



EUROGIRO

News

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2 / May 2004

Strategic Postal Financial Seminar in Singapore

By organising a seminar with presentations from key players in the payments market, Eurogiro places the focus on development of postal financial services in the Asia Pacific.



■ With the overall theme “Strategy and vision for postal financial institutions in the Asia Pacific region” Eurogiro set the stage at hotel Ritz-Carlton Millenia in Singapore 4-5 March, where almost 50 delegates from 22 different countries participated. The primary objective of the seminar was to give key executives of postal organisations from the Asia Pacific region an opportunity to meet with each other and network with executives of major European and global payment organisations. Managing Director of Eurogiro, Henrik Parl underlined the great potential in cross border payments due to growth in population, immigration, wealth and trade which will lead to an increased demand for financial services and payments. “The postal organisations are well suited to exploit this opportunity as they have a dense network accessing all inhabitants, a reliable and well-known image, profitable products to support viability of the infrastructure and the ability to handle simple savings and payments products such as cash and account/giro transfers. The vision for postal payments is that postal organisations work together with alliance partners to harmonise international and domestic payments services for retail, corporate and institutional customers”, Henrik Parl said.

Deutsche Bank

John Ball, Managing Director and Head of Global Banking Division – Financial Institutions, Asia Pacific gave an overview of the Deutsche Bank Group worldwide and in the Asia Pacific with a focus on Deutsche Bank as a global payment provider. Deutsche Bank has good relationships with several postal agencies and is a major provider of US dollar payments world wide, and the service was explained by Catherine Syn, Director, Global Banking Division, Financial Institutions and Cash Management.

Japan Post

Yoshikuni Tanaka, Senior Manager, International Business, Postal Savings Business Headquarters introduced the participants to their cooperation on payment services in Asia Pacific and urged players in the region to share information and ideas and engage in discussions on service improvements.

Postbank/ING

A very informative presentation on the development from the origin and history of postal banking (savings and giro) to the postal financial services offered in 2004 was given by Hans Boon, Assistant Director and Head of

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Eurogiro News is a magazine for the promotion of information, ideas and knowledge within the Eurogiro community.

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The Eurogiro network is an international electronic payment network and is the only electronic cross-border payment system which covers both postal and bank products.

Eurogiro has 38 member institutions. Although Western Europe is the core area, Eurogiro now spans five 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 13 European members.

Eurogiro Member institutions:

Austria: PSK/BAWAG • Belgium: Financial Post • Brazil: Empresa Brasileira de Correios e Telégrafos • Canada: National Bank of Canada • Cape Verde: Correios de Cabo Verde • China: China Post • Croatia: Hrvatska Posta • Czech Republic: CSOB a.s. • Denmark: Sydbank A/S • France: La Poste • Germany: Deutsche Postbank AG • Greece: Hellenic Post • Hungary: Magyar Posta • Iceland: Iceland Post • Ireland: An Post • Israel: Israel Postal Authority • Italy: Poste Italiane • Japan: Japan Post, Postal Savings Business Headquarters • Latvia: Latvia Post • Luxembourg: P & T • Morocco: Barid Al Maghrib • Netherlands: ING Bank N.V./Postbank N.V. • Poland: ING Bank Slaski • Portugal: CTT Correios • Romania: Banc Post and Posta Romana • Senegal: La poste • Slovakia: Postova Banka • Slovenia: Postna banka Slovenije d.d. • Spain: BBVA and Correos y Telegrafos • Switzerland: Swiss Post Postfinance • Togo: Societe des Postes du Togo • Tunisia: La Poste • Turkey: General Directorate of Post • United Kingdom: Alliance & Leicester Commercial Bank Plc. • USA: Deutsche Bank • Serbia & Montenegro: Postal Savings Bank.

Seminars, meetings and networking events

This year began with several important forums for postal and banking organisations providing opportunities for personal networking and sharing of ideas.

■ As a special feature in this issue only, we have added a section on the Strategy Forum successfully held in connection with the Eurogiro Board meeting in April 2004. Executives and senior management of postal and banking organisations discussed strategy trends in the payment industry and were informed of lessons to be learned from other industries facing consolidation. You will find these four pages in the middle of the newsletter.

For the Eurogiro members the TMO seminar in Copenhagen was an opportunity to be updated on this new cash product and to learn how to implement it in the organisation. The Asia Pacific Seminar in Singapore was held for postal financial organisations in the region and was a great success with nearly 50 participants from 22 different countries.

Equant connects Eurogiro members around the world and a migration from the X.25 technology to the more future oriented IP based solution will take place over the next year. We also have an article about Electronic Bill Presentment and Payment (EBPP) from the industry expert Mr Bruno Koch. You will find articles describing Western Union and its new agent in Turkey – PTT. And finally Deutsche Postbank has successfully finalised its migration of ESSP.

