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The Payments Professional Magazine from SIX — #9 — 2023

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Publisher SIX Group Ltd, P.O. Box, 8021 Zurich, Switzerland, six-group.com/pay, pay@six-group.com Advisory Board Daniel Berger, SIX; Boris Brunner, Leitung, SIX; Laura Felber, SNB; Yoann Foumany, SECB; Pierre-Michel Gicot, BCV; Susanne Höhen-er, Liechtensteinischer Bankenverband; Elias Niederberger, Credit Suisse (Schweiz) AG; Peter Ruoss, UBS Switzerland AG; Stefan Schneider, PostFinance Redaction Gabriel Juri, Editor in Chief, SIX Concept & Design *MADE* Identity AG, Zurich, Switzer-land Lithography Marjeta Morinc, Basel, Switzerland Printer sprüngli druck ag, Villmergen, Switzerland Translations Mark Rabinowitz, Translation Service Team, SIX (English); Denis Fournier (French) Photo credits Yves Bachmann (Cover, p. 3–6), Ornella Cacace (p. 2, 10), Tobias Siebrecht (p. 13) Illustrations Gregory Gilbert-Lodge (p. 2, 7, 12)





Switzerland: Instant Payment Will Become the Standard

INTERVIEW
GABRIEL JURI AND BORIS BRUNNER, SIX

Venue: Swiss Finance Museum. Time: 5:00 pm. The last visitor has just left the Gallery of the Past. He may have asked himself in puzzlement why a small crowd has gathered around a display case after closing time. The setting has been specially lit for the occasion. However, the members of the board of directors and the executive committee of SIX Interbank Clearing Ltd (SIC Ltd) do not want to look back at history, but instead forward into the future – to the rollout of instant payment in Switzerland. The cluster of people present includes St. Galler Kantonalbank Chairman and Executive Board Member Patrick Graf, Professor Sébastien Kraenzlin, Head of Banking Operations at the Swiss National Bank, Michael Montoya, the Managing Director of SIC Ltd until 31 May 2023, and his successor Matthias Sailer.

Instant payments are processed and settled 24 hours a day, 7 days a week, and 365 days a year. What importance do you think consumers place on instant cash flow?

Patrick Graf In today's world, where I subscribe to a newspaper and can instantly access it, it makes sense for digital payments to be executed instantly as well. Seeing a transaction executed instantly and the money being received in

a flash, with the same going for refunds, brings peace of mind. Having an eye on the current state of one's finances at all times is a real advantage.

Sébastien Kraenzlin The consumer's perspective also plays a role here. A WhatsApp message reaches me right after it's sent, but payment processing via e-banking, by contrast, can take several hours, and credit card transactions can take several days for the amount to be credited to the merchant. At the moment, only cash ensures final and irrevocable money transfer in real time. In the future, this immediate availability and finality will also be made possible by instant payment.

Huge Potential for Account-to-Account Payments

Matthias Sailer What Sébastien is alluding to here is end-to-end automation of payment processes and complete transparency with instant payment – not just between banks, but also between the payer and the payee. And don't forget counterparty risk, which vanishes completely with instant payment because the transaction gets processed immediately and irrevocably.

Small-value payments, for instance via TWINT, which in reality do not conform with instant payment rules at present, illustrate that bank customers have a need to quickly move money from one account to another at any time of day. What makes sense for private clients also works for corporate clients. This is precisely where the huge potential of instant payment lies. I'm thinking particularly of treasury payments, but also of delivery-versus-payment transactions, which are hugely important for corporate clients.

“Instant payment creates an opportunity to establish direct customer relationships at any stage of the payment chain.”

What problems does the new real-time procedure solve?

Sébastien Kraenzlin I would rather speak of risks. Staying on the subject of TWINT, on one hand, there's the risk that although the payee receives the payment in real time, the money transfer between the two banks doesn't take place until two days later. The recipient bank thus advances money to the payee in actual fact. On the other hand, there's a comparable risk in the acquiring business for point-of-sale transactions. We thus have a certain fulfillment risk here, as well, which we can address with instant payment. Besides tackling those risks, we are also developing new prospects for service innovations.

What prospects?

Patrick Graf Banks today have to deal with financial intermediaries and thus cannot cultivate direct contact with customers. Instant payment creates an opportunity to establish direct customer relationships at any stage of the payment chain. This also helps customers to keep their finances in one place and organize them much better. In this context, instant payment also gives a boost to open banking because they can simplify interfaces and make them more transparent. Every transaction enables banks to get closer to customers and cater to their needs more quickly.

