



Payment Services

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**Dear readers,**

The payment traffic industry is in flux. New vendors are occupying smaller and larger niches, while new, sometimes surprising payments partnerships are arising around the world. Payments have long been the wallflower of the financial industry; who likes to pay? The global interconnection with its new business models and shopping possibilities promotes the “new” payments to a central element in the interlinked world.

Central to all this are the classic payment providers, namely, the financial institutions and infrastructure providers, which, in particular, are in charge of classic payment traffic and with it, assume an essential role for a flourishing economy. Despite ever growing regulatory requirements, they are managing to achieve increasingly more efficient processing for the classic payment options: cards, credit transfers and direct debits.

While the transaction figures for classic payment products may not be increasing as strongly as they are for Bitcoin, PayPal, etc., steadily increasing transaction volumes are being chalked up here too, and are building upon what was already a very high basis. Particularly these classic payment options form a central pillar in a flourishing economy. They are indispensable for a linked, globally accessible economic world.

Switzerland has highly-automated payment solutions that are offered and further developed jointly by PostFinance, the banks and SIX. To be prepared for the future, major adaptations are made at regular intervals. We are currently, and will be for next few years, in an intensive phase in which we are paving the way for an even more improved payments future. The Swiss payments migration project offers us the chance to correct the misdevelopments of

the past and to improve the successful ones, based on a standardized international format. This means that Switzerland will have an even more efficient payment traffic system in the near future. Even if the financial institutions have not been able to agree in all areas (direct debit schemes/Direct Debit CH), it must be stated that Swiss payments migration is a joint project and that we are all dedicated to a strong Swiss payment traffic.

A handwritten signature in black ink, appearing to read 'Armin Brun'.

Armin Brun

Member of the Management Board of PostFinance Ltd

The balancing act between commercial and non-profit interests

Alexandre Zeller explains the strategy of SIX, the Swiss financial center infrastructure operator. In addition, the SIX Chairman of the Board of Directors talks about the Group's core mission, the relationship with its owners and the potential influence of the Federal Council on the Swiss financial center strategy.

CLEARIT: Mr. Zeller, the SIX Board of Directors determined the strategic direction last year. Can you briefly outline where the journey is going?

Alexandre Zeller: The core mission of SIX is to ensure the so-called Swiss Value Chain. This essentially refers to the services in securities trade, post-trade, interbank clearing and services in the financial information field. SIX must provide absolutely reliable, efficient and secure services at all times. I believe we have managed this very well so far.

What do you mean when you refer to the Swiss Value Chain?

The Swiss Value Chain comprises facilities that significantly contribute to the competitiveness of the financial center: the value creation chain, which links the payment system with the stock exchange trading and security settlement systems. I see three priorities involved here. It is matter of, and this is often forgotten, maintaining the stability of our systems and also increasing efficiency. And thirdly, it is about innovations.

«Lowering costs for our customer is a permanent challenge for us.»

The competitiveness that you refer to is closely linked to increasing efficiency, which can also be attained by reducing costs. Where and how can SIX specifically help the Swiss financial industry to reduce costs along the value chain?

By offering our services less expensively and with greater market proximity. Lowering costs for our customer is a permanent challenge for us. That is why our goal is to steadily increase volume. In many areas, this means reducing costs through economies of scale. The more volume we can process on our systems, the greater is our leeway in terms of price policy.

The Swiss Value Chain was already the focus of strategic development at the "birth" of SIX in 2008. Is the current strategic approach largely a confirmation of the old or, from your perspective, are there new accents?

We have again taken a close look at this topic in the Board of Directors. The core mission remains the same: ensuring an absolutely reliable and efficient financial market infrastructure. But the business models and needs of our customers and owners are changing in the face of regulatory and economic pressures. This means entirely new requirements and new demands upon SIX. Therefore, we must also question our services and business models and be prepared to adapt ourselves to prove our innovative strength and agility. In this regard, I can specifically name our forward-looking services in the field of contactless payments in Switzerland, along with our clear focus on the Swiss market in the stock exchange field for structured products, SIX Structured Products Exchange. And then there is Terravis, which provides services in the field of electronic processing of mortgage and land register transactions. And that is just the beginning. I am absolutely confident that SIX will seize the opportunity to make the most of the changed environment and with its products and services significantly contribute to the competitiveness of the Swiss financial center.

Speaking of the regulatory and economic pressure on the banks; in view of the to-big-too-fail issue, what role can SIX assume here, such as in the area of outsourcing the banks' payment traffic?

First of all, it is to be emphasized here that SIX itself was allocated to the highest supervisory category by Swiss Financial Market Supervisory Authority FINMA at the end of last year; however, for reasons other than those applicable to the big banks. We are systemically important to the extent that our systems must be absolutely stable and reliably available at all times. The question, however, is whether it would make sense to take over the bank's systemically relevant activities, such as payment traffic. The answer is that it probably would not. There are, however, other outsourcing possibilities. Such as was the case regarding the final withholding tax. SIX was able to rapidly offer the banks an interesting and functioning solution. Unfortunately, the commercial success was not particularly great due to political decisions, primarily in Germany. However, it did show that regulation can also represent an opportunity for SIX. And that SIX can make an important contribution to the implementation of financial market regulations.

