



Webinar on AFAQ Cross-Border Service between GCC Countries

Thursday, 27 January 2022

13:00 to 14:30 (Riyadh Time)

OPENING: WELCOMING REMARKS

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CEO - Gulf Payments Company

SESSION 1: AFAQ SERVICE OVERVIEW

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Business Director - Gulf Payments Company



AFAQ Service Road Map



AFAQ Cross Currency

Transfer from one local currency to another local currency. (GCC currencies).



AFAQ Single Currency

Transfers within a country and between countries in the same single currency



Multilateral Clearing & Settlement Service

Support of cross-border multilateral net settlement instructions submitted by various regional clearing systems.



Outsourcing of Local Payment Services

Supporting the implementation of local currency activities.



AFAQ Services Road Map



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AFAQ Cross Currency Service Key Features



Payment Processing

Supporting Significant Payment Flows & Currency Usage in GCC.



System Architecture

Linking RTGS systems of GCC NCBs and reducing the regional network of correspondent banks.



Exchange Rates

Bringing fixed exchange rates to the daily cross-currency RTGS business.



Real-Time Gross Settlement (RTGS)

Eliminating counterparty risk by settling banks' transactions in central-bank money in real time.



Operating Rules & Regulations

Catering for transparency of common rules, fees and execution times.



Message Format and Types

Supporting ISO 20022 message formats and providing Message transformation for the communication with domestic RTGS.



Safety and Security of transfers

Providing a private network and Public Key Infrastructure (PKI) Services.



