



19 - 23 September 2011

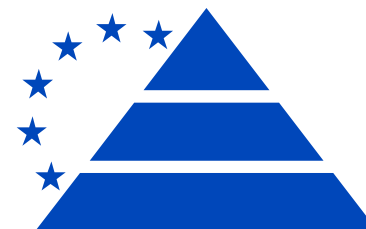
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EBA CLEARING Services: The Changing European Payments Landscape

Sibos Special Interest Session

Toronto, 20th September 2011



EBA CLEARING



19 - 23 September 2011

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EURO1 Reform Program Update: Improvements to liquidity management and risk control

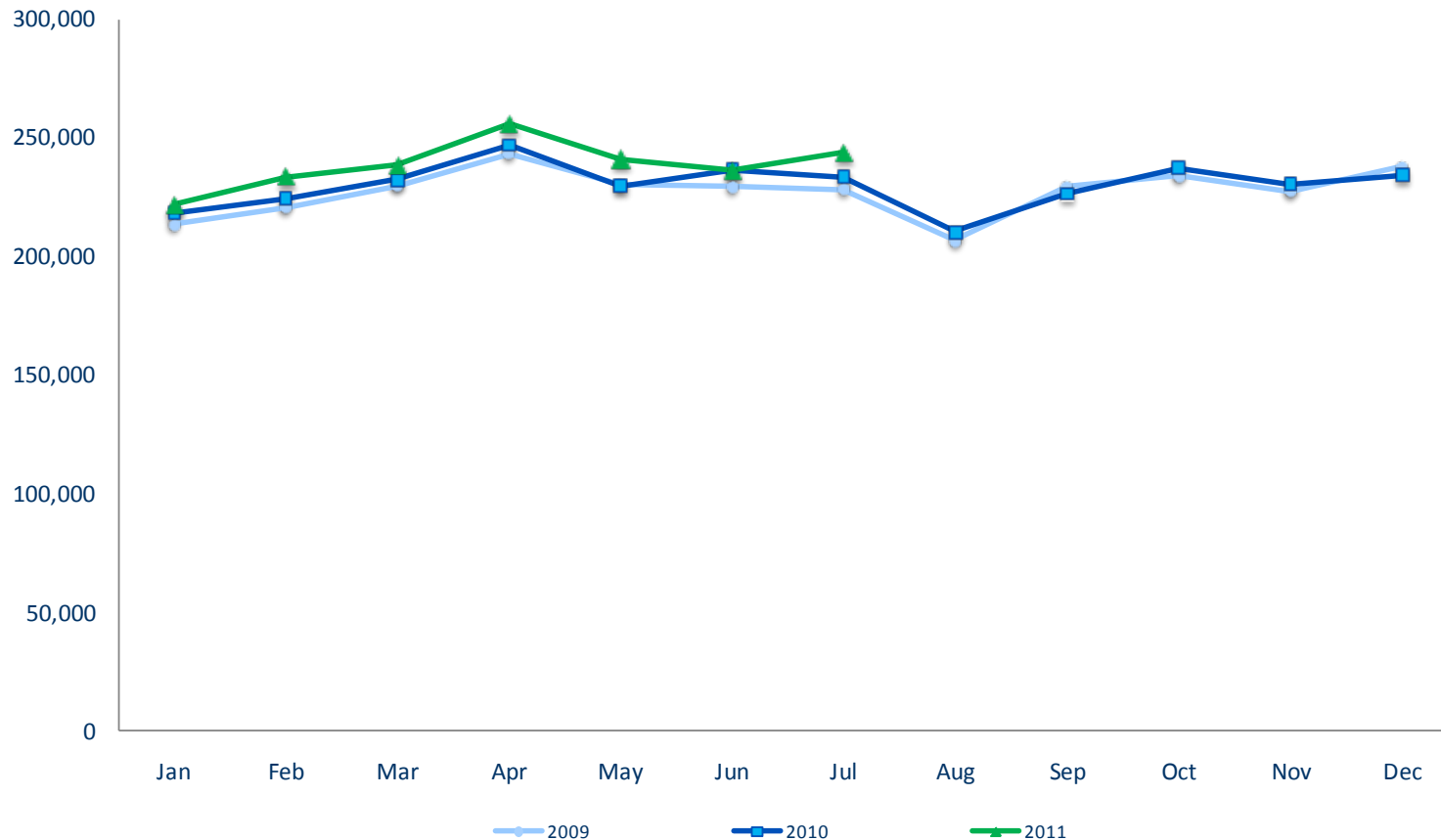
Alan Taylor

Director, EURO1/STEP1 Services

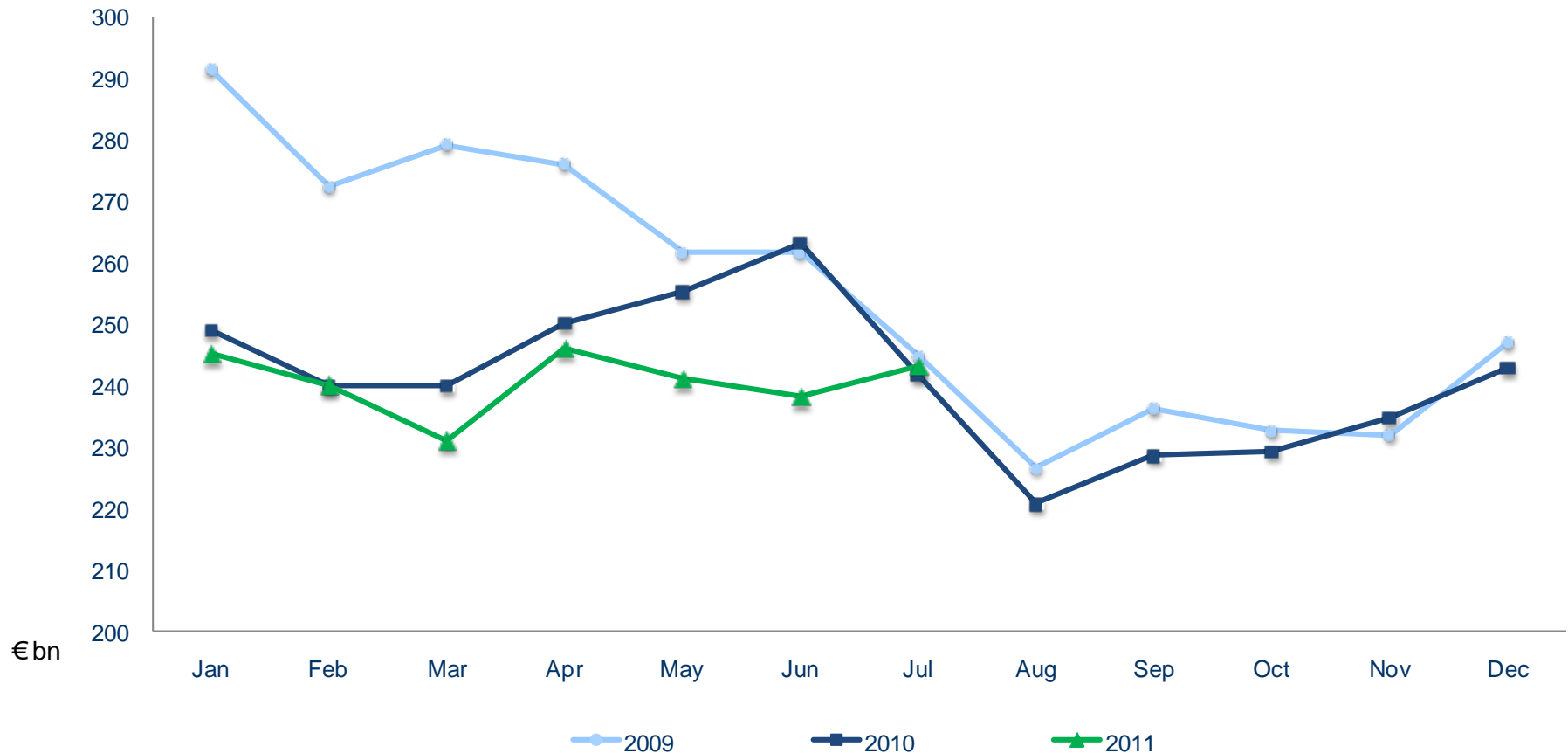


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EURO1/STEP1 daily average volume 2009-2011



EURO1/STEP1 daily average value 2009-2011



The press still reads the same:

- * *Bank “crisis”*
- * *Country “crisis”*
- * *Currency “crisis”*

EURO1 finds itself in the middle of three important industry discussions



