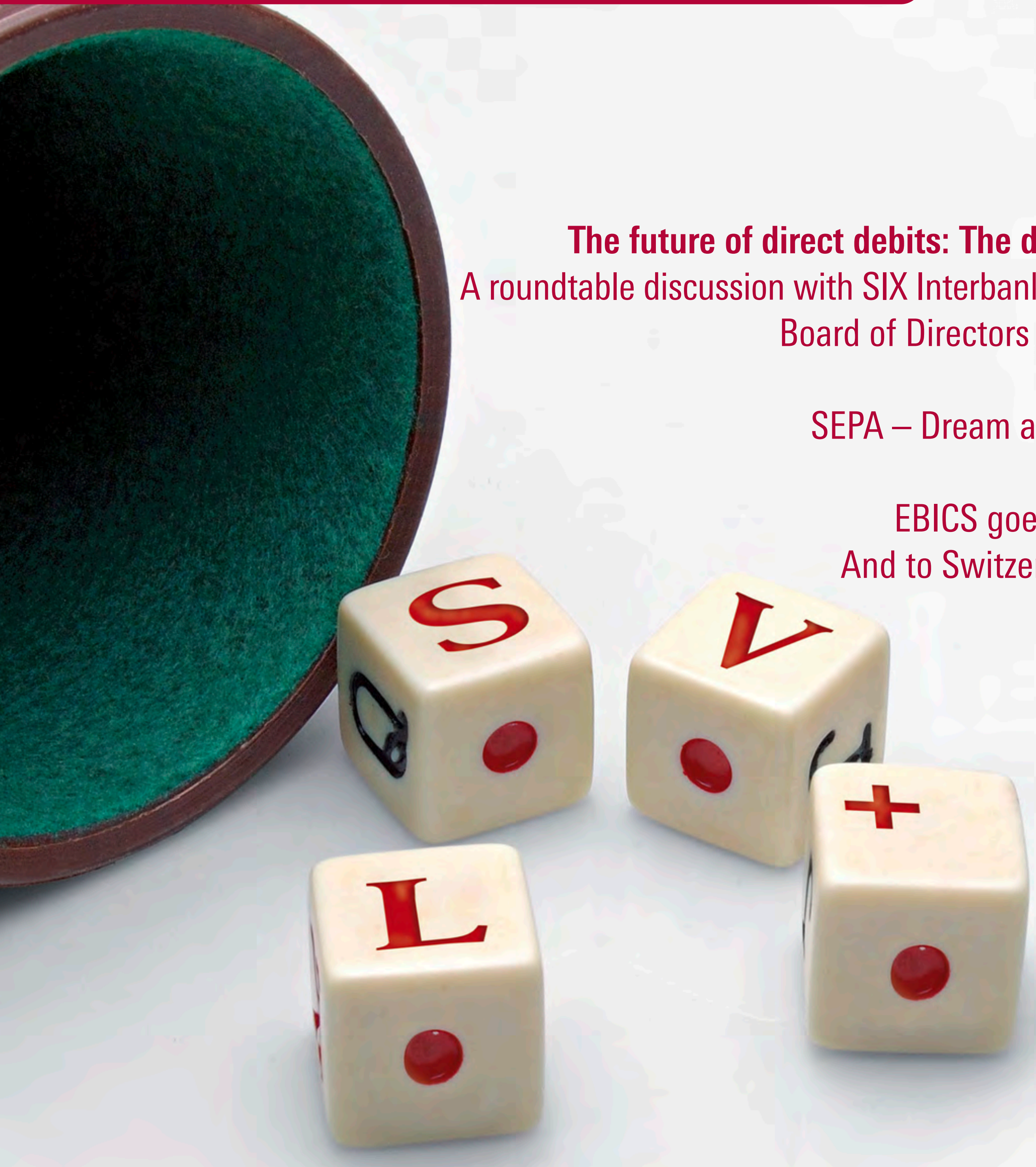
SIX Payment Services

CLEARIT

The Swiss professional journal for payment traffic
Edition 57 | December 2013



The future of direct debits: The die is cast

A roundtable discussion with SIX Interbank Clearing Board of Directors members

SEPA – Dream and reality

EBICS goes Europe. And to Switzerland, too

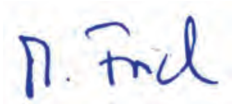
Dear readers,

At the end of October, SIX Payment Services informed of the Swiss banks' decision to to promote the e-bill and to combine it with a new direct debit solution by 2016.

This answers the last open and central question within the framework of payment traffic migration in Switzerland, allowing for the actual implementation phase in the direct debit area to be started. Unfortunately, it wasn't possible to get PostFinance to participate in this approach. The Swiss financial center is therefore not in a position to make good on its promise to standardize to the degree that was originally hoped for.

Personally, I am convinced that the decision towards a solution based on e-billing is the right one. In November the number of e-billing participants topped 750,000. Its growth rate remains at more than 20% per year. The new direct debit solution based on e-billing will motivate additional creditors to offer their clients payment of their invoices by e-banking. In doing so, the level of available e-bills will rise, making this service even more attractive. The chosen solution's appeal can also be found in the fact that by joining the two systems, there are obvious efficiency gains for both banks and billers.

These benefits wouldn't be possible with the originally pursued SEPA direct debit approach. To the contrary, an adaptation to the SEPA processes would signify increased complexity for most parties involved. Many Swiss are prejudiced against direct debits. In comparison with other countries, use of this payment instrument is very modest in Switzerland. Roughly, a meager 5% of all payment traffic transactions fall into the direct debit category. Add to that that only a few companies want to process cross-border euro direct debits and the number of direct debits in that particular area is even smaller. A development towards the European direct debit would therefore enable only very few organizations to benefit from synergies. Do read our CLEARIT roundtable discussion with Swiss decision makers on this topic and learn more about the reasons behind the decisions being made.



