SIX INTERBANK CLEARING

CLEARIT

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Photo front cover: Project image "New SIC Architecture" – a joint project of the Swiss financial center

Dear readers,

Swiss Interbank Clearing (SIC), the Swiss RTGS system for francs, has been a success story for almost twenty-five years. Since its launch in 1987, the system has been processing Switzerland's interbank payments reliably and at very favorable rates. All parties involved are perfectly happy with the services. Nonetheless, some signs of age are starting to appear. The SIC architecture was designed almost thirty years ago and was seminal back then. Various other RTGS systems have been adopting SIC elements since that time. Yet, experiences over the past few years have shown that SIC's development cannot be continued indefinitely.

One case in point is the XML message (ISO 20022) introduced last year for the SEPA services Credit Transfer and Direct Debit. It showed that SIC's architecture was not well suited to the processing of these messages. Today's smaller volumes don't pose a problem yet, but if the Swiss financial center wants to migrate to ISO 20022, as the article "20022: Roadmap to ISO" demonstrates, a new architecture that can form the base for the next decades will be mandatory. The necessary work has begun with the "New SIC Architecture" project. You can read more about this topic on page 9. Another measure to support the migration to ISO 20022 by financial institutions and software providers is the introduction of the validation platform for XML messages, as described in the corresponding article. The various activities for the payment traffic conversion to the new standard are very interesting, indeed, but at the same time, very demanding. The new systems must be as reliable as the existing ones, operating costs may not be higher, and the new architecture is expected to be able to meet the new demands of the coming decades.

In addition to the Swiss topics, this issue also focuses on European aspects. Read the informative interview with Gerard Hartsink about SEPA and the article about Liechtenstein, showing our neighbor's challenges in implementing the Payment Services Directive (PSD). All in all, another issue with an interesting blend. <

Martin Frick
CEO SIX Interbank Clearing Ltd

M. Frick

No end date, no SEPA

Gerard Hartsink, Chairman of the European Payments Council (EPC), speaks about the banks' roles, responsibilities and achievements in the Single Euro Payments Area program to date. His comparative assessment of the situation in a number of SEPA countries reflects the current debates and concerns.

CLEARIT: It has been almost five years since our last interview, Mr. Hartsink. What has been your most positive experience in terms of creating the Single Euro Payments Area (SEPA) since then?

Gerard Hartsink: In a declaration in March 2005, the EPC Plenary committed itself to deliver the rulebooks for SEPA and to start with implementation in 2008 on a self-regulatory basis. Although we weren't sure of the feasibility of an end of 2010 timing, in terms of customer dedication, more than 4,500 banks signed up for these master agreements – and yes, the banks proved to be able to deliver.

"That has nothing to do with currency but with efficiency."

In the meantime, there have been financial crises, economic crises, currency crises and debt crises – millions of Europeans are suffering and have to tighten their belts. What effects do these economic and political uncertainties have now on the SEPA environment? And what are the possible risks for its future?

While we cannot ignore these current difficult issues, one thing is clear: The European agenda of economic integration and cooperation is still valid. In the end, Europe has chosen its own currency. And if you still think that the economic and financial integration with a single currency makes sense, then it also makes sense to continue with SEPA despite the present crises, because the restructuring of the payment industry is not just aimed at the next two years or so but towards the next 50 years. This timeline perspective is very important. If you don't believe in economic integration or no longer want to support the common currency, then SEPA is to be viewed from a different perspective. But even then it still makes sense to have uniform standards and rulebooks. Let's take the capital market as an example: Although we have different currencies even in Europe, we do have the same trading agreement – the International Swaps & Derivative Association Master Agreement. So it makes sense in any case – for one or several currencies – to use the same rules and the same technical standards. Russia, for instance, has been revising its payment legislation and is very much interested in the SEPA model. They are thinking of copying it and that has nothing to do with currency but with efficiency.

"Biggest bullshit ever", a leading European politician was recently quoted as saying. The SEPA standard was entitled, "IBAN the Terrible", by a German daily newspaper. Half of the banks remain skeptical about SEPA. Is it farfetched to also speak about a SEPA crisis today?

SEPA has been implemented in Luxembourg. This will also be done in Finland at the end of this year. Progress in Belgium is far advanced and the same goes for Austria and France. I cannot understand why the situation in Cologne should be much different than in Paris, Vienna, Brussels, Helsinki or Luxembourg. If you don't properly explain to the customers what it's all about, of course they will always have concerns. Sure, there will be changes in the customer experience, but how often does a consumer actively use the IBAN? The consumer doesn't see the IBAN when he receives his salary, his pension or social benefits, if he pays with a card or initiates a direct debit. You only need to know the IBAN for a limited number of cases, such as when you initiate a credit transfer. And even here, today's banking applications support the consumer by storing his or her numbers. One thing is sure, according to current law, the IBAN must now be on the account statement of every citizen in the 27 EU countries.

How much understanding do you have for those voices, especially from Germany, that are warning of an impending chaos, because bank customers might not be prepared for the IBAN?

Addressing these concerns is mission critical. That is also the conclusion of the SEPA Council, a high-level body of European representatives. And the message is very clear. Communication should be organized appropriately at the national level. We share a common future, but have different histories. I find it remarkable that German customers have more concerns than do the French or the Finnish, for example. It all has to do with communication by the public authorities and the banks in each of the 17 member states within the euro area.