Michael Montoya Ultimately, it's also about adjusting the payment transaction settlement process to accommodate future innovations and new payment solutions. Today's payment transactions system works in the classic manner: I receive an invoice, I scan it or enter it manually on my e-banking portal and pay it, and the entire process takes days to complete.



From left: Patrick Graf, Matthias Sailer, Sébastien Kraenzlin, and Michael Montoya



Instant payment therefore is also about laying the foundation for new discoveries and inventions to be made in the first place. As for me, we create with instant payment new connecting points between the traditional payments world and the card and mobile banking world. At the same time, we are developing to a certain extent alternatives for the world that is now dominated by international card schemes like Visa and Mastercard. The account-to-account (A2A) connection will come more to the fore. As an “intermediary,” we can view a card together with its underlying scheme. If we disengage from the scheme, we also leave out the card by using A2A. But both is possible – card and A2A. So the card is not prevented, there is just an alternative to it with A2A, which is in this sense a supplement to the card-based processes.

Optimizing Cash Flow

Patrick Graf There’s another aspect worth bearing in mind: you can schedule a payment to be executed anytime you wish, down to the exact minute. This means that you can arrange – for whatever the reason – for salary payments to be disbursed to your employees at precisely 8:37 am on the 25th of each month, even if it falls on a weekend or a holiday. The payments are executed instantly at the specified time so that your employees see their money credited to their accounts at the exact same minute. This enables your company to optimally manage its cash flow.

Sébastien Kraenzlin We can broaden the framework even further. We have cash and digital money, and in the future we will probably have tokenized money as well. It is essential for these forms of money to be interchangeable, or fungible, at all times. Cash, of course, has always been instant, so to speak, and digital money will also become instant with the advent of instant payment. Finally, the tokenized money ecosystem is also expected to provide round-the-clock availability. The challenge now facing banks is to set up round-the-clock accessibility so that they can continue to play an active part in these three worlds.

To what extent is this round-the-clock availability an exertion for banks?

Michael Montoya The entire instant payment procedure is based on the end-to-end automation of payment processes that Sébastien and Matthias mentioned before. If the rollout of instant payment nonetheless were to cause banks to move their working hours to the night-time, it would mean that something has gone wrong. It goes without saying that new challenges would emerge. How, for instance, should a bank conduct itself if a payment gets held up overnight because it was flagged by a check against international sanctions lists? We need to gain more practical experience in dealing with such occurrences.

Positive User Experiences

How can we ensure that instant payment won’t become the exception in payments?

Patrick Graf It’s crucial to lend momentum to this system. We see it very nicely with TWINT: after a rough start with the search for users, this P2P payment mode eventually took root. Then things went more quickly and easily with the POS business, especially online. Instant payment is bound to experience something similar. What’s needed first is a good offering followed by positive user experiences.

Michael Montoya The challenge that banks are confronted with is that generally they are not set up to operate around the clock. Although some individual trading, IT, and call center units operate 24/7, that isn’t the case in a bank’s accounting department, where day-end closings and batch processing are still part of the daily routine. Instant payment will give banks an opportunity to organizationally adapt their well-functioning 24/7 operations and convert them into customer offerings that go beyond normal business hours.

All payment transaction banks in Switzerland will have to be capable of receiving instant payments, but what is the vital spark to induce them to submit such payments?

Michael Montoya When the Single Euro Payments Area (SEPA) was introduced, nobody used it, and there was no volume.

What did banks do then? They forwarded any payments that met the SEPA criteria as SEPA payments regardless of whether the payer commissioned the transaction as a SEPA payment. That got the whole thing rolling. Customers eventually adapted when they found out that third-party charges were suddenly lower in the SEPA. Analogously, I can picture banks routing credit transfers into the instant payment process without the payer having commissioned them as instant payments. The payee is pleasantly surprised by the quick crediting of the money to his account and thus has a positive user experience. Then perhaps a new service arises in the form of a receipt confirmation notice to the payer, which could be a company, for example, that appreciates this added service even if it didn't commission the payment as an instant payment. Each bank decides whether it wants to create new offerings and ultimately new user experiences for its customers via this new avenue.