Martin Frick
Head Electronic Payments
SIX Payment Services

The trick with the e-bill

The ultimate decision about the future of credit transfers, payment slips and direct debits is made by the Swiss financial center. A new solution is being developed that will combine direct debiting with e-billing. Decision makers from the SIX Interbank Clearing Board of Directors are discussing backgrounds, strategies and opportunities.

CLEARIT: For more than two years the Swiss payment traffic harmonization has been on the Board's agenda. In the credit transfer and payment slip area we have been on the home stretch for some time now. You were facing greater challenges when it came to replacing the current direct debit procedures. Last fall, when an alternative seeped into the debate, the Board deviated from the original plan of adapting SEPA. Mr. Bauer, what made you change your mind?

Zeno Bauer: Actually, I suggested provocatively that the direct debit procedure (LSV) should be given up altogether by 2025 at a much earlier time. Back then, the majority of my Board colleagues rejected the idea, because they were convinced that the paper-trail process would still have its merits and justification in ten or twelve years. That's where and when the whole story started. Indeed, we have come to the conclusion that we need to replace the current LSV after the SEPA implementation in Switzerland, because it doesn't make sense to process similar transactions using different processes. This is exactly why we were focussing on the SEPA scheme adaptation for Swiss franc-denominated direct debits too. When we started thinking about which platform the SEPA-based Swiss direct debit solution was to be processed through, we came up with the idea that it would match well with the e-billing functionalities. The alternative direct debit solution has subsequently evolved out of this discussion.

Customer satisfaction with today's direct debit procedures is high, conditions for economic efficiency, and market requirements are met. Assuming that these statements are correct, why would there be a need for a redesign, Mr. Krebs?

Daniel Krebs: As Zeno Bauer has hinted, we still need a more long-term paper-based direct debit procedure, because it is uncertain whether all customers will participate in e-banking or e-billing. However, it makes sense to continue one step further in the redesign and to implement corresponding modifications in the course of standardization and adaptations of the various media.

Now the Board of Directors has made its decision at the latest meeting. The current LSV+/BDD procedures will be replaced by a direct debit solution combined with e-billing, and not by a SEPA-based scheme. What, Mr. Beck and Mr. Montoya, has triggered a rethinking?

Markus Beck: The analysis of the comparison of the various new procedures has shown that new rules should have been applied with a SEPA-compatible scheme; in particular, rules that would affect the accounting of any and all billers that currently use LSV. This would result in a paradigm shift, which clearly turns out to be a setback for all billers.

Michael Montoya: Our decision to change direction was influenced by the discussion in Finland. The country is very advanced when it comes to the e-billing topic. E-billing – analogously to LSV – offers the option of permanent authorization. This gives the debtor the option to decide which invoices he wants to check before paying them, and which invoices can be paid automatically. The example has proven that there is a path to an alternative without having to completely revamp the existing LSV. And that was actually the impetus for moving e-billing and direct debiting closer together. Especially the creditors stand to earn significant benefits: One interface allowing them to submit invoices, independent of whether the debtor will pay by e-bill or via the direct debit option.

Z. Bauer: I also want to point out that we would have accepted the European scheme without any discussion, if it were to bring about procedural simplifications. But to my dismay, Europe has, quite honestly, introduced a most complicated scheme, which turns out to be a "back to the future." I would like to demonstrate that by means of the statistics: At the Cantonal Bank of Zurich, foreign payment transactions make up 3%. Of this 3%, the SEPA direct debit share is at best minuscule, almost too small to be measured. Obviously, this new direct debit solution is not an ideal scenario for internationally operating companies; they would prefer one single procedure. But the large majority of companies, the small and medium enterprises, hardly need a SEPA scheme. Our decision for e-billing was clearly a decision for the SMEs.

SIX Interbank Clearing Board of Directors members (from left): Daniel Krebs (PostFinance Ltd, standing in for Armin Brun), Markus Beck (Raiffeisen Switzerland), Michael Montoya, Chair of the Board (UBS Inc.), Zeno Bauer (Cantonal Bank of Zurich) and Lothar Raif (Credit Suisse Group AG).

To what extent is the cost/benefit relation of a migration toward the new solution more advantageous for the billers?

M. Beck: It's important to look at the new solution from a holistic point of view. We're not just dealing with the redesign of LSV+/BDD. Rather, the processes surrounding direct debit are to be migrated to the e-billing part. This means that in future only one channel will be necessary for the billers – one single scheme to submit invoices and direct debits. And this is where, just like Michael Montoya, I see significant simplification for the billers, for our customers.

Lothar Raif: A vast majority of creditors currently needs to send out two files – one to the postal system and one to the banking system. It was the idea of a joint system that, ultimately, the customer only has to send out one file. Unfortunately, with the chosen new solution, the "split" direct debit procedure lives on. However, every cloud has a silver lining: the customers already know it from experience, and, above all, the common basis of debit authorizations remains unchanged.

M. Montoya: With the trick to combine direct debiting and e-billing there is no need to adapt the Swiss direct debit procedures to the new standards in Europe. We should have to invest considerably more, and not just at the banks. We would have to convince our customers, too, to make considerable investments, which, in turn, would end up being obsolete after a few years, when e-billing by then will have prevailed and LSV will be only a marginal phenomenon. And it isn't as if the procedures in their current form, including the underlying procedural rules, are being seriously questioned or criticized. About the only thing one could say is that perhaps the Swiss debtors don't like direct debits in the same way as many of those in France or Germany.

Mr. Krebs, PostFinance doesn't have the intention to participate in the chosen new solution. Why not?

D. Krebs: Generally, we were intending to use it, which is why we participated in these issues. We saw the synergies specifically in creating the direct debit in a European format and thus would be able to use the synergies between the euro-denominated and the Swiss franc-denominated direct debit procedures. Which is why we decided to hold on to our original direction and adapt our own direct debit procedure, "Debit Direct," which is already really rather close to the European solution, to the new standards.

