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7º Encuentro sobre remesas

Perspectivas desde Europa y España

Fundación Rafael del Pino, Madrid,
6 de Mayo de 2011



CABEL IP, THE FIRST ITALIAN PAYMENT INSTITUTION

REMESAS. MADRID, 6th May 2011



CABEL A MULTISERVICE PROVIDER

Information technology

Internal Audit

Training

Consultancy

Payments

European legal framework

The Payment Services Directive distinguishes **six categories** of payment services providers:

(a) credit institutions;

(b) electronic money institutions;

(c) post office giro institutions;

(d) **payment institutions**;

(e) the European Central Bank and national central banks when not acting in their capacity as monetary authority or other public authorities;

(f) Member States or their regional or local authorities when not acting in their capacity as public authorities.

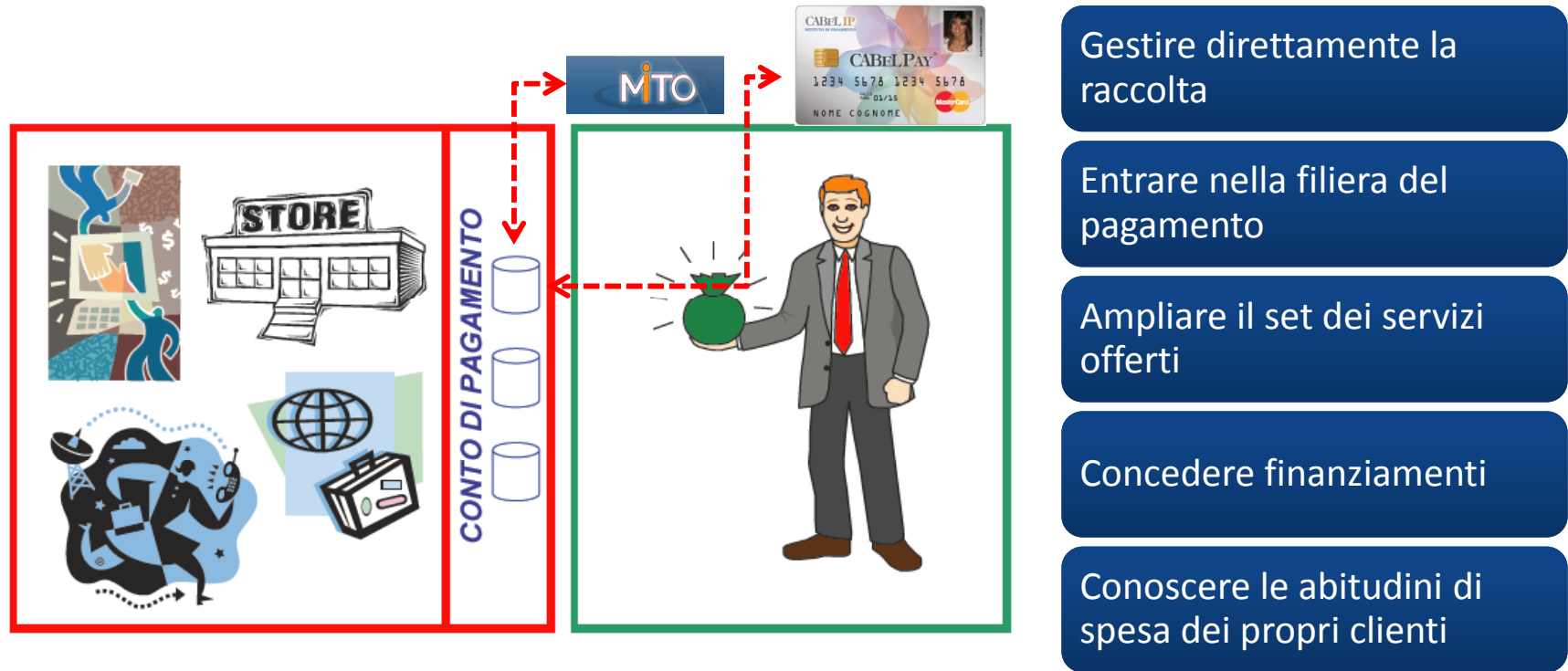
European legal framework

- A **PAYMENT INSTITUTION** is a legal person that has been granted an authorization to provide and execute **payment services** throughout the European Community.
- **Payment services are as follows:**
direct debits, payment cards, credit transfers, **money remittances, etc**
- **In short, the Directive lays down rules for regulating the activity of Payment Institutions. Among the Payment Institutions, money transfer operators are by far the most important in Europe.**

War on cash and more competition in the market of payment services require new intermediaries

<<PSD 1 Marzo 2010>>

Payment Institutions Model



Non bank intermediaries can manage payment accounts

The payment account

An account opened at a payment service provider, like a payment institution, only for payment operations

The technological support for a
payment account is a
multifunctional
payment card

Cabel IP: THE CREATION OF A PAYMENT INSTITUTION

When a PAYMENT INSTITUTION like CABEL IP is created three issues are interesting to analyse and investigate:

- 1) Economies of scale and scope due to electronic processing of transactions.
- 2) Strict governance rules reflecting the risk-based approach.
- 3) The convenience of the I.P. model compared to other forms of financial intermediation.

