

Pan-European successes and challenges in payment traffic
Interview with Hays Littlejohn, CEO of EBA CLEARING

Mobile payments – or the art of riding waves

ISO 20022: Are banks ready to start with customer communication?



Interview

Page 4

Pan-European successes and challenges in payment traffic

The SEPA project has had positive effects. This is the opinion of Hays Littlejohn, who became CEO of EBA CLEARING last year. The pan-European clearing house primarily processes SEPA payments for more than 4,800 reachable financial institutions. Instant payments will be added at the end of 2017. He discusses another hot topic in the following interview: blockchains.

Products & Services

Page 8

Mobile payments – or the art of riding waves

Just a few years ago there were no smartphones at all. Now we carry them with us wherever we go. And if the payment industry has its way, we will start making payments using them this year – as a matter of course. But which solution will properly catch the wave?

Standardization

Page 10

Interoperability of P2P solutions in Europe

Across SEPA, many countries have already introduced one or several P2P mobile payment solutions. These transactions are becoming increasingly popular thanks to their convenience in situations such as sending money urgently to, for example, a relative. Currently, more than fifty solutions co-exist, however, they are usually limited to a national level, and often even to an intra-bank level.

Standardization

Page 11

EBICS is more than a file transfer from A to B

EBICS is currently establishing itself as the standard protocol for the transmission of financial messages throughout Europe. What makes a technical protocol for file transmission so popular among financial institutions and their customers?

Facts & Figures

Page 12

ISO 20022: Are banks ready to start with customer communication?

A total of 440 answers and 180 comments: that is the yield from the survey about the readiness status of the Swiss financial institutions conducted by Payment-Standards.CH in March. Eleven questions were aimed to find out whether business customers and their staff are sufficiently informed about the migration of payment traffic to ISO 20022. The results are not quite so easily interpreted.

Standardization

Page 14

The future of electronic account information: camt messages

Up-to-date account balances and notifications of movements are indispensable for regular account reconciliations and cash management. To meet regulatory provisions and to achieve continuous automated processing of transactions, in the future, camt messages will be used in the Swiss financial center for electronic account statements according to the globally recognized ISO 20022 standard.

Products & Services

Page 15

SIC to stay open longer

Staying open longer is not just an issue for Swiss retailers. Longer opening hours have also been under consideration for the SIC system for years. The Swiss National Bank recently approved a request from the Board of Directors of SIX Interbank Clearing to shift the day-end processing by two hours into the evening as of 15 May 2017.



Dr. Alexander Verbeck

Dear reader,

Switzerland's central payment traffic infrastructure is ready for a future full of changes. The new SIC system, SIC⁴, was put into operation on 14 April 2016. This represents a further, essential step towards the harmonization of payment transactions for ISO 20022. Increasing numbers of financial institutions will use the new standard on the market side in the coming weeks and months and thereby lay the foundation for efficiency increases and innovations.

The next concrete step will take place in May next year with the extension of the SIC operating times. This will meet the demand for longer availability and thus also the ability to place same-day payments in the afternoon. Switzerland is clearly signaling its commitment to 24/7 payment processing and thus indirectly addressing the issue of instant payments, which are being promoted within Europe by EBA CLEARING, the EPC and even the EBA itself. This is an interesting development which, however, is not yet perceived as a broadly supported customer need in Switzerland. Therefore, this market trend shall only be observed for the time being.

Another noteworthy change is the increasing individualization of payment traffic concurrent with standardization. For business customers, ISO 20022 provides a basis for individual customer offers with the expanded data exchange options. The harmonization of standards offer potential for cost reductions. Furthermore, standardization, particularly with regard to customer access to the bank through the Electronic Banking Internet Communication Standard (EBICS), will open new opportunities and will significantly enhance flexibility when it comes to activate new customers.

With numerous mobile payments solutions, attempts are being made to better meet the individual needs of private customers. Too many payment methods for simple payment procedures could, however, confuse individuals. Who is ready to actively use more than one payment solution? The first Swiss mobile payments pilot project was successfully completed back in 2008 with Credit Suisse, PostFinance, SIX, Swisscard, Swisscom and Visa Europe. However, there needs to be time before a new payment solution penetrates the market. Although several competitors are active in Switzerland today, market penetration remains low. With Paymit and Twint, there are currently two Swiss solutions competing for customers. The five largest Swiss banks Credit Suisse, PostFinance, Raiffeisen, UBS and Zurich Cantonal Bank, along with SIX and the retailers Coop and Migros, and Swisscom are currently discussing whether a joint mobile payments solution can be quickly launched on a Swiss-wide basis. In addition, Apple has applied for a license for Switzerland for its Apple Pay payment system. The outcome of this exciting competition remains open.

I hope you enjoy reading the articles in this issue of CLEARIT and I look forward to this exciting period of change in the payment traffic world.

Dr. Alexander Verbeck, Credit Suisse
New member of the SIX Interbank Clearing Board of Directors

Pan-European successes and challenges in payment traffic



The SEPA project has had positive effects. This is the opinion of Hays Littlejohn, who became CEO of EBA CLEARING last year. The pan-European clearing house primarily processes SEPA payments for more than 4,800 reachable financial institutions. Instant payments will be added at the end of 2017. He discusses another hot topic in the following interview: blockchains.

CLEARIT: Mr. Littlejohn, EBA CLEARING views itself as a provider of pan-European infrastructure solutions for payment transactions. It operates two systemically important payment systems, among them the central clearing house STEP2. In addition there are also decentralized and bilateral infrastructure models in SEPA. How do you assess these concepts?