Will you be implementing all SEPA scheme rules in your SEPA-based solution?
D. Krebs: We intend to stay as close to the work that has already been done as possible, in order to adapt these scheme rules in Switzerland, or to strongly orient ourselves on them, respectively.

Zeno Bauer thinks that the European scheme is way too complicated. According to Michael Montoya, the investments don't pay off in the long run, if the financial center strategically bets on e-billing. Why does PostFinance see this differently?
D. Krebs: On one hand, because the European scheme is very close to our current solution. On the other, because we come to different conclusions when we speak with our customers. That's why a SEPA-based scheme doesn't lead us to a procedural change.

This means that investment costs would be comparatively higher if you migrated to the new solution chosen by the banks?
D. Krebs: Yes, that's one part of it. The other part is that we would have a Swiss solution yet again, and we are convinced that we should invest in a solution adapted to the European standard.

M. Beck: But within this context it is important to note that this isn't just a decision the banks just so happen to have made. The decision is based on a customer survey. In it, we asked the customers about all the various solutions, with their advantages and disadvantages. For the record, I want to point out that the majority of the consulted customers very clearly perceived a change to the SEPA scheme as a setback.

Mr. Montoya, you are exposed in the SEPA world in your role as an EPC Plenary representative of the Swiss financial center. How do you explain to your peers in Europe why not the entire financial center wants to adhere to the SEPA model?
M. Montoya: SEPA stands for Single Euro Payments Area and as far as the euro is concerned, Switzerland is always in line with the SEPA world. The next big step is the one to the ISO 20022 XML standard across all systems. But nobody is expecting a non-euro country to totally integrate its own currency into the SEPA world. I don't see any problems here.

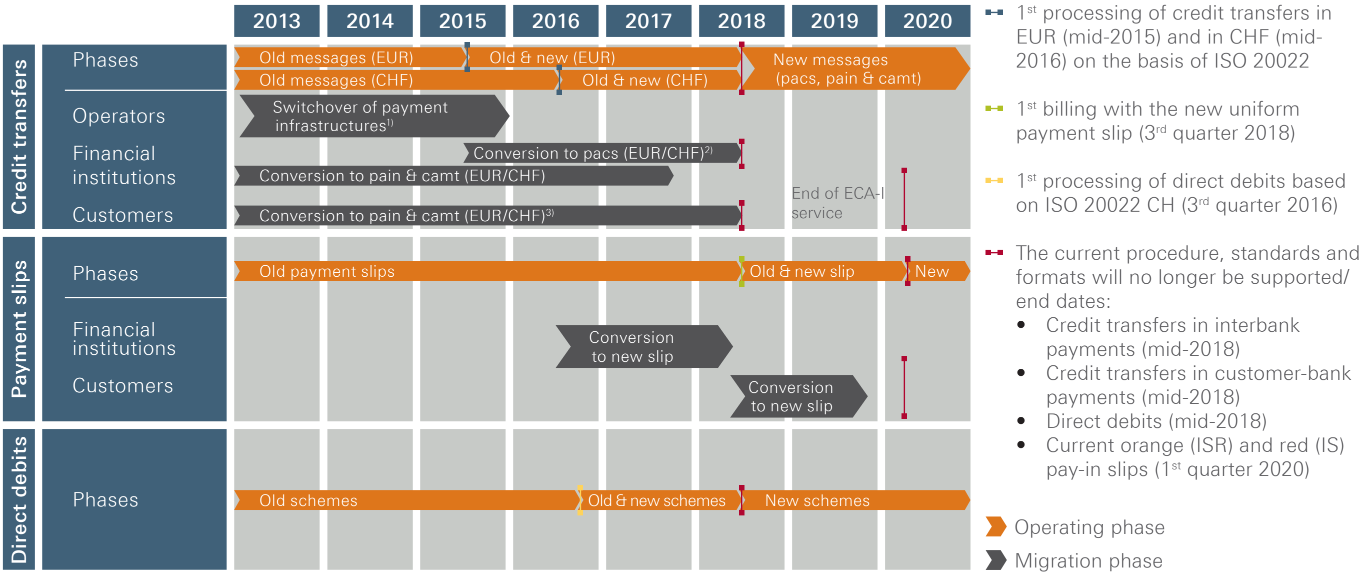
Mr. Raif, six years ago, Credit Suisse already spoke of an amalgamation between direct debiting and e-billing. Now the banks are well on their way there. Why has it taken so long?
L. Raif: That's the way it sometimes goes with visions. You are ahead of your time. But the road to realizing a vision takes a little longer. We also have to take into consideration that Switzerland is not a direct debit country. Here, just around 5% of the entire payment transaction volume falls into the direct debit category. Michael Montoya has mentioned it: in other countries, direct debit transaction percentages are much, much higher. Hence, it is to be assumed that direct debit is a staple product neither for the bank customers nor for the banks themselves. Furthermore, it is a question of market and customer maturity. Meaning that, if you are heading in the direction of a future model such as e-billing, oftentimes many stages must be passed over the years. I.e., the customer must first get used to online banking. Then he needs to be ready to switch from paper trail to e-billing. And then it takes time until the customer actually actively uses the e-billing processes. Add to that, that security aspects always must be taken into consideration, too. After all, we are dealing with changing customer behavior here, and that takes time. However, we do believe that the time is ripe now for accelerated harmonization.

If the focus on e-billing is enhanced, how about the risk of the direct debit product being cannibalized?
L. Raif: Certainly, on the customer side there will be no cannibalization. We want to give the customer the choice of payment means to use. What's key here is rather that we design the cost pools as efficiently as possible and realize synergies, say within the infrastructure. Of course compliance rules and regulations are to be adhered to in their entirety.

