Capitalizing on Innovation and Best Practices in International ACH Transactions

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Agenda

• Session Overview
• About the speakers
• Domestic ACH – quick overview
• International ACH (IAT) – drivers, challenges
• Role of the Federal Reserve Bank
• Epiq case study – a landmark example of IAT
• Questions
RBS Citizens Treasury Solutions

Matt Richardson

• Over 20 years of commercial and retail banking experience in sales, product, and business administration roles
• Head of Product Solutions for Treasury Solutions at RBS Citizens
• Leads team that is driving a comprehensive strategic investment in the cash management product suite
Federal Reserve Bank of Atlanta

John Morris

- Project Director in the Retail Payments Office
- Responsible for FedGlobal’s technical operations and foreign gateway relationship management
- 29 years of banking experience - project management, retail, electronic access, ACH, and product development
- ACH Operator – Supports 16,000 ODFIs/20,000 RDFIs
- 2012: over 12.1 billion ACH items/$23.9 trillion
Epiq Systems

Tice O’Sullivan

- Epiq Systems (NASDAQ: EPIQ)
  - Legal service provider with 11 offices in U.S. and overseas
- Portland office manages class action administration and corporate services
- Senior Manager, Mailings and Disbursements; 15+ years in financial services – investment and credit
- 2012: $13.6 billion distributed / 1.7 million checks and wires/ACH. Mailed 28.5 million pieces for class action cases.
Domestic ACH – quick overview

• Implemented in 1970s
• Transaction volume exceeds 20 billion annually
• Low-cost, high-volume payment system
• Nearly 100% acceptance rate for checking and saving accounts in the U.S.
• Simplified transaction flow between parties
  • Originator (company originating the transaction)
  • ODFI – Originating Depository Financial Institution (Originator’s bank)
  • Operator (for example, the Fed)
  • RDFI – Receiving Depository Financial Institution (Receiver’s bank)
  • Receiver (account holder)
ACH going global – where IAT comes in

International ACH Transactions (IAT) – what’s driving demand?
• U.S. companies need to conduct financial business internationally
• U.S. companies want to use the same domestic payment systems for international business
• International wires do not meet high-volume/low-value payments strategies
IAT implementation challenges

• More parties are involved
  • US Gateway Operator
  • Foreign Gateway Operator

• More networks are involved
  • Each country may have unique, low-value payment network
  • There may be multiple networks in a country

• Foreign exchange
  • With domestic ACH, there is no currency conversion
  • With global ACH, there will most likely be currency conversion
Working with the Fed on IAT

Benefits to selecting FedGlobal for our access Global product:

• The Fed is currently our domestic ACH Operator
• The Fed is also an established U.S. Gateway Operator
• The Fed has established relationship with Foreign Gateway Operators
• The Fed offers currency conversion
• Very little system development is needed to implement
Role of the Federal Reserve Bank

- **Background on FedGlobal**
  - Created in 1999 - General availability began in 2001
  - Promote ACH interoperability between countries
  - Eligibility, participate in FedACH as an Originating Financial Institution (ODFI) and enroll

- **FedGlobal Reaching 35 countries in North, South and Central America as well as Europe**
  - Canada
  - Mexico
  - Panama
  - Europe (22 countries)
  - Latin America (10 countries)
Role of the Federal Reserve Bank

- **Transaction types supported**
  - Government and commercial ACH payments
  - Outbound Credits (Canada supports credits and debits)
  - Fixed to Fixed US Dollar, Fixed to Variable, and Fixed to Fixed Foreign Exchange (F3X)

- **Gateway Operators**
  - Central bank (Mexico) and 4 foreign institutions
  - Individual contracts established for each partnership
  - Negotiate business terms, operational guidelines, formatting, exceptions, research, and connectivity
Epiq case study

The challenge:

• International Securities Case Settlement
  – 55,400 electronic transactions (52,000 ACH)
  – 21,500 check payments
  – $39.8 million to distribute

