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ClearIT

The Swiss professional journal for payment traffic



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On January 4, 1999, the euroSIC system started its productive operations – with the SECB Swiss Euro Clearing Bank as the system manager and as the bridge between the Swiss euro payment traffic and the euro payment systems of the EU countries. Since then, this joint venture of the Swiss financial center has continually been improved. What have remained unchanged are the well proven functionalities and the high level of reliability.

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The queen of Swiss payment instruments is still the credit transfer. In Germany, France or the USA, customers have other preferences. But payment patterns the world over will change due to technical innovations. It remains to be seen which new payment technologies will prevail.



DEAR READER,

Several articles in this issue of ClearIT focus on the significance of payment traffic. Within a national economy, payment traffic holds a central function; in order to understand the economy of a society, one must take a look at the organization of financial transactions. The increase in efficiency in payment traffic processing is indeed a condition for economical advancement.

Thanks to globalization, the Internet and real-time gross settlement systems (RTGS), today's payment traffic is indeed extremely dynamic. The daily (!) number of transactions processed in Swiss francs via the SIC system is more than 1.4 million; on peak days, more than 4.3 million. Reliability, precision and efficiency in transferring money are the success factors for this financial service. Especially in today's challenging financial market, these qualities are crucial for the payment flow between the financial institutions to circulate safely, securely and without breakdowns. Ultimately, the system is a guarantee that the monetary policy can be used to benefit the national economy.

By expanding the Swiss RTGS platform to include the euro, many more foreign institutions could be won over to this platform than in past years, thanks to the euroSIC system. Special mention must be given to the linking to the Eurex repo system, which allows the processing of euro money transactions of institutions with simultaneous linking to the securities coverage. Through it, euroSIC forms an integral component of the Swiss Value Chain and makes an important contribution to an integrated financial market in Switzerland.

It is only ten years ago that the banks were intensively preparing for a European uniform currency. Aside from the systematic implementation efforts required for the introduction of the euro, the question on whether the new currency would be strong or weak was very much the topic of public discussions. To my mind, there is no doubt that a solid, stable currency was created, one presenting a valid investment alternative to the US dollar. Switzerland wasn't the least of the beneficiaries of this development; the competitive edge was preserved with the founding of the SECB Swiss Euro Clearing Bank in Frankfurt, Germany, by the Swiss banks, and by linking the euroSIC system operator SIX Interbank Clearing to the euro zone. What still holds true is that successful advancement and good connections to the European payment market are long-term commitments that we must take seriously. The European payment market will continue to present us with new challenges.

I want to wish all participating financial institutions much continued success on the occasion of the ten-year anniversary of the Swiss joint venture euroSIC/SECB. The conditions for innovation in the world of finance in general, and for future-oriented payment traffic solutions in particular, remain very good indeed.

Jonas Rohrer

Executive Committee Member of Entris Banking Ltd

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

WHAT WILL THE FUTURE HOLD FOR THE SWISS POST PAYMENT TRAFFIC?

Consultation concerning the total revision of the postal law has been completed. At the center of the public discussion was the abolishment of the postal letter delivery monopoly. In addition to the postal public services, the law also prescribes services the Post is to provide in the areas of payment traffic. In early August, a study about its significance was published. Until now, an innovative claim has triggered little reaction. Professor Hans Geiger, the study editor talks with ClearIT.

ClearIT: *Professor Geiger, in your study on the Swiss payment traffic you write that Switzerland is a cash country. According to the Swiss National Bank, only the Japanese stockpile more bank notes than the Swiss. At least, up to this point, the value of the currency in circulation has sunk to below 8 percent in comparison to the gross domestic product. Sixty years ago it was at 25 percent. Will the tense situation of the financial markets turn this trend around, making the stashing of 1,000 franc bills under the mattress more attractive?*

Hans Geiger: Not under the mattress. If at all, then in a safe deposit box. Look, from an economic point of view there are two really safe forms of investment: Either participation in the Swiss Confederation in the form of government bonds, which is without risk by definition, or an account at the Swiss National Bank. Since the latter is only available to banks, but not private individuals, the man on the street would be left with buying bills in order to purchase a direct claim opposite the Swiss National Bank. This is not an investment recommendation.