Brief biography

Gerard B.J. Hartsink is Chairman of the EPC and Senior Advisor to the Managing Board of ABN AMRO Bank. During his career as Senior Executive Vice President of ABN AMRO, he has held managerial positions in sales, product development, information management and operations in several of the business units. At the bank, he is currently responsible for market infrastructures in the securities, payments, forex and cards industry. He also participates in the following organizations: CLS Bank International Board; TARGET2-Securities Advisory Group; LCH.Clearnet Board; ISO 20022 Registration Management Group and the SWIFT Board.

EPC Council

The EPC Council is a high-level body co-chaired by a managing board member of the European Central Bank and the European Commission's Directorate-General, Internal Market & Services. Members are the chairs of the European associations of consumers, retailers, corporations, representatives of small and medium-sized companies and national public administrations as well as the chairs of three European banking associations (EBF, EACB, ESBG) and of the EPC.

"From a historical point of view it is clear – and that is mission critical – that SEPA is a co-regulation program."

You already mentioned the importance of communication years ago. According to a representative of the German railway company, the government claimed the banks would be responsible. The banks claimed this was up to the government, because SEPA was a political project. "Until now, the responsibility has been shifted back and forth and as a company we are stuck in the middle," he said.

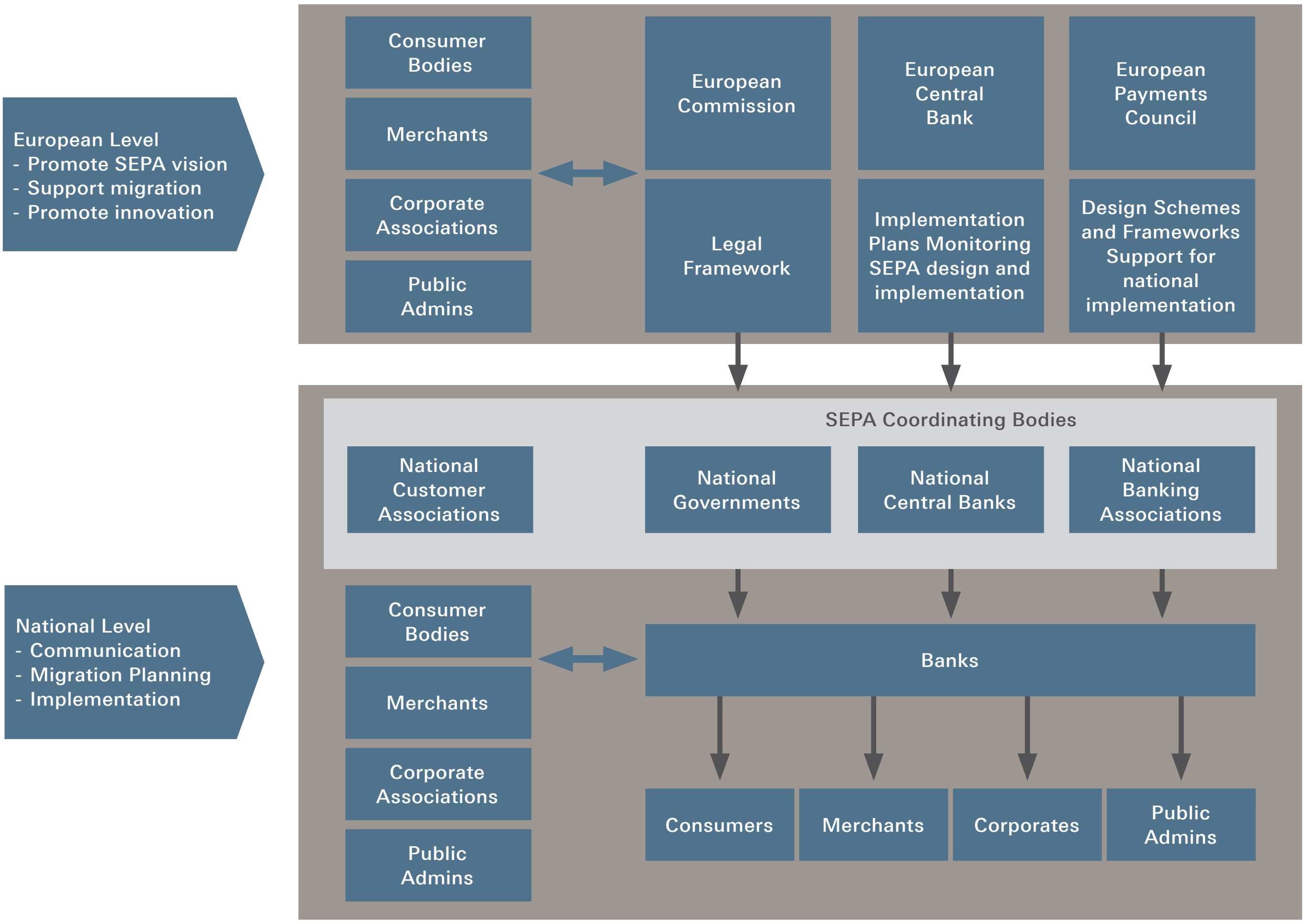
For that reason, the SEPA Council strongly stressed the need for improved communication. There are best practices in which people from the supply side of payments services – basically the banks – and the buy side sit around the table with the public sector, mostly chaired by the central bank and by the ministry of finance. As far as I know, the German community is currently adopting this model of cooperation. From a historical point of view it is clear – and that is mission critical – that SEPA is a co-regulation program. The public sector already took the initiative on the European level back in 1990 with the publication of the report, "Making Payments in the Internal Market", which outlines a community vision of a single payments area. The Brussels community, the ECOFIN and the predecessor of the European Central Bank all supported the single currency. The ECB stressed several times that a single currency requires a single set of payment instruments. The European Parliament and the ECOFIN then decided to adopt regulation 2560/2001 in 2001, because they did not accept that there should be price differences for citizens between domestic and cross-border payments and because they thought the banks were not moving forward quickly enough. So, it is simply not true that SEPA was initiated by the banks.

