

Eurogiro News

THE INTERNATIONAL ELECTRONIC PAYMENT CO-OPERATION



2005 – A new record year in Eurogiro

After a successful 2005, Eurogiro is well positioned for new challenges in 2006

In 2005, Eurogiro was delighted to welcome 5 new members: American Express Bank (Japan), Banque Centrale Populaire (Morocco) and the postal organisations of Thailand, Philippines and South Korea. A further 3 – 4 organisations have finalised their negotiations with Eurogiro and only the final signature is pending. This means that Eurogiro in 2005 has experienced its largest expansion ever - an expansion that significantly widens the global reach of Eurogiro.

Transaction volumes also hit new records with volumes in excess of 27 million transactions. The growth in volumes compared to 2004 is approximately 13% which is well above target.



Henrik Parl, Managing Director

Amongst the most important activities in 2005 were:

- Live production of the Tele Money Order (TMO) and the implementation of the gateway to UPU;
- Live production on the SWIFT Eurogiro Closed User Group (SECUG) eventually making it possible for SWIFT members in Eurogiro to exchange transactions at costs below 1 Euro cent;
- Positioning Eurogiro as a key global solution for immigrant remittances;
- Participation at SIBOS (SWIFT's annual meeting) with an exhibition stand, a reception and a special interest session;
- New IT development such as implementation of IT solutions for alliances and the development of the 'new ELS' which enables Eurogiro to provide the 'Eurogiro Select' solution – the new low cost solution;
- About 50 meetings with potential members and 25 Member Status meetings with existing members.
- Successful conferences such as the Postal Strategic Forum in The Hague and the Eurogiro conference in Bangkok

The key challenges and opportunities in 2006 are:

- Connecting more organisations to the TMO enabling a migration from the 'old' and less efficient Money Order;

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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 53 connections in 45 countries.
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 12 European shareholders.

Commentary

2006 – Focus on continued growth

– in business opportunities for the members

As you may have read in our article on the front page, 2005 was, in summary, a very good year for Eurogiro, enabling us to move into another league where we are considered by the major players in the field of payments to be a central organisation, not only for remittances but also for low cost banking payments.

In 2006, our actions and activities will still be guided by our role and vision as a gateway provider: Amongst other activities, we will follow up on our expansion strategy involving both the postal and the banking organisations. In relation to this, the Postal Strategic Forum to be held on 4 May in Dresden, Germany is worthwhile mentioning. The forum will focus on the role of financial services in postal organisations in the years ahead. Preparations for sending out invitations are in progress and we hope to see as many high level representatives from postal organisations participating as possible.

Consolidation of IT solutions, building up new alliances, enhancing and expanding settlement solutions, and more, are also among the challenges for Eurogiro in 2006.

We hope you will find this issue interesting and relevant and wish you an enjoyable read!



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

Eurogiro Member institutions:

Afghanistan: Afghanistan International Bank • Austria: BAWAG P.S.K. • Belgium: Financial Post • Bosnia & Herzegovina: Nova Banka • Brazil: Empresa Brasileira de Correios e Telégrafos • Canada: National Bank of Canada • Cape Verde: Correios De Capo Verde • China: China Post • Croatia: Croatian Post • Czech Republic: CSOB a.s. • Denmark: Sydbank A/S • Egypt: Commercial International Bank (Egypt) S.A.E. • France: La Poste • Germany: Deutsche Postbank • Greece: Hellenic Post and EFG Eurobank Ergasias • Hungary: Magyar Posta • Iceland: Iceland Post • Ireland: An Post • Israel: Israel Postal Authority • Italy: Poste Italiane • Japan: Japan Post, Postal Savings Business Headquarters, and American Express Bank • Latvia: Latvia Post • Luxembourg: EPT Luxembourg • Morocco: Banque Centrale Populaire and La Poste - Barid Al Maghrib • Netherlands: ING / Postbank • Philippines: Philippine Postal Corporation • Poland: ING Bank Slaski • Portugal: CTT Correios de Portugal • Romania: Posta Romana and Banc Post • Senegal: Postefinances • Serbia & Montenegro: Postal Savings Bank • Slovakia: Postova Banka • Slovenia: Postna Banka Slovenije • South Korea: Korea Post • Spain: BBVA and Correos y Telégrafos • Switzerland: PostFinance – Swiss Post • Thailand: Thailand Post • Togo: Societe des Postes du Togo • Tunisia: La Poste • Turkey: PTT General Directorate of Posts • United Kingdom: Alliance & Leicester Commercial Bank plc and Visa Europe • USA: Deutsche Bank

