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The Payments Professional Magazine from SIX — #8 — 2023

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Who Will Win Out?

TEXT

DIETER GOERDTEN

HEAD BANKING SERVICES BUSINESS UNIT, SIX



M

y crystal ball evidently has gone haywire: Every time I ask it how we will make everyday payments in the future, it shows me a couple of milky clouds, and a maelstrom of catchwords – instant, UX, use cases, CBDC, embedded, BNPL – whirl around until my head starts to buzz. But it is not showing me anything particularly coherent or unambiguous at present. I understand my crystal ball; at the moment it's very difficult to get your bearings amid the jumble of developments and market chatter. Perhaps it will help to round up a few facts first in the hope that this will yield a coherent picture.

So, let's start with the most reliable of all sources: According to statistics from the Swiss National Bank, August 2022 marked the first month ever in which more payments were made with cards than cash in Switzerland. That's only logical considering that almost everybody has grown accustomed to making contactless

payments at the store checkout. A few years ago, this practice was less common and mainly took place where walk-in customers in a hurry wanted to pay: in major train stations. By now, we have all become acclimated to using cards instead of cash because it is faster and more convenient. The (unwarranted) fear of viruses lurking on banknotes and coins accelerated this process.

Then purchases from e-tailers experienced a boom. The number of transactions increased 9% per year on average from 2016 to 2021, while sales volume rose by 12%, resulting in a doubling within around eight years for the former figure and five years for the latter. Approximately 14% of all purchases in Switzerland,

or one in seven, take place online today. Likewise, it would be incorrect to attribute the rapid growth in e-commerce payments mainly to the pandemic. It strongly accelerated an e-commerce trend that was already underway long before then. There has been an ample supply of online shopping possibilities for years now, and it's simply more convenient to shop on a computer or a mobile device and have the purchased items delivered to your home.

Payments made from mobile devices are growing even faster. The number of payments made with TWINT in Switzerland has exploded by a factor of 20 within just four years. We have gotten used to scanning a QR code with TWINT instead of fishing a card out of our wallet or purse. And if we include payments made with cards stored in digital wallets, the number of payments made using mobile devices increased by a factor of 8.5 from 2019 to

“Compared to the tech giants, Swiss banks do not have enough users, know-how, and resources.”

2022. Why? Because we constantly have our smartphones in our hands and it's simply more convenient to pay that way!

Paying Invisibly

As you'll have noticed, technological innovations are driving these developments. New technological possibilities give rise to new business models and digital services, which, in turn, enable us to adopt new practices. In the realm of payments, the seminal technological innovations are near-field communication (NFC) at the interfaces between buyers and vendors and the possibility to tokenize cards and store them in digital wallets.

Contrary to what is often claimed, such innovations do not necessarily have to solve a problem facing us. It's enough if they simply make life more convenient. “Convenience is the artful mother of technology,” German philosopher Manfred Hinrich said some time ago. It usually takes three successful tries with a new mode of payment before we integrate it into our active behavior, provided that we perceive it to be easier than modes of payment used up to that point. Concerns about the security of the money or personal data then quickly become less important.

So, if you really put some thought into how everyday payments will be made in the future, it becomes clear even without a crystal ball that we will pay using devices that we already carry around with us. These devices could be smartphones, but maybe even eyeglasses will someday be capable of executing payments, or microchips implanted in our forearms. This sounds a little creepy, but microchip implants already exist. But the most important thing here is that making payments



will demand less and less attention because future modes of paying will make everyday life more convenient. We don't take any pleasure in the payment procedure itself, so more convenient solutions will displace all other options in the long run. We users want it that way.

"Embedded" payments are also intended to deliver increased convenience. Presumably by now you use TWINT instead of coins to pay for parking. It's understandable if you do because it's more convenient to register your license plate number once in TWINT, to scan the QR code on the parking meter and then to turn the colored dial on your smartphone display than it is to fish around for coins in your pants pocket. But now let's also suppose that a camera mounted at the entrance to the parking garage scans your license plate number on your way in, matches it with the one saved in TWINT, opens the barrier, and then activates the payment. Voilà – that's all you have to do; it's enough just to have your smartphone in your car with you. Rubbish, you say? No, this already exists, and it will become prevalent because it's even more convenient than turning a dial on a smartphone screen. The payment is virtually invisible because it is embedded in the parking process.

