

Cross-Border Electronic Payment Processing Initiatives
Between the United States and Canada:

Past, Present, and Future

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Cross-Border Electronic Payment Processing Initiatives Between the United States and Canada: Past, Present, and Future

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EXECUTIVE SUMMARY

Cross-Border Electronic Payment Initiatives
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1 OVERVIEW

This Executive Summary was prepared for governmental leaders in the United States and Canada responsible for implementing and increasing the effectiveness of child support/maintenance programs both domestically and internationally. In the United States, these organizations include: U.S. Office of Child Support Enforcement and U.S. State child support enforcement agencies. In Canada, these organizations include: Department of Justice Canada and Province/Territory Maintenance Enforcement Programs (MEPs).

This Executive Summary's purpose is to summarize cross-border electronic payment (e-payment) initiatives between U.S. State child support enforcement agencies and Canadian Province/Territory MEPs. It will describe past joint activities, barriers encountered, and lessons learned. It will also highlight cross-border e-payment activities currently in progress and suggest avenues for further exploration. The hoped for result is that many additional children and their parents across borders will begin to receive regular child support/maintenance payments.

Current paper-based methods of transferring international child support collections and case remittance data between U.S. State child support enforcement agencies and Canadian Province/Territory MEPs are costly and inefficient.

- **Cost:** International paper-based child support collections are reduced by transmission, check processing, and currency conversion costs that can exceed \$25.00 U.S. or more per payment.
- **Efficiency:** Paper-based transfer and distribution of international child support collections can take several days or even weeks. Administrative errors (for example, incomplete or erroneous data, incorrect payment amount) can add further delays.

Disclaimer: The financial service providers cited in this document are for information purposes only and do not constitute an endorsement of any kind.

1.1 SHARED VISION

For the past several years, dedicated professionals from the U.S. Office of Child Support Enforcement, U.S. State child support agencies, and the Department of Justice Canada and Canadian Province/Territory MEPs have worked collaboratively to maximize the benefits of emerging cross-border e-payment solutions. The child support/maintenance programs' shared vision is to identify and implement cost-effective, efficient, and secure e-payment solutions for child support/maintenance payments that ensure customers receive their payments as quickly as possible.

Solutions envisioned will allow U.S. agencies and Canadian Province/Territory MEPs to
:

- Transfer payments, related support/maintenance case data, and currency conversion information electronically from agency-to-agency across the border
- Make electronic payments directly to their own program’s custodial parents/support recipients residing across the border.

1.2 BENEFITS TO ACHIEVING SHARED VISION

U.S. and Canadian colleagues believe that implementing cross-border distribution of support/maintenance funds via e-payments can bring significant benefits to children and families. Figure 1 compares e-payment benefits to current paper-based distribution methods.

Figure 1: Benefits of E-Payment Compared to Paper-Based Funds Distribution

Benefit	Paper-based	E-Payment
Cost savings	International paper-based child support collections are reduced by transmission, check processing, and currency conversion costs that can exceed \$25 (USD) / \$26.64 (CAD) per payment.	E-payment processing costs can be significantly lower. In one example, U.S. State of Virginia, using its contracted bank service, pays \$3 (USD) / \$3.20(CAD) per transaction plus a flat monthly service charge (\$20-\$30 (USD) / \$21.31 - \$31.97(CAD)) that covers all international disbursements.
Efficiency	Paper-based transfer and distribution of international child support collections can take several days or even weeks.	E-payment transfer and distribution is faster than paper-based. In one example, it takes 2 days for funds to reach from the U.S. State of Virginia directly to the parent in Canada.
Security	Use of paper-based methods increases customer risk of loss or check theft.	Use of e-payment solutions can decrease customer risk of loss or theft. Customer education may be needed to guard against identify theft.
Customer satisfaction	Programs receive complaints about check delays and processing fees	Customers are more satisfied because they have faster access to funds, lower processing costs, and payment methods more in synch with their other financial activities.

1.3 SCENARIOS FOR CROSS-BORDER E-PAYMENT INITIATIVES

U.S. and Canadian colleagues are focusing their efforts on two primary scenarios for cross-border e-payment initiatives:

- Agency-to-agency disbursements (both north to Canada and south to U.S. States)
- Agency-to-custodial parent/support recipient direct payments

1.3.1 Agency-to-agency disbursement

Description: In this scenario, the two programs work together to collect, transfer, and disburse child support/maintenance funds regularly to a custodial parent/support recipient across the border. The case is registered with the cross-border agency or MEP, so there would be reciprocal agency involvement. Note: In Canada, the term “jurisdiction-to-jurisdiction” may also be used for this scenario.