Connected via CrossPay:

Italy: Banca Popolare di Sondrio

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- Continued global expansion, not least in Asia and Central Europe. Conferences are planned for Vienna in February and Asia later in the year;
- Finalise the migration to the SECUG for all SWIFTNet users in Eurogiro;
- Finalise the quality campaign aiming at enhancing Eurogiro's unique and high quality performance on exchange of payments;
- Continued strong expansion in member base and implementation of new alliances such as banking groups, Automated Clearing Houses etc;
- Facilitating global remittance solutions utilising cash, account and card instruments;

- Finalise the migration from the 'old' to 'new' ELS;
- Continuing growth with 30 million transactions as the target for 2006;
- Positioning Eurogiro as a key player in the future European payment market (SEPA). This will involve reviewing Eurogiro's role as a Clearing and Settlement Mechanism, the new credit and direct debit schemes for SEPA as well as our role as a gateway to/ from SEPA.

2006 will bring many changes for the global and European payment markets. However, Eurogiro feels very well positioned to deal with

these challenges. Our strong community support, our low cost operations and solutions, and not least our ability to be flexible and respond quickly to opportunities provides Eurogiro with the core capabilities which are deemed critical for future success. We are determined to build on past successes and to capture the future opportunities provided by the changes in the market and to do this in close cooperation with members and alliance partners.

Finally, the Eurogiro staff and management, wish to thank all members, alliance partners and other friends of Eurogiro for their contribution in 2005.

Are you satisfied with PostFinance?

Swiss Post – PostFinance, together with the external market research institute LINK, conducted an online partner satisfaction survey. LINK guaranteed the anonymity of the survey

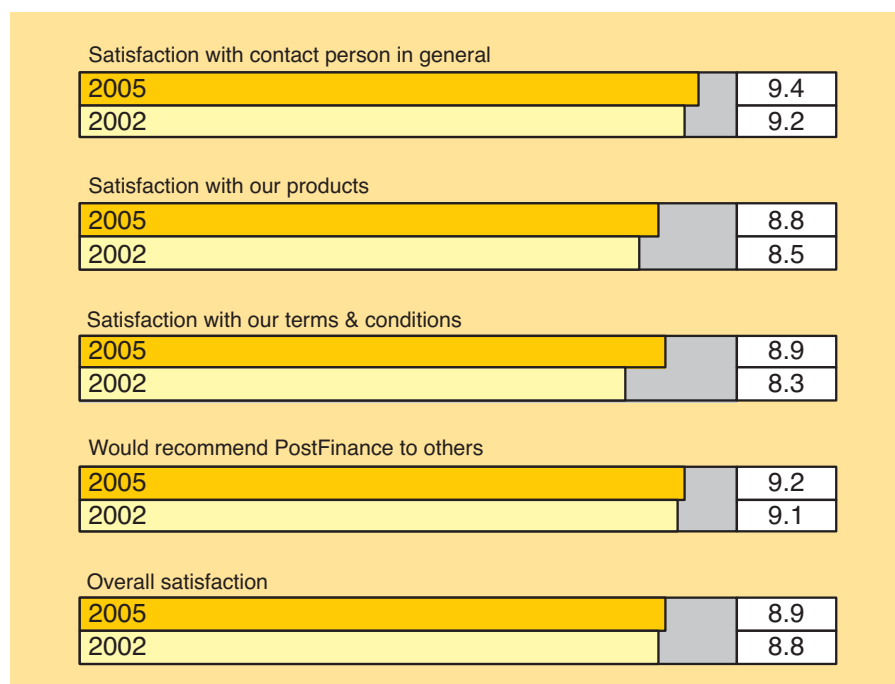
The main purpose of the survey was primarily to learn how satisfied our partners are with our service and product offering. Secondly, we tried to find out our strengths and weaknesses and thirdly, most importantly, to assess the potential for improvement. The survey of 2002 was set as a basis for comparison.