The prerequisites for embedded payments are relatively simple. You identify yourself at the start of a purchase via an ID token stored on your mobile device. Then you enter the services or products you wish to buy by scanning their QR codes, for example, and confirm your intent to purchase – for instance through a nod of your head that your eyeglasses recognize – and the payment is made immediately without you having to do anything else. The receipt gets sent to your mobile device, and at the end of the year you receive an analysis of your personal

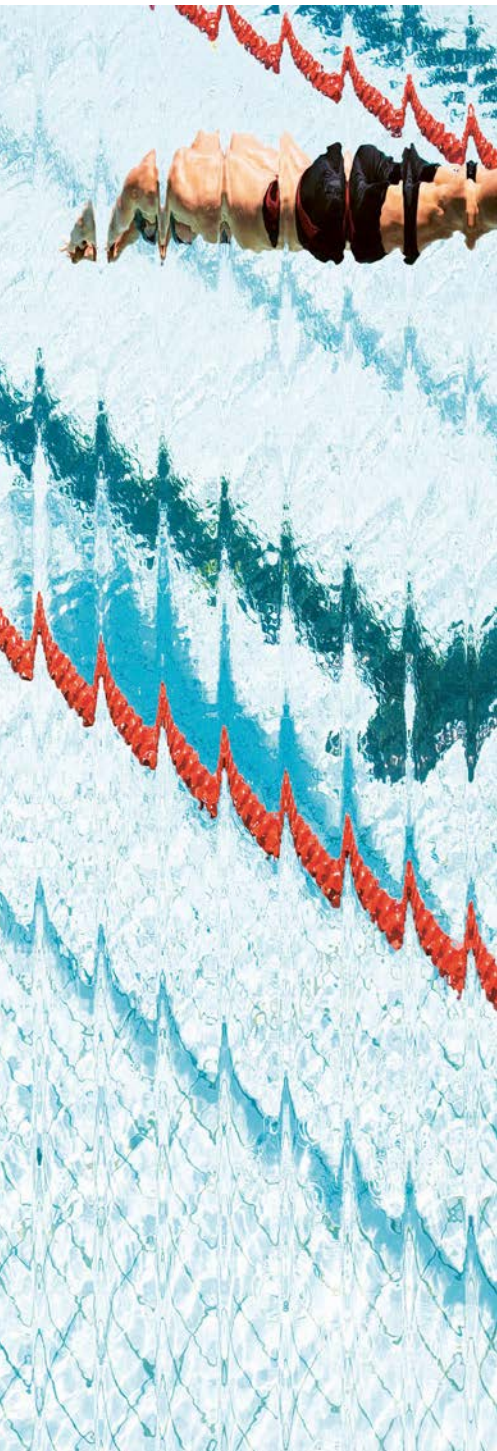
payment behavior, a feature that financial services provider Klarna has recently introduced.

Who Will Win Out?

Speaking of eyeglasses, let's alter our perspective now and cast a look at the providers of these various modes of payment. Disregarding post office counters for now, banks are the first thing that come to mind. I can transfer money and pay bills on my bank's e-banking portal, but the payment procedure is temporally and spatially detached from my purchases, which means it is not embedded and is therefore inconvenient. "Honey, I have to do the bills first" rarely puts us in a good mood. I can scan the Swiss QR Code on bills using a mobile banking app, but to do that I first have to log in and maybe enter some additional information. So, mobile banking is not so suitable for payments at the store checkout or on the go because it requires too many clicks and is too inconvenient.

But the TWINT QR code is different. It is present today at store checkouts and in most other places where we make everyday payments, and it can also be used to pay very conveniently when shopping online. TWINT payments do not require any additional payment methods. All I need is a smartphone linked to my TWINT account. That's it. This is called an **account-to-account (A2A) payment solution** because it does not employ any additional accessories such as cards issued by banks that enable access to the payer's bank account. That makes such payments really convenient and, you guessed it, experts expect them to boom in the years ahead.

Finally, payments with digital wallets from technology giants like Apple, Samsung, and Google are also sharply on the rise. The payment procedure with digital



wallets is very simple, but it (thus far) requires a card to be stored in the wallet. The card secures access to the bank account through which the payment is to be made. Apple and these other large companies benefit from an enormous customer base in a mass market, but, above all, they possess ample know-how and resources to thoroughly optimize customer experiences with the goal of creating maximum convenience.

