

June 2008

# ClearIT

The Swiss professional journal for payment traffic

**The Principality's perspective**  
**on SEPA** Interview with  
Michael Lauber, Liechtenstein  
Bankers' Association

European runner-up Switzerland

CLS has the FX market sewn up

 **Swiss Interbank Clearing**



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### **Contactless – A touch less cash**

Those hitting the slopes have known it for years. Now, more than a million ticket holders will experience it at the European soccer championship in Switzerland and Austria in June: Contactless access. The same technology was successfully tested for touchless payment of bratwurst and Birchermuesli.



## DEAR READER,

*It is with pride that Swiss Interbank Clearing Ltd can look back upon these past years: It has succeeded in reducing the average transaction price from 16.8 Swiss franc centimes in 2000 by no less than 66% to 5.7 centimes in 2008. On the one hand, this is a result of increasing numbers of transactions, 138%, during this time span; on the other, this success was achieved by increasing efficiency in all areas of the Swiss financial center's joint venture. This process was accompanied by functional and qualitative innovations and improvements of the systems maintained by Swiss Interbank Clearing. Truly an impressive accomplishment!*

*In reference to payment traffic, the Swiss monthly «Schweizer Bank» of March 2008 published an interesting commentary by banking Professor Hans Geiger on the topic of SEPA and originator data. In it, he refers to the inherent dangers for each individual financial institution in transferring name, address and account number of the originator.*

*When the new Ordinance on Combating Money Laundering comes into effect on July 1, 2008, the originator data must be supplied for all payments worth more than 1,500 Swiss francs, world-wide and without exception. Subsequently, at the time of crediting, the beneficiary can obtain all originator data regardless of the originator's wishes.*

*This is dissatisfactory not just from the customers' point of view, but from the banks, too. This situation does not facilitate the expensive and extensive fraud prevention efforts in payment traffic. From my point of view, these customer data are sensitive. Thus I consider the disclosure thereof made mandatory to us by the money laundering regulations to be problematic, even if the basic intentions are beyond dispute. These requirements must receive the necessary consideration during the design and application of SEPA Direct Debits. After successfully introducing the SEPA Credit Transfer Scheme, Swiss Interbank Clearing will also ensure the timely and cost efficient access of the Swiss financial center to the SEPA Direct Debit Scheme in the fall of 2009.*

### **Zeno Bauer**

*Board Member Swiss Interbank Clearing Ltd  
Head Product Management Zurich Kantonalbank*

A handwritten signature in black ink, appearing to read 'Zeno Bauer', written over a horizontal line.

## LIECHTENSTEIN – FROM A SEPA PERSPECTIVE

*Liechtenstein forms an economic and currency union with Switzerland and – unlike Switzerland – is a member of the European Economic Area (EEA). The membership in two separate integrated areas is unique for a European country. We discuss how and why this affects the Principality's participation in SEPA with Michael Lauber, Director of Liechtenstein Bankers' Association.*

**ClearIT: Austria or Switzerland – which soccer nation captures your heart at the EURO 2008, Mr. Lauber?**

**Michael Lauber:** I have to admit that I am not a dedicated soccer fan, thus: may the best team win! As a Swiss, I am excited that for once we get to show a different side at this major event. The same applies to Liechtenstein as «caught-in-the-middle» country. Inasmuch, everyone will win in the end, if we successfully, in a congenial, likeable way, give the Europeans an understanding of the diversity and the distinctiveness of the alpine region, of Switzerland, Liechtenstein and Austria.

*There is a soccer connection between Liechtenstein and Switzerland, since the Liechtenstein soccer clubs play in the Swiss leagues. In other ways, too, the Principality is closely connected to Switzerland through politics and economy. Direct democracy, the politics of neutrality and customs*

**«The Swiss franc currency union notwithstanding, Liechtenstein shapes its economic policy individually and according to its own criteria.»**

*union are some of the commonalities. And lest we forget: The Swiss franc currency union for more than 80 years, including the payment traffic. Which are the benefits of the franc as the official currency for Liechtenstein's financial center?*

One of the main advantages is that the Swiss franc is a stable currency. Liechtenstein's banks benefit from the franc's reputation. Since Liechtenstein doesn't have its own national bank, as a «lender of last resort» the Swiss National Bank is also a central factor of stability for local financial institutions. This currency union notwithstanding, Liechtenstein shapes its economic policy individually and according to its own criteria.

***Since Liechtenstein joined the EEA in 1995, it is the only European country that simultaneously is part of two economic areas. Based on this exceptional position, the Principality pursues a different path in introducing and implementing the SEPA. How does Liechtenstein deal with the SEPA requirements?***

For purposes of self-regulation, the European banks have long been proactive. They founded the European Payments Council (EPC), which developed the basis for the fully automated processing bulk payment traffic of euro payments by creating the definition of uniform payment processing and conventions. The Liechtenstein banks thus adopt the SEPA regulations through this contract with the EPC. In addition, and as opposed to Switzerland, Liechtenstein is committed to implement the EU Payments Services Directive (PSD) based on the EEA membership. This is the requirement governing introduction of SEPA-compatible direct debits. The goal is a timely implementation by November 2009.



