ClearIT

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Information about the Swiss Payment Traffic Systems

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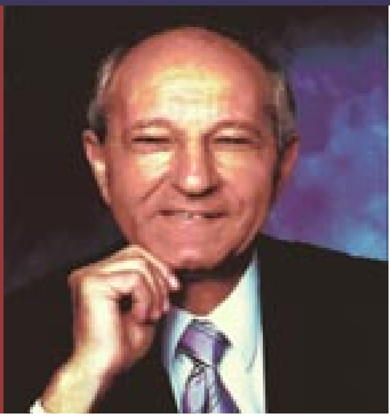
Basel II's Impact on Payment Traffic

DTA/LSV Services Via the Internet

Money Flow – a Cultural History

Swiss Interbank Clearing
A Telekurs Group Company

Content



DEAR READER:

In this issue of ClearIT, we are hoping to make the complexity of Basel II more accessible to you. To this end, we have also included a special focus on the operational risks in payment traffic. The Committee on Banking Supervision (G10) decided in December 1998 to revise Basel I. Recently, with the second version of Basel II – The Consultative Package on the New Capital Accord, published in January 2001, the broad effect of Basel I became obvious through the inclusion of payment traffic. The ensuing discussion generated 250 comments worldwide, amounting to 4,569 pages, with 127 of those pages submitted from Switzerland. The Quantitative Impact Study (QIS 3), which was completed at the end of last year, turned out to be an eye-opener in regards to the emerging complexity of the bank-side adaptation. Fewer than 10% of the 350 participating banks were able to assign the risks to the appropriate eight business lines of the Standardized Approach, where Payment and Settlement are placed at the bottom. Looking at it that way, a differentiated conversion by country appears appropriate. The forces operating the Swiss financial market are currently hard at work generating suggestions for the «Swiss Finish».

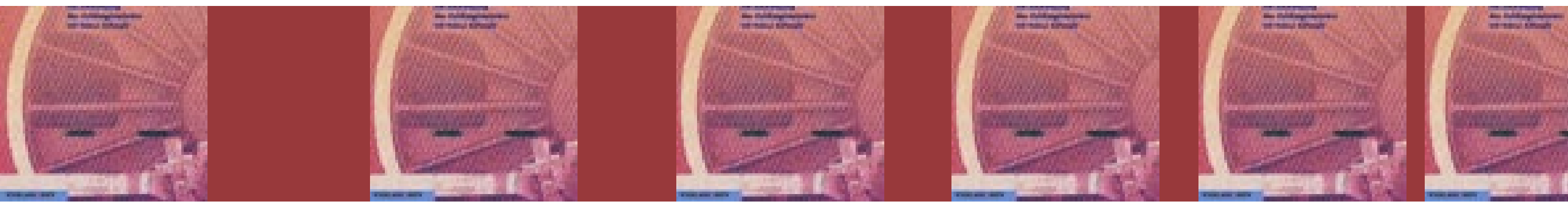
The Swiss Interbank Clearing Board of directors reacted immediately. In September 2002, it nominated a board committee headed by Professor Dr. Klaus Spremann. This body was tasked with thoroughly analyzing Basel II and the operational risks in payment traffic. The consequences for the Swiss financial center, in view of a possible rise in payment traffic costs, or market distortions, deserve special attention. A few of the results provided by the board committee are presented in this issue. The Third Consultative Paper was published at the end of April. As a result, we re-worked and updated our articles, which, in turn, led to a slight delay in the publication of this issue of ClearIT.

In addition to Basel II, this ClearIT includes topics such as the DTA/LSV migration and some news about payCOM^{web} and payGATE^{web}. And last, but not least, Professor Hans Geiger introduces the book «Money Flow – a Cultural History», – a fascinating (summer) read, published especially for our anniversary last year!

Hoping you enjoy this issue of ClearIT and the joys of summer,

André Bamat, CEO Swiss Interbank Clearing Ltd.

P.S. The book mentioned above is currently only available in German under the title «Kulturgeschichte des Geldflusses»,
Fritz Klein & Dr. Guido Palazzo, published by SKV Publishing House, Zurich.