The banking industry feared political regulation and preferred to move forward with self-regulation. The EPC, as the representative body of the European banking sector, is not responsible for the entire SEPA program. Perhaps this is not obvious enough in all member states. The banks managed to put the necessary rules and technical standards in place on the European level in time. That was our job. Furthermore, co-regulation requires that the public sector and the private sector cooperate; not only the supply side but also the buy side of payment services need to do their own work.

You just referred to Finland. Some voices say that so-called mini-SEPAs following the Finnish design could place the whole SEPA concept in question. Is this of any concern to you?

Yes and no. Let's start with the "no" part. We have designed the rulebooks we all adhere to, the Finnish banks included. I'm very well aware that the Finns would like to have more than 140 characters for remittance data. However, all participants of our SCT and SDD Schemes are required to respect the 140 character specification for euro payments from customer to customer. That does not mean that a community of banks cannot deliver an additional optional service with more than 140 characters. This option is recognized by the EPC Plenary. However, scheme participants that deliver an Additional Optional Service must respect three requirements: First, it may not create a problem in the end-to-end chain for any of the scheme participants in SEPA. Second, if an AOS is more than a value-added service of an individual bank in a national context, it must be published in English. And third, each participant of that AOS scheme community has a legal obligation to ask the EPC to review and to consider making those additional rules an optional or mandatory part of the rulebook. On the other hand, I do have concerns about ending up with multiple AOS for similar purposes. I don't see the benefit in having

SEPA Cooperation model
Coordination challenge: stakeholders are european and/or national



Source: EPC, July 2011

the same core scheme, but too many flavors of add-ons or lookalikes. So, in your example, it is not only relevant for the Finns, but for the entire SEPA community to consider the reasoning behind certain additional optional services and to consider having them added to the rulebooks as an optional or mandatory feature for all scheme participants.

Do the Finns comply with the three preconditions?
Yes, they do.

In our last interview you said that you were impressed by the French commitment. You were then assuming that the critical mass of 75 % of all payments and 50 % of all private customers would be processed according to the SEPA rules by late 2010.
I suppose I was too optimistic...

I'm not only referring to your statements, but also to France's first and last migration report, which was released on the SEPA France website in late 2008. Do you have a more recent interim result for this and other SEPA countries?
I know that direct debits aren't at the level indicated at the time, but the public authorities are planning to migrate the "prélèvement" to SDD next year. And I'm still really impressed by the French SEPA governance model. It's the strongest in Europe. At the highest level, the buy side, the sell side and the public sector are sitting around the table to make it happen.

In what way are you happy with the proceedings of the other SEPA countries so far?
From my point of view as EPC Chair, it is mission critical to have a set end date regulation in the pipeline. The current draft says that credit transfer migration must be completed by February 2013 and direct debit by February 2014. Recognition of the necessity of this regulation is fully shared not only by the EPC, but also by the SEPA Council, as well as the buy and the sell side equally. No end date, no SEPA. Otherwise SEPA will be a failure. Nevertheless, the SEPA market is moving forward even if some communities are taking a wait-and-see approach because of the lack of a set end date. Once it has been decided upon, there will be no further escape for customers when it comes to supporting SEPA.

How surprised are you that less than 20 % of credit transfers (SCT) and 1 % of direct debits (SDD) within the euro zone are compliant with the SEPA schemes?
We were well aware that SDD is more complex. The fact is that we started with it 18 months after the SCT launch mainly because of the Payment Services Directive, which had to be transposed in the national legislation of each of the EU/EEA member states before the rollout. The timing had also to do with the complex issue of debtor and creditor mandate flows. If a consumer gives a mandate, does he give it to the debtor bank, i.e. his own bank, or to the corporate or public administration? There are different methods for this in Europe. So, the economic model for direct debits is quite different among the various member states. The interchange arrangement, for example, in the German and Austrian model is based on rejects and returns, while in the French, Italian and Portuguese models we have to deal with a transaction-based fee model. The EPC decided on a maximum of 8.8 euro cents fee per transaction as a default with the commitment to review this default after the migration to SEPA. The European competition authority thinks that a transaction-based interchange fee is not in the interest of the consumer. It would be better for him/her and for the economic model to receive a discount from the corporate or the public administration. The point is that even in public hearings some of the corporate associations said very clearly: "We are not committed to give any discount." In short, the corporates do not want an interchange, while customers seem to support it. While exactly where we are heading remains unclear today, one thing is sure: the banking community is ready. Thus it isn't an issue for the debtor and creditor banks, but for the corporates, the public administrations and the consumers. The European Parliament should sort this out.

