

International Payments Overview

Chuck Wiley, SWIFT



Agenda

- Global Payments
- Urgent Global Payments
- Non-Urgent Global Payments
- Risk Management
- Recap



Agenda

- **Global Payments**
- Urgent Global Payments
- Non-Urgent Global Payments
- Risk Management
- Recap



International Trade Growth

- 13% Growth in Real Merchandise Exports*
- 10% Growth in Commercial Services Exports*
- 7% Growth in Manufactured Goods*
- US Exports up \$1.1 Billion in November**

*WTO Annual 'International Trade Statistics 2006' – comparison to 2005

**US Dept of Commerce 2007

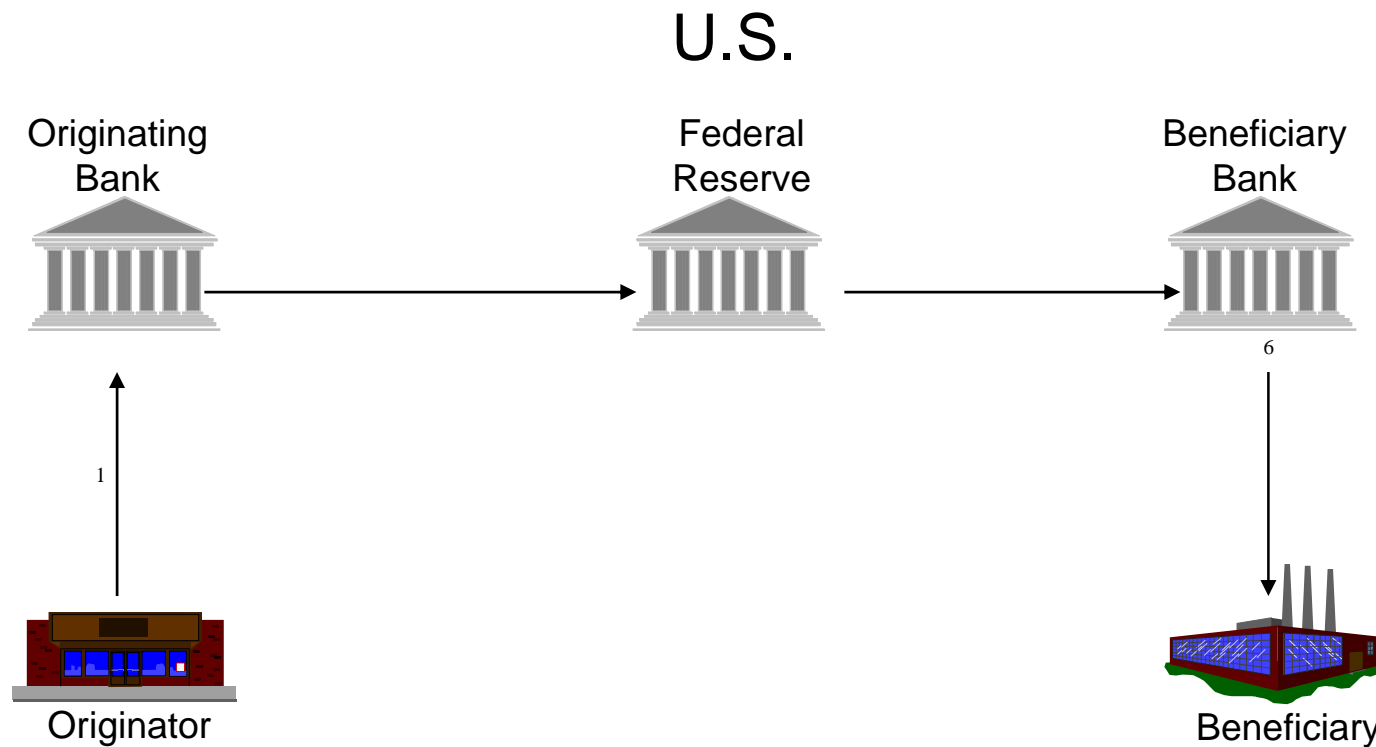


International vs. Domestic Different?

- Currency
- Regulation
 - Central Bank Reporting
- Routing Conventions
- Time Zones
- Holidays



