

03 | 2018
Edition 74

Even silver surfers have a fancy for the digital bank counter

Interview with Christoph Wille, Valiant Bank

ISO 20022 and corporate customers –
The countdown is running

A crypto franc for Switzerland?

it
r
e
e
l
c

03 EDITORIAL

Reorientation of payment traffic

Challenging, exciting, complex, profitable!

04 INTERVIEW

Digital shift at the bank counter

The number of transactions falls. The cash counter behind glass is gradually being phased out, primarily because of digital transformation.

10 INFO & FEEDBACK

ISO 20022 – Four months to go until the complete migration on the customer side

The date of 30 June 2018 is fast approaching. A preliminary assessment of the customer migration by the Banque Cantonale Vaudoise.

14 STANDARDIZATION

Successfully launching the QR-bill – Quality comes first

The introduction of the QR-bill is eagerly anticipated. But good things take time.

16 PRODUCTS & SERVICES

The role of cash in the age of digitalization

Why the National Bank is still investing resources in new banknotes, and not in an own digital currency.

18 BUSINESS & PARTNERS

SWIFT gpi – The new standard for cross-border payments

The real-time payments tracker is set to revolutionize worldwide bank customer service.

IMPRESSUM

Publisher

SIX INTERBANK CLEARING Ltd
Hardturmstrasse 201
CH-8021 Zurich
T +41 58 399 4747

ORDERS/FEEDBACK

clearit@six-group.com

EDITION

Edition 74 – March 2018
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

Samuel Ackermann, PostFinance, Peter Ruoss,
UBS Switzerland AG, Susanne Eis, SECB,
Boris Brunner, SIX Interbank Clearing Ltd,
André Gsponer (Head), ConUm AG, Daniela
Hux-Brauss, Credit Suisse AG, Gabriel Juri, SIX
Interbank Clearing Ltd, Jean-Jacques Maillard,
BCV, Stefan Michel, SNB, Thomas Reske,
SIX Interbank Clearing Ltd, Bettina Witzmann-
Walter, Liechtensteinischer Bankenverband

EDITORIAL TEAM

André Gsponer, ConUm AG, Thomas Reske,
Gabriel Juri (Head) and Karin Pache,
SIX Interbank Clearing Ltd

TRANSLATION

English: Word+Image AG
French: Denis Fournier

LAYOUT

Felber, Kristofori Group, Advertising agency

PRINTER

sprüngli druck ag

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

FRONT PAGE

Video counseling at the bank counter

DEAR READERS,

What adjectives come to mind today if someone spontaneously asks me about the topic of payments? My answers would be: interesting, diverse, challenging, exciting, complex, profitable and even evolutionary.

I would have answered this question quite differently 15 years ago: boring, static, a necessary offer by the banks, captured in rigid rules and regulations – at least that was my perception back then. After becoming familiar with payment traffic 25 years ago as a bank apprentice, today, along with my employees, I am in a position to offer the entire value creation chain to our customers. Believe me; I have not regretted having been intensively active in payments for the past six years.

Especially recently, a great deal has happened in this field and I am proud to be able to be part of the new orientation. In our company, Credit Suisse in Switzerland, the heart of payment traffic, our Payment Engine, was successfully equipped to meet the new challenges last year. Throughout the financial market, with the migration of payments and the launching of the new direct debit infrastructure and the eBill service, the foundation has been laid for payment traffic of the future.

I am constantly being asked to provide an outlook of the further development of our payment traffic both in Switzerland and abroad. Even if some developments are predictable, it remains nevertheless difficult to make a binding statement for the coming years. In addition to the constant development of technology, the future of payments will be significantly influenced by the new standards, on the one hand, and by the dynamics of our society, on the other.

Digitalization is one example of this. The present generation is growing up with it and already sees new technologies that (supposedly) make life easier as a matter of course. For them, it is not a need that must be met, but rather involves a concrete attitude of expectation. This is also being taken into account among banks – such as with the introduction of virtual assistants, so-called chatbots, or experiments with virtual bank counters. You can read more about this in this issue of clearit in an interesting interview with Christoph Wille from Valiant Bank.



Alain Schmid

But what specifically is on the agenda for us in 2018? In this year, to be more precise: the migration of our corporate customers from DTA to ISO 20022 (pain.001) will certainly keep us going until the end of June. The basis for the new QR-bill will be created in this way. Also to be followed with interest are the European initiatives pertaining to open banking and instant payments. Moreover, the further development of cashless payments, including the fields of blockchain and cryptocurrencies, will remain a major issue in the new year.

A stylized, handwritten signature in dark ink, appearing to read 'Alain Schmid'.

Alain Schmid
Head Payments Services,
Credit Suisse (Switzerland)

Digital shift at the bank counter

The classic cash counter behind glass is gradually being phased out. The primary driver behind this trend is digitalization. The majority of payment traffic is handled online, while transaction figures at bank counters are dropping. Growing numbers of banks are therefore moving in new directions. The example of Valiant Bank provides an indication of where the journey is heading. Christoph Wille, Member of the Executive Board and Head Sales Channels, explains what is behind the new counter concept, speaks about the experiences of employees and customers, and reveals new trends.