The Rough Outline

For the moment, it is unlikely that individual banks' mobile banking apps will break into the everyday payments space, especially at points of sale and in e-commerce. Compared to the tech giants, Swiss banks do not have enough users, know-how, and resources to compete in the contest to deliver the best customer experience. Conversely, it is safer to assume that invoices that still get paid today with the help of banking tools (via the eBill portal or QR scanner) will eventually migrate in a digital form to other payment service providers. Banks will therefore concentrate even more on other advisory-intensive business areas in the future. They will still operate bank accounts for their clients for the time being, but it is already becoming apparent that Banking as a Service (BaaS) – i.e., accounts and banking services that banks provide for non-banks – will call that business activity into question as well. Consequently, the role of banks in payment transactions will diminish significantly in the long run.

We can also expect the volume of card payments to wane at some point because smartphone numbers, e-mail addresses, and electronic IDs can establish a connection to an account just as well and are already available on most mobile terminal devices. This also alters the role played by card schemes like Mastercard and Visa, which are already making major investments to position themselves in markets for A2A payment transactions and utilize payment transaction data in new business areas.

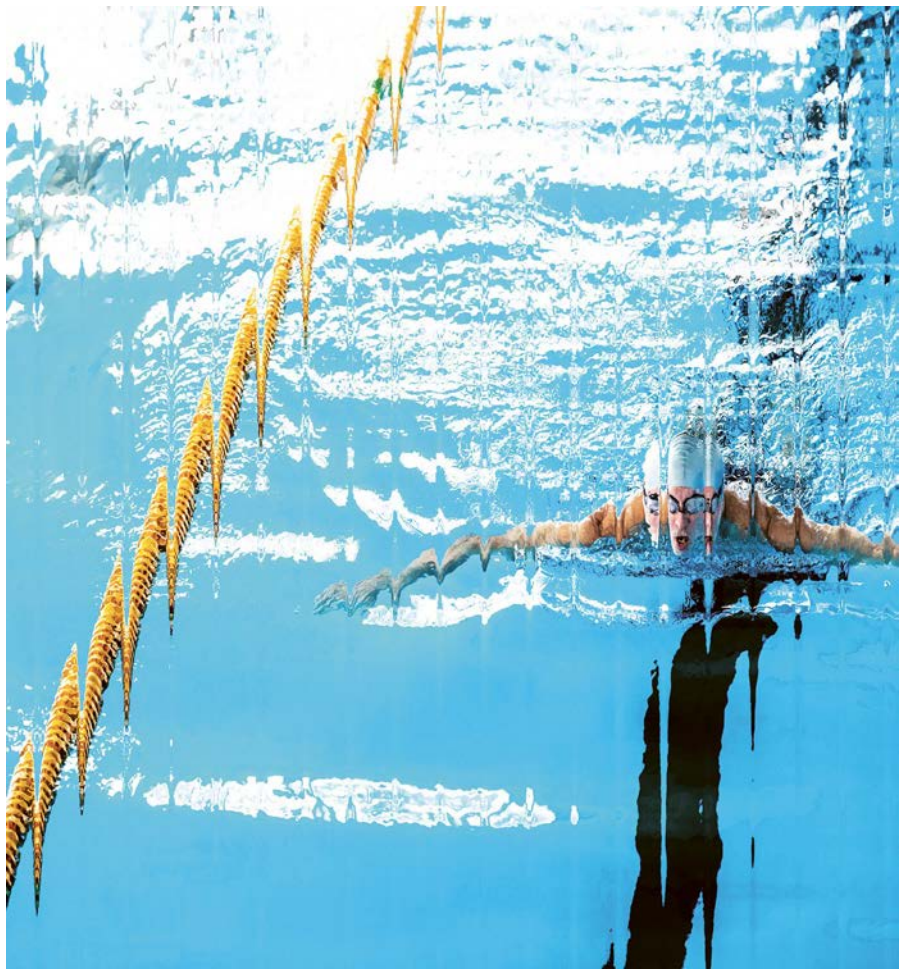
So, at the moment, it looks like a neck-and-neck race between TWINT and digital wallets in the everyday payments space. TWINT has thus far been very successful in gradually enhancing convenience – five

million regular users in Switzerland are a testament to that. In the future, it's clear that a lot will depend on whether TWINT will be fast enough to maintain or even strengthen its position by embedding payments in users' daily routines. The integration of invoicing and invoice-paying would significantly increase TWINT's attractiveness for the public because it's more convenient to perform all payment operations with a single app.