We hope you will find the many articles as exiting as we do and hope the information is of relevance for you and your organisation. Enjoy your read.



*Søren Rose,
 Editor-in-Chief and
 Deputy Managing
 Director*

C O M M E N T A R Y

International Consultancy. He reported that today 60 countries already have active postal bank institutions and another 80 countries are initiating reforms and modernisations to offer financial services through their post offices. Furthermore, an in-depth analysis of the Asian postal financial operators was given, concluding that remittances are a key opportunity to revamp postal financial services.

International Financial System

Sulemani M. Msofe, Director of operations and Technology, International Bureau, Universal Postal Union explained about the postal world wide electronic payment transfer network, International Financial System (IFS), which is presently live in 22 countries. IFS and Eurogiro are cooperating on a common money order product, TMO where the future vision is that IFS users and Eurogiro users will be able to exchange TMOs with each other.

Asian Development Bank

An overview of the Micro Finance Operations of the Asian Development Bank (ADB) was given by Nimal A. Fernando, Lead Rural Finance Specialist. ADB's vision is a region in which poor people have permanent access to all the financial services that they need through efficiently run institutions operating in a competitive environment. Postal financial institutions can be one of the many service providers. Current ADB operations have no link to the postal financial world; however this provides an opportunity that should be explored.

Deutsche Postbank

Dr. Susann von Gunten, International Relations and Payment Solutions, gave an introduction to Deutsche Postbank and its business. An important part of that business is Deutsche Postbank's role as the Euro Settlement Service Provider (ESSP) for the



John Ball



Nimal Fernando



Catherine Syn



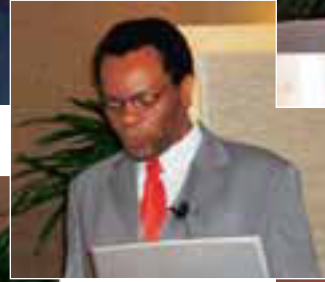
Yoshikumi Tanaka



Hikmet Ersek



Dr. Susann von Gunten



Sulemani Msofe



Hans Boon

participating Eurogiro members. The ESSP gives the Eurogiro members easier reconciliation, less administration and more efficient liquidity management, all safeguarded by a high capacity system and security.

Western Union

The typical customers of Western Union are immigrants so Hikmet Ersek, Senior Vice

President, focused on migration trends in Asia in his address to the seminar Western Union is an alliance partner of Eurogiro and has more than 59 postal partners and 207 bank partners around the world. More than 30 million Asians live outside their country of origin, thereby creating a huge market of remittances to be exploited by the postal financial organisations.

More information

All the presentations from the seminar can be found on the Eurogiro website <http://www.eurogiro.com> via the link in the right-hand menu on the welcome page. More information can be retrieved by contacting Eurogiro by email eurogiro@eurogiro.com or by phone +45 4371 2772.

Deutsche Bank and Deutsche Postbank sign agreement on payment transactions

Starting in July 2004, Postbank will process the German domestic and parts of the foreign payment transactions for Deutsche Bank. An agreement on this was signed 6 April.

■ For both institutions, this cooperation is one step in the implementation of their strategic objectives: Postbank is continuing to expand its Transaction Banking business. Deutsche Bank will be able to concentrate even more on its core businesses. For the banks' clients, nothing will change. Their accounts will continue to be kept, as before, with their respective banks.

Postbank is already one of the market leaders in payment transactions with approximately 10 million transactions per day. Based on today's agreement to handle Deutsche Bank's payment transactions, along with Dresdner Bank's payments, agreed upon in March, Postbank will have a market share of over 15% of the domestic payments in Germany. Postbank intends to continue to expand the role it plays in transaction banking by offering its services to other credit institutions.

"Thanks to our streamlined structures and our modern technology, our partners can reduce their costs in payments and we can generate additional revenues. Our objective is a standardized payment transaction platform in which other client banks can be integrated," emphasized Professor Dr. Wulf von Schimmelmann, Chairman of the Board of Management of Deutsche Postbank AG.

In return Deutsche Bank will act as correspondent partner for USD-payments worldwide and EUR-payments outside the European Union. The agreement will not touch the actual EUR-payments of the existing Eurogiro partners. Deutsche Bank is thus strengthening its core competencies in offering global cash management solutions and the settlement of foreign payment transactions, in particular for institutional and corporate clients. Hermann-Josef Lamberti, member of the Board of Managing Directors and Chief Operating Officer of Deutsche Bank: "As part of the cooperation on transaction payments, we will contribute approximately 1.7 billion transactions per year. At the

same time, we are expanding our leading position in global cash management and clearing. As a result, both parties are advancing by taking concrete steps to achieve joint synergies in transaction banking."