For the past two years, new Valiant Bank customers have been able to open a bank account online via video chat, whereby customer identification and contract signing occur digitally. What influence has the introduction of this online service had on the new counter concept that Valiant implemented around a year ago in Brugg? Was it the prelude to the digitalization of your bank branches?

Online account opening is an important component of our new branches, where we virtually offer digital kiosks in self-service mode. But the new counter concept is the response to an entirely different issue: fewer and fewer people are coming to the counter for deposits and payments. The number of transactions has dropped by double digit percentages in the last three years. This massive reduction is what motivated us to adjust the counter opening hours in the beginning. Being aware that this measure was neither especially customer-friendly, nor very efficient, we sought a new solution. That was actually the trigger for this type of convergence branch, in which we combine the digital with the physical.

The starting signal for the so-called hybrid model, as a banking professor once called the solution?

Yes, you could also say: a type of catalyzer that sets off reactions. We are in a time in which the physical presence is still very important. And I believe that it will remain important for a long time to come. Our new branches are experience sites where particularly people who are hesitant

about digitalization can try these new digital means for the first time in a protected space, can experience them and then perhaps decide whether they want to give them a try at home. At the same time, digitally savvy people can use the self-service option, and ultimately our employees are available onsite for all those who prefer extensive personal consultation.

“We are in a time in which the physical presence is still very important.”

Digitalization at traditional banks often goes hand in hand with sinking margins and rising costs. Conversely, at Valiant the interest income, the group profit and the total capital ratio have been growing for years. So why undertake this digital turning point at the customer-bank interface?

You need to differentiate two things. On the one hand, there is the overall strategy in which we strive to generate good operative results and profits. That has functioned well in recent years. At the same time, we may not remain standing still, because the business of the future also entirely depends on digitalization. Extrapolated to our new



branches, this means: we can offer longer opening hours there while lowering costs at the same time, because in the future we will be providing reception services at three to five branches from a central location. From that perspective, digitalization is also contributing to the strategy, towards improved customer service and to efficiency.

According to the Swiss National Bank, the number of bank counters in this country has shrunk by nearly 2,000, also due to automation and digitalization. Valiant, on the other hand, intends to expand with eight new branches by 2020 and to hire more customer advisors. How does that fit together?

Two years ago we asked ourselves: shall we continue doing what we have been doing or do we want to achieve a certain level of growth, and if so, by what means? One option would have been to only proceed along the digital track; with online account opening we have already been able to gain customers throughout Switzerland. On the other hand, the banks that have grown in recent years are those that have a large branch network. We ultimately came to the conclusion that both are necessary: we are attempting to attract our customers to our mortgage business with a free mortgage check through the digital channel, so that we can subsequently advise them in person at a physical branch office. The branches thus remain important as a physical anchor point, as a symbol of our presence, which creates trust. That is why we are expanding our physical presence.

The design and planning work for the Brugg branch only took nine months. It seems as if the step to a new bank counter is rather a matter of course. Who did you crib from?

We looked around in Switzerland and abroad and studied various concepts. Our core development team of three or four people was driven by rather simple questions in the course of developing our overall solution: What is indispensable for a good customer experience? What is quickly achievable? What is inexpensive? What standard components are there for a branch without a cash counter? How is the entire customer reception process to be depicted?

“With the new concept, we can, despite many new technologies, open new branches at a third of the cost of a conventionally built branch.”

This resulted in a problem or two that were not so easy to solve. Take the video software as an example. That is not a standard project that we could copy or purchase, but partially an in-house development. That we were able to open the new Brugg branch after such a short development is also attributable to the fact that we outsourced assignments



to smaller, more agile, local partners. With the new concept, we can, despite many new technologies, open new branches at a third of the cost of a conventionally built branch.

How does this special video software work? In your explanatory film on YouTube, one can see how a customer enters the branch while the customer advisor appears on the screen at the same time. How does the advisor know when he or she must be online?

That was particularly challenging. I did not want to have a counter where you enter and then must press a button, which is the case in many other places; instead, I wanted the customer advisor to be notified automatically. In Brugg there is a laser barrier that automatically triggers a call to our customer center in Gümligen when a customer enters. The staff in Gümligen can then activate the screen in Brugg within seconds. However, if the customer just wants to use the ATM then he or she does not bother.

Besides the software development, were there other major challenges?

Training of staff in the customer center was and remains a major task. We previously had a call center and now suddenly video advisor workplaces. There is a major difference, for example, in the way the customer must be addressed. What in a call center is a matter of providing information as quickly as possible, an entirely different of speaking is required through video, another tempo and a different way of addressing the customer. This meant that the call center staff became certified bank customer advisors. Clothing also became a major issue. That may seem like a minor detail, however, it is an important sign of the radical change of the professional image from "invisible" to a halfway public person. While the training was very strenuous and challenging, it has been very successful so far. Our employee development is rounded off

with ongoing accompanying coaching. What satisfies me is the thoroughly very positive feedback I receive from my co-workers in the branches and our customers.

“We have received positive feedback particularly from our older customers!”

Speaking of feedback, how are customers reacting?