Example A – North to Canada. The custodial parent/support recipient lives in Canada and has a case with a Canadian MEP. The noncustodial parent/debtor lives in the U.S. The Canadian MEP registers the case with a U.S. child support agency. The U.S. child support agency collects the funds. Through its State Distribution Unit (SDU), the U.S. agency sends the support/maintenance payments north (USD) to the servicing bank of the receiving MEP, which converts the payments to Canadian currency. The U.S. agency also sends child support case-related information so the MEP can track and distribute the payments correctly.

Example B – South to the U.S. The custodial parent/support recipient lives in a U.S. State and has a case with a U.S. State agency. The noncustodial parent/debtor lives in a Canadian Province/Territory. The U.S. agency registers the case with a Canadian MEP. The Canadian MEP collects the funds. Through its servicing bank, the MEP sends the support/maintenance payments south, either in Canadian dollars (CAD) to the SDU of the receiving U.S. State for currency conversion, or in USD through its U.S. settlement bank for transfer in USD to the SDU. The MEP also sends maintenance case-related information so the U.S. State child support agency can track and distribute the payments correctly.

Note: In agency-to-agency disbursements, e-payments are often bundled together for bulk transfer across borders. E-payments may be bundled in one of two ways: (1) multiple payments collected (and held) over time from one debtor to be disbursed to one creditor or (2) multiple payments collected at a single point in time from several debtors to be disbursed to several creditors. Case-related information (addenda records) associated with each bulk transfer may also be bundled and sent electronically. See Section 2.1 for further details on electronic transfer of child support/maintenance payments and case-related information.

1.3.2 Agency-to-custodial parent/support recipient direct payment

Description: In this scenario, a U.S. State agency or MEP would make a direct payment to the custodial parent/support recipient living across the border. The case is not registered with the cross-border agency or MEP, so there would be no reciprocal agency involvement.

Example A: The custodial parent/support recipient has a child support case with the U.S. State of Virginia. The recipient lives in Canada. The U.S. agency has not asked the MEP to register the case. The U.S. agency's SDU transfers payments electronically directly either to the recipient's Canadian bank account (via direct deposit) or to the recipient's debit card through an agreement with a U.S. bank.

Note: One U.S. State (State of Washington) has also implemented automated (recurring) withdrawal from a payor's Canadian bank account in U.S. cases where a few payors live in Canada. Similarly, the Newfoundland and Labrador Province of Canada has implemented recurring pre-authorized debits from the payor's bank account in Canadian cases where payors live in the U.S. Both the State agency and the Provincial Maintenance Enforcement Program have found this method to be cost-effective.

2 TERMINOLOGY AND KEY STAKEHOLDERS IN CROSS-BORDER E-PAYMENT PROCESSING

To realize the benefits of e-payment processing, it is important to be familiar both with its terminology and with the key stakeholders for cross-border e-payment implementation.

2.1 E-PAYMENT PROCESSING TERMINOLOGY

At the highest level, the two key e-payment terms are:

- **Electronic Funds Transfer (EFT):** to make an electronic payment. In Canada, EFT is called Automated Funds Transfer (AFT).
- **Electronic Data Interchange (EDI):** to exchange standard business data computer-to-computer according to agreed upon data formats.

Note: In the agency-to-agency scenario, child support/maintenance programs need to have an EDI method to exchange case-related and currency conversion information in addition to EFT capabilities.

2.1.1 EFT Payment Formats

There are several EFT payment formats available. The two formats of EFT being used or being considered by U.S. and Canadian programs for disbursement of support/maintenance collections are:

EFT – Direct Deposit for electronic transfer of support/maintenance payments to the agency or custodial parent/support recipient's existing bank account. This payment format is most suitable for custodial parents/support recipients or other entities who are accustomed to basic banking activities such as depositing and withdrawing funds.

Implementation – U.S. and Canada: Direct deposit is being implemented widely agency-to-agency within both the U.S. (State to State) and Canada (jurisdiction to jurisdiction). Similarly, most U.S. and Canadian programs mandate that support/maintenance recipients use direct deposit unless they provide proof of hardship (disability, lack of education, lack of banking knowledge, etc.).

EFT – Debit Cards for electronic transfer of support/maintenance payments to the custodial parent/support recipient's debit card. The debit card is issued by the child support/maintenance program's disbursement bank. This payment format does not require the custodial parent/support recipient to have an existing bank account or familiarity of basic banking activities.

Electronic transfer through this payment format is limited to agency-to-custodial parent/support recipient disbursements and does not apply to agency-to-agency scenarios.

Implementation – U.S. Use of debit cards is a growing trend for domestic payments within the United States. Forty States have implemented debit card programs, and another 8 States are in the planning process. U.S. States are also beginning to use debit cards for direct payments to custodial parents in international cases.

Implementation – Canada. Use of debit cards is under study in Canada.

2.1.2 Combined EFT and EDI Payment Formats

In order to process e-payments across borders and from agency-to-agency, the EFT payment format must have a corresponding Electronic Data Interchange (EDI) addenda record. EDI

addenda records are an integral part of Electronic Funds Transfer because they contain case remittance data (i.e. client name, case ID number, Social Security number) and currency conversion information necessary to complete the electronic payment process. EDI addenda records with case remittance data for multiple cases may be sent at the same time, which is especially useful for bulk transfers through bundled e-payments.