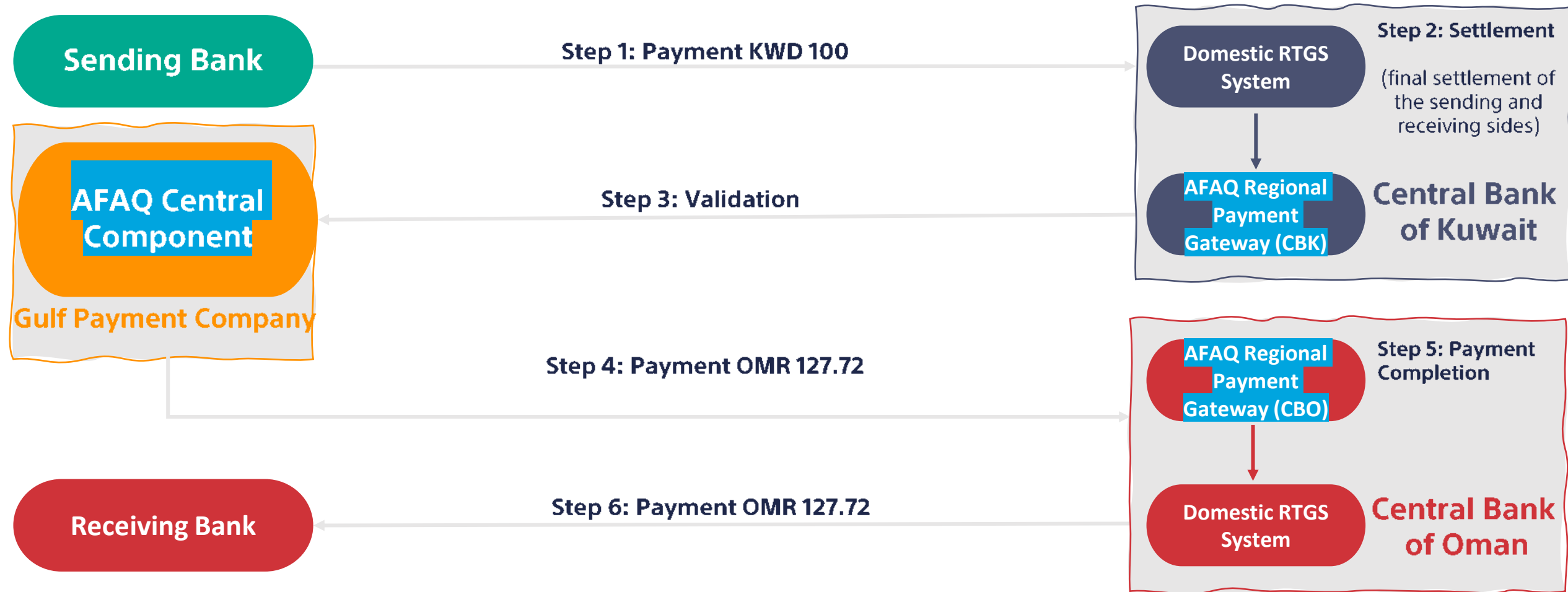
Industry Best Practices

Complying with the Principles for Financial Market Infrastructures (PFMI) and contributing to agenda of global standards setting.



AFAQ Cross Currency Payments Process Flow

Example of a payment between Kuwait and Oman



AFAQ Cross Currency Payment Transactions

01 Single Payment Message Only

02 Same Day Value Only

03 Customer or Interbank Payments

04 Currency Code, Amounts and Exchange Rate

Message Type	Description
MT103	Single Customer Payment Transfer
MT202	General Financial Institution transfer
MT202	Return Transfer
MTn98	Transfer Status
MT999/ASTS	Account Status Notification



AFAQ Cross Currency Business Day Timetable

Operating Hours : 08.15 – 15:00

#	Events	Riyadh Time Zone	
1	System Start	08:15-08:30	
2	FX Translation Rate adjustment	08:30-08:45	
3	FX Translation Rate authorization	08:45-09:15	
4	System Housekeeping	09:15-09:30	
5	Exchange Period for All Types of Payments	09:30-12:00	For Commercial Bank operations
6	Exchange Period for Interbank Payments Only	12:00-12:30	
7	Cut-off	12:30-13:00	
8	Reporting, Reconciliation, and Confirmation	13:00-14:00	
9	Net Settlement Window	14:00-15:00	
10	End of Business Day	15:00	

Note: For up-to-date information in regard to AFAQ rules and Operating Hours, please visit GPC website.



Who is eligible to participate in AFAQ Cross Currency ?



A Commercial Bank will need to:

- Hold a local settlement account with their NCB.
- Be a member of the D-RTGS of their NCB.
- Be able to comply on a continuous basis with all requirements of AFAQ.

AFAQ Cross Currency Onboarding Process



Onboarding Approach

- Strategy & Process
- Target (All GCC CBs)
- Onboarding Window (Open all year)
- Support team
- Testing Tools



Onboarding Phases

- Preparation
- Testing
- Onboarding



Onboarding Timelines

- Approx. **3 to 4 weeks** to get onboarded into AFAQ Service.

To be onboarded, Commercial Banks need to start the discussion with the National Central Bank to:

- Request to join AFAQ service.
- Obtain the onboarding document package.
- Complete the relevant training.
- Operational and Technical readiness.
- Test plan and Execution.
- Going live with AFAQ service.

Commercial bank onboarding process guide is available in GPC website for commercial banks reference.



AFAQ Cross Currency Participants as of today

Central Bank of Bahrain



مصرف البحرين المركزي

البنك المركزي السعودي
SAMA
Saudi Central Bank



مصرف الراجحي
Al Rajhi Bank



بنك الجزيرة
BANK ALJAZIRA



البنك الأهلي المتحد
ahli united bank



بنك الإسكان
Housing Bank

البنك
السعودي
الفرنسي
Banque
Saudi
Fransi



SNB

مصرف الإنماء
alinma bank



ICICI Bank



البنك العربي
ARAB BANK

البنك السعودي للاستثمار
The Saudi Investment Bank



SABB ساب



GiB
بنك الخليج الدولي

بنك السلام
Al Salam Bank



بنك الإثمار
Ithmaar Bank





More to come for AFAQ Service...