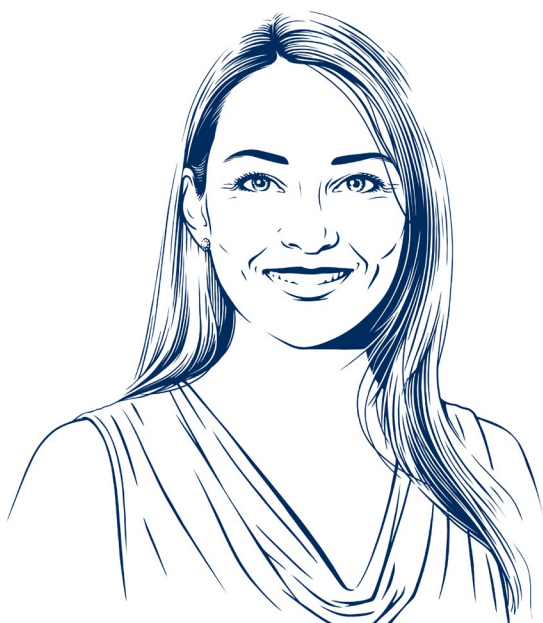
Patrick Graf It's entirely to be expected that instant payment won't be a hit right away – it was no different with SEPA and TWINT. We just have to be patient. Meanwhile, it's important for everyone to use the same terminology for this new normal: "instant payment" in English, "Instant-Zahlung" in German, "paiement instantané" in French, and "pagamento istantaneo" in Italian.

Michael Montoya There's one more point that we haven't touched on yet. We have to draw a distinction between instant payment as an offering for customers and the instant payment process that

takes place within the market infrastructure. This process will be utilizable for other use cases besides payment transactions. Take, for example, spot currency trading, where it currently takes two days after the closing of the transaction for the money to change hands. Or take securities trading, where settling a transaction involves settling the cash leg of the trade. The instant market infrastructure enables better solutions to be developed precisely for use cases of this kind.

Matthias Sailer The strength will lie in cleverly combining the different application areas. There is thus a lot of potential to create added value for all economic actors. □





“Is Quantum Computing Suitable for Instant Payments?”

DR. DANICA MARSDEN, PRINCIPAL
QUANTUM COMPUTING SCIENTIST
AT THE BANK OF CANADA

TEXT
GABRIEL JURI

Quantum computing seems to be the next big thing, Qubits instead of bits will shape the most complex payment processes. You recently co-published a research study* demonstrating the effectiveness of such a novel algorithm in terms of liquidity savings for settlement in the Canadian RTGS system. How is the reduction in opportunity cost calculated? Improving the efficiency of payment systems that need to settle on a gross basis, such as at central banks, requires optimization routines that can't currently be run in the real system time. Since future fully-fledged quantum computers are believed to excel at optimization problems, we developed an algorithm to tackle this problem. Running our simulation on currently available prototypes, we found a significant reduction in liquidity needed by the system to settle a fixed value of payments – about \$240 million dollars per day. The savings can be calculated from the opportunity cost of the collateral that is posted to the central bank in exchange for that liquidity. Since the eligible collateral is typically government securities, which in repo markets trades at a small

premium to other high-quality collateral, we estimate that the savings are between five and ten basis points per dollar of liquidity saved, or 240,000 dollars per day – divided among system participants in proportion to the value of their transactions.

The time to run your algorithm is five seconds before the transactions are executed. Is this algorithm also suitable for instant payments? Currently, many RTGS systems use liquidity savings mechanisms which are based on rules of thumb, such as bypassing larger payments if there is insufficient liquidity. Since they don't check all possible payment orders, this results in suboptimal solutions. Delay costs are often increased, too, by an order of minutes to hours.

Our method evaluates every possible reordering for a batch of payments and finds one that settles every payment, while also minimizing the liquidity cost. This takes about 90 seconds – the same amount of time to accumulate the batch of payments in the system – of which about five are spent running on the quantum annealer. This type of pre-processor, quantum or otherwise, is not suitable for payments that need to be carried out instantly, such as retail payments, but is appropriate when the benefit of the efficiency gain significantly outweighs the delay cost.

What other use cases could see big changes in the quantum age? Wherever similar transaction settlement optimization problems arise, such as in finding netting sets, securities settlement, trade matching, foreign exchange settlement, arbitrage, etc. In addition, quantum computing combined with machine learning could be used for real-time monitoring to identify patterns and detect anomalies in payments.