Z. Bauer: What's important is the transparency. If someone has a paper-trail mandate today, they should be able to switch to an electronic process in one simple step. From my perspective, cannibalization isn't an issue; rather, this is about replacing one with the other. In our bank, the electronic payments' trail to success has been a reality for a long time. 80-85% of all payments are processed electronically at the Cantonal Bank of Zurich. To me, e-billing is the logical path on this trail. It is no longer a vision. The question remaining is how much longer there will be paper-trail payment traffic at all. In order to shorten this path, we want to decidedly support this instrument, and specifically not the paper-trail option.

L. Raif: A deciding factor for the transformation will be how strongly technology use is energized and how basic consumer behavior is changing. If, for instance, mobile payment develops positively and increasingly establishes itself in market use, e-billing will be used much more frequently, too. But we have to remember one thing: Our

Roadmap Migration Zahlungsverkehr Schweiz



[1] "SIC4 – New SIC Architecture" project and the PostFinance infrastructure project
[2] Including ECA-F, ISR & EPO for banks (as of 4th quarter 2015)
[3] Migration date (mainly between 2015 and 2018) with regard to pain & camt to be coordinated with the house bank

customers are not all technologically inclined. There are certainly customers who want to make use of neither online banking nor e-billing. For this customer segment, we will be offering corresponding solutions twenty years from now; more than likely with a difference in price and service offerings.

When will it be possible to process all these payment instruments, e-bills, direct debits, credit transfers, etc., using mobile devices? Some voices are heard claiming that that would be possible today, if only the banks were ready.

M. Beck: Basically, this statement is true. There is no technological obstacle preventing that. If we look abroad, be it to Africa or Asia, we'll see that those technologies have been used for a long time. Perhaps it's because there has been no agreement as to which schemes or standards to use in Switzerland. Besides individual initiatives, there are various discussions and conversations across a broad spectrum of participants, and I am indeed very curious to see where this will lead us in the next months.

In the next months?
M. Montoya: Within the next weeks, we will be specifically kicking off an investment program for e-billing. We will be designing it to be more attractive and user-friendly, and we will be significantly foster the penetration of e-billing on the debtor side, which in turn will make it more desirable for the creditors to make use of this channel. And when it comes to that, I'm even more optimistic than our visionary, Lothar Raif. I actually believe that the road to success of e-billing for mobile devices like tablets will become accepted much faster than we believe today. I think it's absolutely realistic that e-billing will prevail in the Swiss market by 2020.

D. Krebs: For us, e-billing is the most important medium within the mobile environment. For the future, we bet on interoperability and that the options for substitution are given and e-billing will be the future model for billers.

M. Montoya: There are many industries that have changed tremendously. I find this particularly fascinating in airport check-in. Not all that long ago, nobody could have imagined going up to a counter without a paper ticket, but now even boarding passes are passé. We can see how paperless interaction has increased significantly in the various spheres of social and economic life. That's why I believe that many users won't find a move towards e-billing all that challenging.

L. Raif: I agree with that. However, there are still enough customers who need a little longer to change. If I want to fly today, and all I have is a paper ticket, it's not like I can't get on board. The question is whether in future I'll have to pay more to use a paper ticket.

M. Montoya: That's the same as with the check in banking. Its demise has been predicted many times. Nevertheless, there is obviously still some scope for the use of checks and the customers are prepared to pay an extra charge for it.

Could this perhaps hold true for direct debits at some time in the future?

Z. Bauer: I can well imagine that thirty years from now there will still be people who don't want e-bills. Whether we'll still be required to offer a paper-trail process is another question. After all, these customers will still be able to pay with the postal payment slip at the counter. But whoever uses this payment instrument should bear the respective processing fees. .

M. Montoya: How many direct debit authorizations do you have?

Z. Bauer: None, I have switched over to e-billing for everything. Rather commendable, don't you think? *(chuckles)*

Panel moderator:
Gabriel Juri, SIX Interbank Clearing
gabriel.juri@six-group.com

Future direct debit combined with e-billing

Within the scope of the migration of Swiss payment traffic, the SIX Interbank Clearing Board of Directors decided at its latest meeting in September 2013 to replace the current direct debit procedures LSV+ and BDD. The new direct debit solution will be combined with the e-billing scheme. SIX Payment Services has been mandated to align the new direct debit solution with the automated e-billing processes by 2016.

What will remain the same?

The core elements of the new direct debit scheme will resemble the current LSV+/BDD of the banks. Even after the migration in 2016, claims – with or without an objection option for the debtor – will continue to be paid as usual. The debtor transmits the completed direct debit authorization that he receives from the creditor to his bank. Basically, nothing will change in the procedures for the debtor – from registration to the automatic debiting, from a potential objection to a cancellation. Existing debit authorizations will remain valid.

What is new?

The processing hub for direct debits and invoices is a central system with a common interface. With the new solution, the biller can submit both e-bills and direct debit collections into the central system, which will undertake the distribution to the banks. Additionally, the creditor will also receive direct debit registrations and cancellations electronically, as he is accustomed to with e-billing. The debtor sends the debit authorization exclusively to his bank. The latter verifies and enters the information in the central system, which subsequently transmits the data electronically to the creditor.

Strategy

The Swiss financial center is strategically gearing up for e-billing, the use and penetration of which shall be purposely boosted in order to meet the growing customer demand for a technically supported payment procedure that is as simple as possible. Towards this end, the e-billing service offer will be further improved and upgraded, which will benefit billers and their customers alike. However, the Swiss banks are aware that there will also be customers in the future who cannot or who do not want to use electronic channels. That is why a new direct debit solution is necessary parallel to the upgrading of the e-billing service. More information about the new solution at www.lsv.ch.