- Payment services and underlying technologies are developing at high speed. G20 countries have placed effective cross-border payment services high on their agenda.
- GPC is in the center for co-ordination, development and implementation of region-wide cross-border payment services.
- GPC will contribute to shaping the future GCC payments landscape **with additional features for existing services as well as introducing new services.**

SESSION 2: AFAQ AS ENABLER OF FULL END-TO-END INTEROPERABILITY

Dieter Becker

Subject Matter Expert - Gulf Payments Company



Challenges for AFAQ and the whole industry

Heidi Miller's (JPMorgan Chase) speech from SIBOS 2004 about the payments industry

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- *Why do we make things so complicated for our clients?*
- *How can we help our customers become more efficient and productive, when our own back offices are so expensive, fragmented, outdated and 'non-interoperable'?*
- *If we truly aspire to be leaders in the payments and securities industries, why is it that so many innovations in this business are pioneered by non-banks?*
- *If we can send a secure message to any company over the internet, why should we pay SWIFT to do it for us?*

//

..... and why are Heidi Miller's questions still relevant ?



AFAQ vs. Correspondent Banking

Correspondent banking



Linking individual banks to a series of correspondents



Straight-through processing (STP)



Requires:

- Well defined end-to-end processing steps
- Directory services for routing information
- Transparent rules for automated route selection
- Transparent charging rules without individual "negotiations"

AFAQ cross-currency service



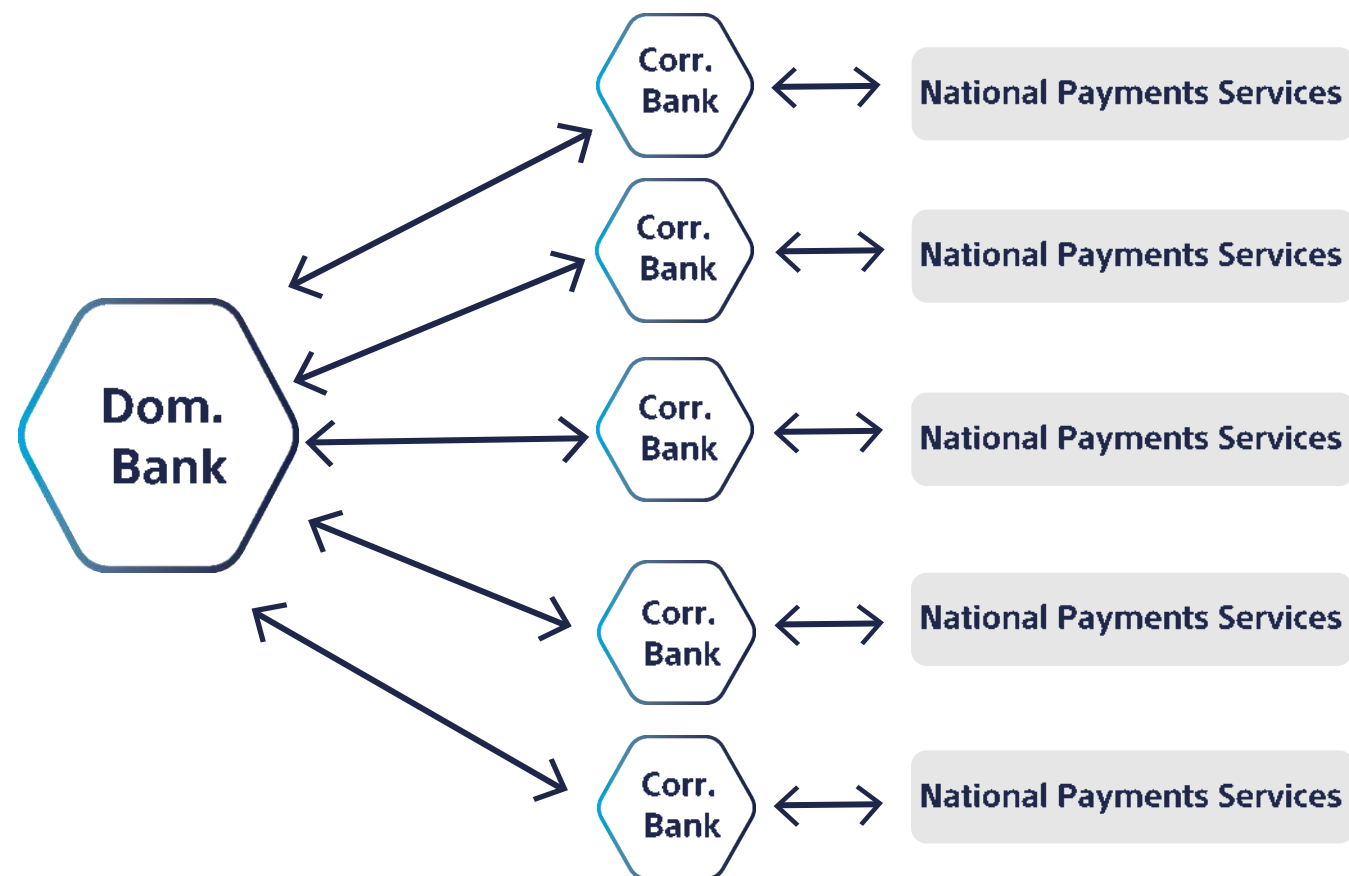
Linking NCBs' national RTGS services to a common cross-currency RTGS service



