entirely variable cost structure** for you and your clients.

You can **mitigate the risk** of future market changes that require incremental investments. Citi will continue to invest in systems to comply with any market changes, removing the need for you to make mandatory investments.

The indirect participation solution enables you to **deliver a solution to your target market more quickly** and with absorbing less management time than a direct participant structure.

# **FATF SRVII**

Regulation Of The European Parliament And  
The Council On Information On The Payer  
Accompanying Transfers Of Funds



## Details

### Inter-governmental Body

- The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF is therefore a "policy-making body" created in 1989 that works to generate the necessary political will to bring about legislative and regulatory reforms in these areas. The FATF has published numerous Recommendations in order to meet this objective
- EU is transposing Special Recommendation (SR) VII into the law of the its Member States

### Objective

- SR VII has been issued with the objective of preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds and for detecting such misuse when it occurs

### Scope of the regulation

- EU Regulation covers all types of funds transfer made "by electronic means"
- Applies to transfers of funds in any currency, which are sent or received by a Payment Service Provider (PSP)

## Implementation

### Details

- SRVII is a recommendation to all FATF member countries (Appendix A)
- EUROPEAN UNION
  - SR VII transposed into law of EU member states by EU regulation of the European Parliament and of the Council on Information on The Payer Accompanying Transfers of Funds
  - Regulation became effective from 1st January 2007
  - Sanctions are to be imposed at member state level from 15th December 2007
  - Regulation applies to all member states
  - Non-FATF EU countries (e.g. Poland) will need to implement SRVII
  - Currently excludes the 3 EEA countries (see Appendix A)
- Non EU FATF countries
  - Expected to adopt own legislation to implement SRVII
  - Hong Kong & Singapore have implemented legislation as of at July 2007
- Non EU - Non FATF countries
  - No obligations to implement legislation but PSP's will have to ensure compliance for Funds Transfer sent into EU and other FATF countries
- Clearing Systems
  - Capability of clearing system to support need to be considered

# DEFINITIONS



## Definitions

PSP

- Payment Service Provider - A natural or legal person whose business includes the provision of transfer of funds services

Payer

- Either a natural or legal person who is the account holder who allows a transfer of funds from an account, or, where there is no account, a natural or legal person who places the order for a transfer of funds

Payee

- A natural or legal person who is the intended final recipient of transferred funds

IPSP

- Intermediary Payment Service Provider - A Payment Service Provider which is neither that of the Payer nor that of the Payee and which participates in the execution of transfers of funds

Unique Identifier

- A combination of letters, numbers or symbols, determined by the Payment Service Provider, in accordance with the protocols of the payment and settlement system or messaging system used to affect the transfer. Used to uniquely identify the Payer

Intra-EU payment

- Transfer of fund within the community

Extra-EU payment

- Transfer of funds from the community to outside the community or from outside the community to within the community

# CASE I: OUTGOING PAYMENTS, CLIENT IS CLASSIFIED AS A PSP



## Client is classified as a PSP

### Outgoing payments

- **PSP sends Citi a payment with no ordering customer details**
  - Citi will adopt role of PSP
  - Citi will populate the PSP in field 50 of outgoing MT103
- **Citi considers MT202 traffic out of scope**

### Incoming payments

- Where Citi is the Account With Institution of an incoming MT103 and our PSP client is in field 59
  - For EU country client: Citi will ensure that all checks are completed to ensure compliance with regulation and further details sought from ordering PSP
  - For Non-EU country client: Citi will ensure that any checks necessitated by local laws are adhered to as Non-EU EMEA FATF countries adopt FATF SRVII into local law

### Payments passing through Citi

- Two payment scenarios
  - Payment initiated by Citi's PSP client and ordering party details present
  - Payment coming into Citi where Citi's PSP client is quoted in field 57 of MT103
  - Citi is intermediary PSP in these scenarios
    - Citi will pass across the Payer's details unchanged.

# CASE I: WHAT CITI WILL DO FOR THE CLIENT



CASE I

- Citi considers MT202 traffic out of scope of this regulation and will therefore be making no amendments/checks to MT202 traffic
- Payment with no ordering customer details present
  - CITI is the PSP: On an outgoing electronic payment, if a PSP does not instruct any ordering party information, Citi will treat this payment as originating from a non-PSP. In this scenario Citi will send out your account number, name and address, in the ordering party field of the electronic payment, regardless of payment destination

# CASE II: INCOMING PAYMENTS, CLIENT IS CLASSIFIED AS A PSP



## Client is classified as a PSP

### Outgoing payments

- PSP sends Citi a payment with no ordering customer details
  - Citi will adopt role of PSP
  - Citi will populate the PSP in field 50 of outgoing MT103
- Citi considers MT202 traffic out of scope

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# CASE II: WHAT CITI WILL DO FOR THE CLIENT