A new study by the University of St. Gallen, entitled Financial Center Study Payments, recommends that the Board of Directors of SIX Interbank Clearing, as the decision-making body in Swiss payment traffic, support cooperation between the various payment-oriented



Short biography

Alexandre Zeller has been Chairman of the Board of Directors of SIX since the end of May 2013. Upon completing his studies at the University of Lausanne (Business Administration) and Harvard Business School in Boston (Advanced Management Program), he was employed at Nestlé SA (International Operational Audit) in Vevey from 1984-1987. Alexandre Zeller subsequently assumed various functions at Credit Suisse in Zurich through 2002, where he was appointed to the Executive Board (CEO) Private Banking Switzerland in 1999. After his position as CEO at Banque Cantonale Vaudoise in Lausanne from 2002 to 2008, he switched to HSBC Private Bank (Suisse) SA in Geneva, where he was CEO, Country Manager Switzerland and Regional CEO, Global Private Banking, Europe, Near East and Africa until 2012.

sectors of the financial center (card-based payment, interbank payments and e-banking), with the aim of achieving comprehensive consideration of wide-ranging customer needs. What do you think of this suggestion?

This suggestion matches the joint venture idea, which I entirely support. On the one hand, there is a need to implement uniform standards and processes along the entire payments value creation chain, which enable the participants in the financial center to bring innovative services to market inexpensively. On the other hand, it remains an organizational challenge to optimize cooperation between banks, system operators and other process participants. Services in the field of contactless payments, which I mentioned earlier, represent one example.

One of the reasons for the merger of the financial center infrastructure operators more than six years ago was the intention to combine the Swiss Value Chain under one roof. To what degree have the owners of SIX, the banks, benefited from this?

The financial crisis demonstrated how important a well-functioning and independent financial market infrastructure is for Switzerland. The Swiss National Bank recently confirmed this to us again. With us, the owners have a contact partner that can ensure the entire value creation chain. Correspondingly, the SIX Board of Directors clearly confirmed the strategy of independence in 2012. It is of central importance for the actors in the financial

center to retain control over this economically relevant sector. This is a clear commitment to the benefits of a financial market infrastructure under one roof. In addition, the owners can profit from the entire SIX range of services, without having to deal with different companies. This is a major benefit.

You mentioned that one advantage for the owners is that they have a single contact partner. However, in practice, SIX comprises various companies that are part of the Swiss Value Chain or which operate the platforms. Doesn't this mean that there are also different contact partners who service the same customer?

That's right. We have different legal entities within the Group, which are organically managed within the individual divisions. The problem you are addressing is something that actually does confront customers. We have recognized it. The SIX Management Committee has therefore launched an initiative to enable the servicing of large customers from a single source. We're calling this Top Account Management. The concept is currently in the implementation phase with two pilot customers and we are confident that it will lead to very solid improvements.

The Swiss Value Chain is partially regulated by the Swiss National Bank and FINMA and is a joint venture of the Swiss financial center. Operation of the interbank payment systems, for example, is not profit-oriented. There are yet

other such joint ventures in SIX that are organized in a decentralized manner. What need for action do you see here in view of potential further gains in efficiency for the financial center?

That is a unique feature of SIX. On the one hand, we are fully subject to international competition and must act in a commercially and market-oriented manner. While on the other, we have assignments from the Swiss National Bank and FINMA that are not primarily of a commercial nature. These assignments play a very important role for the functioning of a credible and attractive Swiss financial center. Just think of stock exchange supervision or the SIC interbank payment system. Of course, the processes and procedures in these areas must be continuously improved, but less for the purpose of maximizing profits. That is part of our mandate.

By the end of 2014, the Swiss Federal Council shall take action to strengthen the financial center. How do you intend to influence this?

SIX is a part of the Swiss financial center. Accordingly, we are both directly and indirectly affected by developments within it. We have long committed ourselves to a strong financial center. We also did so in the framework of the first Brunetti Working Group, which developed the measures for strengthening the financial center on behalf of the Federal Council. We will actively integrate our position into the work conducted by the group of experts. We are active on various levels, which is why we have also boosted our political lobbying with two new staff. SIX must actively promote itself as a significant player in the financial center. And we're doing it too.

Since SIX is 100% owned by the banks, it could be assumed that the ideas held by SIX are congruent with those of its owners. Is that right?

We agree on most topics. However, there are tensions in areas in which the owners are also competitors. This is accepted by both sides and handled professionally. In regard to the previous question, our opinions are entirely congruent.

«Now it is a matter of developing a financial center strategy that leads Switzerland out of the present deadlock.»

To what degree is the strategy of SIX embedded in the financial center strategy of the Federal Council?