Cash is an unprofitable investment

Nonetheless, as the results of one survey in Great Britain indicate, eleven percent of the population – almost three times as many as before the financial crisis – feel that stashing cash under the mattress is the safest.

Well, that's nonsense, because, statistically, the chance of a break-in is much greater than the chance that a bank will go bankrupt. Besides, in the

«Statistically, the chance of a break-in is much greater than that a bank will go bankrupt.»

case of a bankruptcy, I would get a large portion of my funds – and maybe all of them – back, thanks to investment protection. In the case of a theft, the damage would be 100 percent, since the burglar wouldn't just take part of the cash. Considering the risks, cash is obviously a bad choice; but cash is also a poor investment, since it continually loses value.



Hans Geiger: «Not in all of Europe, nor probably anywhere else in the world, is a single national postal service required to meet such regulatory requirements.»

SHORT BIOGRAPHY

Hans Geiger, professor emeritus, University of Zurich, obtained his economics degree at the University of Zurich. After a two-year assistantship he began working at Credit Suisse in 1970, where he became Member of the General Management starting in 1987. From 1997 until 2008, Hans Geiger was full professor of Business Economics at the Swiss Banking Institute of the University of Zurich. There he lectured about pay-

ment traffic/clearing/settlement and the credit and deposit business, as well as about regulation and supervision of banks, among other things. His teaching activities also led Hans Geiger to the University of St. Gallen. From 1990 until 2000, he was on the Telekurs Holding Board of Directors, and was its president from 1997-2000; from 1998 until 2004, he was a member of the Vontobel Holding Board of Directors; and since 2007, Hans Geiger has been president of the Board of Directors of Enerprice Partners Corp.

Payment traffic as a lucrative business

More than half of PostFinance's profits result from the payment traffic basic supply services, where their market share is almost 60 percent. What makes this business so profitable? Is it the credit transfers?

Yes, at least indirectly. I think that the transfers by themselves aren't actually attractive, either. What is attractive is when a customer makes a transfer via an account where the credits can be used for interest investments. Therefore, the package of the account and the transfers is highly profitable. It is a similar situation for the banks. In my opinion, it is impossible to look at transfers in isolation; instead, they must be viewed as a unit, since one cannot function without the other.

How do you assess the banks' profit situations?

PostFinance is definitely more efficient in this area of business. That is also one of the reasons why UBS outsourced its scanning – the conversion

«Basically, added value is comparable for banks and PostFinance.»

from paper to digital records – to them. But basically, added value is comparable for banks and PostFinance.

THE STUDY

The Federal Department of Environment, Transport, Energy and Communications (DETEC) commissioned the study in view of the current total revision of the postal law. The study was authored by Professor Hans Geiger of the Swiss Banking Institute of the University of Zurich. It is available – in German – at www.uvek.admin.ch.

According to its own information, the Post determines the pricing for its payment traffic business to match economic principles and takes into consideration that these are appropriate, and established according to the same principles for all customers. Traditionally, the creditor pays the fees for Post cash payments. Wouldn't it be more even-handed to apply the initiator-pays principle?

The fact that these fees are charged to the party receiving payment is indeed dissident, and contradicts all principles in payment traffic. There is, for instance, this rule within the EU that the creditor is to receive the entire invoice amount. Somehow, Switzerland's economy has resigned itself to accept this old tradition – since companies make up approximately 95 percent of payment recipients.

One of the intents of your study was to determine the potential short- and midterm risks for Switzerland's economy if the Post withdrew partially or entirely from the areas of payment traffic. Can you briefly describe your conclusions?

In order to do so, I have to give you a quick explanation as to how this study even came to be. Several surveys were compiled about the mailing services within the context of the total revision of the postal regulations. A year ago, I was approached by the Federal Department of Environment, Transport, Energy and Communications (DETEC) to provide an expert opinion about the payment traffic element, since this might possibly lead to discussions. In the postal regulations as they stand today, the Post doesn't have a monopoly in the finance area, but has three basic supply requirements: to facilitate transfers, deposits and at the post offices for the entire population «within an appropriate distance».

Not anywhere in all of Europe, or probably anywhere else in the world, is a single national postal service required to meet such regulations. Thus, the DETEC wanted to know what would happen if these outmoded assignments to render services were abolished.

«It is a lucky coincidence that the law requires something of the state which turns out to be in its own commercial interest.»