The deciding factor will be the banks, some of which are co-owners of TWINT. They might try to invest further in proprietary solutions and compete against TWINT, but at present such solutions appear to have slim chances of succeeding. Alternatively, banks could opt to bet on the success of digital wallets. But as soon as other ways besides cards issued by banks emerge to activate payments, banks will find it difficult to hold their ground, even more so because Banking as a Service jeopardizes their role as providers of bank accounts. So, from today's perspective, the rational choice seems to be to bet on TWINT and do everything necessary

to strengthen this banking subsidiary.

We can therefore speculate about how the future of everyday payments may look even without a crystal ball. But we haven't asked the really tough questions yet: How will instant payments or a central bank digital currency (CBDC) affect our payment practices? I hope that my crystal ball is back in proper working order soon! 🧙‍♂️





“Convenience is more important than the brand”

ANINA LUTZ, CO-FOUNDER AND CEO OF
ONLINE INSURANCE PLATFORM CALINGO

Ms. Lutz, with 5% of GDP, insurance companies are a mainstay of the Swiss economy. They are also the most frequent invoice issuers. How does your insurance start-up handle customer payments? We currently use QR-bill for premium payments. In the future, we will also offer payments via credit card and TWINT. For us as a digital insurance company, it is crucial to be able to map all payment processes digitally. That's the only way customer journeys can function without a change in media – and that's precisely what modern customer convenience is all about.

As an InsureTech company, you sell insurance embedded in a buying process – such as pet insurance at the point of sale when buying a pet cat. And you also offer pet insurance through your website. Why do you support different sales channels, and which one is most successful? Our core business is doing best. This consists of standard insurance products that we sell as an add-on with the primary products at the point of need. We are consistently optimizing the product market fit through our B2C channel. Among other things, we identify

customer needs, collect feedback, and test USPs. With a conversion rate of up to 50%, the results speak for themselves.

You are fully focused on digitalization. The keywords here are “embedded one-click insurance.” Traditionally, insurance is a business based on trust. Isn't that a contradiction? On the contrary, trust in a dog breeder or an e-bike dealer is often greater than in traditional insurers. Our experience shows that the insurance company brand is not that relevant. In my opinion, one-stop-shop experiences, and the convenience they offer are more important than the brand.

What form does data management take, such as when exchanging policies and payment information between you, your sales partners, and end customers?

All these processes are fully digitalized. We also try to avoid media discontinuity as far as possible when contacting our customers. In the best-case scenario, the customer no longer has to fill out anything by hand when concluding the contract and has all the relevant information transmitted by the sales partner. Alternatively, the required information can be entered at the user interface on our website. In the case of claims payments, we usually still contact customers via e-mail to request payment information, as we do not normally ask for this at the outset. As a result, a certain level of media discontinuity is currently unavoidable, but we can easily do without physical means of communication. Our aim is for collection to be carried out by our partners wherever possible. We have already implemented such solutions. But it also works the other way around. For example, in the case of pet insurance we take over the collection procedure from the vet, which makes everything as simple as possible for all involved.

Getting back to the old ways?

