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ClearIT

Information about the Swiss Payment Traffic Systems

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DEAR READER

Will Switzerland become a payment island? Would we be alone in our isolation, surrounded by a euro world? These were the questions we were asking ourselves seven years ago before the new uniform currency was introduced in Europe. As an «out-out» country (a member of neither the EU nor the monetary union), yet with varied payment streams to our euro neighbor countries, it was crucial for us to create a way for the Swiss financial center to have easy and convenient access to Euroland - and, wherever possible, with the same level of convenience and the same processes that we had been used to in our Swiss franc payment traffic! It was a courageous step for the governing board of the Swiss Bankers Association to vote for our suggestion to build a euroSIC parallel to our SIC system in Switzerland, and along with it, to found the SECB Swiss Euro Clearing Bank GmbH in Frankfurt, Germany, as its «overseer» to take on the function of a central bank for euroSIC.

This solution, which was implemented in record time by the Swiss financial center with the customary cooperation among all participants, is now «a recognized concept as a fully developed technical solution» (see interview with H.-J. Friederich). euroSIC, the only euro payment traffic system operating 24 hours per day, went off without a hitch right from the start. remoteGATE, the remote access to euroSIC, additionally enhanced the attractiveness of our solution. By now, national banks and foreign institutions from six countries are using our SWIFT-compatible access to the Swiss payment traffic systems. It's reasonably priced and can be integrated directly into the existing in-house applications and operational processes. Taking this courageous step has certainly proven to be the right decision; it has resulted in the Swiss financial center being able to take an active part in the development of European payment traffic.

But time does not stand still. The development of SEPA (Single Euro Payments Area), as well as the new direct debit system (see corresponding article on page 12), is already providing new, formidable challenges. Let's get down to business, tackling these issues with the same energy and alacrity with which we have approached previous ones, and with our proven excellent cooperation!

A handwritten signature in black ink, appearing to read 'S. Zimmermann', written in a cursive style.

Stephan Zimmermann, Member, Chairman of the Board of Directors of Telekurs Group

SEPA IS TAKING SHAPE

ClearIT: The European Commission and the European Central Bank have declared creating a SEPA the most important project in retail payment traffic. What will the connected EU payment infrastructure collective look like?

Dr. H.-J. Friederich: Collective is mentioned all too readily, in my opinion. I don't necessarily believe that a large clearing house with mandatory participation for everyone in Europe is the perfect solution. Aside from the fact that such a monopolistic solution would be considered a constraint, it would annul specific market forces. That cannot be the right vision for Europe. Of course we should cooperate wherever possible and economically reasonable. A decentralized solution, perhaps in the form of a network of interconnected European clearing houses, is indeed attainable. Certainly, bilateral streams, such as those between the large bank groups, could continue to exist. The tried-and-tested patterns that have been established nationally or even cross-border in some countries, like the postal institutions' Eurogiro, can certainly remain active. My vision of a SEPA includes the coexistence of and competition among clearing systems. Forcing the individual participants to go against their will would hardly produce a positive result. The institutions should certainly be given a

choice of which system they wish to connect to. It is important to enable interoperability among the various solutions. And this requires a uniform standard. The central question concerning the development of a common European payment traffic is therefore less about the centrality of the infrastructures, but much more a question about uniform standards. Only when all parties involved agree to use a common standard will SEPA become a reality. This guarantees a choice from among the various infrastructures with the competition leading to consolidation as a result.

No lasting government subsidies

The European Central Bank ECB would like to see minimally 50% of the cross-border euro volume and a part of the national payments on a pan-European payment infrastructure by the middle of 2004. How will attainment of that goal be verified, and what happens if these systems do not reach critical mass by the intended time?

The only pan-European infrastructure currently in existence and able to achieve a consolidation beyond existing alliances is STEP2. That doesn't mean that STEP2 should remain the only infrastructure of its kind. STEP2 was brought into the conversation

because it appears to be a neutral institution. The Deutsche Bundesbank will participate in it, too. But beyond that, a structured, European-oriented positioning of national automated clearing houses (ACHs) is also feasible. STEP2, or other future pan-European infrastructures, should not be used because there is no other choice, but because its participants recognize real benefits for their institutions. In order to reach critical mass as soon as possible, the original prices must be structured such that a real incentive is created. However, under no circumstance may these entities be dependent on ongoing subsidies from federal governments or central banks for their continued ability to operate.