KLAUS SPREMANN: «THE EFFECT OF THE UPCOMING CAPITAL REQUIREMENTS ON PAYMENT TRAFFIC CANNOT BE IGNORED»

ClearIT: What reasons led to a revision of the previous standards and subsequently to the discussions about Basel II?

Klaus Spremann: The first subject for discussion within the Basel Committee was credit risks followed somewhat later by market risks. The market risks include price risks in connection with the assets in shares and foreign exchange as well as the interest rate change risks in the trading portfolios of the banks. However, these topics only applied to a small number of banking specialists. A revision of the Capital Accord had been planned for the year 2000. It was drawn out over time and now it is simply referred to as Basel II. The reform of the current Capital Recommendations is now in its final phase. The Third Consultative Paper was published a few weeks ago. It appears that the new, enhanced and expanded recommendations of the Basel Committee for Bank Supervision will be integrated into the national legislation of all member states by the year 2006.

Which changes are the most significant?

There are three elements: First, in addition to the minimum capital requirements (1st pillar), Basel II will implement a more active role in the supervisory review process (2nd pillar) and foster the banks' risk discipline with enhanced transparency for the shareholders (3rd pillar). Thus far, periodic reports only were required, whereas now supervisors would like to actively audit on site, and the shareholders, too, should receive more insight into the banks' risk positions. Second, within the existing framework of the Capital Accord the risk extents for credit risks will be better adapted to each debtor's credit worthiness and situation. Much has been learned about credit risks since the original introduction of the first Accord, and today's understanding requires this revision. Third, in addition to credit risks and market risks, capital allocation for the banks' operational risks will now also be mandatory.

Operational risks

The first of these three pillars applies regulations about the allocation of capital. To what extent does this affect the banks' payment traffic?

Over this past decade, there has been a quantum leap in know-how and best practices as far as credit risks and market risks are concerned. In comparison, in reference to the operational risks, we are still at the beginning of the game. Still, these risks cannot be ignored. System collapses, business processes disruptions, lapses still occur with frequency. Operational risks can appear in any area of a bank. One only needs to think of the people, systems, pro-

BASEL II

In January 2001, it was suggested to publish the New Basel Capital Accord. This was to replace the agreements currently in effect from 1988. A field study was started in October 2002 with the intention of examining these new regulations. More than 350 banks from 43 different countries participated in this study. The results were published at the beginning of May 2003 and are to be integrated into the New Basel Capital Accord. The latter is to be completed by the fourth quarter of 2003.

Prof. Dr. Klaus Spremann talking about the impacts of Basel II on payment traffic.

The Capital Accord of the Basel Committee for Bank Supervision of 1988 focused on the total equity of a bank, which is the key factor in limiting the insolvency risk. The New Capital Accord, Basel II, which is to be implemented by the end of 2006, is building on that for increased financial system security and soundness by ensuring that inspection under supervision and the market discipline receive a higher rating. Basel II directly affects the banks' payment traffic now that, in addition to market and credit risks, operational risks must be secured by bank capital. Prof. Dr. Klaus Spremann from the St. Gallen Business School has been contracted by Swiss Interbank Clearing Ltd. to develop a study about the impacts of Basel II on payment traffic. Here is his overview on the first results of his work.

SHORT BIOGRAPHY

Klaus Spremann
Prof. Dr. Klaus Spremann has been teaching at the St. Gallen Business School since 1990; additionally, he is a Director at the Swiss Institute for Banks and Finances. Born in 1947, Spremann studied mathematics at the Technical University Munich (graduated with a degree in math, 1972), received his Ph. D. in 1973 and obtained his post doctoral qualification in 1975 (University Karlsruhe). His career also includes various professorships, fellowships and teaching posts in the U.S. and Asia. In Switzerland, Klaus Spremann has worked on various practically oriented projects, including the development of a study about payment traffic (published in book form as «Wettbewerb und Technologie im Zahlungsverkehr», 1997, Verlag Haupt, Bern, Switzerland).

cesses and external events. For the operational risk assessment, there are two differentiated approaches. The Basic Indicator Approach for the consideration of operational risks (see also following article, ed.) differentiates between units, business lines, activity groups and, in some cases, the *payment traffic* products, processes and systems are specifically named: the charge and credit cards, funds transfers, and clearing and settlement. The Standardized Approach differentiates between eight business lines, one of which is *payment and settlement*.