Our interpretation of Miller's provocative theses...
Are correspondent banking and STP compatible?



Correspondent Banking Services



Individual arrangements with each correspondent

- Counterparty risk assessment
- Different routing and settlement instructions
- SLAs
- Exchange rate
- Charging options
- Execution time
- Information about successful completion
- Data exchange formats
- Regulatory reporting requirements
- Reconciliation of many accounts
-

..... an invitation for complex solutions.



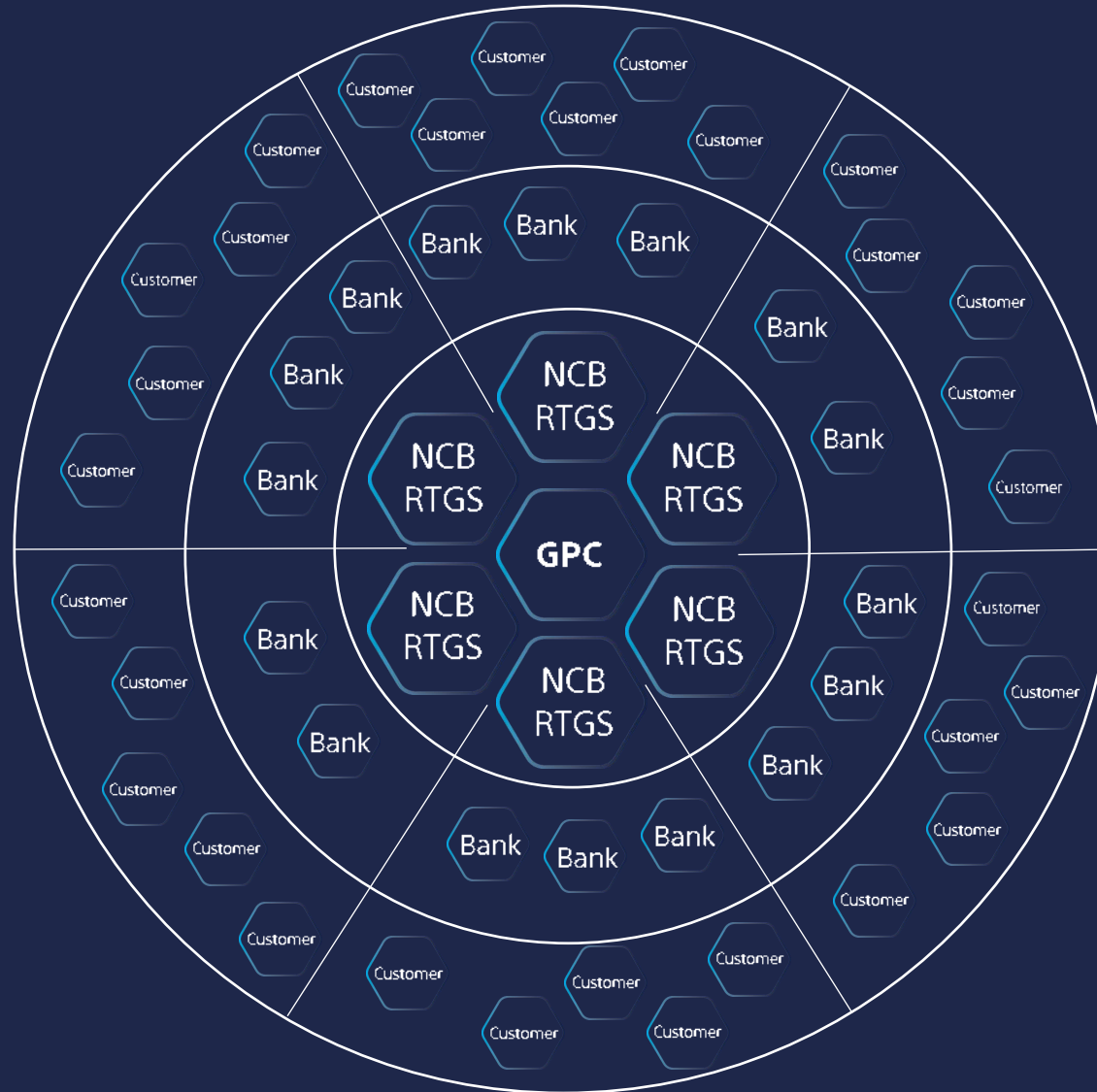
AFAQ Services

Bank to bank STP

- Single correspondent
- Immediate finality
- Clear rules
- No exchange rate risk
- No counterparty risk
- Common service level and fee structures

⇒ **Opportunities for back-office rationalization and streamlining of processes**

⇒ **Network of correspondent banks collapses to a single correspondent**



End-to-end (customer to customer) STP

- Most customer payments should be covered
- Analyze remaining end-to-end processing chains
- Specific cases like securities settlement need further attention
- Common data exchange formats from customer to customer would be of help

⇒ **Opportunity for further cost-saving, for regional business**

⇒ **and new business models in collaboration with NCBs**

..... a plea for cooperation and regional integration in the GCC countries.



Back to the Initial Questions and Key Messages

- *Why do we make things so complicated for our clients?*
 - We create complex network of correspondent banking.
- *How can we help our customers become more efficient and productive, when our own back offices are so expensive, fragmented, outdated and 'non-interoperable'?*
 - The complexity of the back offices mirrors the (self created) complexity of legal issues, rules, SLAs, business processes and exchange formats in correspondent banking.