Hays Littlejohn: First of all, I would like to mention that in Europe there are only four systemically important infrastructures in the euro currency in total: TARGET2, STET in France and EURO1 and STEP2 from EBA CLEARING. I would like to state upfront that our company is a “joint venture” of our owners and participants; hence we do not issue assignments ourselves, but closely gear our work to the actual requirements of the participants. And EBA CLEARING’s primary assignment consists in providing a future-oriented, highly reliable payments infrastructure at a lower cost. This is important to keep in mind, since there are people who assert that clearing houses only seek to make profits, which is certainly not true.

“With decentralized clearing, all these advantages turn to disadvantages.”

Now, to answer your actual question: The main difference between decentralized, bilateral and central clearing is that the central approach, in my opinion, offers more advantages. First, it is much easier and less expensive to manage one rather than multiple channels; that also applies for oversight and stability.

And second, we can develop all the functionalities to be offered just once and then bear the costs for them collectively. It goes without saying that this is much less costly than it would be if each national provider were to develop them on their own. Economies of scale also result from multilateral netting, which enables our participant banks to better manage their liquidity.

Third, acting together promotes flexibility and reduces fragmentation because the connections are more network-independent. National requirements can still be covered in the process – through so-called additional optional services (AOS). One such AOS, for example, ensures that in Finland the extended remittance information service can be offered. And the great thing is that every other community is also free to use this AOS.

With decentralized clearing, all these advantages turn to disadvantages. And on top of that: The more infrastructure platforms and thus the more accounts there are, the more difficult it becomes to reconcile them. Risks may arise between the so-called clearing and settlement mechanisms (CSMs), such as settlement risks. From a regulatory point of view, things become even more complex, because the legal frameworks of different countries are not always uniform.

In your position, it comes as no surprise that you are a clear advocate for the central approach. However, not everyone in Europe is as convinced as you are.

Naturally, there are also experts who believe that the decentralized approach has more benefits. One of their arguments is that the bilateral exchange has functioned well so far – especially in Germany. Yes, the so-called “Garagenclearing” was a successful processing model for the big German banks, despite the internal costs for monitoring the various channels and administrating the corresponding contacts, for liquidity management, the allocation process and for backup facilities. However, Garagenclearing no longer exists today.

“In my opinion, payment processing has already become a lot more efficient.”

One objective of SEPA was to make European payment processing more efficient and thereby to reduce costs for companies and banks. In your opinion, to what degree have these goals been met – after the successful migration to the SEPA schemes in 2014 and the migration of niche products last February?

The European payments sector has come a long way since it started the SEPA project with the founding of the European Payments Council in Brussels in 2002. Perhaps we have not yet achieved all the objectives. In my opinion, however, payment traffic has already become a lot more efficient; what customers primarily notice is that intra-European payments today, as a rule, reliably reach the creditor’s account one business day after the payment instruction is issued. With the ISO 20022 message standard, it has also become much more structured, which in principle has generated added value for corporate customers, particularly when it comes to reconciliation and cash management processes. Furthermore, I see positive side effects for payment service providers, which can now further use their new standardized internal systems for SEPA for other services, such as for the clearing of pre-authorized card payments. EBA CLEARING already offers such a service – so far, in cooperation with the Deutsche Bundesbank, only for the German market, but the underlying concept is pan-European. This means that similar to the example in Finland mentioned previously, the STEP2 Card Clearing Service can also be used in other countries at any time. The fact we can process around five million transactions daily with this service alone speaks for the worth of the central, pan-European approach. This becomes even clearer when we look at the figures for the entire STEP2 platform – it processes over 40 million SEPA payments on a daily average, even more than 100 million on peak days.

“This cooperative approach is part of our DNA, so to speak.”

You announced an infrastructure solution for instant payments a year ago. What has happened in the meantime?

A great deal; last year we created our Instant Payment Task Force with representatives from more than 20 participant banks from across Europe worked on a blueprint until mid-2015. After this was published, we conducted a consultation process among our users. Finally, last September, the second version of the blueprint was published and meanwhile has been downloaded from our website over 700 times. This has contributed a great deal to exchanging ideas regarding instant payments and towards the further development of our initiative. At the same time, in close cooperation with our Board, we launched a request for proposal process to search for a technical service provider that shall support us with the development and implementation of a pan-European instant payments infrastructure solution. This request for

proposal has since been completed and we are now conducting contract negotiations with our preferred supplier SIA. The work of the task force was thus completed and it was recently replaced by the Instant Payments Project Working Group, which will accompany the development project. The project began in mid-April with 39 banks participating in the working group to contribute to shaping the system design and interface specifications. It is always important to us to work together in such a community and to remain in close dialogue with our participants, because then the result is agreed upon in advance and the acceptance broadly anchored. This cooperative approach is part of our DNA, so to speak.

Do you also have Swiss banks among your participants?

Unfortunately no; some banks and countries currently have other interests and challenges. Financial institutions from 14 countries are represented in the working group, some of which are active in multiple countries. A Swedish bank, for example, covers the Baltic States, while one from Austria covers the Eastern European countries. In this way we attain nearly 100% coverage in the eurozone. Both large and smaller banks are included. Therefore we believe that the project is very well supported and has gotten off to a very good start, but now we have to deliver and, according to our planning, we will be on time. At the beginning of June we will offer a first glance at the specifications, which will be published in the course of the summer, so that they are also available to financial institutions that are not part of the working group. Then the programming and implementation phase will begin, with completion by the end of the year. Testing shall begin in the first quarter of 2017, the pilot operation in the third quarter, followed by the go-live in November 2017.

That is an ambitious schedule.