If this regulatory mandate didn't exist, the Post would still provide the services mentioned, since it is the most lucrative of the postal services. It is a lucky coincidence that the law requires something of the state which turns out to be in its own commercial interest.

**«Giro accounts for everyone»
– in Switzerland, too?**

This means that a withdrawal by the Post wouldn't have a negative influence on Switzerland's economy.

Most certainly not. Other providers would jump in. Of course, the three services are different. There are still an astounding number of people who withdraw their cash from the Post's ATM and then stand in line at the post office to make their payment deposits at the counter. If there weren't this mandate to provide this comprehensive, nationwide service, the post office would offer this type of cash payment service differently or not at all. This is the point today: For postal reasons, the Post is in the process of changing post offices into agencies and placing them where one could go to mail letters and packages – for instance, in small town stores. But payment deposits with cash could not be handled there, because that would require counter security, special staff training for the acceptance of cash because of money laundering, etc. Perhaps operating a counter isn't the most complex of all financial businesses, but it isn't exactly trivial, either.

So this all boils down to this: If the regulatory mandate to accept cash payment deposits in today's form remains, the Post might as well forget converting approximately 800 postal services locations because of cash payment depositing.

This is where we got creative and at the end of the study took the liberty of submitting a suggestion concerning the compulsory offer of an account and a debit card; the technical term is «obligation to contract». That is, in my opinion, economically and perhaps politically, too, the only fascinating part of our study.

CHRONOLOGY AND PLANNED SCHEDULE

- **February 2008:**
Post law proposal is sent to discussion
- **October 2008:**
Results of the discussion
- **Juli 2009:**
Lowering of the letter mailing weight monopoly, by decree, to 50 grams
- **In a second step,** the post law will be revised; the opening of the market will be designed separately as a Federal Resolution with the option for a referendum.

So you are proposing to commit the Post to offer an account and issue a debit card to all customers. In doing so, losses in cash traffic at the post office counters could be avoided while at the same time, the basic supply for the population with payment traffic services would be guaranteed.

Indeed, the requirement cannot be that the Post has to maintain 800 post offices that it doesn't need for its main purpose – mailing letters and packages – because the postal requirements can be filled by the agencies. Thus, we should ensure that payment traffic, too, can be processed at the agencies. How do we do that? By designing it so that everyone can take their yellow deposit booklet – the official, mandatory postal account receipt booklet – to the point of sales terminals at the national grocery store chains, Migros or Coop, to process payment services with their yellow postal debit card at the card terminals.

In England, the obligation to contract has been discussed for years. Germany has the catch phrase «giro account for everyone». Our suggestion is aimed in a similar direction: If we must maintain the

«If we must maintain the basic supply mandate, then we should at least be doing it in a modern way.»

basic supply mandate, then we should at least be doing it in a modern way. And in order to guarantee that everyone in the non-cash world can participate in economic life, we would postulate the obligation to contract for the Post.

Why don't you simply suggest to abolish basic supply mandates?

To abolish basic supply mandates is OK with me from a regulatory perspective. After all, that is what we are proposing. But because we aren't just out to celebrate regulatory policy, but instead had an idea that could be implemented technically but which politicians wouldn't think of, we proposed this. Other than the obligation to contract, which makes sense for me, the Post does not end up with an additional burden, nor with a competitive advantage – banks can do the same, after all.

What if someone doesn't want to take advantage of his or her right to the post account and card?

Post office counters would still gladly accept the cash. If someone chose to make their payments that way, they would have to make the extra effort to go to a post office. But that is still very user friendly. In federally securing payment traffic services, Switzerland would still remain far ahead of all those other countries where such services aren't being offered. It is indeed possible to be very user friendly in a modern world, since there are efficient and secure solutions, thanks to new technologies.

How were the reactions to this suggestion or to your study in general?

There was very little feedback, but that is normal. Actually, I didn't have any contact with the Post, either before or after the study.

And in the media?

I'm only aware of two articles in the French-speaking part of Switzerland's press and one radio report. Oh, yes, and, of course, the television report from my town. I remember the Weiningen Postmaster who everyone knew afterwards, since he was being asked for his opinion.