Let me start with the first one !

CABEL IP: ECONOMIES OF SCALE

In almost all the books of financial economics, the **economies of scale** are the most prominent cost-advantage associated with the provision of payment services to households, enterprises and public entities.

CABEL IP put together in 2010 a dozen of small banks all around Italy to run the business of the retail payments in a way that allows to reach a critical mass of transactions, abroad and in-house.

The security of 13 banks combined with the know-how of an IT provider !

For example, through their participation in CABEL IP even small banks can have access to the international networks of VISA and MASTERCARD and operate worldwide. In the same way, they channel all the foreign transactions to CABEL IP which processes them in partnership with Western Union or other MTOs.

The small banks - all shareholders of CABEL IP - reach huge volumes of transactions that produce gains in terms of efficiency and speed-up of execution.

In addition, the operational costs of CABEL I.P. are competitive as many functions are outsourced to skilled and cost-effective providers belonging to the same parent company as of CABEL IP. Such strategic outsourcing can give a competitive edge to CABEL I.P. vis-à-vis its peers and competitors. Even in 2011 the CABEL I.P. budget plan envisages in the first year of activity to get close to the break even point.

A look inside CABEL I.P. Key Products: CABEL PAY CARD

- CABEL I.P.'s pricing scheme is built on a solid foundation – namely its business integrated model as member of international networks, processor of all payment transactions and facilitator among different players, banks and consumers.
- CABEL I.P. is leading the way with CABEL PAY CARD that provides consumers with better prices than those offered by money transfers and commercial banks.
- CABEL PAY CARD is a multipurpose card (debit, credit and prepaid functions) that allows migrants and others to send money home with security and convenience at the lowest prices in the market with **no need** of having a **banking current account**.

A look inside CABEL I.P. Key Products: CABEL PAY CARD

- CABEL I.P. issues two CABEL CARDS at zero rate, one for the migrant and the other for a family member.
- The migrant can credit his salary on the card.
- Through the international networks (Visa, MC) both cardholders can easily withdraw the money they need.
- The cost of the whole transaction is € 1 .

CABEL I.P: GOVERNANCE

As to the **governance**, an I.P. requires rules and procedures to run the business and manage and control all the relevant risk arising from daily operations. As you can see from the next slide the risk of retail payments are numerous but not systemic, that is they are not able to influence the soundness and robustness of financial institutions as a whole.

CABEL IP is a **cooperative company** under the Italian law and is owned and controlled by its shareholders, all banks. The shareholders elect a [Board of 7 independent Directors](#), which governs the Company and oversees the management of the Company. The Risk [Committee](#) is a group of 2 full-time employees and two Directors headed by the Chief Executive Officer.

Audit process: CABEL's Chief Auditor has a dual reporting line with a direct functional reporting line to the Chair of the Audit Committee, and also a direct administrative reporting line to the CEO. To ensure objectivity, the mandates of the external auditors, as well as their remuneration, are approved by the Audit Committee.

CABEL I.P. has two mandates for internal, external audit and compliance activity as well.

Governance and risk assessment for CABEL IP

Credit risk	Not present
Market risk	“
Liquidity risk	“
Interest rate risk	“
Strategic and Reputational risks	Medium
Operational risk	Medium
Legal risk	High
Foreign exchange risk	Medium
Money laundering and terrorist financing risks	High

CAPITAL REQUIREMENTS

The third and perhaps the most important factor is the **low amount of capital** and other reserves required to I.P.s to carry out their activity.

There is a need for a soft prudential capital and, as to CABEL IP, the start-up capital required by law is € 125,000 and the mandatory reserve has to be kept not lower than ten per cent of administrative costs.

In fact, I.P.s pose actually **no systemic risk** and consequently are required to maintain low capital ratio.

Finally, it is more convenient to set up an I.P. than a bank or other financial intermediaries to offer payment services at retail level.

Supervision of PAYMENT INSTITUTIONS

European Member States ensure that the controls exercised by the competent authorities for checking compliance with Directive n.64 are proportionate, adequate and responsive to the risks to which payment institutions are exposed.