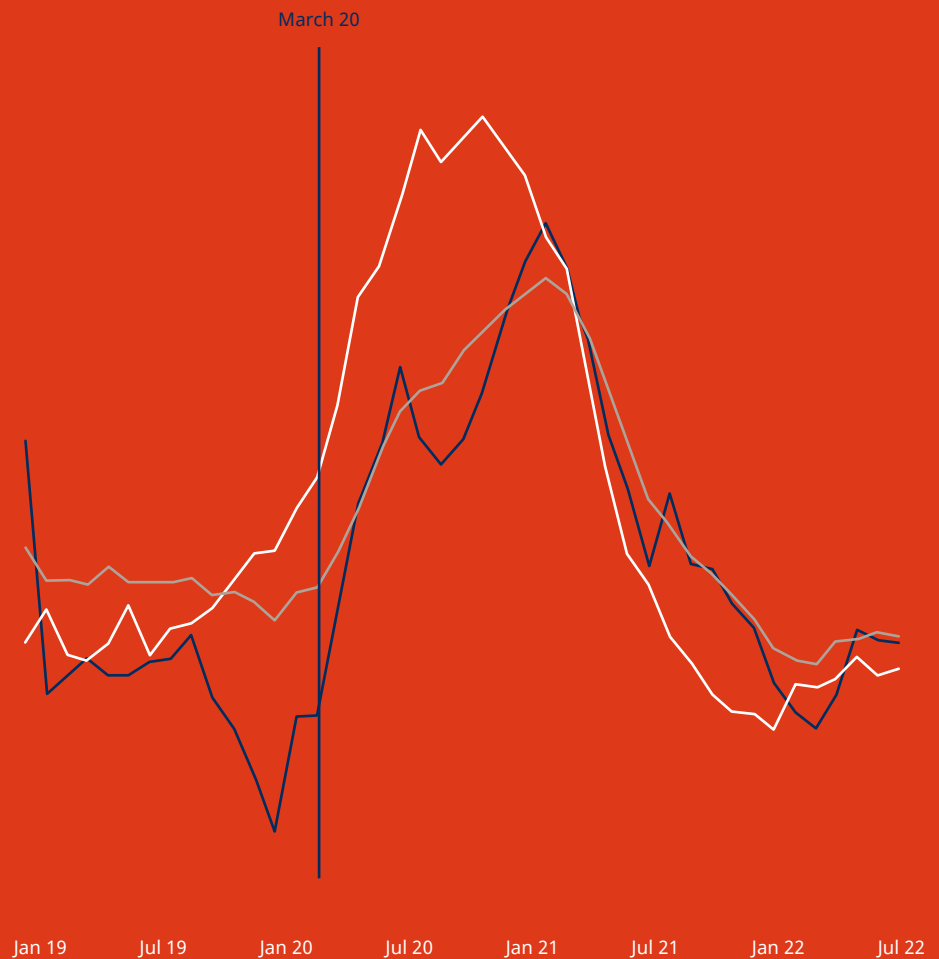
Figures from the Bank for International Settlements (BIS) show: COVID-19 has led to significant shifts in retail payments. But not all of them are of a lasting nature.

Cash in Advanced and Emerging Market Economies

COVID-19 has led to divergent developments in cash usage: A decline in everyday cash payments and, at the same time, an increase in demand for cash. The latter is clearly illustrated in this BIS chart, which shows the ups and downs of the GDP-weighted cash in circulation. What is astonishing is that, at times, Switzerland* deviates considerably from other countries.

y-axis: Percentage annual change of cash in circulation (GDP-weighted), in USD

- Emerging market economies **
- Advanced economies ***
- Switzerland



* Due to contractual limitations, meaningful data for Switzerland are only included in this graphic.

** Argentina, Brazil, China, Hong Kong, Indonesia, India, South Korea, Mexico, Russia, Saudi Arabia, Singapore, Turkey, and South Africa

*** Australia, Canada, Switzerland, euro area, United Kingdom, Japan, Sweden and the U.S.

**** The sample includes Argentina, Australia, Brazil, Canada, Switzerland, Germany, Spain, United Kingdom, Hong Kong, India, Italy, Japan, Netherlands, Russia, Sweden, Singapore, U.S. and South Africa.



Development of Card-Present Transactions

The share of card-present transactions fell sharply relative to all other card transactions during the week of 11 March 2020, before rebounding and subsequently settling just below pre-pandemic levels.

y-axis: Share of card-present transactions out of all card transactions****

Reversed Trend in Card-Not-Present Transactions

The figures for the median country show a sharp rise in the card-not-present transactions during the acute phase of the pandemic. After the peak, the numbers tended to decline and reached the pre-pandemic level at the end of the observation period.

y-axis: Share of card-not-present transactions out of all card transactions****

Steady Growth in Payment App Use

The adoption of payment apps accelerated during the pandemic, and their use continues to be higher than before. In particular, as global COVID cases surged, and many households were confined home, there was a further peak in top app downloads around the world. BIS estimates show a steadier growth of the global active top app use per week.