Outgoing Swiss SCT transactions make up 2.3 % of Europe's cake – a little less than those in the Netherlands and just a bit more than those from Spain. Outgoing core SDD transactions amount to more than 3 %, putting Switzerland in fourth place after Belgium, Germany and Austria. To what extent does it surprise you that Switzerland, as a non-euro country, keeps up well with the euro-zone countries?
I'm very well aware that Switzerland is in the heart of Europe and historically has very strong trading relations with the rest of Europe. I'm also very well aware that Swiss banks, corporates and the whole Swiss community are very committed to involvement in the SEPA program, because it's in their economic interest, but the specific statistics and the rankings are new to me.

You mentioned in our CLEARIT interview back in March 2007 and now again that direct debit is a very critical part of SEPA. One hears, for example from Germany, that there is still no solution for the transition of the nationwide 700 million contractual relationships to SDD mandates. Do best practices exist to solve this problem?
There are definitely a lot of best practices. The point is that Germany is the only member state where this is not yet resolved. The concern of the corporates and public administrations is understandable. It's very risky for a corporate to debit a customer's account for a newspaper or an insurance premium subscription with a new signature and for that reason a legislative provision must be organized to enable the current mandates to also be valid for SEPA direct debit transactions. Legally, businesses need to have stored the mandate with the customer's signature. But, for

example, it's not always easy to find a signature from ten years ago. That's the reason why the EPC stated that the legal validity of old mandates are applicable for new direct debit mandates. This issue has been solved in 26 member states so far.

Where's the trouble then?
Well, the legal issue should be fixed by law. Towards that end, with full support of the Plenary, the EPC sent a letter to the ministers of finance and of justice on behalf of all banks. The German authorities have replied that they would solve the problem when the time was right.

"If the banking industry does not cooperate regarding the delivery of concrete services, the 'e' and the 'm' will be provided by others."

SDD, SCT are well known by now throughout Europe and we know how to deal with them and what we can expect. But SEPA goes further, such as the future projects: e- and m-payments. Where do we stand? What tangible benefits can the banking industry gain from these initiatives?
If the banking industry does not cooperate regarding the delivery of concrete services, the "e" and the "m" will be provided by others.


Gerard B.J. Hartsink, Chairman of the EPC and Senior Advisor to the Managing Board of ABN AMRO Bank.

Who would these "others" be?
Concrete services could be provided by companies such as PayPal, which is not traditionally in the payments business, but in the interfacing business, even though it currently acts as a bank in Luxembourg. I'd like to talk about the "m" story first. A mobile phone chip can provide access to payment infrastructures just like a chip on a piece of plastic. That means that banks, together with telecom operators and handset providers, should cooperate on the technical standards of the SIM. From the consumer's perspective, he/she should be free to choose a bank, a phone and a mobile operator. That means that those three parties have to agree on many concrete rules and technical standards. And this is what the EPC is working on. We have done a lot, but we are not yet ready for the situation in which any combination of banks, mobile operators and handset providers are able to deliver access to payment services with a mobile phone anywhere in SEPA.

Now, regarding the e-payment story: I believe that the authentication tool of any bank is technically and legally strong, and is also trusted and accepted by the consumers. We should reuse the banks' effective solutions to support consumers who buy goods and services from any Web retailer to initiate a payment, be it via a credit transfer, a direct debit or a card transaction. We created an e-Payments Framework that has not yet been approved for public consultation because of a debate with the competition authority. They have expressed concerns on the EPC's adoption of a framework that is perceived to be only applicable for bank-owned payment schemes The European Central Bank demands that we complete the framework and at the same time asked the EPC to create a SEPA-wide e-payment scheme or to adopt one of the current schemes. We are expected to come up with a concrete proposal at the next SEPA Council meeting on 2 December at the latest. There is a potential proposal in the pipeline, and focusing on SEPA, I'd say, yes it should be possible to make it happen. <

Interview: Gabriel Juri, SIX Interbank Clearing
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One, two, three, four – SIC⁴

It's been almost 25 years since the SIC system was introduced to the Swiss financial center – a milestone in interbank payment processing. When it comes to meeting the needs of today's financial institutions, however, its IT design is starting to reach its limits. SIC⁴, the new SIC architecture, is the answer to the challenges of the coming decades.