It was central to us right from the start that representatives of the financial center were also included in the group of experts. While this is the case in the second staging of the Brunetti Group of Experts, we regret that the financial market infrastructure, as a central component of

the financial center, was excluded from participation. Now it is a matter of developing a financial center strategy that leads Switzerland out of the present deadlock. And this not only in terms of the strategic goals, such as market entry to the EU or an adaptation of our regulations, but also in answer to the increasing domestic political pressure on the financial center. The industry, the authorities and the politicians simply cannot continue to conduct trench warfare in the future. By doing so, we weaken the financial center and thereby also the economy and the welfare of Switzerland.

Speaking of the welfare of Switzerland: The Federal Council's strategy – at least to the extent that it is known – seems to primarily deal with global standards (e.g. automatic exchange of information), combating abuse and due diligence, in other words, regulatory bureaucratic and taxation issues. To what degree are you satisfied with this range of issues? Or to put it differently: Does this range of issues suffice to strengthen the financial center?

This is an important step towards repositioning the Swiss financial center, in which we must adapt to the new circumstances. I would describe these circumstances as transparent. In the age of electronic data, one simply must learn to live with the fact that this data will never again be 100% secure. I see certain opportunities for Switzerland here too, since we are particularly competent in the field of data protection. In this sense, I welcome this step. However, I don't believe that this is enough to ensure the future of the Swiss financial center. Additional measures must be taken to better its position. The working group must now finalize this.

What are your ideas about how we can take this on more assertively and proactively?

As was mentioned before, we at SIX are active on various business levels. When it comes to the financial center as a whole, various ideas have already been formulated, such as the role of asset management, our language and political skills and the strong currency. I think we should pursue two additional approaches: One is the training of an entirely new generation of bankers, which is prepared to master this new electronic world and to act within it. And the other is to play upon our strengths in the field of data protection, as I hinted above. Here we have excellent capacities and technologies that would enable us to play a major role.

The backbone of the financial system is formed by the stock exchanges, central counterparties (CCPs), payment systems and central securities depositories (CSDs). A representative of the Swiss National Bank stated this at the end of 2012. By this, he meant that this financial market infrastructures are perceived by many market participants merely as disagreeable cost factors, although they have a say in how they are set up and can thereby ensure that their needs are properly taken into account. Wouldn't it

be desirable to take this recognition into consideration in the future financial center strategy?

That's crystal clear. As I said before, we are a little disappointed that the financial market infrastructure is not represented in the current task force. Nevertheless, we are naturally trying to include our position. We are managing to do so through various channels. Our owners also see the importance of a functional financial market infrastructure in a new light since the financial crisis. And they are correspondingly committed to a strong and independent infrastructure. And last, but not least, I would like to mention that the financial market infrastructure is subject to an ongoing regulatory process: the creation of the Financial Market Infrastructure Act, which is currently in the consultation phase. We are naturally expressing our views about this in a very direct way.

In the Financial Market Infrastructure Act draft bill submitted for consultation it says that regulation in the area of financial market infrastructure is to be adapted to international standards. On the one hand, there is thus more regulation, while on the other, competitiveness is to

be enhanced. But that appears to be a contradiction, since regulation is connected with costs for the banks, which is detrimental for competitiveness. How do you rectify this contradiction?

The politicians will decide about regulation. We can only offer our opinion in advance. The fact is that we are not part of the EU. If we want to continue being active in the EU, then it is a prerequisite that Swiss legislation be adapted to that of the European Union. The Financial Market Infrastructure Act is therefore very important. It may in no way result in difficulties for SIX when it comes to furthering our activities in Europe. That is why we are arguing for the fastest possible introduction of the new law. We are also very clearly arguing against a "Swiss finish". This means that we do not want to have to go further than our competitors in the EU area, e.g. when it comes to consumer protection or the classification of stock exchange operators.

Interview:

Gabriel Juri, SIX Interbank Clearing

gabriel.juri@six-group.com

Does the future of payments lie in the customer's value creation chain?

Long forgotten are the medieval times when a money bag was worn on the belt and payments were made on the spot. We are confronted with new issues in the age of electronic and mobile communication. Gone are the days when only banks and financial center infrastructure providers were busy developing services; new, innovative players outside the banking sector are now also involved. On behalf of SIX Payment Services, Competence Center Sourcing compiled a financial center payments study from which innovative solution approaches were elaborated on the basis of trends, developments and specific needs. In addition to the current solution approaches being discussed in the market, such as P2P payments, wallets and real-time payments, other approaches were reviewed that are aimed at the customer's value creation chain, from creating the invoice to payment and archiving thereof. In the process, the vision of a cockpit was formulated through which customers receive comprehensive support for the processing of payments in their functional areas:

Processing – maximum convenience

Claims reach the cockpit through various channels. The customer manages the payment execution through a rulebook he or she defines. Depending on the parameters (e.g. creditor, amount, time), payments are executed through the stored payment

channels (bank account, card, etc.). Paid invoices automatically land in an archive.

Administration & reporting – simple and secure

This area includes the customer's master data, authentication, account and card administration, mandate administration (e-bill and direct debit), the rulebook and various reporting options.