Between September 7 and October 24, 2005 we invited 74 partners to fill out our questionnaire. We achieved a return rate of 50 % enabling us to compare the results of 2005 with those of 2002.

We reached the benchmark of 2002, and some aspects achieved even better results. We take this as a strong indication that our work is based on continuity. Our general conclusion is that our partners are more than just satisfied with PostFinance and we do not have to feel overly threatened by our competitors. However, based on your comments we have already taken several steps to modify our processes.

We would like to take this opportunity to say 'thank you very much' to all who helped us by filling out the questionnaire. We strongly expect to be in a position to continue to fulfil our part-

ners' expectations in the future. It is our goal to achieve a result in 2008 as excellent as in 2005.



Here are some important figures: The scale is 1 to 10, which means, 1 = not at all satisfied / 10 = absolutely satisfied

PostFinance
SWISS POST 

New Legal Framework

Now moving into the 'Co-decision procedure'

Since the year 2000, The European Commission has been working on a possible legal framework for payments and on assessing the current state of the market in Member States. This future legal framework should update and draw together the various pieces of Community law and harmonise relevant national legislation in one coherent legal instrument. This framework should ensure the coordination of national provisions on prudential requirements, the access of new payment service providers to the market, information requirements, and the respective rights and obligations of payment service users.

On the 1st December 2005 the Commission issued its Proposal for a Directive on payment services in the internal market.

In terms of the legal elements of the proposal, according to the Commission the three main building blocks of the proposal are:

Right to provide payment service to the public

The harmonisation of market access requirements of non-credit institution payment service providers is designed to create a level-playing field, instil more competition in national markets and reflect market developments in recent years, triggering market entry of a new generation of providers. The new license for pay-

ment institutions will also transpose Special Recommendation VI of the OECD Financial Action Task Force in a uniform way. The introduction of a derogation for certain categories of money remitters shall facilitate the gradual migration of these providers from the unofficial economy to the official sector.

Transparency and information requirements

The Commission considers that competition, consumer choice and protection would be enhanced by clear and consistent rules on transparency for payment services. The Directive will introduce clear and succinct information requirements for payment services replacing 25 sets of national rules.

Rights and obligations of users and providers of payment services

Clarity and certainty on core rights and obligations of users and providers of payment services are essential for the development of modern efficient electronic payment systems, for the trust of users and efficiency of modern business in a modern payment market.

The proposal for a Directive focuses on electronic payments. Under Article 2 of the proposal, the new rules will apply to payments made in any currency, where either (or both) the payer's



Alan Hughes, Senior Manager International, Alliance & Leicester Commercial Bank plc and Brussel Representative of Eurogiro

payment service provider or the payee's payment service provider is located in the EU. However, the transparency requirements and the rules covering rights and obligations will only apply to payments under 50,000 euros. The Annex to the Directive lists nine activities that

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Quality – a core value in Eurogiro

The Eurogiro Marketing and Quality campaign is about to end

Constantly bearing in mind that quality and cost efficiency are cornerstones in the Eurogiro services, a combined Marketing and Quality Campaign was launched in April last year within the Eurogiro community. The campaign period will end in April this year.

The campaign is focussing on optimising the quality and the service in the Eurogiro production, and during the campaign period Eurogiro has measured different quality aspects, such as response times, query hand-

ling and Straight Through Processing (STP) - cash and credit related, etc. The preliminary results so far, in particular of the STP rates, are very encouraging indicating that the STP in the Eurogiro community is still very high (98-99%). Furthermore, fewer queries are needed to do business, which is another sign of good quality and continuous cost reductions.