Perhaps, but it is one that is feasible. Also because with the planned instant payment infrastructure solution we will again profit from the STEP2 components and thereby be able to shorten the development time. In addition, the transactions will be cleared individually in real time. We intend – similar to what you are doing in Switzerland with the new Paynet System for e-bills and direct debits – to introduce pre-financing to enable instant clearing and to avoid any default risk. The scheme conceived by the EPC specifies that a transaction with an amount of up to EUR 15,000 can be processed within a maximum of 20 seconds. In contrast, our blueprint specifies five seconds. This means that our banks generally prefer to process very quickly. In the beginning we primarily expect

P2P payments, but are also already anticipating B2B transactions; individual communities have expressed differing plans in this regard. However, as soon as usage is widespread and convenient apps and other applications are used by end-customers, B2C amounts can also quickly follow. By “quickly” I mean, in terms of infrastructure timelines, within several years.

Were instant payments initiated by the banks based on a needs analysis?

From my perspective, it is difficult to say what the banks think about this. I see two reasons that probably lent impetus concurrently. One is the Euro Retail Payments Board (ERPB), which had certain expectations. That was apparent in every meeting with ERPB representatives and in every ERPB paper. In December 2014, the ERPB called for the development of at least one pan-European system for instant payments. That was the starting signal for many banks in Europe, as well as for us. The other reason is that there are considerations regarding the question of positioning within the future payment processing landscape, which affects every bank and every other service provider in this area. A competitive, efficient and inexpensive infrastructure is naturally an important success factor here.

What happens when the debiting and crediting of accounts cannot take place in central bank money, because TARGET2 is closed over weekends, for example?

It actually is a challenge to be able to inject liquidity as necessary, if TARGET2 is not open. The ECB is currently analyzing what it can offer in such cases to avoid potential bottlenecks. It is to be assumed that an adequate solution will be placed on the table in the near future. Such bottlenecks could occur on weekends for B2B payments, which is very rarely the case today. As I implied earlier, it will still take a few years until business models change and the need for payments over the weekend grows. But perhaps the liquidity streams will be so predictable that no action will need to be taken.

An EPC working group is tasked with elaborating the credit transfer scheme for instant payments (SCT Inst). EBA CLEARING, as you have mentioned, also recently set up an instant payments task force. Moreover, the Euro Banking Association facilitates the Open Forum on Pan-European Instant Payments. How would you differentiate these working groups from one another?

Our task force was assigned practical work such as the creation of a blueprint for the area of infrastructure. The Open Forum launched in March 2015, which is logistically supported by the Euro Banking Associ-

ation, has a much broader focus, both in terms of topic and organization. It facilitates the continuous exchange of experience among the participants on instant payments. We at EBA CLEARING are just one participant among many in the Open Forum. The commercial field – merchants – are also represented. The EPC is ultimately in charge of developing the scheme and the rulebook, which we and other infrastructure providers, as well as the payment service providers, then implement.

“Neither blockchains nor distributed ledgers, in my opinion, are of practical benefit for payments...”

And finally, the inevitable question, which you are certainly expecting: What significance does the topic of blockchains have for EBA CLEARING? What opportunities do you see here?

It really is true that in recent times no conversation or meeting takes place without this subject popping up. Actually, we should be talking about distributed ledgers, since blockchain is a rather vague term. However, neither blockchains nor distributed ledgers, in my opinion, are of practical benefit for payments – at least for the time being. Allow me to explain using the example of our request for proposal for the instant payments infrastructure solution. In our request, we purposely left it up to the participants as to whether or not to integrate this new technology. Not one single vendor took us up on the idea. I believe it is still far too early to consider the use of this technology in payments. Besides the problems involving transparency, scalability, release management and the risk of manipulation, which were addressed in the last issue of CLEARIT, I would also like to highlight the following: The new technology requires that it must be possible to replicate every transaction everywhere in real time. That means nothing more than both bandwidths and storage capacities must be guaranteed for each participant. And all that may seem to be free of charge, but it is not. If the real costs are added up, then it really is infeasible, otherwise we would have done it long ago. In the central approach, we have backups, secured with duplicate backups. We need four to six data centers. According to the new logic, thousands, if not tens of thousands of new data centers must be set up which, it goes without saying, would be very expensive no matter how it were to be implemented. And with the ISO 20022 standard spread throughout Europe things get even trickier, because, for example, a pacs message with its 600-



Hays Littlejohn

800 characters is so richly filled with data that huge volumes of bits and bytes must be sent back and forth and saved. That is hardly expedient today. However, it is not just a matter of the sheer volume of payments – we are not only talking about our 45 million transactions per day, but about over 500 million retail payments throughout Europe. Even if we consider just one central bank system such as SIC, instead of one connection with its 350 participant banks, then 350 squared must be managed – because everyone would have to have a connection with everyone else. That would be the opposite of the central approach. Everything may be possible, but whether it makes sense is another question.

Interview:

Gabriel Juri and Christian Schwinghammer
SIX Interbank Clearing

Mobile payments – or the art of riding waves

Do you remember? Just a few years ago there were no smartphones at all. Now we carry them with us wherever we go. And if the payment industry has its way, we will start making payments using them this year – as a matter of course. But which solution will properly catch the wave?

Buzzwords such as “digitalization”, “globalization” and “mobility” admittedly sound trite – but lurking behind these terms are so-called megatrends. These are phenomena that are lastingly and fundamentally changing our world, privately and commercially, locally and globally. They are even occurring in our rather languid financial industry. Those who underestimate megatrends are ultimately punished by the market. And that also means that those who seek to conquer the market must understand these trends. Most of all, they must jump on board on time, decisively and cleverly – just like riding a wave.

The world in your pocket

But what do these megatrends mean? “Digitalization” implies that everything that can be digitalized will be digitalized. This means, for example, also money and payments. “Globalization” is primarily targeted towards customer expectations: customers are inspired by other markets and new demands rapidly arise. And “mobility” essentially refers to nothing more than our now cherished smartphones and their ability to connect us to the world anytime and anywhere.