Payment service users confirm: SEPA migration is manageable, feasible and beneficial

In a press release in December 2011, the European Commission commented on the agreement by the European Parliament and the Council of the European Union (EU) on the 1 February 2014 deadline for migration to the Single Euro Payments Area (SEPA): "The reasonable transition periods applied will allow customers and banks to get used to the adjustments in domestic payment transactions, provide legal certainty, avoid the cost of operating dual payments systems and bring forward the substantial future benefits of SEPA."

From 1 February 2014 onwards, organizations making payments in the euro area will have to carry out euro credit transfer and direct debit transactions in line with the core provisions set out in the "Regulation (EU) No 260/2012", establishing technical and business requirements for credit transfers and direct debits in euro – also known as the SEPA Regulation. Effectively, this means that as of this date, existing national euro credit transfer and direct debit schemes in the euro area will be replaced by SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD).

The representatives of corporates, small and medium-sized enterprises (SMEs), public administrations and government agencies, who reported on their successfully completed SEPA migration projects in the EPC Newsletter, confirm that timely migration to the new SEPA payment schemes and technical standards is manageable and feasible. They also clarify that migration to SEPA leads to significant benefits. There is no doubt that the scope of change required to ensure SEPA compliance is extensive, but it does pay off. Full implementation will lead to more streamlined internal processes, lower IT costs, reduced costs based on bank charges, a consolidated number of bank accounts and cash management systems, and more efficiency and integration of any organization's payment business.

SEPA progress: the state of play as of the third quarter 2013

The most recent European Central Bank (ECB) qualitative SEPA indicators show that a large majority of stakeholders in the 17 euro area countries are expected to be SEPA-ready by 1 February 2014. These indicators take into account the specificities of the respective country with regard to migration progress by "big billers", public administrations, SMEs and payment service providers (PSPs). Non-euro area EU countries participate in this exercise on a voluntary basis only, but they too have to comply with the SEPA Regulation by 31 October 2016. The qualitative SEPA indicators are updated quarterly by the national central banks and the preparedness assessment is based on a "traffic light system". The most recent qualitative indicators, which reflect the assessment by national central banks as of the third quarter of 2013, provide the following outlook with regard to SEPA readiness of stakeholders in the 17 euro area countries by 1 February 2014:

- PSPs will be ready. In the majority of euro area countries, PSPs have already completed preparations.

- "Big billers" in 16 out of 17 euro area countries will be ready. It currently appears that part of the corporate sector in Germany might not complete migration to SDD.

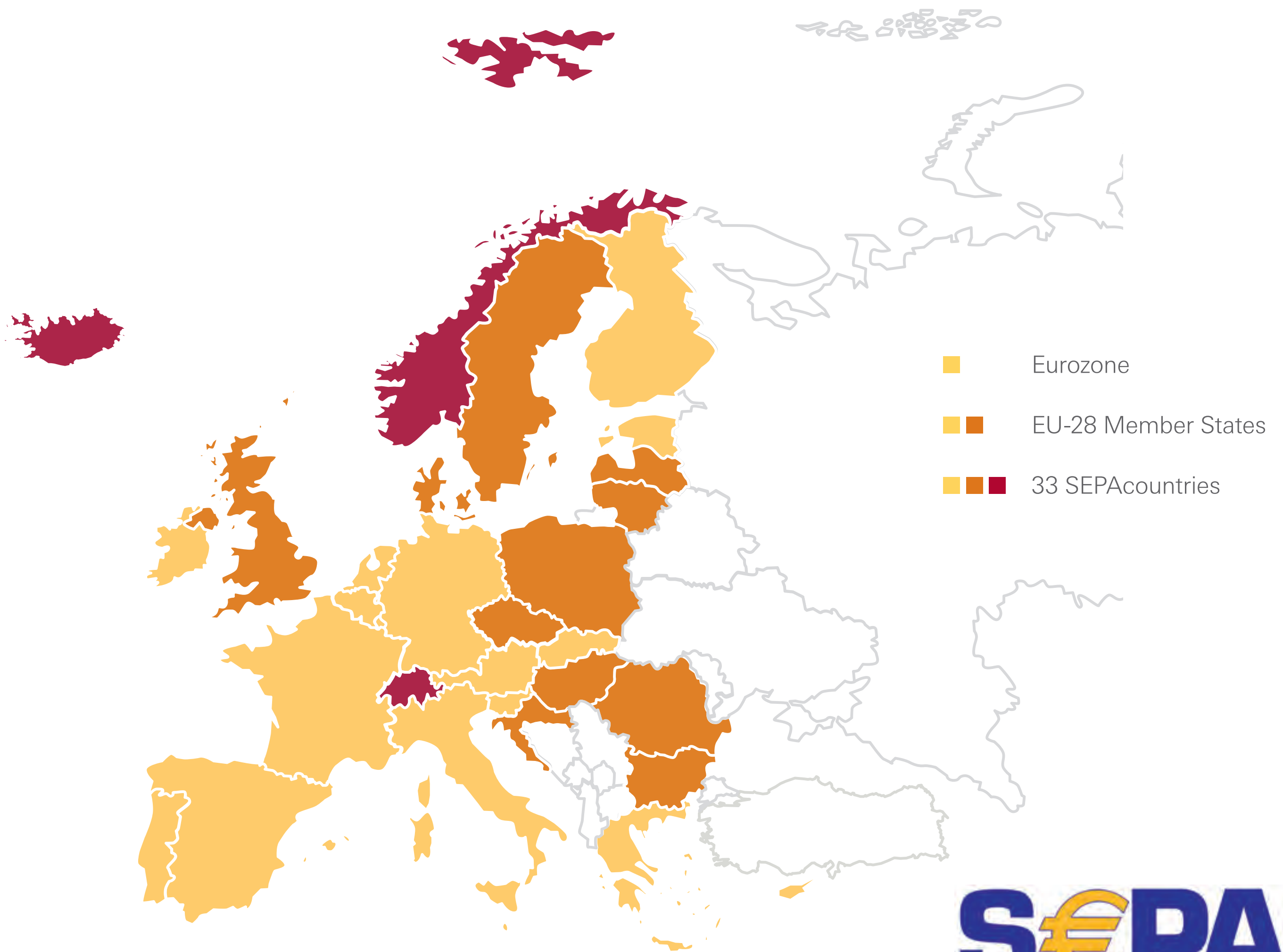
- Public administrations in 16 out of 17 euro area countries will be ready. It currently appears that some public administrations in Germany might not complete migration to SDD.

