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The Clock Is Ticking!

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about the switchover
to QR-bill

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COUNCIL

Samuel Ackermann, PostFinance; Daniel Berger, SIX; Boris Brunner (Head), SIX; Susanne Eis, SECB; Pierre-Michel Gicot, BCV; Susanne Höhener, Liechtensteinischer Bankenverband; Daniela Hux-Brauss, Credit Suisse AG; Gabriel Juri, SIX; Raphael Reinke, SNB; Thomas Reske, SIX; Peter Ruoss, UBS Switzerland AG

EDITORIAL TEAM

Gabriel Juri, SIX

TRANSLATION

English: Translation Service Team, SIX
French: Denis Fournier

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FRONT PAGE

Origami artist Sipho Mabona developing an alternative use of payment slips

Dear Readers

The latest generation of the Swiss Interbank Clearing (SIC) system went live a while ago and is running stably. Last year the system was up and available a record 100% of the time. The system requirements to accommodate the new QR-bill have been built into SIC. Is a rest period now in the cards?

Hardly! Payment transactions are the pulsating heart of economic life – nothing runs without them. And payment transactions are continually shaped by innovative macroeconomic and technological advancements. This means that SIC, too, is constantly confronted with having to meet ever-changing needs.

Innovations like the QR-bill render previous payment solutions obsolete. The old payment slips will disappear in fall 2022. A productive payment transactions system cannot be a refuge for the protection of historical monuments. It would be too expensive to operate old and new modes of payment in parallel forever. To rid the associated software of the clutter left over from earlier solutions, that “junk” has to be removed from the software. This will keep SIC and banks busy.

In many countries, instant payment (IP) systems are on the agenda or have already been implemented. And in Switzerland? SIC has been a real-time gross settlement system since its inception, and isn't “real time” really just a synonym for “instant”? Swiss banks have been using this real-time system to settle commercial and private payment transactions for decades now. What need is there, then, for instant payments?

The recently published study on global payment trends titled “Flavors of Fast 2020 – The global real-time payment trends transforming money movement” doesn't provide much of an answer. We in Switzerland, of course, already settle all payments in real time and are thus way out in front of this “new” trend. In the UK, instant payments are processed via the country's Faster Payments Service. In the transition away from an antiquated, slow batch-oriented payment system, the term “faster” may indeed clarify matters. British banks switched from a batch system to a real-time system, which Switzerland did decades ago.

So, is Switzerland even affected at all by the trend toward instant payments? To truly be capable of settling payments instantly 24/7, extending the SIC system's operating hours to the weekend should suffice – SIC has already been operating at night since its inception. Moreover, a solution for settling payments during the (brief) end-of-day processing window would have to be found.



That way, purchases on the Internet could also be settled instantly, satisfying customers' wishes in this regard.

To clear up the terminology confusion, the word “instant” in instant (or faster) payments is merely a sideshow – a prerequisite, so to speak, to being able to render the promised service. But instant payments are about much more than that. The payee shouldn't just instantly receive the payment initiated by the payer; at the same time, the payer should receive confirmation that the executed payment has been credited to the payee's account specified in the payment order. Instant payments thus mean, on the one hand, an extension of real-time processing end-to-end (and not just between SIC participants). On the other hand, instant payments are also about confirming to the payer that the payment has actually been credited to the payee's account and isn't stuck in processing somewhere at the payee's bank.

With their service offerings, instant payments open up a new dimension for customers that doesn't exist yet in Switzerland. This dimension is needed to keep payment transactions from becoming a hindrance in digital business dealings. This therefore makes the subject of instant payments pertinent also for Switzerland and SIC.

A handwritten signature in black ink, appearing to read 'F. Klein'.

Itzi Klein

Former managing director at Credit Suisse in charge of settlement systems and global operational banking, and former chairman of CLS Bank

Patrick Graf,
PostFinance



Switchover to QR-bill: The Clock Is Ticking!

“Explain, inform, and assist” is the motto by which Patrick Graf intends to facilitate the switchover to the QR-bill by hundreds of thousands of invoice issuers by 30 September 2022. The deadline for switching from today’s payment slips to the QR-bill is an ambitious one for the Chairman of SIX Interbank Clearing and the Head of Corporates at PostFinance, but in conversation he expresses an ironclad conviction that the transition will succeed.

Shortly before Christmas, an old green payment slip from 1965 was sold on a trading site for seven francs. How likely do you think it is that today’s payment slips will someday have a collector’s value?

Even though people collect everything imaginable, at an annual print run of several hundred million, I don’t believe that payment slips will have a collector’s value, though I can’t rule it out. After all, there was the case of the USD 9 billion check written to bail out US investment bank Morgan Stanley in 2008. That check surely has a collector’s value. Perhaps there is also a famous payment slip of that stature.

Are you glad or wistful that the near-116-year history of payments slips will end in 2022?

Their history isn’t over because payment slips continue to exist with the QR-bill. And the development continues – future payment traffic will make things much easier, faster, more reliable, and safer for users. And even more importantly, we are looking into the future, where so many changes are underway right now. That’s more exciting than regretfully looking back on the past 116 years. It’s undeniable that payment slips are a valuable asset and provide many advantages, but those benefits will endure with QR-bills.

Payment slips are occasionally referred to as a Swiss cultural asset. Will QR-bills inherit this cultural value?

We don't peer that far into the future (*Graf laughs*).

Then perhaps into the nearer future: What will payment transactions look like ten years from now?

Payment transactions will become more digital and, more importantly, they will run in the background. I am confident that we'll be seeing many more embedded payments. We'll become much less aware of the actual payment in a purchase transaction because it will be executed automatically in the background. In addition, transparency will increase. This means that the payer will be able to see everything related to his or her spending at a quick glance. This transparency is an essential prerequisite to public acceptance of embedded payments. Without it, I as a payer wouldn't dare to let my payments be executed automatically in the background. Embedded payments, for example, will render the payment process at gas stations obsolete. In the future, I will simply fill my car's tank and drive off. I can then track the payment on my smartphone display.

Such solutions are already in use in other countries. You drive your car into the parking garage of a mall in Budapest and exit it after doing your shopping – all without a physical ticket. The payment settlement shows up on your bank's smartphone app.

Such approaches are also being studied in Switzerland, but they're still in the experimental stage. But we, too, will see a similar evolution.