US Domestic Payments Flow



source: TPI 2005 Wire Session

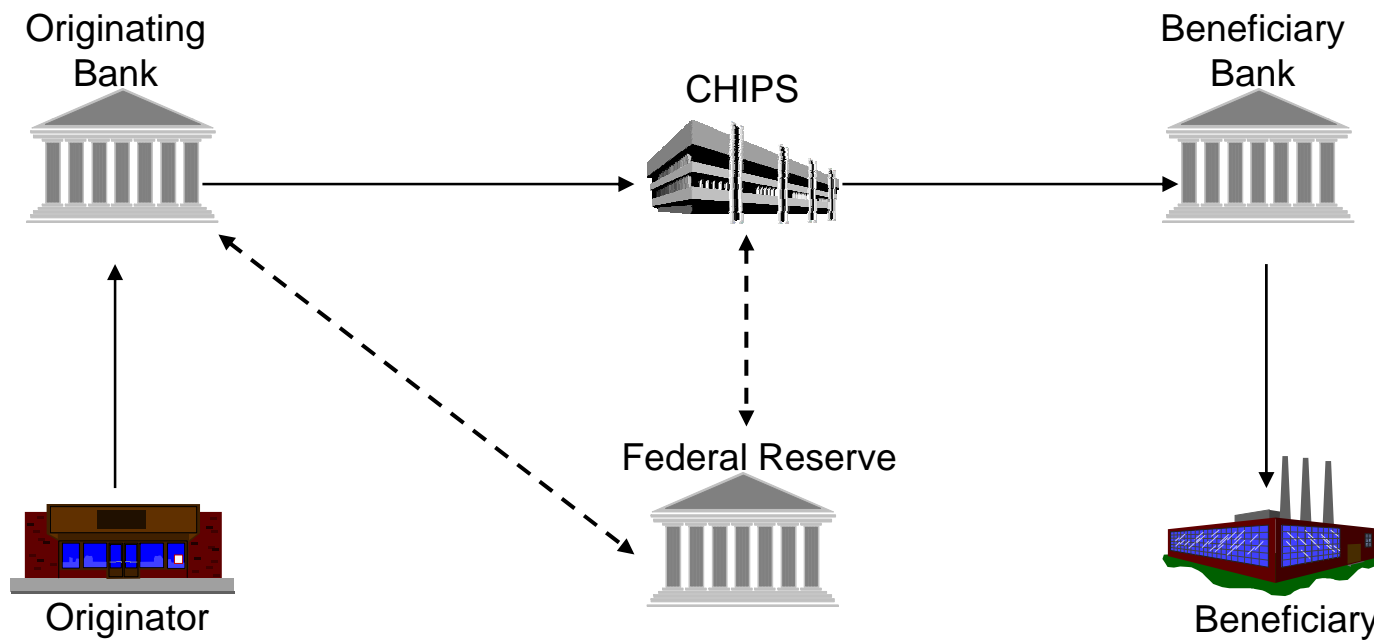


What is CHIPS?

- Real-Time, multilateral netting system
- Clears and settles transactions in US Dollars
- Offers Payment Finality
- Maximizes liquidity
 - \$1 turns over 500 times daily
- > 94% straight-through processing rate
- Contingency for Fedwire®
- Bank-owned payments system



US Domestic Payments Flow CHIPS



source: TPI 2005 Wire Session



Global Payment Players

- Originator/Beneficiary
 - Seller/Buyer, Importer/Exporter
 - Seller's Bank/Buyer's Bank
 - Correspondent Banks
 - Clearing Parties



Correspondent Banking

- Banking for banks
- Domestic and international
- Over 500 years old
- Nostro
 - Our account on your books
- Vostro
 - Your account on our books



Correspondent Banking

- Members banks of payment networks offer correspondent services for non-members
- Easier and more financially attractive for non-members to offer international services:
 - Exchange rates:
 - FX spread sharing.
 - Fees
 - Beneficiary deduct sharing.
- More options for end-clients like corporates