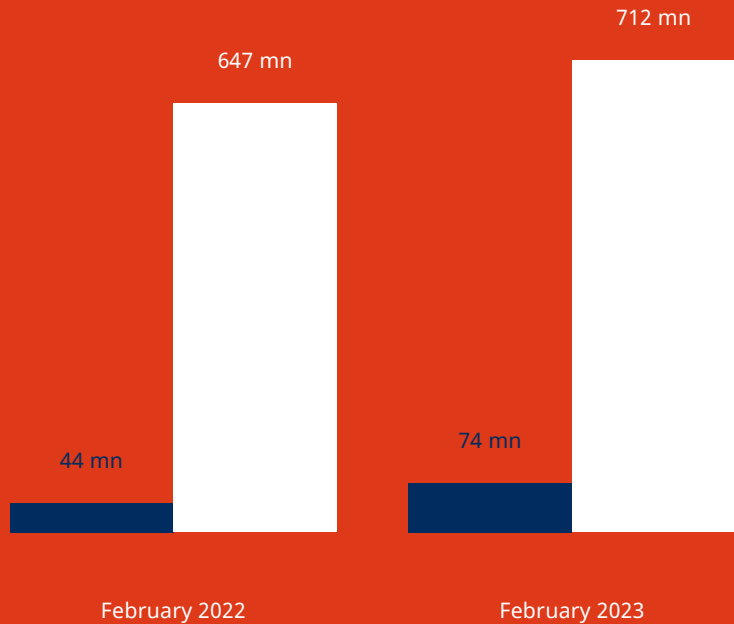
* The staff research is produced independently from the Governing Council of the Bank of Canada and does not necessarily reflect the official views of the Bank.

The transaction figures for global instant payment systems are seeing one prevailing trend: upward. But is what's inside what's on the label?

Much Room for Improvement in Europe

SEPA Instant Credit Transfer is the scheme that has formed the basis for processing retail payments via the RT1 and TIPS instant payment systems. Both are seeing a steady increase in the number of transactions. However, with a share of less than 15% of all transfers, instant payments are still not the new norm today. Especially when looking at other international markets such as Hong Kong and Australia, Europe is lagging behind.

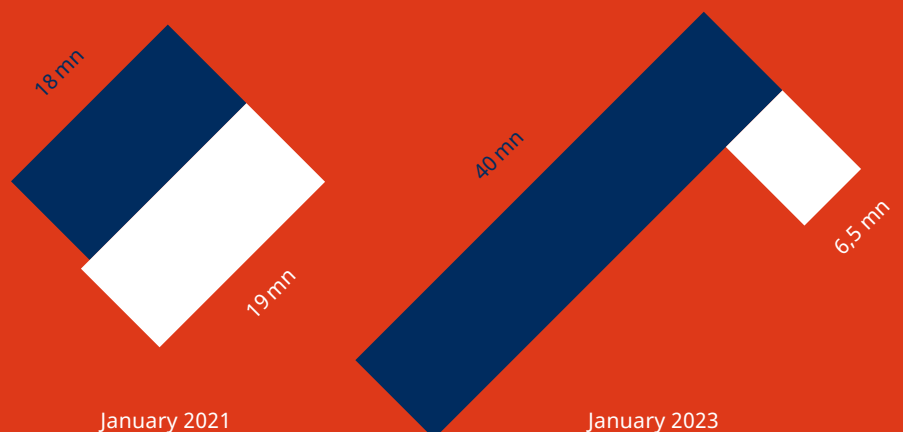
- instant (RT1/TIPS)
- non-instant (SCT)

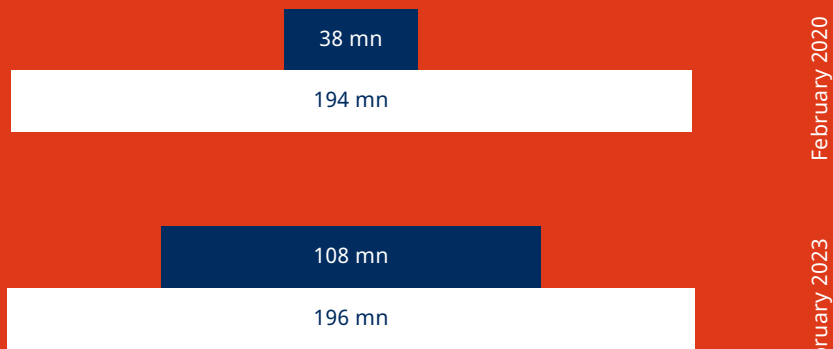


Hong Kong's Key to High User Acceptance

The Faster Payment System (FPS) is extremely popular. Batch payments (ECG), on the other hand, are declining significantly. Prior to its launch, Hong Kong's central bank had developed a series of educational and promotional materials for television, radio, and digital platforms.