Coming back to payment slips, you mentioned a moment ago that their history won't be entirely over in 2022. The chapter about the ISR reference, which was introduced exactly 50 years ago by PostFinance predecessor PTT and is today called the QR reference, also remains open. For how long still?

A change is unlikely in the next couple of years. This reference is hard-wired into invoice issuers' invoicing, payment, and accounting software. On the other hand, I can well imagine us perhaps replacing it by introducing instant payments.

Patrick Graf, PostFinance



Continuity is evident in other ways as well. QR-bills, for example, feature the same format as payment slips. They, too, are perforated and have a payment part and a receipt. Many market participants consider the switch to QR-bills a timid move. How do you see it?

The QR-bill is an outstanding product that covers all of the key needs. It isn't a meek solution, in my opinion. On the contrary, QR-bills are ideal for the payment transactions of today and tomorrow. They have many digital possibilities and can be used in the traditional manner. The QR-bill is a universal solution. And, most importantly, we're taking everyone along with us on this journey. That's a very crucial point.

 **The QR-bill is a universal solution."**

Payment slips and QR-bills have been coexisting in parallel for a good half-year now. What prompted PostFinance to announce the discontinuation date for today's payment slips after so short a time?

QR-bills have been well received by the market. A couple million of them have already been processed without any hitches. You could say that QR-bills have passed the field test with flying colors. That's what's most important to us. We needed the certitude that mass processing of QR-bills works. With the addition of QR-bills, a total of eight different slips are currently in circulation during the phase of parallel use. We want to keep this phase as short as possible for the sake of efficiency. We had always said that in the runup to the rollout of QR-bills. And we mustn't underestimate the regulatory pressure. We have a rigid deadline to meet at the end of 2022 for payment transactions with Liechtenstein. From that time forward, we may no longer remit any IS/ISR payments to the Principality. Let's also not forget that in connection with the Anti-Money Laundering Ordinance, FINMA granted us a derogation with regard to payer data. Moreover, ISR has a discontinuation date in Switzerland too. QR-bills make it possible to transmit not just data on the payment recipient, but also data on the payer.

The timetable for getting hundreds of thousands of invoice issuers to switch to QR-bills by autumn 2022 seems ambitious. How do you envision this working?

The pace is indeed fast, but doable. PostFinance, together with the Swiss financial industry, is working to ensure a smooth switchover process. It's important for everyone to act in concert to adequately inform and

ADVANTAGES OF INVOICING WITH QR-BILL AND eBill:

- Greater administrative efficiency because the invoicing and payment transaction process is automated.
- Simplified payment settlement because less manual work is required.
- Fewer errors because all payment information is transmitted electronically.
- Reduced workload because there is no need to order pre-printed payment slips.
- Less or no paper consumption.
- Companies can choose between QR-bill and eBill or can combine the two solutions depending on their needs and those of their customers.

repeatedly remind invoice issuers about the necessary steps. An example from the past makes me very confident in this regard. In the 1980s, we introduced payment slips with code lines within a span of two years. The switchover at that time was more difficult than it is today because each slip had to be printed in accordance with standard specifications. All banks are determined to provide invoice issuers and software partners with good guidance and support.

So, you're really sounding the bell for the homestretch sprint. Who will benefit the most afterwards from the new system?

That's a hard question to answer. The entire economy will benefit. For one thing, vast amounts of data can be processed by using QR-bills to advance digitalization. One good side effect is that we will also become more sustainable through digitalization because we will use less paper and will have less need for cash transports because fewer cash payments will be made. We are removing unnecessary processes from the system, but as I said before, we are making sure to get everyone on board.

Banks also have to be prepared for the final sprint. Where do you see the biggest challenges?

We have to put customers at the core of our efforts by actively getting them on board for this journey. Standing payment orders are the area where I see the greatest need for action at the moment. We have to gain customers' understanding to motivate them to help us, which we can only do if they are knowledgeable of the benefits of switching to QR-bills. Explaining, informing, and assisting – that will be the big trick.

“

*QR-bills
have passed
the field test
with flying
colors.*

”

Patrick Graf

“It goes without saying that eBill is the crucial step toward the complete digitalization of the billing process.”

What specifically will happen on 1 October 2022 if someone shows up with an old payment slip to make a payment on an installment bill?

The staff at the counter will politely point out that the payment slip has an outdated format and can no longer be processed. But I do not believe that a large-scale invoice issuer will be incapable of switching to QR-bills on 30 September 2022. It's important that we punctually inform invoice issuers of the challenges presented by installment payments. We have to get a good grip on that so that invoice issuers can get their customers prepared for the format change. If we were to start to tinker with workarounds, it would get insanely difficult. That's dangerous terrain that the financial industry should avoid.



How set in stone is the 30 September 2022 deadline?

That date was set because regulators pushed for it. In all sincerity, I don't believe that FINMA would stand by for long if we postponed the deadline. What's important to me is that this is about modernizing the Swiss payment traffic. It takes some courage to let go of the old and to give the new, simpler world of payment transactions a chance to prove itself. But it's what we in the financial industry – we as banks – want. I'm firmly convinced that we will succeed in this.

What role will eBill play in this new world of payment transactions?

It goes without saying that eBill is the crucial step toward the complete digitalization of the billing process, and eBill has advantages over PDF invoices, particularly with regard to the invoice recipient's security and willingness to pay. If PDF invoices are sent to me by e-mail, I run the risk of them landing in my spam folder, for example.



Moreover, there's a danger of me receiving fraudulent phishing invoices, which can cause a general sense of uncertainty. I find that problematic. eBill is really an ideal product in this regard because I receive them where I pay them – on my e-banking portal.

Some financial institutions have stopped providing payment slips to their customers since the introduction of QR-bills. Others wanted to wait for the official discontinuation just announced in January. How soon should those banks phase out IS/ISR and BISR?

I don't think it makes sense now to wait any longer. The fewer payment slips there are in circulation, the faster the switchover to QR-bills. But I can definitely picture a staggered migration process.