In implementing the contract, the company "Betriebscenter für Banken Deutschland GmbH & Co. KG" (BCB) will acquire DB Payments AG effective on July 1. With registered headquarters in Frankfurt am Main, BCB is a 100% subsidiary of Postbank and will provide Deutsche Bank with payment transaction services to the usual high standard. The agreement signed on 6 April 2004 is still subject to the approval of the regulatory authorities.



The International Challenge of Electronic Bill Presentment and Payment (EBPP)

Every fourth letter mailed is a bill. However, electronic bills have now been granted equal legal status to paper bills in countries throughout Europe. Hence, nothing stands in the way of the replacement of paper bills. In German-speaking Europe alone, more than 100 million paperless bills are already being sent out through EBPP systems in 2004. International EBPP services represent the next big opportunity.



Bruno Koch, CEO of EBPP consulting firm Beweco

Significant changes occurring in the market

■ Europe's annual volume of bills amounts to approximately 23 billion. And roughly half of these bills go to businesses, where they are usually manually re-entered or scanned back into IT systems and further processed. This media disruption results in large inefficiencies and data quality problems. Compared to the total costs today, savings per bill of about 5 for bill issuers and 9 for bill recipients can be achieved per bill by automating through the use of EBPP. Many companies have recognized this potential, thus boosting market demand. Accordingly, around 50 businesses in Europe alone are attempting to offer corresponding EBPP solutions and services to their clients to exploit this cost-cutting potential. Based on a proprietary market survey in Central Europe in January 2004, EBPP network operators expect transaction revenues of 1.45 per B2B bill (0.60 from the bill issuer and 0.85 from the recipient). Given this potential, in most countries multiple businesses are attempting to rapidly build up an EBPP network as a hub for electronic bills. In Scandinavia, networks with more than 1000 participants have quickly sprung up, while in English-speaking countries such networks already boast nearly 10,000 users. Technology

companies as well as banks and electronic marketplaces are positioning themselves in this business segment. A number of postal service providers and postal banks are also active in this field.

Since the initial offerings a few years ago, the competitive situation has fundamentally changed:

- Electronic bills are now also recognized under the law.
- Many EBPP service providers are currently focusing primarily on large and lucrative bill issuers and recipients. They are quickly putting pressure on all other EBPP service providers, who do not want to lose their major clients.
- EBPP service providers can no longer focus solely on secure transport of notification from the bill sender to the recipient. In order to successfully sell their services versus their many competitors, they must also increasingly understand how these electronic notifications can be seamlessly integrated into the supply chain of bill issuers and recipients.
- Large companies very quickly need cross-border billing and payment capabilities. EBPP service providers must expand their offerings accordingly.

Models for international usage

Now that domestic networks have been built up, international solutions are in demand. The following scenarios are discernible today:

- Model 1: EBPP service providers serve both domestic and foreign clients through a centrally operated platform.
- Model 2: A standard application is installed in multiple countries and the local consolidators are connected point to point.
- Model 3: Multiple consolidators with local solutions using different technologies exchange bills through a common hub.

The initial EBPP service providers are productively employing Model 1 at the moment. Centralized operation has the advantage of involving very low coordination efforts. But country-specific requirements can only be

taken into account to a very limited extent since their application would require a degree of functionality that is hardly attainable. Consolidators using this solution are especially suitable for bill issuers and recipients with substantial international billing and payment needs and only modest domestic needs.

Initial examples of Model 2 have also been implemented. The local platform operators are independent and can carry out country-specific expansions. Cross-border data exchange is also possible. This model is favored by EBPP service providers who must serve clients with significant domestic needs as well as those with international needs. Model 3 most strongly takes into account the market structures that have arisen. In all industrialized countries, EBPP service providers already operate networks that are optimally tuned to the local conditions. By means of a centralized hub and mutually standardized types of invoice messages, electronic bills can be exchanged across borders. But determining the functionality of such a hub requires the involvement of numerous parties and is consequently very demanding. Moreover, the expected transaction volume is still limited. Thus the business case is not exceptionally strong for this model.

Opportunity for postal service companies and postal banks

Given the growing degree of globalization, the significance of cross-border EBPP services is rising rapidly. Service providers who want to continue assisting international companies with their billing and payment needs therefore have no other choice than to quickly and actively position themselves with internationally oriented EBPP services. This especially applies to service providers who already offer electronic and cross-border services. Otherwise, this gap will quickly be filled by competing service providers.

Additional information on the topic of EBPP is available at www.beweco.ch

Time is money – members can make savings on both

During the past decades technological development and customer demands have evolved dramatically. In order to meet those demands postal and non-postal financial organisations have to offer products of higher quality and speed.