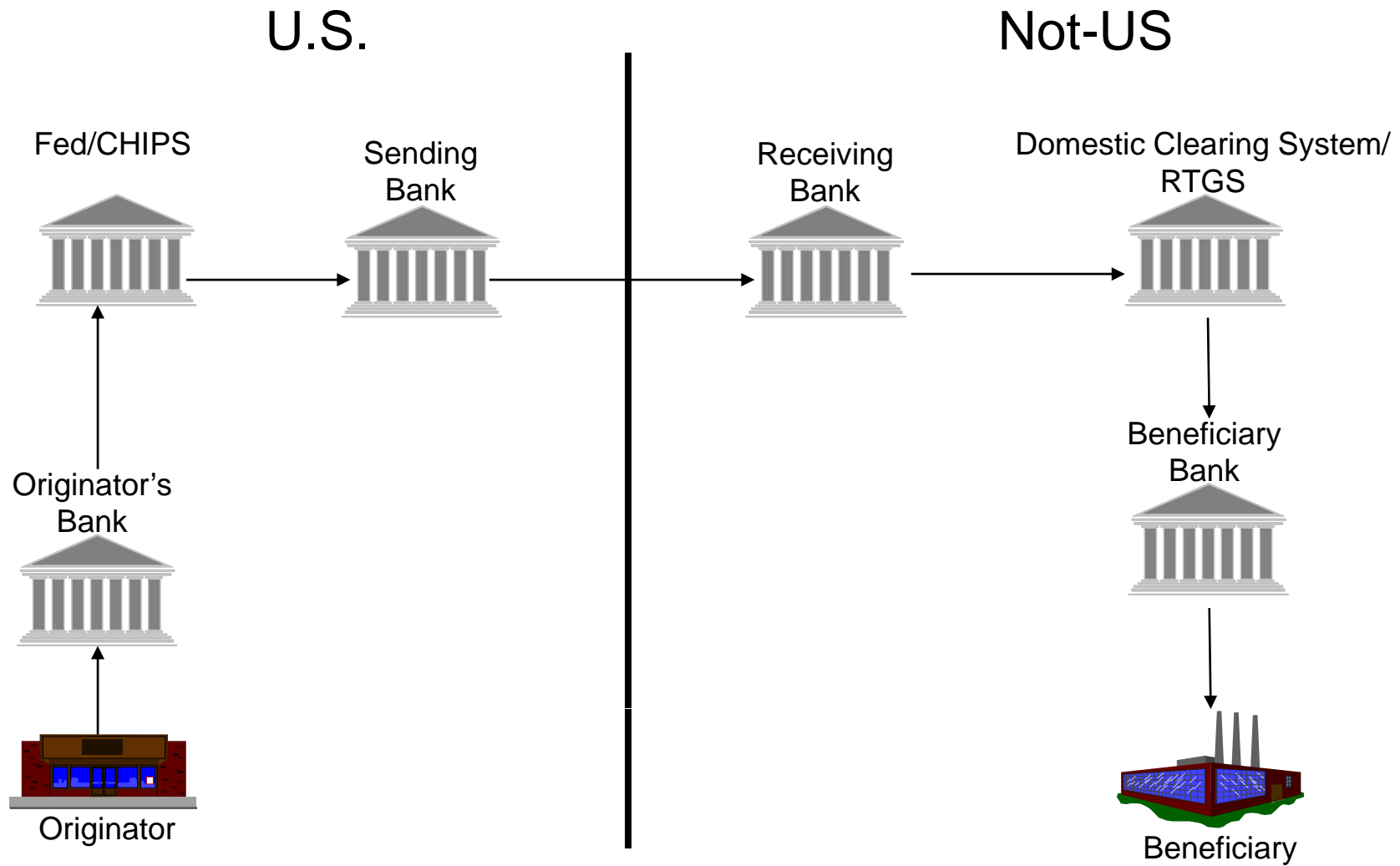


Agenda

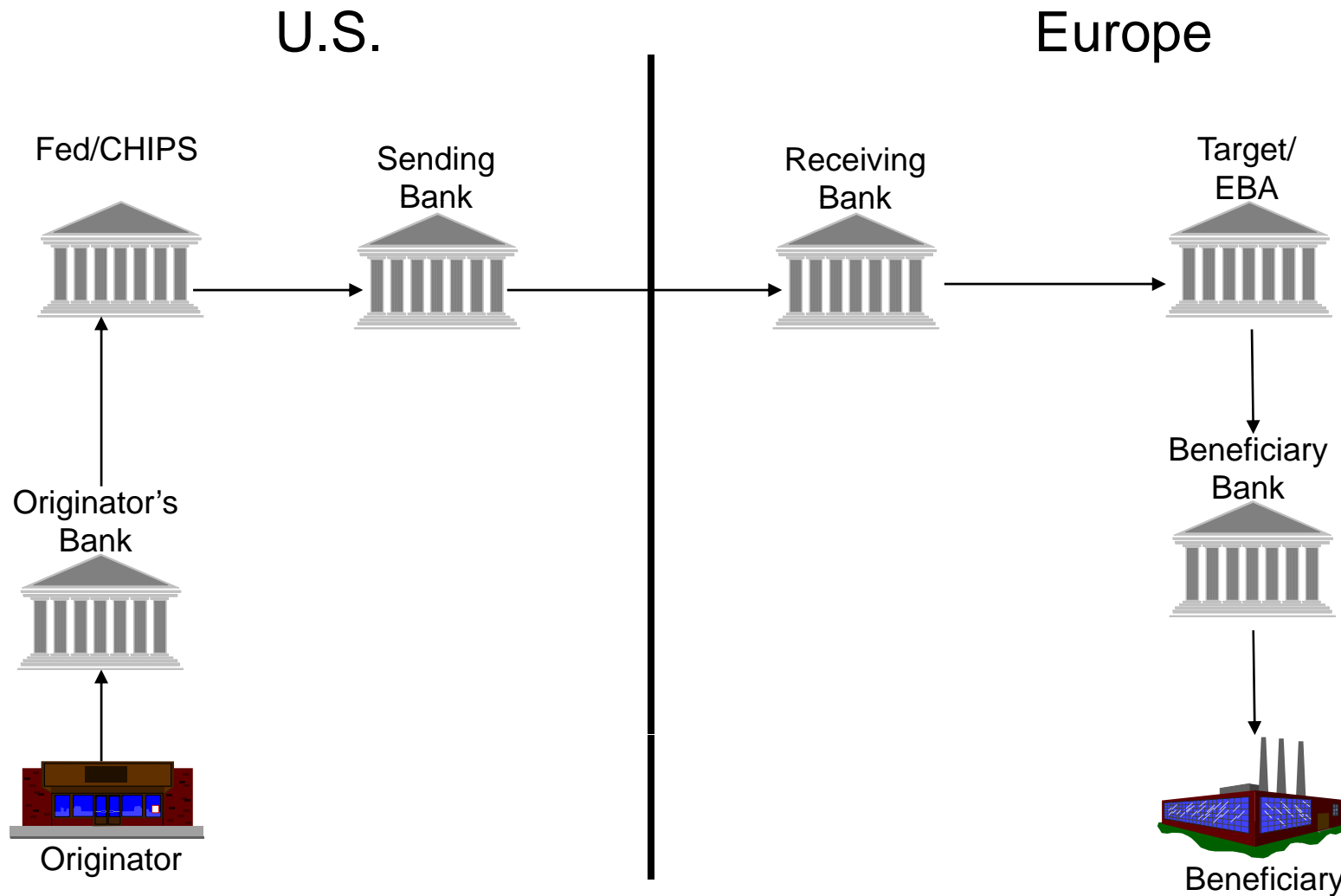
- Global Payments
- **Urgent Global Payments**
- Non-Urgent Global Payments
- Risk Management
- Recap