Services – customized added value

The cockpit is rounded off with the integration of value added services, primarily from banks with which the customer maintains a banking relationship. Personal finance management and transaction monitoring are just two examples among the range of possible services. With the integration of added value services, such as specific archiving solutions or coupon and loyalty programs, the cockpit is positioned as an innovative and customer-oriented solution.

The vision of the cockpit will be further developed in the coming months by a working group consisting of representatives from all payment areas.

The future of payments in the Swiss financial center is exciting and chock full of opportunities. SIX is staying on the ball.

Christian Wilhelm,
Business Engineering Institute (BEI) St. Gallen
christian.wilhelm@bei-sg.ch

E-money, e- and m-payments according to Swiss law

What are the legal payment means in Switzerland? How will the new payment methods, e-money, e- and m-payments, be legally assessed? What regulatory requirements apply to them? A snapshot of the current situation.

Paying with cash

Only the coins issued by the federal government, the banknotes issued by the Swiss National Bank (SNB) and sight deposits in Swiss francs at the SNB are legal means of payment in Switzerland (Federal Act on Currency and Payment Instruments).

According to the Swiss Code of Obligations, monetary debts are to be paid in the legal tender of the currency owed (physical transfer of banknotes and coins). The creditor is – subject to agreements to the contrary – not obligated to accept payment with means other than cash money.

Paying with book money

More important in practice than cash money is book money. Book money is a credit balance at a bank that is available at any time; i.e. an account holder's claim towards the bank for the paying out of cash money in the amount of the credit balance. A cashless credit transfer (payment instruction) causes a debiting of the payer's account and crediting of the beneficiary's account, thereby constituting a new claim by the beneficiary towards his bank and a reduction of the claim of the payer towards his bank. Basically, this does not represent a payment in a legal sense, and is only permitted with the approval of the beneficiary.

Book money is created by the account-holding banks. These are regulated, which makes it possible to have trust in book money. However, book money is subject to the risk of insolvency of the bank holding the account.

Paying with e-money

Electronic money (e-money) is any electronically stored monetary value in the form of a claim towards the issuer of the e-money, which is issued against payment of a monetary amount or provision of a service, in order to conduct payments which are also accepted by other persons. The transfer takes place through a book-entry transfer of virtually defined value units in electronic or magnetic form. As a rule, e-money must be converted either to book money or cash money in order to complete the payment.

E-money is not a legal means of payment and therefore also not covered by the SNB's monopoly in issuing currency. Regulation of the issuers of e-money is currently evolving and differs from country to country.

To avoid misunderstandings, it is to be noted that online banking does not involve electronic money. This is to be understood as the authentication for access to the bank account over the Internet (e-payments) or mobile phone (m-payments). In online banking, the signature is primarily replaced by other means for authentication.

Contractual relationships

When it comes to e-money, e- and m-payments, there are three types of contractual relationships (see chart on the right):

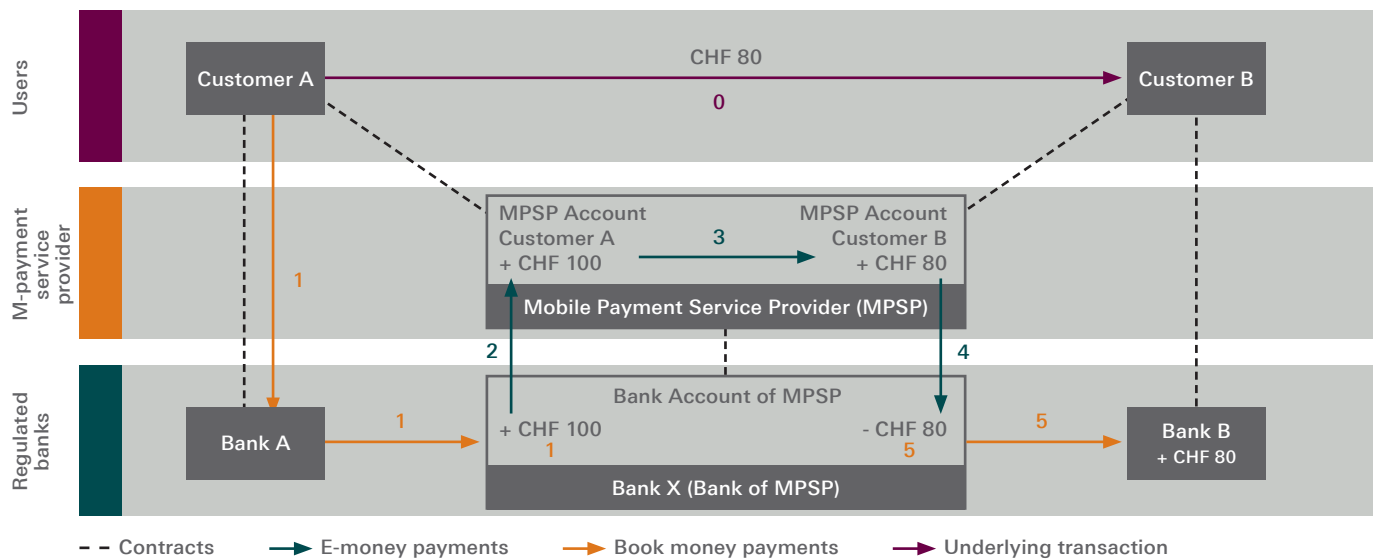
- between the payer and beneficiary (e.g. purchase), which is the basis for the payment and contains the agreement to pay with e-money.
- between the payer or beneficiary (both system participants) and the e-payment system operator ("participation contract" in the e-money system), and
- between the system participants and their banks (current account contract).