■ The Tele Money Order (TMO) is giving Eurogiro members and potentially IFS member organisations a chance to prove that they are willing and able to improve their international money remittance services placing customer expectations, high quality, reliability and speed above all. During the TMO seminar that was held in Copenhagen 19-20 February 2004 the questions about how and why the TMO should be implemented were discussed and the 25 participants had a chance to get acquainted with plans and problems concerning implementation of the TMO with other members. Several conclusions which can be read in the following were made during this seminar,

Ensure information flow inside the organisation

Before and while implementing a new product it is important to keep the employees informed about the process, because lack of information can cause negative attitude towards the new product. If the employees understand the entity of changes in services, then henceforth it will be much easier for them to help the customer to choose the best solution for his or her needs. For example, staff like post office clerks will be some of the key people to whom it is vital to explain the advantages and disadvantages of international money remittance services and to help choose the best solution in each case when several services are offered.

Keep it simple and clear

Implementation actions should be planned step by step at the participating organisation. Planning should commence with:

- exploration of members who are interested in offering the TMO service,



TMO Seminar Participants

- exploration of the additional technical requirements for implementing the service,
- signing of the Service Level Agreement and bilateral agreements or amendments of agreements with other member countries,
- defining who is going to be in the TMO team of the implementing organisation and
- setting the internal and external marketing guidelines.

Possible problems

As every organisation is concerned about the financial aspect of new projects, the costs should be stressed, as well as the benefits. During the seminar it was agreed that the fee

for TMO should be a flat fee and individual for each member country, thus making it easier to calculate monthly accounts and as well to work with profit according to the local markets and competitive conditions. It was also agreed that as soon as TMO participants have calculated and determined the fee of the TMO product, they would make it available to Eurogiro and the other member organisations. Concern as to whether the TMO could cannibalize other products was voiced during the seminar. However, the TMO product was created as semi-urgent and as an improvement of the ordinary money order, thereby filling the gap between ordinary and urgent money services. The TMO is a two day product while the traditional Money Order can take weeks and urgent providers offer a product within a few minutes. The main point is that those customers, who want to transfer their money instantly, choose the urgent providers, while those who want to transfer their money just as safely and reliably and are able to wait two days, choose the TMO. So there is room for all products in the market.

Let the customers know about your new services

As the TMO is a new service – communication with the customers is as important as communication with the employees. As counter staff are the personal contact with the end customers. During the seminar several ideas on how to promote TMO internally and externally were discussed. Internally staff can be informed via training sessions, sales information via leaflets, internal magazines and by using point of sales material. It is possible to inform end customers of a new product in a cost efficient way by sending them a newsletter, placing information in monthly account statements or publishing news on a website. Of course traditional advertising campaigns



TMO seminar participants



Tija Ezerina, Latvia Post

in newspapers, magazines and TV/radio are efficient solutions but far more expensive. "From our point of view, we could use our wide postal network by placing announcements and advertising posters in the post offices" says Tija Ezerina from Latvia Post.

TMO – reliable cash delivery

The main key features of TMO are: 2-day service with high security and reliability including tracking and tracing and the full amount paid out to the customer. Now it is up to the participating members to ensure the

above mentioned criteria are met and maintained, because the gratification of customers is a guarantee that he or she will use the service again. Eurogiro provides the framework but it is up to the cooperation of the participating members to make the business by achieving good results and making profits, cost savings and providing customers with a selection of services to choose from. At the seminar it was agreed to go for a co-ordinated implementation in the first quarter of 2005, whilst the testing and opening of live corridors are planned for the autumn of 2004.

Speaker

Mr Gabriel Cucu – Banc Post
 Mr Alexandre V. Rodrigues – CTT Correios
 Mr Tetsuya Murakami - Universal Postal Union
 Mr Uwe Holmsgaard - Eurogiro
 Mr Dairis Kruminis/Ms Tija Ezerina – Latvia Post
 Mr Andreas Sommer – PostFinance, Swiss Post
 Mr Jørgen Almberg - dotzero

Subject

TMO value propositions
 Operational requirements and issues
 Status on the TMO in the UPU
 Possible IT set-ups and requirements
 Implementation steps and marketing strategies
 How to promote the TMO internally
 How to market the TMO and to whom?

Presentations available on the Eurogiro Intranet

Equant connects Eurogiro clients around the world

Eurogiro is migrating to a new and faster network infrastructure provided by Equant, France Telecom's business services subsidiary



■ Secure transactions and top performance around the clock are some of the key services that global network provider Equant delivers to Eurogiro clients. With a network that covers more than 200 countries and territories there is hardly a place on the planet where you can't connect via Equant.

The latest development on Eurogiro's network delivered by Equant is the migration from the X.25 technology to a more future oriented IP based solution. Equant is going to ensure a smooth migration to the new MPLS based IP VPN.