Michael Lauber: «Liechtenstein – as opposed to Switzerland – is required to implement the EU Payments Services Directive (PSD) based on the EEA membership.»

## SHORT BIOGRAPHY

**Michael Lauber** is Director of the Liechtenstein Bankers' Association since 2004. He has a law degree from the University of Berne, Switzerland. After working as an examining magistrate, he changed to the Canton Berne Criminal Investigation Department in 1993. From 1995 until 2000 he was the Head of the Central Office Organized Crime at the Federal Police Offices, before becoming head of the selfregulation

PolyReg in Zurich. Starting in 2001 and in his function as Head of the Financial Intelligence Unit (FIU, reporting office for money laundering) Liechtenstein, he was the Liechtenstein delegate for the anti-money laundering committee of the Council of Europe (MONEYVAL), evaluated Oman and Luxemburg for the IWF/world bank, Cyprus and Monaco for the Council of Europe, and Russia for the working group Financial Action Task Force on Money Laundering.





The Liechtenstein banks' core business is predominately in private banking and not in payment traffic.

In order to meet this deadline and to work towards a practice-oriented implementation, our organization has sought the communication with the Liechtenstein FMA – Financial Market Authority and installed an internal working group. Next year, Swiss Interbank Clearing in its

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**«Next year, Swiss Interbank Clearing in its function as National Adherence Support Organization (NASO) will examine and forward to the EPC the banks' applications to participate in the SEPA Direct Debit Scheme for Liechtenstein financial institutions, too.»**

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function as National Adherence Support Organization (NASO) will examine and forward to the EPC the banks' applications to participate in the SEPA Direct Debit Scheme for Liechtenstein financial institutions, too, – analogous to the adherence process for the SEPA Credit Transfer Scheme.

***And speaking of SEPA credit transfers: Since the SEPA-start in January 2008, of fifteen members of the Liechtenstein Bankers' Association only three – Raiffeisen Bank, Liechtenstein Landesbank and LGT Bank – have joined this process. Why?***

The Liechtenstein banks' core business is predominately in private banking. Therefore, the classic payment traffic is not necessarily part of the main services provided by all our financial institutions. But we are assuming that other banks will join according to the needs of their customers.

**25% of all Liechtenstein employees are commuters from the euro zone, approximately 40% of exports go there, only 12% to Switzerland, implementation of the PSD), EEA membership – in your country, the euro plays an increasingly significant role. What still supports your use of the Swiss franc?**

Based on the foreign trade activities maintained with predominately European member countries – first and foremost with Germany, the euro indeed plays a significant role for Liechtenstein. Having said that, though, there is a clear difference to be made between membership in the EEA and membership in the European Monetary Union (EMU) with the euro as its sole cur-

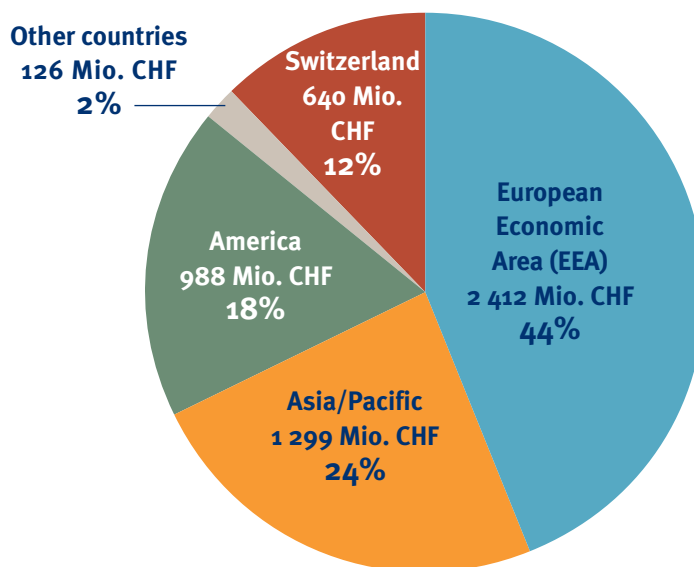
rency: Just like Switzerland, Liechtenstein is not an EMU participant country, and the currency question is not

**«Joining the euro currency area would only be possible by becoming an EU member. This is currently not being discussed.»**

part of the EEA agreement. Joining the currency area would only be possible by becoming an EU member. This is currently not being discussed. ■

Interview: **Gabriel Juri**  
Swiss Interbank Clearing Ltd  
gabriel.juri@sic.ch

## EUROPEAN EXPORTS CHAMPION LIECHTENSTEIN



### Export turnovers of Liechtenstein industrial companies by economic areas (2005)

In a «per-resident» comparison, Liechtenstein exports seven times the goods in value as Switzerland.