In the run-up to the project, we conducted surveys among people from various age groups. In contrast to the baby boomers, there were major reservations among older people, the so-called silver surfers. That was not very surprising. Noteworthy were the survey results after the video reception was launched. We have received positive feedback particularly from our older customers!

How do you explain this?

The expectations among this age group were very low to begin with. But then the experience was so good that many were able to imagine conducting their business from home when they are no longer able to get around as well on foot. So, as I mentioned earlier, these branches can act as a sort of accelerator in this change process.

Let's assume that an elderly woman takes CHF 1,000 out from under her mattress and goes to the bank to deposit it into her grandson's account for his birthday. How would the bank advisor at the video reception react?

The customer advisor would inform the woman that she can deposit the cash to her account at the ATM and from there, transfer it to the appropriate account. The other possibility, which we will introduce in the middle

of this year, is the option with the QR code. This is how it works: The customer advisor in Gümligen asks the customer which account she wishes to deposit the money to. Then he prints out a QR code for her. The customer scans the QR code at the ATM, places the money in the bank note drawer and the amount is automatically transferred to her grandson's account. After appropriate identification, the QR code can also be used for cash withdrawals if, for example, a customer wants to withdraw money without a Maestro card.

How does currency exchange function?

The ATMs can dispense euros, so this currency is covered. Other foreign currencies can be ordered from the video advisor at the new branches, and are in the customer's mailbox the next day. It is also possible to order foreign currencies on our website or by calling the customer center.

“The entire solution is built so that it is already implemented as an integral component of our internet portal today, including the video advising solution.”

Why don't you offer all digital counter services online right away, so that customers can be advised from home or wherever they are through a laptop, tablet or smartphone? Why this hybrid solution?

It is not to be said that we will not do this. Currently, we are gathering initial experiences within the protected framework of our branches. The entire solution is built so that it is already implemented as an integral component of our internet portal today, including

the video advising solution. An essential requirement is that customers can set binding appointments. This online appointment setting solution will be launched in the middle of this year. Then the customer will have the choice of being advised 1 to 1 on site at a branch, or at home per video. The appointments will be automatically set by the customer advisor.

“I can well imagine that this will become an attractive and convenient medium for many people.”

The advisor is still made of flesh and blood, even on the screen. When will chatbots, such as Siri and Alexa, take over their function?

I do not think that the customer advisor function can be virtualized. However, as soon as these assistants are available here in the form of a new, smart speaker from Apple, Google or Amazon, they will also quickly make inroads in the area of payments. These assistants can analyze and allocate a person's voice through voice biometrics. I can well imagine that this will become an attractive and convenient medium for many people. Calling up an account balance or information about bank products are interactions that could be easily carried out through such assistants. Or take an older person, for example, who is not physically mobile and is sight impaired; perhaps one day their invoice will be read out for them with the subsequent question: "Would you like to pay the Swisscom invoice of CHF 200 from your account at Valiant?" Whereupon the person in their living room at home answers: "Yes, I would like to pay it and debit it from my Valiant account." And then this voice banking order will be executed. I am convinced that technology will lead to a major change in customer interactions.

Is that a dream of the future or can it already be anticipated?

We do not have a concrete project at the present time. But from my answer, you can assume that we are thoroughly looking into this issue. Market research findings from Juniper Research show that in four years, more than fifty percent of all US household will have a smart speaker at home. I am convinced that the practical assistants will also make inroads relatively quickly here.

“We have clearly defined that in the foreseeable future we will operate up to twenty branches with conventional counters.”

What requirements must be met in order for the classic bank counter to be entirely a thing of the past at Valiant?

I believe that it will still take a long time before we reach that point. We have clearly defined that in the foreseeable future we will operate up to twenty branches with conventional counters, everywhere where we have very high customer frequencies. In other words, the requirement would be that transaction figures would drop massively, even at these highly frequented locations.

In order for this to happen, human behavior would have to change once again.

Precisely that is the crucial point.

Interview:

Gabriel Juri & Karin Pache

SIX Interbank Clearing

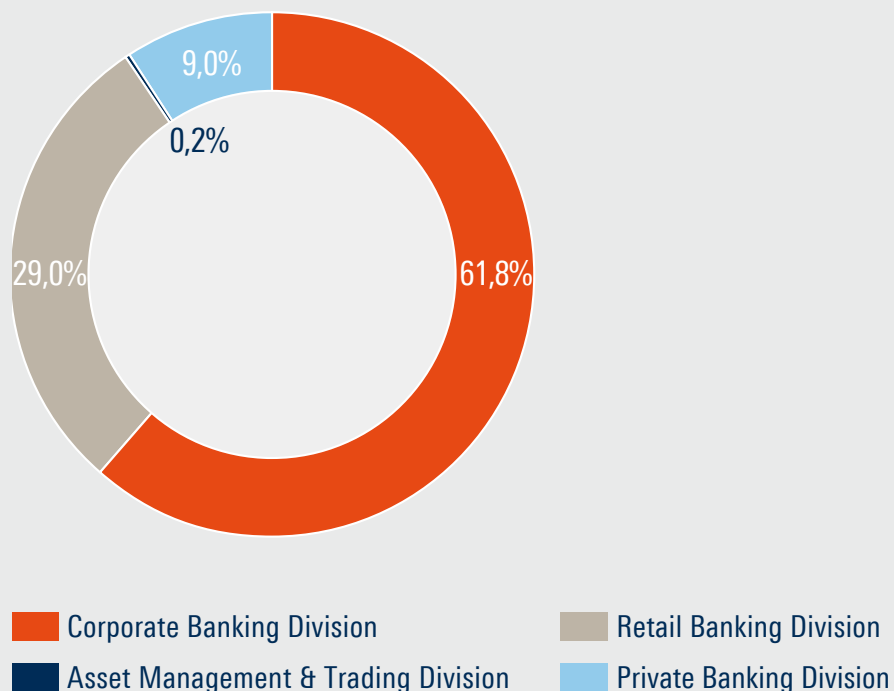
“I did not want to have a counter where you enter and then must press a button; instead, I wanted that the customer advisor appears on the screen automatically.”