Interview:
Gabriel Juri
SIX

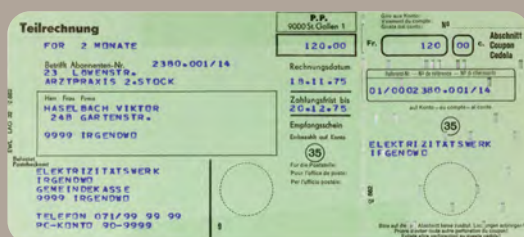
The Payment Slip – Looking Back at an Era

For over 100 years, Swiss Post has shaped Swiss payment transactions with the payment slip. Millions of Swiss people over many generations made a habit of settling their invoices this way. eBill and QR-bill will send the Swiss payment slip into retirement on 30 September 2022.

Here's an overview of the various historical versions.

The green payment slip (1906 to 1986)

In the *payment slip scheme (ESV)* with its green form, the payment slip served as a receipt for cash payments. The left section was the receipt for the person making the payment, the middle section remained with Swiss Post's check service, while the right section was cut off and delivered to the creditor. The perforation was used for visual inspection. Remittance information could be added to the reverse of the right section.

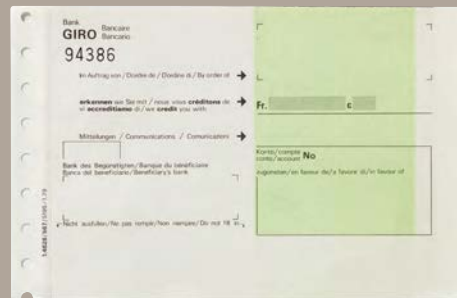


The payment card (1955 to 1988)

In the 1950s, Swiss Post introduced the *payment card scheme (EKV)* as the first system offering machine processing in the form of a green perforated card. The left section here served as the receipt for the person making the payment while the right section was processed in Swiss Post's central data center. The creditor received the payment data (amount and reference number) on a data carrier.

Participating banks' giro slip (ca. 1970 to 1986)

The giro slip was an attempt by participating banks to compete with Swiss Post's green payment slip. Payments using it were processed via bank clearing. For payments to Swiss Post, the green section was cut out and sent to Swiss Post for the creditor. The service was suspended following the introduction of the new green payment slip issued jointly by participating banks and Swiss Post.

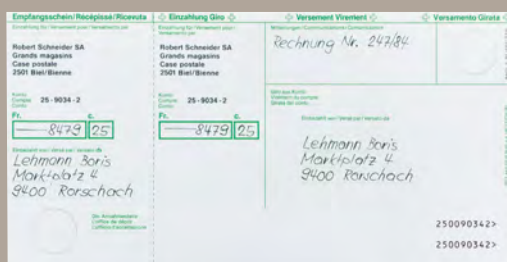


The blue payment slip with reference number (ISR) (1974 to 2001)

The deposit form with reference number procedure (VESR) is the modern version of the EKV. The optically machine-readable voucher (ISR) consists of a receipt and a payment slip (which is also a giro voucher) with a code line. The creditor only receives a data carrier with the reference data. The blue slip is replaced by the current orange payment slip in 2001.

The orange payment slip with reference number (ISR) (since 2001)

Swiss Post's ISR proves to be a resounding success because it allows companies a high level of automation in processing their accounts receivable payments. This prompts participating banks to use this new voucher themselves and to make it available to customers as a bank payment slip with reference number (ISR bank).



The green payment slip (1986 to 1998)

The green payment slip designed jointly by Swiss Post and participating banks replaces Swiss Post's first green slip and the participating banks' giro slip. Optically machine-readable, it allows payments to be credited to a Swiss Post account or directly to a bank account. The message area is now placed on the front because of microfilming. This has been in use as the red payment slip since 1998.

The red payment slip (since 1998)

The use of scanners and the use of blind color associated with this (not captured when slips are scanned) lead to the red slip replacing the green payment slip in 1998.



2021 Is the Year of eBill for Companies

eBill aspires to be the digital invoice for Switzerland. Having now been adopted by over two million private individuals, eBill is also expected to make ground in the corporate segment this year.

Recent months have shown how important it is, as companies, to be able to function digitally in distributed structures. An efficient debt collection system with reliable cash flows is very important especially in more economically challenging times.

This is precisely why SIX and the Swiss financial center will start to replace the current payment slips with the modern QR-bill and eBill solutions by 30 September 2022 at the latest. While the QR-bill is mainly meant to be a replacement for conventional payment slips, eBill represents the future of fully digitalized invoicing in Switzerland.

eBill – a Major Success Story

With over two million users, eBill has now reached more than half of all Swiss households and is indispensable to the payment transfer landscape and the range of services of many invoice issuers. Every month, companies send millions of eBill invoices, which their customers are most reliable in paying: over 95% of invoices are settled before their due date. In comparison with paper invoices or e-mail invoices, this signifies that they are 10% to 20% more likely to pay their invoices.







Companies as Invoice Issuers

Just under 4,000 companies already bank on eBill for their invoicing – and the trend is sharply upwards. A wide range of SIX partners offer eBill in the corporate market, meaning that there is a suitable solution for sending eBill invoices for all companies – from SMEs to large corporations. eBill partners in particular will deliver a vast array of innovations in 2021, which will make eBill even more attractive as a means of invoicing. For example, thanks to the look-up function, companies will be able to find their customers via e-mail address or UID (corporate identification number) and automatically convert them to eBill. Or they incorporate eBill in their sales and online check-out processes directly, in online sales channels or also via customer portals, for example. And switching is always child's play for customers.

Companies as Invoice Recipients

While the first phase focused on ensuring eBill achieved widespread coverage of private invoice recipients, the focus is now increasingly switching towards companies (see figure 1). The aim here is to establish eBill fully as a future-oriented channel for receiving “simple” invoices. In this connection, “simple” means that the invoices include small amounts of data relating to order items.

eBill invoice receipt target groups

	 	 	 
Customer segment	Private individual	Companies without business software	Companies with business software
Receipt channel	Process eBill in online & mobile banking	Process eBill with eBill for Business in online banking	Process eBill in business software
Availability	Available at around 100 financial institutions	Available at multiple financial institutions operating nationally – additional financial institutions being rolled out	Being planned, intended availability 2022