EDI formats are selected and authorized by non-profit data standards entities in each country, which establish operating rules and standards for electronic payment processing. The U.S. association is the American National Standards Institute (ANSI).¹ In Canada the standards entity is the Canadian Payments Association (CPA).

The EDI formats may be sent as stand-alone electronic files or included in the EFT format through addenda records.

Implementation – U.S. U.S. State Disbursement Units (SDUs) are required to be able to receive child support payments in two electronic formats: CCD+ and the CTX/820. The CCD+ and the CTX/820 file formats have the capability to carry the EDI child support case-related information in a combined flow with the EFT electronic payment to other U.S. child support agency banks.

As of August 14, 2007 a new international EFT/EDI file format, called the International ACH Transaction (IAT) was approved in the U.S. The new format will support cross-border transmission of child support case-related information combined with EFT file formats. Implementation of the IAT format is expected by the Spring of 2009.

Implementation – Canada. In Canada, maintenance case-related information may be transmitted between jurisdictions in a combined EFT/EDI flow or in separate EFT and EDI files. For combined EFT/EDI flows, Canada uses the EDI 820 format which contains financial information and some case remittance data. The EDI 820 format is embedded in the CTX/820 format currently being used in the U.S.

Canada is exploring possible avenues to transmit EFT files with the related EDI files across borders to the U.S. The EDI 820 file format used in Canada is not approved for cross-border remittances to the U.S. Canadian banks must use proprietary software to translate the U.S. CTX/820 file format to a format usable by a Canadian partner bank.

2.2 KEY STAKEHOLDERS IN CROSS-BORDER E-PAYMENTS

Cross-border e-payments involve many external stakeholders in the process whose business environment and practices affect cross-border e-payment implementation. It is important to identify these stakeholders and to understand the challenges they may face in working with U.S. and Canadian support/maintenance programs.

2.2.1 U.S. and Canada's Electronic Payments Associations

The U.S. and Canada have their own electronic payments associations. The National Automated Clearing House Association (NACHA, also referred to as the Electronic Payments Association) is the national trade association for U.S. electronic payments associations. The Canadian Payments Association (CPA) serves a similar role for financial institutions in Canada. Both organizations are associations made up of member financial institutions. Both

¹ ANSI shares the responsibility of establishing operating rules and standards for electronic payment processing with the American Standards Committee (ASC) X12. The United Nations Electronic Data Interchange for Administration, Commerce, and Transport (UN/EDIFACT) is the international counterpart for ANSI and ASC X 12.

organizations identify or develop standards and operating rules for electronic payment processing.

In a phone meeting on July 6, 2004, Stephen Grant, U.S. OCSE Division of Policy, spoke with Bill Cyr, Payments Services Officer of the Canadian Payments Association, to clarify the similarities and differences between the two countries' standards and operating rules for e-payment. Mr. Cyr made the following key points:

1. All Automated Funds Transfer (AFT) or EDI transactions processed within Canada abide by the same policies and standards, which are established by the CPA. These policies and standards are the same whether the bank is initiating or receiving the electronic transaction.
2. The CPA standards for AFT (called EFT in the U.S.) are different from the NACHA standards. Canadian banks that accept U.S. EFT transactions normally use proprietary translation software to convert the EFT data into an AFT-acceptable format.
3. The CPA standards for electronic data interchange (EDI) are different from the NACHA standards for either the Consumer Cross-Border ACH transaction (PBR) and Corporate Cross-Border ACH transaction (CBR). Currently, data translation software will be required to translate case data contained in any U.S. record format to a format usable by a Canadian partner bank.
4. The EDI 820 is considered the most appropriate record segment for child support transactions.
5. EDI 820 segments are preferred to AFT/EFT record formats because they are easier to use in terms of translation and irrevocability of payment.

Challenges

1. Incompatible EFT standards and incompatible EDI file segments require Canadian banks to use proprietary software to translate U.S. EFT/EDI data to a format usable by a Canadian partner bank.
2. A similar challenge exists for e-payment transactions initiated in Canada and directed to a U.S. partner.
3. These incompatibilities have resulted in failure to transmit funds, case remittance data, and currency conversion data successfully between U.S. and Canadian programs. See Section 3.1 for further details.
4. EFT and EDI standards are governed by different governing authorities.

2.2.2 U.S. and Canadian Banks and Other Financial Institutions

U.S. and Canadian child support/maintenance programs collect and disburse child support/maintenance funds within an intricate network of banks and other financial institutions.