- instant (FPS)
- non-instant (ECG)

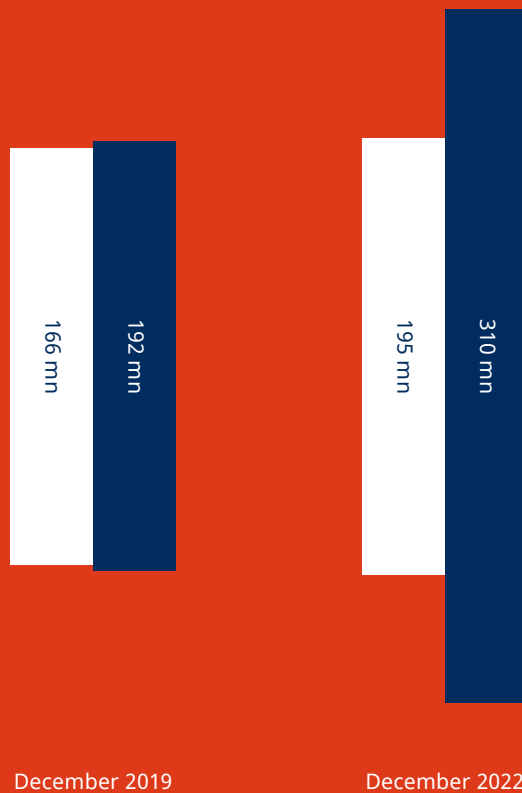




Down Under Ticks Differently

In Australia, the transaction flow for instant payments works via two system-relevant platforms. In simple terms, clearing takes place on one platform (NPP) and settlement on the other (FSS). Nevertheless, this does not hold back the rising trend. Batch transactions continue to account for the largest share of retail payments.

- instant (NPP/FSS)
- non-instant



Almost Immediate in the UK

Currently, the British Faster Payments Service (FPS) has 40 direct participants. FPS confirms the sending bank's transaction to the receiving bank within 15 seconds. However, crediting the payee's account can take up to two hours. FPS's competition is Bacs Direct Credit, through which over 90% of British employees receive their salary payments.

- instant (FPS)
- non-instant (Bacs)

“So en Gätsch” or a Refreshing Away-Day in the Great Outdoors

A VISIT WITH MATHIAS PETRIG, HEAD OF FINANCE AND HR, ALETSCHE ARENA AG

TEXT
SIMON BRUNNER

The landscape is wild, the people speak gibberish and it's a far cry from the cities of Switzerland. Those are the common clichés about the Valais region. But the last point is no longer true, at least: Brig is just over two hours by train from Zurich. Fifteen minutes later, we're being welcomed to the Aletsch Arena.

What is the Aletsch Arena, exactly? This term refers to a part of the Jungfrau-Aletsch UNESCO World Heritage Site. Aletsch Arena AG takes care of all the tourist needs of six municipalities in Valais, south

of the great Aletsch Glacier.

The back office is in an elegant wooden house in Mörel-Filet. But today we don't want to see the office; we want to enjoy the “most liberating nature experience in the Alps” (brand positioning). Together with Mathias Petrig, Head of Finance and HR at Aletsch Arena, we take the cable car from Betten valley station to Bettmeralp. “So en Gätsch,” he says, meaning the snow that lies boot-high on the ground at the end of March. Fortunately, an impressive snow taxi with caterpillar tracks is waiting for us. The situation is much worse for a tour group

from Taiwan, who have to wade through the “Gätsch” in sneakers. Later, we meet them again on the summit – neither the walk nor the nasty weather seems to have dampened their good mood.