Requirements for providers of e-money, e- and m-payments

Generally, natural and legal entities, which are not subject to the Swiss Banking Act, may not professionally accept deposits from the public (not more than 20). According to the Banking Ordinance, third-party funds are those, which represent compensation from a contract pertaining to a transfer of property or a service contract, or which are transferred as a security payment and are not considered to be deposits from the public. In particular, money which is fed into a payment means or payment system (payment cards, Internet payment options, mobile phone payment systems, etc.) is not considered to be money deposited by the public if:

- it is limited to the future purchase of goods or services,
- the maximum credit balance per customer never exceeds CHF 3,000, and
- no interest is paid on the money.

Overview on Mobile Payment Scheme



E-money providers that meet all these requirements do not need a banking license. This exception prevents customer cards from companies and providers of communication means (Internet or mobile phone) from having to be supervised for online banking, because this seems unreasonable. This exemption has no impact on the qualification of issuers of e-money and operators of systems for e- or m-payments

- as financial intermediaries: They must meet the respective obligations under the Anti-Money Laundering Act and either join a recognized self-regulation organization or obtain a license from FINMA.
- as a payment system according to the National Bank Act and National Bank Ordinance: Depending on the turnover and significance, payment systems are subject to information and disclosure requirements and – if systemically important – supervision by the SNB. In addition, the SNB can subject issuers of electronic money to the minimum reserve requirement if their activity significantly threatens to impact the act of implementing monetary policy.

Finally, it should be mentioned that at the current time various legislative processes are in progress which could have consequences for e-money (e.g. in Switzerland, the Banking Ordinance and Financial Market Infrastructure Act, and in the EU, the Payment Services Directive), so that everything remains in flux.

Dr. Martin Hess and Alexandra Weiss Voigt,
Wenger & Vieli Attorney at Law

m.hess@wengervieli.ch, a.weiss@wengervieli.ch

Regulation in the EU

Significant at the present time in the EU is primarily Directive 2009/110/EC regarding the taking up, pursuit and prudential supervision of the business of electronic money institutions. This defines e-money (only multiparty systems and thus not customer cards, department store coupons, membership cards, transport tickets, etc.) and establishes rules for e-money issuers. Approved e-money institutions are accordingly payment service providers and must adhere to certain sections of the Payment Services Directive and meet financial requirements for approval as an e-money institution (capital, equity capital, etc.). Institutions permitted in an EEA country can generally conduct e-money transactions in other EEA countries with the "European Passport" if they meet specific capital requirements (subject to uniform implementation of the EU guidelines in national legislation).

In the sense of a brief outlook, it should be mentioned that Directive 2007/64/EC on payment services in the internal market is being revised and that the draft explicitly mentions that the e-money directive will be revised in 2014. It is therefore probable that an alignment to this draft will follow in the area of e-money. Expansions of the scope of application, alignment with the stringent – and very customer-friendly – liability principles and explicit security requirements might be possible. In any case, it can be assumed that Swiss e-money issuers that strive for (euro) internationality, will have to take a rather more comprehensive and cost-intensive legal review of the admissibility in the future than is necessary today.

Stricter EU rules for data transmission

The so-called Transfer of Funds Regulation by the EU, which governs certain obligations of diligence, are being tightened. This may possibly have consequences for the Swiss banks participating in SEPA.

The Financial Action Task Force (FATF), which set international standards for combating money laundering and terrorism financing with its 40 recommendations, revised its Recommendation No. 16 pertaining to payment orders in February 2012, and now mandatorily requires, in addition to the payer's data, also that of the beneficiary. EU Regulation 1781/2006 shall be adapted according to the change in this FATF recommendation. The old and new regulation must therefore be of interest to us in Switzerland, because it forms the legal framework for SEPA and the Swiss banks participating in SEPA will sooner or later have to prove that they adhere to rules that are equivalent to those of the EU. This is not necessarily a problem in terms of data transmission, because Switzerland must implement the FATF requirements in any case if it wishes to pass the upcoming FATF country review in 2015 relatively unscathed. In view of SEPA, Swiss banks would do well to focus on what is presently being elaborated in the EU when it comes to implementation of the revised FATF Recommendation No. 16.