5. Review of
governance
model

3. Review of
Participation rules

4. SEPA migration
& end-date

2. Algorithm and liquidity
efficiency of scheme

1. Review of risk
sharing scheme



Established with 12 members equally from OTC (Payments) and TLG (Liquidity)

Barclays	Intesa Sanpaolo
BNP Paribas	J.P. Morgan
Citibank	Royal Bank of Scotland
Commerzbank	Société Générale
Deutsche Bank	UBS
ING	UniCredit

- Largest users of system
- Systemically important banking groups
- Meetings and conference calls
- Also information exchange with CHIPS

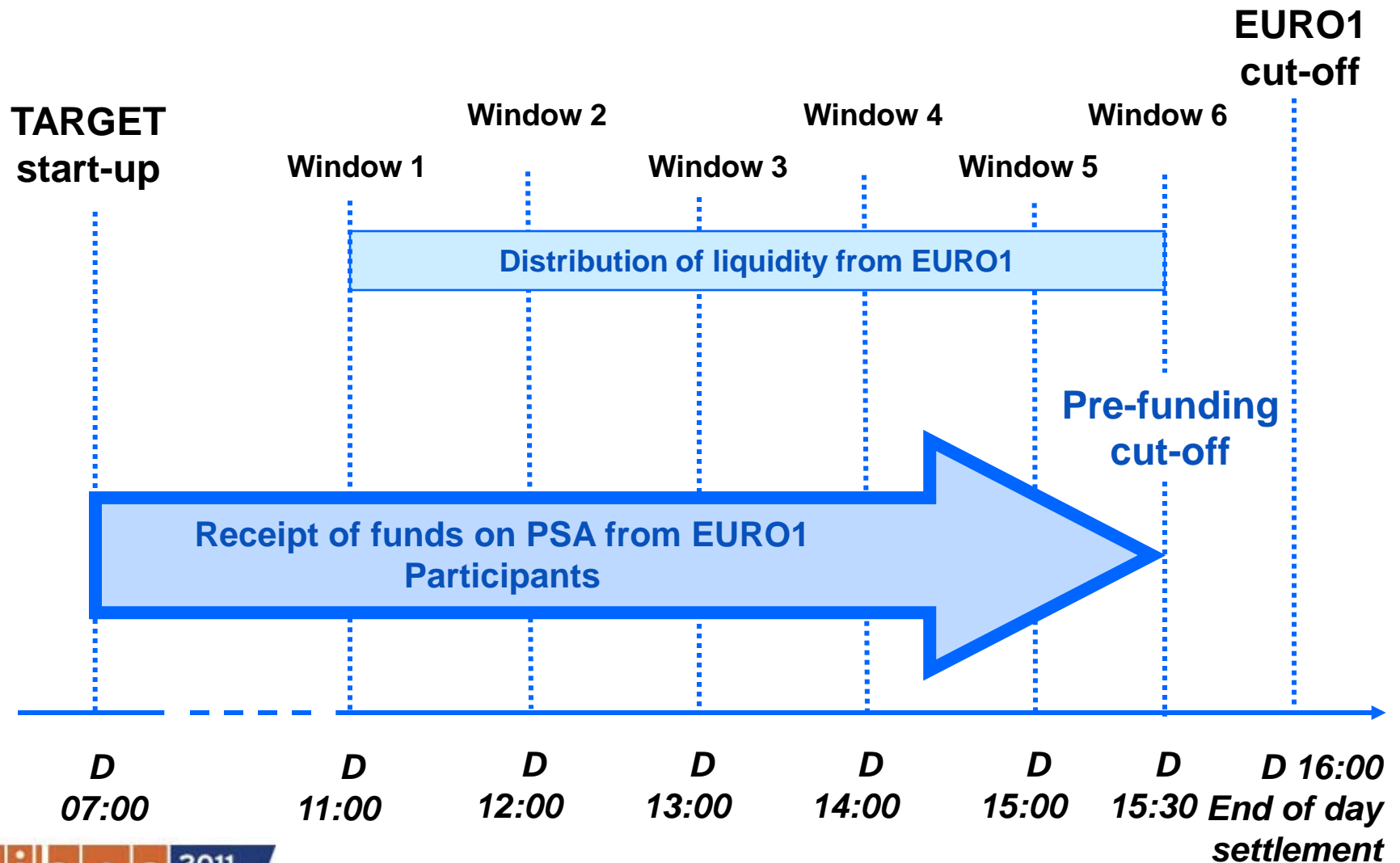
LIQUIDITY MANAGEMENT

In order to ensure the maximum recycling of euro liquidity:

- 1) Two new distribution windows introduced at 11:00 and 12:00
- 2) Algorithm for eligibility to receive a distribution changed from position being at 60% of credit cap to 40% of credit cap

