Cross-Border Payments

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Breaking Ice and Melting Differences
2017
WICSEC
Western Interstate Child Support Enforcement Council

Anchorage, Alaska
September 24-28, 2017

Cross-Border Payments

Defining the Need and Identifying Solutions

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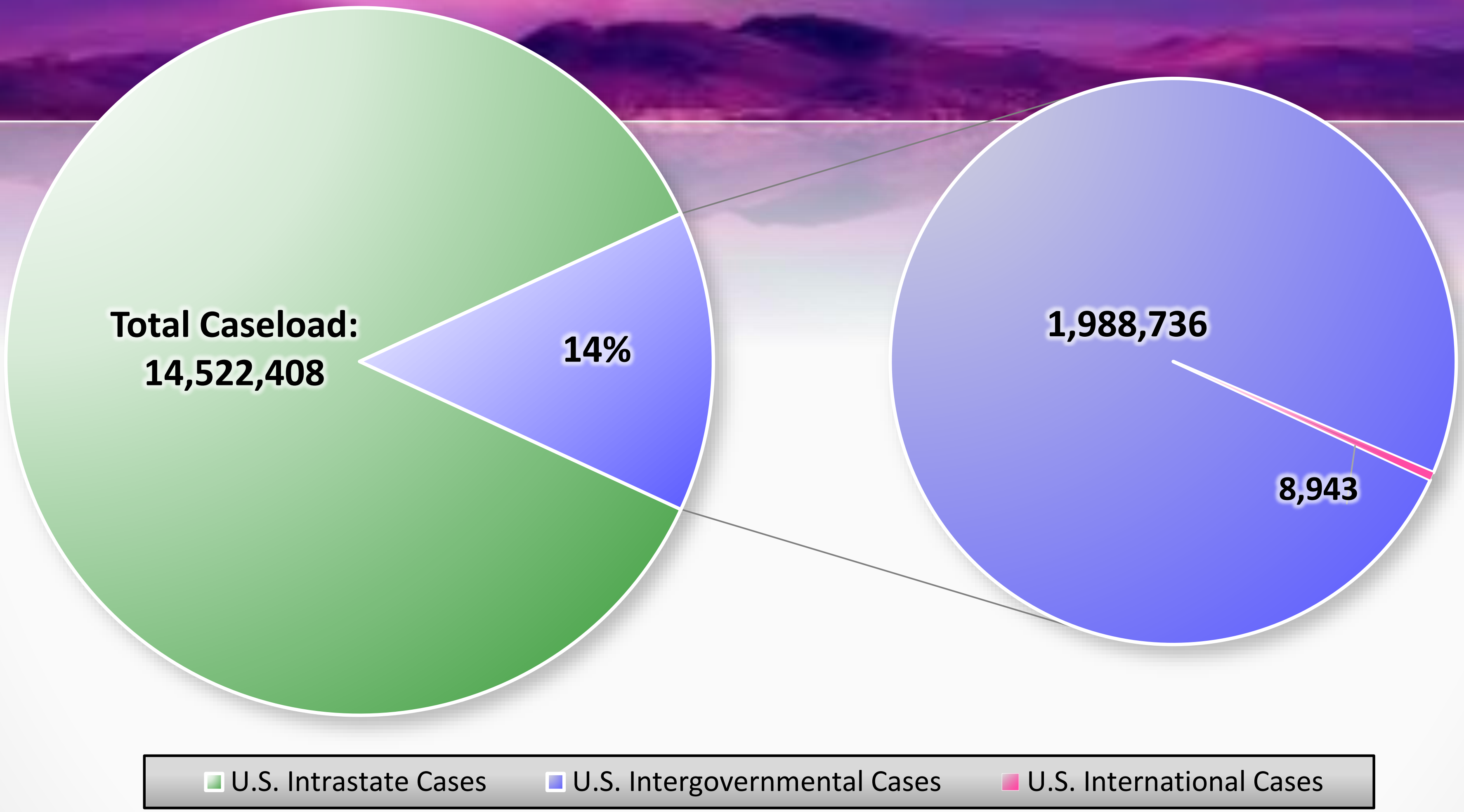
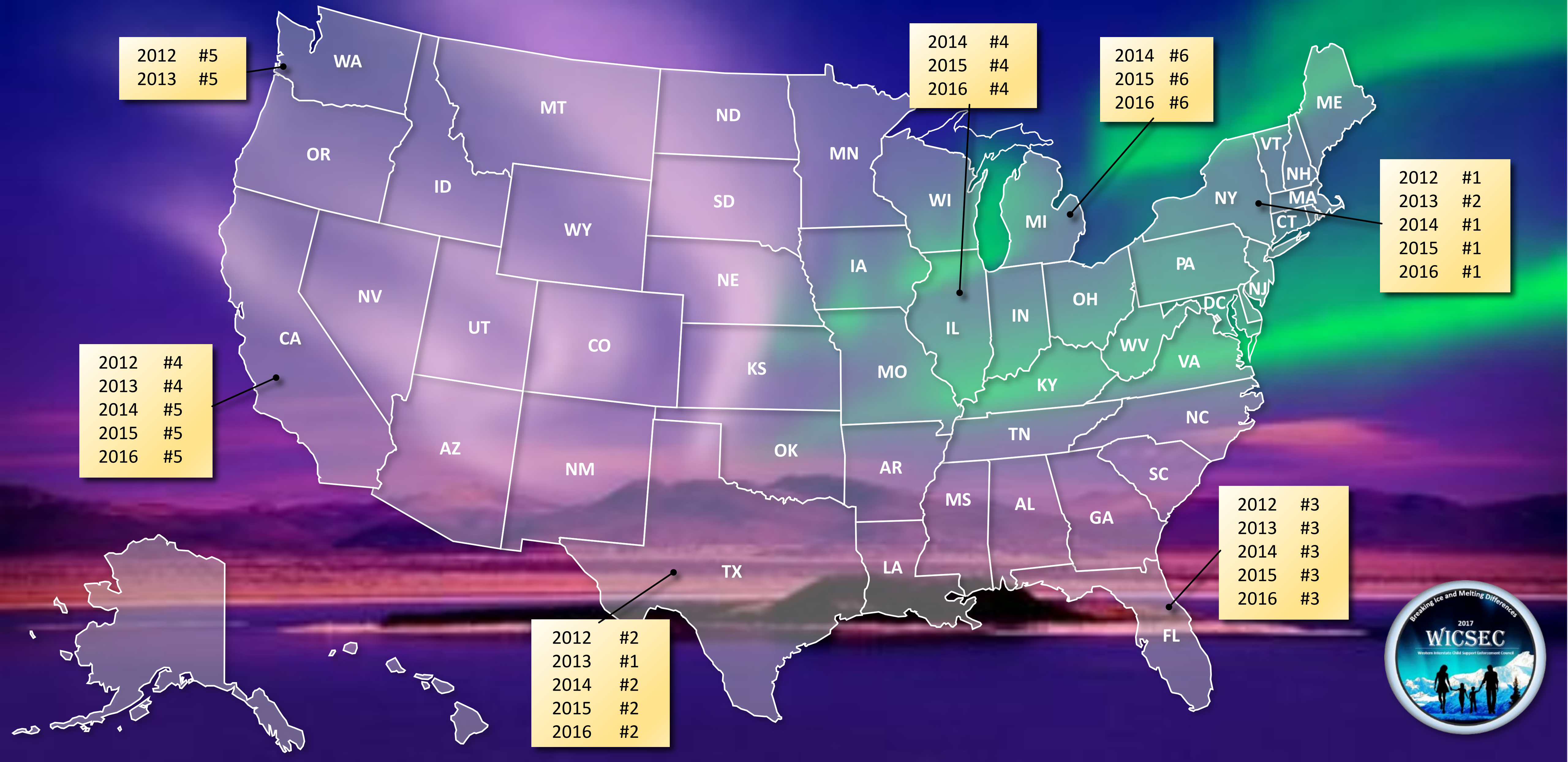
U.S. Child Support Case Volumes