We are on the Bettmerhorn, 2,647 meters above sea level. The vantage point next to the mountain station would offer a spectacular view of the Aletsch Glacier, “much more impressive than that from the Jungfrauoch,” says Mathias Petrig. Google rates this view 4.9 out of 5. Unfortunately, today you can hardly see your hand in front of your face* – a big exception for the “sunroom of Switzerland,” as Mathias Petrig describes it. We have no choice but to retreat to the summit restaurant, where the dish of the day is “cholera” – the name of a Valais cheese specialty.

Mathias Petrig, 45, begins to tell us the company's story. With one million overnight stays, Aletsch Arena is now one of Switzerland's tourism heavyweights. “Going digital is a very important strategic direction for us. For several years, we've been working with Aletsch Bahnen AG and other partners from the destination to build a sustainable digital transformation,” says Mathias Petrig. Several strategic milestones have already been set, including a project supported by the Swiss government (Innotour) to ensure





continuous communication with guests. A new online shop has been set up to book accommodation, excursions, and cable car tickets, with an annual turnover of around 10 million Swiss francs. A partner model supports smaller players, creates a level playing field, and increases service quality. Last but not least, the tourist tax regulations of the six destination municipalities have been harmonized.

"We already send a quarter of our tourist tax bills via eBill, and the trend is growing," says Mathias Petrig. The digital-savvy CFO believes that today, even as an SME, you have to offer this invoicing process, because "it's coming anyway." It also brings many benefits. "It's cheaper than mail. Payment morale is higher, and it's perfectly integrated with our ERP system."

As soon as "ERP" is mentioned, Mathias Petrig starts to beam and praises the solution from Abacus, a provider from eastern Switzerland. "The software is modular, so we can assemble it according to our needs, and the interfaces in the ERP system work perfectly." The ERP also covers multiple means of payment. "Many people want to redeem their Reka money with us. This can be done without any issues, even in the online shop," he adds. However, the most popular payment method has long been TWINT. "I am pleased that a Swiss solution has prevailed," Mathias Petrig says.

Mathias Petrig grew up in Sierre and worked for a long time in Zurich as an auditor for one of the large accounting firms. After the birth of their two children, he and his wife, also from Valais, returned to the mountain canton. "Now I work in a place where others go on vacation," he laughs. Mathias Petrig is very athletic. He even takes part in the 21-kilometer Aletsch Half Marathon in the UNESCO World Heritage site, ascending from the bottom of the valley to the top of the mountain. Last time, he completed

the 700-meter climb in about 2.5 hours.

As in many mountain regions, having a year-round strategy is crucial for Aletsch Arena AG: What can the region offer guests in addition to the snow experience? In the gondola back to Bettmeralp, Mathias Petrig shows what this means in concrete terms by looking out of the window. "Biking is the new skiing," he says. There are more than 100 kilometers of mountain bike trails, special pump and flow trails, e-bike charging stations, and other options for every biker's taste. There are hiking trails and a golf course, too. You can also paraglide, do stand-up paddleboard yoga and much more. And there's something for kids in almost every activity. With a touch of self-criticism, he says, "We need to better target our audience. We've developed a new marketing strategy for that purpose – we want to attract more guests to visit us in the off-season."

Aletsch Arena AG employs 30 people and currently has three vacancies. "With 10% vacancies, we're still in a good position," says Mathias Petrig, who oversees the human resources department in addition to finance. "There's practically full employment in Upper Valais at the moment, and the unemployment rate is just 0.8%." This has a lot to do with Lonza, the booming manufacturer of active pharmaceutical ingredients. Or, as Blick, the popular Swiss daily newspaper, puts it, "Valais is becoming a pharmacy for the whole world." As much as the region is benefiting from the economic upswing, there is a shortage of workers: "Filling vacancies is incredibly difficult at the moment," says Mathias Petrig.

We finish our meal, take the train back to Betten valley station and board the train to Zurich. Arrival: 5:14 pm. A day out in Valais with lunch at the summit restaurant comes highly recommended. 🍷

* The photographer traveled to the Aletsch Arena on a sunnier day.



More Security for Mobile Transactions

The Bern University of Applied Sciences (BFH), UBS, and Google are working on the standardization of a new security function for mobile devices that will go beyond the financial sector. BFH has made an APC Demo App available in the Play Store, which can be used to test the security function on a Google Pixel device. UBS plans to pilot the security feature in its UBS Access App this summer. The new technology makes it easy to use security-critical applications in a secure environment – for example, for confirming financial transactions.