U.S. States – Domestic Banks

Per Federal legislation, U.S. States are required to implement a single, statewide automated child support system, including a single location for a State Disbursement Unit (SDU) to process child support collections and payments. The SDU contracts with a vendor to provide financial services domestically and internationally. The vendor may be a bank itself or may subcontract with a bank. Under this arrangement, there are multiple banks in the U.S. participating in child support/maintenance payment disbursement.

Canadian MEPs – Domestic Banks and U.S. Partner Banks

Each Canadian MEP has a designated servicing bank. Royal Bank of Canada is the servicing bank for half of the Canadian MEPs, including Ontario and Alberta Provinces.

In addition, servicing banks can have partner banks in the U.S. For example, Royal Bank of Canada partners with PNC Bank to process U.S. Dollar (USD) e-payment transactions.

Cross-border ACH Network for International Payments

One method of transmitting child support/maintenance payments cross-border is via the FedACH network. This approach involves four banks. To illustrate, one of the joint U.S.-Canadian e-payment pilots tested a transmission using the FedACH network in 2004. The four banks participating were:

1. Originating bank – US Bank (State of Washington SDU bank)
2. U.S. Gateway bank– U.S. Federal Reserve Bank, Minneapolis, MN
3. Canada Gateway bank – Toronto Dominion Bank
4. Receiving bank – Royal Bank of Canada (Ontario MEP servicing bank)

Challenges

1. U.S. and Canadian child support/maintenance agencies depend on multiple banks and financial institutions within the U.S. and Canada to implement cross-border e-payments.
2. These banks and institutions are governed by differing e-payment standards set by their country's electronic payments associations, NACHA and CPA.
3. Dependency on multiple institutions and differing e-payment standards heightens the need for communications and coordination between U.S. and Canadian child support/maintenance agencies and their banks, financial institutions, and electronic payments associations.

Making the Business Case

Existing e-payment networks and record formats, developed primarily for commercial purposes, do not fully address the needs of international child support payments. Since banks and other financial services institutions are generally for-profit, U.S. and Canadian colleagues need to make a Business Case for more customized service to meet their needs.

Their customized service request involves asking their respective banks or vendors to facilitate electronic payment processing of cross-border child support/maintenance payments. Not only the payments but also the corresponding case remittance data and currency conversion information need transmitting, preferably in a combined flow.

In their Business Case, the U.S. and Canadian programs need to demonstrate both quantitative and qualitative costs and benefits.

1. Quantitative Costs, Benefits, and Return on Investment

The U.S. and Canadian agencies have some initial estimates on their number of international cases, transaction volume, and transaction value.

- Preliminary OCSE international case data indicates international cases may already exceed 100,000, which would typically consist of multiple recurring payment transactions on individual cases. In 2009, State child support enforcement agencies will be required to formally report international case data to the Federal Office of Child Support Enforcement.

(From U.S. OCSE Request for Information, March 26, 2004)

- Based on extrapolated data from one Province, Canada has an estimated annual transaction volume in the tens of thousands. Of this number, it is not clear how

many cases are paying cases or reciprocal cases with the U.S. or with Canadian jurisdictional pairs.
(From teleconference, March 1, 2007, comment by Kalle Vaga, Senior Manager, Federal, Provincial and Territorial Matters, and Research, Family Responsibility Office, Ministry of Community and Social Services, Province of Ontario)

Compared to commercial transactions, financial institutions may characterize these initial estimates as low volume and/or low dollar value. Since low volume and/or low dollar value transactions generally have less business appeal to for-profit entities than high volume and/or high dollar value transactions, it will be important to document caseloads, transaction volumes, and transaction values more completely.

2. Qualitative Costs and Benefits

The Business Case should also set out qualitative customer service benefits to families and children for faster, cheaper, and more reliable transfer of their child support/maintenance payments.

(From teleconference, March 1, 2007, comment by Ken Duford, Director, Family Law Assistance Section, Department of Justice Canada)

Challenges

1. Making a Business Case to gain customized service will require:
 - a. Quantitative – Although Canada and the U.S. have caseload, transaction volume, and dollar value estimates, formal statistical data is still needed. U.S. and Canadian programs are in the process of identifying key data fields that would be best suit a Business Case presentation.
 - b. Qualitative – U.S. and Canadian support/maintenance programs will need to develop an outreach program to educate financial institutions on their potential role in ensuring that children and families receive the support/maintenance that is due them.
 - c. Return on Investment – At this time no estimates are available to show the return on investments that banks and other financial institutions can expect as a result of their participation in cross-border electronic support/maintenance payments. Longitudinal data that captures return on investments would be a useful aspect of the business case.

3 SUMMARY OF PRIOR U.S./CANADA E-PAYMENT ACTIVITIES

U.S. and Canadian support/maintenance programs have jointly undertaken four cross-border e-payment pilot projects from 2000-2004.