Source: Department for National Economy, Liechtenstein

## SEPA UP AND RUNNING

**Taking stock after the first one hundred days: The first milestone on the way to the Single Euro Payments Area (SEPA) has been reached. According to first assessments by the Swiss financial institutions, the credit transfer scheme is running surprisingly smoothly. So far, no news is good news for the Swiss Bankers Association, the banks' umbrella organization.**

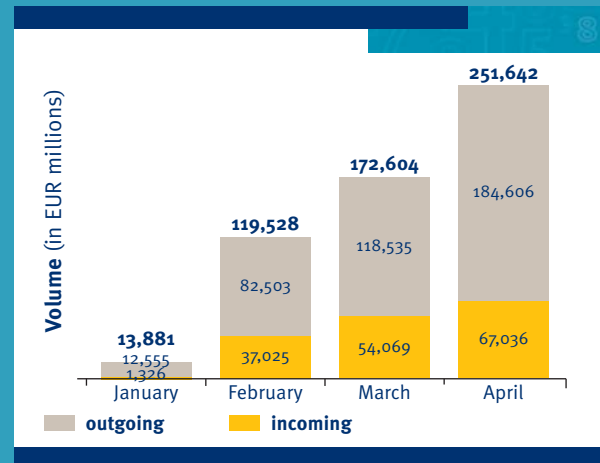
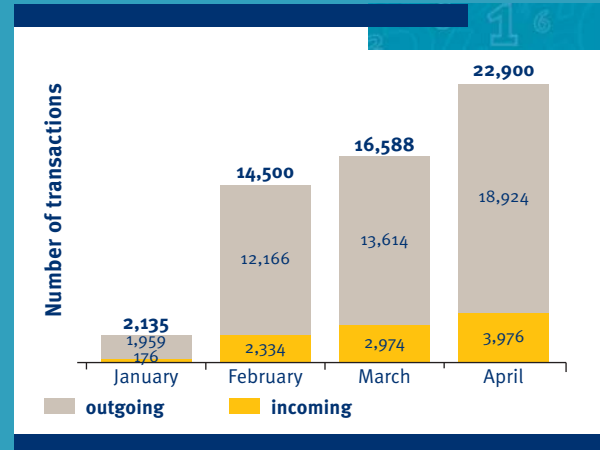
The banks are reporting positive customer reactions, especially from corporate customers. According to Post-Finance, complaints are very few and in general concern customers who have submitted payments themselves. All the good news notwithstanding, the financial institutions were expecting more transactions.

### ACCELERATED TRANSACTIONS GROWTH

There is no comprehensive summary of the SEPA euro payment traffic between the Swiss franc zone (Switzerland and Liechtenstein) and the other 29 SEPA countries. That is primarily because there are several SEPA transaction payment paths available. Many Swiss branches of foreign banks process their SEPA payments via their head offices, while others use correspondent banks for the processing or are directly linked to the Euro Banking Association's pan-European STEP2 system. However, the statistical evaluations of the transactions settled through the Swiss financial center's joint venture (euroSIC/SECB) are a reliable indicator. Currently, 46 of the 77 SEPA-participating institutions based in Switzerland and Lichtenstein are processing their euro payments via this payment path. And during the first three months, these financial institutions recorded growth rates in the double digits. It remains to be seen during the course of this year just how sustained this promising development will be. ■

**Gabriel Juri**, Swiss Interbank Clearing Ltd, gabriel.juri@sic.ch

**HUNDRED DAYS OF SEPA CREDIT TRANSFER SCHEME VIA euroSIC (2008)**



### WORKING OUT THE BUGS

The SEPA area outside of Switzerland got off to a surprisingly good start with the credit transfer scheme, in spite of some initial bugs causing isolated rejections. Besides some routing problems due to the use of BICs of varying lengths, there is some confusion about character sets. Since the Latin typeface isn't used throughout the entire SEPA area, the Greek and the Cyrillic typefaces must be taken into account too. A European Payments Council working group is currently developing a solution to further optimize the continuous processing of SEPA payments.

**SEPA NEWSLETTER** The online SEPA Newsletter has been published 13 times since last year. The free service provides its more than 600 subscribers with first-hand information about current news on the topic of «SEPA and Switzerland». It may be subscribed at [www.sepa.ch](http://www.sepa.ch).



## E-INVOICING AND SEPA MATCH UP

**In addition to mobile payments, e-invoicing will be standardized and introduced Europe-wide under the e-SEPA term. The EU authorities anticipate savings of more than 238 billion euro by 2012 – twice as much as in the SEPA core areas of transfers, direct debit and card payments.**

Last October, Jean-Michel Godeffroy, Director General of the European Central Bank (ECB), requested to make preparations for e-SEPA simultaneously with the SEPA introduction, to ensure that Europe remain competitive in the area of alternative payment methods. At the same time, the European Commission decided to form an expert group for e-invoicing, after a taskforce under the Commission's direction had formulated suggestions for a possible management administration in their final report and drafted a schedule for the implementation of a program for e-invoicing in June 2007. The 31-person team of experts, which met for the first time in February 2008, is expected to define a European framework for e-invoicing by the end of next year. The framework is intended to determine a uniform structure concept – including business-specific requirements and the necessary standards – and to provide solutions for the allocation of open and interoperable e-invoicing services in all of Europe.

