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The human factor
A talk with Lothar Raif and Hendrik Blankenberg on a large project at Credit Suisse

SIC[4] test system on track

Starting signal for ISO migration

Dear reader,

There are major changes underway in payment traffic. New providers are entering the market with new business models and innovative services. Legal and technical requirements are changing the payments landscape for banks in terms of end-customer products and processing machinery in increasingly shorter intervals. This requires more and more specialized know-how and often leads to additional expenses. This development, along with the generally increasing price and competition pressure, demands an optimization of processes and a reduction of transaction costs. Moreover, transaction figures are increasing in all areas and, in turn, place demands on the financial market infrastructure. At the same time, networking is increasing across the globalized world and underlines the central role of payments transactions for the global economy in general and particularly for Switzerland.

The payment solutions that are offered in Switzerland are basically well developed. The infrastructure providers and the financial institutions as payment transactions providers will also continue to play an essential role, but are equally challenged by these developments. With the harmonization of credit transfer schemes, the developments in direct debiting and the standardization of the payment slips, many foundations have been laid for the future, even if some decisions remain to be made. It is now a matter of implementing these projects, which are essential for the financial center, in a targeted manner and to stick to the schedule.

The topics regarding the migration of Swiss payment traffic and SIC[4] covered in this edition of CLEARIT as well as developments within the scope of SEPA are all essential elements of the future payment traffic. There is still some way to go in further developing efficient solutions for our financial center and thereby for the Swiss economy.

Among all these challenges, we should not forget what has already been achieved and how it was achieved. For example, successive systems were further developed with SIC and euroSIC which ensure the efficient and secure real-time settling of payments and support the attractiveness of the Swiss financial center. In a proven and exemplary manner for the financial center, both small and large institutions sit at the same table when development issues are discussed. That is also why we have managed to broadly anchor these systems and products in the financial center.

Even if now and then there are differing views regarding individual topics, the overall perspective may not be lost. The design of the future is a joint task which must be accomplished together, from the regional bank to the PostFinance and the large banks. This approach ultimately ensures that millions of customers profit directly or indirectly from this infrastructure and thus can also use practical and secure payment products in the future.

Dr. Jean-Philippe Moser
CEO Entris Banking AG

Major payments project – The human factor is fundamental

Large complex projects at the banks can be derived from the "Migration Payment Traffic Switzerland" program. Lothar Raif and Hendrik Blankenberg from Credit Suisse shine a light on the strategic, operational and organizational aspects of their infrastructure project. Challenges and crucial success factors, personnel and time resources are topics that come up as often as do the consequences of the new ISO 20022 standards on the bank and its customers.

CLEARIT: Infrastructure, such as roads, electricity, pipes, payment traffic, etc., is of utmost importance for an economy. If, for example, roads are neglected, traffic backs up, transport routes become longer and more expensive and participants grow dissatisfied. Above-ground electricity lines are exposed to environmental catastrophes; they can be damaged and fail to function for hours, days or even weeks at a time, causing those affected to suffer. What might happen if we didn't modernize the payment traffic infrastructure in Switzerland?

Lothar Raif: Payment traffic is practically the economy's lifeline. If neglected, it would primarily have two consequences; on the one hand, we could no longer offer corporate and private customers the reliability and speed of the services currently on offer. That payment operations run smoothly due to a stable and reliable infrastructure and that it can be relied upon, that payment promises are kept and payments can be settled on time and arrive at customers – all that would be noticeably damaged. On the other hand, Switzerland is very closely connected with the EU economically. Therefore we are not just modernizing for our own sake, but because we want to ensure that connections with our most important partners remain intact and that cross-border payments continue to function smoothly. Consistency with the infrastructure in Europe – keywords XML, SEPA – is vital.

The Swiss infrastructure solutions feature a very high degree of automation, are inexpensive and – as previously described – function smoothly. On the other hand, the desire for innovation in the banking world is presently limited in view of the tight budgets.

Hendrik Blankenberg: Payment traffic is of central importance for a bank. A functioning payments transaction platform facilitates the bank's other vital services and functions, such as liquidity management and sanction handling at Credit Suisse. The smooth functioning of payments processing, a constant modernization and further development of the platform are crucial, which is naturally associated with the corresponding costs. If you consider that more than half of the systems have been in operation for over 20 years, which means they are at their limits and are also not based on the ISO 20022 standard, then these are very good arguments for approving the necessary investments and we will do everything we can to promote the implementation.

"A payment traffic migration of this size a major challenge for everyone involved."

Apropos the amount of investment: are we really talking about a major project here?

