

Eurogiro News

THE INTERNATIONAL ELECTRONIC PAYMENT CO-OPERATION



A repositioned Eurogiro is born in Brussels

Eurogiro has decided to embark on a strategy of growth for 2007-2010 with two main streams: SEPA and International/remittance payments. The new strategy will be supported by a new governance structure which enables a much better commercial focus on retail and wholesale business in Eurogiro.

The 'Capital of Europe', Brussels, was the venue for the latest Eurogiro Board meeting where the Board of Directors decided on a repositioning of Eurogiro, both in terms of strategy and governance.

Over the past 10 years, Eurogiro has more than 6 times doubled its transaction volumes and tripled its member base. This has been enabled through a low cost base and via extensive member support. However, the many changes in the global payment markets and, not least, the introduction of SEPA (Single European Payment Area) have given Eurogiro an opportunity to reposition itself as a business driven, market oriented and open framework for co-operation between payment institutions and banks. In line with this, the new Eurogiro mission is:

Eurogiro is a commercial company that actively promotes and catalyzes bilateral and multilateral business opportunities among its customers in retail financial services and wholesale banking worldwide with the aim to constantly add business value to the whole Eurogiro community.

This mission is based on the four strategic pillars:

- unmatched reach;
- well-respected business framework;
- standardized and high quality services;
- cost efficient solutions.

As a clearing and settlement mechanism in SEPA, Eurogiro will be able to live up to the demands set out in the Payment Service Directive for 'open

and fair' access and Eurogiro will position itself as a bilateral/multilateral framework for business between banks and other payment institutions.

In the global space, Eurogiro will focus on remittances and on bringing together remittance organisations in a business co-operation, adhering to the World Bank/BIS remittance principles.

This new governance structure, with a holding company and subsidiaries, aims at retaining today's high level of both commitment and efficiency via a shared service provider in Operations/IT, while starting two new business-focussed entities that concentrate on providing a well-respected business framework in the two most important market segments: wholesale banking and retail financial services. These two commercial entities will enable like-minded organisations to work together in a focused way to capture the big business opportunities in their respective markets.

'Wholesale' and 'Retail' will be organised as stock companies and will provide more flexibility for business or shareholder relationships with various payment institutions and banks. To preserve the co-operative strengths in the group, the two companies will be supported by customer councils comprising business representatives of the customers. The Holding company and the Operations/IT subsidiary will be cost+ setups supported by various specialist and strategic groups. The structure also opens up the scope for partnerships, joint ventures etc. >>

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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 61 connections in 50 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

Welcome to new Eurogiro members

- from Armenia and New Zealand

First of all we are happy to announce that 2 new members recently joined the Eurogiro community: HayPost in Armenia and ANZ National Bank in New Zealand. An introduction to these members is planned for our next issue.

Also, as you can read from our front page article, a Eurogiro Board meeting took place on 4th May during which a new governance structure for Eurogiro was approved in principle by the board members. The main guidelines arising from the meeting are that this governance structure will be ready for implementation by 1st January 2008 and will focus on two important segments: the wholesale and retail business.

Last but not least, the SEPA topic is on everybody's mind and Eurogiro is no exception. A Eurogiro SEPA Workshop was held here in May in Frankfurt with the objective of raising awareness amongst Eurogiro members of the Eurogiro SEPA services and specifying the tasks and opportunities resulting from their implementation to facilitate live transactions via the Eurogiro network by 1st January 2008 and of facilitating a forum to meet and have bilateral/multilateral SEPA related discussions between members



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

The views of our Swiss member, SwissPost PostFinance, are also presented here in this Newsletter showing why SEPA is a top-priority topic for them.