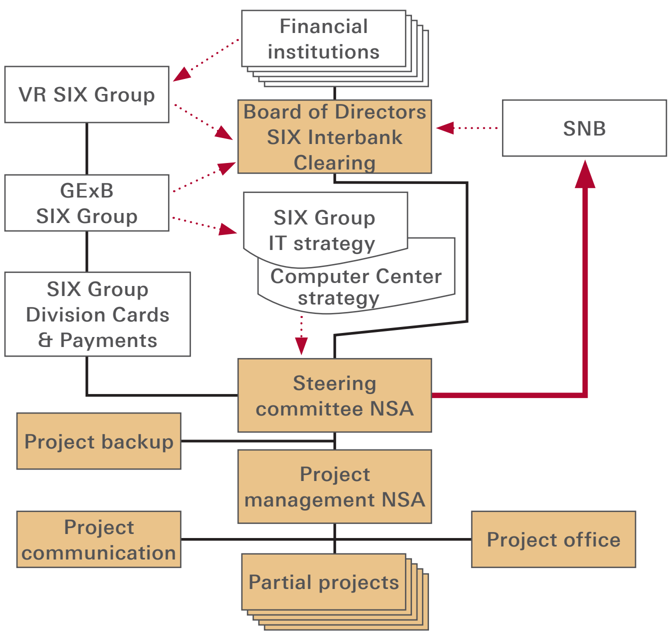
SIC has proven to be truly formidable. In the early eighties, the Real Time Gross Settlement (RTGS) system for Swiss francs incorporated a number of innovative concepts regarding reliability, efficiency, risk management and technology. When the system went live on 10 June 1987, replacing the old bank clearing was seen as a quantum leap, a direct transition from a craftsman's workshop to a high-tech system, in the words of Prof. Dr. Hans Geiger, Professor Emeritus of Banking at the Institute for Swiss Banking at the University of Zurich. With SIC the Swiss financial center has literally coined the term RTGS before the expression ever became characteristic of all modern clearing systems worldwide. In many cases, the development of the RTGS systems in other countries was based on SIC. The second milestone, euroSIC, was introduced to precisely coincide with the launch of the euro in 1999. Used initially by a handful of Swiss banks, it currently counts approximately 190 participants in Switzerland and abroad and has proved to be a success story as well. The third major innovation was marked by the integration of SIC and euroSIC on a single technical platform, a move that has made the systems much more cost-effective to operate over the past eight years.

SIC⁴
Neue SIC-Architektur
New SIC Architecture
Nouvelle architecture SIC

Joint project

Now, a new major project has been initiated with the development of the "New SIC Architecture" (NSA). The stated goal is to develop a new RTGS architecture – SIC⁴ – over the next four years. This will happen in close cooperation with the Swiss financial center's major stakeholders on behalf of the financial institutions, and the Swiss National Bank as the SIC system manager and overseer of Switzerland's systemically important payment traffic infrastructure. The NSA rough concept was signed off by SIX Interbank Clearing's Board of Directors, the Swiss decision-making body in the payments area, in June 2011.

Project governance



Added value for the financial center

On one hand, SIC⁴ must retain its high level of security, reliability, high-performance and cost-efficiency. While at the same time, the new platform must meet the future, new demands in terms of standards, functionality and compliance. In this way, the financial institutions, as participants in the Swiss payment system, will be able to optimally meet their customers' needs. The XML standard ISO 20022 plays an important role in this regard. Having been already established in the interbank field for today's SEPA services, the standard is planned to be implemented in the TARGET2-Securities system, starting operation in fall 2014. In the future, the XML standard ISO 20022 will play an increasingly important role in the data exchange between financial institutions and their customers. SIC⁴ needs to be designed with such flexibility that the introduction of a future new message standard can be achieved easily and cost efficiently. <

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20022: Roadmap to ISO

The Swiss financial center is currently developing a study to prepare for migrating the Swiss payment traffic to ISO 20022. The current national payment schemes and formats used in Switzerland are to be standardized and adapted to those of the euro zone by 2018.

In June 2011, the Swiss Payments Council decided on proceeding gradually. The first phase, lasting until 2014, contains the analysis; the next two years will be spent implementing and testing; and parallel operations of the new and old schemes are scheduled during the third phase until 2018. Financial institutions and systems operators will be confronted with significantly higher operating costs during the last phase, which is why that phase should be as short as possible. Additionally, safeguards will need to be in place to ensure that no participant will support any of the old schemes beyond the first phase, which would undermine all the financial center's efforts.

Dependencies

Straight-through processing is central to increasing customer usage or lowering transaction costs. Accordingly, the Swiss RTGS systems will need to be able to process the transactions using the new "pacs" formats right from the beginning. Among other things, this dependency is taken into consideration in the "SIC4 – New SIC Architecture" project (see also article on page 9). As far as development within the SEPA is concerned, the Swiss financial center has legal autonomy to choose financial instruments. Nonetheless, compatibility is not only increased among the actors in Switzerland but also cross-border with the SEPA countries, independent of the various currencies, thanks to the joint ISO 20022 standard. Due to the close economic ties between Switzerland and the rest of Europe, this is a very significant factor, even though, at this time, SEPA-compatible payment volumes are still low in parts (see interview on page 4).

The thematic classification of ISO 20022

With the migration to ISO 20022, most of the existing Swiss payment traffic standards, formats and schemes are being replaced. Slips, credit transfers and direct debits are defined as areas of application. They have in common that transactions, independent of the scheme used, are based on the same information. Information about the amount, currency, debtor and creditor are required both for payment orders and for collections. The payment reason can be available either in structured or non-structured form.

In order to create added value for customers while at the same time meeting regulatory requirements regarding transparency, new slips could include a barcode to facilitate data input.