Christoph Wille

ISO 20022 – Four months to go until the complete migration on the customer side

June 30, 2018 is fast approaching and the Banque Cantonale Vaudoise (BCV) is striving to completely migrate its corporate customers to the new payment traffic standard by then. As of that date, all payment instructions will only be accepted in the pain.001 message type. We remain in close contact to our customers to reach the set goal. Experience shows that migration is not easy task, but one that is worthwhile for all market participants.

Allocation of BCV customers processing payment files



ISO 20022 affects all customers that transmit their payments using files. What may sound easy represents several challenges in practice. We are called upon to take a very segment-specific communication and consultation approach to carry out the changeover, taking the IT environment of very different customer groups into account in the process. Among them are private customers with sporadic file transmission, SMEs with regular data transfers and large companies with very high payment frequencies. The replacement of DTA challenges all our consultation departments, which naturally strongly differ from one another in terms of the intensity of their direct customer contact. In view of this fragmented market situation, very specific challenges arise for us which we have never before been confronted with as a bank.

“The benefits of a new technology standard are generally not immediately recognized.”

Customer benefits are not apparent

Large before small – this segmenting approach does not actually match our philosophy, but has proven itself while preparing for the migration. Our experiences in recent months show that large companies and administrations have started projects considerably more quickly and, as a whole, have attached greater importance to them than have smaller companies and private customers. That is evident and comprehensible. In larger organizations there are more resources available in the IT and financial departments. Furthermore, most of them have high volume, and the same time, very automated invoicing with direct booking of incoming payments in their accounting system. Things are different with small companies. Lacking there are resources to tackle IT projects concurrently with their daily business, which do not directly impact the core business. The benefits of a new technology standard are generally not immediately recognized. The return on the financial and time investments becomes visible only several months or years later and are broadly underappreciated.

Software determines the migration effort

The software used by customers quite essentially determines the required migration effort and thus related costs. The bandwidth stretches from highly complex ERP systems to cloud solutions, which are adapted by the provider without any involvement by the customer. A 10-year old application that performs well on an in-house server may under some circumstances no longer have a maintenance contract and thus is not subject to automatic updates.

This means that the company must update it themselves manually or turn to an external partner. Affected among this group at the BCV are also private individuals who have worked with us for years in a software solution developed by a well-known software provider under mandate, in which no automated customer updates are included. Once this is adapted, we must test all procedures for this customer.

Complete overhaul put to the test

As with any significant software adaptation, ISO 20022 also raises various issues: Is the existing hardware still contemporary or must it be replaced with more cost-effective equipment? Does the software used properly depict our current business process? Does it need adaptations or even an entirely new solution? All these questions are part of corporate reality and concretely influence the time required and the migration costs. Although they are not directly connected with harmonization, they do essentially impact the migration efforts of each individual bank.

What can we do?

We asked ourselves that question at BCV very early on, and correspondingly prepared and targeted our communications and consulting activities. In the process, we pursued the segmented approach mentioned above, sensitized customer advisors to the challenges and trained them for personal customer dialogues. In direct dialogue they address individual needs and evaluate potential problems. Quite important is the contact with the software provider; if he is no longer available to the customer, then we contact the specialists in question who can further advise them.

“Migration is not easy task, but one that is worthwhile for all market participants.”

Testing with sufficient preliminary time is at least equally as important. Particularly, large customers expect the bank to provide its own test platform with direct access and technically savvy support by payments specialists. We can sum it up as follows: the challenges for customers, software partners and banks are major. At the same time, opportunities will arise for all market participants, which is something we would like to emphasize here, because they tend to be overlooked in view of the Herculean task related to this migration.

Opportunities from the customers' perspective

The changeover to ISO 20022 has an impact on essential business processes. It simultaneously offers the possibility to update master data so that account numbers can be replaced by the IBAN or to review and simplify entire administration and accounting processes. Suppliers and salary data can be updated and supplemented with addresses. According to legal requirements, this data will in the near future need to be transmitted with every transaction. Furthermore, the opportunity can be grasped to automate rules for cash flow and accounting. These are all adaptations that increase operating efficiency; however, which may not have been taken on the client's initiative, because they are not urgent matters in terms of daily business. The changeover to ISO 20022 is just the first, essential step within the harmonization process. Further changes will follow with the launching of the QR-bill and the new eBill. It may be worthwhile for customers to discuss their software contract with their supplier and, if needed, to adapt and supplement it with a maintenance agreement.