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

Eurogiro Member institutions:

Albania: Posta Shqiptare sh.a • Armenia: HayPost • Australia: ANZ Banking Group • Austria: BAWAG P.S.K. • Belgium: Financial Post • Bosnia & Herzegovina: Nova Banka • Brazil: Empresa Brasileira de Correios e Telégrafos • Bulgaria: Finance Engineering JSC and Bulgarian Posts • Canada: National Bank of Canada and Canada Post • 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 Banque Postale • Germany: Deutsche Postbank • Greece: Hellenic Post and EFG Eurobank Ergasias • Hungary: Magyar Posta • Iceland: Iceland Post • Ireland: An Post • Israel: Israel Postal Company Ltd • Italy: Poste Italiane • Japan: Japan Post, Postal Savings Business Headquarters • Latvia: Latvia Post • Luxembourg: EPT Luxembourg • Mongolia: XacBank • Morocco: Banque Centrale Populaire and La Poste - Barid Al Maghrib • Netherlands: ING / Postbank • New Zealand: ANZ National Bank • Philippines: Philippine Postal Corporation • Poland: ING Bank Slaski and Polish Post • Portugal: CTT Correios de Portugal • Romania: Posta Romana and Banc Post • Senegal: Postefinances • Serbia: 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 and American Express Bank

Connected via CrossPay:
Italy: Banca Popolare di Sondrio

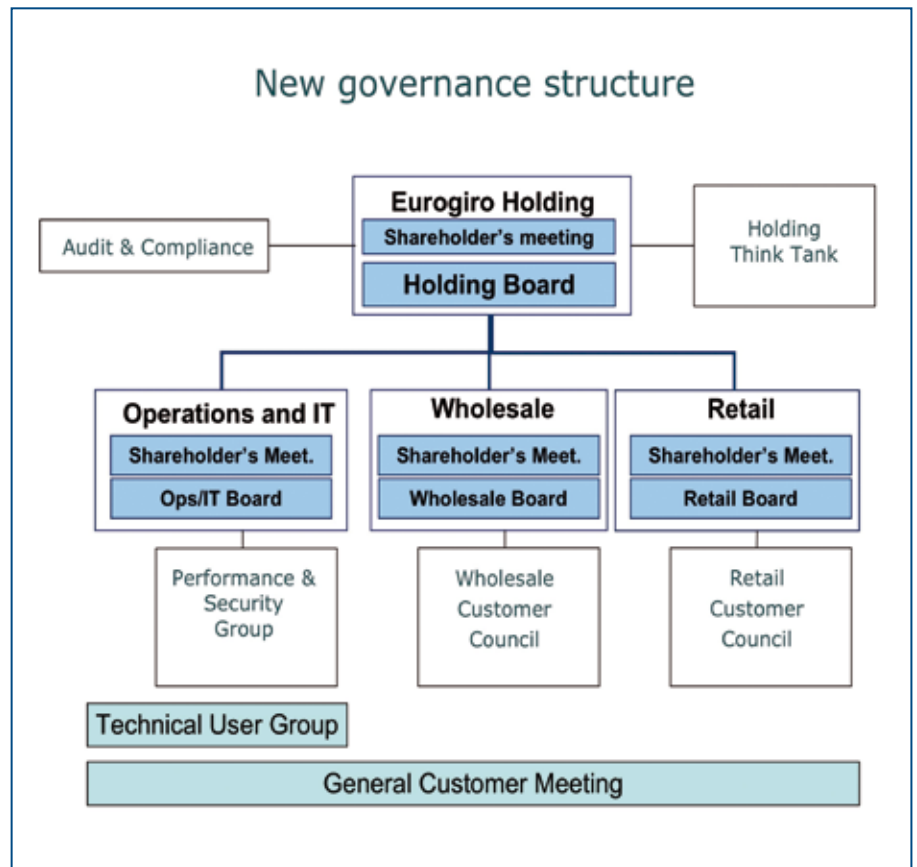


article from | [frontpage](#)

The new structure was approved in principle by the Board of Directors on 4th May with a formal/legal final approval scheduled for 26th October 2007. The new structure is expected to take effect from 1st January 2008.