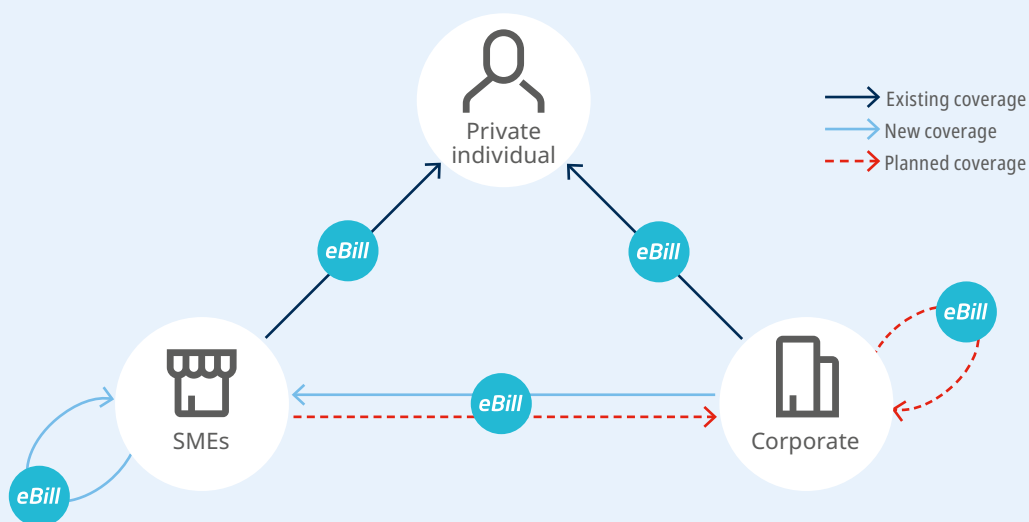
SIX is banking on a two-stage approach here:

- In a first phase, it will concentrate on SMEs that wish to receive and pay their invoices via online or mobile banking. Over 15,000 companies already benefit from this service offered by individual participating banks. Since more and more financial institutions will

be launching it on the market in the course of this year, the solution is likely to be widely available shortly.

- In a second phase, the service will be extended to companies that wish to receive and process eBill invoices directly in their business software.

eBill coverage according to target group



Introduce eBill Combined With the QR-bill

To live up to the aspiration of eBill, the digital invoice for Switzerland needs to penetrate all relevant segments, including the corporate sector. The planned extensions towards integration within business software will simplify digitalization of their invoice receipt for companies. 2021 is the right year not just to switch to the QR-bill but also to introduce eBill at the same time. Incidentally, the QR-bill can be combined with eBill. Using the invoice recipient's e-mail address on the QR-bill, it can be converted automatically into an eBill invoice, which is all

the more reason to offer both eBill and the QR-bill in the future as part of the switch.

Daniel Berger
SIX



Further details: Providers of eBill:
Issue invoices Securely, Receive Money Punctually

Switching to eBill:

Digital Invoicing Using the Example of SBB

Approximately 200,000 public transport customers of the Swiss Federal Railways (SBB) already use the eBill option to settle their travelcard invoices. The benefits at a glance.

Paper Invoice or eBill?

SBB sends out 4.4 million invoices to GA Travelcard and Half Fare Travelcard customers every year on behalf of the public transport sector. These travelcards have been renewed automatically since the SwissPass was introduced in 2015. Customers benefit continually from the services offered by their travelcards and from numerous SwissPass partner services. They can see their invoices and manage them in their customer account at [swisspass.ch](https://www.swisspass.ch). 85% of the 3.2 million travelcard customers will still continue to receive their invoices by mail. However, approximately 6% already pay their invoices via eBill. The remaining 9% receive their invoices via e-mail.



The Benefits for SBB

Savings: SBB saves approximately 30 centimes per eBill invoice compared with a paper invoice. There are also fewer corrections and manual processes in Support since all the information needed for payment is already available thanks to eBill. The data also show that customers pay their invoices more promptly with eBill; the company saves on having to send reminders.

Sustainability: eBill helps protect the environment. With over 4.4 million invoices consisting of three sheets on average and envelopes, the consumption of paper is massively reduced through e-billing. Invoices do not have to be sent by mail either.



The Benefits for Customers

Pay invoices quickly and conveniently:

Travelcard invoices are sent direct to customers' personal e-banking accounts and can be approved with only two clicks. This saves customers having to go to the post office or the tedious scanning of invoices and typing out long reference numbers.

Security: eBill protects customers from phishing and spam.

Sustainability: Thanks to digital invoice dispatch, consumption of paper is significantly reduced; transport by mail is unnecessary. Customers make a vital contribution to preserving natural resources and feel good that, thanks to eBill, they are doing their bit to preventing damage to the environment.

Max Mustermann, 123-006-417-1
1109300641

 **SBB CFF FFS**



Guten Tag Herr Mustermann

Empfangen Sie Ihre Rechnungen in Zukunft direkt in Ihrem E-Banking, und genießen Sie folgende Vorteile:

 <p>Einfach Sie empfangen Ihre Rechnung elektronisch in Ihrem E-Banking.</p>	 <p>Schnell Sie prüfen die Rechnung und geben sie mit nur zwei Klicks frei, passen das Ausführungsdatum an oder lehnen, falls etwas nicht stimmt, die Zahlung ab.</p>	 <p>Sicher Sie erhalten die Rechnung direkt und ohne Umwege in Ihr E-Banking und sind somit geschützt vor Spam und Phishing.</p>	 <p>Umweltfreundlich Dank eBill verursachen Sie weniger Abfall, weniger Transporte und somit auch einen geringeren CO₂-Ausstoss.</p>
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Herr Mustermann, steigen Sie jetzt um. Loggen Sie sich dazu ganz einfach in Ihr E-Banking ein und aktivieren Sie eBill für die Abo-Rechnungen der SBB. Eine detaillierte Anleitung dazu finden Sie auf [swisspass.ch/bezahlung](https://www.swisspass.ch/bezahlung).

[swisspass.ch/
bezahlung](https://www.swisspass.ch/bezahlung)

eBill teaser above the payment slip on the print invoice – prominently placed.

More and More Season Ticket Customers Are Using eBill

In 2020, the eBill ratio increased from 3.3% on average to 7.3% among GA Travelcard customers and 5.8% among Half Fare Travelcard customers – and these numbers continue to increase. The public sector therefore doubled the proportion of eBill invoices in its invoice dispatch within a year.

A/B testing results eBill online mailing:

	Convenience	Sustainability
Opening rate	45.6 %	47.4 %
CTOR (Click-to-open rate)	8.5 %	16.4 %
Response	3.9 %	3.9 %

Percentage of customers based on all e-mail recipients minus the bounce rate.