3.1 DESCRIPTION OF 2000-2004 PILOTS

Three U.S. State agencies – in Texas, Washington, and Connecticut – worked with their counterparts in the Ontario, British Columbia, and Alberta MEPs to design test transmissions of funds and case remittance data, including currency conversion. Each design included a decision on which type of EDI format to use and whether the EFT and EDI flow would be combined or separate. Figure 2 identifies the partners and summarizes their pilot project design.

Figure 2. Design of Joint Cross-Border E-Payment Pilots, 2000-2004.

	Pilot	Electronic Payment Format	EFT and EDI Flow
1	Texas TO Ontario	FedACH network using CBR record format	Separate
2	Washington TO Ontario	International ACH NACHA CBR modified to fit case remittance data into existing fields	Combined
3	Washington TO British Columbia	International ACH NACHA CBR modified to fit case remittance data into existing fields	Combined
4	Connecticut TO Alberta	NACHA CTX/820 Servicing banks for CT and Alberta to use banks' proprietary data networks and software to resolve EDI file format incompatibilities	Separate

After determining their pilot design and engaging their corresponding banks and financial institutions, each jurisdictional pair scheduled a test transmission. Overall, the electronic funds transfer component was much more successful than the EDI transmission of case remittance and currency conversion data. Figure 3 shows each pilot's results and identified barriers.

Figure 3. Results of Joint Cross-Border E-Payment Pilots, 2000-2004.

	Pilot	Results	Barriers
1	Texas TO Ontario	EFT – Pass. Test dollar received	None
		EDI – Fail. Payment records could not be updated.	Mainframe security issues on both sides
2	Washington TO Ontario	EFT – Pass. Test “funds” received.	None
		EDI – Partial success. Combined EFT/EDI file transmitted through cross-border U.S. Gateway (Federal Reserve Bank, Minneapolis, MN) to cross-border Canada Gateway (Toronto Dominion Bank). EDI case remittance data sent to Ontario’s MEP servicing bank, Royal Bank of Canada (RBC). Case remittance data could not be extracted from RBC.	1. Incompatible EDI file formats. 2. No other feedback available.
3	Washington TO British Columbia	EFT – Pass. Test “funds” received.	None
		EDI – Planning Phase. Planned to partner with Bank One and RBC. Discussed a proof of concept proposal to serve as single point of contact for child support collections to and from Canada and the U.S.	Incompatible EDI file formats.

	Pilot	Results	Barriers
4	Connecticut TO Alberta	EFT – Failed at currency conversion.	Unknown - No feedback available from Alberta's servicing bank, Royal Bank of Canada
		EDI – Failed at currency conversion.	Unknown – see above

3.2 STATUS AND LESSONS LEARNED

Status. All pilots described in this section are inactive.

Lessons Learned. None of these pilot tests produced a fully successful transaction that electronically transmitted funds, case remittance data, and currency conversion information. Most succeeded with electronic funds transfer but stalled at various stages of electronic data interchange. Nonetheless, the pilots were an extremely valuable experience for U.S. and Canadian child support/maintenance programs and resulted in many lessons learned.

The major lessons learned were:

1. International electronic funds transfers and electronic data interchange activities are complex processes with multiple stakeholders.
 - Generally, each transaction involves a payment initiation phase, a data transmission and translation phase, and a reconciliation phase.
 - Each phase has multiple steps with process intermediaries who facilitate a segment of the complete transaction. Each phase involves many participants on both sides of the border, including the child support enforcement agencies/MEPs themselves; each agency's financial institutions (SDU in the U.S. and servicing bank in Canada); additional Gateway Banks for international ACH transfers; and each country's electronic payments associations.
 - It is important to have contacts and build relationships among all key stakeholders in the process.
2. Electronic funds cross borders much more easily than child support/maintenance related data.
3. Incompatible EDI file formats (or electronic file structures) constitute a major barrier to successful implementation of electronic exchange of case remittance and currency conversion data required by U.S. and Canada child support/maintenance programs.
4. Many financial institutions in both the U.S. and Canada use proprietary systems and processes to administer electronic payments and data exchange. This adds complexity and makes it more challenging to standardize an e-payment solution.

4 SUMMARY OF CURRENT U.S./CANADA E-PAYMENT ACTIVITIES

Section 4 outlines cross-border e-payment activities currently underway.

4.1 AGENCY-TO-AGENCY

The State of New York and the Province of Newfoundland and Labrador are working with a private vendor to facilitate a combined electronic flow of child support/maintenance payments and corresponding case data between both jurisdictions. The pilot approach uses vendor tables based on international Federal Information Processing Standards (FIPS) codes to positively

identify the records as Canadian child support/maintenance records and to convert the assigned funds to Canadian dollars for payments.

In Spring 2007, the State of New York provided a test file to the vendor. The test file passed all formatting requirements that would positively identify the test records as Canadian child maintenance cases with assigned funds to be converted to Canadian dollars for payments. The next step would be to exchange the test file with the Province of Newfoundland and Labrador to see if records containing support/maintenance case data and currency conversion information transmitted successfully. After successful transmission of test files, a live test can be designed. In May, 2007 the initial financial institution supporting the pilot withdrew; an alternate financial institution is being identified.