The EU Commission's draft regulation

Regulation 1718 now contains the requirement that the payment service provider, in addition to the customary payer's data, now must also provide the beneficiary's name and account number. If no beneficiary account is used, then a uniform transaction number must be provided that enables tracing of the payment. For payments for which the payer's payment service provider and that of the beneficiary are domiciled in the EU, it will still suffice to enter a uniform transaction number, provided that the service provider is able to supply the data required by a party seeking information within three days. The instructions for what to do should the data be missing remain unclear. From the payer's payment service provider and that of the beneficiary, as well as from intermediary banks, Art. 8, Para. 1 requires that risk-based processes be established in order to decide how to proceed in such a case, i.e. whether a payment order is to be carried out, rejected or canceled. It would make complete sense if not for the subsequent requirement. Art. 8, Para 2 specifically requires that a payment service provider who determines that data is missing, or that data records are incomplete, must either reject the payment order or request complete data or data records. A standardized process like this leaves hardly any leeway for a risk-based approach.



A solution for the Switzerland-Liechtenstein franc currency union is still emerging under Regulation 1781. This, like the present draft, stipulates that the EU Commission can authorize a member state to sign an agreement with a nation outside the EU which contains deviations from the EU regulation. However, this is only possible if the respective member state is connected with a currency union with the nation outside the EU and if the payment service providers of this nation use a payment system that is operated in the EU member state. The situation in Switzerland and Liechtenstein is known to be precisely the opposite. Furthermore, the respective EU nation must require that the payment service providers in the corresponding non-EU nation use the same rules as those contained in the EU regulation. Liechtenstein and Switzerland have a joint agreement on this, which still needs the approval of the EU Commission. Hopefully the decision will be made before the stricter EU rules come into force and the EU can potentially request that a new permit procedure must be carried out under the new regulation.

Renate Schwob, Swiss Bankers Association
 rene.schwob@sba.ch

Secure handling of account information and payment initiation

In the past, electronic payments in Switzerland were primarily a prerogative of banks. They had a direct contractual relationship to the customer and complete control over authentication, authorization, encryption and monitoring of the communication channel. Newly arising business models from third-party providers involve risks that can be reduced with appropriate measures.

In the European Union, opening the market to third-party providers of services in the areas of payment initiation (e.g. integrated in webshops) and account information (e.g. financial planning with aggregation of accounts and payments for multiple banking relationships) has brought new challenges. These are also becoming relevant in Switzerland, as several providers have announced an impending market entry.

On the one hand, many providers make use of so-called impersonation when implementing their services. They ask their customers to provide existing means of identification from the banking relationship and use these to interact with the bank on the customer's behalf. While this enables providers to introduce their services quickly and in an uncomplicated manner, it also makes it difficult for the bank to differentiate whether access is made by the customer or a third party. There is also the danger that the customer might become indifferent to the risks of revealing his/her personal means of identification to third-parties. Such complacency can be misused by phishing websites, which mimic the functional and often also visual design of the websites of trusted providers.

Furthermore, providers transfer significant amounts of bank customer data from the banks' strictly regulated systems to poorly regulated cloud computing (IT services outsourced to the Internet). Criminals can potentially steal data from there more easily than is possible from traditionally strongly secured bank systems that are optimized for secure usage, and use this data as the basis for social engineering attacks.

Security through minimum standards and clear responsibilities

For these reasons, it is necessary to set minimum standards (and require the prudential supervision thereof), as to how the new service providers may interact with banks and customers and how they must handle bank customer data. The EU has also recognized this. Towards this end, the EU Commission is extending Version 2 of the Payment

Services Directive (PSD) to third parties that operate as payment service providers or aggregators. At the same time, the European Central Bank issued two recommendations regarding the security of Internet-based payments and the involvement of Payment Account Access Services (PAAS).

In a study recently commissioned by a Swiss bank, which investigated the security implications of the entry of third parties in the Swiss payments market, the author of this article concluded that at least the following basic principles would have to be implemented in Switzerland:

- Authentication means that a bank provides to its customers within the scope of a contractual relationship are personal and may neither be made accessible to a third party nor be used by such. This means that a bank and a third-party provider must agree separate means of authentication, which the provider must use to unambiguously identify itself to the bank.
- Authorization is to be clearly differentiated from authentication. The account holder should, for example, have to explicitly authorize towards his bank a third party for access to its bank customer data. Impersonation violates this principle because, along with the transfer of the customer's means of authentication, his/her authorization is also handed over to the third party.
- Roles and responsibilities are bindingly regulated between the bank, third-party providers and the customer. This is among the essential foundations for all downstream controls and the obtaining of evidence in case of dispute.

Such minimum standards help to ensure that all market participants have the proper incentives. This promotes an innovative Swiss financial center that will continue to be safe and in which the interests of customers in particular remain sufficiently protected.

Prof. Dr. Hannes P. Lubich, Professor for ICT System Management at the University of Applied Sciences Northwestern Switzerland

hannes.lubich@fhnw.ch



EACHA members, among them the Swiss representative, Christian Schwinghammer (third from left), at a conference in Macedonia.