The megatrends are interwoven to a high degree, as Armin Schmid, Head of Paymit at SIX Payment Services points out: “Mobility is only conceivable along with digitalization and globalization, because the smartphone connects us with a world that is already purely digital and is so small that it fits in the palm of my hand. And these trends are drivers that are leading to a payment industry that will experience more changes in the next 10 years than it has in total over the past 30 years.”

The big players are setting an example

There is no specific reason why payments should be exempt from these developments. Consequently, numerous solutions are ready to go. Primarily those that have not caught or will not catch the wave – for various reasons: a lack of decisiveness, improper timing, the wrong technology, lacking flexibility... there are many ways to miss catching the wave, but just one way to catch it.

“Flexibility, timing and courage are what count.”

“In the age of digitalization, globalization and mobility one simply cannot rely on the traditional Swiss values such as solidarity and permanence. Because what counts here are flexibility, timing and courage – not to mention aggressiveness.” Armin Schmid is convinced of this.

Technology products today are also developed iteratively. The big players are setting an example: products are brought to market before they are completely ripe or with very reduced functionalities and then improved and enhanced through updates. The method not only makes market players faster – which can be absolutely crucial – at the same time, it guarantees the constant further development of the product. In this way, players can aggressively enter the market, wait for the right time and keep the product flexible so that it can be quickly adapted to meet rapidly changing requirements.

There can only be one

But bringing a product to market that is not yet ready for it can be just as fatal as being too late: you cannot surf where there are no waves. There is already a relatively large selection for mobile payments, which are more or less fully developed, more or less needs-oriented and, primarily, most as closed systems. But what is missing in the Swiss market is a comprehensive, open solution that is interesting and usable by the majority of users, which works both for banks and commerce. In brief – a comprehensive Swiss standard is missing. The big players are already in the starting blocks: SIX, UBS, Zürcher Kantonalbank, Swisscom and other banks with “Paymit”, PostFinance and some cantonal and regional banks with “Twint”, and rumor has it that the market launch of Apple Pay is to be expected this summer.

“A comprehensive Swiss standard is missing.”

Riding waves in Switzerland

Paymit started in 2015 with an app for payments from person to person and has now begun rolling out payments at merchants – with the handler app and late this summer per QR code at the payment terminal. Paymit will also be able to cover m- and e-commerce in the course of the year. Paymit is an open system. All users in Switzerland should be able to take part in the system, regardless of their mobile end-device and bank. And every bank shall be able to offer Paymit – and because they prefer to. The Paymit strategy is to first build up a larger user base with P2P payments (it is currently the most widely used app in Switzerland) and then to conquer commerce this year.

Twint is pursuing a different strategy: payments were made possible at POS through a separate terminal (Beacon) with bluetooth technology, followed by P2P payments. Payments at “traditional” terminals shall follow this year. Added value services, such as coupons are already integrated in the user app.

When the U.S. tech giant Apple will enter the Swiss market with Apple Pay remains open – according to rumors it will be this summer. The advantages are that many users have an iPhone in Switzerland and that most payment terminals are NFC-capable. But this also means that users who do not have an iPhone will be unable to use the solution. Furthermore, Apple will not process the data inside Switzerland – which is not viewed favorably by the domestic market.

So, who is going to catch the wave? The technology giant that is rich in resources and experience or perhaps one of the two national solutions? Perhaps the question should be asked differently: will it be the technology giant or the Swiss standard that will emerge in the coming weeks? It is noteworthy that Paymit and Twint are currently discussing a potential merger. But this much is certain – it all will be decided this summer. That means that surf’s up.

Thomas Landis
SIX Payment Services

	Paymit	Twint	Apple Pay
Use Cases	<ul style="list-style-type: none"> • P2P • P2M (in roll-out) • m-commerce (in roll-out) • e-commerce (planned) 	<ul style="list-style-type: none"> • P2P • P2M • m-commerce • e-commerce 	<ul style="list-style-type: none"> • e-commerce • m-commerce • P2M
User basis	<ul style="list-style-type: none"> • UBS • Zürcher Kantonalbank • Raiffeisen banks • Luzerner Kantonalbank • Banque Cantonale Vaudoise • Banque Cantonale de Genève • Obwaldner Kantonalbank • Zuger Kantonalbank • St.Galler Kantonalbank 	<ul style="list-style-type: none"> • PostFinance • Valiant Bank • Hypothekbank Lenzburg • Berner Kantonalbank • Graubündner Kantonalbank • Thurgauer Kantonalbank • Schaffhauser Kantonalbank • Basellandschaftliche Kantonalbank • Basler Kantonalbank • Bank Coop • St.Galler Kantonalbank 	Not yet on the Swiss market, discussions are allegedly ongoing
User basis	More than 220,000 downloads (at the end of April 2016)	150,000-200,000 active users (at the end of March 2016)	Not yet in the Swiss market
Strengths	<ul style="list-style-type: none"> • Large user basis (most widely used app) • Simple installation • Open system • Real-time book possible from and to the bank account • Uniform banking standard and embedded in the banks’ infrastructure • No additional infrastructure at merchants • No income through ad placement in the app 	<ul style="list-style-type: none"> • Large merchant and user basis • Value-added services • Direct integration into POS systems • Simple installation • Open system • Easily connected to banks 	<ul style="list-style-type: none"> • Very high iPhone concentration in Switzerland (over 50%) • NFC technology already available throughout Switzerland • Large, loyal community in Switzerland
Weaknesses	<ul style="list-style-type: none"> • Roll-out in commerce just begun • Potential conflict of interest with the cards business 	<ul style="list-style-type: none"> • Presently only prepaid (direct account booking is planned) • POS solution partly requires additional infrastructure 	<ul style="list-style-type: none"> • Only for apple devices • High fees • Data sovereignty not in Switzerland

Comparing Paymit, Twint and Apple Pay

Interoperability of P2P solutions in Europe

Across SEPA, many countries have already introduced one or several P2P mobile payment solutions. These transactions are becoming increasingly popular thanks to their convenience in situations such as sending money urgently to, for example, a relative. Currently, more than fifty solutions co-exist, however, they are usually limited to a national level, and often even to an intra-bank level.