"By using a supplier that has expertise in both technologies, we ensure that all the regions that we cover are going to experience a smooth transition from one technology to the other," says Uwe Holmsgaard from Eurogiro. "We are moving our IP VPN over the older X.25 technology to the new MPLS based IP VPN in order to make sure that we can maintain our high level of service in the rapidly developing financial sector."

With the new network Eurogiro is going to increase its network speed and capacity by 3-4 times, while at the same time lowering the cost of managing the infrastructure. The most noticeable difference that Eurogiro clients are going to experience is a more rapid response to applications.

200,000 transactions a day

Eurogiro's clients send more than 350,000 transactions a month and some have even managed to complete 200,000 transactions on a single day.

The time factor is a critical issue to all Eurogiro clients and this is where Equant's global service network shows its real strength. Local technical support from Equant is currently available in 165 countries around the world. The technical staff in the field are backed up by global services centres that operate 24x7.

"We have had very good relations with Equant for the last nine years. EQUANT won the new three-year contract based on coverage, price, the migration plan and the flexibility in honouring the requirements from Eurogiro to maintain the VPN ourselves," says Uwe Holmsgaard.

Secure solution on IP VPN

In today's IT environment where highly professional criminals compete with cyber terrorists in making transaction and communication insecure, just being connected is not enough. Eurogiro is going to use the same type of encryption on the new network as on the existing self-provisioned IP VPN running on Equant's X.25.

For optimal security, sophisticated encryption technology is in use with IPsec integrated directly on the Cisco 1720 VPN routers.

"When you want flexibility, consistency and optimal security at the same time, an IP VPN is by far the best solution you can get," says Steen Damsgaard from

Equant. "Even though an internet based solution might be cheaper initially, the costs of managing the related security issues would by far exceed the cost of protecting an IP VPN. Strict access control and effective monitoring of network traffic makes it perfect for carrying sensitive data."

The first steps of migrating to the new network have already been taken. The majority of countries and regions will have completed the migration during the first half of 2005.

To learn more about Equant's services please go to www.equant.com or contact Steen Damsgaard, +45 35 29 00 00

MPLS: Multiprotocol Label Switching Network. MPLS gives network operators a great deal of flexibility to divert and route traffic around link failures, congestion, and bottlenecks

IP: Internet Protocol. De facto standard network protocol.

VPN: Virtual Private Network. Connections using encryption and other security mechanisms to ensure that only authorized users can access the network and that the data cannot be intercepted.

IPsec: IP Security. IPsec has been deployed widely to implement the encryption on VPN's.

Western Union signs strategic relationship agreement with Turkish Post

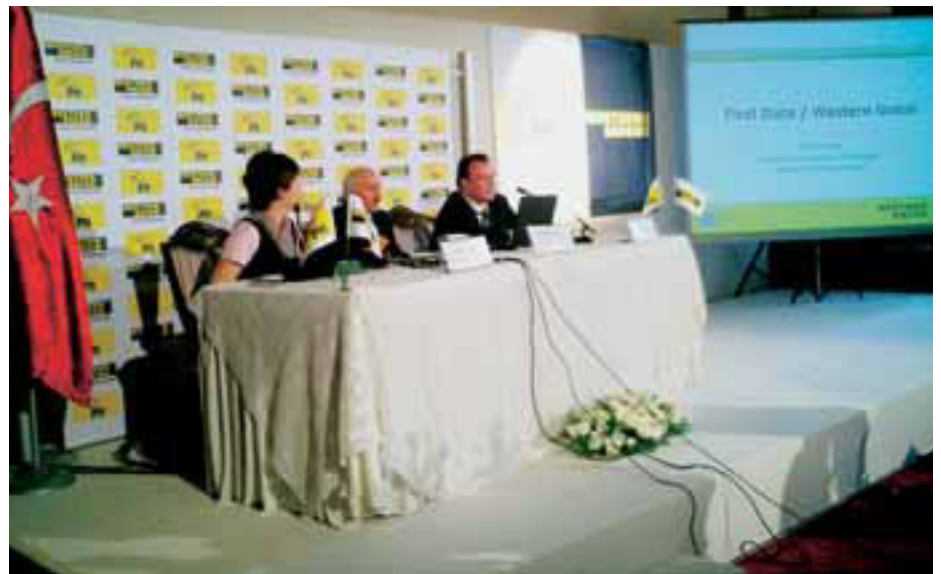
Last month Western Union expanded its association with postal organizations by announcing a strategic relationship with Turkish Post.

■ The relationship has brought significant benefits to both parties. Turkish Post has increased its service portfolio by providing customers with a fast and reliable money transfer service. Turkish Post will be joining a network with more than 170,000 agent locations in over 190 countries and territories worldwide of which 35% are post offices. This is particularly important for Turkish citizens who live or have relatives abroad as well as to foreign nationals living in Turkey.