We are confident that the new structure will enable Eurogiro to maintain and extend its business position, both in Europe and in the global remittance and international payment market where we are already one of the market leaders. Through this more growth oriented approach, Eurogiro hopes to bring many additional benefits to its members in terms of products, reach, business opportunities etc.

The Board meeting in Brussels was excellently hosted by Belgian Post. The meeting confirmed the good development in the Eurogiro business. Among the major decision items was the Board's approval of a prolongation of the Eurogiro agreement with Western Union, as well as approval to work towards implementing new pre-paid card solutions.



Providing full information on the payer

Impact of EU legislation and change of message standard (MT103)

On 1st January 2007 the EU introduced new legislation (Regulation 1781/2006) to implement FATF Recommendation No. VII. The regulation relates to the provision of full information on the payer throughout the payment chain. Although the regulation is legally binding for EU based institutions only, it will also impact all members sending payments to EU members.

Please note that this newsletter article only briefly summarizes the most important aspects of the Regulation. To obtain full details on all legal obligations, please refer to the official EU publication.

Firstly, sending institutions are obliged to provide full information on the ordering customer. This means not only name, address and town but also the account number. In case no account number can be provided (e.g. for cash initiated transactions), it can be replaced by a unique identifier that will

enable the transaction to be traced back to the ordering customer. For example a passport or a driving license number.

The main obligation for an intermediary bank is to pass on the full information on the payer to the next party in the chain. Finally, the bank of the beneficiary should check whether the full information on the payer has been provided. Where the information has not been provided, the sender risks that the payment will be delayed (request for additional information) or may not be executed. If the sender continually fails to send the required information to the beneficiary bank, the Regulation requires termination of the relationship. Not following the Regulation may result in sanctions from the EU authorities as from 15 December 2007.

In order to simplify and automate the checking procedures at the receiving end, SWIFT has

updated the MT103 message standard by adding an option for field 50 (ordering customer). The new option (option F) allows for more structured information on the ordering customer. The new standard will be introduced from 27 October 2007. The current options for field 50 (A and K) will remain.

As the Eurogiro message standards follow the SWIFT standards as much as possible, option 50F will be introduced in the Eurogiro MT103 as well. Therefore all members must at least be 'ready to receive' transactions with the new option. It is likely that this will have some IT impact.

Eurogiro Operational Performance Group will consider whether the use of field 50F should become obligatory in future, either for all transactions or for certain product types (like cash initiated payments). Of course you will be informed well in advance.



Interview with Dr Mario Daberkow from Deutsche Postbank

Deutsche Postbank announces it plans to expand transaction banking business within Europe.



Dr Mario Daberkow is Board Member of Deutsche Postbank. His area of responsibility includes the processing of payments for Postbank and other leading German banks, in addition to account-related services and credit processing for financial services providers. Before he began his career with Postbank in 2002, he was a consultant with McKinsey & Company.

Deutsche Postbank is performing payment transactions for several major German banks. In 2005 you undertook the settlement of cross-border euro payments for the Eurogiro network. Now you plan to expand your processing-business beyond Germany. Why?

SEPA (Single Euro Payment Area) will make it possible to use our transaction platform outside Germany, where other banks can take advantage of our excellent and effective services. By expanding our business, we can also enlarge our processing volume, which makes us more cost effective. The more volume you process on one platform the more cost effective you become.

Let's imagine it's 2009 and the EU has a single standard for money transfers. Where are you doing business and why?

Certainly in Germany. In addition, I can imagine having customers in central Europe and in EU affiliated countries of Eastern Europe. My preference is Austria, France and Italy because of the potential for improving those payment environments. In Italy, for example, we could improve products, speed and timeliness. France,

for example, has a huge paper-based business and we're very proficient in such transactions.

What is the market potential outside Germany?