Convenience testing online mailing.

Sustainability testing online mailing.

These four measures were crucial here:

1. Multi-stage online mailing program (initial mail, reminder, thank you mail) with A/B test to find out which argument (convenience of sustainability) is more persuasive for customers. The click rate for e-mails focused on sustainability was twice as high as the e-mails emphasizing convenience. In terms of conversion, both e-mails were equally successful.
2. Building on the findings of the A/B testing, a trigger-based online campaign is ongoing. Customers receive an e-mail six weeks before a print invoice is dispatched, which tells them about the option of using of eBill. Because the campaign has only been running for a short time, there are still no meaningful figures about this measure.
3. eBill teaser above the payment slip on the print invoice – prominently placed.
4. Training sales personnel and detailed Q&A. The people who are in direct contact with customers will only be able to convince customers of the benefits when dealing with them personally if they have a thorough understanding of the topic.

Mélanie Muggli and Astrid Strømnes
SBB Ltd

The Shopping Experience of Tomorrow

Digitalization continues to gather pace in the retail sector, particularly since the outbreak of COVID-19. At the same time, more and more online retailers are opening physical stores. Is offline the new online? What will shopping look like in 2030? The SIX white paper, "Future of Brick-and-Mortar Commerce", identifies the key characteristics that will define customer journeys around retail in the future and, as a result, future business opportunities that may arise for retail banks in this context.

The latest white paper of SIX presents two scenarios for the future. According to the more likely scenario, e-commerce business will continue to grow and constitute around 40% of global retail sales in 2030, but brick-and-mortar commerce will remain. However, its form will change. Stores will survive especially if they offer unforgettable, innovative, exclusive and personally emotional experiences in the context of shoppertainment. The second, less likely, scenario is based on the assumption that sustainability will become increasingly important in the consumer sector and that the majority of customers in developed countries will therefore be influenced by the sustainability of their consumption when making all purchasing choices.

Either way, the future will bring a degree of digitalization, personalization and convenience to brick-and-mortar commerce that goes far beyond what we know today. Previously unknown players will increase competition in products and services and oftentimes raise the bar in terms of innovation, user experience and fees. However, the physical point of sale will also offer new business opportunities to established retail banks.



Digital Purchase Receipts and Rating

In the context of a smooth shopping experience, seamless registration and payment of the articles will play a central role. This will be an opportunity for the banks to support retail with broadly accepted self-scanning and self-checkout solutions. It will also be possible for the purchase receipts to be issued digitally. They will consist of consumer data at the product level and could at the same time help assess the creditworthiness of buyers and sellers (rating).

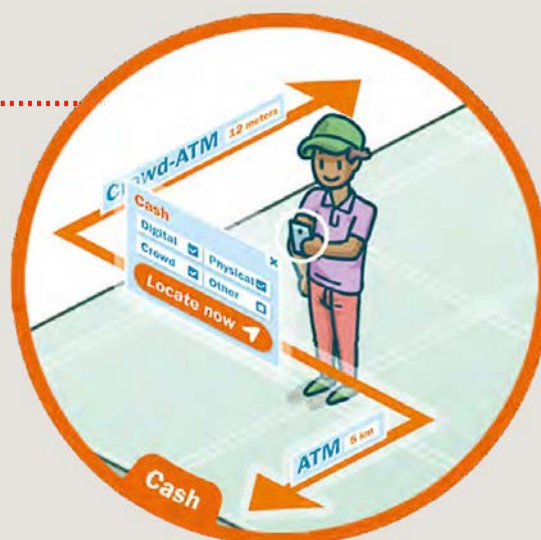


Super Apps

Super apps will allow you to organize almost the entire day far beyond what we know today with pure payment apps. For example, customers will be able to personalize a product digitally through their smartphone and then pick it up at a store. In addition, super apps will make it possible to book a table at a restaurant, view the menu via the QR code on a smartphone and order directly online. Billing and payment will be automatically carried out on a smartphone. This multifunctional everyday management targeted entirely on customer journeys will bring benefit not only to users and providers, but also to retail banks as operators.

User-Centered Cash Economy

By centralizing the operation of the Swiss ATM network, it will be possible to reduce the number of ATMs by 30–40% without any loss of service. Another option to reduce costs would be to integrate consumers into the ATM infrastructure, based on the wide distribution of digital devices and the ubiquitous connectivity of providers and users (crowd-augmented cash infrastructure). This would allow a further reduction in the number of ATMs without major supply bottlenecks.



Sustainability Information

Sustainability in the financial sector is now mainly related to sustainable investments. However, there are some opportunities for the banks also in the consumer sector. In this way, they could easily use the sustainability data they already store for their investors to provide consumers with additional information on products and services in the purchasing process.

As a busy handling facility, brick-and-mortar commerce will thus give retail banks the opportunity to expand their traditional product and service offering and maintain their customer interface(s) as a result. This could also give them a decisive edge in selling other higher-margin products.

Alexander Verbeck and Daniel Steingruber
SIX



Further details:
White Paper

EU Strategy for Retail Payments

The European market for mass payment transactions is extremely fragmented. Therefore, the European Commission has drafted a retail payments strategy (RPS) which was published last September. What does it mean for Switzerland and Liechtenstein?

In 2019, over 48% of cashless transactions in the EU were processed with credit or debit cards. This number is likely to have significantly increased last year due to COVID-19. It may be seen that the European payment solutions with schemes such as Girocard/Giropay (DE), Card Bancaire (FR) or Ideal (NL) will remain extremely fragmented. Such developments in payments at the cash register or in e-commerce may bring disproportionate profit to the global American players such as Mastercard and Visa.

EU Promotes Competition

As a result, with its strategy paper, the EU Commission wants to strengthen competition, not only with a European scheme for contactless payments by card or mobile phone. Pan-European payment initiatives are also to be incentivized by adjusted regulations ensuring cross-border interoperability, promoting standardization and facilitating low-threshold and above all non-discriminatory access to existing customer interfaces.

Moreover, the Commission wants to simplify payments outside the SEPA and promote pan-European real-time payment solutions.