EACHA prepares for future European payments clearing

The European Automated Clearing House Association (EACHA), a technical cooperation forum comprising a large majority of clearing houses (ACHs), was created in 2006 by 16 ACHs as a non-profit association under Belgian law. Membership has since grown to 26.

All members gather twice annually for their plenary meeting. Working groups are active throughout the year under the guidance of the EACHA Board, which meets every two months. A special Payment Conference Forum is organized for members and clearing participants every year; the next one will take place in Vienna in May 2014.

EACHA members are all clearing houses for retail payments. Together they process an estimated 97% of all retail payments in Europe.

The association aims to foster information sharing on payments clearing, to promote the views of its members on issues of general interest, and to resolve specific issues, such as the development of common guidelines for the clearing and settlement of SEPA payments.

Forum for technical cooperation

Current topics on which EACHA members share information, knowledge and best-practice expertise include:

- Regulation
- Payment processing, clearing and settlement mechanism (CSM) interoperability
- Payment messaging standards
- Innovative payment instruments and clearing models

Interoperability: A vital SEPA building block

During the SEPA preparation period, EACHA developed and published the EACHA Interoperability Framework, which consists of set of inter-CSM messaging standards to support the interoperability of payments in SEPA. These underlie a business model in which banks that are members or participants in different ACHs can exchange payments without having to register in another ACH. Processing choice, back-up and benchmarking to banks, and reachability for participating CSMs are among the advantages this offers. Active maintenance of standards keeps them aligned with the EPC Rulebooks; the most current of which is Version 7.

The future: Beyond SEPA

Now that SEPA has arrived, the industry focus in eurozone countries is shifting to actively reaping the SEPA benefits. At the same time, many innovative projects were launched and carried out in non-eurozone countries in recent years,

EACHA Working Groups

Strategy Group

- Industry-wide issues
- EC and ECB regulations, consultations
- Governance and policy

Technical Group

- Interoperability framework
- Messaging standards
- Regulatory compliance

Innovation Group

- New clearing and settlement models, real-time clearing
- e-SEPA

For further information, visit: www.eacha.org

including real-time clearing and e-SEPA projects. With further industry convergence anticipated in the coming years, EACHA sees an opportunity for members to cooperate even more closely. A special working group on innovation was launched in 2013, which has begun formulating a vision of the payments market. The market 'appetite' for e-commerce, mobile technology and an instant user experience is driving the need for payment infrastructures to deliver the corresponding processing services. The group therefore will focus on ways to reduce payment execution time through real-time clearing and settlement models.

EACHA is ready to address the changing environment and looks forward to making further positive contributions to the European clearing industry.

Fred Bär, EACHA Secretary General

fred.bar@eacha.org

The 26 members of the European Automated Clearing House Association (EACHA)



ISO 2022: How are the others doing it?

The migration in Swiss payment traffic from proprietary to ISO 2022 standards is in progress – both in customer-bank and interbank data exchange. What significance does ISO 2022 have in RTGS systems outside Switzerland? A broader look beyond the borders of Continental Europe.

While the Swiss Real Time Gross Settlement systems, SIC and euroSIC, are introducing the international ISO 2022 standard according to a precisely set schedule (see box), the situation in the United Kingdom, Australia, Japan and India differs greatly. According to CHAPS, operator of the eponymous UK High Value Payment Scheme, no formal decision has yet been made regarding migration towards ISO 2022. At the present time, the system operator is assessing the principal advantages, potential problems and risks involved in such a migration. Being analyzed at the same time are the consequences of the implementation upon other immediate and pending priorities which are indispensable for the scheme. CHAPS acknowledges that ISO 2022 is increasingly being looked upon for accommodating evolving requirements for extended payments data and increasing global interoperability. The UK will continue to explore options for upgrading the infrastructure, to meet advancing customer and regulatory needs now and into the future.

Down Under

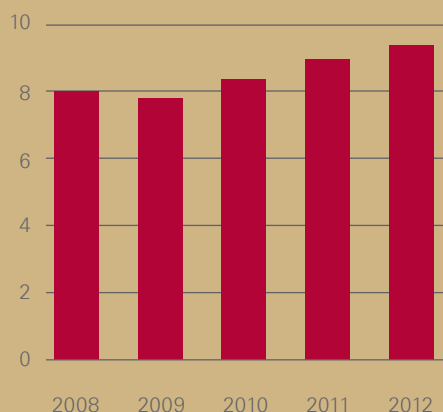
In 2012, the Reserve Bank of Australia introduced a new type of payment order for the processing of retail payments (checks, direct debits, card transactions), which uses proprietary XML messages. These were designed



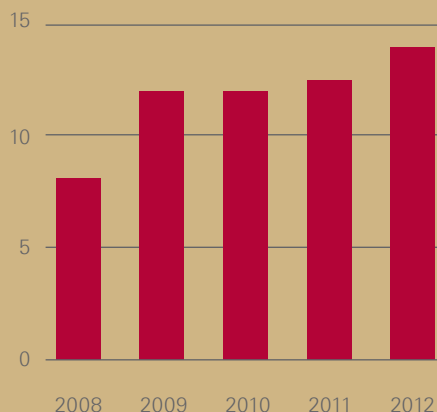
to be in accordance with ISO 2022. The so-called “faster payments” solution currently in development by the Reserve Bank is based on the ISO 2022 message standard. APCA, operator of the Australian payment systems, spoke up for the ISO 2022 message standard for the customer-bank data exchange. In contrast to Switzerland, the Australian financial industry has not set an end date for their proprietary standards for the time being. In interbank payment traffic through the Australian RTGS system (RITS), no switchover to ISO 2022 is planned at