Western Union has benefited from the expansion of its proprietary network and the growth of its worldwide footprint. A result of the strategic relationship with Turkish Post, which takes effect from the mid of May 2004, is that Western Union's coverage in Turkey will exceed 2.500 agent locations.

Through the Western Union Money Transfer® service customers are able to transfer money quickly and conveniently; often within minutes (depending on time zones and local hours of operation). A signing ceremony was held on April 14th 2004 in historical Sirkeci Grand Post Museum in Istanbul, Turkey. In attendance was Mr. Ibrahim Sahin, Chairman of the Board and General Director of Turkish Post along with Mr. Kurt Marx, Western Union

Regional Vice President Eastern Europe and Gonca Açıklıkın, Turkey Director of Western Union. Together they announced that Western Union services will be available in 25 PTT branches from the mid of this month and will expand to other Turkish Post branches by the end of the year.



Western Union Signing Ceremony in Istanbul

Over 70 postal agents around the world offer Western Union Services



ESSP New User Seminar

At the beginning of March Deutsche Postbank – the new Eurogiro Euro Settlement Service Provider – hosted the first new user seminar at its headquarter in Bonn.

■ Participants from five Eurogiro partners (Alliance and Leicester Commercial Bank, Sydbank, Brazil Post, La Poste Togo and VISA) joined the session to obtain all necessary information to prepare the implementation of the service.

The one day seminar was designed for Eurogiro partners not yet participating in the ESSP service. After a presentation of the core functions of the settlement service, experts from Postbank and Eurogiro provided detailed information about the business benefits, legal issues, IT-set up and operational issues. Going through a detailed implementation plan, the participants learned about all implementation steps. The session ended with a demonstration of the ESSP WebService, the web-based real-time account reporting service. Dedicated contact persons within Postbank are available to provide assistance during the implementation process, according to new users' individual needs.

The migration from Nordea to Postbank was conducted successfully at the beginning of February and the service, currently with 22 live users, is running smoothly. The settlement via the ESSP is the recommended default settlement solution within the Eurogiro Club for EUR transactions. The scheme allows all participants to settle their EUR payments via a single EUR account with the Settlement Provider. Fewer accounts and state-of-the-art web-based reporting functions - supporting improved liquidity management and efficient nostro reconciliation - result in significant cost reduction.

Postbank is looking forward to supporting all Eurogiro partners to join the ESSP service to bring benefits to the whole Eurogiro community.



Activity Calendar Summer 2004

26 – 28 May 2004

General User Group Meeting, Liverpool

3 – 4 June 2004

Technical User Group Meeting, Malmö

28 – 29 October 2004

Board Meeting, Luxembourg



Eurogiro Board Meeting in Rome

■ On 30th April 2004, Eurogiro held its Annual General Meeting and Board Meeting in Rome. The meetings were excellently hosted by Poste Italiane. The Board approved the Director's Report which gave a brief overview of the successful developments in Eurogiro. Growth in volumes and members continued in 2003. Most importantly, 2003 was characterised by the many negotiations for new alliances with Federal Reserve Bank of US, Swift, Western Union, UPU and Visa. Issues such as pre-paid cards, Tele Money Orders, new contracts with HP/Equant and new structures for Board members' involvement in Eurogiro were also discussed

during the meeting. Furthermore, the Board agreed to set up the first sub-club in Eurogiro, which aims at activities towards strengthening payment exchange among the members of the Swift Closed User Group (CUG).

The meeting confirmed the significant progress in Eurogiro and the strong strategic position of Eurogiro as a facilitator of global gateway solutions for members and alliance partners. A warm thank you to Poste Italiane for the organisation of the event and for their excellent hospitality.

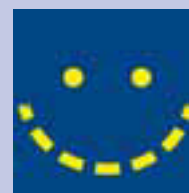


Subjects to be covered in the next issue:

- ◆ Transatlantic gateway in operation
- ◆ Report from the User Group Meeting
- ◆ Marketing issues
- ◆ EU accession country profile
- ◆ Eurogiro co-operation with Visa
- ◆ Eurogiro co-operation with UPU

Please forward ideas, comments, articles etc. to:

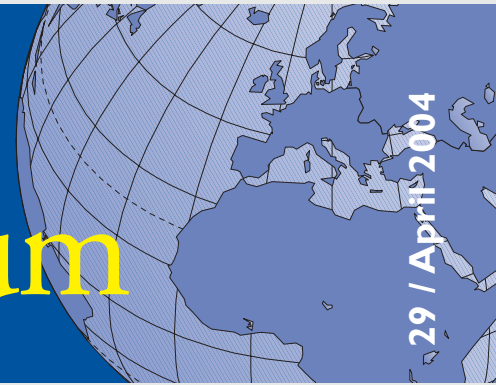
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EUROGIRO

Strategy Forum



29 / April 2004



Delegates Strategy Forum, Rome 29 April 2004

Strategy forum for executives and senior management

As Chairman of Eurogiro I was very pleased with the success of the Strategy Forum arranged by Eurogiro and excellently hosted by Poste Italiane.