In Europe alone, we are talking about a market of over €10 billion. Theoretically we could expand our platform to cover all of these transactions. We would just need to expand our hardware and increase staff numbers. Our profitability is highly driven by economies of scale: If we double the number of transactions we do not need to double the resources.

How much of this market do you hope to capture?

I think we will have to see how the Single Euro Payment Area develops. One large customer would be a good start.

Any banks in particular?

(Laughs) The bigger ones. Banks with two or three hundred million transactions a year and a million or more customers. That's where we can provide the highest value to the customer. Working for smaller banks would be like using a cannon to kill sparrows.

Why do you believe these banks will want to outsource to you?

For the same reason that German banks do it: cost savings, better quality - and they can participate in the improvement of processes and systems.

What kind of savings are we talking about?

We have achieved savings adding up to double-digit million Euros for our customers over time. In terms of quality we are better than Six Sigma. Currently we have one defect per 58 million payment transactions. This is near perfection.

But France or England is not Germany. Don't you have different market conditions to consider?

Since we are a processor, we need a local presence to collect, check, validate and transfer data to an electronic environment. This is a key issue that we have to solve: how to build up a local presence, meaning a small hub, or even a larger hub, depending on the size of the country. We believe we will need local partners to do this - preferably large banks and logistics providers like DHL and Williams Lea.

Will that help you address issues like language difference?

Certainly. Partnering would give us resources, capable of performing language related actions and other skillful work. Achieving synergies won't happen over night, but the high transaction volume of a large bank would satisfy this kind of investment for both sides.

Quality control is one of the things that make Postbank's Transaction Banking truly exceptional. How do you expect to maintain that control outside of Germany?

We will be using the same milestone checking as we use in Germany. The system requires every employee and group leader to pass a couple of quality-milestones every day. They have to actively signal green to show they are on track and within time.

Won't a lot depend on automation and IT?

Yes. But automation works only up to a certain point. In fact, we rely heavily on our highly qualified people - those who are actively doing the everyday work of transaction processing, as well as people managing processes, quality and risks.

How do you plan to take this project forward?

We are already in talks with a number of big banks and the range of our discussions is very broad. One major topic is always technology. All the major banks in Europe have an issue with technology. It's not that their technology is necessarily outdated, but they have to take the next step - a step that makes them ready for SEPA. They are thinking about redesigning their core banking applications - and that's the right point in time to think about outsourcing, which allows them to use modern technology without replacing it themselves. Certainly, they will have to match our standard interfaces.

Why does it depend on SEPA?

Currently we have different environments in France, Italy, Austria and Germany. It would be much harder to adapt to those systems without SEPA and it would limit the economies of scale. We do manage global payments to Asia, the U.S. and other regions, but in-country business is more important. Global business is small compared

Transaction Banking:

Transaction banking is the high-volume, high-performance processing of payments, account-related services, loans and securities transactions. By industrializing its banking processes, Postbank achieved highest processing quality at the lowest cost. With the powerful processing capabilities on a standard platform, Postbank has transformed operational functions to profit centers, offering other banks "insourced" processing of payment transactions and account management.

Banking factory: seven billion payment transactions a year

Postbank processes more than seven billion payment transactions of its own and of its customers each year. In 2004, it established "Betriebs-Center für Banken Deutschland" (BCB). This Frankfurt-based "banking factory", which is a wholly-owned subsidiary of Postbank, specializes in account-related settlement services such as transaction banking.

to the potential that lies in the national markets, which make up 95-98% of all payments. SEPA will harmonize the standards of transaction banking within Europe. This makes it more profitable to enter national markets.

When do you expect SEPA to be in place?

I think we will see SEPA in place for credit transfers in 2008. The direct debit product will take longer.

But I gather you are not waiting?

That's right. We have already started projects that will ensure that we will be able to process payments as soon as they are legalized.

Why is it important for the Postbank to expand outside Germany?