Status. On hold.

4.2 AGENCY-TO-CUSTODIAL PARENT LIVING IN CANADA

This method uses direct payment in a U.S. child support/maintenance case where the custodial parent/support recipient lives in Canada. Since this is a U.S. case not registered with a local Canadian MEP, no case data needs to be transmitted to the MEP.

Through Wachovia Bank, its SDU bank, the State of Virginia child support agency disburses payments via direct deposit to the custodial parent's bank account in a Canadian financial institution.

Process.

1. The State of Virginia child support agency contracted for a Wachovia Bank online banking service for international transactions as an extension of services Wachovia is already providing to the Virginia SDU.
2. The charges for this service are:
 - a. Monthly service charge of \$20-\$30 (USD) / \$21.31 - \$31.97(CAD)
 - b. Per transaction charge of \$3 (USD) / \$3.20(CAD)
3. The EFT transfer method is ACH transfer [less expensive than wire transfer].
4. The EDI file format is pre-set in a Web-based template provided by the bank for each receiving country.
 - a. Using the template, the State of Virginia worker manually creates the transaction (credit). Note: templates can be saved and reused for subsequent payments.
 - b. For Canada, the State of Virginia worker can select payment in USD or CAD.
 - c. If payment is in U.S. dollars, currency conversion to CAD occurs at the time of the online banking transaction. The State of Virginia worker knows immediately what the recipient will receive in CAD.
5. The State of Virginia worker manually adjusts the payment on the State child support system (to credit the non-custodial parent).
 - a. After the adjustment, a notice is sent for that event stating that the money is being moved electronically to Canada, with the translation of the amount in USD to CAD.
 - b. This activity provides a basis in the record for future questions about payments, arrearages, etc. However, the worker would need to look at each payment and manually create a spreadsheet of the different USD and CAD payment amounts.

Benefits.

1. Cost savings. On-line transaction costs are 8 times lower than paper-based processing. (On-line processing costs \$3 per transaction compared to paper-based processing which costs an average of \$25 per transaction.)
2. Efficiency.

- a. Payments reach support recipient in Canada in two days compared to paper-based mailings which may take several days to weeks in delivery.
- b. Templates eliminate workers' need to learn various countries' electronic standards and file formats.
3. Security. Direct deposit lowers risk of theft or loss of paper check.
4. Customer satisfaction. Customers appreciate speed of payments.

Status. Active.

4.3 AGENCY-FROM-NONCUSTODIAL PARENT LIVING IN CANADA

This method uses automated withdrawal from a Canadian financial institution in a U.S. child support/maintenance case where the noncustodial parent/debtor lives in Canada. Since this is a U.S. case not registered with a local Canadian MEP, no case data needs to be transmitted to the MEP.

Process.

1. Through U.S. Bank, its SDU bank, the State of Washington processes cross-border automated withdrawals from the noncustodial parent's (payor) bank account for a few NCPs living in Canada.
2. State of Washington uses NACHA's Consumer Cross-Border Remittance (PBR) payment format for international transactions.
3. U.S. Bank provides the software to process the automated withdrawals.
4. State of Washington also invested in creating a separate batch program on its automated child support system to process these cross-border automated withdrawals.

Benefits. Wendy Cole-Deardorff, EFT/Accounting Services Manager, describes this approach as "cost-effective."

Status. Active.

5 AVENUES FOR FUTURE EXPLORATION

Although the challenges encountered in past and current e-payment initiatives are significant, there is good news. Progress is being made in some key areas where barriers have been encountered in the past. These avenues for further exploration are:

- Approval of the International ACH Transaction (a new NACHA-standard EFT/EDI file format for international electronic transactions);
- Continuing evolution of electronic financial services offered by banks or third party providers such as the agreement between Wachovia Bank and the State of Virginia;
- Agency-to-Agency e-payments between the State of Virginia and Heidelberg Child Support Agency in Germany; and
- Completion of a new international Convention (treaty) on "International Recovery of Child Support and Other Forms of Family Maintenance" from the Hague Conference on Private International Law.

5.1 NEW NACHA-STANDARD EDI FILE FORMAT

A new NACHA-standard EFT/EDI file format, called the NACHA International ACH Transaction (IAT), was approved by NACHA members on August 14th of this year. The new format, now approved, will replace the current NACHA international CBR and PBR file formats.

One of the advantages of the IAT is that it includes seven standard and two optional addenda records. One of these addenda records is identical to the child support addendum segment now being used domestically in the U.S. It contains case data that the State Disbursement Units need to receive in order to identify payments and to post them automatically. It contains basic data elements that may be on a paper check, such as the non-custodial parent's name, that person's Social Security number, that person's case ID, the payment amount, the payment date, and so on.

Process.