Blankenberg: The project is currently one of the largest infrastructure projects at Credit Suisse. We are investing a significant amount, running into millions, over a four to five year period. So we are dealing with a very large and complex program. We are talking about over 100 interfaces with internal and external partners, with more than 150 people involved from different cultures and more than 20 nationalities spread around the globe from various IT and business fields, primarily from operations and product management. Not everything needed can be developed and tested in Switzerland. For example, some of our software partners are in Belgium. Furthermore, the lion's share of integration activities is supported by our system integration partner in India.

Raif: This large project stretches across three dimensions: investment volume, complexity in terms of content, and implementation. The technical infrastructure project also involves a customer migration, meaning that customers must also adapt their payments solutions to meet the new market standard. And the whole thing must be appropriately tested from end to end. This makes a payment traffic migration of this size a major challenge for everyone involved.

Short bio of Lothar Raif

Lothar Raif has headed Product Management Payments & Connectivity Solutions at Credit Suisse since 2010, where he is in charge of payment traffic solutions for companies and individuals. Since 2001, he has assumed various central management functions at Credit Suisse in Product and Project Management (e.g. controlling, risk/portfolio management). Prior to this, Lothar Raif was employed in various functions at Zurich Financial Services (including Head of the Communications/ Central Marketing department, Corporate Development and various senior management functions). Lothar Raif represents Credit Suisse as vice president on the Board of Directors of SIX Interbank Clearing Ltd as well as president at Swiss Euro Clearing Bank GmbH and is vice chair of the Swiss Payments Council. Lothar Raif is married and the father of three children.

Short bio of Hendrik Blankenberg

Hendrik Blankenberg has been the Business Program Manager at Credit Suisse since 2011, where he has been in charge of the Global Payments Program since February 2013. Prior to this, the graduate economics engineer worked for ten years at Accenture Germany and Switzerland, with a focus on system integration (particularly in packaged solutions in the trading environment). Hendrik Blankenberg is married and the father of two children.

What are the success factors for such a large infrastructure project?

Raif: It primarily needs the support of company management. From where we stood, the time was ripe and the project has now been given the necessary strategic priority. Also essential is an experienced and proven team consisting of experts capable of tackling the project's complexity. And finally, the strategy, business model and architecture must be precisely defined. Before heading directly into implementation, it is essential to first know where you are heading. Since such a journey does not always proceed smoothly, great flexibility is needed to be able to react to the unforeseen.

Blankenberg: In addition to the planning aspects, the human factor is fundamental. It is important to know what expertise must be acquired to bolster your own team's strengths. In a project of this size involving numerous specialists, you need to know how to productively deploy the expertise. That is why, for example, we decided to recruit a system integrator in addition to the software partner. It is indispensable that both the IT and business departments work very closely and openly together and that team spirit is high across all the specialized areas.

Raif: And last, but not least, a continuous supply of results is important in the course of such a long, ongoing program, to keep your team motivated and to retain the commitment of the stakeholders. Delivery throughout the entire program was therefore stretched along a roadmap consisting of concrete delivery dates and a release every six months. The division is being made according to the different market standards such as SEPA, SIC and SWIFT. According to the roadmap, a delivery will already be made this year involving an initial production introduction.

"It is essential to manage the dependencies."

Do you expect any stumbling blocks?

Raif: Certainly there are some – if all the financial market participants do not cooperate, meaning if ISO 20022 continuity does not extend across all financial institutions, then such a project is not worthwhile because not all customers would benefit equally. Project management is also challenged – complexity places very high demands on everyone involved.

Blankenberg: One reason why projects can become much more expensive than originally budgeted is that changes made in the course of the project make the services agreed to more expensive. Correspondingly, scope management is enormously important, as is supporting the stakeholder in the sense that one makes a conscious choice in terms of architecture. It is also essential to manage the dependencies. After all, there are other important infrastructure projects in the bank that could have a direct impact. Therefore, it is important to communicate early on in the process.

One possible stumbling block could be represented by the timeline of the different migration windows among the financial market participants.

Raif: In view of the risks, the migration should be carried out in stages. The strategy in which not all high-volume banks complete the migration at the same time, called a "big bang" scenario, makes sense. Even within Credit Suisse we decided to compartmentalize the migration to enable ourselves to implement risk-minimizing measures. Of course, as a high-volume processor of Swiss francs, we want to be part of it right from the start so that we can add impetus to the market and to avoid the situation in which the clearing house operates an infrastructure with no volume. We are striving to assume a pioneering role, and by doing so, to encourage the other market participants to begin the migration early on and not to wait until the end of the migration window.

Blankenberg: During the customer migration, not all customers will migrate on a set date, instead the volume will successively be ramped up within a migration window ranging over a certain period of time. From a risk consideration, we feel that this is the right way to proceed.
Raif: What remains essential in the process is that there is a concrete end date. Extending things too much should be avoided. The question is what motivation do you give to those who migrate as early adopters? As a bank, it is it in our own interest to complete the project successfully and to bring all market participants to the new standard.