- SMEs in France, Germany and Spain are at risk of missing the 1 February 2014 deadline with regard to both SCT and SDD. SMEs in Estonia might not complete migration to SCT; SMEs in Ireland and Luxembourg might not complete migration to SDD.

Etienne Goosse, Generalsekretär des European Payments Council

There is no Plan B: avoid the risks of non-compliance
The SEPA Regulation effectively mandates migration to SEPA in the euro area by 1 February 2014. Since December 2011, the EU authorities driving the SEPA initiative have warned time and again that all market participants must ensure compliance with the SEPA Regulation or else risk that payments could be disrupted. More recently:

- In April 2013, Wiebe Ruttenberg of the ECB wrote in the EPC Newsletter: "There is no Plan B: migration to SCT and SDD is required by law, not only for PSPs, but also for big billers, SMEs, public administrations and consumers." He pointed out: "PSPs will be obliged to refuse further processing of payments that are not delivered to them in the right technical format after the 1 February 2014 deadline applicable in the euro area. Ignoring the risks of non-compliance, including the hope of a slow response on the part of the responsible authorities, would be a mistake."
- In May 2013, the Council of the EU, representing EU Member States, underlined with its latest conclusions on SEPA that the provisions of the SEPA Regulation "have to be fully respected by all market participants" in the euro area. It also stressed that all payment orders not submitted in the format requested by the SEPA Regulation after 1 February 2014 "may not be processed by all PSPs in euro area member states, which otherwise would be sanctioned."
- In September 2013, the SEPA Council, which is chaired by the ECB and the European Commission, addressed the progress of migration to SEPA payment schemes in the euro area. Established in 2010, the SEPA Council brings together representatives of both the demand and supply sides of the payments market. According to the statement adopted by the SEPA Council members present at its 23



Single Euro Payments Area

September 2013 meeting, it "was highlighted that the SEPA migration requirements set by law have to be fully respected without exception. While PSPs play a central and crucial role in migration to SEPA, end-users such as 'big billers', public administrations and in particular SMEs, have their own responsibility to ensure that they are able to send and receive payments in euro also from 1 February 2014 onwards."

- In October 2013, the ECB reiterated: "Payment orders that do not comply with the legal requirements as laid down in the SEPA Migration End-date Regulation will not be allowed to be processed by PSPs after 1 February 2014." Benoît Cœuré, member of the Executive Board of the ECB stressed: "Everybody has to be ready on 1 February 2014 or risk disruptions in their individual handling of payment orders." He pointed out that this is also the position of the Council of the EU and the European Commission. Mr Cœuré added: "We have been emphasising the fact that both payments providers and users are responsible for being sufficiently prepared. And our message to them is still the same: don't leave it to the last minute."

Reaching the finishing line on time

The focus must now be on joining forces to assist, in particular, SMEs in the euro area ahead of the 1 February 2014 migration deadline. This requires coordinated efforts by national public authorities, and trade associations representing businesses and banks. The Council of the EU therefore called already in May 2013 on "all member states to significantly intensify communication measures primarily at national level to eliminate existing public awareness gaps." At this stage, the recommendation is that late movers on the demand side, whether big or small, use their first step to focus on achieving basic SEPA compliance, then seek to realize further efficiencies to be generated with the implementation of the harmonized SEPA payment schemes and technical standards. Banks and other service providers stand ready to support market participants during the transition.

Etienne Goosse, EPC Secretary General

SEPA end dates – EU regulation: Impact on Switzerland

EU Regulation 260/2012 mandates the uniform end dates for national credit transfers and direct debits in the EU and EEA member states in euro.

As of 1 February 2014, financial institutions in the eurozone must be reachable both for SEPA credits transfers and SEPA core direct debits. The same applies for EEA financial institutions outside the eurozone as of 31 October 2016.

Although it is not bound by the EU regulation, the Swiss financial center is a SEPA member. This means that Swiss financial institutions are equal participants in the SEPA schemes.

After implementation of the regulation in February 2014, the SEPA Credit Transfer will become the European standard for international payments. In order to be able to continue appearing as participants in European payment traffic, as well as in the interest of their customers, each Swiss financial institution should ensure its reachability in the SEPA.

Payments to financial institutions that are not reachable in SEPA will continue to be routed through correspondent bank connection with the customary fee charges for foreign payments.

Susanne Eis, SECB Swiss Euro Clearing Bank
susanne.eis@secb.de

The participants at the latest D/A/CH meeting (from left to right): Jürgen Wintermantel, Cantonal Bank of Zurich, Joachim Geisler, STUZZA, Marianne Khouzam, UBS, Hendrik Muus, STUZZA, Albert Apolloner, SIX, Robin Stähli, PostFinance, Rolf Zumsteg, RECON IT, Nadia Molinari, SIX, Christian Schwinghammer, SIX, Thomas Egner, Commerzbank, and Istvan Teglas, SIX. Missing in the picture: Robert Reiger, STUZZA, Ingo Beyritz, German Banking Association.

SEPA – Dream and reality

One of the European Commission's Lisbon Agenda goals defined in 2000 is coming within reach: By decree, the Single Euro Payments Area – SEPA – is to be reality as of 1 February 2014.