There are some options available for credit transfers, as well, to standardize the historically evolved complexity and to offer customers new functionality. Examples: End-to-end identification and standardized status information.

The various debit authorizations notwithstanding, harmonization of the six direct debit schemes within the Swiss financial center seems possible, especially when taking into consideration that with the SEPA introduction the financial institutions are already handling both types of debit authorizations. If the Swiss financial industry is able to pull off this harmonization and straight-through processing systems, the creditors would end up working with one collection scheme and thus be able to consolidate their business processes.

Generally, there are three options to choose from: Maintaining the status quo, envisioning a convergence of today's slips and schemes with the ISO 20022, or developing new slips and schemes. This decision is up to the players of the Swiss financial center, represented in national payments committees. <

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Standardized interfaces with savings potential

ISO 20022: Validation Support

The Swiss financial industry is advancing the introduction of the XML standard ISO 20022 for payments. Replacing the proprietary national formats holds the potential for considerable cost savings. Financial institutions, software providers and business customers have had access to a central validation software on the Internet since mid-August 2011. It is aimed at supporting the migration to the new payment data set.

ISO 20022 plays an increasingly significant role in the area of data exchange between financial institutions and their customers. Within the intra-European payment traffic, the SEPA standard is advancing irreversibly. Its added value for the national payment traffic is being recognized by the Swiss financial center. According to Credit Suisse (see CLEARIT 47, March 2011), by replacing the Swiss specifics DTA (of the Swiss banks) and EPO (of PostFinance) for the credit transfer scheme, as well as LSV (of the Swiss banks) and Debit Direct (of PostFinance) for direct debit processing, savings of up to CHF 380 million could be achieved.

A collective service

SIX Interbank Clearing as a joint venture of the Swiss financial center is offering a validation platform it launched in mid-August. Financial institutions, software producers and business customers can use it to test whether the elaboration of individual payment messages meets the rules and recommendations the financial center developed last year and published on www.iso-payments.ch. Ultimately, the ISO 20022 standard payment messages (payment messages "pain"; pain stands for payments initiation) as we know them from the SEPA standards will replace the Swiss specifics.

The migration of the message standards in customer-bank traffic is a first step toward clearing up the patchwork resulting from the many standards and formats that developed in Switzerland over time. Before too long, the ISO formats "camt" (cash management) and "pacs" (payments clearing and settlement) will replace today's interbank traffic manifestations (SIC, ECA, ISR, etc.).

In future expansion stages the platform could be applied to the securities area, where the ISO 20022 standard is also slated to be introduced. <

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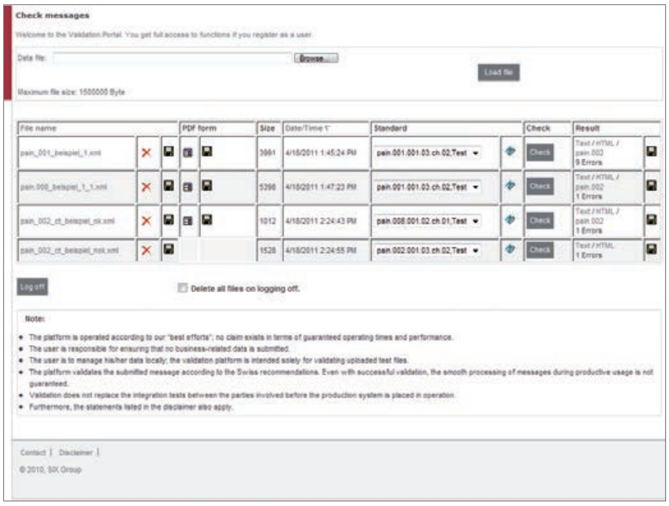
Platform goals:

- Promotion of the uniform ISO 20022 standard, particularly the Swiss Implementation Guidelines, by all financial institutions, software producers and business customers.
- Quality enhancement through technical validation of ISO 20022 messages (thus relieving the financial institutions during first implementation).
- Up front, central validation platform as a complement to the bilateral tests between banks, software providers and business customers. Testing options for future releases.
- Central contact address for inquiries, feedback and observations intended for the Swiss payment traffic committees.



The validation portal is available at www.iso-payments.ch or directly at https://validation.iso-payments.ch.

Remittances from a processing perspective

The numbers reveal that global remittance payments are showing solid growth, and Switzerland is no exception. Each year, immigrants send billions of Swiss francs back to their home countries. Payment services providers have recognized the potential of and increasing reliance on cell phones as a means of credit transfer. The Swiss National Bank is observing the developments with interest.

Remittances are second only to direct foreign investments in capital flow in developing countries. In some of these countries they contribute a significant amount to the gross national product. According to estimates by the World Bank, these money flows have increased thirteen-fold worldwide over the past twenty years and in 2010 were at USD 325 billion. The calculation of total remittances from Switzerland is based on two components of the national balance of payments. As shown by the latest numbers available, a total of CHF 15.8 billion in earned income was transferred. More than likely, most of that consists of the salaries of "border crossers" – people who work in Switzerland but live just across the border. In addition, this statistic shows private credit transfers by immigrants of approximately CHF 5.5 billion, which represents remittances in the traditional sense.

