



# International ACH Opportunities

for HRAFP

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# *What we'll cover*

- **Quick IAT Refresher**
- **IAT Since Implementation**
- **IAT Corporate Due Diligence**
- **IAT Enhancements Planned**
- **Leveraging your IAT Investment**
- **FedGlobal ACH Opportunities**
- **IAT Resources**

# *Definition of International ACH Transaction*

- **International ACH Transaction** –  
an ACH entry that is part of a payment transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States

# IAT =

$$\begin{array}{l} \text{Payment} \\ \text{Transaction} \\ \text{(Instruction + Settlement)} \end{array} + \begin{array}{l} \text{Financial} \\ \text{Agency} \\ \text{(Outside the} \\ \text{Territorial Jurisdiction} \\ \text{of the United} \\ \text{States)} \end{array} + \begin{array}{l} \text{U.S.} \\ \text{ACH} \\ \text{Network} \\ \text{Use of the IAT SEC} \\ \text{code is required IF} \\ \text{the transactions} \\ \text{flow through the U.S.} \\ \text{ACH Network at} \\ \text{some point!} \end{array} = \text{IAT}$$

*Location of the originator and beneficiary is **not** necessarily a final determinant of whether an entry should be formatted as an IAT transaction.*

# *IAT Implementation*

- Overall a successful implementation of a very complex change to the ACH Network
- No major problems have been experienced by the banks or the processors
- Most challenging aspect of the implementation seems to have been the addition of the OFAC screening requirements for international ACH transactions
- Major banks are experiencing a false positive rate of approximately 3.5% in their IAT OFAC review process
- Corporate identification of appropriate IAT transactions
- Additional training for corporate originators is needed

# *IAT Processing Issues*

- Lack of data integrity
  - Originators populating the fields with incorrect information
    - Originator Name field – BANK CUSTOMER
    - NOT AV (available), N/A in mandatory fields
    - \*\*/ - while systematically correct – this does not meet the mandatory data requirements
  - Default Language
    - Populating all fields with “standard language” rather than information specific to the actual parties to the transaction
- Formatting issues
  - Putting the Company Name in the IAT Indicator Field of the Batch Header Record. (Comp Name field was moved to the 2nd Addenda Record)
- Incorrect formatting prevents proper screening by the Receiving Bank

# IAT Transaction Volumes

	September 18 - 30	October	November	December
IAT Transactions	303,802	455,697	355,394 *	591,413
Total Value	\$791 million	\$1.9 billion	\$2.0 billion	\$2.7 billion

**Total 4<sup>th</sup> Qtr IAT Transactions = 1,402,504**

**Compared to 2nd Qtr CBR & PBR = 409,931**

**Approximately 1 Million more entries in one quarter!**

\* The volume difference from Oct to Nov is due entirely to the absence of a Federal payment cycle, presumably beneficiary payments

# *Corporate Due Diligence*

- The determination of an appropriate type and degree of due diligence in properly identifying international payments is not defined by either NACHA or OFAC.
- OFAC mandates that a company properly identify and handle a payment involving the movement of funds internationally.
- NACHA mandates the proper use of Standard Entry Class Code and application of the rules based on the nature of the funds transfer and the parties involved in the payment.
- However neither provides rules or specific guidance on how necessary information to comply with those standards is obtained.

# *Corporate Due Diligence*

- NACHA has developed sample language for communication between the Originator and their employees and vendors.
- Payroll/Pension - It is suggested that this language could be included within employee newsletters, on companies' Web sites, and new-hire information.
- Vendor Payments – Similar language could be provided to current and potential new vendors that receive their payments via ACH.
- How a company addresses the issue of due diligence is a business decision made by each company.

# *Sample Language*

## Employees

- There have been recent changes to the payment system rules for direct deposit of payroll. If you receive your payroll via direct deposit at a U.S. bank and then have the entire payroll amount forwarded to a bank in another country please advise the payroll department (or specific individual within your company). There are new formatting requirements for these transactions that the company needs to follow. It will not impact your payroll.

[http://www.nacha.org/IAT\\_Industry\\_Information/](http://www.nacha.org/IAT_Industry_Information/)