- *If we truly aspire to be leaders in the payments and securities industries, why is it that so many innovations in this business are pioneered by non-banks?*
 - Innovative solutions are niche products with limitations to solve end-to-end interoperability.
- *If we can send a secure message to any company over the internet, why should we pay SWIFT to do it for us?*
 - Public internet and secure message exchange are somehow contradicting each other. AFAQ has chosen its own communication infrastructure, independently from SWIFT.



AFAQ is an enabler for End-to-End interoperability

- NCBs and GPC have built the AFAQ service on existing infrastructures.
 - Considerable reduction of complexity for GCC cross-currency payments has been achieved.
 - Many customer-to-customer end-to-end processing chains are covered with this proceeding.
 - Now one can have a look at special cases (e.g., securities settlement) of end-to-end processing chains.
- ⇒ **Reaping the full benefit of AFAQ cross-currency requires collaboration of all involved players.**
- ⇒ **NCBs and GPC stand ready to act as coordinator, catalyst and service provider for the involved parties.**

SESSION 3: AFAQ'S ROLE IN ENHANCING CROSS-BORDER PAYMENTS

Klaus Löber

European Securities and Markets Authority (ESMA)



Cross-border payments are essential to the global economy



- Value of cross-border payments estimated to increase from \$149 trillion in 2017 to \$253 trillion in 2027 (*Source: The Boston Consulting Group*)



- Revenues from cross-border payments are estimated to rise from \$81.6 billion in 2017 to \$174.2 billion in 2027 (*Source: The Boston Consulting Group*)

30%

- Flows of remittances to some economies are greater than 30% of GDP and account for more than 5% of GDP in at least 60 low- and middle-income countries (*Source: World Bank*)