Against this background, the competent authorities (e. g.: BANCA D'ITALIA in Italy) are entitled to take the following steps:

- (a) to require the payment institution to provide any information needed to monitor compliance;
- (b) to carry out on-site inspections at the payment institution, at any agent or branch providing payment services under the responsibility of the payment institution, or at any entity to which activities are outsourced;
- (c) to issue recommendations, guidelines and, if applicable, binding administrative provisions; and
- (d) to suspend or withdraw authorisation.

In conclusion to be a Payment Institution is needed:



68 in Europe: 60 in UK, 5 in Ireland, 2 Denmark, 1 Luxembourg

+ 3 in ITALY but only one working: CABEL IP



Investment in technology i.e. internet banking platform , connections

Risk awarness

Technical, legal, risk managing skills of its staff

The authorization from the Supervision Authority

The certification from the national and international circuits (Visa and Mastercard)

Organization and internal control systems

business continuity procedures and instruments

Antimoneylaundering discipline, contracts for debt cards and apyment accounts

help desk, back office, connections...

Our ordinary tool box

OUR PAYMENT CARD



CABEL PAY

It is not an ordinary payment card



La sicurezza prima di tutto

Personalizzabile dal titolare, tecnologia Chip&Pin

E' una carta di debito

Verifica saldo on-line, Addebito immediato

Prepagata ricaricabile

Autoricarica , subito disponibile.

Per il marketing

Fidelity, Campagne pubblicitarie, Brand

Conto (IBAN)

Bonifici, Mav, Rav, ...Acrediti

Internet

Acquisti in 3D secure

I.B. Mito

Strumento di gestione

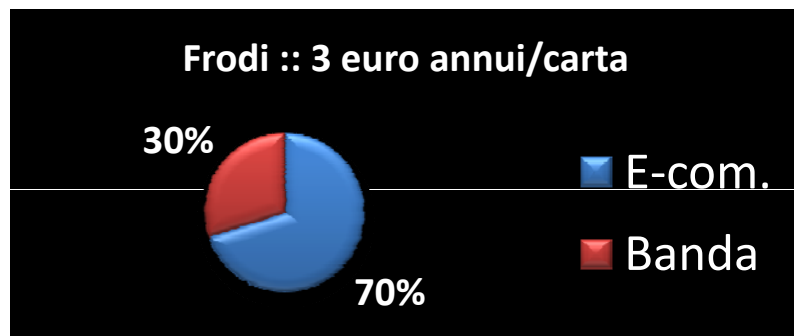
Bolli

Economica



CABEL PAY

La sicurezza prima di tutto



Personalizzazione

Chip Only per paese

Utilizzo solo del chip nei paesi che lo hanno adottato (Sepa)

Strong Authentication

Drin-Pass per importi rilevanti (impostati dall'utente)

Gestione personale della operatività

Abilita/Disabilita :: Internet, Estero. Sospensione carta.

Gestione personale dei massimali

Impostazione massimali di spesa e prelievo per Italia / Estero / Web

Chip&Pin Unembossed

Verifica liquidità on line.

Alert e controlli

SMS,E-Mail e Internet Banking on-line

Acquisti su Internet

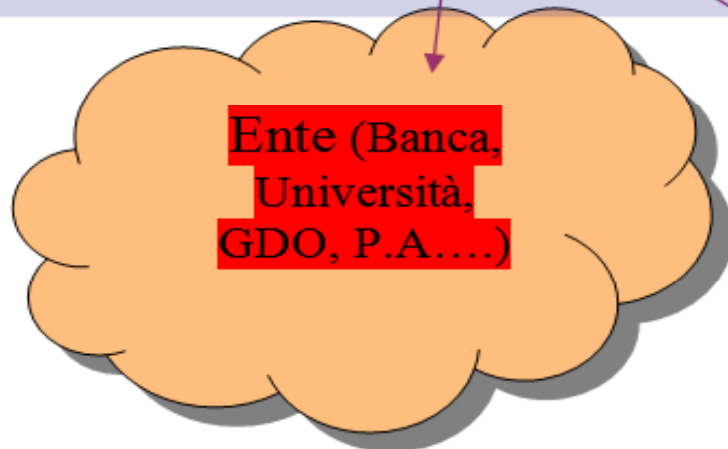
CvC2 e Sistema Secure 3d

Gestione delle frodi

Controlli sulla tipologia dell'operazione



CABELPAY : THE MODEL



Rendicontazione
Collocamento



Agenzie



Organi di vigilanza

CONCLUSIONS

- There is room for improving the way the transactions are carried out in the remittances markets
- New competitors can enter the market with new products and services within the scheme of the Payment Institutions

These operators can generate

- more competition (banks vs other intermediaries)
- more innovation (payments anytime, anywhere, different platforms, internet and mobile phones)
- more information (transparency, prices, fees and so on)
- more legality (antimoneylaundering)

with substantial benefits for the migrants as final users of a more efficient market