### Additional Information

- European E-Invoicing Final Report, July 2007: <http://ec.europa.eu/enterprise/ict/policy/standards/einvoicing/2007-07-eei-final-rep-3-2.pdf>
- «The Economic Impact of the Single Euro Payments Area», ECB, August 2007: <http://www.ecb.int/pub/pdf/scpops/ecbocp71.pdf>
- EU Commission for E-Invoicing initiative website: [http://ec.europa.eu/enterprise/ict/policy/standards/einvoicing\\_en.htm#\\_ftnref2](http://ec.europa.eu/enterprise/ict/policy/standards/einvoicing_en.htm#_ftnref2)
- SEPA Impact Study, August 2007: [http://ec.europa.eu/internal\\_market/payments/docs/sepa/sepa-cappgemini\\_presentation\\_en.pdf](http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-cappgemini_presentation_en.pdf)
- E-Invoicing 2008, a market analysis by EBA and Innopay: [http://www.ebaportal.eu/\\_Download/What's%20News/E-Invoicing\\_2008\\_v11.0.pdf](http://www.ebaportal.eu/_Download/What's%20News/E-Invoicing_2008_v11.0.pdf)

### UNSPECTACULAR SAVINGS?

«Psychologically, customers accept the current cost level and small, gradual improvements do not seem interesting, although saving an average of ten cents on 240 billion transactions adds up to a considerable total saving. The expected efficiency gains of e-invoicing are calculated to be more than 100 billion euro per year in the EU15 area alone, if and when company invoicing processes can be streamlined. Small efficiency gains per transaction do not catch the interest of the general public in the same way as spectacular robberies or massive processing errors.» Harry Leinonen, Bank of Finland, in: Payment habits and trends in the changing e-landscape 2010+, 2008

### IN ALL OF EUROPE?

According to a market analysis by the Euro Banking Association, Switzerland and the Nordic countries are significantly ahead in market penetration compared to the rest of Europe both in the B2B and the B2C areas. Admittedly, both here in Switzerland, as well as in all other European countries, electronic billing is predominately focused on the domestic market. Cross-border e-invoicing can only be introduced on a larger scale once the standardization supported by the EU authorities has been concluded. The Swiss financial center closely watches the European activities and will take the appropriate steps to enable the participation of domestic financial institutions and businesses in the European e-invoicing progress.

### BENEFITS FOR FINANCIAL INSTITUTIONS AND CORPORATES

The European Payments Council and the ECB have developed the vision of an e-SEPA beyond the actual SEPA core service. Within this context, there is mention that financial institutions will offer their clients invoicing functions as an additional service. If a company's in-house electronic billing processes can be linked with the SEPA compatible payment processes, it promises a considerable savings potential for all stakeholders. According to conservative ECB estimates, there is a potential for more than 238 billion euros in net savings as a result of increased efficiency and automation of delivery chains. Over the next few years, e-invoicing will become a major topic in the EU, together with SEPA, thus, many banks will increasingly focus on this topic. ■

*Martin Frick, CEO Telekurs PayNet Ltd, [martin.frick@telekurs.com](mailto:martin.frick@telekurs.com)*

## TARGET2-SECURITIES BEFORE KICK-OFF

The European Central Bank will decide in July 2008 whether the securities settling system «TARGET2-Securities» will be realized. Swiss market players participated in developing the user specifications.

The last group of countries – for the time being – migrated in May 2008 to the joint platform of the European Central Bank ECB's new RTGS system TARGET2. As early as 2006, the ECB had announced a continuation of the integration of the European financial market structures by developing «TARGET2-Securities» (T2S). With this initiative, the ECB wants to significantly reduce the cost of securities settlement within the eurozone thus advancing cross-border securities trading.

### AN ECB INITIATIVE...

Starting in 2013, T2S will primarily offer the processing of base money in euro for a broad securities spectrum and to this end be interfaced with TARGET2. According to the user specifications, T2S will need to be designed in such a way that settling in base money is possible in other currencies as well. It is predominately the Central Securities Depositories (CSDs), which are voicing reservations concerning the project, since their business model is affected by T2S. In future, CSDs connecting directly with T2S will settle denominated securities in euro (and possibly

in other currencies) through T2S and no longer via their own systems. The CSDs will be responsible for all other services, such as settling in business bank funds or the management of corporate actions. The ECB has invited the CSDs to communicate their intention regarding participation in T2S by the beginning of July 2008, even though such significant aspects as the fee structure, future governance or technical issues are still under considerable debate. The ECB council will most probably determine in July whether the specification phase is approved.