There still may be considerable efficiency potential among various banks in the end-to-end process of some transactions.
Blankenberg: On the one hand, we talk about an improvement in our infrastructure in terms of process efficiency and the processing of transactions. We already have high STP rates today, which we would like to increase even further. On the other hand, we want to create strategic options for ourselves in regard to how we handle payments transaction, both operatively and technically.

Raif: For customers it is a matter of remaining a reliable partner based on the payments promise. Furthermore, through so-called "additional option services" we will seek to offer customers something where they actually feel a certain flexibility, such as with process optimization. Or to put it differently: if the infrastructure runs and the motor purrs, it is a good thing. Now it is a matter of the degree of comfort the customer experiences when travelling in the car or train.

"It is important that a preliminary period be planned for customers."

Adaptations must also be made by customers. How do you make sure that cash flow will also continue to function there after the ISO 20022 switchover?
Raif: Particularly when it comes to infrastructure, comprehensive testing in advance helps improve quality in the production. Hence, this means that just as the banks plan active and intensive testing with the clearing house, we will do the same with our customers. We are considering which form of testing we will offer to them so that they can subsequently undertake the migration as smoothly as possible. Here we can make good use of our experience gathered with the migration to IBAN, where we gave customers the possibility to improve their data quality in the middle of the market. We are thinking along the same lines now. Is the customer sending us data in the new formats, as they have understood them? Has the customer interpreted them correctly in the first place? Will we give him feedback? Will the data be processed by us or perhaps will it be returned to the customer? Insofar testing is an essential building block towards the success of the entire program.

The second important aspect is that we must take great care to make customers aware of this issue in our communication. The migration currently receives a certain amount of attention in Europe, but the new standard is not yet a topic in Switzerland. Accordingly, we have various communication phases. In the first one, we will generate awareness. In the second phase, we will explain to the customer what is new and what it means to them. And in the third one, we tell the customer what he or she must do. And then finally the fourth phase involves actually carrying out the migration.

Blankenberg: It is thus important that a preliminary period be planned for customers. Our goal is to get them actively involved at least one year in advance, if they must make specific adaptations, to give them time to implement them.

What impact does ISO 20022 have inside your bank?

Raif: The introduction of ISO 20022 is just getting started. We still need to gather some experience. For one thing – Europe has shown – we don't yet precisely know much about the performance of ISO 20022 in its final form, which means that the market will show what is possible. We are somewhat ahead with payment traffic and we are still reviewing other infrastructures and products in regard to ISO 20022, such as the securities sector. It is thus an evolutionary process, within which payment traffic develops, and we will see if, and how, other banking fields follow suit.

Blankenberg: The ISO switchover also enables the offering of a service-oriented architecture. With the new software and the partial rebuilding of the architecture, clearly defined services can be offered centrally, called up and navigated to, such as the bank's booking system, which generally reduces the number of systems and interfaces and thereby simplifies the complexity that has grown over time. This will have a cost-reducing effect, which is clearly the objective: standardization and simplification of processing; high STP rates. Noteworthy in this regard is that a payment is also a trade that must be processed efficiently.

Raif: A securities system can later also profit from the ISO 20022 adaptation in a central system, such as a booking system or a treasury system, because in terms of architecture and logic it can be established on the principles that we are defining today.

This means that other sectors will follow suit in regard to ISO 20022?

Raif: We are exchanging ideas inside Credit Suisse and taking a look at our options. If we are now setting the course in payment traffic, we must also consider what consequences this will have for other product categories. We generally believe that the entire ISO issue represents a future strategic trend towards the standardization of financial data. This new standard is thus a cornerstone.

Blankenberg: Ultimately, it is a matter of the bank's overall architecture. There are certain central functions that are navigated to from various departments. And the obvious objective there is that central components are navigated to equally from all sides in order to be able to efficiently settle or further process the appropriate information.

We hear a lot about standardization. What about internal developments?

Blankenberg: Naturally, we are reviewing all options. The first one would be to use the existing infrastructure. It is obvious that this option would be very expensive and fraught with risk because it is not fully XML-compatible. The second option would be an internal solution, to build it ourselves. However, this is not a sensible IT strategy, because best-in-class solutions are already offered in the market. Therefore, we have decided for a third option, which is to select a software vendor.

Raif: Compounding the issue is that payment traffic essentially has little differentiating potential. Only in areas where we really can differentiate ourselves, such as the customer interface, have we continued pursuing internal developments.

Nevertheless, it is unfortunately not true that the whole issue of harmonization has made the standards world so small that there are only one or two – let's take the SEPA standard for example. Although Europe is more or less standardized, there are various local formats used by customers for delivery and which we should be able to process as a bank. This poses fundamental questions: Can I accomplish this as a bank? And if so, how do I manage to get my machine to do it, if each customer uses a different format? And is this something we will offer in terms of individualization for our customers, such as conversion services for local formats from France and other countries? These conversion services are already in the implementation phase among pilot customers.