By the end of 2007, same day settlement is expected to be established for the pan-European (PE) payment infrastructure. The expression «automated clearing house» (ACH) is often equated with netting. Is that compatible with the PE-ACH idea, which already includes the ACH designation in its name?

Same day settlement of bulk payments between the participating banks via settlement agents, such as the Bundesbank, is common practice today. This holds true for ACH as well as for bilateral clearing between credit industry head offices; it is the pre-

Swiss Interbank Clearing



Dr. H.-J. Friederich,
German Bundesbank,
in his interview with ClearIT.

Europe is closing in on the goal of a uniform standardized European payment traffic zone: Single Euro Payments Area (SEPA). One of the goals is to process a minimum of 50% of the entire cross-border euro volume on a pan-European payment infrastructure by the middle of 2004.

Dr. H.-J. Friederich, Senior Head of Department for Payment Systems, Account Management on the Board of Directors, Deutsche Bundesbank, shares his opinion.

dominant practice in Germany. Usually, there is a balance settlement at the end of the day in ACH using netting. For the sake of risk reduction and better liquidity utilization, I personally prefer an immediate gross settlement of the amounts exchanged. For this, Germany's bilateral clearing traffic uses the RTGS system. But there is additional significance in same day processing when one looks at the entire duration of the payment process, including the participating bank customer. Here, the same day settlement in bulk payment traffic is the exception rather than the rule. Bank customers who wish immediate settlement pay an extra fee for this

service, and the processing occurs outside of the regular RTGS system batch process. In today's bulk payment traffic, it is commonplace that several days pass between the order submission and when the incoming payment is booked on the beneficiary account. However, there is an overall trend emerging in Europe toward the shortening of the processing time. At the Bundesbank, we generally settle payments between banks the day after they have been ordered by the bank customers. These payments are usually submitted to us the night before, but with increasing frequency they reach us shortly before settlement stop the following day. This

means that running times for bulk payment traffic and the RTGS process are getting ever closer, although the two systems still differ in priority and execution process.

National RTGS systems to become obsolete

Several Eastern European countries are currently developing RTGS systems with the prospect of EU membership and participation in the Monetary Union in mind. How does this fit with the TARGET 2 concept of a shared platform?

SHORT BIOGRAPHY

In his function as central division manager at the Deutsche Bundesbank, Dr. H.-J. Friederich is responsible for the areas of payment systems, account management, trade settlement and securities deposits. Upon the completion of his banking education, college education and promotions, he was briefly active in private banking. After that, he embarked on his career as a government banker with the Bundesbank. He took over various responsibilities, predominately in the areas of organization and payment traffic, including focus on cooperation with the credit industry and foreign central banks at a G10 and EU level. He is the Central Bank representative on the Payment and Settlement Systems Committee, PSSC, at the European Central Bank.

I'm detecting a rather critical undertone in your question. I am viewing it just as critically. It is my opinion that with the EU, one must be cautious not to spend money too thoughtlessly. Obviously, the issue of installing a national RTGS system is always closely connected with prestige. Add to that, that no partner wants to be at a disadvantage upon entering the EU.

However, the concept of a shared platform really does render the installation of national large amount systems superfluous. The concept is based on the philosophy of a single technology – and with that only one investment – for everyone. Beyond that, even TARGET 2 lives off the fact that it is being used by everyone. In

the meantime, efforts have been made for central banks both Eastern and Western, to increase acceptance of common processes based on a joint technology. According to my own observations, the banks clearly have a positive attitude around these issues. They rightfully expect lower costs on a uniformly high performance level. There is something happening here. Well, since the level of trust in the concept is steadily being increased, it isn't worth it to further continue investing in building of new large amount systems in the countries becoming members of the EU. The situation, as it currently appears, also reflects in part the problems of many, to separate political issues from economical, technical knowledge.

Solutions without EU supervision undesirable

During this era of world-wide networking, the question arises: Is it necessary for an infrastructure settling Euro payments to be operating within the EU?

Today, technical off-site processing to other countries is already considered standard. Technology is usable worldwide and the world-wide division of labor has become a reality. This produces synergy and is therefore economically sensible. SWIFT is a good example, and as far as the banks are concerned, these applications should be permitted, as long as the functional control can be handled adequately.