EURO1 – Optimisation of liquidity

Prefunding and liquidity distribution cycles



Pre-funding

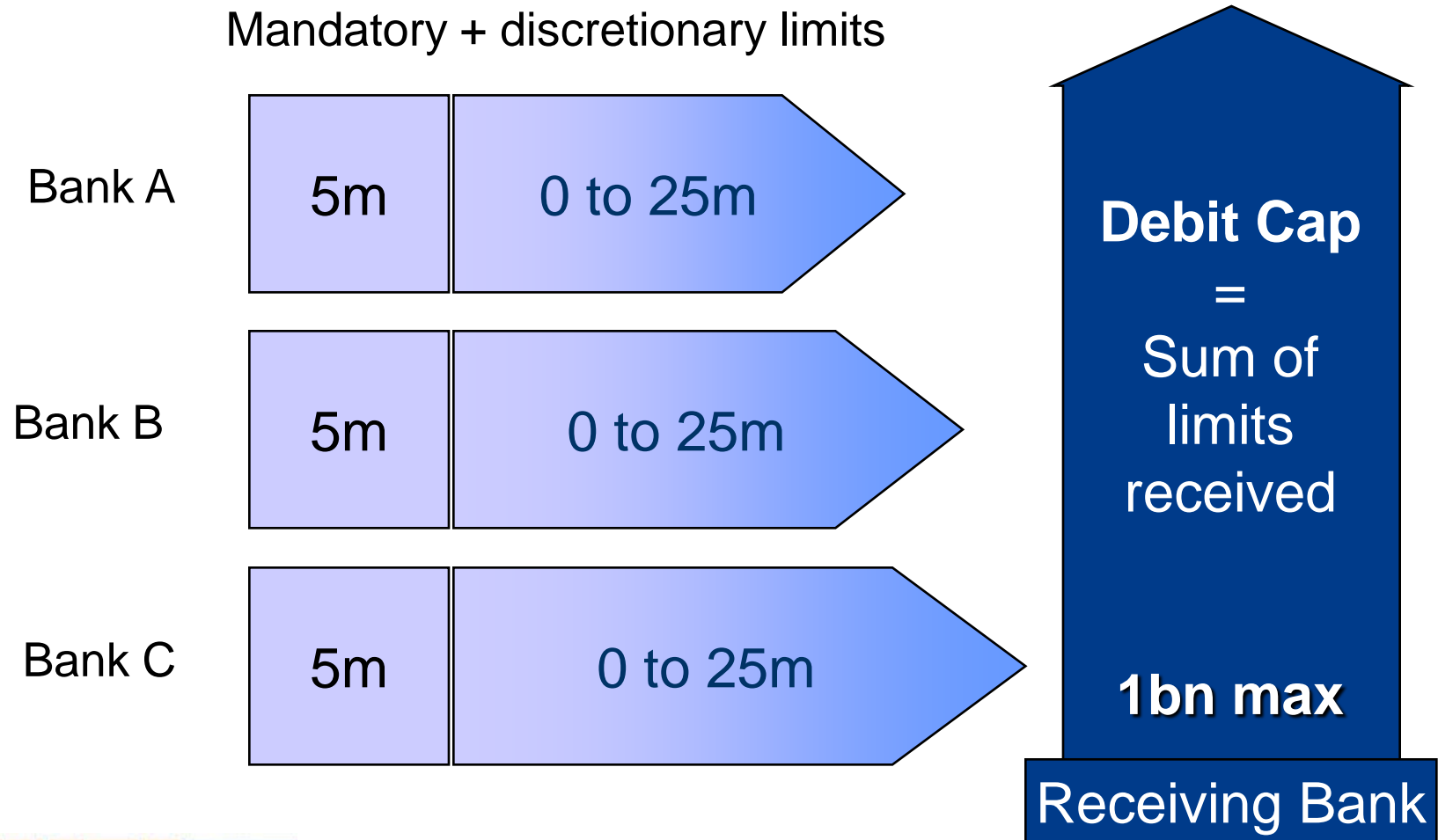
	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Total volume	491	436	506	450	492
Daily average volume	21	22	23	20	23
Total value (billions)	396	352	406	366	390
Daily average value (billions)	17	18	18	17	18

Liquidity distribution

	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Total volume	734	653	1,475	1,514	1,488
Daily average volume	32	33	67	69	71
Total value (billions)	344	312	398	359	378
Daily average value (billions)	15	16	18	16	18
(banks taking liquidity)	(47)	(45)	(48)	(48)	(49)
Percentage distributed	87	88	98	98	97

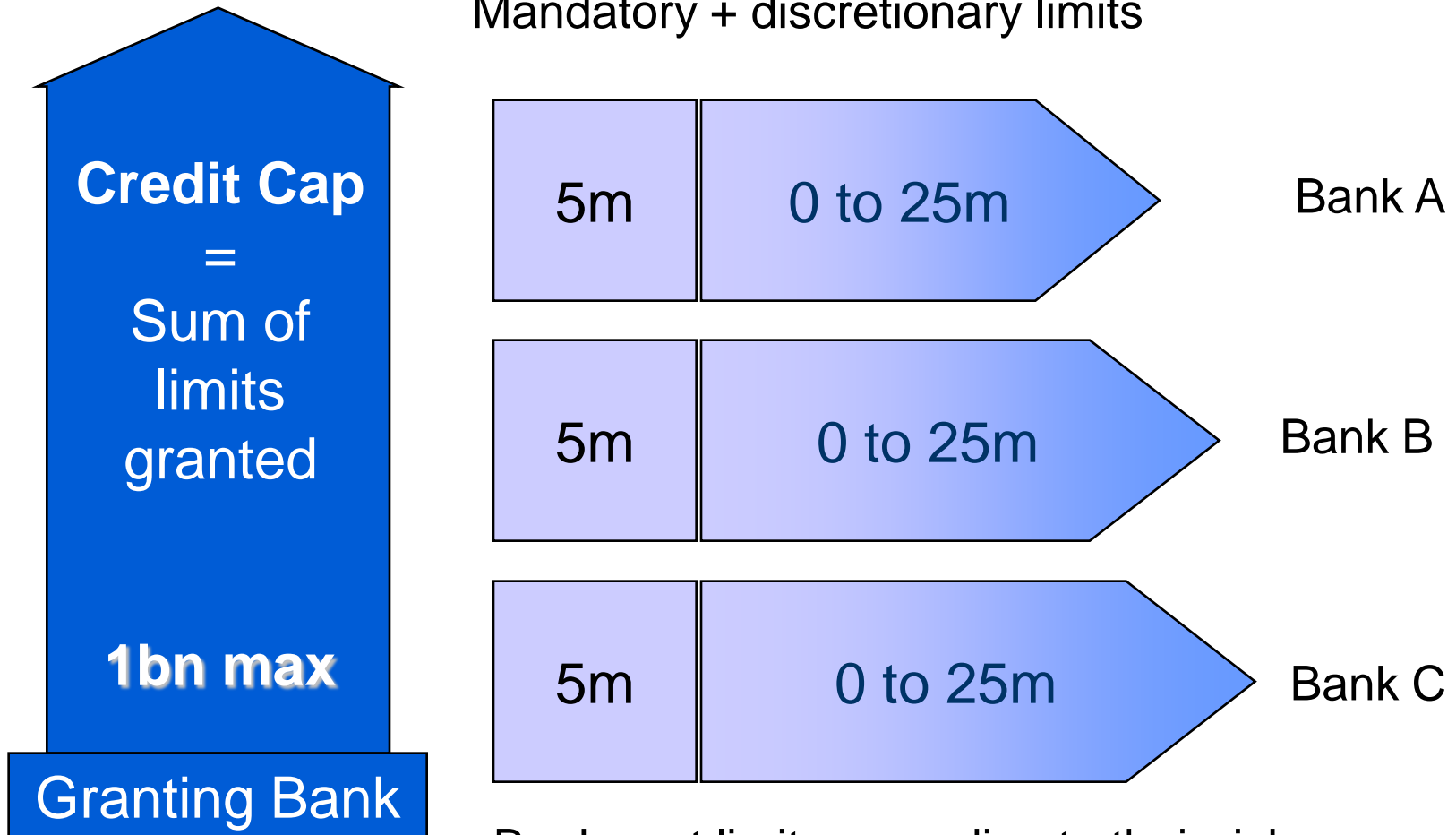
RISK CONTROL LEVELS OF EXPOSURE

Debit cap: formed by bilateral limits received



Credit cap: formed by bilateral limits granted

Mandatory + discretionary limits



Banks set limits according to their risk assessment

Reduction of risk in system

Mandatory bilateral limit needs to be adjusted downwards not least in view of individual bank and country concerns.