Another example is process optimization among customers. In principle, we have previously told the customer how we process and given him a reference number. That changes with XML. Now the customer has the option of giving us a reference number, such as a code for salary payments, which could potentially trigger priority processing, perhaps also a special notification indicating that the file was processed, that the payments were credited and that the money is available. XML also enables the increased use of new services across multiple customer channels. Such services may include instant transaction information via smartphones, or even the classic submission of a file through the customer's interface to the bank, but with the signature provided, perhaps as of a certain amount, not through online banking but with mobile devices, etc. This would boost the interoperability across multiple devices.

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The SIX Interbank Clearing Operations Center (from left): Sandro Corchia, Sandro Albertani, Ugur Oeztürk, Aneta Woytkowiak, Edgar von Holzen, Rolf Rickenbach, Hakki Güldür, Romina Giovannetti-Guzzo, Teresa Spadafora and Vlora Rekaj

The SIC^4 test system is available

The test environment for the new generation of Swiss interbank payments processing was placed in operation for euroSIC on 1 July 2014. More than 2.5 million test messages submitted by large interbank software providers were processed. Now the time is ripe for the financial institutions to get involved as euroSIC participant banks.

So that the new euroSIC system can be smoothly placed into operation on 16 April 2015, it must be tested, tested and tested again. The next step in the test scenario is to see whether the automated payments processing also works seamlessly when different banking software applications interact.

Sought: Banks for testing

The operator is counting on as many of the 90 euroSIC participant banks as possible that are connected through Finance IPNet to volunteer to try out the test platform by submitting the widest possible set of different test messages in SIC^4. Ideally, the tests should be conducted at the same time as those for SIC Release 2.8 in November 2014. In this way, the banks will help ensure the trouble-free processing of messages (A10, B11, etc.). All banks with a SIC or euroSIC connection are already activated for the test system and can run through their SIC messages at any time. Since SIC^4 is also ready for use of the ISO 20022 message standard, pioneers in these areas can also test the various message types.

Support guaranteed

The SIX Interbank Clearing Operation Center staff is well prepared and very motivated to efficiently guide the participating banks through the new world of interbank payments processing. In any case, it is well worth becoming acquainted with it as early as possible. The team is standing by at 058 399 4500 to provide support for the tests.

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SIC^4 will commence operation in the euroSIC system in April 2015. It will be placed in operation on the SIC system a year later. Starting July 2015, the migration can be made to the new ISO 20022 message standard in euroSIC, a year later in SIC. All SIC and euroSIC participating banks will have switched over by mid-2018 at the latest. Afterwards, all message traffic with euroSIC and SIC will occur in ISO 20022 or the FIN standard.

New rulebooks in force

The "Swiss Payments Rulebook" is applicable since 1 June 2014, which contains, among other things, instructions for SIC and euroSIC. It replaces the "Technical Rules and Regulations Payment Systems". With the provision of the test environment for the new SIC^4 platform for euroSIC, the "SIC/euroSIC User Handbook" was revised and renamed to the "Swiss RTGS Handbook". Due to the commissioning of the SIC^4 platform, different handbooks will apply for SIC and euroSIC between April 2015 and April 2016. The SIC/euroSIC User Handbook will only be applicable for SIC between April 2015 and April 2016, while the Swiss RTGS Handbook will apply for euroSIC as of April 2015. As of April 2016, only the Swiss RTGS Handbook will apply for both SIC and euroSIC.

Starting signal for the banks' ISO migration

The long-standing migration plans in Swiss payment is taking concrete form for the first time among the banks when it comes to the use of ISO 20022 for interbank payments. All banks participating in the SIC and euroSIC RTGS systems are aware that they must switch to ISO 20022 by the end of April 2018. They can sign up for a migration window starting mid-November 2014.

According to the "Migration Payment Traffic Switzerland" program (www.migration-pt.ch), the current schemes, standards and formats in credit transfer transactions will no longer be supported as of the 2nd quarter of 2018. All 365 financial institutions in the SIC system and 190 in euroSIC – among them 111, respectively 20 from abroad – are affected by the migration.

The victory march of ISO 20022

Not only the recently launched SEPA schemes in Europe are based on the new ISO 20022 message standard. It will also apply to the European Central Bank's TARGET2 and TARGET2 Securities System as of November 2017. The ISO-defined standard and the new messages categories and types derived from it form the basis of the definitions of ISO 20022 in Swiss payment traffic. The rules coordinated with the Swiss interbank committees in the Implementation Guidelines – accessible at www.sic4.ch – are bindingly applicable for all financial institutions that use ISO 20022 in the SIC and euroSIC RTGS systems.