The EPC agreed to facilitate the cooperation of existing and future P2P solutions in order to ensure their interoperability on a pan-European level at the invitation of the Euro Retail Payments Board (ERPB). The ERPB is a high-level body chaired by the European Central Bank, bringing together the supply and the demand side to address strategic retail payments issues.

The EPC's role as facilitator

P2P payments were confirmed as a topic of interest by the ERPB in June 2015, after the publication of the report and recommendations from the ERPB working group on P2P mobile payments. Based on this report, the ERPB agreed to endorse the vision of allowing any person to initiate a pan-European P2P mobile payment, using a simple method with information the counterparty is prepared to share in order to make a payment, safely and securely.

With the ERPB's vision and recommendations in mind, the EPC organized a stakeholders workshop in January 2016 which attracted around 80 participants from all parts of Europe and with very wide backgrounds. There the stakeholders agreed to establish a Steering Committee to start off the relevant Forum which will focus on pan-European interoperability and in particular on the set-up of a pan-European Standardised Proxy Lookup (SPL) service to address the recommendations agreed upon by the ERPB.

Challenges to be addressed by the Forum

At the first meeting of the Steering Committee of the Forum in March 2016, John Maynard (Paym) was appointed as Chair and Kasper Sylvest Olsen (Danske Bank) as Vice-Chair. In addition, the EPC was chosen to provide its secretariat support. It was also agreed that the Forum will be open (anyone with a relevant business interest wishing to join will be welcome), informal (with a status of 'de facto' association under Belgian law), and fully transparent. To this end, the documents produced by the Steering Committee will be published – for the time being – on the EPC's website.

The setup of a pan-European SPL service which allows P2P payment data to be securely exchanged on a

pan-European level should be the key objective of the Forum. Initially the focus will be on using telephone numbers as a proxy for IBAN, but the Forum will also look into enabling support for additional account identifiers. The main goals are to have solutions that are interoperable and user friendly, as well as to foster choice and competition.

Dedicated working groups will be established to examine the various challenges related to the setup of a pan-European SPL service from a governance, technical, legal, and security point of view.

The Steering Committee will share a first status update of its work during the June 2016 meeting of the ERPB. This will include a detailed project plan with clear deliverables, milestones and task allocations.

Achieving pan-European interoperability of P2P payment solutions will be a major accomplishment of the SEPA project, and as such a further step on the road towards European Union payments integration. In addition, the EPC will publish the finalized rulebook for the SEPA Instant Credit Transfer scheme (SCT Inst) in November 2016, to be implemented one year later. By increasing the attractiveness of P2P payments, I am confident that SCT Inst will herald a bright future for such payments.

Javier Santamaría

Chair of the European Payments Council (EPC)



An interoperable pan-European P2P payment (example)

Emma's Danish friend Oliver, who works in London, comes to visit her in Amsterdam. She pays him back a EUR 25 restaurant bill using her P2P app. The transaction is processed via Oliver's British phone number to his Danish bank account.



Local European P2P solutions interconnected via SPL service

The mobile phone number is used as a proxy for an IBAN. When a query is routed to a local P2P solution via SPL and if the proxy is matched, then the IBAN is returned.

1. As Emma uses a Dutch solution, the local Dutch database is first queried.
2. As no link is found to a Dutch bank account, a subsequent lookup is initiated in the UK, the country of origin of the proxy
3. The lookup in the UK doesn't yield any result. The SPL service continues its search to match the phone number Emma sent the EUR 25 to with a bank account.
4. Thus the SPL is querying all P2P databases in Denmark, finally finding a link between the phone number and Oliver's Danish bank account.

EBICS is more than a file transfer from A to B

EBICS is currently establishing itself as the standard protocol for the transmission of financial messages throughout Europe. What makes a technical protocol for file transmission so popular among financial institutions and their customers?

UBS, CS, the Luzerner and Zürcher Kantonalbanks and the Liechtensteinische Landesbank all currently offer EBICS (Electronic Banking Internet Communication Standard) in Switzerland.

EBICS is multibanking

Its multi-banking functionality is primarily what makes EBICS so popular among corporate customers. Customers can access as many financial institutions as they please with one and the same keys. Gone are the times when each bank had its one proprietary solution for a file transfer and multi-banking was only possible through specialized thirty-party solutions.

EBICS is Web banking

The standardized communication and multi-bank capability offer entirely new possibilities for the development of finance portals. There are already many multi-bank portals operating in Germany, through which customers can view account balances over a Web interface, and generate and approve payment instructions. One prominent example of this is the "Global Payment Plus" solution offered by Commerzbank through its portal, over which customers can also manage accounts at third-party banks.

EBICS is mobile banking

Another benefit offered by EBICS is the use of mobile apps (smart phone, tablets). The multi-banking administration of bank accounts and management and approval of payment orders are possible with an electronic signature here as well. And there is a further advantage to this type of use: the transmission of messages to EBICS participants using the "push" procedure (similar to SMS). One example of this is that pending approvals of payments can be actively requested from authorized users.

EBICS is interbanking

There is an additional field of application to be considered by financial institutions. EBICS is ideally suitable as an alternative or back-up solution to transmission networks such as SWIFT. Many financial institutions in Europe offer EBICS as an alternative channel in correspondent banking. This makes sense in terms of the reduction of operational risks and also for cost-savings reasons, because with EBICS, in principle, no further costs are incurred once it has been placed in operation since transmission takes place over the Internet.