That, at least, is the stated goal. But what does the reality of it all look like? The numbers to the so-called "migration" do not exactly trigger euphoria: More than five years after its introduction, SEPA credit transfers make up only one-fifth of the entire transaction volume. SEPA direct debit statistics look even worse: Conversion rates are still only within the single-digit percentage range!

Right now, European politicians, as well as the financial sector and their representatives, have their hands full in order to convince companies, from global players to regionally active small businesses, of the necessity and sense of the conversion to SEPA processing. Ultimately, everyone is affected: Even consumers have to get used to the new IBANs and the BICs – even though the BIC is expected to be obsolete again as of 2016. (The financial industry is hard at work trying to minimize the conversion problems. See the QR code on invoice and payment forms.) Having said that, starting in February 2014, SEPA will be functioning somehow. Not in the least because it simply must, due to the European Commission's requirement in setting this deadline.

Where to from here?

For more than ten years (specifically since 2001) there have been efforts by the European Payments Council (EPC) to develop payment traffic processing standards. Significant ideas and suggestions have been submitted by various national and international organizations, such as the German/Austrian/Swiss (D/A/CH) initiative, among others. However, the specifications at hand will only lead to the implementation of a SEPA 0.9 version: It's already foreseeable that, while a certain standardization of the European payment traffic will be achieved, a full straight-through-processing is not guaranteed. In view of this conclusion, the Additional Optional Services concept must be seriously questioned.

It still appears to be a long road to SEPA Version 1.0: The true benefits to both companies and consumers, however, will only become apparent and appreciated once the idea based on a processing-oriented ISO model is fully recognized and implemented by all market participants. The main characteristic of this model is the continuous and consistent automation and transparency of payment traffic processes from initiation through processing to ex-post information. And all that with the mandatory error and exception treatment.

In technical terms, this means that the entire palette of the dedicated ISO model messages for payment traffic – from all various ISO pain (payment initiation) to the account information (ISO camt series) messages – must be implemented. Additionally, it is advisable to verify the internal process organization's compatibility with the ISO processes and adapt it, if necessary. Only when these framework requirements have been met will payments really be secure, fast and cost-effective for all participants. This can be compared with the e-mail area: E-mail using the Internet only works if all service providers are adhering to all defined standards, protocols and rules.

SEPA 2.0 – time is getting short

SEPA 2.0 is already in its development phase: "Account mobility," "E-SEPA" and "Access to account" are only some of the expressions standing for concepts that will be incorporated into the revised Payment Services Directive, or PSD 2.0, of the European Commission. The financial industry is facing significant challenges and must deal with increasing regulatory requirements and withstand competition mainly from the non-banking competitors.

Solutions need to be found more quickly

The banks' business in general, and payment traffic in particular, are increasingly becoming network-oriented. This means that schemes will need to be designed, developed and implemented company-wide (banking industry-wide, anyway). Individual initiatives usually sink into obscurity and are also linked to high "sunk costs."

This is exactly why joint venture activities, such as the German/Austrian/Swiss (D/A/CH) working group, gain heightened significance. In regular conferences – D/A/CH activities and coordination also take place between the national SWIFT user groups or banking associations, among others – questions, challenges and joint positions regarding the SEPA implementation, the further development of e-services and ISO 20022 standardization are consulted upon.

This is exemplified by a standardized coordination of payment traffic terms and definitions in the German language areas: The resulting D/A/CH glossary, which also points out differences in terms and interpretations, is to be published shortly.

The work on a D/A/CH proposal for a cross-border pain message with end-to-end processing that can be used for non-SEPA payments is still in progress. The goal is a comparison of the individual recommendations, which should be published after completion, as well.

Further milestones must be set rapidly, not least through a D/A/CH initiative: E-payments based on secure access to online banking systems and service offers of e-mandates supporting the SEPA direct debit schemes are already waiting to be introduced across Europe; the concepts are available.

Robert Reiger, Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr, Study Company for Cooperation in Payment Transfers (STUZZA)
robert.reiger@stuzza.at

EBICS goes to Europe. And to Switzerland, too

Electronic Banking Internet Communication Standard (EBICS) is an Internet-based payment-traffic transaction protocol that standardizes the communication between corporate customers and banks. German and French banks have agreed to jointly offer the standard with the goal of simplifying business activities for corporations, in particular within the SEPA.

Based on a secured Internet protocol (IP) with multiple encoding levels, EBICS enables flexible, efficient, comprehensible and secure banking transaction processing. It is easily adapted to operational IT architectures and high transaction volumes. As an open standard, this scheme is available to all interested parties without incurring (licensing) fees. In Germany, it is mandatory for financial institutions to support it as of January 2008.

Continued development of the standard is handled by EBICS SCRL, a joint venture of the German and the French banking associations Gesellschaft der Deutschen Kreditwirtschaft and Comité français d'organisation et de normalisation bancaires (CFONB).

Proliferation in Switzerland

EBICS is already offered by some financial institutions in Switzerland. However, some financial center requirements – primarily in reference to proprietary payment methods, such as the ISR (inpayment slip with reference number) – are not specifically incorporated in the current standard. Nevertheless, it is still flexible enough to support the specific Swiss requirements based on bilateral agreements and thus consistent with the standard. With increasing EBICS offers, the need for a standardized Swiss implementation rises.
Subsequently, the Payments Council Switzerland (PaCoS) has initiated the Working Group EBICS and assigned it the task of establishing guidelines for the Swiss financial center. Within one year, the working group members (representing UBS, Credit Suisse, PostFinance, Cantonal Bank of Zurich and SIX Interbank Clearing) developed a corresponding document. In it, the Swiss specifics could be fully implemented for international use with the EBICS standard.