### ... WITH SWISS MARKET PLAYER PARTICIPATION

Even though T2S is an initiative primarily targeted at securities settlement in euro base money, the Swiss financial market is not immune to its effects. An efficient connection to the European financial market infrastructure is critical to prevent that Switzerland from being isolated in regards to securities settlement. The Swiss financial market is represented in the T2S Advisory Group through the Swiss CSD, SIS SegalInterSettle (SIS), and the Swiss National Bank (observer status). Beyond that, experts from SIS and the major banks actively participated in developing the user specifications. These market players have formed the T2S Swiss National User Group at the national level, a committee which coordinates the national positions within the framework of market consultations, and which will continue to represent the Swiss financial market's interests to the degree possible. ■

*Giuseppe D'Alelio, Swiss National Bank, giuseppe.dalelio@snb.ch*

## THE CSDs OF DENMARK, GERMANY, GREECE, NORWAY, SWITZERLAND, SPAIN AND AUSTRIA TEAM UP

On April 2<sup>nd</sup>, 2008, seven leading European Central Securities Depositories (CSDs) signed an agreement to create a joint venture in an effort to enhance their efficiency and lower the post-trade processing costs of cross-border securities transactions in Europe with Link-Up Capital Markets S.L. The introduction of the Link Up Markets joint solution is scheduled for the first half of 2009. [www.linkupmarkets.com](http://www.linkupmarkets.com)

*Ursula Seeberger, SIS SegalInterSettle AG, ursula.seeberger@sfms.com*



## EUROPEAN RUNNER-UP SWITZERLAND

When it comes to the number of transactions processed by European countries' respective RTGS systems, Switzerland comes in a close second after the Czech Republic.

According to the statistics covering the 16 nations participating in the European soccer championships, the Czech National Bank's RTGS system registered the largest turnovers. The CERTIS payment system processed an average 1.65 million koruny transactions per day, followed closely by the SIC system registering a daily Swiss franc transaction volume of 1.43 million. The third-placed Turkish TIC-RTGS processed approximately 0.43 million payments. Then comes the first euro-RTGS system of the Deutsche Bundesbank with 0.16 million transactions. The three 'placing' systems are different from their contenders in another way: In addition to large volume payments their systems also process bulk payments like the ones generated by direct debit processing or from the credit card business.

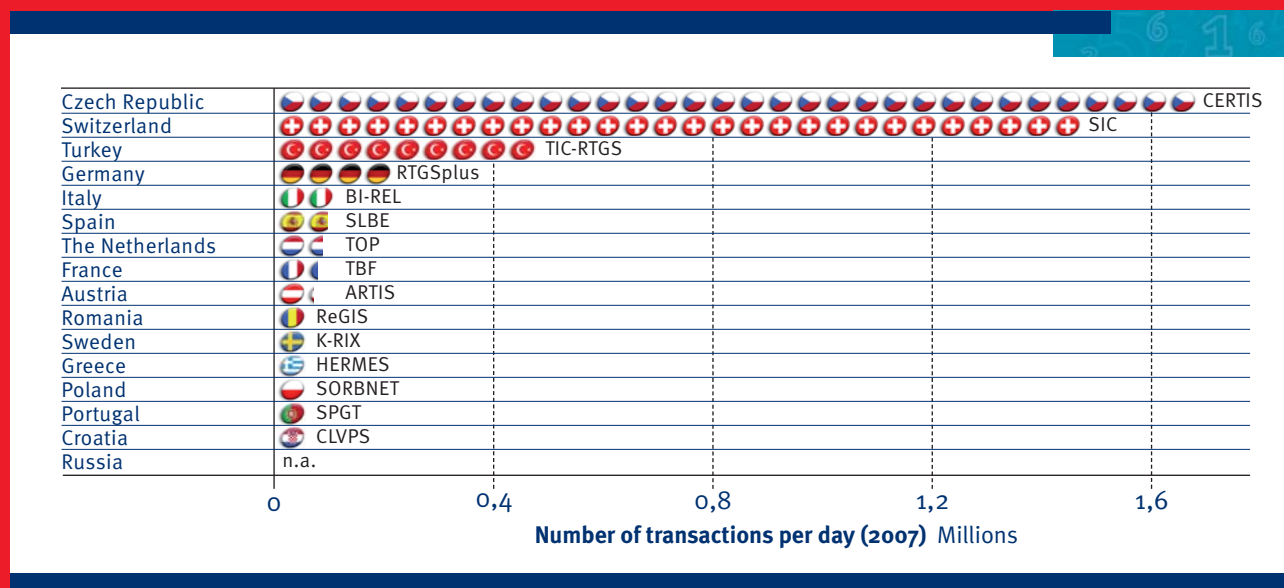
## TARGET2

On May 19th, 2008, the migration from TARGET to the new TARGET2 joint platform was successfully completed. The twenty euro-zone countries have thus implemented a consolidation of their RTGS systems. One of the TARGET2 world's main features is that all twenty national banks are operating on a joint technical platform and as a result can guarantee interoperability and a uniform service level. Consequently, the European Central Bank plays a comprehensive coordinator role and functions as the TARGET2 system manager.