EBICS meets the latest security requirements

Solutions that are still often used in Switzerland for corporate customers with the so-called "corporate seal", with which a corporate customer or a system is identified and not the person who has issued the order, which meet the requirements of auditors and regulators less and less as time goes on. The future demands authentication and authorization solutions based on personal certificates and hard tokens. EBICS already offers this functionality today.

EBICS is much more

The standardized initialization process is one example. The client system generates the key for authentication, encryption and electronic signature and transmits them to the server. After verification of the authenticity, e.g. through confirmation of hash values over a separate channel, the approval takes place on the server side. Now you can get started.

An additional plus point is the EBICS integrated compression of the usage data. The use of EBICS is especially sensible with the current migration to ISO 20022, through which up to eight times larger files can be transmitted.

The "distributed electronic signature" brings an absolute added value to bank clients. Customers can sign their instructions regardless of the location, time or channel. Since EBICS uses a standardized data model, the depiction of signature rules (individual and collective signature), including limits, is already included in the standard.

Carsten Miehling
PPI Switzerland

ISO 20022: Are banks ready to start with customer communication?

A total of 440 answers and 180 comments: that is the yield from the survey about the readiness status of the Swiss financial institutions conducted by PaymentStandards.CH in March. Eleven questions were aimed to find out whether business customers and their staff are sufficiently informed about the migration of payment traffic to ISO 20022. The results are not quite so easily interpreted.

The online survey was targeted towards the financial institutions as banks participating in the payment system services. In total, 65% of those asked (from 229) looked at the survey, while 28% completed it – a good response rate, which may not allow definitive conclusions to be drawn, but which leaves some leeway for interpretation.

The crucial question of timing

“Are communication activities towards your business customers planned?”, was the core question. They are in fact planned at 64% of the banks surveyed. Around 30% of which will be active by mid-2016, 40% by the end of the year and the rest next year. While these remaining banks and those who have yet to plan any activities are not to be underestimated, the comments indicate that at least some of the banks have few to no business customers or are not active in payment transactions to begin with.

Know-how among customers and staff

One positive note to be emphasized is that just 4.3% of respondents think that their business customers are insufficiently informed about the harmonization of payment traffic in Switzerland. This is all the more surprising considering that nearly 70% have not actively approached their customers yet. Equally remarkable is the low num-

ber of those surveyed (5.8%) that state that their customer-oriented employees are not prepared to provide information about this topic. It can only be hoped that this was not stated over-optimistically.

Undecided regarding online training

“Training is always good!” This was a comment written on the question of whether it is sensible to offer their staff something like a Web seminar through PaymentStandards.CH. A majority of those surveyed basically agreed with this opinion. Nevertheless, nearly half clicked on “no”.

Hence, the financial center’s working groups in charge do not see any urgent need to take action as a result of the survey. More precise conclusions will be drawn from a more detailed survey to be conducted this autumn.

Gabriel Juri

SIX Interbank Clearing

Brochures well received

Around 60 financial institutions in Switzerland and Liechtenstein have thus far ordered printed copies of the brochure regarding the harmonization of Swiss payment traffic from PaymentStandards.CH. Over 120,000 business customers in all parts of the country were sent the brochure in German, French, Italian and English.

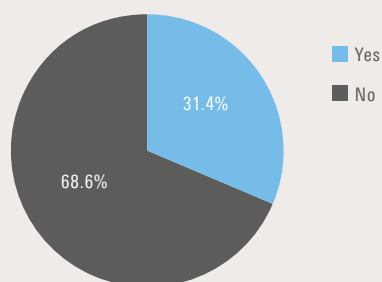
PaymentStandards.CH
A Swiss Financial Center Initiative

“New epoch in payment traffic”

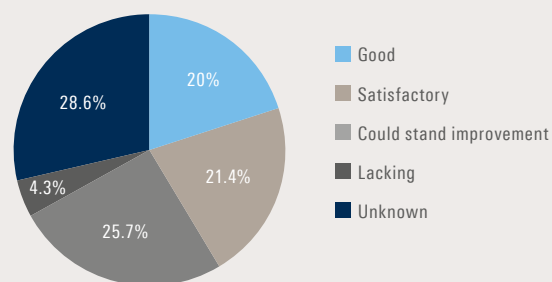
Headlines like that are read in the media following the successful relaunching of the SIC system on 14 April 2016. This has given Switzerland the first system of its kind in Europe, one capable of productively processing payments according to the definitions of the ISO 20022 standard. This milestone places the Swiss financial center in the position to use ISO 20022 beyond the interbank field and on to the customer-bank interface and to drive the harmonization of payments in Switzerland. This means that payment processes can be operated more inexpensively and be better integrated in the digital value creation chain.

Banks survey results

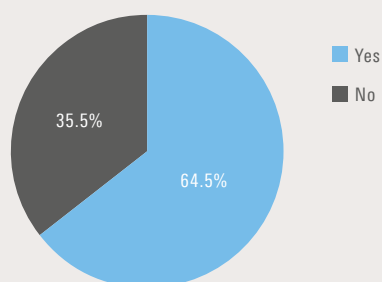
Have you already actively informed your business customers about the harmonization of Swiss payments?



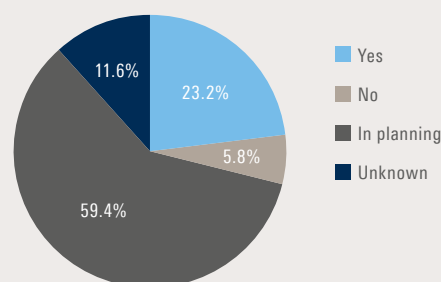
How do you assess the general state of information regarding the harmonization of Swiss payments among your business customers?