Instant Payment as a Core Element

Processing of instant payments (by definition in less than 10 seconds, normally much faster) is stated to be one of the most important technical foundations for developing innovative and efficient payment solutions. The corresponding scheme has been active since 2017, but the Instant Payment Standard (SCT Inst) is not yet sufficiently widespread. As of January 2021, only 57% of all European banks are offering such payments. The effective share of credit transfers in real time stood at nearly 8% in the fourth quarter of 2020 and has increased almost a hundredfold in less than three years. Moreover, some participating banks require additional fees from their customers. It can therefore be assumed that after the end of 2021 deadline, the Commission will require mandatory participation for banks and that these payments are made available to customers at the same cost as today's transfers. This will result in many banks, the systems of which are based on legacy technology and batch processing, to invest massively in order to ensure the necessary 24-hour availability. SCT Inst should be completed with a pan-European standardized QR code and the currently defined SEPA Request-to-Pay (RTP) (see p. 22).

Figure 1: Example of a classic card payment process as opposed to real-time transfers

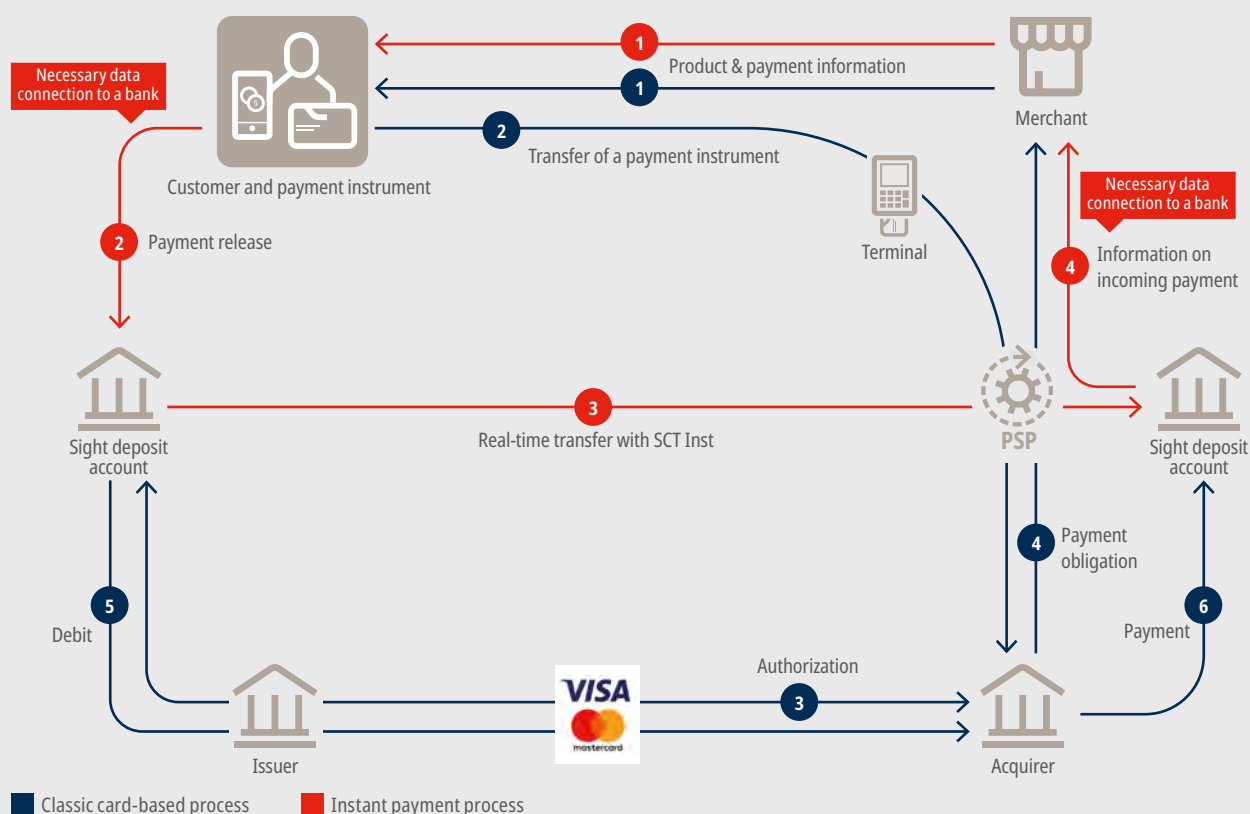


Figure 2: Potential implications of instant payment on the players

		Players			
		Validation measures	Banks	Trading	Payment services
Dimension	Technology	Verification of availability/scalability	✓	✓	✓
		Analysis/Adjustment of customer interfaces		✓	✓
		Adjustment of account access interfaces, KYC/ authentication procedure	✓		✓
		Verification of connection to the clearing and settlement mechanisms of payment traffic			✓
		Identification of technology partners for integration		✓	
		Verification of RTP and SEPA Proxy Lookup schemes	✓	✓	✓
	Business processes	Identification and replacement of manual and batch processes	✓	✓	✓
		Analysis of impact on the merchandise management and treasury processes		✓	
		Analysis of impact on the cash and process flow			✓
	Products	Development of innovative independent and integrated payment solutions	✓		✓
		Derivations of B2B2C products	✓		
		Extension of current loyalty solutions and customer interfaces		✓	
Recommended actions		<ul style="list-style-type: none">• Support of SCT Inst Scheme (active and passive)• Carrying out releases, maintenance, real-time monitoring and support in 24/7 operation (banks)• Use of real-time payments in acceptance and payment (payment institutions)• Integration of digital real-time solutions in all business processes relevant to customers			

Disruptive Scenario

This strategy of the EU Commission goes beyond the former approaches. If implemented systematically, instant payments may become the drivers of fully digital and automated business processes at customers, banks and in commerce and affect the current, well-established settlement structures disruptively. For example, customers could access their bank accounts in a secure and convenient way with various payment instruments to release real-time transfers at POS or in the online check-out (see Figure 1). The transfers could be credited and assigned directly in the merchant's system. Transactions could thus be processed within seconds with totally different providers and, if necessary, without the established card organizations and enhanced by various additional services.

“To strengthen the euro as a currency and Europe as an economy, payments transferred to areas with other currencies should be faster, cheaper and easier.”

Of course, this scenario cannot be guaranteed. In fact, the implementation can in turn make massive investments in infrastructures necessary. However, use cases may remain limited, as existing solutions will cover a wide range of customer needs in the meantime, and the added value will not make up for the expenditure. As is often the case, time will show the actual result. There can be no doubt, however, that instant payments will play a central role.