Further
information

EPI Enters a New Phase

The European Payments Initiative (EPI), originally intended to compete with Visa and Mastercard with a pan-European card, has scaled down its ambitions. The project now focuses on a digital wallet and instant payments. For example, EPI has developed a complete payment process that enables instant payments in retail.

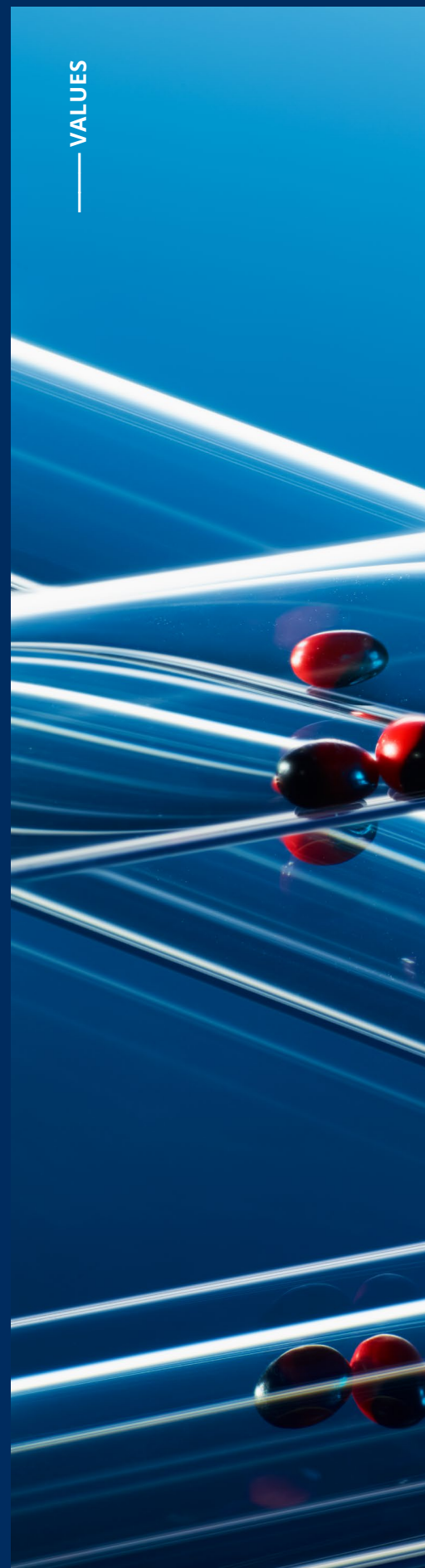


Further
information

The introduction of instant payment in Switzerland also has an impact on an indispensable tool for daily payment transactions: the Bank Master. The new specifications are available on the SIX website.



Further
information



Throughout human history, almost every type of goods have functioned as money for a time. Even peas – poisonous rosary peas, to be more precise. Their value once stemmed not from their highly toxic ingredient, but from their water-impermeable seed coat. Regardless of how moist they become, the weight of the peas always stays the same. One hundred peas equated to the value of one penny and were enough for two rosaries, or Pater Noster cords, as nuns and monks called them.



100



Samba to the Beat of Digital Currency

The Central Bank of Brazil is set to launch a suite of digital tests for its Central Bank Digital Currency (CBDC) with a focus on privacy and security. This follows the introduction of the PIX instant payment platform in 2019, which swiftly found widespread usage in Brazil. Instant payments and CBDCs are very similar. Both would provide instantly available good and final funds.

The digital real is being deployed in various areas and functions during the trial phase. Third parties, including banks, can conduct pilot tests for the digital real once they meet certain requirements by 24 April 2023. The test environment may continue beyond 2024, if necessary.

The digital real is expected to encourage banks to tokenize their assets, which will improve settlement, audit, and funding costs. This will be achieved by exchanging tokenized deposits for the digital real. Tokenized assets used as digital currencies could lead to a shift in the way we think about money and revolutionize making payments and financial transactions. CBDCs have the potential to improve the efficiency, security, and privacy of such transactions, which could be a game-changer for the financial industry.

However, the success of CBDCs depends on their ability to maintain the core principles of non-digital currencies, including the governmental guarantees of its value and widespread acceptance as a medium of exchange. Digital currencies enable central banks to issue alternative money, rather than relying solely on bills and coins.