y-axis: Weekly active use of the top country-specific payment apps in 95 countries

Less HIV, Fewer Donations

A VISIT WITH SWISS AIDS FEDERATION
MANAGING DIRECTOR ANDREAS LEHNER

TEXT
SIMON BRUNNER

It wasn't so long ago that a virus had the world on tenterhooks, and its name wasn't coronavirus. The line below didn't appear in an obscure publication for conspiracy theories, but was printed in Switzerland's most-read newspaper, the tabloid Blick: "AIDS, the deadly 'sex disease,' is scarier than

the plague and more mysterious than cancer."

The good news: Compared to 1986, the year that the quote above comes from, the situation in the "no. 1 AIDS country in Europe" (another quote taken from Blick) has changed profoundly. In 1986, a record total of over 3,000 people were infected with the human immunodeficiency virus (HIV) in Switzerland, but since 2017 the number has dropped to less than 500 people per year. Moreover, HIV has long since ceased to be a death sentence and, when properly treated, isn't infectious anymore.

The not-so-good news: For the Swiss AIDS Federation, an organization that has been engaged in prevention work, patient advocacy, and as an ombudsman for those with HIV/AIDS who have experienced discrimination for four decades now, the reduction in the number of cases has made it much harder to motivate peo-

ple to donate money. Consequently, donations have fallen by 50% over the last decade, and the aid organization has had to lay off some employees.

Help for Hundreds of People

We pay a visit to the nondescript office building in Zurich Altstetten that houses the Swiss AIDS Federation on an icy, overcast day. The door opens, and suddenly the mood is far from gloomy. Andreas Lehner, the managing director of the Swiss AIDS Federation, greets us with a hearty handshake and a broad smile and says, "Hi, call me Andi." Then he talks about his organization with a passion that one might expect from an artist, but not from a functionary. He says about the past few years: "It was painful, but we needed to cut costs." Now the organization has to look ahead to the future and tap new sources of revenue, he adds, because "our work is still enormously important and makes a big difference to the lives of hundreds of people."

The Low-Threshold Way to Donate

On his search for new benefactors, Lehner came across eBill Donations and instantly became enthusiastic. The Swiss AIDS Federation was one of the first non-profit organization to use this new eBill function.





"We have high expectations for eBill Donations," Lehner says, "because it enables us to reach donors where they pay their invoices: on their online banking portals." Lehner believes that the willingness to donate is particularly strong when a person is already in a paying frame of mind and can easily make a donation with just a couple of clicks. "That's much simpler than opening a fundraising letter, setting it aside, and transferring the money later on," he says.

Lehner is 55 years old, looks like he's 45, and acts like he's 35. His uniform consists of sneakers, jeans, and a sweater, and he sports a three-day beard and a tattoo. His casual look is no accident: Lehner joined the Swiss AIDS Federation in 2014 and headed a prevention program for five years, during which time he was "out in the fresh air" a lot, as he puts it. He wanted to reach people where they "live, love, and work," so he visited clubs, made house calls, and dropped in on narcotics dispensaries.

Returning to eBill Donations, the head of the Swiss AIDS Federation sees an additional benefit: the fact that donation requests are paperless and therefore "more sustainable than classic fundraising letters." In addition, he says, there are a number of cost advantages because eBill Donations eliminates printing and mailing expenses.

Reaching New Target Groups

Furthermore, "recurrent donations can be set up very easily on the eBill portal," Lehner says. That's a welcome innovation, he explains, because that way you don't have to keep on soliciting the same donors every year. He estimates that more than 2.7 million potential eBill users can be reached through eBill Donations. "We believe that we can reach an entirely new target group this way," he adds.

Lehner's smartwatch blinks repeatedly during our conversation, but he ignores all of the notifications and concentrates on the interview. Nonetheless, it becomes evident that he's a techie, and he even calls himself a digital early adopter. However, his donor base is just as analog-minded as the managing director is digital-minded. "Over 80% of all donations still come to us via conventional fundraising letters," Lehner says. He thinks that people's pref-

erence for this way of donating partly has to do with the donors' advanced age. "That's why," Lehner says, "it's all the more important for us to set up digital donation channels today so that we can communicate at eye level with a younger target group tomorrow."