1. The timeframe for IAT implementation is 17 months after NACHA members' approval. This timeframe allows financial institutions time to complete system analysis, programming, and testing for the new EFT/EDI file format.
2. With NACHA approval in Summer 2007, implementation of the new IAT is expected in Spring 2009.
3. The Canadian Payments Association and its Canadian financial institution members would need to approve the proposed IAT format for international electronic transactions.
4. The U.S. and Canadian child support/maintenance programs would need to conduct analysis, programming, and testing of the new IAT format interface between their SDU/servicing bank and their agency systems prior to implementation.

Potential Benefit. Adoption by both NACHA and the Canadian Payments Association of a common international EFT/EDI file format would potentially remove the barrier of incompatible electronic structures file formats consistently encountered in all U.S./Canadian agency-to-agency electronic initiatives to date.

5.2 CONTINUING EVOLUTION OF ELECTRONIC FINANCIAL SERVICES

Increasingly, the marketplace is offering additional electronic financial services beyond traditional services like EFT and direct deposit. Banks are issuing debit cards, and third party providers like Western Union and PayPal, to name a few, are offering domestic and international electronic payment processing services both to individuals and to organizations.

Here are some examples:

1. Forty U.S. States have implemented debit card programs for domestic payments, and another 8 States are in the planning process.
2. Some U.S. States are also using debit cards for direct payments to custodial parents in international cases.
3. The State of Rhode Island child support agency has a relationship with Western Union that allows payments to be sent electronically within the U.S. and internationally.
4. The State of Virginia child support agency contracts for international direct deposit to agencies and individuals through its SDU bank. The bank service includes a template that automatically adjusts case remittance and currency conversion data to the receiving country's electronic format requirements.

5.3 NEW INTERNATIONAL CONVENTION (TREATY) FROM THE HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW

The new global Convention on the International Recovery of Child Support and other Forms of Family Maintenance was finalized on November 23, 2007. The object of the Convention is to “ensure the effective international recovery of child support and other forms of family maintenance” through establishing a comprehensive system of cooperation among the Central Authorities, i.e. the responsible child support/maintenance entities, within the countries signing the Convention. The United States became the first State to sign the new Hague Convention. 68 States and the European Community signed the Final Act of the Session and may sign the Hague Convention in the future. For those States that sign the Hague Convention, ratification of the Convention is projected to take 2-3 years.

A key strategy to achieving the Convention’s objective is to take advantage of current and future advances in information technology for low-cost funds transfer and case-related communications. The Hague Conference surveyed its members in 2002 and 2004 on their use of information technology, including electronic funds transfer. See Section 6.3 for a Hague Report summary.

Potential Benefits.

1. Completion of the new Convention in 2007 and ratification by more than 50 countries could potentially accelerate e-payment implementation.
2. The new Convention will likely bring increased focus on international child support/maintenance cases within the government and business communities.
3. The new Convention could become a positive force to achieving the U.S. and Canadian shared vision to identify and implement cost-effective, efficient, and secure e-payment solutions for child support/maintenance payments that meet customers’ needs.

6 ADDITIONAL RESOURCES

6.1 INTERNATIONAL CASE PROCESSING TELECONFERENCE SERIES

Since 2004, the U.S. OCSE has sponsored a series of teleconferences on International Case Processing. Its purpose is to facilitate information exchange and resource sharing between the U.S. and international partners to ensure more timely and effective processing of international cases. The teleconferences focus on practical strategies for working together.

Department of Justice Canada and representatives from Canada’s Provinces and Territories have graciously participated in several teleconference events as both hosts and guests. In Spring, 2007, two preliminary information-sharing calls related to past, present, and possible future e-payment activities took place between U.S. and Canadian colleagues. This Executive Summary resulted from those calls.

For additional information, contact:

1. Anne Miller, U.S. OCSE at: anne.miller@acf.hhs.gov
2. Linda Revells-Hince, Department of Justice Canada at: Linda.Revells-Hince@justice.gc.ca

6.2 NATIONAL CHILD SUPPORT ENFORCEMENT ASSOCIATION (NCSEA) CONFERENCE, ORLANDO, FL USA AUGUST 5-9, 2007

Interest in electronic payment processing across borders continues to grow. The National Child Support Enforcement Association’s 56th Annual Training Conference and Expo included a Global Issues Track with multiple workshops dedicated to international case processing.

Two workshops of particular interest for e-payment are:

- “Moving Money Across Borders”
- “What’s New in Electronic Disbursements?”