Those EU member countries outside the eurozone that were previously linked to TARGET via CHAPS Euro and E-RIX – Great Britain and Sweden – have shut down their own EUR-RTGS systems. Hence, the last CHAPS Euro payment was processed on May 16th, 2008. The national banks of both of those countries now route their euro payment traffic via TARGET2 processing of central banks within the eurozone, whereas Switzerland is linked to the eurozone via the joint euroSIC/SECB venue with the Deutsche Bundesbank's TARGET2 processing. ■

*Gabriel Juri, Swiss Interbank Clearing Ltd, gabriel.juri@sic.ch*

### THE EUROPEAN CHAMPIONSHIP OF RTGS SYSTEMS





## CLS HAS THE FX MARKET SEWN UP

*In October 2007, CLS celebrated its 5<sup>th</sup> anniversary of live operations. CLS (Continuous Linked Settlements) was conceived and brought live with the hope of capturing an average of 45,000 FX trades per day in seven currencies. In March 2008, CLS processed nearly 600,000 trades in a single day with a gross value in excess of USD 10 trillion.*

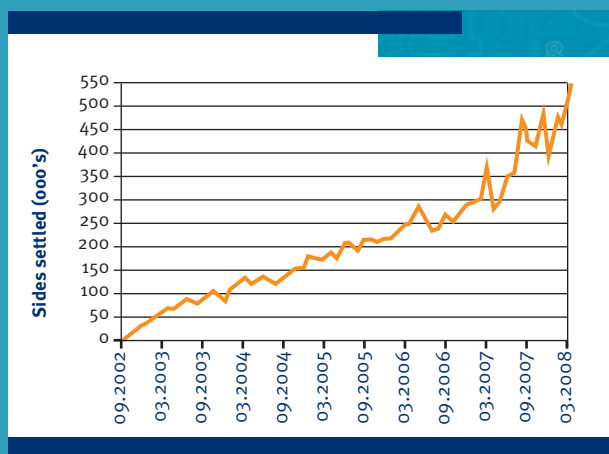
There are 15 currencies now live and two more – the Mexican Peso and the Israeli Shekel – are planned for the second quarter of 2008. There 70 shareholders, three of which are Swiss (UBS, CS and ZKB). As direct settlement members or as CLS third parties and more than 2,000 banks, brokers, funds and corporate customers use CLS daily to settle their FX trades. CLS has captured approximately 55% of total FX daily settlement volume, which itself has grown significantly. By any measure, this can be deemed a success.

The original concern at UBS was the efficient handling of the intraday credit needs of its major bank customers, which were increasing with their global expansions. Larger and larger transactions led to higher credit needs. If these could be netted down, the whole system could run more smoothly. Other banks realized they had similar concerns and around the same time, central banks also began to take an interest in taming Settlement or Herstatt Risk. With the publication of the CPSS (Committee on Payment and Settlement Systems) report on settlement risk in the FX markets in 1996, there was clear market interest to act.

### STREAMLINING PROCESSES AND STANDARDIZATION

Taking CLS live took another six years and was no easy feat. In order to work effectively, it had to have a large percentage of the FX transactions. This meant garnering support from the largest commercial banks as well as central banks. To bring the former on board, CLS also had to bring certain efficiencies to the market. This required agreement on standards and market practices. Once these agreements began to emerge and banks settled upon the operational elements, CLS gathered momentum. CLS had the potential to transform settlements through operational efficiency. Through streamlined handling of confirmations, payments, reconciliations and claims handling, CLS has established an efficient and highly scalable model, which is easily leveraged for non-members through third party offerings. The resulting streamlining in processes attracted the commercial interest of the participants and continues to appeal.

Sources: CLS



### THE QUEST FOR MARKET EFFICIENCY

CLS has adapted with times to become the leader it is today. The basic concept of CLS was presented by Dr. Hubert Huschke (then a senior executive with UBS) at Sibos in Boston, USA in 1994.

While CLS has substantially reduced the cost of settling FX trades when compared to gross settlement over Nostros, many CLS users focus primarily on the cash-out cost per trade. Others have recognized that the benefits go well beyond this. Some alternatives to CLS settlement exist, including pre-settlement netting schemes. While on the surface, these appear to offer lower transaction costs, the presumed savings are actually lower due to the following reasons:

- *New or separate processes or variations in standards will inevitably lead to new inefficiencies*
- *Fully automated confirmation matching and reconciliations are not assured with other services*
- *Claims handling for fails could be more complicated and will be more costly*
- *A solid global and standard legal basis may be required and will lead to set up and recurring costs*
- *The very high levels of resilience which CLS has will be expensive to replicate*
- *The well-orchestrated and robust crisis management procedures which CLS have created would need to be re-created*