The culmination of the campaign will be a ceremony during the annual Eurogiro User Group Meeting in June announcing the final results of

all tests and celebrating the "highest quality organisations within the Eurogiro community".

Beyond this campaign, Eurogiro is also, as part of the quality monitoring, conducting quality tests on STP and query handling twice a year and organising quality seminars on a regular basis in order to create a forum for quality discussions and improvements among Eurogiro members. Thus there will be a quality seminar in September 2006.



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are defined as “payment services” within the meaning of the Directive. Article 3 lists a number of activities (including cash and cheques) not falling under the Directive.

Following the adoption of the Directive, EU legal provisions on payment services would be only the Directive itself and the Regulation requiring the same charges for both cross-border and national payments in euro (2560/2001/EC). However, while the Regulation is legally binding on Member States directly, the Directive will require transposition into national law.

The proposal is now moving into the EU’s internal “Co-decision procedure” where it will be scrutinised in parallel by the Council and the European Parliament. At the end of this procedure an Act is adopted or not adopted. If adopted, it is after that point as a Directive the 18 month period would begin during which each of the 25 Member States would complete the transposition into national law.

This article has concentrated on the legal aspects of the recently issued proposed Directive, known as the “New Legal Framework”. As

well as future articles on other aspects in this Newsletter, there will be in-depth discussions on the subject at the 2006 Eurogiro User Group which will be held at Pfäffikon Switzerland from 7 – 9 June 2006.



American Express Bank joins Eurogiro Network

American Express Bank Ltd. (AEB) has joined the Eurogiro Network, having signed an agreement at SIBOS 2005 to forward payments to and from Japan

AEB is now the second Eurogiro member in Japan. The company is working closely with Eurogiro and Japan Post, Eurogiro’s first member in Japan, to move forward in processing international payments between Japan to other emerging markets. To date, AEB has established the initial technical capability required for SWIFT file transmission with the successful implementation of SWIFT’s SAG (SWIFTAlliance Gateway). AEB is continuing to work closely with Eurogiro to build technical capability and complete connectivity.

According to Anthony DeSimone, AEB Executive Director and Head of Global Operations for Financial Institutions, the company chose to become a member of the Eurogiro Network because they saw that membership will provide AEB with a unique opportunity to efficiently expand its international payment capabilities.

Mr. DeSimone says, “The Eurogiro Network provides us with a secure and highly efficient means of transmitting electronic payment messages between these postal organizations and its international bank members or other postal organizations. AEB has extensive correspondent banking relationships with the leading financial institutions in the home countries of individuals around the world who seek to remit funds to their families in a safe

and efficient manner. We can leverage our unparalleled customer service network and infrastructure along with our extensive network of global correspondents to efficiently process these remittances.”

By connecting to the Eurogiro Network, AEB can act as a gateway for other Eurogiro members into the Japanese clearing system for account transfers to third-party banks. The agreement also offers potential cost savings from AEB. Through the Eurogiro network, AEB will have potential access to the 49 participating members – primarily, banks and postal organizations in Europe, as well as organizations in the Americas, Asia and Africa.

A leader in international payments processing, AEB operates from 75 offices in 45 countries around the world. Its award-winning cash reporting and transaction system, eAccess from American Express Bank^(sm), includes a suite of online products that deliver real-time information from the Bank’s global product centers to clients worldwide via the Internet. eAccess allows increased productivity, more efficient reconciliation, automated investigations, flexible search capabilities, and helps with informed decision-making. Highly flexible and customizable options are available to customers, including eAccess Private Label, a complete online

package that allows banks to offer their clients an integrated cash management solution for European payments and receivables; eAccess Payments, a multi-currency system connected to AEB’s New York, Frankfurt and Tokyo regions; and eAccess Bank KnowLEDGE, which offers credit data and analysis for more than 1,200 banks.