Source: OCSE-157, OCSE Preliminary Report FY 2016

International Cases – Families on the Move



Moving to Electronic Payments

- First priority – to understand what possibilities are and what challenges are.
- Accept that there is not – at least initially – going to be a "one size fits all" solution.
- Solutions will have to meet the needs of particular countries, as well as individual states.
- There will be more than one path forward.

Have You Received the Call(s)?

Country	Issue / Not a Universal Solution
Austria	Unable to cash checks since March 2016. November 2016 announcement that they would be opening a bank account in Washington, D.C. Also expressed interest in electronic payments.
Hungary	Will not accept electronic payments for CPs. Expressed interest in EPC, but has not clarified chipped vs non-chipped. Still accepting checks made payable to the CP, sent to the Central Office in denominations not less than $200 and not more than $399.
Mexico	High cost to cash checks – if CPs can find a bank to cash them. Send checks to the consulates; courier checks to delegation offices via Diplomatic Pouch; mail may take 2 months to reach recipient. Prefer EPC.

Have You Received the Call(s)?

Country	Issue / Not a Universal Solution
Norway	Lockbox established in Texas to receive checks made payable to the CPs. Also have a USD bank account with the Bank of New York Mellon, a part-government-owned (DNB Bank), which transmits child support payments to Norway and the CPs/obligors.
Poland	Send payments via a clearinghouse in Chicago.
Slovakia	Will no longer accept checks; requests electronic payments. If you must send checks, then send them directly to the CPs/obligors.
Switzerland	Temporarily accepting electronic payments via their Swiss embassy's U.S. account, where the funds are then wired to the Switzerland Central Authority for disbursement to the CPs/obligors.

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The Evolving Payment Story

In the old days… In a world of checks…

- International payments = domestic payments
- Priority is getting payments out quickly and efficiently.
- No real distinction between domestic cases and international cases.
- Reciprocal partners had similar structures to ours so we sent check payments made out to the Custodial Parent to a central office and they took care of the rest.
- The “monetary instrument” was the money and the data all in one.

The Evolution of Payments

With the demise of checks, we face challenges:

- ✓ Electronic payments do not carry data as elegantly or easily as checks do.
- ✓ While anyone can read and enter a check – not all authorities can read or accept an electronic record.

New Players

With the Convention, we have acquired new partners

- Not all of the new partners are structured in the same way.
- Lots of differences: some are very decentralized; some centralized; some track all cases and balances; other do not.
- Some have case management systems; some do not.
- Some countries are very used to payment mechanisms that are very unfamiliar to us (e.g. wire payments) while our payment systems are unfamiliar to them.
- New model – dealing directly with the CP in a foreign country.

Convention and UIFSA Requirements

Duties of the Central Authority

Article 6 e)

The Central Authority shall "facilitate the collection and expeditious transfer of maintenance payments"

Section 319(a)

- Prompt disbursement of any amounts received under an order
- Provide a certified payment record

Federal Law and Regulatory Requirements

Other Payment Requirements

2-Day rule for payments applies to foreign payments

- 2 days start when SDU receives converted payment back from the bank (PIQ-03-04)

Payment Processing

45 CFR 303.7(d)(6)(v)

IV-D Agency must send the support payments to the location specified by the initiating agency

- Central location
- Custodial parent or caretaker
- Emancipated child

Cross-Border Payments

Moving Money Internationally

Moving Money Internationally – Options

Checks –

- ✓ Limited acceptance
- ✓ Very high cost
- ✓ Great data

Electronic Pay Cards (EPC) –

- ✓ Will your State Disbursement Unit/vendor send EPC internationally?
- ✓ Chipped vs. non-chipped
- ✓ Potentially higher bank fees
- ✓ When to apply payments
- ✓ Authentication factors, pinning and no Social Security Numbers
- ✓ Communication, communication, communication
- ✓ California's Mexico experience

Moving Money Internationally – Options

California's EPC Effort with Mexico

EPC Sent Via	EPC Sent	EPC Pinned	Pinned % of EPC Sent
Private Address	127	49	39%
San Francisco	12	12	100%
Calexico	73	57	78%
Los Angeles	39	31	80%
San Jose	12	10	84%
San Diego	59	52	89%
Sacramento	8	8	100%
San Bernardino	19	14	74%
Oxnard	9	8	89%
Santa Ana	17	16	95%
Fresno	20	11	55%
Total	**395**	**268**	

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Moving Money Internationally – Options

Wire Payments

- Bank to Bank payments
- Single transactions
- Initiating bank verifies the recipient bank account details
- Receiving Bank confirms details
- Funds are sent

Moving Money Internationally – Options

Advantages of Wire Payments

- Global reach – almost every country can send or receive wire payments
- Can be sent in any currency; payments do not need to be converted
- Fast – payments are generally processed the same day
- Best for batched payments

Moving Money Internationally – Options

Disadvantages of Wire Payments

- Each transaction is expensive – up to $30 USD per transaction
- May be cost prohibitive for individual case payments
- Limited amount of data – SWIFT/ IBAN format identifies bank account or bank address – not case data
- Case data will need to be sent separately

Moving Money Internationally – Options

Knowing the Lingo

- **NACHA** – National Automated Clearing House Association

  Sets the rules for the inclusion and formatting of specific information sent in the addenda records that accompany U.S. electronic fund transfers (EFT).

- **ACH** – Automated Clearing House

  A banking transaction method used in the U.S. to digitally transfer funds between accounts in a secure manner which allows for the inclusion of disbursement instructions that identify/specify to which child support case and debtor the funds should be disbursed. The inclusion of specific disbursement instructions is of significant importance.

