

The Federal Reserve's International ACH Program: Supporting Cross-Border Retail Payments

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Background

- The challenges associated with making cross-border retail payments have become more evident as demand for cross-border payment alternatives has grown
 - Businesses are becoming more global in nature
 - Larger immigrant communities
 - Government benefit payments
- Growing interest at the highest levels of government in addressing issues related to migrant remittances
 - The provision of remittance services at a lower price
- It has been suggested that international cooperation and linking domestic payment networks in high-volume payment corridors may help address some of the challenges

Federal Reserve's ACH Service

- The Federal Reserve has provided (automated clearinghouse) ACH services since the 1970s
 - Federal Reserve was asked to provide these services by the banking industry
 - U.S. government promoted the use of ACH for payroll and benefit payments
- The U.S. ACH network
 - ACH infrastructure originally mirrored the check infrastructure and tapes were shipped between banks and the Federal Reserve using check couriers
 - Today, there is a national infrastructure and files are received and delivered electronically using a variety of electronic access solutions
 - The Federal Reserve is currently one of two ACH operators.
 - In 2003, there were about 8.4 billion ACH payments (CAGR: 13.4 percent)

Federal Reserve's International ACH Services

- There have been efforts over the years to develop an international ACH system but those efforts did not gain sufficient support until recently
- A Federal Reserve committee recommended that the Federal Reserve enhance its infrastructure to support cross-border ACH payments and to work with the banking industry to develop robust ACH cross-border capabilities
- In the late 1990s, the Federal Reserve began exploring opportunities to begin offering cross-border ACH services
- The goal was to provide banks with a cost-effective alternative for processing cross-border payments

Current International ACH Service Offerings

- The Federal Reserve's international ACH service offerings have been expanding.
- Current service offerings
 - Canadian service
 - Transatlantic service
 - Austria
 - Germany
 - The Netherlands
 - United Kingdom
 - Switzerland
 - Mexican service
 - Panamanian service (government payments only)

Service Model

- The Federal Reserve partners with an entity in the other country to serve as a gateway operator. The Federal Reserve is the U.S. gateway operator.
- The partner gateway operator is responsible for:
 - Translating payments between the different domestic ACH formats
 - Effecting foreign exchange conversion
 - Entering payments into its country's domestic ACH system

Issues and Challenges

- Payments standards and laws vary
- Questionable business case
 - For banks
 - For gateway operators
- AML/CFT/KYC requirements
- Evolving technology and new innovative solutions