We are only at the beginning in reference to measuring these risks. The point is that statistics are only reliable to the degree that small damages occur frequently and calculation is done in an insurance-company fashion. Basel II holds that there is tremendous potential for very significant breakdowns in the operational area, even if the likelihood is minimal. For the Basic Indicator Approach, a percentage is being discussed that will be tied to the gross income of the bank and that will supply the required capital for allocation. For the Standardized Approach, a percentage of the gross income by area is used.

Based on customer-friendly pricing, payment traffic is not profitable, since the costs for a reliable system are high. That's why the effect on payment traffic of the capital requirements is of a magnitude that cannot be ignored. Apart from all that, the entire business with the purpose of a differentiated risk assessment turns out to be rather academic. The banks are required to attend to it and many will have to hire external specialists. The Basel Committee for Bank Supervision admits to the increase in complexity. The banks are to be consciously motivated to a refined and deeper consideration. Basel is aware of the resulting costs while counting on the fostering of the financial system's stability. Meanwhile, many critical voices have been heard, some of them from the USA. The Vice President of the US Federal Reserve Bank, Roger W. Ferguson, Jr., said recently that this is so complex, it would only be suitable for a very few large banks.

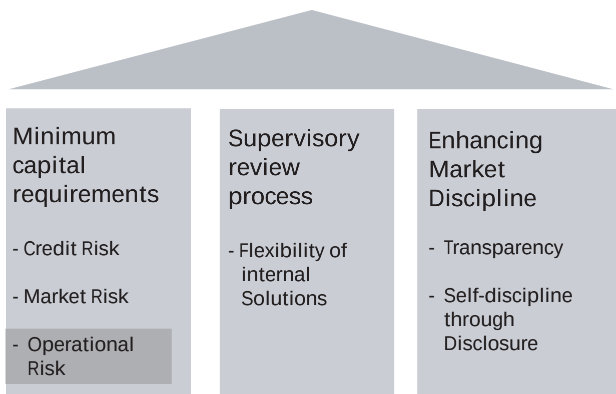
Outsourcing payment traffic functions

How will this affect banks of varying sizes?

Smaller banks will contemplate whether they could outsource certain payment traffic functions. Another consideration will be the responsibility for errors occurring in payment traffic, such as input errors. Is the bank or the client responsible? Good will might vanish due to the requirement for transparency to shareholders.

The Basel II guidelines only concern banks. However, payment traffic ser-

The Three Pillars of Basel II



vices are also offered by financial institutions without banking status. What kinds of developments might result from that situation?

That's exactly the point. Researchers refer less to the bank than to financial services, because by now, financial services are also offered by other institutions and companies. The Accord, on the other hand, isn't at that point yet and only requires banks to meet its requirements. This favors all non-banks offering payment traffic services, as well as those non-banks concentrating on referral services and their own customer base. In many countries, the postal service offers many of these services without having banking status. Here, the commission is at the source of a clear case of competition distortion, which, in the end, undermines its own objective, because the supervisors promote the migration of financial services to the non-monitored suppliers.

What kind of advice would you give the banks to help them best prepare for Basel II?

Banks should get involved with the material immediately and thoroughly and not wait until 2006, when the new rules apply. The upcoming changes can be foreseen and predicted. It's possible to take the necessary preparatory steps. However, the adaptations and conversions are far more costly this time because they affect the entire banking operation, and not only some specialists in the back office. Small and medium-sized banks might seek external support and it might be worth it to prepare for possible cooperation with some partners.

In Europe, Basel II has only been discussed in the area of small and medium enterprises. The question arose as to whether, after the introduction of risk-adjusted pricing, credit costs would go up, specifically for long-term credits. Still, Basel II will radically change the banking environment; its effect isn't just limited to pricing in one area or another.