Urgent Global Payments



Urgent Global Payments Europe



What is SWIFT?

- Society for Worldwide Interbank Financial Telecommunications
- Over 8000 clients in over 200 countries
- Standards body
- Electronic message exchange
- Not a settlement system



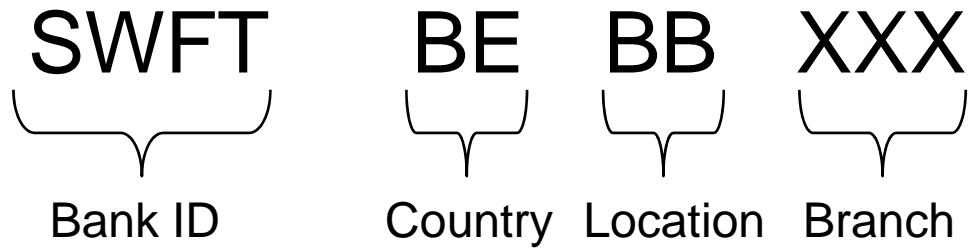
SWIFT

- **FIN Service**
 - Standards Validation
 - Structured messages by market
 - Payments
 - MT1xx
 - Securities
 - Trade services
 - FX settlement
 - Others

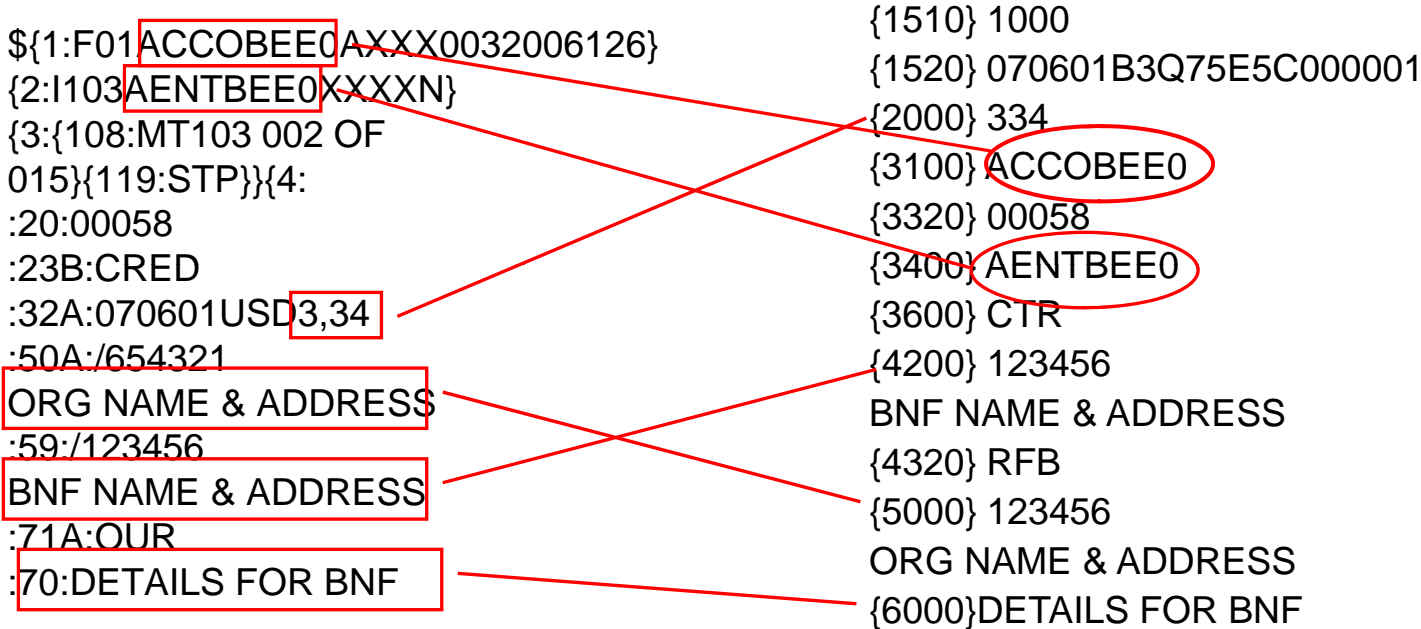


SWIFT BIC Code

SWFTBEBBXXX



SWIFT vs. Fed



Fee Practices

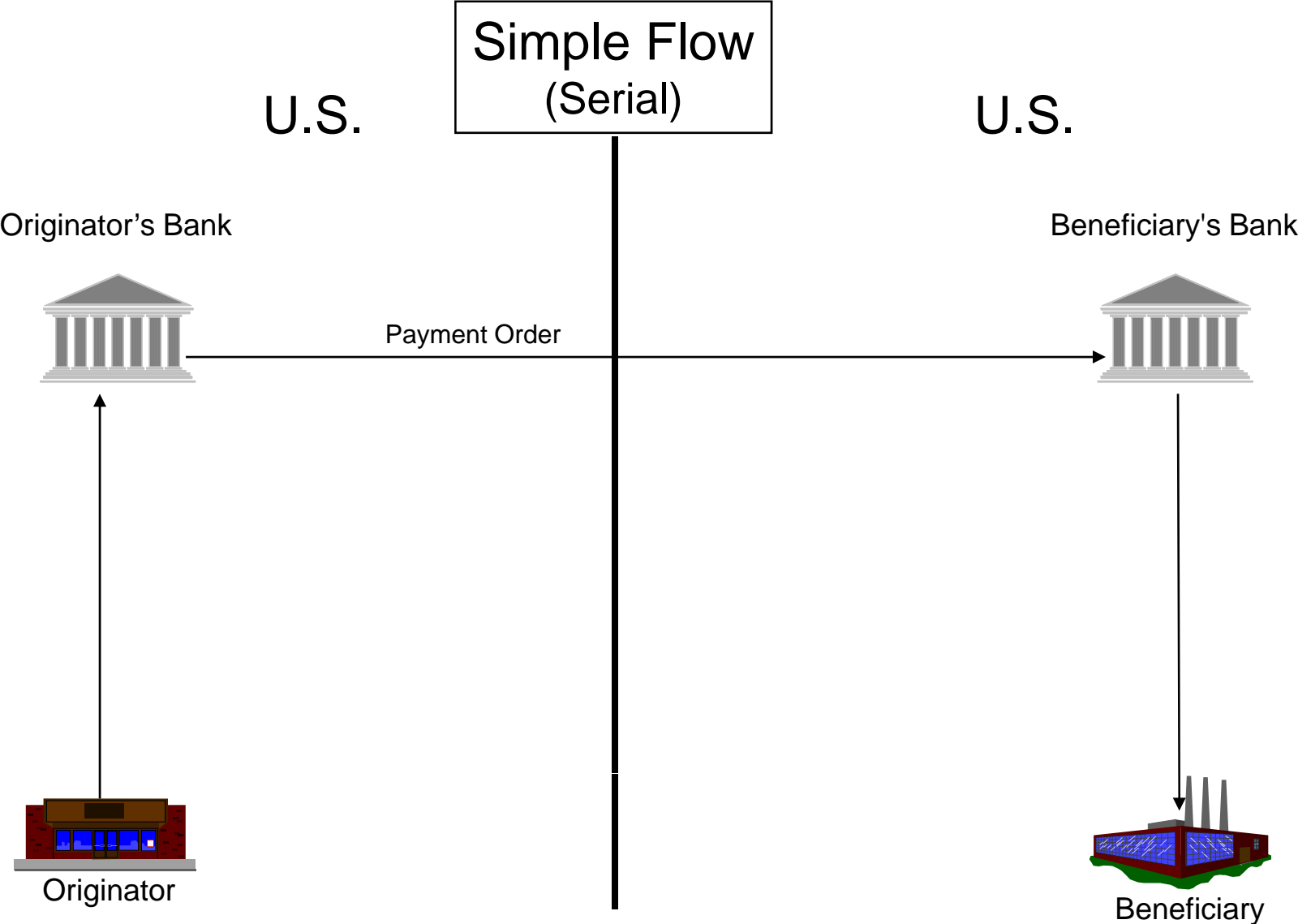
- Value-Dating
 - Credit applied to BNF after receipt date
 - Debit back-dated to ORG account
- Principle Deduction
 - Payment amount reduced by fee
 - By originating bank or correspondent bank
 - SWIFT Codes
 - BEN, SHA, OUR