For additional information, see: <http://www.ncsea.org>

6.3 REPORT ON TRANSFER OF FUNDS AND USE OF INFORMATION TECHNOLOGY IN INTERNATIONAL CASES

In preparation for drafting the new international Convention, the Permanent Bureau of the Hague Conference distributed questionnaires in 2002 and 2004 to all member States of the Hague Conference, to other States invited to the June 2004 Special Commission, and to relevant international governmental and non-governmental organizations. Respondents were asked specific questions related to the importance of cooperation in international transfer of funds at low costs, their collection and transfer arrangements, and their statistics concerning cross-border transfer of funds. Results from this research are documented in the Report, “Transfer of funds and the use of information technology in relation to the international recovery of child support and other forms of family maintenance,” by Philippe Lortie, First Secretary, Permanent Bureau, May 2004.

Among the Report’s key findings are:

1. *Statistics.* Less than half the respondents surveyed keep statistics concerning the cross-border transfer of funds for their cases. The Report stresses the importance of statistics in establishing the business case for implementing e-payment technologies. Statistics can help:
 - Identify potential e-payment partnerships between countries with a high volume of shared cases.
 - Convince banks and other financial services organizations to offer lower e-payment rates based on transaction volumes. Banks and other organizations will offer better rates for higher transaction volumes rather than lower volumes.
2. *Difficulty of combining funds and case-specific information.* The Report notes the issue of insufficient space on the EFT record and its instructions (also known as addenda records) to include all the case-specific information needed for enforcement monitoring.
3. *Legal framework.* To establish the legal framework to facilitate electronic transfer of funds, the Report recommends use of the United Nations Commission on International Trade Law (UNCITRAL) “Model Law on International Credit Transfers.”
4. *Current e-payment practices [as of 2004].* The Report cites examples of two methods to transfer funds internationally that are already being used agency-to-agency.
 - Cooperation with other national Agencies or Departments
Example: Norway and Sweden transfer child support funds abroad through their Social Insurance Offices.
 - Transfers in bulk
Example: Once a month, the Australian Child Support Office sends a bulk payment to the New Zealand Inland Revenue Department to distribute to creditors. The Australian Child

Support Office sends a separate electronic spreadsheet with payment details for individual creditors, including the currency conversion for New Zealand.

For additional information, contact Philippe Lortie, First Secretary, Permanent Bureau, The Hague Conference via email: secretariat@hcch.net

7 REFERENCES

SECTION 2, TERMINOLOGY AND KEY STAKEHOLDERS IN CROSS-BORDER E-PAYMENT

SECTION 2.1, E-PAYMENT TERMINOLOGY

1. National Automated Clearing House Association (NACHA) at: <http://www.nacha.org>
2. NACHA, "User Guide for Electronic Child Support Payments. Using the Child Support Application Banking Convention. Version 6.1, revised October 9, 2007 at: http://ecsp.nacha.org/docs/Child_Support_User_Guide_6.1.pdf
3. The Canadian Payments Association (CPA) at: <http://www.cdnpay.ca/>
4. Canadian Payments Association. "Rules Application to Electronic Data Interchange Transactions, Rule E3" at: http://www.cdnpay.ca/rules/pdfs_rules/rule_e3.pdf

SECTION 2.2.2, U.S. AND CANADIAN BANKS AND OTHER FINANCIAL INSTITUTIONS

1. U.S. child support agency State Disbursement Unit contacts and vendors at: http://www.acf.hhs.gov/programs/cse/newhire/employer/contacts/sdu_matrix.htm
2. FedACH International Canada Service Implementation Manual, March 13, 2007 at: <http://www.frb services.org/Retail/pdf/FedACHiCanManual.pdf>

SECTION 4, SUMMARY OF CURRENT U.S./CANADA E-PAYMENT ACTIVITIES

SECTION 4.1, AGENCY-TO-AGENCY

1. U.S. Office of Child Support Enforcement, DCL-06-19, June 7, 2006, Recommendations from Location Codes (aka FIPS) Workgroup at: <http://www.acf.hhs.gov/programs/cse/pol/DCL/2006/dcl-06-19.htm>

SECTION 5, AVENUES FOR FUTURE EXPLORATION

SECTION 5.2, NEW NACHA-STANDARD EDI FILE FORMAT

1. Copies of new IAT format are available from Anne Miller, U.S. Office of Child Support Enforcement (OCSE) via email: anne.miller@acf.hhs.gov

SECTION 5.3, NEW INTERNATIONAL CONVENTION (TREATY) FROM THE HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW

1. A copy of the Final Act of the 21st Session On the Convention on "The International Recovery Of Child Support And Other Forms Of Family Maintenance, November 2007" is available at: http://www.hcch.net/index_en.php?act=conventions.text&cid=131&zoek=child%20support

SECTION 6, ADDITIONAL RESOURCES

SECTION 6.3, REPORT ON TRANSFER OF FUNDS AND USE OF INFORMATION TECHNOLOGY IN INTERNATIONAL CASES

1. A copy of the "Transfer of funds..." Report is available at: http://www.hcch.net/upload/wop/maint_pd09e.pdf
2. A copy of the Model Law is available at: <http://www.uncitral.org/pdf/english/texts/payments/transfers/ml-credittrans.pdf>