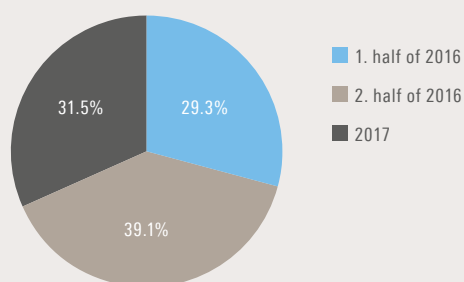
Are communication activities towards your business customers planned?



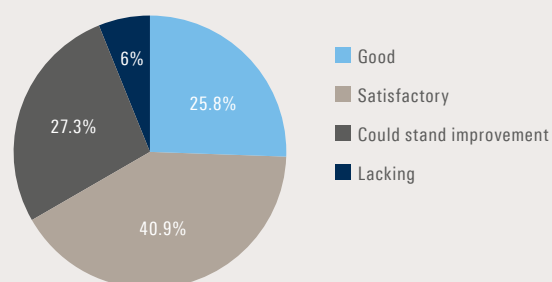
Are the employees involved within your bank prepared to provide information about the harmonization of Swiss payments should customers inquire?



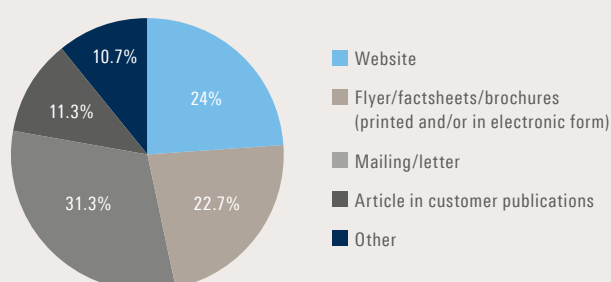
If you are planning communication activities towards your business customers – when will you conduct them?



How do you assess the level of knowledge in this regard among your staff that is involved?



Which of the following tools will be used for your external communications?



The future of account information: camt messages

Up-to-date account balances and notifications of movements are indispensable for regular account reconciliations and cash management. To meet regulatory provisions and to achieve continuous automated processing of transactions, in the future, camt messages will be used in the Swiss financial center for account statements according to the ISO 20022 standard.

The camt messages will be used for the exchanging of messages between the bank and customer and belong to the statements, notifications, displays and reporting category. With the migration of a customer to ISO 20022 it is recommended to use the new camt messages instead of the existing SWIFT messages and other electronic reports, such as the “v11” ISR file. The switch to camt is also necessary to meet national and international regulatory provisions, because camt can transport the necessary information from end to end.

Accounting-relevant camt messages (day-end)

The “Bank-to-Customer Statement” (camt.053) message is used for account information by the banks to their customers. According to the Swiss recommendations, the following accounting-relevant messages must be available:

Message	Replaces existing message
1. camt.053 account statement with internal batch booking resolution	MT940
2. camt.053 account statement with external batch booking resolution in camt.054	MT940, ISR file v11

Cash management-relevant (intraday, incremental)

Delivery of the camt.052 message for the intraday account report (account turnover, reserved items) is possible periodically (e.g. hourly) or daily at fixed times. Only movements since the last proper account report are contained in the camt.052. Debit and credit notifications are covered with camt.054. The dispatching of notifications is generally controlled by events (e.g. after the payment instruction is issued) ongoing for incoming and outgoing payments. According to the recommendations, the following messages are available:

Message	Replaces existing message
1. camt.052 account report with internal batch booking resolution	MT941, MT942
2. camt.052 account report with external batch booking resolution in camt.054 (Intraday)	MT942, ISR file v11 (Intraday)
3. camt.054 notification (debit and credit notifications)	MT910, MT900

The double role of camt.054

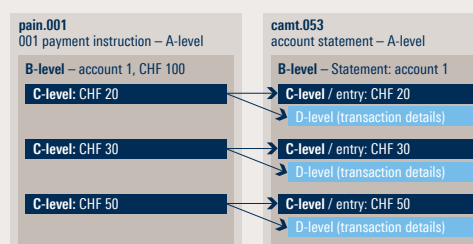
The camt.54 message is intended, on the one hand, as detailed advice for batch bookings and, on the other

hand, for the notification of credits and debits. The external resolution of batch bookings using camt.054 occurs independently of and additionally to the potential use of camt.054 for debit and credit notifications.

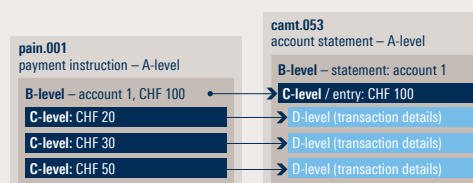
Peter Ruoss

UBS AG

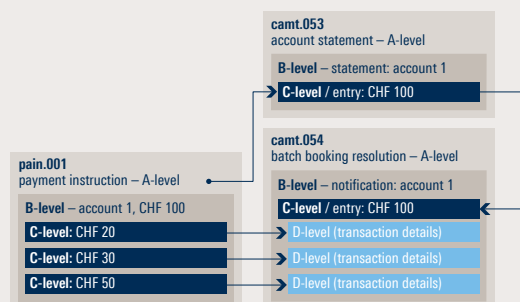
Individual booking: If the “Batch Booking” field in the payment instructions (pain.001) is set to “false”, then individual bookings are generated by the bank:



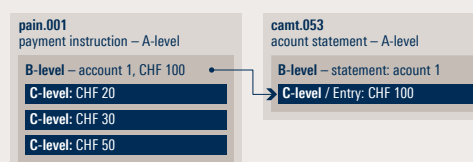
Batch booking with internal resolution: If the “Batch Booking” field in the payment instruction (pain.001) is set to “true”, then batch bookings are generated. If the customer obtains the camt.053 account statement with internal batch booking resolution:



Batch booking with external resolution: If the customer obtains the camt.053 account statement with external batch booking resolution, then it will be depicted as follows (an individual camt.054 will be generated per batch booking):



Batch booking without resolution: In scenarios where the customer collects – primarily salary payment instructions – the batch booking resolution is often dispensed with in camt, which can be achieved by using the advice control in pain.001:



SIC to stay open longer

Staying open longer is not just an issue for Swiss retailers. Longer opening hours have also been under consideration for the SIC system for years. The Swiss National Bank recently approved a request from the Board of Directors of SIX Interbank Clearing to shift the day-end processing by two hours into the evening as of 15 May 2017.