Transaction banking is not the biggest part of Postbank's business, but it is an important part. It helps us to stabilise our own market position in retail banking and corporate banking by stabilizing

the costs of processing. Europe is drawing closer together. This is our chance to accumulate additional transaction volume. The more volume we process, the better the economies of scale. Our huge platform allows us to keep our fixed costs down and by expanding it we secure our talent and technology. Why not use that strength?



Eurogiro-WSBI Asia Conference and Workshop

Taking place on 13 March in Manila, the Philippines gathered delegates from different postal organisations and saving banks representing 9 different Asian countries

In co-operation with the World Savings Banks Institute (WSBI) Eurogiro invited a number of Asian postal organisations and savings banks to come together in Manila in order to discuss the opportunity to intensify the regional and international co-operation in this region.

The overall objective was to create a basis for a stronger high-level co-operation among Asian financial institutions, to set focus on how financial inclusion can be enhanced via postal and bank members of Eurogiro and to enable Asian financial institutions to increase their customer base and their competitive market position through co-operation.

**Way forward**

The main messages pointed out during the conference were that the Asian payments and remittance markets are growing significantly and that it is important to find new ways for fast-track delivery, to find solutions where the participating organisations can offer competitive payment services to their customers and to co-operate better. Based on this and the discussions from the working groups during the conference, the conclusion was that the Philippine Postal Savings Bank is willing to play an active role in coordinating the co-operation and that a follow-up meeting should be arranged later this year to get into details about how to further develop the co-operation.

The delegates are here listening to different presentations made in the morning session by Mr Henrik Parl - Eurogiro, Mr Yang Seok Chul - Korea Post, Mr Norbert Bielefeld - WSBI, Mr Wada Shoichi - Japan Post and Mr Soren Rose - Eurogiro.



Group discussions on how to form an executive committee in order to develop the co-operation activities and how to adapt generic Eurogiro remittance solutions to the Asia Pacific market took place during the afternoon session.

The conference was excellently supported and hosted by the Philippine Postal Savings Bank.

Successful partnerships building customer service excellence

Western Union is a leading provider of global money transfer services and has been connecting people across the globe for more than 150 years

Western Union is a global brand that stands for "Speed, Reliability, Convenience and Trust" and connects a world of diverse languages, cultures and people through its expansive agent network. The Western Union network is united through a shared vision of delivering the very best service to our customers worldwide.

Service Excellence is the corner stone upon which Western Union has built its businesses for over 150 years. In an increasingly competitive market place, customer service excellence is the key differentiating factor driving customer loyalty, customer retention and the success of our partnerships.

Postal organisations add unique value to the Western Union network as they extend Western Union Money Transfer Service to customers not only in urban areas but also in rural areas throughout the world.

The aim of the Pan Postal Program (PPP) is to take Service Quality to new heights by providing an individually designed program to cater to the needs and requirements of postal organisations. In 2006 the program was successfully launched in over 7000 postal locations, communicating to over 20000 Front Line Associates



It was great to meet colleagues, mix with other cultures and build business relationships at the same time!

(FLAs) in 9 languages across 9 countries. Due to its enormous success in 2006 – the program has expanded to encompass over 20000 locations in 2007, representing over 18 countries from around Europe, the Middle East, Africa and South Asia.

The Pan Postal Program provides content and activities designed to motivate FLAs to: actively participate and learn about the world of Western Union, develop their customer interaction skills and drive service excellence in their locations. FLA motivation and recognition are central to the success of this yearly program.

The grand finale of this international program took place from the 20 to 22 April in the ancient city of Rome with a Gala event weekend – sponsored by Western Union. 41 representatives from 8 participating postal organisations flew in from across the region, to enjoy a funny, action packed and informative

event. The postal representatives had the opportunity to develop business contacts, build relationships and share best practice.

Western Union looks forward to sharing next year's event with you!