Interview:

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André Gsponer, Enterprise Services AG, andre.gsponer@eps-ag.ch

DRAFT OF PAYMENT TRAFFIC-RELEVANT ARTICLES IN POST LAW

Chapter 1: General Conditions

Art. 1 Purpose

1 This Law's intention is to offer the population and the economy multifaceted, affordable, and high-quality postal and other payment traffic services.

2 In particular, it is intended to:

- a. guarantee all populations of all regions of Switzerland sufficient and affordable basic supply of:
 1. Postal services
 2. Payment traffic services
- b. enable effective competition in the provision of postal services.

Art. 2 Object

This law regulates the commercial provision of:

- a. Postal services
- b. Payment traffic services by the Swiss Post.

Art. 3 Terms

Definition of the following terms:

SWISS POST LAW REVISION – PAYMENT TRAFFIC-RELATED REACTIONS

Under the new Post law, postal services and the payment traffic services are to be considered as two separate public services' mandates. In this draft, the Swiss Post is assigned responsibility for provision of payment traffic services (deposits, payments and transfers). The Post is to ensure that all populations in all national regions have reasonable access to these services. In doing so, the Post determines pricing according to economic principles and takes care that these are appropriate and applied uniformly.

- a. *Postal Services*: The acceptance, collection, sortation, transportation and delivery of items sent by mail;
- b. *Items Sent by Mail*: Addressed items in their final form, in which they are accepted by a provider of Postal Services, namely by a provider of letter, parcel or newspaper and magazine delivery;
- c. *Letters*: An addressed message on a physical carrier or medium of any kind;
- d. *Parcels*: Other addressed objects weighing up to 30 kg;
- e. *Newspapers and Magazines*: Regularly printed or issued publications on a physical medium, which are delivered to a broad readership;
- f. *Payment Traffic Services*: Deposits, withdrawals and credit transfers.

Chapter 3: Payment Traffic Services

Art. 38 Range and Prices

- 1 The Swiss Post guarantees a nation-wide basic supply of payment traffic services. Third parties can be called upon to fulfill its mandate.
- 2 The services must be accessible and available, in a reasonable manner, to all populations in all regions in organizing access to its services, the Post conforms to the needs of the population. The Post provides unhampered access to electronic payment traffic for people with disabilities.
- 3 The Post prices its services according to economic principles.
- 4 The Federal Council determines the individual services. Additionally, the Federal Council can specify the access requirements.

Early in the year, the Federal Council passed the draft to a new Post Law and forwarded it for consultation. Below are excerpts from the Post and Swiss Bankers Association comments.

Basic supply yes, but...

«The Post generally agrees with the content of the basic supply for payment traffic. Furthermore, the Post agrees with the request that self financing is possible. However, this assumes that the basic supply with payment traffic services remains economically feasible for the Post. The Post can only guarantee financing through its own resources as long payment traffic locations can be adapted to meet customer needs. Minimally, a temporary compensation option must be provided for the payment traffic performance mandate, if the cash payment traffic must be offered at all Post-owned and operated locations.»

Basic supply outdated

«From the Swiss Bankers Association's point of view, providing basic supply in the area of payment traffic is no longer necessary. Therefore, the planned assignment of payment traffic to the Post cannot be approved. Until now, provision of payment traffic services via telecommunications was part of competitive services. With the proposed draft, the basic supply mandate is phrased technologically neutrally, so that the services could be provided not only at post offices, but Post ATMs, by mail, as well as electronically. The payment traffic services are either to be subject to the rules of open competition or minimally be reduced to the area of cash deposits, analogous to the basic supply of postal services and to be tied to a concession.»

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

TEN YEARS SWISS EURO PAYMENT TRAFFIC

On January 4, 1999, the euroSIC system started its productive operations. Previously, Telekurs and the Swiss major banks had founded the SECB Swiss Euro Clearing Bank in Frankfurt, Germany, to function as the system manager and as the bridge between the Swiss euro payment traffic and the euro payment systems of the EU countries. Since then, this joint venture of the Swiss financial center has continually been improved and adapted to the changing market conditions. What have remained unchanged are the well proven functionalities and the high level of reliability.

Originally, SECB – and with it the euroSIC participants – was only linked with the pan-European euro payment system TARGET. While in 1999 it was half a million euro payments, ten years later the number of transactions processed by euroSIC will have multiplied more than eightfold.