The Swiss AIDS Federation already operates a number of successful social media channels, Lehner explains, but doesn't yet use them consistently for donation drives. In his view, a possible step in that direction could involve the targeted use of influencers who have a lot of followers and a high level of credibility among potential donors.

Be it digital or analog, and regardless of whether the donors are young or old, each year the Swiss AIDS Federation collects most of its donations around the first of December, also known as World AIDS Day, which was established in 1988 and is observed worldwide. "It's very valuable to have an annual designated day because it's becoming harder to call attention to HIV/AIDS," Lehner says. A total of 650,000 people died from AIDS-related causes around the world in 2021, compared with 1.7 million in 2011. That marks enormous progress, but it is still a very high death toll: 650,000 equals the combined population of the cities of Zurich and Bern. And one last comparison: More than 40 million people have died from HIV-related causes to date, whereas around 6.7 million have died from COVID-19. 💡



As of June 1, 2023, Matthias Sailer will take the helm at SIX Interbank Clearing Ltd (SIC Ltd), succeeding Michael Montoya, who is retiring. Matthias has held various roles at Zürcher Kantonalbank as product and project manager for payments, cards, and TWINT and has been a member of the Board of Directors of SIC Ltd since 2017.

eBill and Instant Payments as “Digital Firsts”

The Swiss Confederation has added eBill and Instant Payments in its "Digital Switzerland Strategy" action plan. It is binding for the Federal Administration and serves as an orientation for all other stakeholders involved in digitalization.



Further
information

“Future of Invoicing” in Switzerland – a new white paper



Further
information

New Wallet in the US

Fintech Early Warning Services – a company owned by seven of the largest US banks – is taking on Apple Pay and PayPal. It plans to launch a digital wallet for its owners later this year.



Further
information



"You give me half a kilo of coffee; I'll give you a pair of ladies' shoes." After Bach composed the Coffee Cantata, Goethe discovered caffeine and Germany's monetary system failed at the end of World War II, the cult drink also served as a secondary currency. Shoes, then, for 500 grams of coffee. And now there is the first cryptocurrency backed by coffee. Around one kilogram of Arabica coffee is equivalent to one CoffeeCoin.



500

The deposit slip with reference number procedure (VESR) was introduced in 1971. The reason why the system of standardized procedures has lasted so many years is because it is simple, efficient, and reliable to use. The procedure also lends itself to being updated again and again for a new technical implementation. Both the implementation of ISO 20022 messages (pain.001, pacs.008, camt.05x), which took place not so long ago, and the replacement by QR-bill went smoothly. In order to achieve this, some old habits had to be carried forward. For example, the introduction of a specific QR-IBAN via a QR-IID is certainly not the most elegant solution, but the existence of a specific account number is the most efficient solution for validation from the recording



The Brave New World of Payments?

Payment processing is like an iceberg. Cards, devices, and apps that should make payments as easy and user-friendly as possible are just the tip of the iceberg. Below the surface of the water, there is an obscure web of relationships between a multitude of market actors, processes, and systems that ensure the flow of money from the payer to the beneficiary. A true dichotomy – above the water, the simplicity for the buyers and retailers, below, the complexity of payment processing.

According to a study conducted by Worldline, this gap is likely to become even more distinct due to the disruptive impact of digitalization. It is becoming easier to make payments, while the processes governing the payments gain in complexity. To mitigate this problem, the market players need to innovate. That is the starting point in the study regarding the vision of payment transactions in 2030.

The study analyzes the challenges and trends from three perspectives:

- How can the rapid growth of business models and new forms of currency be guided to create straightforward, sustainable solutions?
- In the face of accelerating digitization, how can secure, holistic solutions be created that enable new shopping experiences and the automatic processing of payments?
- How can regulators shape the regulatory framework and privacy protection policies in such a way that market actors use data responsibly and thus promote trust at the point of sale?

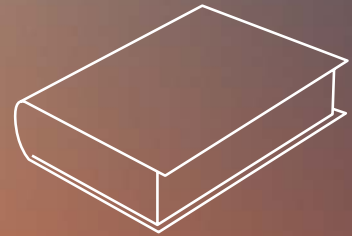
Many innovations that are being introduced are maturing and growing together, the study says, “to create a level of convenience that has long seemed like science fiction.” A loyal, context-aware intelligent agent can take care of the family’s weekly groceries and pay for them directly. Using data from Internet of Things devices in the home and previous habits, it can determine which products need to be bought. It knows the budget and spending habits and, thanks to loyalty programs, selects the best delivery service and most suitable delivery date.