Christian Schwinghammer,
Swiss Interbank Clearing Ltd.,
christian.schwinghammer@sic.ch

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

RESPONSIBILITIES AND AUTHORITIES OF THE CASEL COMMITTEE

The Committee puts out decisive work in relation to the coordinated cooperation agreement among the supervisory authorities, even though it does not have formal supranational supervisory authority and, consequently, its recommendations are not legally binding. It develops supervisory legal standards and regulations with the intention of having them integrated into the legislation of the individual countries. The recommendations frequently represent minimal standards that can then be accepted directly or tightened accordingly by the individual countries.

BASEL COMMITTEE FOR BANKING SUPERVISION – WHO IS BEHIND IT ?

The Basel Committee for Banking Supervision, founded in 1975, is made up of representatives of the central banks as well as the banking supervisors of the G10 nations (Belgium, Germany, France, Great Britain, Italy, Japan, Canada, Netherlands, Sweden, Switzerland and USA) and Luxemburg. Generally, it meets at the Bank for International Settlements (BIS) in Basel, where its permanent office is located.
The countries are represented by members of the central banks and by Members of the Banking Supervision Authorities, who are authorized to issue directives in cases where supervision isn't incumbent on the central bank.
Currently, William J. McDonough, President, Federal Reserve Bank of New York is heading up the Committee. Their meetings are held quarterly. In addition, there are more than 30 teams and task forces focusing on individual subject areas.

ADDITIONAL INFO

You can find links to Basel II at www.ClearIT.ch.

EFFECTS OF BASEL II ON OPERATION

The revised Capital Accord of the Basel Committee will come into force by the beginning of 2007 after a consultative period of several years. For the first time in history, banks will now be required to hold capital for operational risks. Spectacular historical losses have certainly contributed significantly to this evolution. Over the past three years, approaches of models were developed to calculate a capital ratio instead of offering a simple rate. It appears that for a brief moment, in calling for risk appropriate capital for operational risks, the sorcerer's apprentice was left to his own devices - a fact that originally neither the regulatory side nor the banking side were aware of.

The Accord calls for a menu of three calculation variations for operational risks embedded in the Basel II three-pillar concept (pillar 1). Banks are to decide independently which of the three methods listed below they wish to use for calculating their capital ratio. Additionally, the regulator prescribes regular revisions of the operational risk management process (pillar 2) in order to demand additional capital, if need be, in the case of qualitatively inadequate management. And lastly, in the future, a bank must disclose its risk management process (pillar 3).

1. The *Basic Indicator Approach* is purely a function of gross returns. While simple, this method results in a high minimum ratio.

2. For the *Standardized Approach*, gross returns are calculated by business line and the result is then calibrated with more or less risk-adequate factors. However, a bank must qualify for the Standardized Approach by meeting certain requirements of an organizational, qualitative and data historical nature. Specifically, it is required that operational risk-relevant data – including essential in-house loss data – is gathered systematically by business line and continually monitored.

3. The *Advanced Measurement Approach* («AMA») is reputed to be the most risk-oriented method. An AMA model is developed by the bank according to its own needs and is to include the four cornerstones:
   – internal operational loss data for the past five years,
   – external loss data to supplement potentially unavailable proprietary data,
   – scenario analyses of operational risks,
   – qualitative aspects (e.g., internal control factors, business environment).

   The model must be explicitly accepted by the regulator. Again, the prerequisite is the meeting of additional qualitative and quantitative criteria.

   In order to enable financial institutions to enter into AMA by the year 2007, the five-year data history hurdle was lowered to three years for first time use. This means that a bank must have all its operational losses documented and available for use in the model starting with January 2004. Basel II is showing restraint in reference to the origin of external data and will probably not issue any rules; commercial data banks or data from syndicates (e.g., ORX, GOLD) might serve as sources.