More transactions and participants – sinking prices

euroSIC started with approximately 80 Swiss participating banks. Today, more than 100 additional financial institutions, both in Switzerland and abroad, are using the euroSIC/SECB payment path. The currency conversions in the EU, the opening of the systems for the SWIFT-compatible access via remoteGATE, the introduction of the Swiss euro direct debits in 2006, as well as the SEPA credit transfers in 2008 – all these milestones help generate continual acceptance and use of euroSIC. Through that, economies of scale can be achieved that benefit the participating banks in the form of lowered prices. Payment deliveries, which originally cost 13 euro cents per transaction, are as low as 5 euro cents today. Over that same period of time, the one-time access fee sank from 15,000 to 2,000 euros.

More and more payment channels

The market potential for euro payments in Switzerland is estimated at 20 to 25 million transactions per year, of which approximately 80% are cross-border payments. While it is estimated that euroSIC processes more than 90% of the national volume, the cross-border payment traffic still offers tremendous growth potential. That's why the euroSIC/SECB joint venture is increasing its market activities. On the one hand, it is building up international networking within the framework of which urgent and non-urgent large and small value payments, as well as SEPA and non-SEPA credit transfers, are processed.

PARTICIPANTS ABROAD

Aside from 56 foreign-owned/managed Swiss banks, financial institutions headquartered abroad process their euro payments via the euroSIC system. This group of participants currently includes ten institutions from Liechtenstein, four from Austria, three from Germany and one each from Great Britain, Italy and Denmark.

Starting in April 2009, for instance, euroSIC participants will be able to connect indirectly to the EBA STEP1 system via SECB. Beyond that, cooperation with the European clearing houses EBA and VocaLink already exists today, where the SECB acts as an entry point and thus guarantees the accessibility of all Swiss and Liechtenstein banking institutions. On the other hand, the SECB is further expanding its range of services as a correspondence bank – something that was first presented to the euroSIC participants at the user meetings in three Swiss cities this past October.

Expanding for the future: Additional services

The euroSIC/SECB joint venture continues to pursue its goal of providing the participants and users with high quality, efficient settlement processes for euro payments. This presupposes responding to user requirements, of course. In taking this into consideration, the SECB has analyzed its existing services and adapted and expanded them on the basis of the euroSIC participants' requirements. That's why the SECB is offering a broader range of products and services starting during the last quarter of 2008/first quarter of 2009. This includes a comprehensive handling of research and complaints, the conversion of non-STP to STP, and the determination of routing paths for payments both within Europe and globally.

SEPA fee regulation

Those Swiss and Liechtenstein banks that have signed the SEPA Adherence Agreement are able to process their SEPA payments via the joint venture. Linking with EBA STEP2 and VocaLink, the SECB provides active and passive accessibility for SEPA payments. The next SEPA step, the introduction of the uniform European direct debit, is supported by euroSIC/SECB, as well. euroSIC participants wanting to apply this process can initiate the settlement of direct debits via euroSIC and SECB.

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USER MEETINGS

In October 2008, the first euroSIC user meetings took place in Zurich, Geneva and Lugano. In the future, these customer events will take place every year, informing participants of developments in euro payment traffic in general, and about innovations and upgrades concerning the Swiss joint venture euroSIC/SECB in particular.



Roland Böff, SECB CEO, welcomes the 80 participants to the Zurich euroSIC User Meeting on October 9th, 2008.



The joint venture team at the Zurich User Meeting (l. to r.) Roland Böff and Susanne Eis, SECB, Christian Schwinghammer and Bruno Kudermann, SIX Interbank Clearing.



Customer service at the user meeting reception: Erika Ruedisueli, SIX Interbank Clearing, with guests.

GERMANY, AUSTRIA, SWITZERLAND – ALL UNDER ONE UNIFI ROOF

Zurich, Vienna, Berlin. An informal SEPA working group with representatives from the three German-speaking countries was established at the first meeting in Zurich this past July. Already during the first workshop in mid-October, the potential for synergies was identified. In January, the standardization experts will meet in the German capital.