The Swiss euroSIC system is a case in point; it is truly considered a technically mature solution. The euroSIC system manager, the SECB Swiss Euro Clearing Bank, is monitored by the German Banking Supervision and as an EU bank it comes under the jurisdiction of EU authorities. The Bundesbank is empowered to monitor SECB's compliance to the overseer's requirements. This combination of having a system manager in Frankfurt and elaborate technology in Zurich was an 'aha' experience for many. But I have no trouble whatsoever advocating this solution. On the other hand, I disapprove of offshore solutions. When I say offshore solutions, I mean euro systems run by operative entities plus system managers that basically completely avoid any control by the EU authorities. The issue of authority and control should be given special consideration when determining the TARGET 2 location. While the location choice is related to sovereignty, it has just as much to do with security and the operators.

Interview: Christian Schwinghammer, Swiss Interbank Clearing Ltd., christian.schwinghammer@sic.ch

REFERENCE DOCUMENTS

Several complementary documents can be found on the Bundesbank Web site www.bundesbank.de.

FIVE YEARS OF euroSIC AND SECB: SUCCESSFUL HISTORY – MADE BY THE SWISS BANKS

Jörg Auer, SECB Chairman of the Board of Directors since its founding, looks back on the developments from the inception of the euro RTGS system idea until the full acceptance of euroSIC.

It is 1996. The introduction of the euro as the new European currency is becoming a reality. There are final deadlines and, for the first time, an agreed-upon plan of action among the various EU countries. The Swiss banks perceive some dark clouds appearing on the horizon for the Swiss cross-border payment traffic. Is this the path to isolation? Will this result in serious disadvantages for the Swiss financial center and the export-focused corporate clients? Will fee deductions in the thousandths become the new standards?

This is what it looked like at the outset when during a meeting of the «Operational Feasibility Working Group» – today's CLS – Fritz «Itzi» Klein (was formerly responsible for payment traffic at Credit Suisse) and I were making our way to a dinner at NatWest Bank in London on August 8, 1996. The euro was the number one topic of our conversation. We discussed solutions ranging from correspondent banking to enhancing the EBA (back then ECU clearing). That's when «Itzi» came up with his brilliant idea: Why not run a second, parallel SIC in euro? The Swiss National Bank (SNB) could maintain a euro account at the European Central Bank ECB and connect directly to the TARGET system! Or should we maybe just found our own bank within the euro zone?

The evolution

The idea was born, but it was a long and rocky road to its realization, with many a political hurdle to overcome. On November 1, 1996, the then ad hoc committee «Strategic Questions», a sub-committee within TAPS (the Technical Payment Systems Committee), discussed various options and decided to organize a euro workshop. It was held on January 22/23, 1997, in Dürnten, near Zurich, and the idea was further pursued. That's when it became apparent that the SNB could only play a supporting role. It was decided to put together a committee called «Euro Payment Traffic for Swiss Banks», headed by Stephan Zimmermann, to further explore the difficult governance questions. Since the Euro problem was dealt with in its entirety by the governing board of the Swiss Bankers Association (SBA), it was appropriate to have the committee report directly to the SBA.

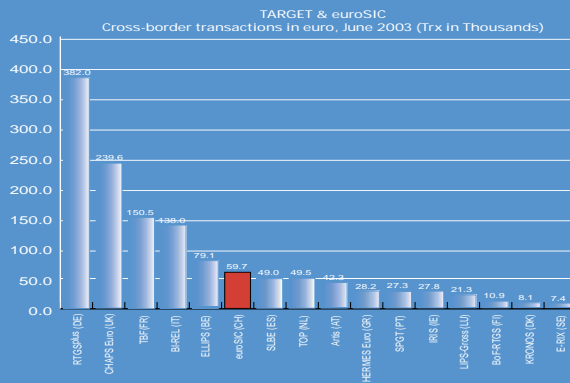
Work proceeded quickly. In May of 1997, the partial euroSIC and SECB projects were being worked on



On December 16, 1998, in Zurich, Swiss Interbank Clearing celebrated the production release of euroSIC: Georg Kramer, former CEO Telekurs; André Bamat, CEO Swiss Interbank Clearing; and Horst W. Sander, Managing Director SECB.



December 16, 1998 was not only the euroSIC birthday. That same day, Sandy, the SECB 'mascot', made her first public appearance. SECB Managing Director Walter Stey solves the mystery surrounding the Telekurs gift for the SECB.



euroSIC – Number six in Europe

within the framework of a full fledged project organization. Of course, the location decision for the SECB – Frankfurt or Paris? – gave rise to many a discussion.