Call for action

Anyone wanting to optimize their capital and avoiding being rated according to the Basic Indicator Approach has no choice but to first inventory and document the status quo of their entire organization:
– Which Basel II relevant data is already available?
– Which data can and must be used for the daily decision process?

– Which data and processes must be available for meeting the new regulatory disclosure regulations?
– From which systems must data be obtained?
– Are the existing systems capable of meeting the additional Basel II requirements? It must be taken into consideration that the requirements will further be developed over the coming years.
– Can the data be divided into the business lines prescribed by Basel II?

A second phase is intended to fill the existing gaps in terms of a gap analysis:
– Which data is available but not usable in its current state (quality, consistency, granularity, completeness)?
– Which data is required but not yet available?
– Can the missing data be obtained internally or will data have to be sought from the outside?
– Which is the most suitable recognized outside data source?
– Starting at which loss amount do events qualify as relevant to Base II?
– In which format should qualitative data or results from scenario analyses be recorded?
– How is data from differing applications consolidated?
– Which modifications must be made to systems or technology to ensure the Basel II process? Will it possibly take acquiring new equipment or software or hiring additional personnel?

MARTIN SPRENGER, SWISS FEDERAL BANKING COMMISSION (FBC)

«The quality of the approved approaches is clearly the focal point for the FBC for the authorization of Advanced Measurement Approaches. There is no intention on our part to encourage as many institutions as possible to apply this kind of approach.
As with past application of previous Basel standards, the FBC puts a lot of emphasis on close cooperation with field experts in order to implement Basel II.»

Hansruedi Schütter

The third phase concerns the actual use of the data:
– How will internal data have to be mapped to become Basel II business line qualified?
– How can an organization ensure that data used for the capital model is also being used for management decision-making processes?
– How can it be proven that routine losses resulting from day-to-day business are already taken into consideration in the pricing structure? In cases where this cannot be represented credibly, the regulator reserves the right to demand capital for this type of expected losses.
– As a result of the above burden of proof, the fee structure must be re-examined regularly for its level of coverage and – if necessary – adjusted accordingly. However, it is also necessary to consider the consequences (e.g., lack of continuity, loss of competitiveness, implicit disclosure of weak points, risk of damage to reputation).
– Can loss data be applied in a meaningful way as validation of qualitative data? If so, how does one program an application in order to execute this process objectively yet still intelligently?

And not least is the fact that Basel II's second pillar imposes significant organizational demands on each individual operational unit. The anticipated pillar 2 assessment guidelines can be found in *Sound Practices for the Management and Supervision of Operational Risk*. It's also safe to assume that all sorts of recommendations by the Basel Committee increasingly are being applied as criteria for the pillar 2 audits.

Direct implications affecting payment traffic

«Payment & Settlement» is its own business line under the Standardized Approach. Data mapping from various other lines may therefore become superfluous in most cases. This allocation, however, is of significance when losses occur whose cause cannot be found in payment traffic. While a trade loss would be included in VaR (Value at Risk), a pure process loss falls under operational risks.

Under Basel II, anticipated losses, for instance, especially in payment traffic, would have to be documented as *estimated* and would have to appear in the budget. If anticipated losses cannot be documented credibly as already having been included in the planning, the bank may be subject to an additional capital requirement.

Basel II doesn't just affect the CFO or the risk managers. Processes must be analyzed in each business line and relevant data must be gathered from the entire company. Wherever this isn't the case yet, benchmarking and scenario analyses will become part and parcel of each department head's task list. Basel II doesn't start January 1, 2007; it starts today. In order to avoid additional costs at a later point in time, persons responsible at every level must start thinking about the implications of the new capital requirements and the demands they will have on new projects.

Hansruedi Schütter,
hrs Risk Management Services,
hansruedi@schuetter.net

ADDITIONAL INFO

Links to Basel II can be found at www.ClearIT.ch.

HIGH COSTS

Of the eight business lines a bank is divided into, payment traffic is, by far, the area most affected for the purposes of calculating capital allocation for operational risks.