Opportunities for software providers

Software providers are subject to increasingly shorter reaction times and must constantly adapt what they offer to meet technological development and regulatory requirements. SIX Interbank Clearing sets the technical specifications in close dialogue with the software providers and publishes implementation guidelines, which are adapted to the state of technology at reasonable intervals. For example, the software adaptations needed for the launching of the QR-bill have already been published. Our conversations with software providers show that these adaptations are viewed not only as an obligation, but also as a competitive opportunity. They offer the chance to score points with customer-friendly applications and thereby build up their own business.

Holistic point of view

ISO 20002 and other payments innovations have caused us to rethink things. The migration is not simply a change in format, but a paradigm shift that we have addressed with a holistic approach at BVC.

Among the measures taken are:

- Sensitizing our customer advisors about the customer's administrative and accounting tasks
- Setting up of an ad hoc organization with technical ability and support tasks

ANECDOTE: THE STANDARDS GURU ON OUR TEAM

At the BCV we are developing our information system inhouse, and for the "Migration of payment traffic/SIC⁴⁰⁰" were confronted with the task of implementing a new technical infrastructure. In the process, we essentially adapted our interface and payment traffic to meet the new requirements. One person on the project team specialized in adapting the business rules in line with the SIX guidelines. In a friendly, collegial manner, we call him the "standards guru". The following example illustrates that his job is not at all easy: We had to decide how to handle a missing notification code in the pain.001 message. Since in principle, the data transmitted by customers is not to be interpreted, our standards guru assumed that with the missing code, the customer would simply not be sent a debit notification. We validated this assumption with standard market software, which delivers the code along with the message. Shortly thereafter we were forced to change our supported assumption, because one of the first migration complaints received was that the debit notification was missing. Consultation with the software supplier showed that they assumed that, as a bank, we would implement this notification code. As a result, we informed all our customers that they should check whether this field is filled in. The example shows that adaptation problems can still arise even with sufficient technical competence. That is particularly why the exchange between the bank and software partner is so important for avoiding misunderstandings.

- Setting up of so-called super users with practical customer-oriented experience
- Making the harmonization of payment traffic a management matter to ensure the trans-departmental process on the strategic level.

Way to success

Meeting, training and learning by doing have shown us that the changeover to ISO 20022 can only function if the banks, software providers and customers work together hand in hand. In our every day work we are constantly learning, and in recent months, have intensified our efforts so that we can switch over all our customers by June 30, 2018. It is a challenge, but one which can be worthwhile, as mentioned, for all market participants, if tackled effectively.

