EUROGIRO
News

Contents

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The Eurogiro expansion continues

Eurogiro is expanding at a rapid pace, both in terms of number of members and transaction volume processed by the system.

■ This makes it a highly challenging moment to take over the position as deputy managing director of Eurogiro Network A/S and editor in chief of Eurogiro News.

In this issue of Eurogiro News, we can report that Postna Banka Slovenije has joined Eurogiro as the 30th member institution in Eurogiro. A litlle more than year ago the number of members were 20. This 50% growth reflects the dedication of both existing members and the Eurogiro Network A/S to grow the co-operation and the network. Within the next few month Eurogiro will put a special emphasis on streamlining the implementation process to secure a smooth path for all new members all the way from signing to full production.

The alliance between Eurogiro and Western Union is an important contributor to the rapid growth of volumes through the Eurogiro network. The success of the whole alliance is reflected in the article on Swiss Post and Western Union. Furthermore, the first meeting has been held in the European Postal Organisation, the co-operation unit set up by Western Union.

Meanwhile the development of the IT is continuing in the Eurogiro network as well as with the individual members. This time we report from P.S.K.'s initiative on direct debit via the internet (page 6) At the Technical User Group Meeting, which was recently held in Cannes, a number of

subjects were treated. On page 7 we cover some of the main subjects in separate articles.

One of the most important aspects in Eurogiro is the co-operation between the members on procedures and rules. The Vienna seminar on investigations (page 2) is a good example of enhancement of the Eurogiro co-operation.

Svend Mygind
Editor in Chief

Svend Mygind, Deputy Managing Director of Eurogiro Network A/S and new Editor-in-chief

The number of Eurogiro members reaches 30

Postna Banka Slovenije of Slovenia has signed up with Eurogiro.

■ The Slovenian post bank has become the 30th Eurogiro member institution and brings the number of member countries in Eurogiro to 27.

Postna Banka Slovenija is headquartered in the provincial city of Maribor and is selling financial services throuh 536 post offices in Slovenia. Furhermore there are bank offices in Maribor, Ljubljana, Celje and Murska Sobota for business customers. The bank

has 160.000 Savings accounts and 140.000 current, giro and other accounts.

In addition to the 27 countries, which are covered by a wide range of cross border payment products, Eurogiro has a world wide access on standard products such as urgent cash payments and USD payments to accounts.

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The Eurogiro network is an international electronic payment network for the postal financial institutions.
The Eurogiro network is the only electronic cross-border payment system which covers both postal and bank products.
Eurogiro has 30 member institutions.
Although Western Europe is the core area, Eurogiro now spans four continents.
The electronic payment system of Eurogiro is administered by Eurogiro Network A/S in Copenhagen, which also provides the organisational framework for the further development of the co-operation. The company is owned by 16 European members.

Eurogiro Member institutions:
Austria: P.S.K. AG • Belgium: POST-CHEQUE • Cape Verde: Correios de Cabo Verde • Croatia: Croatia Post • Denmark: BG Bank A/S • Finland: Leonia Bank Ltd. • France: La Poste • Germany: Deutsche Postbank AG • Iceland: Póstegiró • Ireland: AN-Post • Italy: Poste Italiane • Japan: Postal Savings Bureau • Luxembourg: P & T • Morocco: Office Nationale de Poste • Netherlands: ING Bank N.V. /Postbank N.V. • Norway: Den Norske Bank/Postbanken • Portugal: CTT Correios • Romania: Banc Post, Posta Romana • Slovakia: Postova Banka • Slovenia: Postna banka Slovenije d.d. • Spain: Argentaria, Correos • Sweden: Postgirot Bank • Switzerland: Swiss Post Postfinance • Tunisia: Tunisian Post • Turkey: General Directorate of Post • United Kingdom: Girobank PLC • USA: The Chase Manhattan Bank, Bankers Trust a Subsidiary Deusche Bank

Steps to improve investigation in Eurogiro

New database of reconciliation staff to improve communication on queries.