The preferred processing path for remittances greatly depends upon availability and cost, with the time factor playing a critical role. Generally, one can differentiate between three channels, which are described below.

Bank transfers

Remittances can be processed conventionally by banks. World Bank statistics show that bank credit transfers originating in Switzerland are by far the least expensive transfer option, at least into European countries. As far as the payment volume is concerned, bank credit transfers may well constitute the most important processing channel, since 85% of the immigrants living in Switzerland whose relatives have bank accounts in their home countries originate from European countries. Transfers to developing countries, in comparison, are often expensive and slow, and sometimes even impossible, because the majority of recipients don't have bank accounts.

Remittances by funds-transferring organization

Since in Africa, South America, and Asia, beneficiaries often don't own bank accounts, remittances to those countries are often processed by funds-transferring organizations, such as Western Union or MoneyGram. During the recent past, these companies have increasingly reacted to the market potential available in Switzerland by expanding their efforts. SWIFT estimates the global share of these market participants to be around 20 to 30 percent. It seems feasible that the total annual turnover of funds leaving Switzerland amounts to several hundred million Swiss francs. The process is rather simple, really: The ordering party pays the amount, plus fees, at the counter of the money-transfer company and communicates the corresponding reference number to the beneficiary, who, equipped with proper ID and this reference number, will receive the funds at a branch of the payment services provider in the destination country.

Informal channels

Often, informal channels are also used for funds transfers, such as import-export companies, travel agencies or currency-exchange offices serving as agents for the funds processing. After the sender turns the funds over to the agent in the country where the funds originate, the agent contacts a trusted partner in the destination country and this partner turns the funds over to the beneficiary. And last, but not least, actual transport of cash by friends and relatives, or sending funds by mail, should not be underestimated.

From the Swiss National Bank's perspective, improvements in the area of remittance processing are very informative, since the considerable volume and vast market potential of remittances fosters innovation efforts by the payment traffic service providers. The National Bank, with its statutory task of facilitating and securing cashless payment traffic, is following these efforts with great interest. <

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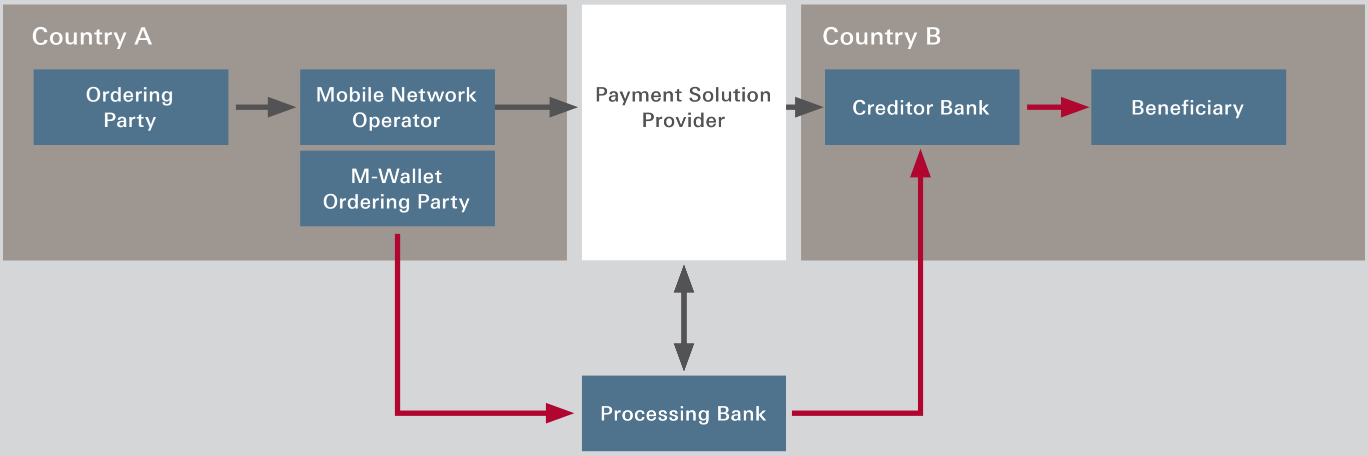
Transfers by mobile phone
Thanks to high scalability and the expectation of exponential growth in cross-border money transfers by mobile phone, the remittances market has recently attracted increased attention. Following is a sketch showing a solution by a payment solution provider where a platform that uses the "SWIFT Worker Remittances" standard connects the global mobile network with banks. Below that, a variation of a money transfer organization without bank participation is introduced.