The Swiss Implementation Guidelines were subsequently submitted to EBICS SCRL for coordination and to clarify some legal questions. Basically, the EBICS SCRL welcomes active participation by the Swiss financial center in the continued development, thereby enabling the integration of Swiss guidelines within the official EBICS standard. The Swiss user recommendations will be published as soon as the EBICS SCRL officially communicates its go-ahead.

Requirements

The following requirements were a major focus when developing EBICS:

- **One standard for financial institutions and customers; i.e., business customers can reach every financial institution offering EBICS using a single software solution**
- **Open standard; i.e., business customers can use either standard products or individualized software**
- **Highest security standards**
- **Price and performance – not technology – determine the competition and the switchover costs related to a bank account switching.**

Use for the financial center

EBICS is already supported by many standard software products. In particular, business customers from Germany and France use it for their communication with their banks and increasingly inquire about corresponding offers at the Swiss financial institutions.

The development and management of proprietary interfaces isn't necessarily part of the Swiss financial institutions' core business. They often require considerable implementation efforts for business customers too. From the financial institutions' perspective, EBICS would be first of all an additional channel to be supported, which would only pay off with a large number of EBICS customers. The situation looks different when the continuing adaptations and stricter requirements in the regulations area are taken into consideration. Our financial institutions would benefit from standardized versus proprietary channels, assuming that EU recommendations – such as the European Central Bank's requirements published last year concerning Internet payment security – over time would also be implemented in Switzerland.

Albert Apolloner, SIX Interbank Clearing
albert.apolloner@six-group.com

Revised National Bank Ordinance in effect

The Swiss National Bank put the revised National Bank Ordinance into force on 1 July 2013, implementing provisions on the oversight of financial market infrastructures that bring it in line with internationally applicable standards. This represents the conclusion of an important stage on the way to comprehensive infrastructure regulation reform in Switzerland.

The regulation of financial market infrastructures in an international context is changing. This is a reflection of the heightened awareness resulting from the financial crisis, and is attributable to the critical importance of the resilience of systemically important financial market infrastructures for financial stability. At the same time, foreign legislation, specifically EU laws, requires an equivalent framework of regulations in order to permit the Swiss financial market infrastructures to continue offering cross-border services. Currently, this applies specifically to the central counterparty SIX x-clear Ltd (European Market Infrastructure Regulation, EMIR), and also in the near term to the securities depository SIX SIS Ltd (Central Securities Depositories Regulation, CSDR). In contrast, the Swiss Interbank Clearing (SIC) payment system is not affected by the current and planned EU regulation initiatives – at least, not for the time being.

In the face of that, the National Bank revised the minimum requirements for systemically important payment systems, securities settlement systems, central securities depositories and central counterparties contained in the National Bank Ordinance.

What is new?

New or increased financial market infrastructure requirements include, among other things, the handling of credit and liquidity risks, as well as business risks and risks resulting from indirect participation. Furthermore, the infrastructure operators are committed to guaranteeing operations of their most crucial services via contingency plans. Moreover, the operators are required to publish additional information to enhance transparency about their services and their functionality, as well as the related risks for their participants.

This regulation targets the systemically important payment systems, securities settlement systems, central securities depositories and central counterparties. The changes in requirements don't have any direct consequences for the participants in those infrastructures. However, they do benefit from a more resilient and transparent financial market infrastructure in Switzerland – one that meets the highest requirements in security and availability.

Next stage: Financial Market Infrastructure Act

The revision of the National Bank Ordinance is an important intermediate goal on the path toward a comprehensive regulatory reform of financial market infrastructures in Switzerland. Not all reform steps can be achieved through changes of the National Bank Ordinance, though. For example, the National Bank cannot set any requirements on derivatives, trade repositories or market participants.

This is where the Financial Market Infrastructure Act, commissioned by the Federal Council in August 2012 and due to be enforced in 2015, is expected to eliminate existing gaps. The Financial Market Infrastructure Act is intended to redraft the regulation and oversight of financial market infrastructures through the Swiss Financial Market Supervisory Authority FINMA, including trading venues and trade repositories. In particular, customized licensing conditions are to be created for these infrastructures. Financial Stability Board recommendations for derivatives trading and settlement are to be implemented, as well. In contrast to the National Bank Ordinance, the Financial Market Infrastructure Act therefore addresses not only the financial market infrastructures, but also their participants and the participants of derivatives markets. The draft of the Financial Market Infrastructure Act is expected to be submitted for consultation before the end of the year.

Andy Sturm, Head of Oversight, Swiss National Bank
andy.sturm@snb.ch

Impressum

Publisher
SIX Interbank Clearing Ltd
Hardturmstrasse 201
CH-8021 Zurich

Ordering/Feedback
CLEARIT@six-group.com

Edition
Edition 57 – December 2013
Published regularly, also online at www.CLEARIT.ch. Circulation German (1,300 copies), French (400 copies) and English (available in electronic format only on www.CLEARIT.ch).

Council
Thomas Hadorn, PostFinance, Wolf-Dieter Lengsfeld, UBS Inc., Susanne Eis, SECB, Martin Frick, SIX Interbank Clearing Ltd, Andreas Galle, SIX Interbank Clearing Ltd, André Gsponer (Head), Enterprise Services AG, Gabriel Juri, SIX Interbank Clearing Ltd, Roger Mettier, Credit Suisse AG, Jean-Jacques Maillard, BCV, Silvio Schumacher, SNB, Gert Zimmermann, Liechtensteinischer Bankenverband

Editorial Team
André Gsponer, Enterprise Services AG, Andreas Galle, Gabriel Juri (Head) und Christian Schwinghammer, SIX Interbank Clearing Ltd

Translation
French, English: Word + Image, HTS

Layout
Felber, Kristofori Group, Advertising agency

Printer
Binkert Druck AG, Laufenburg

Contact
SIX Interbank Clearing Ltd
T +41 58 399 4747

Additional information about the Swiss payment traffic systems can be found on the Internet at www.six-interbank-clearing.com