■ Staff from eleven Eurogiro members met in Vienna recently to improve investigation processes in Eurogiro. The seminar increased the awareness of existing tools and resulted in fresh ideas to improve the work. The Eurogiro Service Level Agreements, along with the standards developed for query handling, were acknowledged as useful tools. New Ideas included:
Introduction of an automated 'stop pay-ment' facility for payments with long validity
Charging customers for issuing a query if a fault with the bank is not discovered
Creating a database of reconciliation staff in Eurogiro organisations

Quality tests performed by the Eurogiro Operational Performance Group and

Eurogiro Network A/S have shown that fewer than 50% of all queries sent were answered within the three days required by the Eurogiro co-operation. Finding ways to improve this percentage and reduce the number of queries are obvious challenges for the Operational Performance Group, the joint working group that oversees operational procedures in the Eurogiro co-operation.

The message from the participants was clear: the issue of investigation procedures is important and it is attractive and rewarding to bridge the gap between different member organisations. The message to the Operational Performance Group was also clear: Arrange such seminars again and urge all member organisations to participate.

": the issue of investigation procedures is important and it is attractive and rewarding to bridging the gab between different member organisations"

Wolfgang Roiser, P.S.K. speaking at the seminar.

Postbank International Consultancy concludes international postal banking project with conference 'Connecting Europe'

Although in a good starting position for the provision of financial services, postal organisations will have to act quickly as competitive pressure will increase in the years to come.

■ More than 60 representatives of postal organisations and postal banks gathered on 19-21st June in Amsterdam for the conference 'Connecting Europe - Delivering Financial Services through the Postal Network'. Participants came from 13 Eastern European countries, and also from India, France, Denmark, and The Nether-lands. In addition, the UPU, the EBRD, the United Nations, the European Commission, the Dutch Central Bank and the Dutch Telecommunication and Post Department of the Ministry were also present. The conference was organised within the framework of the EU Phare project 'Harmonisation of Postal Money Orders (including giro systems)', executed by Postbank International Consultancy.

At the conference, actual trends and best practices in postal financial services were outlined by expert speakers. Mr Verkoren, Director of ING Group (parent of the Dutch Postbank N.V.) and formerly responsible for the Postbank, opened the conference. He stressed that postal organisations have a good starting position for the provision of financial services through the postal network but they will have to act quickly, as competitive pressure will increase in the years to come. Mr Leavey, Director General of the UPU, claimed that Postal Financial Services are currently lagging behind compared to the rest of the financial sector. He identified the causes of this and suggested ways in which the UPU could help overcome these obstacles.

Much attention was focused on the issue of cross-border payments in Europe. Mr Oksholm from Eurogiro discussed the options in this field for postal providers and the anticipated trends for the years to come. Mr De Poot, representing the European System of Central Banks, concluded that the ECB and the European Commission should support the development in Europe of efficient cross-border retail payments systems, such as Eurogiro.

The second day of the conference was devoted to the results of the Phare project and recommended follow-up and implementation plans for postal financial services. Mr Boon, head of Postbank International Consultancy, took the lead: First, a cross-country comparison of postal financial services in the Phare project countries was outlined (Albania, Bulgaria, Estonia, Latvia, FYR Macedonia, Poland, Romania and Slovakia). This focused on the institutional setting, the product range, the market share in low value payments and business processes, and IT.
This was followed by the presentation of the recommended business strategy. It was stressed that, in the short term, postal

providers should concentrate on expanding and improving the present financial services (such as money orders and out payments). In the longer term, they should expand the services, with an emphasis on the development of cashless payments products ('giro' payments). This should be approached in an integrated manner. Postbank International Consultancy offered ideas on how to handle the implementation of this business strategy and how to accelerate it. It concluded that a key success factor is a targeted stakeholder approach to create a shared business vision. This approach should include international

financial institutions, such as the EBRD, and also the setting up or strengthening of partnerships between postal banks and postal organisations.

Apart from the interesting content of the presentations, the conference 'Connecting Europe' offered ample opportunity for participants to exchange experiences and information with their foreign colleagues.

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"In the short term postal providers should concentrate on expanding and optimising the present financial services (such as money orders and out payments). In the longer run they should expand the financial services, with an emphasis on the development of cashless payments products ('giro' payments)".