While at least 27 countries are working on formulating regulations for digital currencies, Brazil has already passed a bill that regulates these assets. This allows the country to introduce concepts and principles to guide the provision of services in the era of digital assets and payments, while empowering Central Bank of Brazil to fine-tune the regulation.

**JULIAN BRAZI (WORLD BANK) AND
YOANN FOUMANY (SECB SWISS EURO
CLEARING BANK)**

FURTHER INFORMATION:



**BANCO CENTRAL
DO BRASIL**



Will SEPA Instant Payments Finally Become the “New Normal”?

Some banks have been offering SEPA instant payments in the euro area for five years. Today, one in four banks in the EU can be reached via the SEPA Instant Credit Transfer Scheme and a good 13% of transfers are paid immediately. As a result of the slow growth in market penetration, the European Commission decided to adapt the existing regulation in view of the EU Retail Payments Strategy. The currently proposed regulation requires most payment service providers to offer their customers instant payments for euro transfers. The implementation should be gradual but swift. The requirement to receive instant payments in euros will apply from 6 months, the requirement to send instant payments will apply from 12 months after the regulation comes into force. For payment service providers outside the euro area, including Liechtenstein, transitional periods of 30 and 36 months respectively apply. This is ambitious and represents a major challenge for the payment service providers involved.

Of course, payment service providers must continue to take necessary and appropriate measures to combat money laun-

dering and terrorist financing or to prevent fraud. The biggest challenge is that it now has to be done in ten seconds. To achieve this, payment service providers need to break new ground. For example, under the current draft regulation, payment service providers will no longer be required to perform transaction-based screening on individuals and entities on European sanctions lists. Rather, the receiving bank can rely on the fact that the sending payment service provider has already performed this check. This will be achieved through consistent sanctions screening specifications across the customer base.

Another major challenge for payment service providers is the new requirement to match the payee account identifier (e.g., IBAN) with the name of the payee (Confirmation of Payee). This verification shall be performed by the paying party's payment service provider immediately before the payment is authorized. The provider must inform the paying party of the result ("close" or "no match") and at the same time allow it to execute the payment even if there is no match.

It is clear that the integration and implementation of such an additional payment channel is time consuming, costly, and technically challenging. In order for SEPA instant payments to achieve the desired reach, the fees must not be higher than those for traditional euro payments. For the banks, the EU's timetable for implementation is very ambitious. For customers, instant payments mean faster and more efficient cashless payment transactions.

**SUSANNE HÖHNER, LIECHTENSTEIN
BANKERS ASSOCIATION**

FURTHER INFORMATION:



**PRESS RELEASE OF THE
EU COMMISSION**



Instant Payments in the Experience of a European Payments Provider

In addition to the requirement to be able to both receive and send real-time payments, the introduction of instant payments includes further verification obligations for banks, such as matching the IBAN with the account holder and sanction screening. In addition, real-time credit transfers should not cost the end customer more than a conventional transfer in the future. While many banks fear considerable additional expense, the SEPA Instant Credit Transfer Scheme is already an established payment standard in the Netherlands.

There, the outsourcing of process structures has proven its worth: In cooperation with their service providers, banks are increasingly relying on modular solutions that can be linked to existing infrastructures and flexibly expanded with value-added services.

As critical as these infrastructures are, they should be optimized in terms of efficiency and costs in the future by exploiting all economies of scale. As a distinction to the mere execution of a payment, efficient access to these and successful integration into existing corporate processes can be a competitive differentiating factor. For financial institutions in Switzerland, which will also have to offer instant payments from August 2024 or 2026, the Dutch approach could well be a model.

Large retail chains stand out as the most likely beneficiaries. They have the critical mass to add new payment methods to their loyalty apps and reduce their default risk through instant payments without relying on a scheme. This is because while recall is possible with both card-based methods and a direct debit, real-time credit transfers are final. For the merchant, there are thus advantages at this point of an instant guaranteed payment. But it's not just retailers; big tech companies also have the opportunity to gain new data by integrating payments.

For banks, it means gaining a clearer picture than ever of their own future position, whether through an active approach at the customer-bank interface or a rather passive approach in the background for third-party service providers. In any case, the future lies in offering data- and service-driven value-added services.

**JACQUELINE GOOD ZILTENER
WORDLINE SWITZERLAND**

FURTHER INFORMATION:



**DUTCH PAYMENTS
ASSOCIATION**



When you work, you don't have time
to earn money.

Jewish proverb