Five windows to choose from

The migration of SIC participant banks will occur gradually between 16 July 2016 and 30 April 2018 – euroSIC participation can migrate earlier. Around a dozen financial institutions will switch over to ISO 20022 each month. Starting 17 November 2014, the financial institutions must choose one of the five migration windows and sign up for it with the operator of the Swiss RTGS system. Dates will be booked on a first-come, first-served basis. The affected financial institutions and their software partners will be involved in advance. For example, those in charge of payment traffic at the banks will be introduced to the issues, dates, procedures and solutions in detail between 4 and 14 November 2014 at information events to be held in each of the three language areas (Geneva, Lugano and Zurich). Workshops are also planned for software providers.

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The ABC's of the ISO 20022 standards

The ISO 20022 message standard is the collective term for the message categories and message types. Message categories include pain (payment initiation), pacs (payments clearing and settlement) and camt (cash management).
Examples of usage for the message types in the pain category include:

- **pain.001 (for the customer credit transfer initiation, i.e. for the debtor's credit transfer orders to his bank)**
- **pain.002 (for the customer payment status report)**
- **pain.008 (for the customer direct debit initiation, i.e. for the creditor's direct debit orders to his bank)**

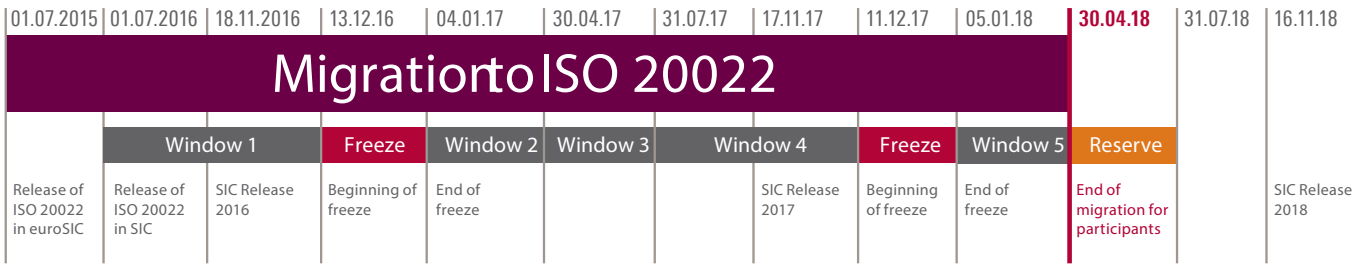
Examples of usage for pacs message types:

- **pacs.002 (for payment acknowledgements in the RTGS)**
- **pacs.004 (for payment returns in the RTGS)**
- **pacs.008 (for customer payments in the RTGS)**
- **pacs.009 (for bank and third-party system payments in the RTGS)**

Examples of usage for camt message types:

- **camt.052 (for recapitulations in the RTGS and for the bank's account reports to customers)**
- **camt.053 (for the bank to customer statements)**
- **camt.054 (for settlement confirmations in the RTGS and in the customer-bank data exchange)**
- **camt.056 (for return requests in the RTGS)**

Additional information: www.iso-payments.ch.



Validation portals: Support for the ISO 20022 migration

Since the middle of last year, financial institutions and software providers can test RTGS system messages in the ISO 20022 standard on the SIC[4] validation portal. Over 40,000 tests were recorded in July 2014.

The majority of tests were conducted by the RTGS operator, SIX Interbank Clearing, itself. Mainly the payment solutions providers Clear2Pay, Avaloq and Entris also used the SIC[4] validation portal to prepare themselves for the uniform use of the ISO 20022 standards in the SIC and euroSIC RTGS systems. Most frequently tested were pacs.008 (customer payments) and pacs.009 (bank and third-party system payments) messages, followed by pacs.004 (returns), pacs.002 (payment acknowledgements) and camt.008 (cancellations).

The countdown is running

The earlier the banks participating in the RTGS systems try out the new message types, the easier they can prepare for the migration windows, which will open in less than ten months (see the article on page 10). The Swiss definitions and rules in the so-called Implementation Guidelines form the basis for the use of the ISO 20022 message standards, which are replacing the existing DTA/EPO/SIC standards. These cover not only the interbank sector, but also the entire end-to-end payments processing chain – hence, the customer-bank data exchange.

Customer-bank sector

The first validation portal was activated back in November 2011 for the customer-bank data exchange. Besides software providers and financial institutions, it also enables business customers to check whether their prepared XML messages are correct. In June 2014, the platform had approximately 600 registered users. Each month, around 50 companies (banks, software providers, bank customers) specifically test the message types pain.001 (credit transfer initiations), pain.008 (SEPA direct debit initiations) and pain.002 (status reports), as well as camt.052 (account reports), camt.053 (account statements) and camt.054 (settlement confirmations).