## COSTS REMAIN THE KEY ISSUE

Also, CLS is a scalable utility: volume increases do not lead to direct increases in cost. Similarly, volume decreases would still leave fixed costs to be paid. If volume is reduced, the cost per trade will go up. Still, given the focus on pure transaction cost, and the general interest to manage costs, CLS will also have to make sure its cost base is rigorously managed and trending in the right direction to stay fit and competitive – especially in light of nimble competitors who will try to cherry pick through low transaction prices. To counter this, CLS may well envisage using its fixed cost base to its advantage

and consider introducing a more utility-oriented pricing scheme to allow its users to lock in scale effects. In order to keep serving the banking community and live out its role in risk mitigation, CLS has also expanded its settlement capabilities selectively. New currencies have been added on a regular basis. Though the gross volume to be settled in each successive new currency is generally smaller, the value of bringing settlement standards and a certain reliability to these markets should not be under-estimated. Trading interest can grow significantly when settlement issues are removed and this can have far-reaching macro-economic benefits. Mexico and Israel, for example, should benefit enormously from CLS, by bringing the use of global standards into common use (in and outside of CLS). In 2007, CLS also added non-deliverable forwards to their settlement palette and has proved a natural multi-currency settlement partner for the DTCC's DerviServ initiative. For the near future, CLS will also look at new currencies (possibly Thailand and Turkey) as well as the feasibility of introducing additional regional settlement cycles. As shown in the most recent CPSS follow-up study (<http://www.bis.org/publ/cpss83.pdf?noframes=1>), CLS has massively reduced settlement risk in foreign exchange (roughly 55% by value). In addition, it has brought operational savings. These two points together have helped support the huge growth in FX volumes over the past years. Through its dedication to the market it serves, it has clearly earned a place in the cash settlement landscape. Still, challenges loom in cost management, market-wide understanding of the full, end-to-end benefits, and competition which may appear cheaper. ■

*Hays Littlejohn, Managing Director – Global Wholesale Cash Solutions  
UBS AG and CLS Group Director, hays.littlejohn@ubs.com*

Source: CLS

	2002	2007	2008
Capacity	45k / 90k	500k / 1,000k	Building capacity of 1m / 2m
Currencies	7	15	17
Products	FX	FX & live with NDFs, credit derivatives	FX, NDFs & credit derivatives. FX option premiums to be launched.
Av. FX price	Ramp-up £1.37 – £2.37	£ 0,80	£ 0,69

## CONTACTLESS – A TOUCH LESS CASH

*Those hitting the slopes have known it for years. Now, more than a million ticket holders will experience it at the European soccer championship in Switzerland and Austria in June: Contactless access. The same technology enabling quick access to the ski lift or the sports arena was successfully tested for touchless payment of bratwurst and Birchermuesli.*

Last year, contactless payments were launched in Switzerland by Telekurs, Cornèr Bank and Visa on one side and by the Aduno Group, MasterCard and McDonald's on the other. The first contactless transaction in Central Europe was made in March 2007 by Christa Rigozzi, Aduno Group PayPass ambassador. The first Swiss Visa PayWave transaction followed in October 2007 at the FIFA head offices by the former Swiss national soccer team member Alain Sutter; with his card, he purchased a FIFA ball. Since then, Switzerland has seen several successful pilot phases at various restaurants and retailers. As of the end of 2007, Switzerland is the third European country after Great Britain and Turkey where these cards are available through the market introduction of MasterCard® PayPass™ by Visa Card Services SA and of the additional contactless function of the Cornèr Bank Visa card in February 2008.

### TWO PILOT PROGRAMS

Telekurs with its Visa PayWave and the Zurich Kantonalbank with its MasterCard PayPass tested the new contactless credit cards in their respective staff restaurants as part of a staff pilot phase. According to Manuela Camen, ZKB Product Manager, the pilot phase ran smoothly. «On the terminal side, there were some suggestions for improvement which have already been implemented.»

The Aduno Group successfully completed the pilot phase at the end of 2007. Brand Manager Reto Klein at Telekurs Multipay, too, is happy with the successful pilot: «The feedback was very positive, both from card holders as well as sales staff.»

### CONTACTLESS PAYMENT:

- For contactless payments, the transaction data is exchanged securely through RFID – Radio Frequency IDentification between payment card and terminal. This requires updates of both the card and the terminal.
- Generally speaking, neither PIN nor signature is required (without cardholder verification) up to a purchase amount of 40 Swiss francs.
- Contactless payments without cardholder verification are completed in approximately a half second.
- Contactless payment is an ideal solution for point of sales with low average amounts and the need for fast check-out.
- This equipment offers additional protection against vandalism (no gum in card slots, etc). Moreover, these units stand up better to environmental conditions: Water, dust, dirt and cold.





Still leading edge – this time off the soccer field. Former Swiss soccer player Alain Sutter (2<sup>nd</sup> from left).