Henk Kruidenier, Chairman of the Eurogiro Board of Directors

It is the first time in the 11-year history of Eurogiro that executives and senior management of so many postal organizations and banks, as well as representatives of our alliance partners, were gathered for such a conference.

The payment industry is going through many changes and I think that the end is certainly not within sight. I can illustrate the current situation within the payment industry with the following statement:

“There is nothing I like better on a rainy Thursday morning than a good fight with a banker”.

The statement can be ascribed to a politician: Ms Carla Peijs, a former member of the European Parliament and the initiator of the recent European legislation on tariffs for cross border payments.

Ms Peijs, currently a Minister in the Dutch Government, made this statement last year, during the opening session of the Council for the Single European Payment Area (SEPA), where she urged the bankers to hurry up with the improvement of the operation of the payment market, before the politicians took further, more drastic steps. Never before have we been exposed to such heavy political pressure as in the recent years.

And it is not just the politicians who are making noises; the markets, our clients, are increasingly demanding as well. They want increased customer satisfaction, better quality and tighter time schedules. They take advantage of the heavy competition by demanding lower fees; so in many cases we are facing a drastic fall in our revenues.



I think it is important to retain our presence in the payment market for several reasons:

- In the first place, payment services lead to extensive contacts with our clients. If we can achieve customer satisfaction in this area, we will be able to create real customer loyalty. Payments can be qualified as being the life-line to our clients!
- Secondly, payment services create unique opportunities for cross and intensive selling!
- Thirdly: the risk profile of the payment business is relatively low compared to other areas of financial services, such as credits.
- Fourthly: overall, payment services can still be regarded as a profitable business, due to volume growth and to the interest to be earned on the funds.
- There is, last but not least, a very important macroeconomic argument: it is obvious that financial institutions, which facilitate economies by providing sophisticated payment services, will get benefits in return.

In this regard, Eurogiro is of great help. We can process our transactions efficiently and effectively through its advanced and compe-

titive technical network. In addition, we have a very good and adequate portfolio of products and services at our disposal: cash products, cash-to-account, and account-to-account, etc. A relatively new element in our operations and services are the alliances with FED, Western Union, SWIFT, VisaDirect, UPU etc, which have been established in recent years and which are full of promises.

The strategic positioning of Eurogiro is quite unique: postal institutions, giro services, as well as banks are served through its central platform, with cross-border low-value payments as the common denominator. Where else do we see so many institutions, despite of all the differences in background, market profile and customer base, working so closely together in the payments market?

Eurogiro is predominantly European-based, but also in the process of expanding globally with new members in China, Canada, Brazil and the Baltic countries. Taken as a whole, Eurogiro represents hundreds of thousands of branches all over the world and more than 200 million account holders!

For the immediate future we have set our strategic goals on strengthening the unique position of our community even further:

- We will work towards intensified services in favour of our postal partners and we

will strive for more co-operation with the UPU on money order services.

- We will further develop our geographical coverage, especially in the Eastern European Region and in Asia.
- We will embrace opportunities for enhancing our capabilities within the Euro-zone whenever we can.
- And last but certainly not least: we will create alliances with third parties, while intensifying our current alliances with entities like the FED, Visa, SWIFT and Western Union.

I felt that the conference gave us confirmation that we are on the right track in our strategy. The conference illustrated the great future volume potential but also the immense pressure on profits. However, the external presentations on the Airline industry and the Telecom industry illustrated that it is possible to come out on the other side of a consolidation process as a winner. In order to become such a winner, the requirements are amongst others, a focused strategy, a strong niche position, strong co-operative abilities, quality of service and cost efficiency. These are areas where Eurogiro has shown its ability over the years, so I am very confident of the potential for continued success, even with such sharp future competition.



Delegates at the Strategy Forum were very active with many relevant questions to the speakers



"Although only 15% of the German population claim that they have used cross border payments, there is a big latent demand following the EU regulation's drive towards lower customer fees" said Mr. Mark Esser, Managing Partner in BBDO Consulting's Düsseldorf Office.



"Global volumes will expand rapidly, with annual growth rates of more than 6%. In particular, non-cash volumes in Europe, and not in least Asia, will show strong growth." said Mr. Michael Imholz, Manager, Boston Consulting Group.