Moving Money Internationally – Options

Wire Payments vs. ACH (Domestic)	
Single payment	Multiple payments
Payments sent immediately	Payments are batched by the sending financial institution and all payments for each financial institution are transmitted at the end of the day
Limited amount of data can be included	Sufficient data can be included to identify case and recipient
Expensive	More cost effective
Not currently used in U.S. child support programs	Standard method of transmission for U.S. child support payments
Used frequently in Europe	Europe does not use ACH. Within Europe, the data/transmission format and process is different

Moving Money Internationally – Options

IAT – International ACH Transaction

- ✓ A standard that was introduced to ensure that international payments comply with OFAC* rules.
- ✓ These transactions do not include the same data elements and addenda records required under the NACHA domestic ACH. However, IAT does require identifiable data, contained in different records including optional fields in the 715 record that allows inclusion of the receiving country's case number and the obligor's last name.
- ✓ Data elements that must be included with an IAT are:
    - Originator's name/address
    - Beneficiary's name/address
    - Originating bank name/ID/branch code
    - Foreign correspondent bank name/ID/branch code
    - Receiving bank name/ID/branch code
    - Reason for payment
- ✓ The transactions are sent at the case-level with payments rolled per individual case.
- ✓ A less costly way to transfer funds electronically to other countries.

Moving Money Internationally – Options

SEPA – Single European Payment Area

The area where citizens, companies and other economic actors are able to make and receive payments in euros, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

Cross-Border Payments

Moving the Data

Moving the Data

OFAC and International Payments

- The Office of Foreign Assets Control (OFAC) is an office of the U.S. Department of the Treasury.
- OFAC administers and enforces the U.S. government's sanctions programs including country sanctions, such as Cuba, Iran, and Sudan, as well sanctions placed on individuals and entities whose names are place on the Specially Designated Nationals and Blocked Persons (SDN) list
- In the United States, both wire transfers and ACH (Domestic) transfers must comply with OFAC rules regarding prohibited international transactions.
- PayPal and other similar payment transfer companies must also comply.
- Sufficient information must be collected at the time of payment transfer for the financial institution to be able to verify that individual recipients are not prohibited from receiving funds.

Moving the Data

Transmitting Data

- The data that is needed for IAT is different than the data that is collected/transmitted on domestic cases using ACH (although much of it is the same).
- Outside the U.S., a different data format is used so the data needs to be converted to the receiving country format.
- Sending payments electronically requires reprogramming of payment systems and working with a bank that can further convert the data to the receiving country format.

Moving the Data

Why OFAC Matters

- All of the required data must be collected pursuant to U.S. law.
- Payment processing systems must be able to identify international payments and ensure the required data is included so that the payment can be "scanned" for compliance with OFAC.
- The data that is required (in particular recipient address) may not be available and may not be supplied for foreign recipients.
  - ✓ Many foreign programs will use the address of the Central Authority for CP.

Cross-Border Payments

Currency Conversion

Currency Conversion for Outgoing Payments

- No uniform practice in international cases for transmission of funds
- Section 305(f) UIFSA requires that foreign support be converted into an "equivalent amount" in USD so collections are always in the local currency
- In the current "check regime"
  - ✓ Payments are generally transmitted in the currency of the collecting country (U.S. collects = payment out in USD)
  - ✓ Cost of converting funds into foreign currency is borne by receiving country
- Electronic payments
  - ✓ May be a requirement to transmit in currency of the receiving country

Currency Conversion for Outgoing Payments

It's not all Euros

Quick Quiz: How many currencies are currently used in the European Union?

A. *Only one – the Euro*
B. *Two - the Euro and the Pound (England, Wales etc.)*
C. *Eleven - the Euro and ten others*
D. *I don't know – Can I still use Traveler's Checks in Europe?*

Non-Euro Currencies Used in Europe

Currency	Country	Symbol	Code
British pound sterling Gibraltar pound	United Kingdom Gibraltar	£	GBP GIP
Bulgarian lev	Bulgaria	лв	BGN
Croatian kuna	Croatia	kn	HRK
Czech koruna	Czech Republic	Kč	CZK
Danish krone	Denmark	kr	DKK
Hungarian forint	Hungary	Ft	HUF
Polish złoty	Poland	zł	PLN
Romanian leu	Romania	Leu	RON
Swedish krona	Sweden	kr	SEK
Swiss franc	Campione d’Italia (Italy)	Fr.	CHF