- Change the mandatory amount from EUR 5 million to EUR 2 million
- Reduces residual exposure by more than 50%
- Total removal of the mandatory limit would have impact on the liquidity within the system and on the loss sharing procedures

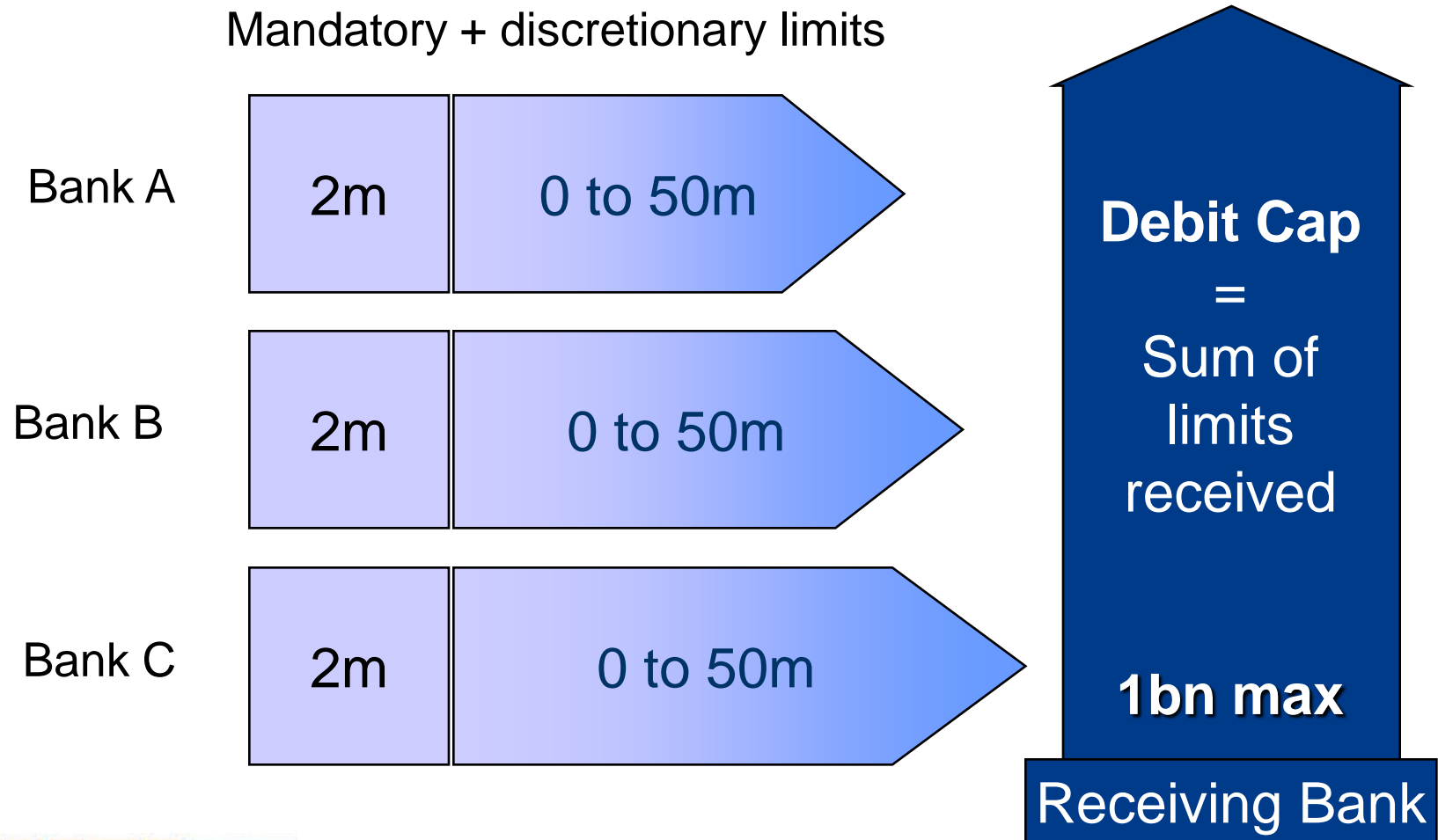
Flexibility of risk allocation within the system

Ensure sufficient liquidity remains available within the system as a result of any adjustment to the bilateral limit structure.

- If the mandatory limit is reduced then the discretionary limit is to be increased to a new maximum to enable banks to maintain the required levels of their respective debit and credit caps
- New maximum discretionary limit to be EUR 50 million (doubled from existing amount). Larger users could then allocate their discretionary limits to ensure sufficient (sending and) receiving capacity
- The EURO1 simulator is now operational and allowing EBA CLEARING to model “What if” scenarios based on different limit allocations.

EURO1 – bilateral limits – new amounts

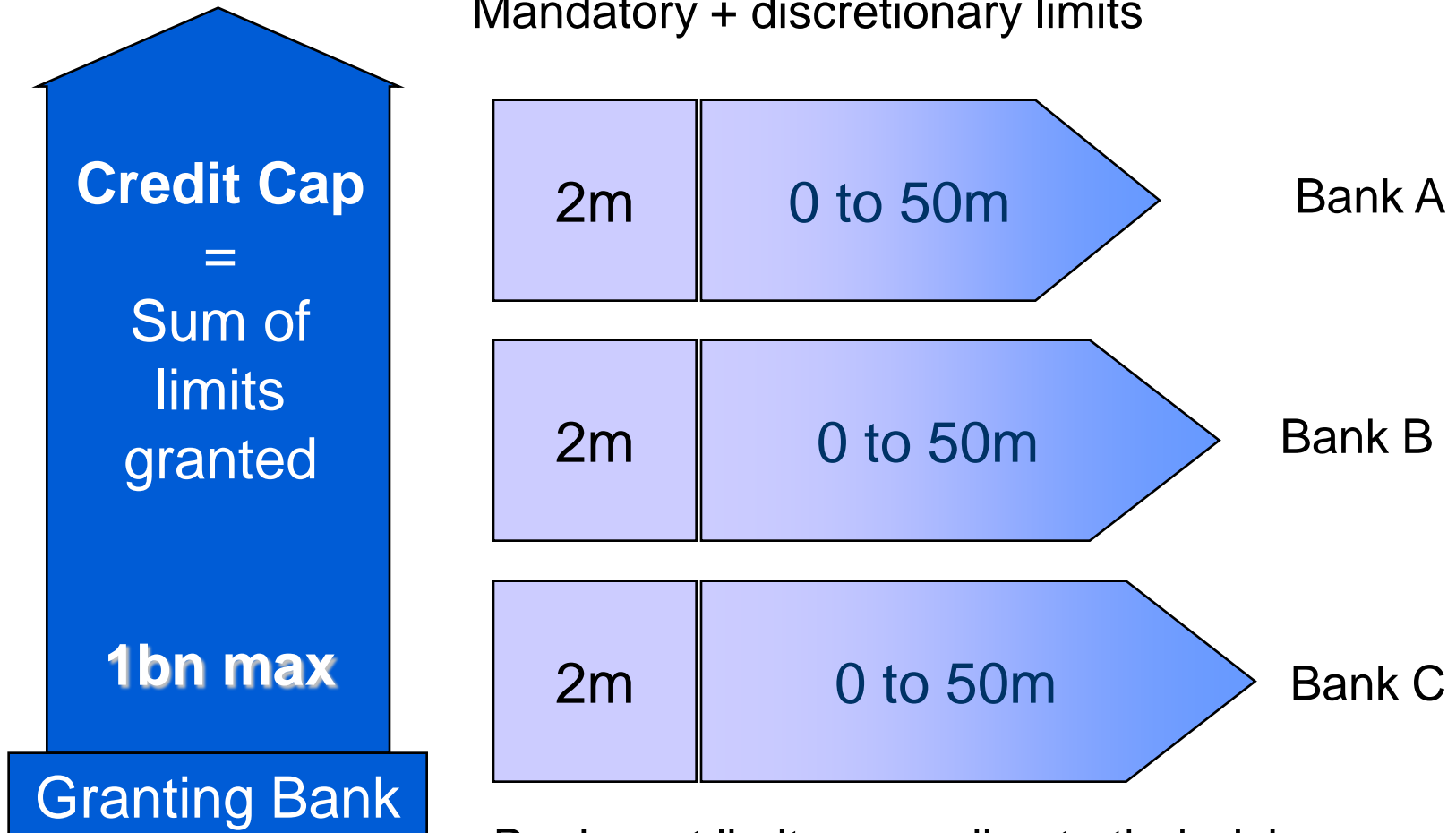
Debit cap: formed by bilateral limits received