Postgirot Bank sold to consortium of four commercial banks

FöreningsSparbanken, Handelsbanken, MeritaNordbanken and SEB are forming a new Swedish giro system, Svenska Girot AB. Posten has signed a letter of intent to sell Postgirot to Svenska Girot.

■ In a second step, Svenska Girot will take over the bank's holdings in Bankgirot and Privatgirot. The purchase sum is just over SEK 4 billion. The employees of Postgirot, Bankgirot and Privatgirot are being offered employment at Svenska Girot.

Svenska Girot is currently jointly owned by the four major commercial banks. Other banks with minority holdings in Bankgirot will be invited to become partners in the company. The intention of the company is to set up an efficient and unified giro system and sell giro services to all banks in the market.

Altogether, Svenska Girot will have 3,500 employees, as well as operations in Stockholm, Malmö, Norrköping, Eskilstuna and Tierp.

Lars O Grönstedt, Deputy Managing Director of Handelsbanken, will become Chairman of Svenska Girot.

'A world-class payment system is highly beneficial to the ongoing development of industry and commerce. It leads to considerable cost savings for companies and authorities, enabling them to avoid having to manage two separate payment systems. A single giro system is also beneficial to consumers in that payments can be made faster and more easily,' says Mr Grönstedt.

'As we are now merging three giro systems into one, we will have a strong infrastructure that is able to cope with tomorrow's payment systems. When it comes to handling huge payment volumes, technological developments are extraordinarily rapid. Payments are increasingly made electronically, and fewer and fewer are paper-based. With a single giro system, we will be able to meet the requirements imposed by the rapid pace of developments in the field of IT in an efficient manner,' he adds.

Before the deal can be completed, the approval of the competition authorities is required. The authorities involved are expected to issue a statement by the end of December at the latest.

'This is an excellent deal for Posten. We are satisfied with the plans presented by the buyer concerning the future of the staff. I am convinced that Svenska Girot and its owners will make good use of the value generated and nurtured within Postgirot, particularly in terms of the expertise commanded by the staff,' says Posten's Managing Director, Lennart Grabe.

The purchase sum totals SEK 4 billion, plus profits accruing until the day of the takeover. Posten intends to use these funds, amongst other things, to build up a new high-access service network and develop the messaging and logistics business, in line with Posten's vision.

'Competition in the markets for letters and parcels is becoming stiffer, and we are now investing aggressively in becoming a leading modern distribution company within the Nordic and Baltic regions,' says Mr Grabe. The increasingly rapid transition to electronic payments services, combined with the coordination potential of the new giro system, will lead to redundancies. One of the conditions imposed by Posten on the sale has been the allocation of funds to allow for the responsible handling of future staff cutbacks. These demands have been met, and all excess staff will be offered the opportunity of participating in a special adjustment programme that will help them move on to either training or new positions.

Postgirot Bank will be conducting business as usual until the competition authorities have issued their statement and the merger process has been initiated. Advance information will be provided to customers concerning any changes.

Schroder Salomon Smith Barney is Posten's advisor on the sale. Alfred Berg is the consortium's advisor.

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Croatia Post connected

The Eurogiro system was installed in Hrvatska Posta at the end of May.

Success for Swiss Post and Western Union instant money transfers

Swiss Post and Western Union have recently celebrated their first half year of partnership.

■ The co-operation between the two organisations commenced in November 1999 and, according to Andreas Sommer, Swiss Post's Product Manager Correspondent Banking: 'We have enjoyed a very successful first half year and we are confident of continued growth in the future.'

Swiss Post started to offer Western Union's instant money transfer service at 500 locations across the country in November 1999. The instant money transfer service offered by Western Union is supported by Eurogiro and is currently offered by 15 Eurogiro members.

Immediate benefits of the Western Union service for Swiss Post include: a simple and fast money transfer product; wider global reach outside the existing Eurogiro network; an immediate, transparent and secure service; and there is also no need for customers to be account holders.

'Western Union's money transfer service is second to none. Available in 90,000 locations in nearly 200 countries, it means that Swiss Post's customers can basically send money all over the world. As well as providing customers with an improved service, Swiss Post benefits by increasing counter traffic and swifter transactions means excellent profit forecasts,' said Kurt Marx, Western Union's Marketing Director, European Postal Organisations.