New payment initiative: International Payment Framework

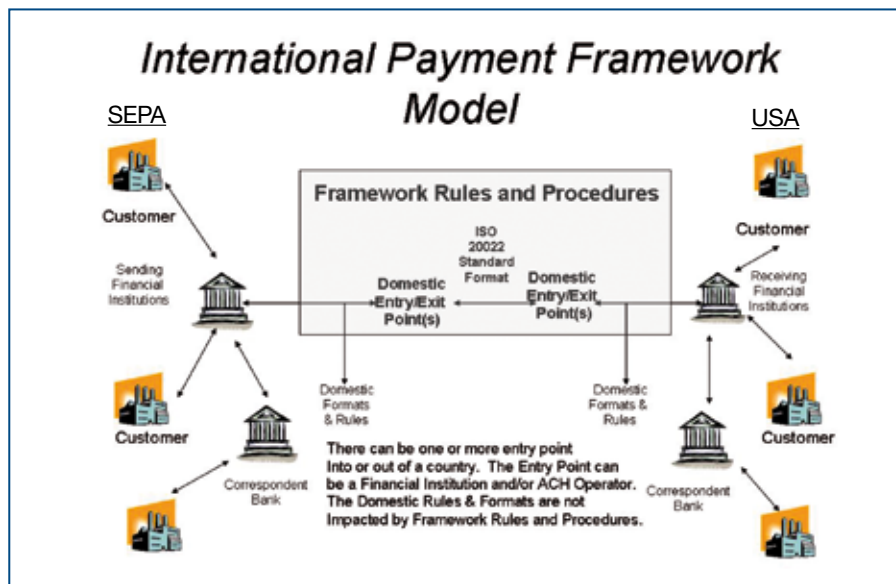
Supported by NACHA – the US Electronic Payment Association – a group of major banks and ACH's (Clearing Houses) has initiated a project with the aim of creating global interoperability between banks and ACH's

The background for the project is that processing of cross-border multi-currency payments, particularly non-urgent batch payments, can be more efficient, less cumbersome and less expensive to operate if a widely accepted global standard of processing rules and data formats is developed. SEPA and not least the introduction of a new format standard e.g., UNIFI ISO 20022 has been the trigger for major payment handlers to come together to investigate if global interoperability can be achieved.

The Concept

The proposed concept would bring together interested stakeholders to develop a structure/organisation or Federation that would develop rules, standards, operating procedures and guidelines to improve cross-border payments through a multi-lateral agreement binding the participants to the rules. The rules would enable interoperability between existing domestic or regional payment systems, the ability to exchange transactions in multiple-currencies and settlement would leverage existing procedures.

The concept would enable interoperability between banks and ACH's and could result in lower costs



for participants through common standards and increased competition. The initial focus will be to look at interoperability between US and Europe, but global interoperability is the overall objective.

Already a number of major banks, ACH's, payment infrastructures and associations have

committed themselves to the project through participation in various working groups. However, other major banks, payment infrastructures etc. are welcome to join the project. For more information please contact: Priscilla Holland: +1 703 561 3916 or pholland@nacha.org.

Eurogiro-WSBI Africa Workshop

held on 9 and 10 May in Dakar – Senegal assembled a very enthusiastic audience from West African savings banks and postal organisations

Earlier this month Eurogiro organised a workshop in Senegal – in co-operation with the World Savings Banks Institute (WSBI) - specifically targeting the francophone African countries; delegates from Guinea, Côte d'Ivoire, Mauritania, Madagascar, Senegal, Tchad and Togo having thus responded positively to the invitation.

The aim of this workshop was to raise awareness amongst the African postal organisations and savings banks of the Eurogiro network, presented as a professional and secure system for the handling of incoming remittances issued in the developed countries, and to emphasize that the

Eurogiro system is the most appropriate tool to link the postal financial services with the banking world.

Good contacts were made during the workshop and several organisations expressed their interest in continuing discussions with Eurogiro regarding a possible membership.