AEB is the international banking subsidiary of American Express Company. Founded in 1919, it provides services to approximately 1,500 financial institutions in 120 countries, including correspondent banking, mutual fund distribution, international payments, credit and trade finance, and financial markets services including foreign exchange, trade execution, structured finance, and interest rate risk management. For individuals, core services include banking and wealth management. AEB also serves high net worth and affluent customers with banking and wealth management services.



Correos and Western Union

A unique way of getting to know your customers

In 2005 Western Union and Correos launched an innovative campaign to give immigrants residing in Spain the opportunity to share an intimate part of their life in the new host country. Under the title "These are my folks in Spain", Western Union and Correos jointly invited immigrants from all over the world currently living and working in Spain to enter the most impactful images of moments or situations that best reflect their lives with their relatives or friends in Spain in a photography contest.

"The aim of this unusual initiative was to create awareness among the Spanish public - through the eye of the camera - of the most emotional and human aspects of immigrants daily lives in their country. As the majority of our customers are immigrants, we understand their needs and challenges very well, however, the images presented in this contest revealed a deeper personal dimension", says Paul Foster, Vice President Marketing, Europe, Middle East, Africa and South Asia.

The competition was open for entries from 17th January 2005 to 28th February 2005 with the winner being announced in April. A prominent jury, including the Colombian Ambassador to Spain, the Spanish General Director of Immigrants Integration, the photo journalist Uly Martin, as well as representatives of Western Union and Correos. The initiative was extremely popular, attracting 2,000 entries from immigrants of approximately 20 nationalities.



Winner of first prize was Álvaro Hurtado



The winning photo by Álvaro Hurtado

The first prize of 1,500 euros went to Álvaro Hurtado, a Peruvian, for his photograph entitled "To my children", depicting his roommate writing a letter to his children in Peru. He commented: "In Spain, friends become your brothers and sisters, your compatriots become your neighbours, and your new friends become your best friends".

Italian Sebastián Vecchi won the 2nd prize of 1,000 euros for his photo entitled "cultural meetings". In addition, 15 runners up were awarded 300 euros each.

After the winners were announced their photos were exhibited at the central Correos headquarters in Madrid, later moving to other headquarters in Barcelona and Valencia, where they were on display to the public for one month at a time.

"This contest not only attracted many entries from immigrants and attention from the press, but it was also very popular with the general public, who came to our offices to see the exhibition. Our goal of bringing the Spanish public

closer to immigrant communities was certainly achieved", according to Modesto Fraguas, Correos's Marketing Manager.

Following the success of this first photography competition, Correos and Western Union plan to repeat this unique activity aimed at enhancing cultural awareness in 2006. The title of 2006's contest is "A Piece of my country in Spain" and the competition will be open for entries from 1 March to 15 April 2006.

"It is important to us to keep the momentum in furthering understanding between immigrants and the local public, which is why we will be inviting people of all nationalities to capture impressions of their new home again this year. We may choose a slightly different theme, but the goal remains the same", so Paul Foster, Vice President Marketing, EMEASA.



Information Security Policy

The Eurogiro Information Security Policy has been updated to support the new infrastructure and service offerings

Information security is an important factor for Eurogiro being an electronic payment network for the exchange of transactions between financial institutions. The Eurogiro Information Security Policy is an advisory policy, dictating acceptable user practices and related activities taking place within the Eurogiro environment. It includes guidelines to system administrators and human resources personnel to help establish a secure working place and to protect the Eurogiro environment.

The security policies in Eurogiro are maintained by the Audit and Security Group (EASG). A new version of the policies has just been released after approval by the Eurogiro Board. The new version is mainly triggered by the issue of a new version of the international standard 'Code of Practice ISO/IEC 17799' and the new infrastructure and service offerings from Eurogiro. The policy now covers the Members connected in the SWIFT Eurogiro Closed User Group (SECUG) as well as the Members directly connected using the ELS.

The Security Policy is written in broad overview terms to cover many subjects in a general fashion. Procedures, standards and guidelines provide the required details to support the policy and make the security framework. Therefore,

clear procedures, standards and guidelines must be developed by the Members in order to support the directives in the security policy.