Example:

– A bank has 100 employees in the payment traffic department. Personnel and IT costs are budgeted at CHF 40 Million (CHF 400,000 per person). As a result, this bank has to allocate CHF 8 Million for payment traffic, which amounts to CHF 80,000 per employee.
– If a bank has scare capital resources, it may have to give up loaning CHF 1 Million, a loan requiring CHF 80,000 in capital allocation at risk weight (RW) of 100%. If this credit has a margin of 1%, the bank loses CHF 10'000 in profit.
– Therefore, the capital the bank would have been required in order to cover its operational risks in payment traffic amounts to an additional CHF 10,000 approximately, per year, per payment traffic employee. This number affects the profitability of the payment traffic the same way a pay raise of CHF 10,000 per employee would.

The high burden on payment traffic shows up both in the basic and the standard approaches. A bank could benefit from a lower allocation by using an advanced approach whereby the capital requirement is calculated based on the actual and statistically registered risks of the bank.

Klaus Spremann

THOMAS ANKENBRAND, RBA-ZENTRALBANK

«Banks using the Basic Indicator Approach or the Standardized Approach may try to optimize their capital requirements by outsourcing the payment traffic to either institutions without banking status or to institutions using advanced approaches. Whether this makes operational sense in light of strategic considerations depends, aside from the bank's capital situation and their capital costs, on the specifics of the final version of Basel II and the corresponding national implementation. It is hoped that this implementation doesn't result in a market distortion, which in turn will lead to increased system risks. This would diametrically oppose the basic philosophy of Basel II.»

DTA/LSV SERVICES VIA THE INTERNET

A few years back, it became apparent that at some point, the products PayGate/EVA and PayCom3 would no longer be able to meet future demands of information technology and usability. Add to that the realization that servicing and maintenance of these DTA/LSV services could not be ensured by a reasonable effort. Now – using the newly available Internet technology – a successful new generation of programs has become available.

As a result, Swiss Interbank Clearing decided on a new generation of programs that would meet the requirements of the Internet environment and that could be operated more economically.

payGATE^{web} and payCOM^{web}

There are two products available today based on the modern yet proven Internet technology: payGATE^{web}, the interface to the financial institutions and payCOM^{web}, the interface to their respective clients. Both have been introduced to the market and enjoy great popularity.

In order to satisfy the demands for security and identification of the users for these two services, Swiss Interbank Clearing has created a new PCI infrastructure. This enables us to issue our own certificate for secure client authentication within the used SSL protocols independent of external certification authorities.

The foundation for the two new products is the PEGASUS platform, which was developed by Swiss Interbank Clearing based on OpenSource. This makes it possible to simply and quickly integrate the latest releases and integrate them into the platform – under ideal cost conditions. The PEGASUS platform is used for both HTML and Web services and is one of the most advanced platforms currently in use in Switzerland.

Screenshot application part «Orders» in payGATE^{web}

EA success story continued

At this point, approximately 80 financial institutions and more than 600 company clients are already using the new products. Over 1,600 users are registered and the system's limits aren't anywhere near capacity. The system is reliable and stable and has been running without any problems since its introduction.
It can be said that the generation update was a real success. Besides positive acceptance of payGATE^{web} and payCOM^{web} by the users, significant savings resulted in both development and operation. Additionally, the wide range of heterogeneous platforms could be reduced considerably. And due to the logical and user-friendly operation of these services, support requirements have decreased notably.

An additional expansion is already planned in an effort to concentrate all delivery channels onto the new platform. Furthermore, future developments are to be executed on the PEGASUS platform, which will lead to additional savings in development, maintenance and operations.

With the successful introduction of the new products, Swiss Interbank Clearing has clearly succeeded in connecting with the world of the Internet. Today, the company provides state-of-the-art, technically advanced, and forward-looking services of the highest quality and has nothing to fear when judged by international standards.

Paul Sutter,
Swiss Interbank Clearing Ltd.,
paul.sutter@sic.ch

NEW RELEASE

In April 2003, Release 4 of payCOM^{web} was launched successfully. This version allows customers to electronically autho-rize their DTA/LSV orders. With that, hard copy format reimbursement and collection orders have been rendered superfluous - yet another step in the direction of fully automated Straight Through Processing.