EURO1 – bilateral limits – new amounts

Credit cap: formed by bilateral limits granted

Mandatory + discretionary limits



Banks set limits according to their risk assessment

RISK CONTROL – TIMING

Bank driven risk management

Credit & debit caps result from bilateral limits

- Banks grant bilateral limits according to own risk assessment
- Bilateral limits can be changed up to 18:00 on day D-1 for effect on day D:
 - Discretionary element – no restriction
 - Mandatory element – 51% or more of participants must do the same

Foreseen from mid-October

- Discretionary element can be changed up to 07:00 on D for effect on day D:
 - Can react to deteriorating circumstances
 - Over bank holiday
 - Over week-end
 - Overnight

Risk sharing substantially reduced

Implementation will be at the same time as the introduction of the change to the amounts of the mandatory and discretionary bilateral limits.

This means that banks can now bring their exposures down to virtually nothing same day.

Banks can now react to adverse situations without having to wait effectively another business day.

Risk management being further improved

Should a bank be subject to its mandatory limits being set to zero by the requisite number of banks, the stricken bank would be currently exited from the system that day.

Work is underway to develop a soft landing for a stricken bank, so that it may continue to send and receive payments within the system, but at no risk to the participants.

Payment processing being further improved

- The circles processing algorithm is now activated at regular intervals on an ongoing basis throughout the day
- This process will be automated
- The liquidity benefits of the multilateral netting effect for payments in EURO1 ensure banks are not adversely affected by the new legislation on capital and liquidity requirements

This puts EURO1 in a leading competitive position against gross systems.

- EURO1 is an RTGS-equivalent net system: finality of payments is achieved at the moment of processing
- EURO1 operates on a net basis, but is not a netting system
- It is acknowledged that the limited queuing of payments is acceptable in order to benefit in full from the multilateral netting effect
- EURO1 is seen as a system for urgent payments
- ACHs are not the vehicle through which high value payments should be processed
- Single payments will remain



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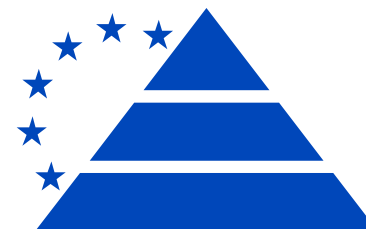
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STEP2: Update and Outlook

John Broxis

Director, STEP2 Services



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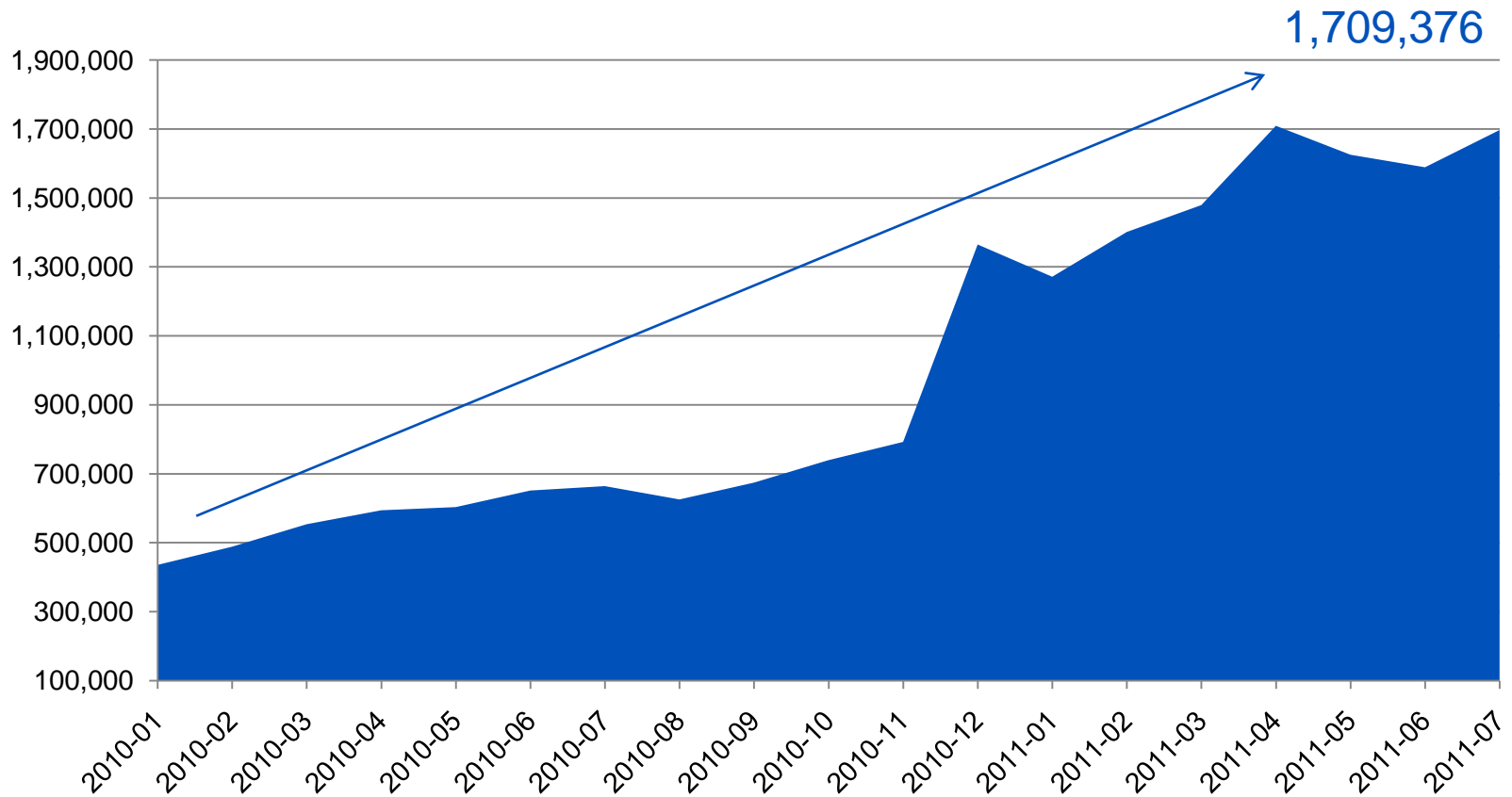
STEP2 KEY POINTS