Number of transactions from 2008 to 2012

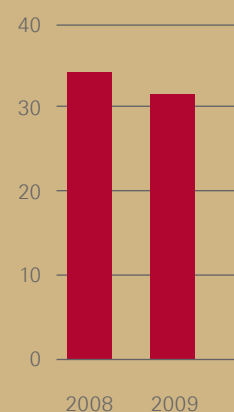
RITS, Australia (in million)



BOJ-NET, Japan (in thousand)



CHAPS Sterling, United Kingdom



the present time – in contrast to the Swiss systems (SIC and euroSIC), which will process only pacs and camt messages after mid-2018.

BOJ-Net

The Bank of Japan is redesigning its BOJ-NET RTGS system, which has been in operation since 1988. Comparable to the Swiss RTGS systems, the new Japanese system will provide basically the same functionalities as the current one through a new IT infrastructure. Since the beginning of this year, it has already commenced operation for certain business areas, among them auctions of Japanese government bonds (JGB). The ISO 20022-compatible operational introduction is planned between fall 2015 and the beginning of 2016 – which places it virtually at the same time as the go-live of the new euroSIC system on the SIC⁴ platform. Unlike the Swiss systems, no parallel operation of the old and the new ISO 20022 message standards will take place in BOJ-NET. The new BOJ-NET's ISO 20022 interbank messages encompass pacs.008 for customer payments and pacs.009 for bank payments in foreign exchange yen clearing and funds transfers to accounts belonging to foreign central banks.

First Mover

Als erstes Land der Welt hat Indien ein auf ISO 20022 India was the first country in the world to introduce an ISO 20022-based RTGS system. Since 19 October 2013, the NG-RTGS system processes camt.053 & -054, pacs.002, -004, -008 and -009. The migration was given three months time by the Reserve Bank of India after the specifications were published at the end of 2012. This was obviously far too short a time, because a year later, the

system participants earned a reprimand from the central bank for having relied on temporary message conversion solutions offered by their software providers. In question is whether they will have made use of the reprieve granted until 31 March 2014.

Gabriel Juri, SIX Interbank Clearing

gabriel.juri@six-group.com

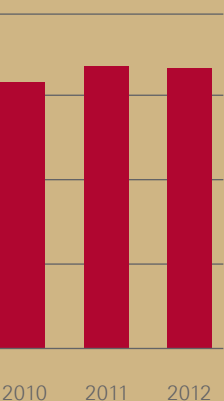
SIC⁴-operational start-up and ISO 20022

In April 2015, euroSIC will be switched over to the new SIC⁴ platform. The new SIC system will commence operation a year later. The migration to the new ISO 20022 message standard can begin in July 2015 in euroSIC and in SIC a year later. All SIC and euroSIC participants must have switched over by mid-2018.

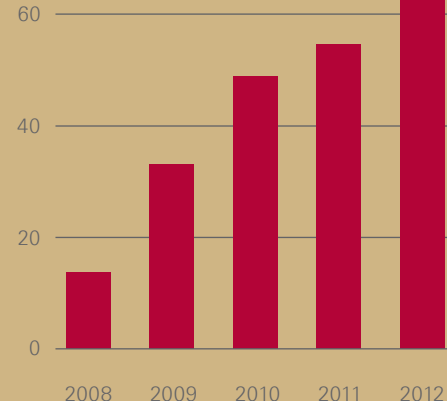
The current SIC standard will no longer be supported after mid-2018. All message traffic with euroSIC and SIC must take place in the ISO 20022 or FIN standard.

The ISO 20022 Implementation Guidelines for Swiss interbank messages were revised at the end of 2013 and published online at www.sic4.ch. Banks and software houses are called upon to prepare for the migration in Swiss payment traffic, particularly by making frequent use of the validation platform.

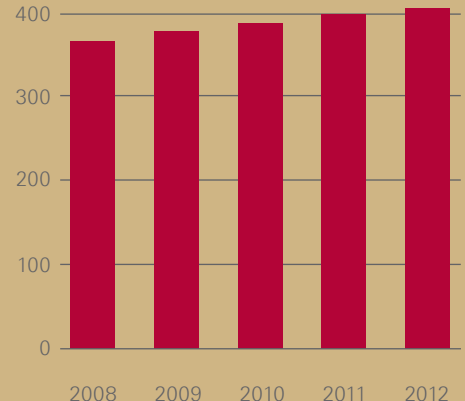
Kingdom (in million)



RTGS, India (in million)



SIC, Switzerland (in million)



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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