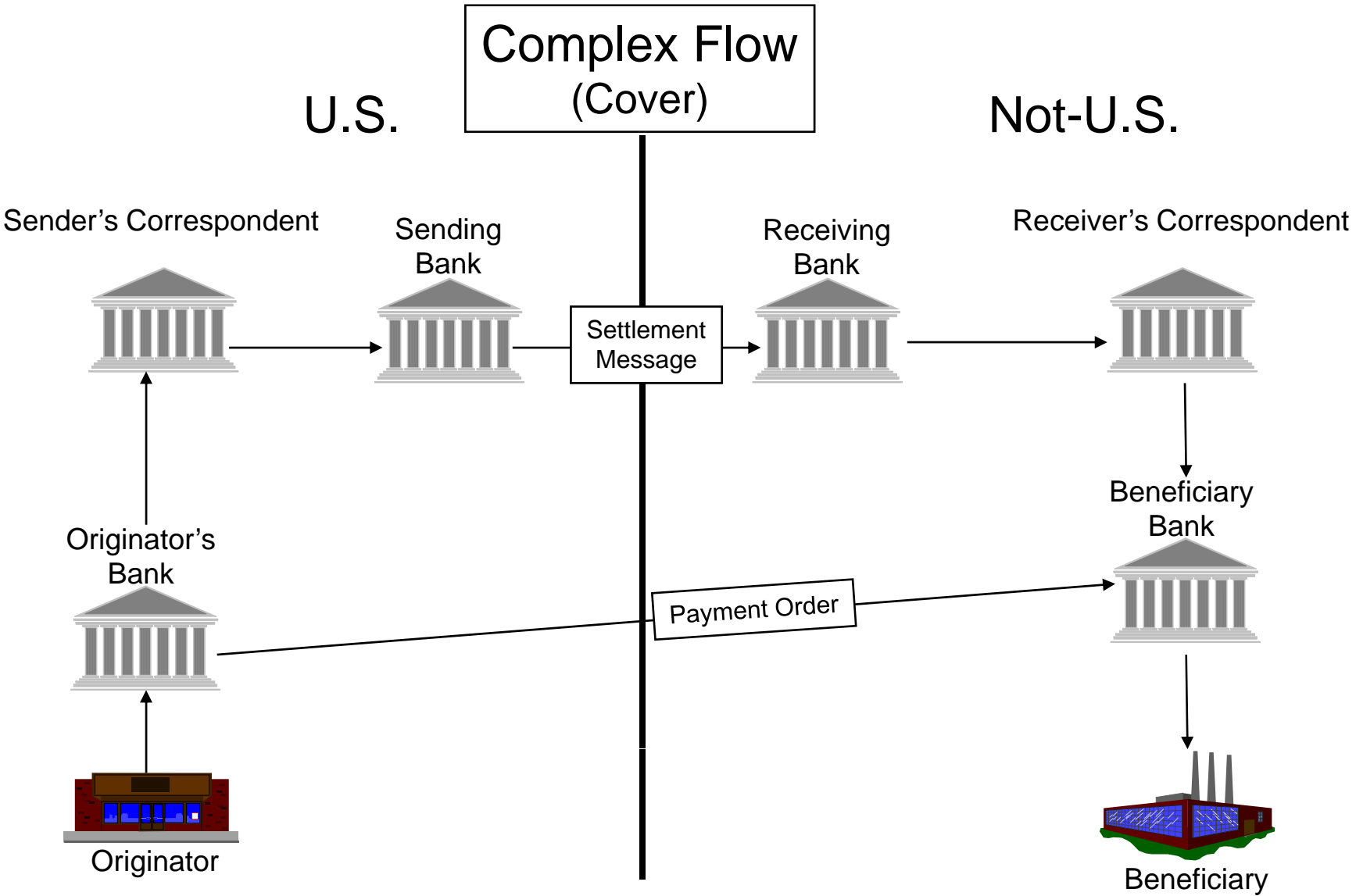
Cover or Serial?