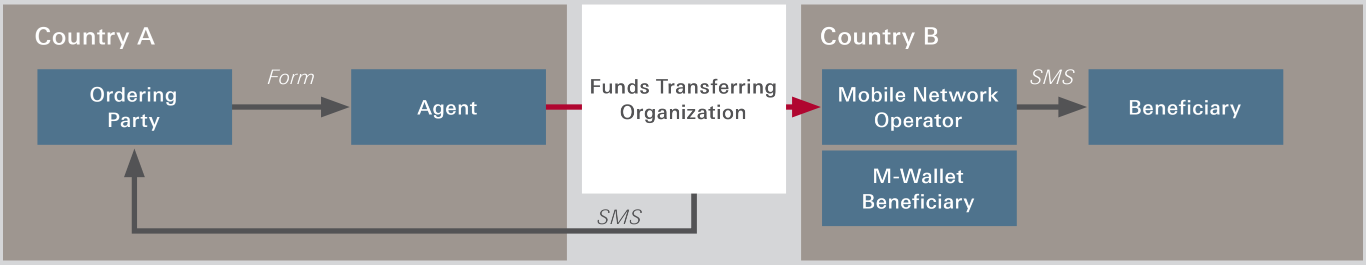
"Mobile to cash"



The ordering party initiates a payment using his or her mobile phone by sending a text with the appropriate order. The mobile network operator verifies password and account balance on the M-Wallet and, if the transfer can be executed, replies to the ordering party with a transaction reference code. Simultaneously, the operator routes the transaction details to the payment solution provider's platform. There, the payment order is confirmed and forwarded to the creditor bank.

In order to initiate the actual funds transfer, the platform operator sends the transaction detail information to the mobile network operator as well as to a globally active processing bank. Finally, the mobile network operator transfers the daily total of processed transactions to the processing bank, which, in turn, forwards the funds to the respective creditor banks. There, the beneficiaries can receive the funds without actually maintaining an account.

"Cash to mobile"



Funds transfer organizations also have the option of transferring funds via mobile phone. Once the ordering party has filled out the appropriate forms at the agent's office and has paid the corresponding amount, the funds are transferred to the mobile network operator that maintains a contractual relationship with the money-transferring organization and are credited to the M-Wallet of the beneficiary. Ordering party and beneficiary are both informed about the completed transaction via a text message.

Funds Flow
Flow of information

New era in Liechtenstein's postal payment traffic

The EU's Payment Services Directive (PSD) and its implementation in Liechtenstein's national legislation leaves its mark on postal payment traffic services. Cooperation between Liechtenstein and Switzerland had to be adapted. Since early May 2011, Liechtenstein's Post has been solely responsible for handling the postal payments.

Based on a cooperative contract between the Swiss Post and Liechtenstein Post, PostFinance has been providing payment traffic services in the Principality for years, including post office counter, ATM, and account services that PostFinance processed in its Swiss computer centers – on its own behalf and at its own expense. Within the framework of agency contracts, PostFinance transferred individual responsibilities, such as teller or sales activities for business customers, to Liechtenstein Post. Thus, PostFinance was the contract partner in business transactions. The treaty between both countries, plus the Lichtenstein Post legislation, which assigned payment traffic responsibilities within the framework of public service to the Lichtenstein Post, formed the basis for the cooperation.

PSD effects

The EU directive, which had to be integrated into the national legislation of the EU and EEA countries by the end of 2009, also regulates the payment traffic of EEA member Liechtenstein. Its new payment service law (ZDG) also impacts all postal teller and ATM services provided by PostFinance in Liechtenstein. The upshot of this is that,

Post teller services under new regulation in Liechtenstein with the introduction of this directive, only organizations in possession of a payment services permit or operating out of an EU/EEA country will be allowed to provide services in the Principality. This regulatory requirement was to be implemented by 30 April 2011.

The new model

With this requirement, continuation of the existing co-operative contract with Liechtenstein Post was no longer possible.

The following basic principles governing payment traffic services within Liechtenstein have applied since 1 May 2011: Liechtenstein Post is operating independently and in its own name as the provider of ZDG-regulated customer services in counter payment traffic. In its function as a contract partner, it is responsible, among other things, for supplies and products, terms of business, pricing and conditions, settlement and processing, and liability and communication.

Simultaneously, Liechtenstein Post is responsible for billing and monetary flow, and it answers to the appropriate supervisory authorities in Liechtenstein; in particular, to the Liechtenstein Financial Supervision Authority (FMA).

Liechtenstein Post outsources the teller payment traffic to the PostFinance processing services. To this end, PostFinance, together with its partners at the Swiss Post, provides the necessary systems and transaction processing operations. <

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Standalone card business

An article in CLEARIT's December 2010 edition talked about the paradoxical situation in Liechtenstein's PSD implementation. Liechtenstein's banks' debit card transactions are considered national in Switzerland, but in Liechtenstein they generate foreign transaction fees, because they are actually Swiss cards. As a matter of goodwill, the Liechtenstein banks have been paying these fees. In order to improve this unsatisfactory situation, in September 2011 the local banks will start to gradually issue debit cards with the Liechtenstein country code. In this way, transactions by Liechtenstein's citizens will again become "local" for their card use within Liechtenstein. By the same token, transactions in Switzerland using these cards will be treated as foreign transactions.

According to the ZDG, the issuance of credit cards is subject to the requirements for being authorized as a payment service. The credit card issuer doing business in Switzerland is for all intents and purposes considered to be the factual issuer. As a result, there are three options available to Swiss organizations. First, based on the passive freedom of services, it's possible to offer credit cards from Switzerland, as long as customers in Liechtenstein are not being actively marketed. A credit card issuer can actively issue credit cards in the Liechtenstein market, but only if they either have the appropriate permission from Liechtenstein, or if that company is operating and offering its cross-border service from another EEA member state. Thus far, the latter option has been chosen by only a single credit card organization.

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

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