And yet, they often remain problematic



Low speed



High costs



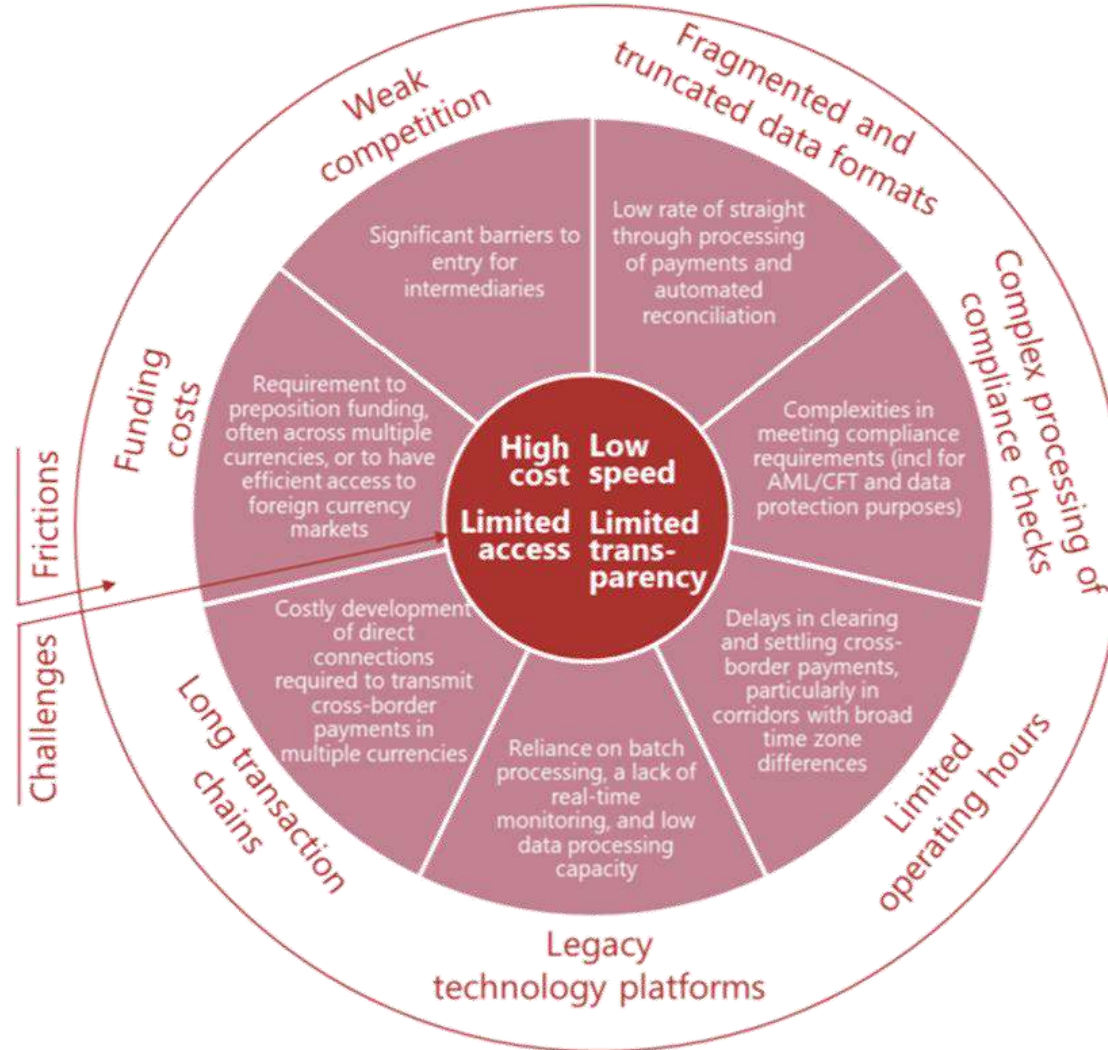
Limited access



Limited transparency



Seven frictions affecting cross-border payments





Need for improvement

- Faster, cheaper, more transparent and more inclusive cross-border payments services would have widespread benefits for citizens and economies
- The pandemic puts the current shortcomings in sharp relief, as it is affecting:



Global development



Economic growth



International trade

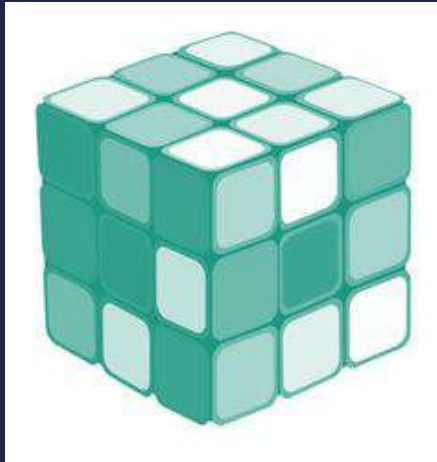


**International
remittances and
financial inclusion**

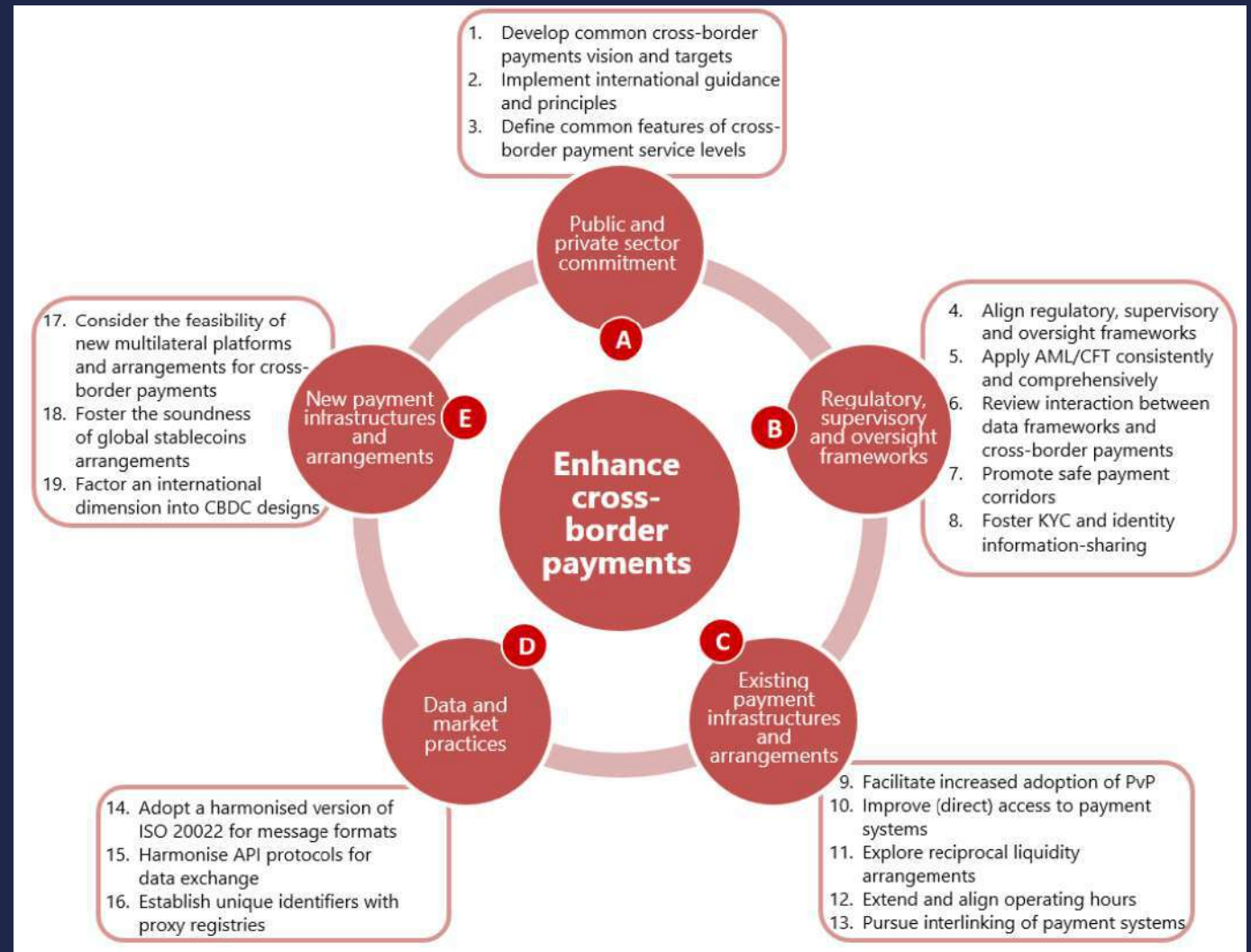


Enhancing cross-border payments

A multidimensional problem requiring a comprehensive approach



CPMI reports include the relevant building blocks across all focus areas for the G20 roadmap





Cross-border issues addressed by AFAQ services

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Defining common features of cross-border payment service levels

Agreed service levels establish consistency and certainty for all cross-border payment stakeholders based on a common framework. They have the potential to alleviate cross-border payment frictions

- Much of the complexity in cross-border payments arises from the significant number of stakeholders from the public and private sector. Need for mechanism to drive meaningful coordinated change.
- Significant elements identified are sound legal basis, governance structure, use of (international) technical standards, processing rules, clearing and settlement, and security and risk management

Considering the feasibility of new multilateral platforms and arrangements for cross border payments

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Multilateral platforms can be characterised as payment systems of multijurisdictional nature and typically (but not necessarily) involving multiple currencies

- Multilateral platforms have the potential to mitigate certain cross-border payment frictions



Cross-border issues addressed by AFAQ services

Exploring reciprocal liquidity arrangements across central banks (liquidity bridges)

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Central banks can have reciprocal arrangements with each other whereby direct participants in wholesale payment systems in different jurisdictions can post cash or securities in one payment system and use it as collateral to generate central bank money liquidity (typically intraday) in a payment system in another jurisdiction

Pursuing interlinking of payment systems for cross-border payments

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Payment systems interlinking directly addresses the friction of long transaction chains and supports a variety of other building blocks