Internationalization of SEPA Scheme

To strengthen the euro as a currency and Europe as an economy, payments transferred to areas with other currencies should be faster, cheaper and easier. Therefore, SEPA should become an international standard that makes it easier for example for the growing group of migrant workers to transfer money to their home country outside the EU and significantly reduce the average costs of global financial transfers, which now make up for around 7%. The Commission requires from itself to declare SEPA standards as an export good and promote standardization beyond European borders.

Implications for Switzerland and Liechtenstein

Both in the EU and in Switzerland, payment transactions are becoming more diverse for end customers. While many transactions in Switzerland are already carried out electronically, a variety of innovations is being introduced to the ecosystems. TWINT represents the first steps already taken in Switzerland towards a national independent solution, even though it isn't based on instant payments. While the EEA pushes open banking forward in regulatory terms, Switzerland focuses on developments in the market (e.g. bLink, see p. 21). As an EEA member, Liechtenstein is directly affected by the EU strategy, and the players in the Swiss financial center should also review their strategic thrust due to their close interaction with the EEA. As presented in Figure 2, it is recommended to analyze potential implications at an early stage and derive possible opportunities for one's own situation. The change in paradigm, such as instant payments, open banking or a comprehensive interoperability with the EEA, also requires sweeping adjustments of infrastructures and penalizes a passive position of individual participants in the long run. Only if the implementation makes it necessary to rethink own business models (e.g. handling bank data in the context of open banking or the role of acquirers) can Switzerland and Liechtenstein gain medium to long-term benefits from the cooperation with the EU and its Member States as economic partners and establish new business fields.

Fabian Meyer and Christoph Kurtzmann
CORE SE



Financial institutions and third-party providers connect via bLink in order to be able to provide their customers with data-based services.

KLARA – Pioneer of the bLink Open Banking Solution

Last May, SIX launched bLink, the open banking solution for the Swiss financial center. The platform enables financial institutions and third-party providers to connect easily and securely via standardized interfaces to offer innovative data-based services to their customers. The development of the bLink platform is supported by KLARA, an important partner. The business software company demonstrates how open banking works in practice and what it means for future accounting.

KLARA supports SMEs as a learning, proactive system in all administrative tasks in everyday business – from accounting and payroll through marketing and sales to customer retention. With bLink from SIX, KLARA continues to significantly develop its solution by connecting its customers' bank accounts directly to its system via an interface.

Bank Transactions Are Important for SMEs

From the outset, KLARA was built on a platform architecture that relies on integrations and can thus incorporate all relevant market players interacting with an SME. In addition to government offices and insurance companies, these also include banks. An open banking standard, as established by SIX with bLink, is thus fully in line with KLARA's "ecosystem strategy". Bank transactions make up a significant part in the accounting of an SME. It stands to reason that, in addition to automated invoice and document posting and the corresponding archiving, the actual payment transaction must also be automated, especially in today's era of advancing digiti-

zation and process optimization. KLARA's plan for the nearest future is to integrate other SME-relevant financial systems via bLink. This will continue to greatly simplify the everyday office life of SME customers.

New Opportunities for All Participants

The integration of customer bank accounts into accounting also offers potential for new business cases – both for financial institutions and third-party providers. If the accounting is constantly up to date, a company can use it to derive important information. Today, KLARA already provides real-time information not only on orders, but also on the liquidity situation of a company. With bLink, it is now conceivable that, in the event of a looming liquidity bottleneck, KLARA will point the company directly to a corresponding operating loan from a bank in the accounting tool, as it offers with Credit Suisse, for example. In many cases, this happens even before the company owner becomes aware of the potential bottleneck. KLARA also benefits itself because it is compensated with a commission for such offers.

Customers Are Really Interested

Credit Suisse, UBS and the Zürcher Kantonalbank are now connected to KLARA via bLink. Numerous customers are already benefiting from this practical connection. This shows the relevance and understanding of its benefits to a company. Thanks to the partnership with SIX and the new bLink standard, KLARA can quickly connect additional banks directly to its solution as a pioneer in the Swiss fintech segment.

Fabio Tobler
SIX

Request to Pay – the Latest Buzzword in Payments

The latest buzzword, “request to pay”, is on everyone’s lips. But what is meant by it, how does it function, and what benefits is it expected to provide? Schemes based on request to pay are already in use in Switzerland, namely eBill and TWINT.

A request to pay (RTP) is an electronic payment request ahead of the payment, which can improve the payment process significantly. Therefore, it is not a payment means or a payment instrument but a message with which the payment data can be transmitted to the customer (debtor) in structured form, enabling the customer to initiate a payment instruction without data being collected. The sender of the RTP is usually the creditor, who can assign the elements of the RTP in such a way that the incoming payment can be reconciled automatically with outstanding items in their accounting system.

RTP Scheme in Switzerland

The idea of the RTP is nothing new. However, the scheme has attracted a great deal of attention and a unique name through the standardization recently proposed by the European Payment Council (EPC) for SEPA. The EPC has set uniform requirements as to how service providers and participating banks are expected to deal

with the payment request in the “SEPA Request-to-Pay (SRTTP) Scheme Rulebook”. However, we have long been familiar with payment processes similar to RTP even in Switzerland. For example, an eBill invoice is nothing other than an RTP. TWINT also builds on a similar mechanism if a user requests money.

Technology-Independent

From a transmission perspective, an RTP scheme is channel independent. Via their RTP service provider, who must be directly or indirectly connected with the debtor, the creditor can transmit the RTP to the debtor via any secure channel. The debtors themselves can receive an RTP directly from the creditor via various environments, such as proximity technologies, messaging applications, dedicated APIs, etc. Which technology is ultimately used depends on the respective RTP application.