The ultimate decision to go ahead with the project was made at the meeting of the SBA board, attended by Mr. Hasenfratz, Zurich Cantonal Bank (ZKB); Mr. Cabiavalletta (UBS); Mr. Ospel, Swiss Banking Corporation (SBC); and Mr. Doerig (CS), on September 4, 1997. Here are some excerpts from the minutes:

«The board of directors accepts the motion to found a Swiss Euro Clearing Bank in Frankfurt, Germany. This bank is to be wholly owned by the Swiss banks and will be responsible for the operation, liquidity acquisition, and monitoring of euroSIC in Switzerland.

The Telekurs Payserv AG board of directors will be in charge of the project until the founding of SIC AG, at which time the leadership handed over to the board of directors of SIC AG. Mr. Dr. Kramer is instructed to head the project.»

With that in place, development started quickly. In February 1998, after setting up the steering committee, the SECB in Frankfurt was founded with DM 15 million in start-up capital. In order for the euroSIC system development with all its integration testing to be completed, and for all permits to finally be granted in Germany, many a challenge had to be surmounted, and many a creative solution needed to be found.

But success was evident with the start up of operations right on schedule on January 4, 1999. That

year, the Swiss PostFinance joined the three founding partners Telekurs Holding, UBS and CSFB to become a part owner with a 25% participation in SECB, equivalent to EUR 2.3 million.

And today

The system has truly proven itself over these five first years. euroSIC operates stably and with high reliability. In other words, this is an RTGS system of the highest quality. Transaction volumes have steadily and continually increased over the years, and today euroSIC is number six of 16 existing euro systems, measured by the number of transactions processed via TARGET.

The SECB, too, has been working extremely successfully ever since it first opened. In 2000, a dividend of 5% was distributed to the shareholders, and by now the rate is up to 10%.

With the chosen solution, all Swiss banks now have been provided affordable access to the euro zone. Initially, not all competitors in Euroland were ready to accept this. Investigations were demanded and subsequently executed by the European Central Bank. Today, all these start-up challenges have been overcome, and the system has become fully accepted both nationally and abroad.

My look back makes me feel confident about looking to the future, too. With euroSIC and the SECB, it has been proven that even in a difficult environment, Switzerland is always capable to find innovative interbank solutions. Back then, it was a very courageous decision to go ahead with this system. Now the project can be held up as a shining example of quick and focused development. This type of cooperation is one of the strengths of the Swiss financial center. It is well worth preserving in order to be able to successfully face future demands with the same poise.

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SECB – HOW TIME FLIES ...

In December of 1997 I took on the challenge of setting up the SECB 'from scratch', a significant element of the euroSIC joint venture. Within twelve months, in time for the euro introduction, there should be up and running a bank, replete with management and control elements for euroSIC as well as a compatible system with the appropriate interfaces to Euroland for the Swiss financial center.

And today, five years later?
....ticking like clockwork....
It's time to look back:

- upon the unwavering trust placed in the capabilities of a team of only twelve members by the responsible SECB members of the board from Credit Suisse, Telekurs and UBS. This was an ambitious and at times risky business we had signed up for, time was extremely short, and to the board hardly new us. We were an unknown entity. But ours was a strong team made up of my managing director-partner who joined me shortly after my own arrival, and the rest of the team, who came aboard six and three months before the euro introduction. With them, they each brought extensive knowledge gathered over the years of their professional activities in international payment traffic. All



The SECB team at the start (left to right): Walter Stey, Susanne Eis, Horst W. Sander, Angelika Roth, Horst Winter.

of us could feel the tremendous pressure: within a few short months we were to familiarize ourselves with the functioning of entirely new systems and modifying them accordingly to meet euroSIC requirements. The ability to withstand pressure was one of the most relied on characteristics in those days. One of the keys to our success certainly lies in the fact that almost the entire team was well established, having worked together with me for many years. Without them, I would never have taken on this challenge.

- upon the very first Swiss euro clearing day on January 4, 1999 and the big sigh of relief: the euroSIC/SECB combination ran like clockwork, starting up without a hitch. Other euro RTGS systems didn't fare so well.

- upon the excellent, international cooperation with the Telekurs/Swiss Interbank Clearing management and staff which is ongoing to date. Many friendships have

developed in the meantime. This also seems the appropriate venue to mention the members of the Swiss financial institutions: it was indeed a pleasure to work closely with them in several committees and working groups, and they never once made us to feel like out-siders. If there is ever a place and time where the word teamwork achieves its fullest meaning, it truly is in this context here and now.