All good things come in threes

A third validation portal was activated online for potential users in August 2014. It involves the PostFinance platform, which is used for the validation of interbank messages between them and the other banks. It is structured identically to the validation portal for the customer-bank data exchange, pursues the same objectives and contains the same functions, whereas the latter were set up based on the PostFinance Implementation Guidelines.

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The three

SIX Interbank Clearing operates a platform with the three following validation portals to support the solutions created by software providers, business customers and financial institutions based on the Swiss recommendations for ISO 20022.

- **Portal for customer-bank messages at: https://validation.iso-payments.ch**
- **Portal for interbank messages to SIC[4] at: https://validation.iso-payments.ch/SIC4. Upon request, automatic access through Application Interface can be set up.**
- **Portal for interbank messages between PostFinance and the other banks at: https://validation.iso-payments.ch/PF.**

Scope of the SIC[4] validation portal

- **Software providers and banks can upload generated messages to the validation portal over the Web.**
- **The validation results will be provided in the form of a generated description of the test results (text and HTML) for viewing and for downloading.**
- **In the generated description of the validation results differentiation will be made between "errors" and "notes". While messages with "errors" will generally be rejected by RTGS systems, "notes" shall draw attention to possible deviations in the validated message and to recommendations in the Implementation Guidelines. "Notes" do not lead to a rejection of the message.**
- **Provision of interactive documents.**
- **Download area for the Implementation Guidelines, schemas and sample messages.**
- **Simplified graphical structural representation of the tested messages to support specialist departments.**

Migration Payment Traffic Switzerland – More than a format change

The Swiss financial institutions are using the SEPA switchover to also reduce the diversity of Swiss standards. A total of 34 European countries are using the ISO 20022 standard. The example of the software provider ABACUS clearly shows that the introduction of new procedures and message standards inevitably leads to significant costs.

The project horizon from 2013 to 2020 indicates that this switchover does not involve merely a new message standard.

The SEPA project was integrated in the ABACUS Electronic Banking development plan back in 2013. This enabled ABACUS to gather valuable indications for the "Migration Payment Traffic Switzerland" program during the development of SEPA. During the development, emphasis was placed on the following priorities:

- Ensuring payment traffic – replace all old formats with XML
- Review/adjust the quality of the master data
- Analyze processes – added value
- Adaptation of internal processes – release management

Project implementation

Payment traffic had to be ensured in an initial phase. The old DTA/EPO formats were converted to the new XML structure. The architecture chosen means that country-specific characteristics (XSD schematic validation) and AOS (additional optional services) are easily implemented.

The initial feedback from the tests conducted under real conditions showed that the quality of the master data was insufficient for the new format. Proprietary account numbers, outdated definitions of number placements and out-of-date bank master data all had to be adapted. An IBAN converter and the updating of the bank master data with the EPC (European Payments Council) SEPA Directory were implemented. This directory contains a list of the reachable payment service providers who participate in the SEPA scheme. Listed in addition to the BIC is which schemes (SEPA Credit Transfer, SEPA Core Direct Debit, SEPA Core Direct Debit with shorter time cycle or SEPA B2B Direct Debit) each bank participates in. The format for a payment instruction can be checked in advance based on this information in the master data.

At first glance, it is electronic banking that seems to be primarily affected by the migration. However, software adaptations must also be made in other application programs such as accounts receivable, accounts payable, salary and order processing software (new payment slip with data code). The existing processes in the applications are to be reviewed for the new possibilities. The new message standards contain more information, which can contribute to an added value of the software; for example, feedback from the status report (pain.002) for improved and more detailed status reports regarding the payment instruction.

The project managers of the affected applications are to be informed and invited to also support and plan the new requirements and possibilities.

As can be seen in the Migration Payment Traffic Switzerland roadmap, the implementation will be carried out in various phases. This is a given that must be considered when planning the software adaptations as well as in the release management. The internal master and information processes (e.g. customer or merchant information, newsletter) must be coordinated with the roadmap.

Furthermore, the various states of implementation among the financial institutions are to be considered. During the migration phase of the various messages – this can last several years according to the roadmap – it must be possible to process and generate both the old and new message standards.