GABRIEL JURISIX

FURTHER INFORMATION:



NAVIGATING DIGITAL PAYMENTS



A Boost for Open Finance in Europe

The European Payments Council (EPC) has published the rulebook for SEPA payment account access. The SEPA Payment Account Access (SPAA) Scheme Rulebook is intended to promote Open Banking or Open Finance across Europe. The API-based optional rules, practices and standards contained in it are intended to facilitate the exchange of customer data between financial institutions and third-party providers. To this end, the EPC has defined premium payment services that go beyond the regulatory PSD2 minimum requirements. One such service relates, for example, to one-off payments, which are regulated by the EU Payment Services Directive PSD2. As soon as the initiation of such a one-off payment is combined with a function that guarantees execution, it is considered a premium service.

Minimum Viable Product and Terms and Conditions

The 120-page SPAA rulebook also includes an adherence agreement regarding participation, which is now awaiting signatures. How big the rush will be also depends on the minimum viable product (MVP), which, according to EPC, the SPAA multi-stakeholder working group

will define in the coming months and align with the rulebook. The MVP will have enough features to determine what value the SPAA Scheme Rulebook adds.

Another key component of SPAA, to be released by the second quarter of 2023, is the standard terms and conditions. They include a set of standard fees for the premium services and standard APIs. The EPC acknowledges that potential SPAA participants will not be able to make a binding decision on whether to participate in the SPAA until they have a complete picture, including the MVP and the standard terms and conditions.

The EPC is also intending to publish the API Security Framework in the second quarter of 2023. This will be based on commonly available European and international security standards and will define the minimum security requirements for system participants.

**GABRIEL JURI
SIX**

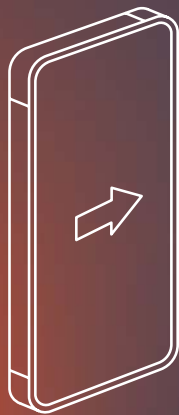
FURTHER INFORMATION:



**SEPA PAYMENT ACCOUNT ACCESS
(SPAA) SCHEME RULEBOOK**



**EURO RETAIL PAYMENTS BOARD
(ERPB)**



Twint-ing in Hindi

PhonePe is in India what TWINT is in Switzerland: the most popular mobile payment app in the country. It is one of over 60 mobile applications available in the Indian banking sector and the state's real-time payments infrastructure, Unified Payments Interface (UPI). Besides domestic apps, Google Pay and Amazon Pay are also vying for their share of the market, though Apple Pay is not. In December

2022 alone, UPI processed over 7.8 billion transactions from 260 million people.

That sounds like a huge number. However, the perspective changes when we compare these figures to Switzerland; while around 20% of the Indian population uses UPI, TWINT reaches well over half of the Swiss population.

India also wants to expand its open-source infrastructure abroad. In recent months, their subsidiary company has concluded a number of agreements with foreign partners. Stakeholders from around 30 countries have already expressed interest in UPI. The latest partnership was formed last October with Worldline, the European leader in payment and transaction services, which holds a 20% share in TWINT. The goal is to gain acceptance for UPI as a payment infrastructure in Europe. Its target markets include Belgium, the Netherlands and Switzerland. Similar collaborations already exist with UPI in the United Kingdom and France. Cooperation between India and Singapore goes even further. Their central banks have announced plans to link their real-time payment infrastructures.

On the one hand, the aim is to ensure that the growing number of Indian tourists are able to pay quickly and efficiently while in Singapore. On the other hand, UPI is designed to facilitate money transfers for the 32 million Indians living abroad, both in terms of real-time capability and cost. Recently, the Indian government confirmed that this "digital public good" would remain free for all users.

**GABRIEL JURI
SIX**

FURTHER INFORMATION:



**NATIONAL PAYMENTS
CORPORATION OF INDIA**



When someone says, "it's not the money,
it's the principle," it's the money!

Kurt Tucholsky (1890-1935)