- last but not least upon the euroSIC participants, based on whose wishes and suggestions we were able to help further develop this joint venture euroSIC/SECB and make it into what it is today: a successful, generally recognized and respected construction among the euro RTGS systems.

Surely you will grant us permission to feel some pride when we contemplate our achievements. It is our wish for the future that this mutual trust continues to imbue all our interactions. I, for one, am convinced that by continuing in this same spirit – even facing the increasingly challenging environment – we will surely be able to celebrate our ten-year anniversary.

Horst W. Sander, SECB
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THE euroSIC SYSTEM

The following is a short description of the way euroSIC was developed and how it works. It clearly demonstrates that the Swiss banks and Telekurs Group were highly successful in establishing the connecting link between the euro zone – so very crucial for the Swiss economy – and the national payment traffic system.

The Swiss Bankers Association (SBA), in its board meeting of September 4, 1997, gave the following assignment to the Telekurs Group board of directors: «Establish and operate a second SIC system for Euro payments and link that system to TARGET, the European payment system». The SBA board of directors further specified in its conditions that 'during a second phase, access to European payment systems is to be enabled via a gateway and that the system is to be conceptualized in such a way that it can be connected to the Swiss National Bank (SNB), once the necessary

«euro access» has been established there.' A euroSIC steering committee was formed with Stephan Zimmermann as its chairman. It was made up of members of the three major banks (SBC, UBS, CS), the SNB, regional banks and Telekurs, and is overseeing the project development. The project group reporting to the euroSIC steering committee is predominantly made up of the future management of Swiss Interbank Clearing Ltd., which was founded on January 1, 1998. The project contains two main segments developed simultaneously: the technical replication of the SIC

system with the implementation of necessary additional functions and the establishment of the SECB Swiss Euro Clearing Bank GmbH in Frankfurt, Germany.

No detours taken on the way to Euroland

Synchronized with the introduction of the euro on January 4, 1999, euroSIC started up its operations as a Real Time Gross Settlement System (RTGS). Since then, it has provided Swiss banks with access to European

On April 16, 1998, the first euroSIC information event took place at the Technopark. Approximately 100 to 200 people were expected; more than 500 attended. From left: Andreas Galle, Swiss Interbank Clearing; Horst W. Sander, SECB; and Georg Kramer, Telekurs.



Swiss Interbank Clearing

payment traffic systems and cash management in euro. More than 120 financial institutions are using the services offered by euroSIC.

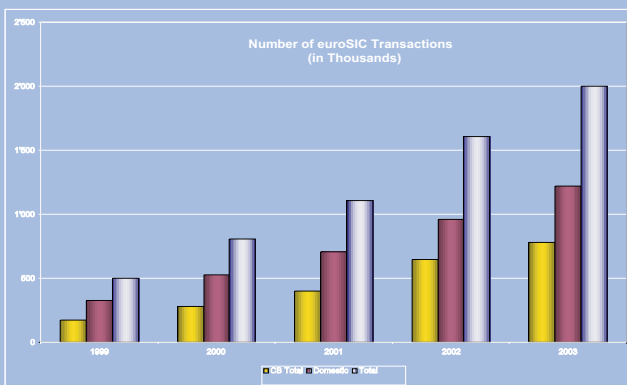
The SECB, a licensed German universal bank, guarantees the euroSIC link to TARGET using the RTGS^{plus} system. This makes it possible for the Swiss financial center to process cross-border euro payments under similar conditions as EU member countries. Payments from European systems are routed via TARGET through the appropriate national RTGS to Swiss institutions, making the whole process very simple indeed. The payments are settled by euroSIC that same day. This completely eliminates the need for additional correspondence relationships with European banks and makes the SECB the exclusive access point in Euroland for Swiss banks. The majority of these transactions are customer payments that are submitted by companies or private individuals via the financial institutions in Switzerland. But the system is also available for interbank payments, such as transfers for foreign ex-

change or cover acquisitions for money market transactions. Payments from stock trading are handled differently, depending on whether they are payments via SIS SEGAINTERSETTLE, via the trade in derivative instruments at Eurex or via the trade with Eurobonds and the repo business.