- STEP2 is Europe's first and only Pan-European ACH:
 - Based on a country neutral governance model
 - Enabling full reach to all SEPA banks

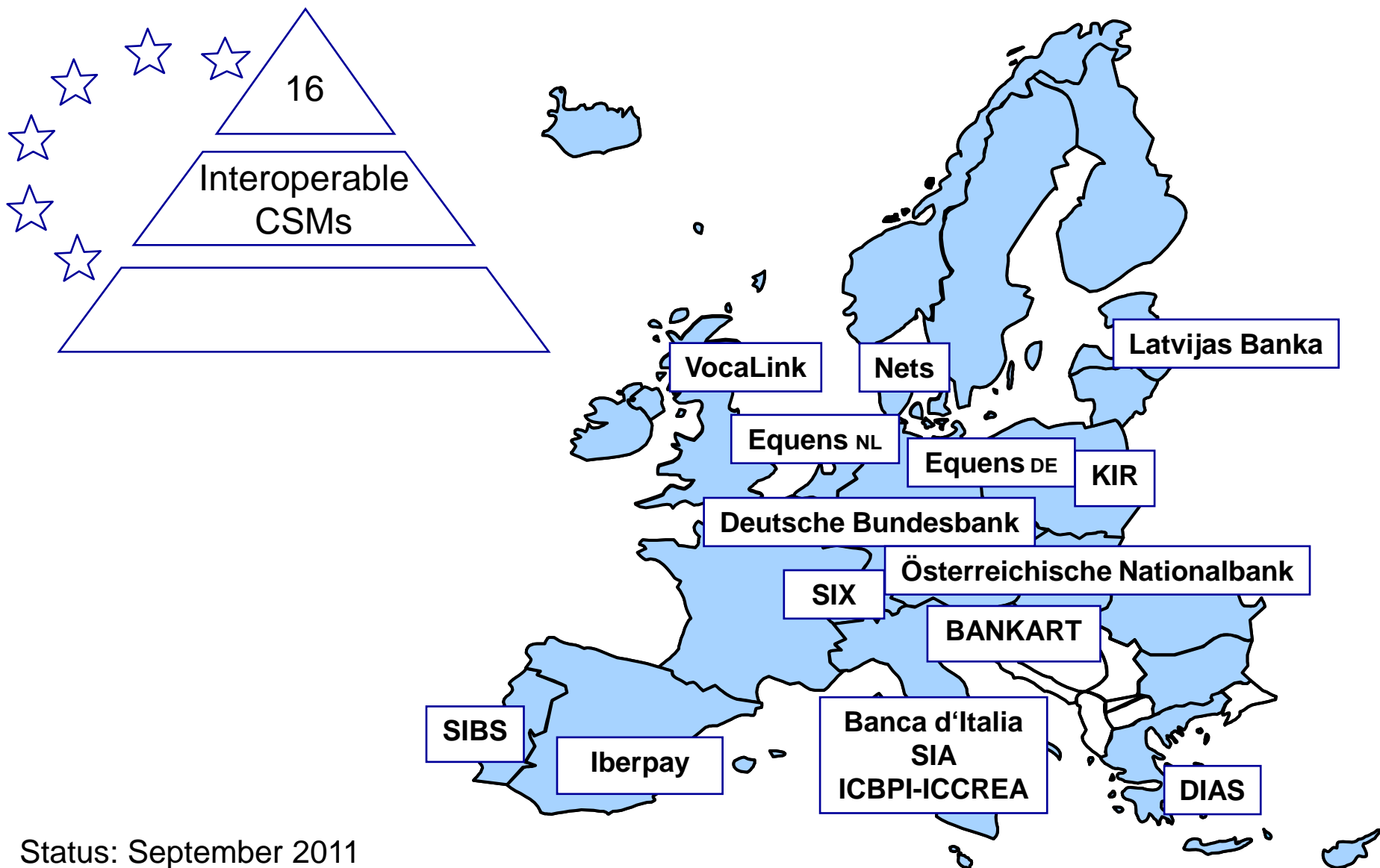
STEP2: the PE-ACH

- Full reach
- Full compliance and high resilience
- Advanced functionality
- Capable of processing high volumes
- Cost-efficient
- Flexible and extendable to meet specific domestic processing needs