Correspondent Banking Flow



Correspondent Banking Flow

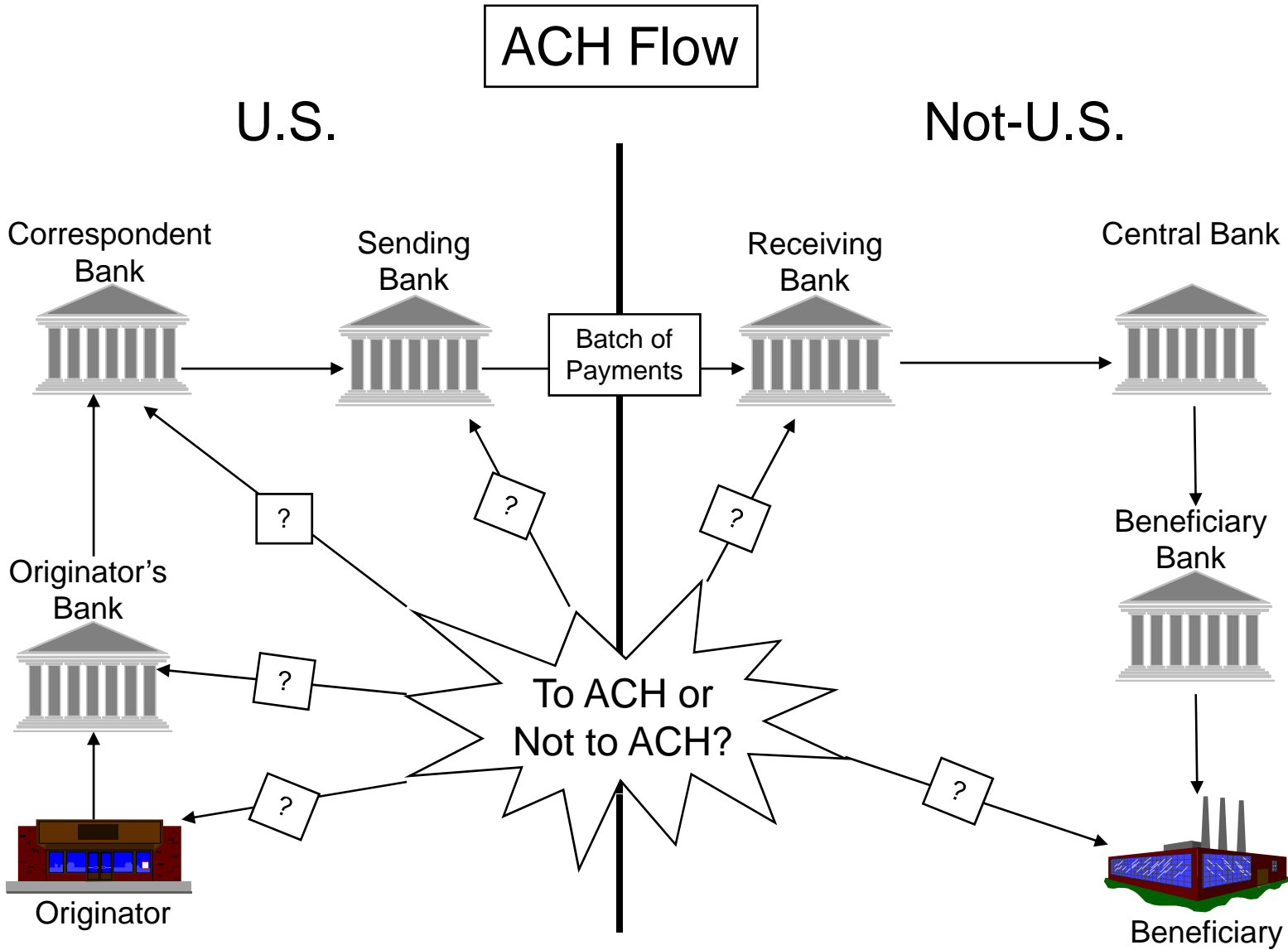


Agenda

- Global Payments
- Urgent Global Payments
- **Non-Urgent Global Payments**
- Risk Management
- Recap



Correspondent Banking Flow



Non-Urgent Global Payments Considerations

- Standard Differences
 - Will all data from ORG be received by BNF?
 - Will enough data be included for regulators
- Legal
 - When will credit be applied?
 - How can credits be revoked or recalled?
- Procedural
 - What about rejects and reversals?



US ACH

- FedACH International Service
 - Standard: NACHA CBR/PBR
 - Soon IAT
 - 7 countries
 - FX rate fixed by Gateway Operator
 - No debits
 - Enough info for regulators?



European ACH Yesterday

- Every Country = Different Central Bank
- Every Central Bank = Different Rules
- Different Rules = Different Standard/Costs
- PEACH = EBA Step 2



European ACH Today

- SEPA – Single Euro Payments Area
- 31 Countries
 - EUR and non-EUR
- Value of payment
 - EUR 50,000
- Intra-European (SEPA Country) Payments
 - Domestic



SEPA Impact

Fees – Lower Cost to Process Payments

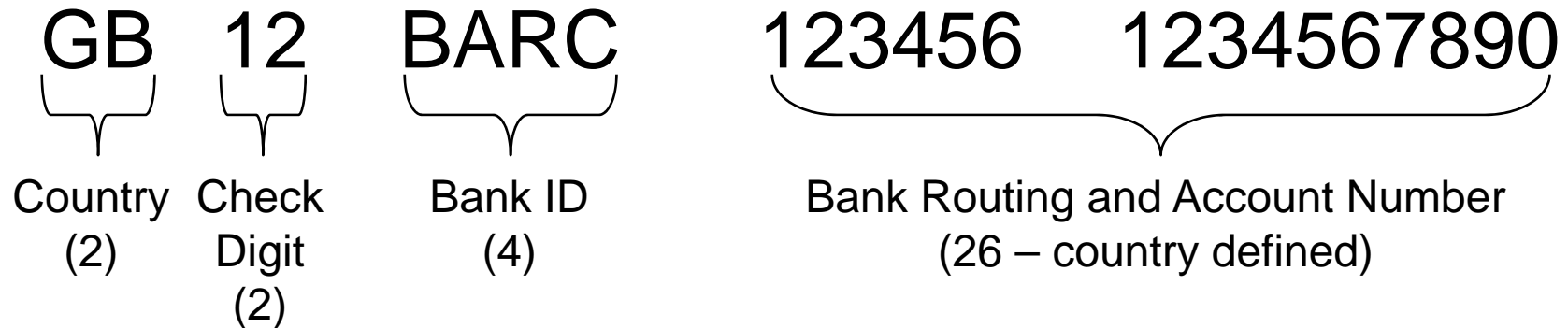
- One Currency
- One Format
- One Process
- No Beneficiary Deduction
- One Account Number Format
- Reduction in Account Relationships
 - Eventually...