# *Sample Language*

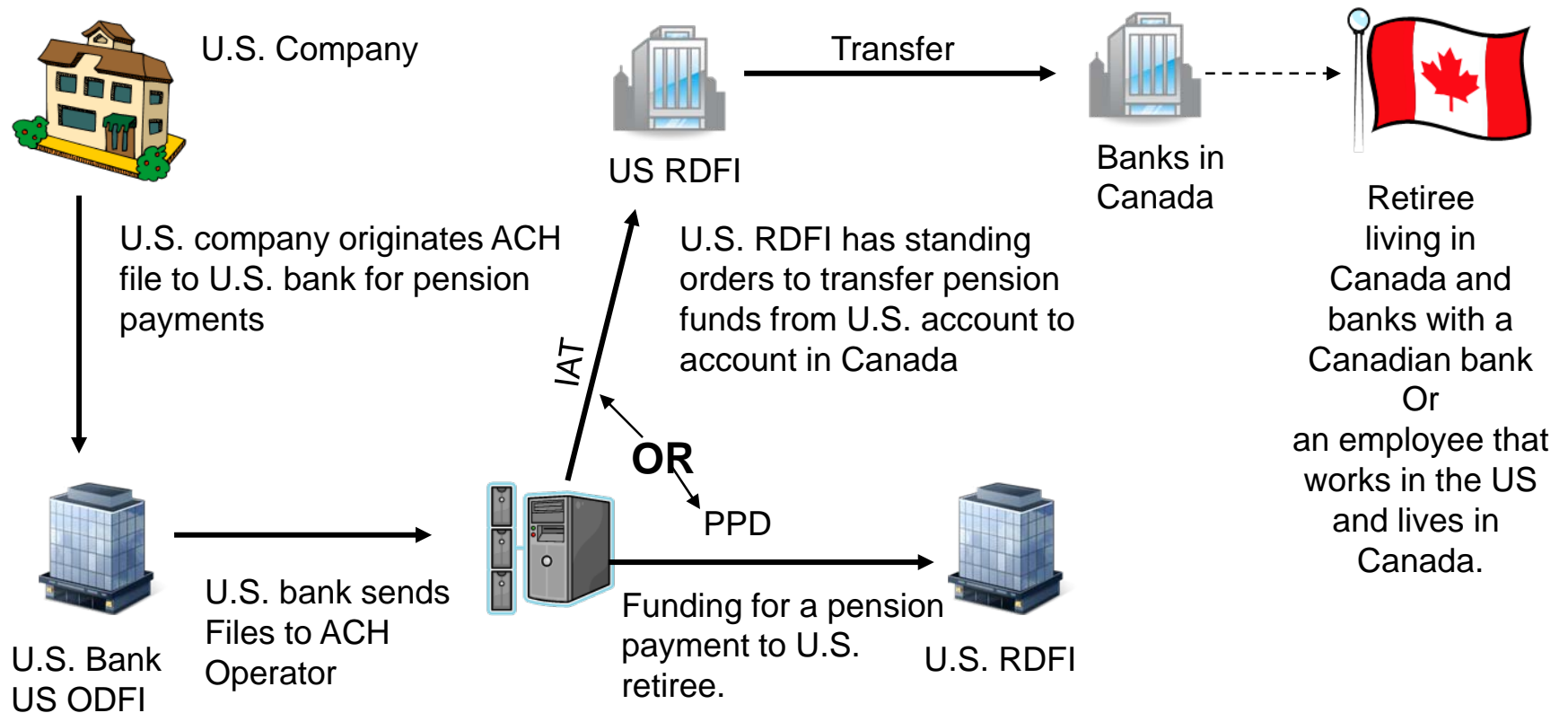
## Vendors

- There are new processing requirements for electronic vendor payments that are being sent to a financial institution outside of the United States. If our payments to you are being forwarded from a U.S. financial institution to a financial institution in another country, please advise (identify who within your company)

[http://www.nacha.org/IAT\\_Industry\\_Information/](http://www.nacha.org/IAT_Industry_Information/)

# IAT Transaction Chain

**Outbound IAT Transactions – sending pension/payroll funds out of the U.S. to a financial Institution outside the territorial jurisdiction of the U.S. for a non-resident pensioner**



# *IAT Product Enhancements*

1. Modify agreement language requirements between the ODFI and Gateway Operator
2. Revise the definition of Originator Identification Number Field (Natl Clearing Sys #, BIC Code, or IBAN)
3. Zero-dollar messaging for rejected inbound IAT entries
4. Mandatory use of the OFAC Screening Indicators
5. Development of a Return Reason Code or NOC Code for a domestic items that should have been formatted as an IAT
6. Expand the number of remittance addenda
7. Add additional codes for Transaction Type Code field – worker remittances, P2P and mobile

# *Timeline for IAT Enhancements*

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- Request for Comment – June 2010
- Potential Ballot – September/ October 2010
  - Split implementation date
    - Non-software changes – March 2011
    - Software changes – September 2011

# *Why Leverage a Banks IAT Investment?*

- Increasing numbers of companies are buying/selling goods and services globally.
- According to the U.S. Chamber of Commerce, more than 97 percent of the 266,457 U.S. companies that export their products are small-to-medium size businesses.
- In 2009, immigrants from Latin America and the Caribbean remitted **US\$62 billion** to their home countries. Statistics show that immigrants send money back to their home country approximately 6 times per year with an average transaction value of \$300.00.