"The regulators are sure that there is no logic in pricing a cross-border payment higher than a domestic payment – but do you know the reason?: You do not have the same efficiency on cross-border payments" said Mr. Jean Allix, EU Commission.

European market for retail payment service providers – the customer's perspective

Banks' failure to provide cost efficient services for cross border payments in Europe has provoked regulation from the European Commission. This will eventually lead to cheaper services from traditional providers, but will also lead to emergence of non-bank payment providers such as VisaDirect, PayPal, Yahoo, Vodafone etc. Mark Esser also forecast that online payments, although lagging behind the US, would show dramatic increases over the next years. An example would be Electronic Bill Presentment (EBPP) often provided by new entrants.

Key challenges for on-line payments in Germany were lack of awareness, security, transparency and language barriers.

Consolidation in the payment market – an industry perspective

Mr. Imholz gave valuable basic projections of the developments in the payment market from 2000-2010. A key message is that cash is on the way out and that all regions are converging towards electronic payments. In Europe – accounting for nearly 60% of global cross border payments - the growth is expected to be captured by both debit cards and credit transfers. However, cross border payments account for only 2% of all European payments. Of electronic cross border payments in Europe about 1/3 are money orders and 2/3 are credit transfers with the latter growing twice as fast. The market will face increased competition (also from non-banks), regulation and customer demands and only the most efficient will survive in the present low interest environment

European market for retail payment service providers – the regulator's perspective

The regulation 2560/2001 JOCE L 344 was unanimously agreed in the "Conseil des Ministres" – and the banking industry reacted in a positive way to the regulation. The only economically viable solution in the long run is to cut costs and build new infrastructures. Mr. Jean Allix also stated that the regulators want to create increased competition between the players in the payment industry and between all payment instruments. EU feels that there is currently not enough competition in the payment market. Rules within SEPA should be valid for any means of payments, and EU are focusing on the relationships between the Payment Service Providers and the Payment Service Users.

More regulations to support stronger competition can be expected.



“The postal network is the largest distribution network in the world” said Mr. Thomas Leavey, Director General of the International Bureau of the UPU.



“The driving forces behind the success of Vodafone were ‘substantial market shares’, a well-known brand and record of ‘time to market’ service development”, said Mr. Jens Schulte-Bockum, Corporate Strategy Director at Vodafone Group Services Limited.



“In a period of massive and increasing pressures on airlines, the ability to set up efficient co-operation structures may be key to the survival of national airlines. Star Alliance has benefited immensely from targeted efforts in these areas” said Mr. Christoph Ganswindt, Senior Vice president / CIO Lufthansa Passenger Airlines.

Financial services within the Postal organisations

Mr. Thomas E. Leavey gave valuable information on the development of financial services within the postal organisations and expressed his expectations for the co-operation with Eurogiro on the TMO product. “160 countries offer Money Order services to their customers today and the financial services become increasingly important for the postal organisations” said Mr. Leavey. In Russia and China more than 30% of total revenue comes from financial services, and in Japan – the largest financial institution in the world – more than 90% of revenues come from the financial services.

“The postal financial services play an important role in the development of the national economies in many countries – and for poor countries the commissions on remittances are currently too high” said Mr. Leavey.

Globalising mobile: the Vodafone perspective

The Vodafone story of consolidation was an impressive record of growth in almost any measure, even if displayed against a background of a hugely expanding market. With two key objectives - to reach economy of scale in the core markets and to possess superior business systems, Vodafone had grown from a domestic market leader in the UK, to excel in maximising scale and scope across the globe. The next step would be to mobilise IT and take benefit from the emerging information opportunities. Mr. Jens Schulte-Bockum stated a moderate interest in expanding the payment element of the mobile offering, especially in the micro-payment area, but did not see the credit element of the payment service as a core mobile stream of business. “Though payments constitute a clear area of potential competition with banks, co-operation might be an equally acceptable outcome” stated Mr. Jens Schulte-Bockum.

Let a few partners – never more than three – participate in development groups

After a long period in rough waters, Star Alliance has a few lessons on successful consolidation to share. Supreme efficiency is the goal. Efficiency in setting up global systems across all member organisations, and overcoming differences between proud and high profile national market leaders of various sizes is vital in order to compete with emerging multinationals with single system platforms. Whilst letting the national member grow on its own terms and keep its market profile, cost sharing of development and harmonizing services are focal points in Star Alliance. The customers expect to move and mix between alliance services without obstacles, and this requires seamless linking of systems. However, efficiency in organising the work has proven increasingly important as well. “Never set up development teams of more than three partners at the same time, but keep non-participating partners informed at all times. Respect the other partner as equal and avoid hidden agendas,” Says Mr. Christoph Ganswindt, Star Alliance / Lufthansa.