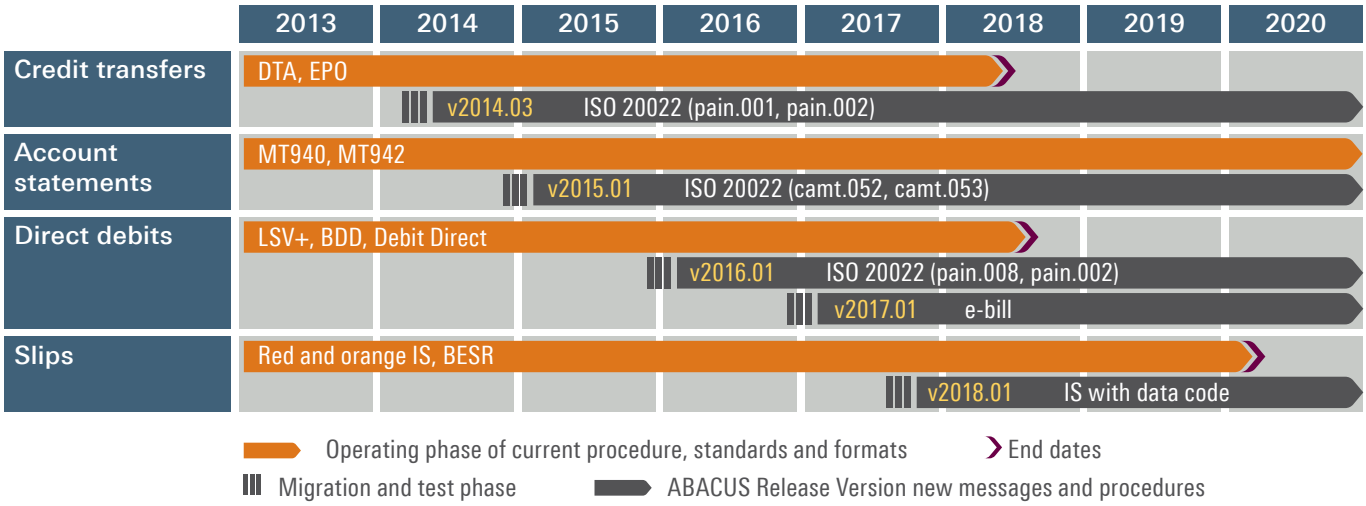
It is already possible to generate credit transfer initiation today with XML (pain.001), the account statement, however, will still be processed with SWIFT MT940 until the switchover to the new camt.053 message type. Also during the switchover to the new payment slip – the last stage on the way to a modern, forward-looking Swiss payment traffic – it must be possible to adjust the output for the new or old standard with a setting.

Status of ABACUS software

The following ISO 20022 messages can be generated and processed in the current ABACUS Version 2014.

- pain.001 (credit transfer initiations)
- pain.002 (status reports)
- pain.008 (direct debit initiations)

Migration Payment Traffic Switzerland roadmap at ABACUS



The next phase of expansion for ABACUS Version 2015 will include the processing of camt messages. The user will be able to choose between SWIFT and camt messages. The structured, straight-through routing of payment information with no content is among the essential advantages of camt. These messages can be used for automated further processing.

- camt.052: Intraday recapitulation (MT941/MT942)
- camt.053: Completed account statement (MT940)
- camt.054: Detailed list of settlement confirmations

The schedule of implementation of other ISO 20022 message types is listed in the "ABACUS Migration Payment Traffic Switzerland" roadmap. Particularly the combined direct debit scheme – the banks are forcing the expansion of the e-bill, the PostFinance will use the pain.008 message type – will require considerable adaptations. Planning for 2016 has begun in the LEON project (Lastschrift und E-Rechnung Online Neu – new direct debit and e-bill online).

Summary
The need for action regarding the migration of Swiss payment traffic should not be under-estimated. Due to the wide range of changes and the affected applications, the adaptations can cause a lot of work in terms of the corresponding costs. The state of development should be tested on an on-going basis for various test scenarios (test platform, productive test environment).

Close cooperation with the technical experts from SIX, the financial institutions or consulting firms along with regular contact and the exchanging of current information are the guarantee of successful implement.

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ABACUS Research AG

ABACUS is an owner-operated Swiss software company with a headcount of over 270 across the group. It has developed business software for more than two decades. Founded by graduates of the University of St. Gallen in 1985, with more than 97,000 software modules sold and over 41,000 customers, today it is the largest independent Swiss vendors of business software for SMEs.

ABACUS release planning

ABACUS maintains three generations of its ERP software. The main version number refers to the calendar year of the release. The versions are approved at the beginning of the year and then actively maintained for three years.

Error corrections, new features and improvements are delivered in so-called service packs (comprehensive adaptations/rare) or as hot fixes (program corrections/as needed). They are attached to the annual version as numerical values.

Maintenance and support for each version is discontinued after three years. No further patches and program corrections are created.

Threat of social exclusion without an account

In follow up to SEPA, the right to a basic payment account is now also being anchored within the EU. By a large majority, on 15 April 2014, the European Parliament approved the directive on the transparency and comparability of payment account fees, payment account switching and access to a basic payment account (Payment Account Directive).