## USE FOR CONSUMERS AND BANKS

As Manuela Camen points out, the Zurich Kantonalbank welcomes the new technology for several reasons. It allows the card holder to pay for small amounts simply and quickly. «The inconvenience of carrying small change can be avoided altogether. Furthermore, the contactless transactions are safer than carrying cash.» She also sees the fact that the card doesn't have to be handed over during the payment process as an additional benefit. To her, there are obvious opportunities for the financial institutions, as well: «The card holder can be offered an innovative, modern service.» Moreover, the substitution for cash can be further advanced by extending the application to small payments and will generate additional income through the increased card use.

## BOOST RETAILER ACCEPTANCE

The Aduno Group has already been able to equip several retailers in Switzerland with appropriate terminals and contactless readers. In cooperation with swissregiobank and the specialty shops Gossau Andwil Arnegg, they introduced contactless payment at approximately 30 retailers in Gossau SG in October 2007. Additional roll-outs will follow in 2008.

Christa Rigozzi pays contactless at the ZKB staff restaurant Culinarium at the Zurich Bahnhofstrasse.



«For quite some time now, Telekurs has been in contact with credit card providers and numerous retailers to extend the development of contactless Payment jointly with the card organizations, and to enhance its acceptance», assures Reto Klein. Based on the low-amount limitation (up to 40 Swiss francs) and the speed advantage, the focus is predominately on retailers with low average check-out amounts and for whom quick check-out times are of importance, e.g. fast food restaurants, newspaper stands, express check-out lines in supermarkets and coffee shops. According to Manuela Camen, the canton banks are currently examining contactless payment functions introduction on their credit cards, thus motivating additional retailers to obtain the necessary terminal infrastructure.

Chances are good that not only the long wait lines in front of ski lifts and outside sports arenas will soon become a thing of the past, but – thanks to contactless payment instruments – at points of sale, as well. ■

*Gabriel Juri, Swiss Interbank Clearing Ltd, gabriel.juri@sic.ch*

# FINAL WHISTLE FOR TELEKURS GROUP

## after the merger with SWX Group and SIS Group

### (Annual report excerpt on Swiss Interbank Clearing activities)



### SWISS INTERBANK CLEARING LTD

#### INTERBANK PAYMENT SYSTEMS PROCESS RECORD TRANSACTION VOLUMES

Swiss Interbank Clearing Ltd operates the SIC and the Swiss Interbank Payment System. The SIC system processed 12 million transactions, a 2.8 percent increase in 2007. Volume processed in the overall system reached 2.5 billion transactions, an upswing of 1.1 billion a year earlier. The volumes generated by Swiss High Transaction volumes enabled Swiss Interbank Clearing to lower its charges to customers.

Swiss Interbank Clearing is regulated by the Swiss National Bank (SNB) in accordance with the Swiss Payment System Act (PSA). Swiss Interbank Clearing Ltd is a member of the Swiss Interbank Clearing Association (SICA).

**KEY FIGURES AND FINANCIAL PERFORMANCE**

The introduction of the Single Euro Payments Area (SEPA) in January 2008 is affecting the Swiss Interbank Clearing system. The number of transactions processed in the SIC system will decrease as a result of the migration of transactions from the SIC system to the SEPA system. The SIC system will continue to process transactions in Swiss Franc (CHF) and Euro (EUR). The SIC system will continue to process transactions in CHF and EUR. The SIC system will continue to process transactions in CHF and EUR.

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### SWISS INTERBANK CLEARING LTD

#### SIC – A PAYMENT SYSTEM OF VITAL ECONOMIC SIGNIFICANCE

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**FINANCIAL AND OPERATING DATA**

	2007	2006	Change
Operating Revenue (CHF)	21.8	18.8	+16%
Operating Expenses (CHF)	12.1	14.1	-14%
Operating Profit (CHF)	9.7	4.7	+106%
Operating Profit Margin (%)	44%	25%	+19%

**KEY FIGURES OF THE SIC SYSTEM**

	2007	2006	Change
Transactions (Millions)	12.0	11.7	+3%
Value (CHF)	1.8	1.7	+6%
Value (EUR)	1.2	1.1	+9%

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### COUNCIL

Patrick Bürki, PostFinance, Boris Brunner, UBS AG, Susanne Eis, SECB, Martina Glaser, SNB, Martin Frick, Swiss Interbank Clearing Ltd, Andreas Galle, Swiss Interbank Clearing Ltd, André Gspöner (Head), Enterprise Services AG, Gabriel Juri, Swiss Interbank Clearing Ltd, Roger Mettier, Credit Suisse, Ueli Strüby, BCV, Christoph Weder, Liechtenstein Bankers' Association

### EDITORIAL TEAM

André Gspöner, Enterprise Services AG, Andreas Galle, Gabriel Juri (Head) and Christian Schwinghammer, Swiss Interbank Clearing Ltd

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### CONTACTS

Product Management Swiss Interbank Clearing Ltd  
Tel. +41 44 279 47 47,  
Customer Service Swiss Euro Clearing Bank GmbH  
Tel. +49 69 97 98 98 35

Additional information about the Swiss payment traffic systems can be found on the Internet at [www.sic.ch](http://www.sic.ch)