Together with the financial institutions of the 30 EU/EEA countries, the Swiss financial center will introduce new services in the areas of credit transfers and direct debits within the framework of the Single Euro Payments Area (SEPA). These services are based on the ISO 20022 Universal Financial Industry message scheme (UNIFI) standard and are complemented by the EPC (European Payments Council) requirements as the SEPA coordination and decision committee. The generic ISO and EPC definitions require further technical definitions and specifications for introduction in the individual countries. In Switzerland, these efforts are coordinated by various working groups of the Payments Committee Switzerland and Swiss Commission for Financial Standardisation with the goal of obtaining a uniform process as well as developing requirements for meeting business rules and implementation guidelines. In an effort to support these activities, a meeting of representatives from Switzerland, Germany, and Austria was called.

POTENTIAL FOR SYNERGIES AMONG THE THREE COUNTRIES

- Reusing of concepts/methods for validation platform
- Uniformity of German-language status and error messages for status reports
- Uniformity of German-language booking codes
- Joint definition of rulebooks for transfers to third-party countries (e.g., dollar payments to the USA)
- Joint definition of the cash management XML messages
- Coordination in dealing with supra-national committees

At the meeting, the diverse starting positions of the respective countries were recognized, but also a great many similarities. Processes in the German-speaking countries were discussed and coordinated; ideas and suggestions for solutions were exchanged. The topics ranged from questions relating to legal regulations to questions about assigning «Creditor Identifiers» (required within the SEPA direct debit scheme), and from national implementation guidelines and XML schemes to the new XML messages in the area of SEPA credit transfers and direct debits.

*Istvan Teglas, SIX Interbank Clearing Ltd,
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Meeting participants from left: Istvan Teglas (SIX Interbank Clearing), Carsten Miehling (Recon IT), Ralf Schopohl and Richard Hauke (German Savings Bank Association), Joachim Geisler and Robert Reiger (Study Company for Cooperation in Payment Transfers, STUZZA), Ingo Beyritz, (Association of German banks), Christian Schwinghammer (SIX Interbank Clearing), Hendrik Muus (STUZZA), and Tim Veyhelmann, UBS.

EBA EXPANDS SEPA SERVICES

The pan-European clearing house adapts its services for SEPA credit transfers (STEP2 SCT) to the growing needs of European banks. Thus, in May 2008, EBA CLEARING, on short notice, introduced a second processing and settlement cycle in order to meet the requirement for same-day settlement in addition to the planned night processing.

Within this cycle, payments supplied by 1 pm are processed. The procedure is designed in such a way that the banks on the receiving side get their payment data by 4:15 pm, which opens up additional cost saving potential, particularly for the Swiss banks. Furthermore, starting at the end of 2008, the settlement of STEP2 SCT payments will be processed via TARGET2. With this, EBA CLEARING is preparing for the sizeable increase in SEPA payments expected in the coming years. The new overnight processing cycle, including settlement, was introduced as an important innovation at the request of the Scandinavian banking industry. For their part, the banks must make the necessary adaptations in order for the current domestic payment traffic to be SEPA-compatible as soon as possible. At this point, only the banks of Luxemburg offer the SEPA format for a majority of their domestic transactions, thus saving the costs that result from parallel operations of national proprietary data formats and a national infrastructure.

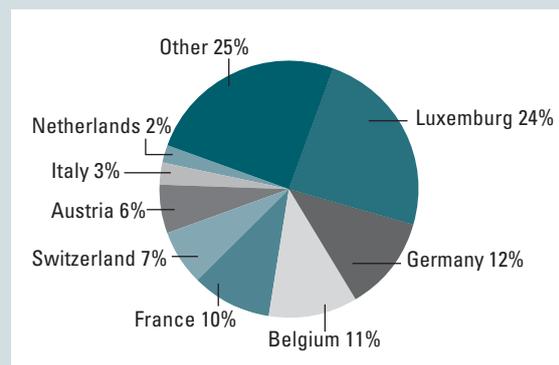
Some financial institutions operating Europe-wide have at least decided to do without using a national infrastructure for their SEPA payment traffic. That is a step in the right direction, since ultimately, implementing SEPA also means rethinking bank-internal transaction processes and focusing on standardized solutions. That will take several years, since national laws, infrastructures, standards and the «payment culture» of the 31 European countries cannot be changed all that quickly.

After the successful SEPA transaction launch, it is crucial to further the migration without losing sight of an important interim goal: The introduction of the SEPA direct debit scheme after the Payment Services Directive's transposition into national law in the coming year.