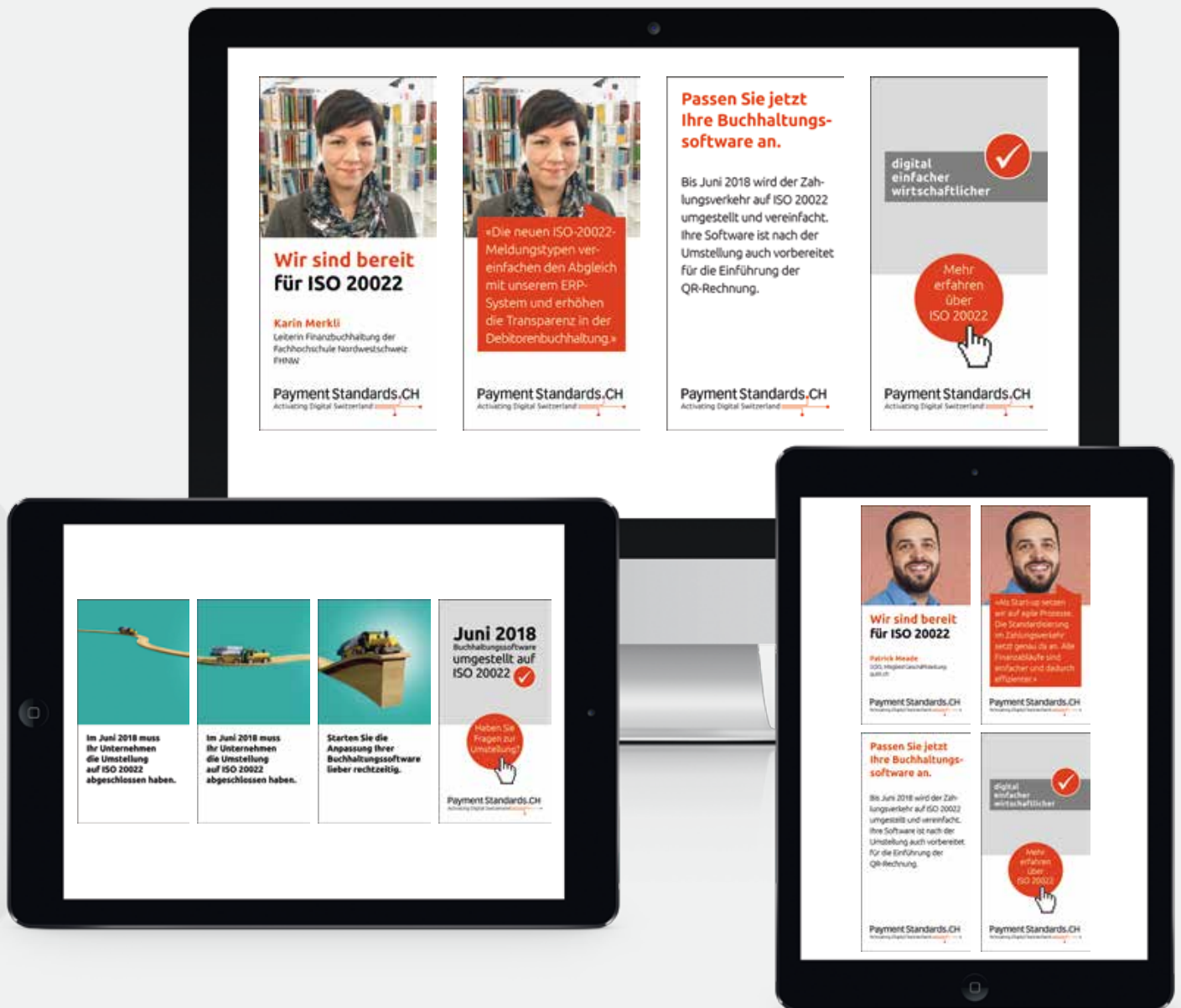
Jean-Jacques Maillard

Banque Cantonale Vaudoise

AWARENESS CAMPAIGN

Since last autumn, PaymentStandards.CH has activated banners on selected platforms throughout Switzerland and Liechtenstein, such as on NZZ, gewerbezeitung.ch and Newsnet, as well as on the leading social media channels.

The second phase followed in mid-January with the following new subjects:



Successfully launching the QR-bill – Quality comes first

Payment slips constitute a Swiss cultural asset and have been used successfully for more than 111 years. Federal, cantonal and municipal administrations, companies small and large, as well as the Swiss population use millions of payment slips each year. This means when replacing them, we must get it right.

The QR-bill, with its payment part, can transport significantly more information than is possible with the current payment slips. The resulting added value will be welcomed by everyone involved, so the launching of the QR-bill is eagerly anticipated.

The state of migration among corporate customers is crucial

However, in order for the introduction to be successful, several requirements must necessarily be met. One of these prerequisites is that all banks will have had to have converted their payment traffic to ISO 20022. At the end of last year, it was reported to the Board of Directors of SIX Interbank Clearing Ltd that all banks that are directly connected to the SIC system had completed their migration by the beginning of December 2017 according to plan.

“The QR-bill, with its payment part, can transport significantly more information than is possible with the current payment slips.”

The corporate customers' deadline for completing the migration is set for 30 June 2018. The work here, however, is significantly behind schedule. Some banks only put the issue on their customer communications agenda in October or November 2017. While there has been a sharp increase in migrated corporate customers since then, even if the banks consistently continue their efforts, it will be difficult to meet the targets for mid-2018. And yet, corporate customers in particular must adapt their payments activities to ISO 20022 in order for the QR-bill to be successfully introduced and for the full range of functions to be made available.

Planning security

To act in a responsible manner, and to provide planning security for customers, software partners and banks, the SIX Interbank Clearing Board of Directors and Committee have decided to undertake the following:

- Starting this year, the status of customer migration will be surveyed monthly among the largest banks and the others quarterly. Another market research study looking into the status of migration among customers will be conducted by gfs.bern in the second quarter.
- The decision regarding the introduction date of the QR-bill will be made in mid-2018 on the basis of this data. As opposed to ISO 20022, all customers are affected when it comes to migration to the QR-bill. To give customers, software partners and banks sufficient time to prepare for the QR-bill, the market launch will not occur before mid-2019.
- Against this backdrop, the providers of accounting software and ERP systems are requested to offer appropriate QR-bill solutions to their customers by the end of 2018 at the latest, so that software can be rolled out to customers by the market launch date.

Furthermore, an interbank working group headed by SIX Interbank Clearing is planning all aspects for the market launch among corporate customers, software partners and banks. The initial results are expected within this quarter.

Together with other financial center committees, it will ensure that all affected groups throughout Switzerland are informed both about the migration to ISO 20022 and the new QR-bill.

The SIX Interbank Clearing Board of Directors and Committee are certain that these measures will ensure a smooth introduction of the QR-bill, because when it comes to a Swiss cultural asset: quality comes first.

Thomas Reske

SIX Interbank Clearing

Robert Schneider AG
Rue du Lac 1268
2501 Biel

Tél. 032 123 45 67
E-mail r.schneider@schneider-garten.ch
Internet: www.schneider-garten.ch
Date: 01.10.2019

Ms.
Pia Rutschmann
Marktgasse 28
9400 Rorschach

Dear Ms. Rutschmann,

We are billing you as follows for completion of the assigned activities:

BILL NO. 3139

Item	Description	Amount	Individual price/CHF	Total/CHF
1	Garden work	32 hours	120.00	3,840.00
2	Disposal of cuttings	1	109.75	109.75
Bill amount (including VAT)				3,949.75

Thank you for the assignment
Please pay the bill amount within 30 days.