- Despite their potential benefits, interlinking arrangements are currently relatively rare. Less than 10% of payment systems enable participants to send or receive payments to or from participants in other payment systems
- Addressing existing technical and operational restrictions rooted in systems' designs can tackle frictions resulting from different operating hours, long transaction chains, access criteria and high funding costs. Benefits can arise from implemented and coordinated changes



Cross-border issues addressed by AFAQ services

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Adopting a harmonised ISO 20022 version for message formats

Harmonising API protocols for data exchange

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Promoting the adoption of common message formats, such as a harmonised version of ISO 20022 and application programming interface (API) protocols, can play an important role in payment system interlinking and, more generally, in addressing data standards and quality and quantity restrictions in cross-border payments

- Poor data quality and limited standardisation of data exchange make cross-border payments more complex and affects speed, price and transparency. Efforts in this area mitigate the friction around fragmented and truncated data and also have the potential to improve compliance processes and address data handling issues within legacy technology, supporting widespread interoperability between systems



Conclusion of Way Forward

- **AFAQ Cross Currency has been in Operations since Dec 2020 (+20 participants already onboarded and more to come).**
- **AFAQ is an enabler for End-to-End interoperability.**
- **AFAQ Cross Currency brings commercial banks the same trusted domestic RTGS services.**
- **AFAQ already addressed several cross-border issues highlighted with the G20 roadmap.**



- ⇒ **For maximized efficiency, AFAQ cross-currency requires collaboration of all relevant players.**
- ⇒ **Commercial Banks are encouraged to fully adopt the AFAQ service as soon as possible.**
- ⇒ **Commercial Banks -who have not yet started the onboarding process- should engage discussions with their central bank to be onboarded into AFAQ.**

Questions & Answers

For sending questions:

- 1. Visit <https://www.sli.do/> or download Sli.do app from iTunes or Google Play stores.*
- 2. Enter this event code: GPCJAN2022*
- 3. Type your question.*

Thank you