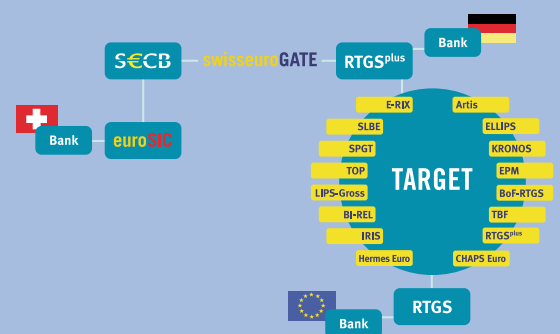
Operations and the further development of euroSIC are the responsibility of Swiss Interbank Clearing Ltd., while the SECB monitors the system and takes over as the settlement agent for liquidity control. The participating financial institutions maintain a transfer account at the SECB that automatically gives them a settlement account in euroSIC. The financial institutions' settlement accounts at the SECB are being fed liquidity funds. Each morning, the entire balance at the SECB is transferred to the euroSIC settlement account, thereby providing sufficient liquidity in the clearing system. Accordingly, the remaining balances on the settlement accounts are transferred back to the accounts at the SECB each eve-

ning. The participating banks can submit their orders around the clock at euroSIC and receive settled payments. This makes it the only euro settling system operating 24 hours a day. With adequate coverage in the settlement accounts, the payments are processed in real time and are final. Similar to the CHF model, payments can be assigned priority codes for more efficient liquidity management control. The SECB provides participants with both comprehensive intraday as well as overnight option for liquidity compensation against collateral in the form of deposited securities. The lending criteria are identical to the ones of the European Central Bank. In addition, banks' balances in the euro accounts at the SECB earn interest.

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euroSIC reported a 25% growth rate for 2003 and has processed six million transactions in five years; 2.3 million were cross-border.



Tying euroSIC to TARGET

LSV – DIRECT DEBIT AND ITS NEW LOOK

Early 2002 marked the beginning of a new focus for LSV – Direct Debit – of the Swiss banks. Countless conversations among financial institutions together with a market research analysis lead the way toward a more modern, more efficient solution for this electronic payment traffic system. Based on the needs of the parties liable to pay and those being credited, numerous activities are being scheduled for 2004 in order to have the new LSV – Direct Debit – system up and running the following year.

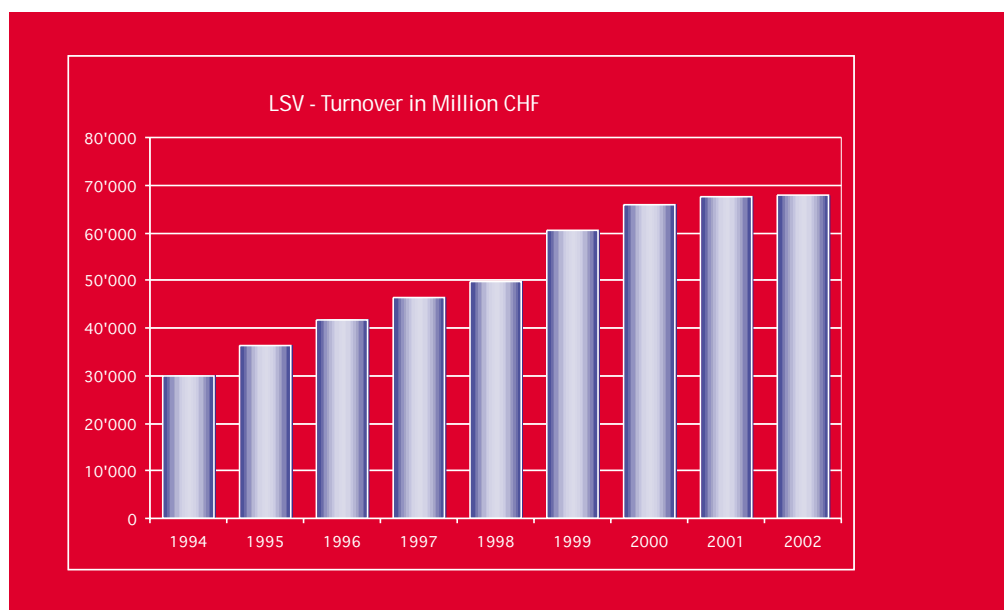
Telekurs, under the auspices of the Swiss banks, has been operating the direct debit system LSV since the late seventies. Originally, not much enthusiasm could be garnered from the paying parties for this payment variation for periodic fixed amounts. That was largely due to the fact that until then, the Swiss were accustomed to determine the exact billing moment themselves. But thanks to a considerable joint public relations campaign by the banks and Telekurs, the generally prevailing prejudices toward the collection of claims by the beneficiaries were dissolved quickly. The resulting turnaround brought about increasing popularity of the LSV system.