Figure 1: Focus of request to pay

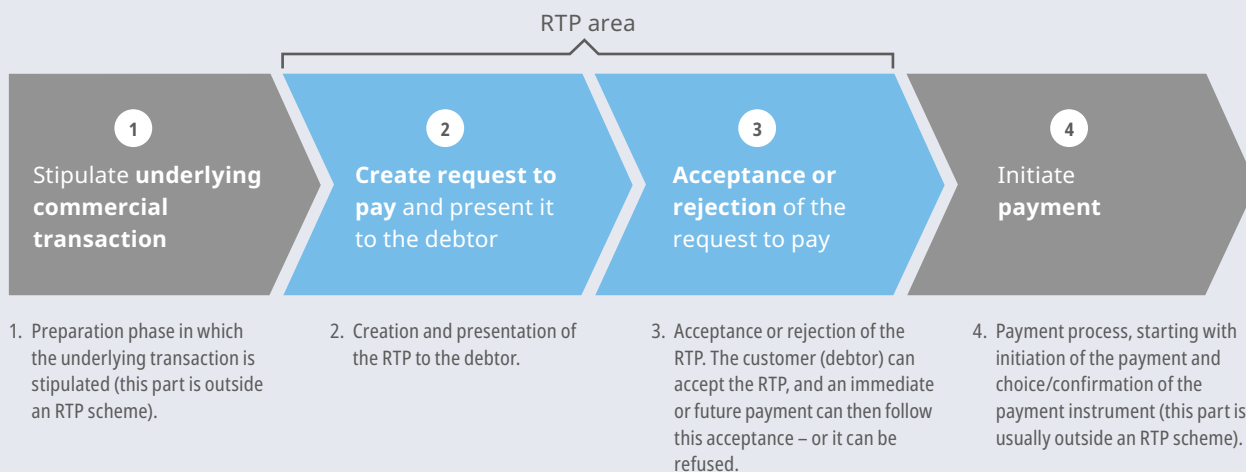
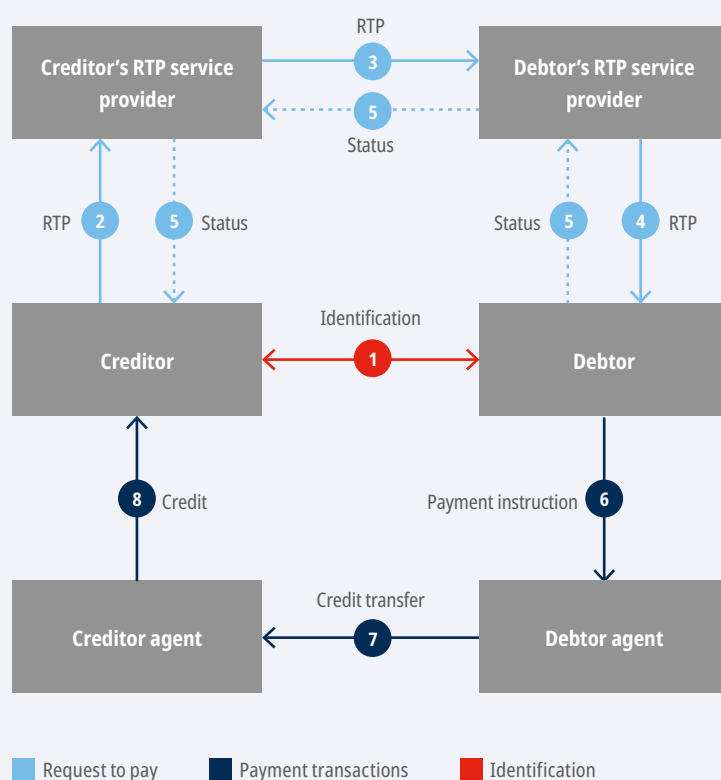


Figure 2: Request-to-pay message flow

The steps in figure 2 can be described as follows:

- 1. Debtor identification:** An initial interaction is the exchange of the debtor identifier and the identifier of the debtor's RTP service provider.
- 2. RTP to the creditor's RTP service provider:** The RTP is sent from the creditor to the creditor's RTP service provider. It includes all core RTP data including the debtor's identifier.
- 3. RTP to the debtor's RTP service provider:** The RTP is sent via the RTP service provider's network.
- 4. RTP presentation to the debtor:** The RTP is presented to the debtor on the agreed channel or device (e.g. smartphone, Web browser, etc.).
- 5. Status report:** Acceptance/rejection of the RTP by the debtor is returned to the creditor via the inter-RTP service provider infrastructure.
- 6. Payment instruction:** Once the debtor has accepted the RTP, a corresponding payment instruction based on the RTP information is created electronically and commissioned.
- 7. Interbank credit transfer:** The debtor agent initiates an electronic interbank transfer in favor of the creditor agent.
- 8. Credit:** The invoice issuer's bank credits the money to the invoice issuer and notifies them electronically by means of an electronic credit advice.

RTP as a Supplement to the Payment Process

An RTP can be viewed as a supplement to the payment process, as it supports the end-to-end process and lies between an underlying commercial transaction and the payment itself. There are four basic components when purchasing goods or services (see figure 1).

Different Use Cases

An RTP can be applied to practically every payment scenario, from real-time scenarios, at point of sale, to scenarios where the parties are located in different places and act at different times. Depending on need, an RTP can support immediate and delayed timing when accepting and triggering the payment.

- **Accept now:** The payment request must be accepted immediately, at the current time, otherwise it will expire.
- **Accept later:** The request can be accepted at a later time than the time it is presented.
- **Pay now:** The payment request must be paid immediately by the debtor at the time it is accepted.
- **Pay later:** The payment will be triggered at a later time than the time it is accepted.

This means that very different payment use cases can be covered, such as point of sale, online trading, person-to-person (P2P), eBill or recurring payments.

Information Flow With Subsequent Payment

The diagram in figure 2 illustrates the RTP message flows including payment message flows for a generic ecosystem. It must be noted that in many RTP scenarios, the creditor agent is also the creditor's RTP service provider and the debtor agent is also the debtor's RTP service provider.

The Future of the RTP

Companies with large amounts of invoices and direct debits hope that request to pay will simplify their debtor management processes. It allows payment requests to be sent to customers electronically with the specific due date for payment, and the incoming payments resulting from this can be assigned automatically. In combination with instant payments, the scheme is also suitable for online traders, as it allows them to initiate bank account payments directly. Over the longer-term, it is conceivable that RTP will replace both card payments and direct debit procedures.

Peter Ruoss

UBS Switzerland AG

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A note on our own behalf: clearit is about to undergo a comprehensive relaunch. After more than 20 years, from June onward the magazine will appear under the new title “pay”. Everything else will also be new: the layout, design, and structure of the magazine, and the workup of its contents.

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