STEP2 SCT – Daily Average Volume

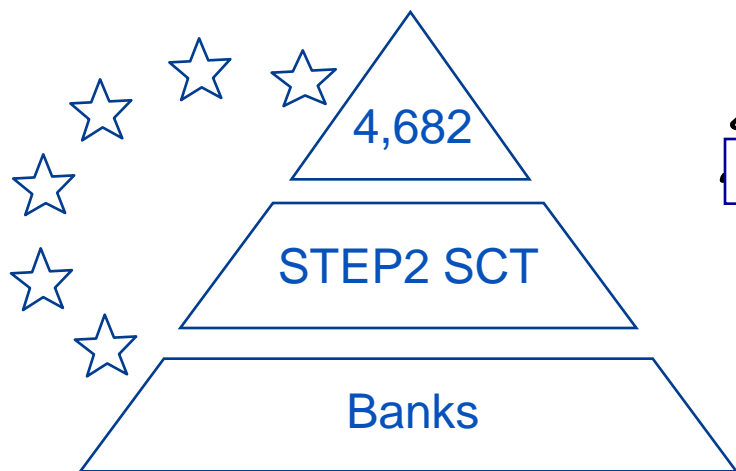


STEP2 – Interoperability

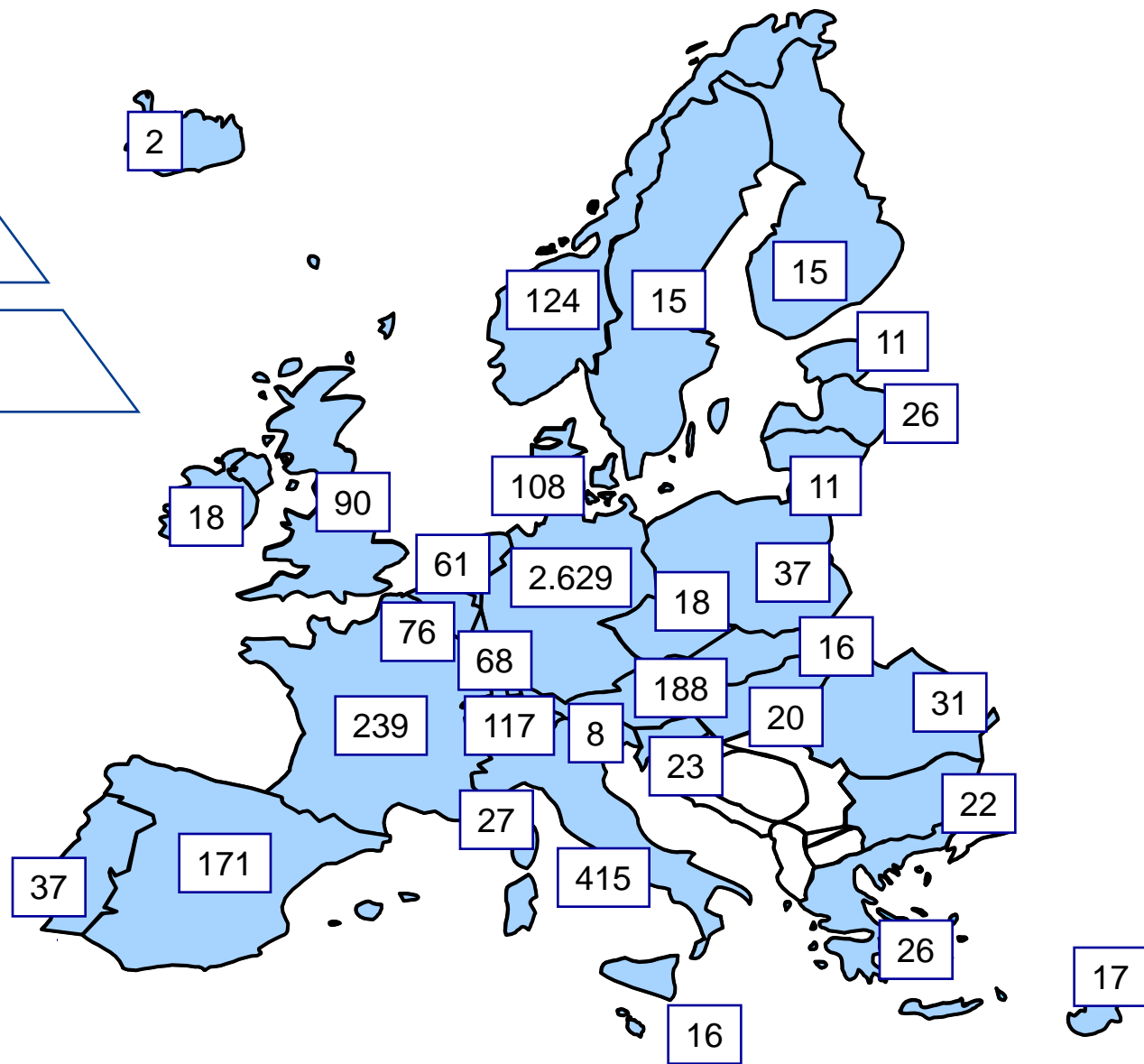


Status: September 2011

STEP2 SCT – Reach



123 of which are
Direct Participants



Status: September 2011

CHANGES FOR 2011/2012

- In October 2011, the STEP2 Irish Service will go into operation with the following benefits for the Irish community:
 - Automation of settlement
 - Compliance with D+1 end-to-end processing requirement (PSD)
 - Provision of a migration path to SEPA
- The Irish Banks will process 1 million payments per day.
- STEP2 will facilitate a bilateral file exchange transfer, with centralised settlement allowing extremely cost-efficient processing.

STEP2 Settlement Cycles

- Two new settlement cycles will be added.
- The cut-off for same day payments will be extended by one hour.
- A new (optional) settlement window will be introduced in the evening to allow delivery of tomorrows payments during the evening.

- STEP2 performs a lot of validation, transaction by transaction:
 - In 2010, there was one technical rejection for every 10,000 payments.
 - In 2011, there was one technical rejection for every 30,000 payments.
- High-volume domestic users are sending millions of transactions in a day with 0 rejections.
- Finnish Domestic traffic in one month:
20 million payments – 80 rejections

....Prices Decrease

- Half the cost of STEP2 processing goes on validating transactions.
- For 2012, we will introduce a new high-volume processing service for domestic payments on a closed user group basis.
- By halving the processing requirement, we will halve the price.
- Transaction cost of STEP2 falls by 50% for domestic volumes.

POST-MIGRATION REQUIREMENTS

- The SEPA Migration End Date legislation is in the process of being finalised.
- The migration end-dates could be applied in a very short time frame (possible end-date for Credit Transfers: Q1 2013).
- Eventually, all Credit Transfers and Direct Debits will migrate to SEPA.
- What will be the requirements for the post-migration world?

Very high processing capacity

Extraordinary resilience

Flexibility in price and processing options

Value-added functionality

- 2009 External (IBM Certified) Benchmarking exercise proved that STEP2 is already able to process high volumes (i.e. over 10 million transactions per day) without further modification.
- Since the Benchmarking, the following developments took place:
 - Processing performance has been upgraded.
 - New more efficient service level options have been introduced.
 - End-Date Legislation has been announced.
- EBA CLEARING will run a second benchmarking exercise to prove that STEP2 can smoothly process 100 million transactions per day, end to end.

- SIA processes 15bn transactions per year (Payments, cheques, cards, ATM, POS)
- The resilience of the infrastructure is equal to or better than that of any other CSM in Europe
- EBA CLEARING will run a consultation exercise to determine whether the current infrastructure configuration is sufficient or should be improved.

- There is no 'one size fits all model'
- A single pipe for all SEPA payments but supporting domestic AOS
- Payment processing service levels:
 - Payments handled at transaction level
 - Payments handled at the batch level
 - Bilateral file exchange solutions

- The End-Date Regulation will impose standards on the customer-to-bank space.
- Banks will need help in migrating volumes of many services:
 - File handling and converting legacy or customer XML
 - Enrichment service (e.g. BIC/IBAN conversion services)
- EBA CLEARING is investigating how to help the banks in these areas through partnering with existing service providers.

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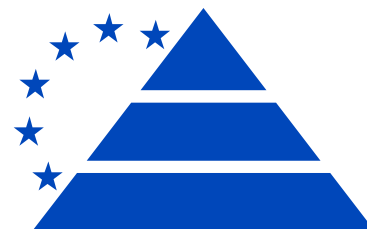
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MyBank

The E-Services Initiative of EBA CLEARING



EBA CLEARING

MARKET DEMAND

A Growing Trend



“eCommerce nets £28 billion in United Kingdom in 2011”

August 4, 2011

“Online Shopping keeps on beating records in Spain”

August 1, 2011

“Western European E-commerce Market Continues Strong Growth”

August 15, 2011

“Internet used more in Europe for online shopping than to browse social networks”