The latest transaction figures for instant money transfers from the Swiss Post network confirm this view. In June 2000, Swiss Post conducted 6,400 transactions using the Western Union service. 'This is an outstanding number of transactions and indicates an exciting opportunity for Swiss Post. We are looking forward to a successful second half year and further expansion of the Western Union instant money transfer service throughout the Swiss postal network,' concluded Mr Marx.

The participants in the Western Union European Postal Organisation Conference at the Hilton Hotel in Vienna

Western Union and Eurogiro

The strategic commercial alliance formed between Western Union and Eurogiro in late 1998 is going from strength to strength with business growth hitting far higher levels than originally forecast.

■ Within twelve months, Western Union had increased its business with the European Postal Organisations by an impressive 132% boosting its frequency of transactions by reaching a much broader customer base.

'We were certain that this alliance between Western Union and Eurogiro would be mutually beneficial but we honestly had no idea that it would be so successful,' said Kurt Marx, Western Union's Marketing Director, European Postal Organisations.

'Since joining forces with Eurogiro we have, quite literally, conducted millions more money transfers around the world than we would have been able to otherwise.'

Postal Organisations benefit from this partnership by offering customers a wider choice and a faster service from a widely recognised brand.

Western Union launches European Postal Organisation team

■ Western Union hosted its inaugural European Postal Organisation conference over 26th-28th June 2000. The conference which was held at the Hilton Hotel in Vienna, focused on enhancing the partnership between European Postal Organisations and Western Union.

We continue the Eurogiro Newsletters reporting of the internet as distribution and transaction channel among member institutions. Below we report from internet initiatives in Austria.

Direct Debit in Austria.

With bezahlen.at P.S.K. offers everybody the opportunity to pay daily bills via an internet-based platform. The product is available irrespective of the banking connection. In this way, P.S.K. provides an alternative to paper-based payment transfers for the first time.

"The bezahlen.at page is not immediately recognisable as a P.S.K. page, but the fact remains that the bank functions almost as a clearing house guaranteeing correct settlement of modern payment traffic"

■ This unique product has been welcomed from the outset by Austrian businesses. In the first phase, a number of well known Austrian companies signed up for this new payment product and now present bills to their customers via this channel. Many other companies have expressed interest.

How does bezahlen.at work?
The biller enters details of bills on the internet at www.bezahlen.at. The person billed is informed by an e-mail sent by P.S.K. that a new bill has been issued. They can then click into the bezahlen.at homepage and access, through a password, a list of all the bills that have been issued. With one click per bill, the bills can be paid. The debit entry on the account will be the same as the due date of the bill.

Who can use bezahlen.at?
Bezahlen.at is an open service available to all bank customers. Every Austrian with a giro account with any Austrian bank and access to the internet can pay bills via bezahlen.at

Benefits for the consumers
The growth rate for the internet is rising rapidly. Until recently, leisure and information were the most important reasons for Austrian consumers to be on the net. Bezahlen.at makes every day life easier. With bezahlen.at, it is possible to pay bills day and night free from the constraints of location and opening hours of the banks. As there is no special software needed, it is possible to pay bills via bezahlen.at through any PC with internet access. The use of bezahlen.at is free of charge irrespective of the size of amount and frequency of use.

Benefits for Businesses
The new product simplifies procedures, especially for companies which have to settle bills with many customers in a short time.
While traditional invoicing requires cost-intensive administration, this process can be substantially simplified. No more printing, enveloping and mailing of bills. Instead, bills are directed to the homepage of bezahlen.at where the receiver can access them himself.

Security on the internet
The bezahlen.at page is not immediately recognisable as a P.S.K. page, but the fact remains that the bank functions almost as a clearing house guaranteeing correct settlement of modern payment traffic. P.S.K. must, like all Austrian banks, adhere to strict legal requirements concerning confidentiality of personal data. The traffic at bezahlen.at uses 128 bit encryption, which has emerged as the de facto standard for the exchange of data in financial services.
As the registration takes place on the P.S.K. page, it is also ensured that customer data is only exchanged with those suppliers-whom the user has authorised for such exchange.