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Currency Conversion

More Reconciliation Headaches

Example Case:

- Order from France – €100 per month
- Converted to USD equivalent August 2015 ($1.12 = € 1)
- Order amount in USD = $112.00 per month
- Money received August 2017 - $112.00
- Converted at $1.19 USD = €1
- Amount transferred to France = €93.88
- Arrears of €6.12 on payment record in France

Currency Conversion

Uh oh…

This creates problems:

- ✓ Your system will show maintenance paid in full
  ($100 due = $100 received)
- In the “check world” you wouldn’t know until the other country let you know there was an outstanding balance
- Unless you do the conversion before you send the funds – you have to get regular updates from the receiving country
- What if the payment goes directly to the CP by EPC?
- What steps are in place to track the actual funds received by the CP after conversion?

Currency Conversion

Keeping Up-to-Date

- With more electronic payments it is even more important to adjust currency equivalence at regular intervals.
- Remember :
  - ✓ Currency conversion does not modify the original order
  - ✓ It is a best practice to regularly update the currency equivalence for the order as well as to reconcile the arrears balance with the foreign country.
- Best practice - Update/reconcile the arrears if you are going to take significant action such as court action that could result in "full" payment of the arrears.

Cross-Border Payments

How and Where Do We Start?

How and Where Do We Start?

- **California Handout**
  - ✓ Know your case loads / Collect your data
  - ✓ Define and identify direct application cases from those where someone relocated
  - ✓ Develop really great contacts
- **Reconcile Your Shared Cases**
  - ✓ Keep it simple
  - ✓ It takes time
  - ✓ Get the information you need

How and Where Do We Start?

- **Communication and Testing**
  - ✓ Do the Central Authorities track payments/balances?
  - ✓ Testing – Do you want to test a single payment for a single case?
  - ✓ Providing guides for international banks / Central Authorities
  - ✓ Providing multilingual information for CPs

Cross-Border Payments

OCSE Assistance

OCSE Assistance

OCSE is actively fielding questions from US states about specific countries and specific cases where check payments are proving problematic

Contacting other countries to find out how their payment distribution systems work and better understand their processes

Disseminating information to states, including contact information for other countries

Providing information to other countries about options (such as opening a US Bank account) that may be available

OCSE Assistance

Actively gathering information from US states and other countries to prepare informational resources for all states to use

Researching legislation, regulations, and other types of cross-border payments to determine available payment options

Liaising with other government entities involved in cross-border payments and regulation

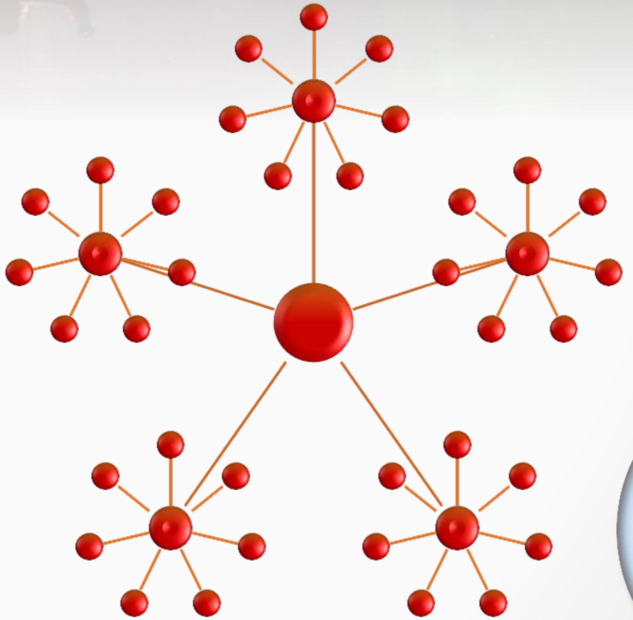
Cross-Border Payments

Future and Opportunities

Future of Payments

Hub and Spoke Model

- Payments made to one central point in a country or area and then distributed further from there
- Each country only has to set up the transmission to the hub
- May work well for small volume countries that have to deal with multiple jurisdictions – for example, Romania to Canadian provinces where each province might only have 1 case.



Evolution of Support

- Checks are expensive, take much too long to clear, and are rapidly disappearing in many parts of the world.
- International families have the same needs as our domestic families.
- Electronic payments provide an opportunity to meet the goals of the Hague Convention:
  - ✓ Practical
  - ✓ Cost effective
  - ✓ Timely

Opportunities to Work Together

Different financial systems

Different caseload sizes

Different legal systems

Different central authorities

Common solutions that meet the needs of global families

Thank You!

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