• 86 countries (90% of electronic payments to NL, UK, Germany, France, Belgium)
Specs for Epiq’s IAT needs

- Requirements – all to be released on same day
- Account on auto-hold pending approval from client
- All in U.S. dollars – all the way to beneficiary bank account
- Easy way to track payments/returns – over 11,200 of the payments between $62.89 and $63.00
- Wanted to give the beneficiary a reference number so that they could know what the credit was
The bank responds to the Epiq challenge

• Initial reaction: Wow!
• Second reaction: Let’s take the steps we need to do this.
• Compared benefits of using ACH vs. wire
• Reaction to volume – concerned about utilizing a new product for such a vital need
The bank’s next steps

• **Pre-testing phase**
  • Conducted initial testing of EDI and ACH to see how it could handle the volume; found that:
    • EDI could support 188K IAT transactions in a single file without any modifications.
    • ACH could handle 250K IAT ACH in a single window without modifications.

• Next step: we called the Fed
Collaboration was key – The Fed comes in....

- The Fed’s reaction to RBS Citizens and Epiq’s needs: “Wow!”
- Reaction to volume
  - Excited!!!
  - Concerns about payments quality and performance
  - Beneficiary deduction cases
- Discussion of how to test to minimize error and make execution as smooth as possible
- Formed an operational testing team to make this work
A solution emerges....

Bank’s proposed solution to Epiq:

- Integrated payable EDI using wire, check, and international ACH
- Standard ANSI X12 input format (from Epiq)
- Bank would make payment through:
  - Wire (for countries not supported by FedGlobal)
  - Access Global ACH (for countries supported by FedGlobal)
  - Check (for payments where we did not have proper electronic banking information)
Testing begins....

• Testing began in May 2012 – distribution date was to be end of July 2012
• Epiq agreed to send test files – the last one containing 95% of real participants
• Prior OFAC screening – Epiq provided bank with beneficiary details for AMR
• RBS Citizens performed several tests with the Fed, including sending the 95% file
• Fed tested all the way through to its Foreign Gateway Operator
Testing – relied on collaboration

Bottom line: collaboration required!
We did this as a team representing all three parties.
What we learned in testing: we could do it!

We learned that:

• 55K volume was achievable (by all systems involved)

• OFAC hits were manageable for the 55K transactions volume

• Lookup table needed to be added to EDI for validating foreign countries
What we learned from testing…

And also learned that:

• **Fed** has a parameter of rejecting any bank file with over 500 rejects; **FedGlobal** will reject a single IAT multiple times (initial 55K test had 5,000 reject/errors)

• **Epiq** moved the error transactions to check processing

• We needed several full 55K tests to reduce the errors

• **Fed** had to force the items through to do Foreign Gateway Operator tests
Results achieved from testing

• Only 2 transactions rejected due to formatting errors

• Only 81 transactions rejected due to content errors

• Experienced “bene deducts” on some of the ACH payments
  – Intermediaries
  – RDFI / account holding institution
<table>
<thead>
<tr>
<th>File Number</th>
<th>Description</th>
<th>Payments</th>
<th>Amount</th>
<th>Citizens Ref</th>
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<td>International ACH</td>
<td>51,851</td>
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<td>International Wire-2</td>
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<td>$112,969.31</td>
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<td>Domestic Wire</td>
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<tr>
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<td>International ACH Nominee</td>
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<tr>
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<tr>
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<td>Manual</td>
<td>Intermediary Bank Wires</td>
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<td>$371,109.22</td>
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<td><strong>Total</strong></td>
<td></td>
<td>55,407</td>
<td><strong>$29,955,674.48</strong></td>
<td></td>
</tr>
</tbody>
</table>

**July 28, 2012: What we did that day**
Results

- Largest single-day transaction volume in FedGlobal history
- Returns – 2% of volume
- Bene deducts – 15 out of 55,000
- Exception handling fees deducted from return items
- International payments service fees
- Lessons:
  - Importance of testing
  - Ensuring that you have a good way to track returns with a reference number that you can identify
  - Collaboration is key
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