The intention of the new guidelines is to ensure that no one in the EU will ever again be excluded from basic banking services. They also intended to promote competition through improved comparability of fees and by simplifying the switching of financial institutions. Publication in the EU's Official Journal is planned for September 2014. Thereafter the member states will have two years to implement the directive within their respective countries.
The primary concern is so-called financial inclusion. This term describes the integration of those who have so far been excluded from the financial system. According to research, the number of consumers without a bank account in the EU is estimated to be 30 to 68 million. The 2011 Global Financial Inclusion Database (Findex), a project launched by the Bill & Melinda Gates Foundation, estimates that across Europe and Central Asia only 55% of adults have a bank account. Among the remaining 45%, around half would like to have one.
Among the reasons for this are a lack of regular income, no proven fixed residence, being considered unprofitable by the banks or having insufficient documentation. Those affected are thus excluded from important areas of life because often access to apartments, jobs, insurance, credit and e-commerce requires an account.

Right to a basic payment account

After the EU Commission failed to achieve the desired result with a self-regulation initiative and recommendation in 2011, the EU felt compelled to take further action. The new guidelines now grant all EU consumers the right to a payment account with basic functions without being required to reside in the country in which the bank account is located. In other words: banks may not deny EU consumers a payment account, unless the applicant already has one in the respective country or if by the entering into a business relationship the requirements for prevention of money laundering and the financing of terrorism cannot be met.
While the account should include a debit card and access to e-banking, banks are not obligated to provide an overdraft line. Whether the charging of a fee for the basic account is permitted or not lies within the scope of implementation of the individual member states, as is the decision whether all banks must offer a basic account or – if no competition distortions arise – only certain ones.

Comparability of fees

To improve the transparency and comparability of fees, the guidelines will rely on comparison portals. The fees for all financial institutions must be published on at least one website per member state. Towards this end, a list with the most commonly used functions for a payment account must first be created. The list, however, will only be used for the comparison portals. Based upon it, the banks will, in the future, have the following obligations:

- Before signing a contract, each customer is to be provided with fee information which is also to be made available at all times on the bank's website;
- Inform customers at least once annually about the fees due; and
- To use the terms on the list in all contract and advertising materials.

Simplifications when switching banks

Ultimately, the intention is to promote competition by simplifying the account switching process. Within a member state, the customer need only contact the new financial institution chosen and authorize them to undertake the switchover. The new bank must then coordinate with the transferring bank to organize the credit balance transfer and to set up all functionalities identically, including any existing standing orders and direct debit mandates. Furthermore, the new financial institution must inform relevant third parties, such as employers, social insurance, telecom providers, energy suppliers, etc. about the change in account.
In contrast, for a cross-border switchover, only the transferring bank is required to provide the customer with all the information that will be needed by the new financial institution to set up the account.

Criticism of the procedure

The EU justifies the intervention in contract freedom specifically with the argument that the exclusion of consumers due to their financial situation or residency causes great economic damage.

An account for everyone?

As the stated positions made in the course of the public consultation about the legal act show, the European banking sector does, in fact, see a threat to market-driven product diversity posed by the standardization and questions a direct association between the comparability of the fees and customer mobility. Self-regulation is fundamentally sufficient. The banks primarily blame a lack of financial education for the fact that self-regulation has not achieved the desired result.
As justification for the guidelines, students are constantly used as an example of those who are not permitted to have an account in the country in which they study if it is not their home country. The EU has, however, already addressed this problem with the SEPA Directive. Because with SEPA private individuals and companies in the EU can process their entire euro payment traffic within the European Economic Area (EEA) with just a single account and just as easily, efficiently and securely as they can with domestic transactions. The question thus arises as to why a student studying abroad needs another account in the first place. The domestic account in the country in which they are from should suffice.

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Repercussions for Swiss banks

Since EU regulations in the area of payment transactions form the legal framework for SEPA, when it comes to potential changes for Swiss banks participating in SEPA, the question always arises whether such changes must be incorporated into Swiss law or whether existing laws can be deemed equivalent without adaptations. The equivalency of Swiss regulations forms the basis for the participation of Swiss banks in SEPA.

A constitutional or legally securitized right to a basic account admittedly does not exist in the Swiss legal system. In this country there is contractual freedom as long as the public service remains completely guaranteed. This obligation only applies for one financial institution to the extent that it may fundamentally not deny an account relationship (and if domestically-based banks are appointed a public service function which they must fulfill, then they operate very closely with the obligations entailed with the public service).

The equivalency requirements should not cause any problems in this regard. In terms of the comparability of fees, it will become more difficult if it is to be assumed that only comparison portals listing fees for all financial institutions in a country meet the equivalency requirement and not the listing of fees on the respective bank websites. The question arises whether a private provider of relevant information (such as Comparis) can replace a platform provided by the government. Since Comparis is a neutral provider, meaning there are no conflicts of interest, this question can easily be answered with a yes. In regard to simplifications when switching accounts, the Swiss Code of Obligations offers a basis on which to take the elements in the new EU directive into account.

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