The future
Bezahlen.at is a further step in P.S.K's ongoing development of internet activities, which will quickly and permanently change the services offered to Austrian consumers. P.S.K is continuing this work and planning a co-operation with well-reputed IT providers to develop new payment solutions for e-commerce, says Karl Stoss, Deputy General Director at P.S.K

So einfach kann das Leben sein.

P.S.K.

Eurogiro Technical User Group Meeting in Cannes

IT challenges and developments came to the fore when Eurogiro, for the first time in six years, arranged a separate Technical User Group Meeting dedicated solely to the IT arena. The meeting took place on 19-20th June in Cannes, France. The venue meant that participants could also visit ENOC in Sophia Antipolis near Cannes. This is the help desk and management centre for the Eurogiro network run by Compaq Computer. Below are reports from the various main topics at the meeting.

MT103 in the Eurogiro environment

Eurogiro will ease the implementation of MT103 by developing a conversion module from and to MT100.

■ Eurogiro has a long-standing commitment to follow the SWIFT standard. In SWIFT it will be mandatory to receive MT103 by November 2000.

The MT103 as defined by SWIFT is in the general form complex and with a lot of bindings and conditions between the various fields. As a consequence of this SWIFT has defined a more simple form of the MT103 – the MT103+ for STP (Straight Through Processing). The Eurogiro Operational Performance Group and Eurogiro Network A/S have been working to map out the differences and present a solution for the usage of MT103 in the Eurogiro Network. As the MT103+ might be too strict for Eurogiro it was decided to build our own general version of the MT103 that also supports STP. Among the major decisions is that field 23B "Bank Operation Code" is fixed to the value "CRED" and that only the "A" and "D" versions of fields 52 to 57 will be defined. Field 26T "Transaction Type Code", 51A "Sending Institution" and 55a

"Third Reimbursement Institution" will not be used in Eurogiro.

To ease the implementation of the MT103 and to lift the pressure of the Eurogiro Members not currently member of SWIFT it has been decided to build a conversion module between MT100 and MT103. The conversion module will be developed for the Eurogiro System. The development has been made possible with the decision to implement zone-key management for the authentication of the transactions as described in another article. Conversion will take place at each ELS and will be based on the present state of the Host system (active in MT103 or not).

The converter will be made free of charge and is scheduled to be available November 2000. The implementation of the conversion module will be automatic via the network. No development on Host system is necessary by member to access the ELS converter.

Participants of the Technical User group meeting visited ENOC in Sophia Antipolis near Cannes. This is the help desk and management centre for the Eurogiro network run by Compaq Computer

The conversion module on the ELS should only be considered as an interim solution allowing our members to prioritise the development of their Host applications and to support the Eurogiro members that are not members of SWIFT. The Eurogiro Operational Performance Group encourages all Eurogiro members to develop MT103 before SWIFT makes the MT100 obsolete.

Eurogiro enhancing the security level.

The technology is now in place for Eurogiro to upgrade the security level in a smooth and cost-effective way.

■ Today the security depends on authentication (MAC) of the transactions as well as encryption of the raw data transferred. Eurogiro has a wish to keep a security level that meet the requirements in the market and will therefore automate the existing key generation and management process for the authentication.

To ensure a smooth migration from the current concept Eurogiro will implement a zone-key-management system. In a zone key management system the responsibility is split between the Members and Eurogiro Network A/S as owner of the international network. The Members control Eurogiro Network A/S as a trusted party. One zone – Members zone - will be the local environment at our Members, which is the interface from the Eurogiro System – the ELS - to the Members Host system. A second zone – Eurogiro Zone - will be the Eurogiro Network. This implies that the current security level between our Members Host systems and the Eurogiro Network – the ELS - can be maintained and upgraded individually.

In co-operation with Compaq Computer and iD2 a PKI based solution has been designed for the Eurogiro zone. The solution is based on PKCS standard components and will solve authentication, integrity and confidentiality using standard procedures. PKCS is the most widely used PKI standard today and it will most probably become the de facto standard for the future. Eurogiro will install central servers for key generation and certificate management.