The sooner each bank initiates a strategic shift for the future, the better, because increasing numbers of transactions, adaptation to the PSD requirements, and preparation for standard and corporate customer direct debit schemes, as well as the mandate handling linked to that, represent a significant challenge.

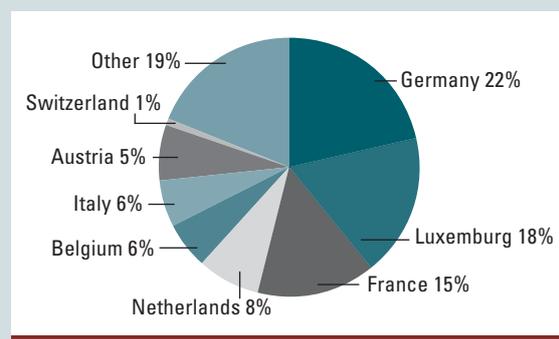
Daniel Szmukler, Head of Communications and Corporate Governance, EBA Group, d.szmukler@abe-eba.eu

STEP2 SCT Market Shares, Outgoing payments



1.5% of the Swiss payment traffic (98.5% are denominated in Swiss francs) makes up 7% of the European market share.

STEP2 SCT Market Shares, Incoming payments



September 2008

SO MANY COUNTRIES, SO MANY PAYMENT HABITS

The queen of Swiss payment instruments is still the credit transfer. In Germany, France or the USA, customers have other preferences as far as their payment instruments are concerned. But payment patterns the world over will change due to technical innovations. It remains to be seen which new payment technologies will prevail.

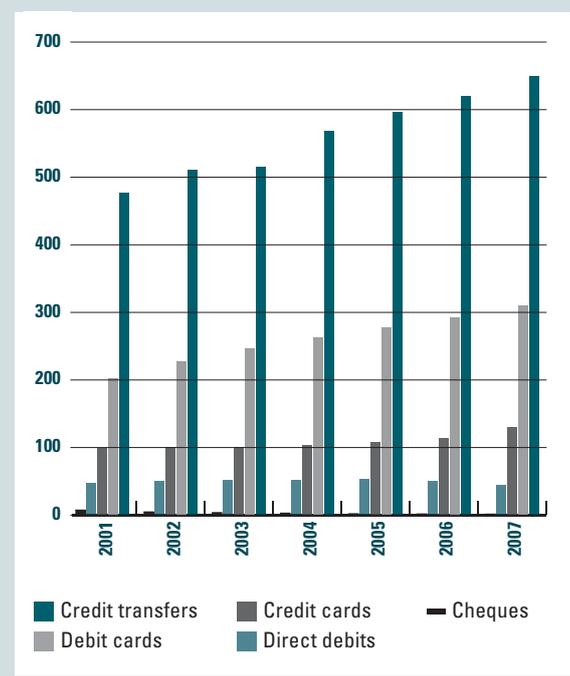
At 648 million transactions and a turnover of 3,957 billion Swiss francs in 2007, credit transfers make up Switzerland's most significant cashless payment instrument. More than half of the cashless payments are made this way. Customer payments are processed straight through by the banks and PostFinance and settled via the SIC payment system or via PostFinance accounts. Since banks are increasingly outsourcing their payment traffic, the «yellow» processing path has recently been showing growth.

Direct debits and checks are out – card payments are in

The Swiss direct debit procedures of the Swiss banks, LSV+ and BDD, and PostFinance's Debit Direct, show a negative trend over the past few years. The transaction number decreased a notable 13% from 2006 to 2007, leaving a market share of less than 4% of cashless payments with this instrument. When compared internationally, it is obvious that, especially in Germany, direct debits are of far more significance, with a market share of 43%. The German procedure diverges from the Swiss one in that the booking entry results from the collection authorization initialized by the creditor without the debtor being actively involved. Furthermore, the process can be used for one-time payments. Due to the high handling fees, checks never were very widespread in Switzerland.

With the abolition of the Eurocheck in 2001, the number of check transactions sank from approximately 28 million in 2000 to barely above 1 million in 2007, representing a cashless payment traffic share of 0.1%. Compared to these numbers, check payments in France or the USA, for example, are still rather common with a share of 26% and 33% respectively.