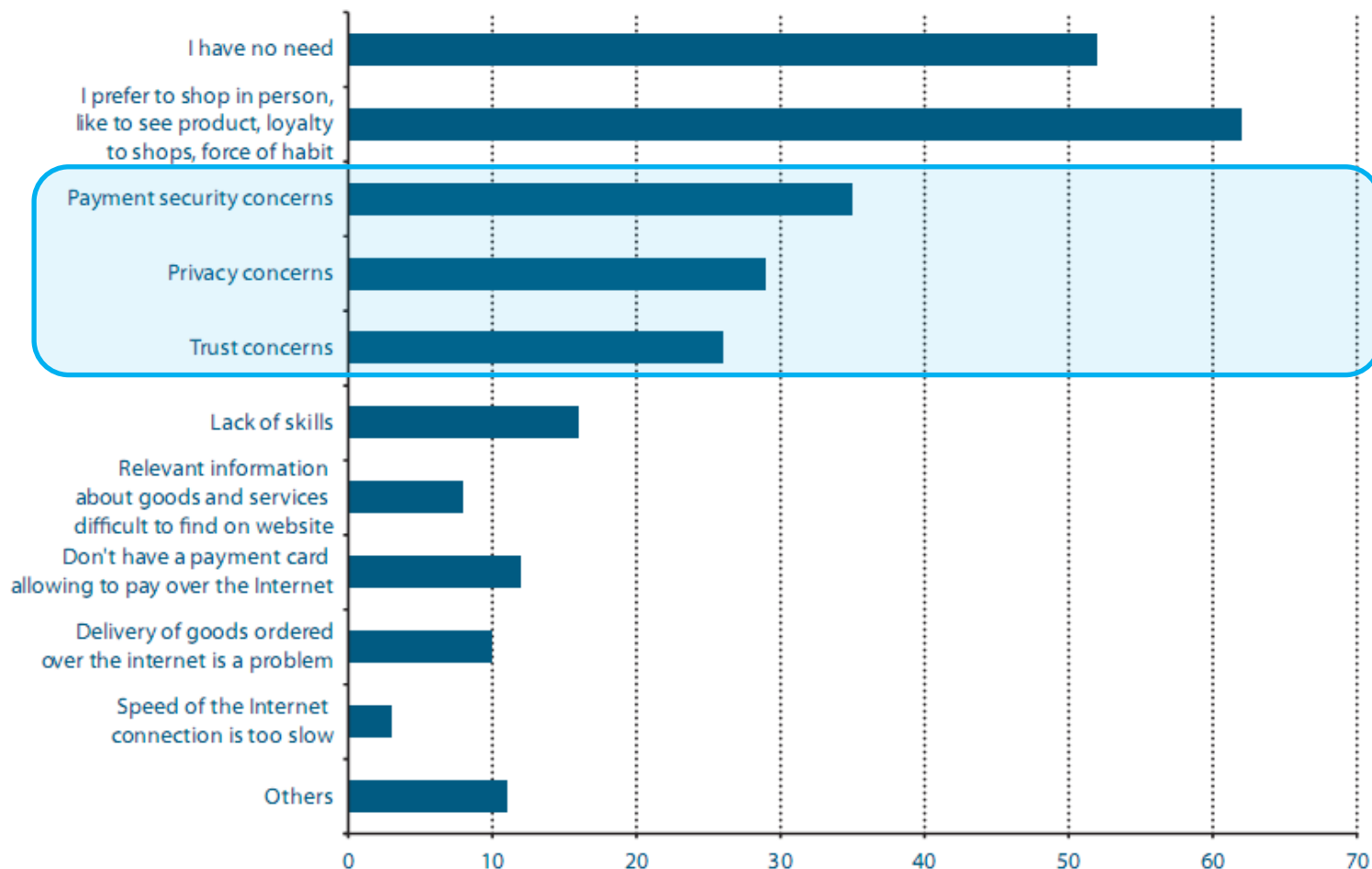
July 22, 2011

“Internet access among EU households has almost doubled over the past five years”

August 4, 2011

Key Barriers for Online Shopping

Security, privacy and trust are still the major barriers in consumers' minds:



In June 2011: A position paper on online payments in Europe, including key requirements formulated by web merchants across the continent, was presented at the Euro Banking Association conference EBAday in Madrid.




10 recommendations:


A Improvement of existing products	
Recommendation 1	Improvement of user experience of 3D Secure
Recommendation 2	Harmonize charge back and dispute processes of credit cards
Recommendation 5	More clarity on charge back rules with wallet systems
B Development of new products	
Recommendation 3	An international and interoperable OBeP solutions based on (SEPA) Credit Transfers
Recommendation 4	SDD: introduction of e-mandate for (SEPA) Direct Debits and improvement of one off direct debit rules
Recommendation 6	Interoperable pre-paid solutions
Recommendation 8	Cross border cash-on-delivery solutions
Recommendation 9	Payment methods dedicated for phones and tablet, including e-authentication options for ease of use (less input of data on the device)
Recommendation 10	Use e-authentication solutions to fight fraud and improve the buyer experience of credit transfers, direct debit and credit cards, including for the mobile channel
C Regulatory issues	
Recommendation 7	Clarity on the status of online banking overlay services and required standards

THE MYBANK RESPONSE

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 THE E-PAYMENT SOLUTION I CAN BANK ON

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Online shopping
paid through online banking
all across Europe.

MyBank.
Coming soon.

MyBank for
Consumers
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MyBank for
Merchants
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Financial Institutions
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MyBank

-  is a button to be displayed on the website of web-merchants.
- Consumers click on this button to complete their purchase in a secure manner via the online banking channel of their bank.

- MyBank is multi-purpose
 - Guaranteed Payment
 - Payment on Delivery
 - E-mandate creation / modification / cancelation
- Focussing on EUR transactions but open to multi-currency
- Adaptable for smart phones and other web connected devices.

BENEFITS FOR BANKS

- Generating revenue
- Reducing costs
- Improving customer satisfaction
- Meeting regulatory expectations

- What is the risk that if the banking industry does nothing, bank customers will find other ways to do the things that they want to do?
- Is there a threat that non-banking entrants, with smart technology, a wide customer base and a sufficient level of trust will take the customer front end?
-  brings the banking industry back into the game and counters the risk of disintermediation.


- What is the value of putting the bank back into the heart of the e-commerce transaction?
- What is the value of getting somebody to go to their bank's website *every time they buy something*?
- What unknown opportunities exist for the custodians of a customer account by linking the payments capability to real-time, internet and mobile capability?



EBA CLEARING

CONSULTATION AND PILOT

- Q1 and Q2 2011 Blueprinting exercise
- The initiative was launched at the EBA CLEARING Annual Shareholders' meeting on 14th June 2011.
- EBA CLEARING ran a consultation process with stakeholders from 14th July to 26th August 2011.

- EBA CLEARING received results from organisations representing over 3,000 institutions.
-  is welcomed by merchants and consumers, and is now seen as *the* banking industry's initiative in e-commerce.
- Today, there are over 30 banks supporting us in all major European countries, with full coverage in many of them.

- Call for Pilot Banks and e-merchants.
 - Definition of the Pilot: scope aims and objectives
 - Further definition of the operational issues
 - Definition of the governance environment
 - Definition of the roll out objectives
- May 2012: Live Pilot Launch
- Then, observation, tuning, ramp up and launch

This initiative will be successful, because EBA CLEARING

- is a country-neutral, pan-European organisation
- has a reputation for building practical solutions that work
- has a spotless record of delivering collaborative payment projects on time

MyBank

is a simple, secure solution that meets clear requirements and delivers value to Merchants, Consumers, Banks and Regulators.

EURO1
STEP2
MyBank

Part of the changing face of the SEPA Environment



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NEW:

www.mybankpayments.eu



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