# *IAT Origination*

- Two ways for a bank to offer international ACH Origination
  1. Buy service from another organization – either the Federal Reserve of another financial institution.
    - FedGlobal currently offers credit origination services to 22 countries in Europe, Canada and 14 countries from Mexico, Central and South America.
    - Various financial institutions offer similar services to a variety of countries.
  2. Develop your own correspondent network into foreign countries to access their payment system.
    - Time consuming and expensive.
    - A relationship must be established separately for each country with correspondent banks, agreements, local payment system access, foreign exchange functionality, etc.

# *The IAT Changes Everything*

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- New format, fully interoperable with major global payment systems
- Regulatory compliant
- Receipt of cross-border payments formally enters the equation
- Everybody plays by the same rules
- US ACH can now become an important component in global payments

# Federal Reserve

## Cross-Border Research

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- One-third of respondents are considering cross-border payments in their own organization. Among this group:
  - 1/3 expected to do so within 1 year and another third within 2 years
- Other data
  - Business and consumer payments were seen as equal drivers
  - 39% cited the IAT as the most important driver for cross-border ACH
  - 3/4 of respondents think both account to account and account to cash are important products.
- Preferred regions for sending payments to were Europe (41%), Latin America (16%), Asia (12%)

# *More Countries*

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- Bidirectional payments with Panama
  - Retiree needs (housing, healthcare, goods from home), tourism, financial services, construction, tuition fees/university needs
- 12 countries in Central and South America
  - Account to receiver payments only
- Much bigger European footprint
  - 22 Single Euro Payment Area countries

# *Account to Unbanked Receiver*

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- What it is:
  - Utilize NACHA IAT format to enable payments from accounts at US ODFI to be picked up by unbanked receivers at offices of participating banks or trusted, third-party provider
  - IAT format contains all the Travel Rule information making ACH item robust for regulatory compliance

# Services by Country/Region

Region	Country	FX Options			Payment Transfer Options	
		FF-USD	FF-local currency (F3X) Info only	FV – USD to local currency	Account-to-Account	Account-to-unbanked receiver
North America	Canada	✓	✓	✓	✓	
	Mexico		✓	✓	✓	✓
Central America *	Panama	✓			✓	
	All other	✓		✓		✓
South America *	All	✓		✓		✓
Europe*	All		✓	✓	✓	

\* Refer to next slide for detailed country list and availability dates

# List of Countries

Region	Countries	Service Available	Funds to RDFI (1 day item)
North America	Canada	Today	D + 1
	F3X – Canadian dollar	2010	D + 1
	Mexico	Today	D + 1
	F3X – Mexican peso	Today	D + 1
	Account to Unbanked Receiver	2Q 2010	D + 1
Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua (Account to Unbanked Receiver)	April 12	D + 1
	Panama	Today	D + 1
South America	Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru, Uruguay (Account to Unbanked Receiver)	2Q 2010	D + 1
Europe	Austria, Belgium, Cyprus, Czech Rep., Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom	April 24	D + 2
	F3X – euro and UK pound	April 24	D + 1

# *International Payments Resources*

- NACHA has the following educational programs available on international payments:
  - Principles of International Payments is a 2-day workshop that will be held regionally in conjunction with RPAs in 2010.
  - Institute of International Payments
  - Introduction to International Payments Workshop at Payments 2010
- U.S. – International Committee, part of the NACHA Global Payments Forum, is developing additional resources on international payments
  - International Payments Primer
  - International Payments Web site

# *IAT Resources*

## NACHA Resources:

- IAT Resource Page – provides information on the IAT Rule change, sample documents, IAT Scenarios and links to OFAC, Federal Reserve and EPN. The link for the page is - [http://www.nacha.org/IAT\\_Industry\\_Information/](http://www.nacha.org/IAT_Industry_Information/)
- IAT Survival Guide, 3<sup>rd</sup> Edition – Addresses implementation, best practices and technical specifications (mapping guide).
- New publication – IAT for Corporate Originators, to be published by the end of the 1<sup>st</sup> quarter.

## FedGlobal ACH Resources:

- Review Service Manual and FAQs available at: [www.frbsservices.org/operations/fedach/](http://www.frbsservices.org/operations/fedach/)

# *Principles of International Payments*

- EastPay is planning a two-day symposium.
  - Day One – Corporations & Financial Institutions
    - Intro to International Payments
    - Characteristics of International Settlement
    - Foreign Exchange Principles
    - Exploring International Payment Types
    - Risks, Anti-Money Laundering, & OFAC
  - Day Two – Primarily to Financial Institutions
    - SWIFT Alliance Lite
    - FedGlobal ACH
    - Developing an International ACH Service Business Case
    - Implementing and IAT Service



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*Questions ?*

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