The conference was excellently supported and hosted by Postefinances – Eurogiro and WSBI member in Senegal.



Switzerland and SEPA

Even if Switzerland appears to be an island in the middle of a united Europe, the Swiss have in fact drawn very close to the united Europe. Switzerland's economic ties with Europe are becoming ever stronger, and Europe's importance for Switzerland is epitomised by the scale of its bilateral trade relations

Although the Swiss franc remains the sacrosanct national currency of the Swiss Confederation, the euro continues to gain in importance and can be used almost anywhere as a currency of payment. These developments show that Switzerland is neither willing nor able to shut itself off from a single euro payment area.

On 8 March 2006, the EPC passed a resolution allowing Swiss financial institutions to participate in the SEPA Credit Transfer Scheme and the SEPA Direct Debit Scheme, provided certain conditions are met:

- Switzerland will participate in the SEPA provided that the level playing field principle is respected.
- All Swiss participants in the scheme will comply with the Rulebooks on the same basis as all others.
- Switzerland needs to ensure that the provisions of applicable EU/EEA legislation affecting payments' services enabled by the SEPA Schemes are effectively represented in Swiss law or in equally binding practice for Swiss scheme participants.

For the sake of clarity, it should be noted that the Rulebooks will cover payments subject to and not to regulation 2560/2001. Switzerland only has payments (in and out) that are not subject to 2560/2001.

It was obvious to Swiss financial institutions from the outset that, rather than merely observing developments on the SEPA front, a more active role was required.

Initial decisions taken for Switzerland as a financial centre

Four working groups – "credit transfer", "direct debit", "cards" and "legal" – were set up under the management of PaCoS (Payments Committee Switzerland). On behalf of Switzerland as a financial centre, these working groups conducted GAP analyses and defined measures, which ultimately were formally approved by the Board of Directors of SIC (Swiss interbank clearing) at the end of 2006. PostFinance is represented on the Board of

Directors of SIC by Jürg Bucher, CEO PostFinance and Board Member in Eurogiro A/S. Among others, the following decisions were taken:

- Switzerland as a financial centre would participate in SEPA "credit transfer" and "direct debit" as of 1 January 2008, provided that an independent legal appraisal did not identify any "showstoppers". The satisfactory outcome of this appraisal was that Swiss financial institutions could participate in SEPA without limitation. Swiss representatives are currently working with their EPC colleagues on a further course of action.
- SIC AG has been tasked with implementing a solution via euroSIC to deal with the two Rulebooks. SECB (Swiss Euro Clearing Bank) has been tasked with negotiating accessibility for Swiss financial institutions with operators of European clearing systems. However, the financial institutions are free to choose a settlement process for national and cross-border euro payments.

SEPA at PostFinance

For PostFinance as a leading Swiss provider of payment transaction services, SEPA is a top-priority issue. PostFinance is making a substantial and defining contribution to the work of the Swiss SEPA working groups, and its own internal projects are also at an advanced stage. PostFinance will continue to be the ideal partner for all payments, whether SEPA or non-SEPA. From 1 January 2008 onwards, PostFinance will be able to send – and of course receive – euro payments carrying IBAN/BIC numbers as SEPA payments. It will also be able to offer its partners and customers a solution for SEPA direct debit.



Activity Calendar Summer 2007

24 May 2007

Eurogiro SEPA Workshop in Frankfurt, Germany

4 – 6 June 2007

Eurogiro Technical User Group Meeting in Vienna, Austria

4 – 6 September 2007

Eurogiro General User Group Meeting in Leiden, The Netherlands

Subjects to be covered in the next issue:

- New Eurogiro members
- Eurogiro Technical User Group Meeting



Eurogiro Personnel

We are pleased to welcome Kai Thygesen, Senior Relationship Manager, who is back again to Eurogiro per 1st of June 2007.

Please forward ideas, comments, articles etc. to:

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