A secure module will be developed on the ELS to ensure an end-to-end authentication of the transaction data. The module will verify the authentication from the Host using the current MAC and protect it using the PKCS#7 standard. The PKCS#7 standard ensures data integrity as well as authentication. The conversion will be implemented in such a manner that the transactions are protected against insertion of data or modification during the transfer from Member's Zone to Eurogiro Zone.

With the PKI based solution Eurogiro maintains our state of the art security level

to ensure that no outsider can get access to the highly sensitive information in the network.

The technology chosen may conquer the challenge to fulfil the high demands for security and reliability for using Internet. The implementation of an IP VPN (Virtual Private Network using Internet) may be the solution for new Members connecting to Eurogiro.

Eurogiro installs new monitoring software to further increase reliability in the software.

New monitoring software – Patrol from BMC Software - has been installed and tested at the management center. The deployment to all Eurogiro sites will be completed by end of August. The new monitoring software improves quality of service and supports the new services to be implemented.

Information Security within Eurogiro supervised by the Audit and Security Group

Each employee should have a high awareness of security and the importance of security in the daily business. Dangers are lurking if there are weaknesses or lapses in security in any area.

■ As the "eWorld" influences people's lives, information security is becoming an issue that is growing in importance. Eurogiro Network A/S is aware of this importance. From the outset, Eurogiro established a permanent work group, the Eurogiro Audit and Security Group (EASG). To maintain its independence, EASG reports directly to the Eurogiro Board of Directors. Some of its main tasks are the promotion of security awareness, maintenance of the Eurogiro Information Security Policy and obtaining Certificates of Compliance from members and third parties. The Eurogiro Information Security Policy defines the security requirements for the Eurogiro network and its members. It conforms to the highest standards in the modern banking industry and outlines cost-effective security requirements.

Implementing state-of-the-art security technologies on the automated systems of a financial institution is not enough. Each employee should have a high awareness of security, its importance in the daily business, and the dangers if some weaknesses or lapses in security are present in any area. If such awareness is achieved, then the institution can offer services with a degree of security that can satisfy the customer.

The security of information processing systems is based on three pillars: availability, confidentiality and integrity. Each information security system should cover the requirements in those areas. Availability means that such a system, and the authorised individuals involved with it, are accessible when needed. An example is that a defined computer should be operational when

needed. This implies, in many cases, the availability of a standby computer to handle the operations if the main computer fails. Confidentiality means that only authorised persons and processes may retrieve the data. Integrity ensures correctness, timeliness and completeness of data.

Here are some simple hints to enhance security in every-day activities
Understand how the data protection system works on all the systems used. If in doubt, consult the security officer.
- Keep own data protected so that only authorised persons have access to it.
- Logout when leaving the workstation.
- Run an anti-virus program whenever new software or files are introduced onto desktop workstation.
- Change password(s) at least once a month.
- Never share PIN or personal password. The account of a professor was broken into and used to send threatening mail to a student. The professor claimed there was no confidential data on his account and therefore he did not need to protect it. He was wrong. Data is not the only reason for wanting to protect your account.

The Eurogiro Information Security Policy provides more details on security requirements for individuals as well as members and systems. EASG has enhanced the activities through visiting Eurogiro members so as to obtain clear and mutual understanding of security issues.

The Eurogiro Audit and Security Group has enhanced the activities through visiting Eurogiro members so as to obtain clear and mutual understanding of security issues. The picture is from the group's visit to Postova Banka of Slovakia.

Project Manager

Eurogiro Network A/S is seeking a Project Manager for the Sales and Marketing Department

Successfull candiates will be involved in a wide range of international tasks to support the further expansion of the network – in particular towards alliance partners. The tasks may also include: - Taking part in the development of the strategy for the department
Aktivities in connection with the Eurogiro internet site
Marketing and PR

For full description of the position and the requirements as well as for further information, please contact Svend Mygind, Deputy Managing Director. by telephone: +45 43 71 27 72 or e-mail: mygind@eurogiro.com We also refers to our internet site eurogiro.com/news
Latest application date: 15 August.

Among the subjects covered in the next issue of Eurogiro News appearing in November are:

- COD seminar
- Post Expo Geneva
- Member portrait