To have longer shopping hours is apparently a consumer need. To be able to submit payments longer with the same value date is definitely something desired by the Swiss banks' corporate customers.

Rethinking by the banks

A potential shifting of the SIC operating hours was already an issue nearly 10 years ago when the ECB set the cut-off time for customer payments in TARGET2 to 5 pm. The resonance in Switzerland back then was moderate. Things were quite different this year when the National Bank (SNB) conducted a survey: a clear majority of the SIC participants surveyed supported the two-hour shifting of the clearing stop times into the evening. The SNB supported the initiative keeping the evolving market needs in mind and so decided to extend the SIC operating times starting 15 May 2017.

Securities trading is onboard

Since the SIC system is part of the Swiss Value Chain, it goes without saying that payment traffic cannot be viewed in isolation. Accordingly, other specialized departments within the financial institutions had to be involved in the discussion regarding the operating hours, such as securities trading. Analyses show that the clearing stop times shifting would be advantageous. It would specifically enable the clearing members to service the margin requirements in CHF cash for two hours longer, which would reduce operational risks.

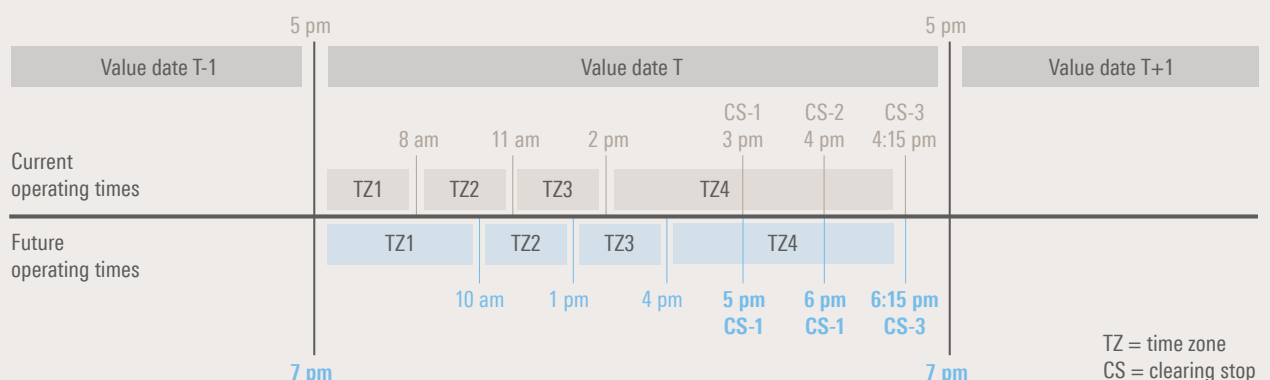
In unison with international developments

The planning and implementation are being made in close cooperation with the SNB and the financial center committees in charge. For SIX Interbank Clearing as operator of the SIC system, switching to the new operating times is relatively easy to accomplish. That is why the short development time of around one year is possible. This summer, the British CHAPS RTGS system will already extend its operating times by an hour and 40 minutes for similar reasons as those pertaining to Switzerland. In addition to TARGET2 and CHAPS, the RTGS systems in other currencies have also introduced later clearing stops: the Australian RITS closes at 4:30 pm local time and Fedwire in the USA has even extended its operating hours to 6 pm. But Hong Kong is unbeatable in this regard. In 2012, the operating hours of the RTGS system for renminbi was extended by five hours to 11 pm and, believe it or not, extended again to 4:30 am last year. However, businesses are also open considerably longer in Hong Kong than they are in Switzerland.

Gabriel Juri

SIX Interbank Clearing

Repercussions on the financial institutions



Impressum

Publisher

SIX Interbank Clearing AG
Hardturmstrasse 201
CH-8021 Zürich

Orders/Feedback

CLEARIT@six-group.com

Edition

Edition 67 – June 2016
Published regularly, also online at www.CLEARIT.ch
Circulation German (1,300 copies), French (400 copies) and English (available in electronic format only on www.CLEARIT.ch).

Council

Michel Desponds, PostFinance, Erich Schild, UBS Switzerland AG, Susanne Eis, SECB, Christian Schwinghammer, SIX Interbank Clearing Ltd, Andreas Galle, SIX Interbank Clearing Ltd, André Gsponer (Head), ConUm AG, Gabriel Juri, SIX Interbank Clearing Ltd, Daniela Meyer-Brauss, Credit Suisse AG, Jean-Jacques Maillard, BCV, Stefan Michel, SNB, Bettina Witzmann-Walter, Liechtensteinischer Bankenverband

Editorial Team

André Gsponer, ConUm AG, Andreas Galle, Gabriel Juri (Leiter) und Christian Schwinghammer, SIX Interbank Clearing Ltd

Translation

French, English: Word + Image

Layout

Felber, Kristofori Group, Advertising agency

Printer

sprüngli druck ag

Contact

SIX Interbank Clearing Ltd
T +41 58 399 4747