## **Citi is a PSP**

- Incoming payments, received from any country, must be monitored for compliance the EU Regulation
- Citi will be checking for the 'presence' of the payer's details on all incoming payments and will revert to ordering PSP requesting the missing ordering party details where appropriate
- Citi does not expect any delay in the flow of incoming payments to your accounts.
- Where persistent non compliant PSPs are identified, Citi will escalate as appropriate to the ordering PSP to try and remedy the situation before taking any action to delay or reject payments, as stipulated in the regulation
- Citi will use risk based sampling to check the 'meaningfulness' of the Payer's details. Again ordering PSP will be contacted where appropriate

# CASE III: PASS-THRU PAYMENTS, CLIENT IS CLASSIFIED AS A PSP



## Client is classified as a PSP

### Outgoing payments

- PSP sends Citi a payment with no ordering customer details
  - Citi will adopt role of PSP
  - Citi will populate the PSP in field 50 of outgoing MT103
- Citi considers MT202 traffic out of scope

### Incoming payments

- Where Citi is the Account With Institution of an incoming MT103 and our PSP client is in field 59
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### Payments passing through Citi

- **Two payment scenarios**
  - **Payment initiated by Citi's PSP client and ordering party details present**
  - **Payment coming into Citi where Citi's PSP client is quoted in field 57 of MT103**
  - **Citi is intermediary PSP in these scenarios**
    - Citi will pass across the Payer's details unchanged.

# CASE III: WHAT CITI WILL DO FOR THE CLIENT



## **Citi is a IPSP**

- Intermediary PSP shall ensure that all the information received on the payer that accompanies a transfer of funds is kept with the transfer
- According to the Regulation, the intermediary PSP is responsible for forwarding without changes the information received on the payer from the sending PSP. It has no liability in checking the content of the various fields of messages. In case of converting the received information into a different format, the intermediary PSP is responsible for forwarding the full set of information in the due format
- Intermediary PSP is not responsible for checking for the presence of ordering customer information

# APPENDIX A: LIST OF FATF & EU COUNTRIES



	<b>EU countries – FATF Regulation Applies to All EU Countries</b>	<b>Non-EU countries –FATF SRVII applies where local legislation has been adopted</b>
<b>FATF countries</b>	<ul style="list-style-type: none"> <li>• Austria</li> <li>• Belgium</li> <li>• Denmark</li> <li>• Finland</li> <li>• France</li> <li>• Germany</li> <li>• Greece</li> <li>• Ireland</li> <li>• Italy</li> <li>• Luxembourg</li> <li>• Netherlands</li> <li>• Portugal</li> <li>• Spain</li> <li>• Sweden</li> <li>• United Kingdom</li> </ul>	<ul style="list-style-type: none"> <li>• Russian federation</li> <li>• South Africa</li> <li>• Turkey</li> <li>• Gulf Co-operation Council <i>which consist of</i> <ul style="list-style-type: none"> <li>- <i>Bahrain</i></li> <li>- <i>Kuwait</i></li> </ul> </li> <li>- <i>Oman</i></li> <li>- <i>Qatar</i></li> <li>- <i>Saudi Arabia</i></li> <li>- <i>United Arab Emirates</i></li> <li>• Switzerland</li> <li>• Iceland(EEA)</li> <li>• Norway(EEA)</li> <li>• Argentina</li> <li>• Australia</li> <li>• Brazil</li> <li>• Canada</li> <li>• Hong Kong, China</li> <li>• Japan</li> <li>• Mexico</li> <li>• New Zealand</li> <li>• Singapore</li> <li>• United States</li> <li>• China</li> </ul>
<b>Non-FATF countries FATF Regulation Applies to All EU Countries</b>	<ul style="list-style-type: none"> <li>• Bulgaria</li> <li>• Cyprus</li> <li>• Czech republic</li> <li>• Estonia</li> <li>• Hungary</li> <li>• Latvia</li> <li>• Lithuania</li> <li>• Malta</li> <li>• Poland</li> <li>• Romania</li> <li>• Slovakia</li> <li>• Slovenia</li> </ul>	<ul style="list-style-type: none"> <li>• Liechtenstein(EEA)</li> <li>• All other countries</li> </ul>

## APPENDIX B: FATF DEFINITION OF FI

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Any person or entity who conducts as a business one or more of the following activities or operations for or on behalf of a customer:

1. Acceptance of deposits and other repayable funds from the public
2. Lending
3. Financial leasing
4. The transfer of money or value
5. Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money)
6. Financial guarantees and commitments
7. Trading in:
  - money market instruments (cheques, bills, CDs, derivatives etc.);
  - foreign exchange;
  - exchange, interest rate and index instruments;
  - transferable securities;
  - commodity futures trading
8. Participation in securities issues and the provision of financial services related to such issues
9. Individual and collective portfolio management
10. Safekeeping and administration of cash or liquid securities on behalf of other persons
11. Otherwise investing, administering or managing funds or money on behalf of other persons
12. Underwriting and placement of life insurance and other investment related insurance
13. Money and currency changing

When a financial activity is carried out by a person or entity on an occasional or very limited basis (having regard to quantitative and absolute criteria) such that there is little risk of money laundering activity occurring, a country may decide that the application of anti-money laundering measures is not necessary, either fully or partially

# Questions & Answers

## Further Information:

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