Yours sincerely,
Robert Schneider

QR-bill payment part

Supports
Credit transfer



Account
CH58 0079 1123 0008 8901 2

Creditor
Robert Schneider AG
Rue du Lac 1268
CH-2501 Biel

Additional information
Bill No. 3139 for garden work and disposal of cuttings.

Debtor
Pia Rutschmann
Marktgasse 28
CH-9400 Rorschach

Due date
31.10.2019

www.schneider-garten.ch

Currency Amount
CHF 3 949.75

The role of cash in the age of digitalization

Payment means are not being spared by the digitalization wave. New cashless payment methods are constantly entering the market, such as contactless debit and credit cards payments, or smartphone payments. And everyone is talking about cryptocurrencies these days. At the same time, the Swiss National Bank (SNB) began issuing a new banknote series in 2016. That inevitably raises the question: Why, in the age of digitalization, is the SNB still investing resources in new banknotes?

To understand what the SNB is doing, it is first worth taking a look at their legal mandate. According to the National Bank Law, the SNB must ensure that, on the one hand, the demand for cash money is met. And the other hand, it is also in charge of ensuring that cashless payment traffic functions smoothly. Both of these duties are equally important. It goes without saying that the SNB remains open towards technological developments. The fact that they are issuing new banknotes cannot be attributed to a deficient understanding of digitalization or lack of foresight. It is rather a matter of being convinced that cash has a future as a payment means, despite all the technological progress.


Why does cash have a future?

The circulation of notes and coins continues to grow in Switzerland as well as in other countries, despite the trend towards digitalization. What are the reasons for this? Why does cash remain popular for a wide variety of payment purposes, such as for paying invoices at the post office counter or for everyday shopping at retailers?

For one, many people simply use cash routinely out of habit or due to a lack of technical affinity. Cash can also enable more effective budget control than do cashless

payment methods, by providing a better overview of expenses and the remaining budget. There is also a psychological aspect of the use of cash money. It is visible and tangible, and thereby more powerfully associated with intrinsic value than are cashless payment means.

These reasons for the demand of cash are nevertheless not chiseled in stone. Peoples' preferences can change. The possibilities and acceptance of cashless payment means will tend to continue to grow as technology progresses and with generations changing. The past has shown that cashless payment means are mainly in competition with one another, and are not primarily replacing banknotes and coins. Will that also be the case in the future? Or to put it differently: Are there features offered by cash that cashless payment means cannot match and which make the complete disappearance of the demand for cash despite technological advances seem unlikely?

 Neither does the SNB plan to issue its own digital currency. There is no demand for it from the present perspective."

The answer to this, from the perspective of the SNB: Yes, because cashless payment means are an imperfect substitute for cash. This is indicated by two specific characteristics that cash offers.

First, its reliability: Can the payment means be used to pay at any time? Cash has the advantage here, because it is less dependent upon a functioning technical infrastructure. There is also no danger of erroneous bookings when cash is used to pay.

And second, data protection: Is the electronic payment and assets information protected from unauthorized viewing and misuse? Providers are constantly investing in the secu-

rity of cashless applications. As opposed to cashless payment means, data security is no issue with cash. Cash guarantees that the financial private sphere is protected. And the availability of cash makes it possible for people to decide for themselves just how secure they consider the various payment systems to be and what information they choose to provide to which player. In short: cash money offers attractive characteristics that will endure. It is therefore to be assumed that there will remain a demand for cash, and the SNB is striving to satisfy this within the scope of its legal mandate.

What does the SNB think of cryptocurrencies and perhaps its own digital currency?

According to its mandate, the SNB is also paying close attention to developments in the field of cashless payments. While privately issued cryptocurren-

cies are a big topic these days, they nevertheless occupy a niche. This is because they do not perform all the basic functions of money – they are not widely accepted as payment means and hardly serve as units of account. At present, cryptocurrencies are therefore primarily used as an investment option and less for payment purposes. In terms of the SNB's mandate – particularly pertaining to monetary policy and implementation thereof, payment transactions and financial stability – cryptocurrencies do not currently represent a problem due to their very limited use.

Neither does the SNB plan to issue its own digital currency. There is no demand for it from the present perspective. Cash and cashless payments in Switzerland, based on the existing payment methods and means, function smoothly and satisfy high require-

ments. Numerous questions remain about digital currencies, such as what undesired effects they might have on monetary policy and financial stability, apart from the impact on payments. In summary, there is a sustained, robust demand for cash in Switzerland.

The SNB anticipates that this will also be the case in the future and that cash will therefore remain significant for an efficient economy. We are striving to satisfy this demand with banknotes that are of the highest quality and have the best possible protection against counterfeiting. At the present time, we do not consider it appropriate to supplement the existing cash and cashless payment means with a new digital currency.

Dr. Fritz Zurbrügg

Deputy Chairman of the Governing Board of the Swiss National Bank



The threads of cash supply all come together at SNB headquarters in Bern.

SWIFT gpi – The new standard for cross-border payments



The tracking service in use

Banks all over the world are lining up in increasing numbers with the SWIFT global payments initiative innovation (gpi). It is making cross-border payments more transparent and traceable. With the payments tracker, new status messages inform the banks involved in real time about the booking status and any expense charges incurred. The banks are free to augment this service with their own supplemental services and to offer them to their customers. Already foreseeable is that gpi will succeed not only as a new payment traffic standard in the correspondence bank business, but could potentially revolutionize bank customer service in general.