But over the past few years, turnovers decreased. This is less a result of a lacking acceptance than of the fact that, since its original introduction, not much had been done to enhance LSV or to bring it into alignment with

the demands of an ever changing market. This fact was given its due by the Swiss Interbank Clearing board of directors when in early 2002, a committee was instructed to do a thorough reevaluation. Within one short year, this committee comprised of representatives from the Swiss

banks, PostFinance, the Swiss National Bank and Swiss Interbank Clearing had defined the framework and conditions for a successful LSV re-launch.

Today, LSV processing is handled separately from the SIC system. After



delivery by the beneficiary, the beneficiary bank authorizes the appropriate order via a separate interface. Once the authorization has been completed, the transactions can be forwarded for further processing. During the late afternoon of the pre-value date, the transactions are totaled and transferred to the SIC system for settlement as F10 service payments. In order to guarantee the recording of the individual debits on the customers' accounts, the transactions are delivered to both the beneficiary and the paying bank after settlement has been completed.

The return debits obstacle

In today's process, the beneficiary bank decides when a LSV order is processed. However, there are cases

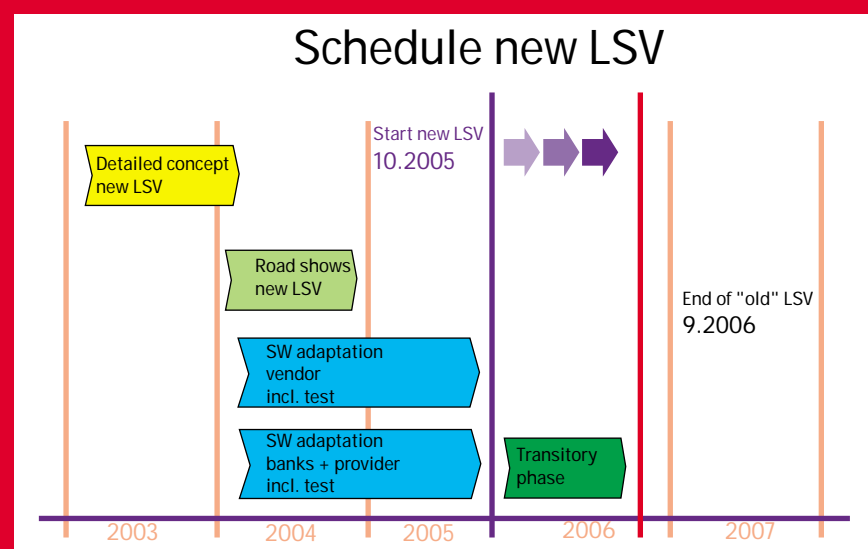
where the paying bank cannot charge the debits on the customer account due to a lack of funds or a missing authorization. In those cases, the paying bank requests a return debit from the beneficiary bank. This return debit is processed separately from the LSV system and is submitted in writing or via a SWIFT. If the message arrives at the beneficiary bank in time, a regular SIC payment is triggered. These return debits generate disproportionate efforts for all parties involved, culminating in the beneficiary bank having to reopen a closed bookkeeping entry.

During the first half of 2003, 1,000 payers as well as forty corporate beneficiaries such as telephone companies, health insurance carriers, public utilities, etc. were interviewed during a market research project in order to

include both their and the financial institutions' wish list in the re-conceptualizing of the LSV process (results under www.lsv.ch). The following points have been decreed focal points for the new design of the new LSV process after discussing the market research results during a number of steering committee meetings:

- **Simplification of debit authorization process**

For a payer to settle their payments using LSV, a debit authorization benefiting the payee must be signed beforehand. Currently, this debit authorization must be in writing and it is deposited with the debiting bank after signature. Setting this up takes a considerable amount of time, since all



parties are involved during the set-up process (beneficiary, beneficiary financial institution, debtor, and debtor financial institution). Currently, various options to simplify this process are being evaluated.

- **LSV in future only «With Right of Revocation»**

Currently, LSV is being offered in two versions: with and without the right of revocation. The right of revocation allows the debtor to revoke the payment within 30 days without providing an explanation or reason. During the planning phase for the LSV product design revision, it quickly became obvious that in the future only one version would be offered. The market research clearly supported the prevalent opinion that the right of retraction is a significant element for acceptance on the debtors' side.