Scope

The Eurogiro Information Security Policy applies to all Members, Eurogiro Network A/S, third party suppliers of outsourced components of the system and application suppliers.

The policy statements cover the following security areas:

Confidentiality – Ensuring that sensitive data is accessible only by authorized individuals and is not disclosed to unauthorized individuals.

Integrity – Protecting data or software from improper or unauthorized modification.

Availability – Ensuring that systems, networks, applications and data are ready for use when needed.

To achieve the above security issues the Eurogiro Information Security Policy describes several directives concerning physical, network and interface security, and access control and business continuity.

Monitoring and enforcement tools

An information security policy is only useful when applied in practice. Therefore, proper measures should be adopted to control the implementation of the security policy. It is a fact that real control means controlling behaviour before it happens, not afterwards. With a strong policy in place, it is possible to use software tools and procedures to enforce the rules that match the Eurogiro Information Security Policy.

The EASG requires that the internal audit departments carry out an annual independent evaluation of the compliance to the Eurogiro Information Security Policy. To assist in this evaluation a Questionnaire is sent out and the authorised representative of the internal audit department must, based on this, complete and

sign a Certificate of Compliance (CoC). The returned Questionnaires and CoC's are analysed by the EASG and the result is reported to the Eurogiro Board in April.



The lifecycle of the Certificate of Compliance Questionnaire

It is essential that all individuals involved in the operation of the Eurogiro Systems are familiar with the Eurogiro Information Security Policy to ensure that it is known and acted upon within their sphere of control and influence. The EASG performs member visits and site audits to further enforce the policy.

Members of the EASG:

Luc de la Hamette, EPT Luxembourg (Chairman)

Stephane Bourdin, La Poste France

Michael Schürig, Deutsche Postbank AG Germany

Gerald Haumersen, ING Netherlands

Walter Kunz, Swiss Post PostFinance

Uwe Holmsgaard, Eurogiro Network A/S (Observer)



Gerald Haumersen, ING Netherlands and member of the Eurogiro Audit and Security Group

Deutsche Postbank acquires a majority stake in BHW Holding

and takes over 850 branches from Deutsche Post

Deutsche Postbank AG acquired a majority stake in the Hameln-based BHW Holding AG. The purchase was concluded on 2 January. Postbank now holds over 90 percent in BHW, the home financing specialist.

Up to the beginning of the year, Deutsche Postbank took over 850 large branches from Deutsche Post. On the basis of its 14.5 million customers, the new Postbank Group emerges as the leading financial provider for retail customers in Germany. It will employ approximately 25,000 staff and will be the leader in the German market for certain key products, such as home financing, savings and home loans.

Germany's leading financial services provider emerges

Prof. Wulf von Schimmelmann, the Chairman of the Management Board at Postbank, has ambitious plans related to the two transactions, "Together we want to be the Number 1 in Germany – both as a finance partner for all retail customers and as a service partner for com-

panies." He sees a quantum leap in distribution strength. "With an unparalleled network of access routes to customers, the new Postbank Group has a decisive competitive advantage." He intends to deploy it, not only to continue the customer growth success story on a sustained basis, but also to further increase product sales to existing customers.

Integration as the success factor

In addition to organic growth, integration is the key focus for 2006. A great deal of work is being done to combine the three units of Postbank, BHW and branches to form a powerful financial group. The objective is to implement the integration by the end of 2006, both on an organizational and on an operating basis.



Together forming the Number 1 in Germany: Wulf von Schimmelmann, Deutsche Postbank's CEO and Henning Engmann, CEO of BHW

Activity Calendar Spring 2006

4 May 2006
Strategic Postal Forum in
Dresden, Germany

5 May 2006
Board Meeting in Dresden,
Germany

22 - 24 May 2006
Technical User Group
Meeting in Prague, Czech
Republic

7 - 9 June 2006
User Group Meeting in
Pfäffikon, Switzerland

Subjects to be
covered
in the next issue:

- New Eurogiro members
- Focus on Asia
- Privatization within postal organisations

Please forward
ideas, comments,
articles etc. to:

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