Several banks with large transaction volumes began to exchange commercial gpi payments among themselves in selected pilot currencies and countries in 2017. There are 40 banks live today. Through multiple bank BICs and currencies, they generate a daily volume together exceeding 150,000 payments. More than 140 banks have since signed up to introduce the standard in the past year. This rapid growth should enable gpi to reach unparalleled market penetration by the end of 2018 and to cover approximately 75% of all international SWIFT payments in more than 200 countries.

Banks commit to adhere to a service rulebook that is regularly updated. For now, the requirements from an initial phase still apply. However, new gpi services for a second phase have already been approved, which will be mandatory for new participants starting with SWIFT Release 2018. At the same time, MT202, coverage payments (MT202 COV) and a "stop and recall service" will all go live, with which payments can be stopped and retracted.

SWIFT gpi introduces entirely new service models for bank customers

After corporate customers vehemently demanded improvements from their banks, it is not yet entirely clear how they will profit from gpi payments. The rulebook was set by the banks themselves and primarily regulates the rights and obligations of the banks among themselves regarding

the routing of customer payments. This primarily simplifies procedures in the correspondence bank business, while among corporate customers, a consolidated opinion has yet to arise as to how and in what form the gpi information will benefit them. Concrete issues remain, including how they will receive and process cash management messages in XML and integrate them into their accounts receivable and accounts payable accounting.

Against this backdrop, SWIFT gpi is a small building block that provides an impulse. Payments can be marked and identified end-to-end by the bank on through to the accounting software at corporate customers. The customer can investigate payments as a matter of course, without having to contact their bank in the usual manner.

Hence, it is up to the company to work with their software partners to determine how great the demand for gpi services to the banks will be.

SWIFT gpi payments are not only interesting for corporate customers. Access to a payment tracking service might also be attractive to private customers, such as they are familiar with for package delivery services, but for payments.

SWIFT gpi offers the chance to provide customers not only with a new tool, but to actively integrate it into the information flow of incoming and outgoing payments. In the future, for example, a bank would be able to proactively inform customers about transactions a day earlier (before the credit is booked). This could lead to the arising of entirely new service models.

Strategic importance for payment traffic

It is anticipated that the newly gained transparency for international payments will have an impact on all types of payments. Customers will probably also demand trackability and a credit advice for domestic and SEPA payments. For example, the credit advice will become a prime driver for SEPA Instant Payments (see the March issue of clearit), perhaps even more powerfully than the need for the fastest possible payment. SWIFT gpi can thus become a trailblazer for other important payments initiatives.

The algorithm for issuing the new gpi reference (UETR – Unique end-to-end transaction reference), on which all services are based, can also be made available to companies. This would give companies the ability to establish a central control code. They can use the UETR code for purposes beyond payment processing to trigger diverse logics and controls in their accounting system.

The impact of gpi reaches as far as the SIC system

With SWIFT Release 2018, all Swiss banks with SWIFT access must fundamentally be able to receive and route gpi payments, even if they are not an official gpi bank. This ensures that it will be possible to process payments end to end, at least in the SWIFT environment. Since each payment has a sender and recipient in a local clearing

SWIFT RELEASE 2018 FORMS THE BASIS FOR GROUNDBREAKING NEW POSSIBILITIES

The financial industry is now slowly beginning to realize the opportunities offered by SWIFT gpi. Based on MT103 and MT202 transactions, many business fields can now be developed in a whole new quality, such as:

- Nostro account reconciliation
- Real-time liquidity management
- Counterparty management

This will be possible through the central, cloud-based storage and preparation of the transaction data, which can be read and sent from the sender to the recipient.

It can be said with some certainty that gpi transactions will also impact interbank business practices. The newly gained transparency will probably lead to a renewed focus on current fees practice, especially for BEN/SHA as well as for foreign exchange rate.

market, it is crucially important that gpi payments from the SWIFT world can be transmitted in the national clearing markets, both in technical and organizational terms. SIC plays an important role here globally, and has enabled the routing of gpi information since SIC Platform Release 2017. Use thereof is currently reserved solely by gpi participants. With SIC Platform Release 2018, all participants are required to be able to receive gpi payments in the ISO 20022 standard. Routing of the UETR from a SWIFT message to the SIC system is optional.

To facilitate access to gpi for smaller banks, SWIFT is considering offering a so-called "SWIFT gpi light" service. This would give Swiss banks a unique opportunity to also be able to independently track purely domestic payments. Remaining to be clarified is whether data storage and usage will take place in a company's own, local database or if it is to be implemented by SWIFT.

The potential benefits for banks and their customers are so promising, particularly in combination with digitalization leading to the development of untold potential applications, that they could very well revolutionize bank customer services entirely.

Natalia Blatter

UBS Switzerland

Herwig Ganz

Credit Suisse (Switzerland)

DEEP DIVES:



More about the customers' ISO migration in the September 2017 edition



More about circulation of banknotes in Switzerland in the July 2007 edition



More about the QR-bill in the Juni 2017 edition