Development in payment habits in Switzerland (number of transactions, 2007)

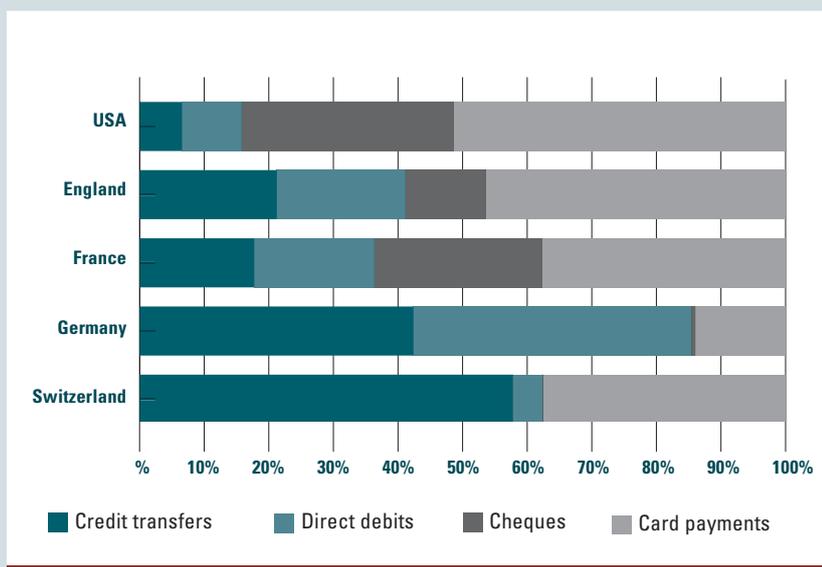


In Switzerland, approximately 40% of cashless payments are executed with the roughly 10 million cards of various types currently in use. In addition to cards with credit, debit and cash functions, which can be used in numerous locations, larger corporations such as department stores are increasingly offering customer cards.

New trends

Internet payments are cost effective for the customer, and are thus increasingly used – and not only in Switzerland. In order to increase mobile payments – the payment and execution of transfers via cell phone – new initiatives have been launched all over Switzerland. During a pilot program, 150 employees of Credit Suisse, Post-Finance, Swisscard, Swisscom, SIX Multipay and Visa Europe could pay for their meals in selected company cafeterias using their cell phones. This type of payment has gained popularity, especially in Finland and Asia. The cellular net operators announced the option of making money transfers using cell phones, but without the need for a bank account. Ever since then, mobile payments have been increasing in Africa, as well, since in those countries, many people own a cell phone but do not have a bank account. Spain's ATMs are equipped to not only provide the regular services of drawing cash and making payments, as well as providing information services, but also to offer such services as purchasing theatre and concert tickets and reloading public transportation passes and pre-paid cards. A very promising innovation in cashless payments is «contactless» technology: Both the identification of the card user at a reader, and the payment, occur without contact. Neither a PIN nor a signature is required, resulting in significant time savings during the payment process. This technology has been on the rise for about ten years in the Pacific Rim countries, particularly in Hong Kong, Japan and Singapore.

International comparison of payment instruments (% of total number of transactions, 2006)



Source: BIS, Statistics on payment and settlement systems in selected countries

Efforts to gain market share in retail payment traffic using contactless payment technologies are currently being undertaken in the USA and in Europe. Other types of development in electronic payment technologies are also being pursued. Contactless payments with mobile phones will soon be possible; «VoicePay» uses the uniqueness of the human voice to digitally sign and authorize payments, and finger and/or hand prints will replace card as well as identification functions.

New opportunities, new threats

With the increased use of new electronic payment forms, the industry can process payments more efficiently. The users of new payment traffic technologies can make their payments more quickly, more securely and more flexibly; however, these same users also disclose more and more of their private information and lose their anonymity. And these new technologies open the door to potential new forms of fraud. This is only one of the reasons that cash – especially in Switzerland – will continue to play a major role; thus, banknotes and coins will remain a common sight in the future.

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PRE-ANNOUNCEMENT: SWISS BANKING OPERATIONS FORUM

The next payment traffic seminar organized by SIX Interbank Clearing will take place on March 25, 2009 at the Convention Point of the Swiss Stock Exchange SIX Swiss Exchange in Zurich. Registrations will be accepted on a first-come basis on SIX Interbank Clearing's website as of mid-January. More information will be available in due time on www.six-interbank-clearing.com.