IBAN

International Bank Account Number

GB12BARC1234561234567890

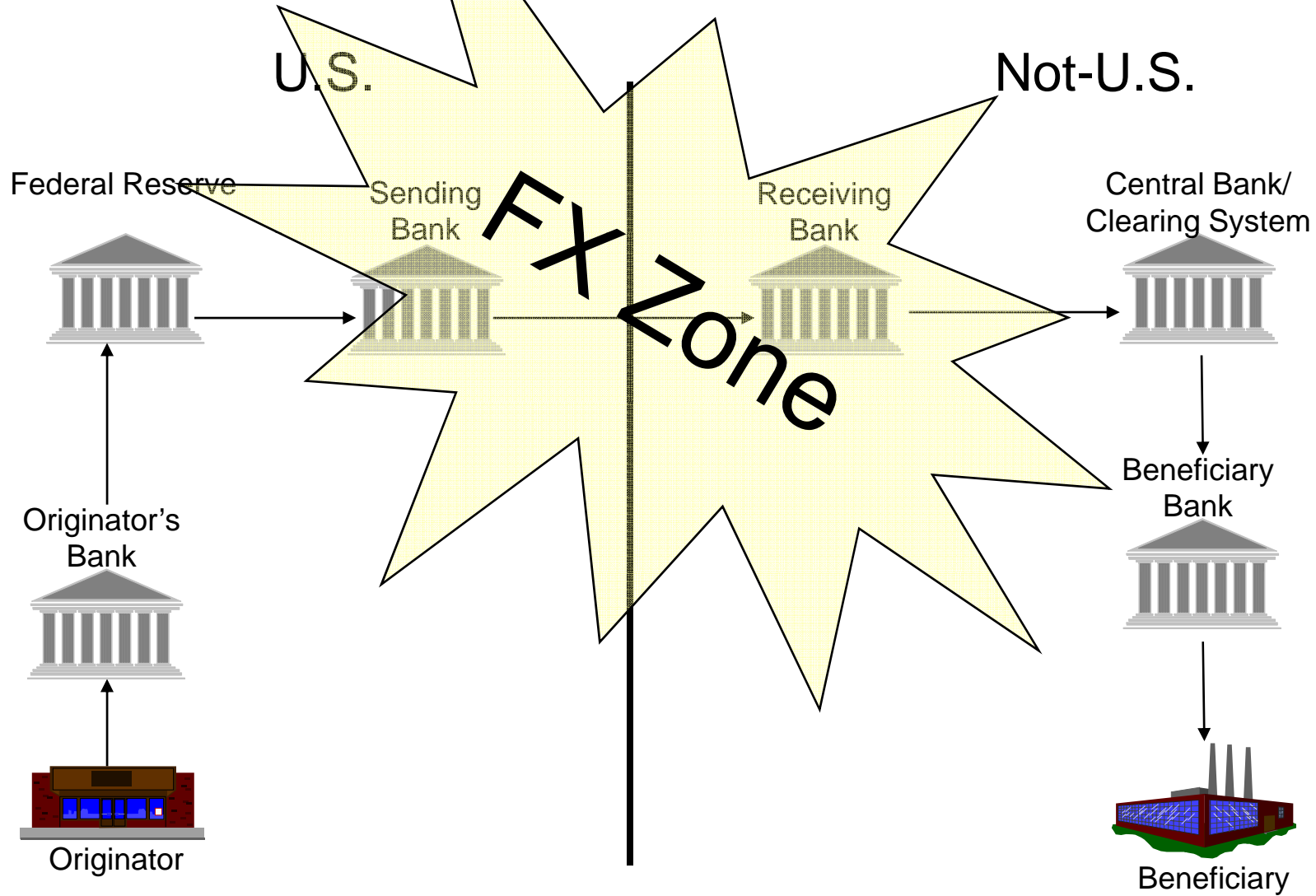


Agenda

- Global Payments
- Urgent Global Payments
- Non-Urgent Global Payments
- **Risk Management**
- Recap



Risk Management Foreign Currency



Risk Management

Liquidity Management

- Foreign Currency vs. Currency Accounts
 - Volatility of FX Rates
 - Frequency of transactions
 - Legal requirements
 - Required Balances
 - Netting or Pooling Limitations?



Risk Management Interdiction

- OFAC
- AML
 - Travel Rule
- Cover Payment Changes
 - Wolfsberg Recommendation
- Cross-Border ACH
 - Standard Changes



Agenda

- Global Payments
- Urgent Global Payments
- Non-Urgent Global Payments
- Risk Management
- **Recap**



Recap

- KYC - Know Your *Correspondent*
- Consider Extra Services from Bank
Review Invoice Format
- Review Remittance Details
- For Euro Payments: Review Format for
SEPA Compliance