- **Delivery before settlement**

The submitted LSV transactions are delivered to the debtor bank for verification after validation; this delivery occurs three days before the value date. The paying bank decides now whether debiting can occur on the value date. If the verification is successful, the debtor bank orders a SIC transaction on the value date, crediting

the beneficiary bank. With these pre-deliveries, the debtor bank is given additional responsibility within the LSV process, since it can now decide the settlement timing. Return debits due to technical reasons such as insufficient funds can thus be avoided altogether.

- **Open bookkeeping for the beneficiary**

Today, the funds credited to a beneficiary account as a result of LSV deposits are not separated into the various amounts of the individual transactions; due to this fact, LSV integration into an open bookkeeping system is virtually impossible. In future, the LSV transactions are to be assigned a unique reference number generated by the beneficiary (similar to the VESR, the process deposit slip with reference number). This allows the beneficiary bank to determine the individual transactions after the total amount has been deposited in the client's account and thus notify the beneficiary about the specific payments. With the help of the LSV reference numbers, the open entries in the payee's accounts receivable are automatically balanced.

Milestones during the coming year

The various working groups and steering committees are currently working on the concept details to be submitted to the Swiss Interbank Clearing Ltd. board of directors in March 2004. The technical realization, including the testing and pilot phases through Swiss Interbank Clearing, is scheduled for the second quarter of 2004, in order to launch migration during the third quarter 2005. Simultaneously, during the second quarter of 2004 a major information campaign will be started directed at the financial institutions, LSV participants and software providers. We will be publishing and distributing circulars and organize information events about the changes as well as about the migration process. Thanks to these early, specific and thorough communication efforts, the parties involved will be able to include the changes into their budgeting phase and prepare the appropriate means for the following year. And in order to guarantee a smooth and user-friendly transition to the new environment, the two systems will be run parallel for the first twelve months; the «old» LSV system will cease operation at the end of 2006.

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DELIVERY TO MINISIC VIA payCOM^{web}

During this year's miniSIC test, payCOM^{web} was being used for the first time as the new delivery channel. Maerki Baumann & Co. AG, a private bank, were the first SIC participants to transmit their payments into miniSIC via the Internet – without any difficulties whatsoever.

This new delivery option for SIC transaction data files meets the demands and requirements of the SIC participants. It allows financial institutions, in case of a technical difficulty at SIC to quickly and inexpensively transmit their data safely and have them processed within the value date deadlines. The costly process to generate data carriers and transfer via courier can be avoided, turning into time saved precisely when it is needed the most.

The technology used has already proven reliable and secure. Authentication occurs using the SmartCard (1024 Bit key) and the connection is protected using SSL. The data files containing the SIC transactions are transferred to the payCOM^{web} server via an upload mechanism. The application is purposely kept simple to guarantee quick and simple handling during a crisis when miniSIC is called into use. After transmission, the data file processing is analogous to that of the data files delivered on the data carriers.

During the next phase, additional applicants will be added. The use as a backup solution for banks is currently being evaluated. Additional information is available on the Swiss Interbank Clearing Extranet. In order to apply for access, please call the SIC switchboard head office at +41 1 279 42 00 or send an e-mail to: operations@sic.ch.



Jack Hertach,
Maerki Baumann & Co. AG



«Since our bank is located in Zurich, the distance to Swiss Interbank Clearing is really no issue. Nevertheless, with payCOM^{web} we are able to deliver data even faster yet securely and smoothly to miniSIC. payCOM^{web} is an ideal method to avoid time related problems in an emergency while running miniSIC.»

What exactly is miniSIC?

miniSIC is an emergency system ready to take over temporarily if the regular SIC system ever were to fail. In over 16 years of operation, there has never been such an emergency. Nonetheless, all SIC participants must be able to use this miniSIC system. In order to guarantee that all direct SIC participants would indeed be able to execute the defined procedures in the case of a real emergency, an annual miniSIC test is held on random dates.

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The booth shared by Swiss Interbank Clearing, Telekurs Financial and SIS SEGAINTERSETTLE at Sibos 2003 in Singapore.

MASTHEAD

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**Additional information about the Swiss
payment traffic systems can be found on the
Internet at www.sic.ch or www.secb.de**