ADDITIONAL INFO

Additional articles about this topic as well as the latest product information are posted on www.payGATEweb.ch and www.payCOMweb.ch.

EU-EXPANSION

As of May 1, 2004, the European Union will be expanded with the entry of these ten new countries: Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Malta and Cyprus.

According to the legislation currently in effect, the actual admission of the new EU Member States into the European Economic and Monetary Union can occur no sooner than January 1, 2007. In order to join the monetary union, a country must meet the convergence criteria written into the EC Treaty, which, among other things, maintains that Member States must achieve a high degree of price stability, the durability of convergence being reflected in the long-term interest-rate levels, the sustainability of the government financial position, an exchange rate stability and a minimum two-year membership in the exchange-rate mechanism (ERM II).

Susanne Eis,
SECB Swiss Euro Clearing Bank GmbH,
susanne.eis@secb.de

DTA/LSV MIGRATION

By virtue of the increased introduction of e-banking services, many financial institutions are interested in receiving data carrier exchange (DTA) payments from their clients via the bank's own interfaces. Taking this under advisement, the Board of directors of Swiss Interbank Clearing Ltd. decided a year ago to maintain the central DTA processing unit only through the end of 2005. In other words, «authorization», «clearing and settlement» (F10 settlement) and «delivery of DTA transactions to B banks» functions are being discontinued.

From that moment on, DTA payments will be processed by the banks within their own payment traffic applications and payments to other institutions are forwarded as SIC transactions. However, for the clients, the actual DTA service remains unchanged as a cooperative effort of the banks.
Other than in the case of the DTA service, the central processing for LSV (direct debit) will continue to be maintained in its current format beyond 2005. The results of a market survey currently underway will help determine where potential application adjustments in LSV are required for clients and banks.
Swiss Interbank Clearing will generally continue central delivery for LSV. In the area of DTA, on the other hand, this service will only be maintained for some of the banks and their respective clients.

New delivery channels

For a number of cost and rationalization reasons, the delivery options will be successively shifted to Internet-based data transmission with payCOM^{web}. In cooperation with the banks, we will advise clients in a timely fashion of the new delivery channels while at the same time pointing out the advantages of these new options.
Now that the PayCom2 and $5^1/_4$'' diskette delivery media have been retired and replaced as of March 31, 2003, the current PayCom3 versions should be migrated to the more advanced and flexible payCOM^{web} or, depending on the banking institution for DTA transactions, to their telebanking interface by the end of 2004. PayCom3 clients will be updated in detail during the summer of 2003.
In an additional step, the remaining data carriers – i.e., $3^1/_2$'' diskettes and magnetic tape/cassettes, should be retired by the end of 2005 and replaced by electronic transmission. An appropriate client information campaign is already scheduled.

Gottfried Keller,
Swiss Interbank Clearing Ltd.,
gottfried.keller@sic.ch

Screenshot homepage of the payCOM^{web} application

MONEY FLOW – A CULTURAL HISTORY THE DEVELOPMENT OF PAYMENT TRAFFIC WITH A FOCUS ON SWITZERLAND

Book review by Professor Dr. Hans Geiger

Payment traffic, as such, traditionally was never held in very high esteem, neither by the banking industry nor by science - an injustice, as it turns out. For several years now, a shift in thinking has been occurring. The linguistic root of the modern word 'finance' is found in the Latin «finis» (the end) and reminds us that a market transaction was only considered complete with settlement of the final payment. As far back as 1776, Adam Smith wrote in his work about the prosperity-inducing effect of the division of labor. He stated that a divided-labor economy could only work if its products could be traded at market. Money – currency – and payment traffic therefore form the very basis for the functioning of the pricing mechanism, and thereby prosperity, in a market economy. As it turns out, it was indeed payment traffic, and not the credit business, standing beside the cradle of European pre-industrial banking.

Swiss Interbank Clearing Ltd., which operates the payment traffic system SIC by order of the Swiss National Bank, published a book on the occasion of its 15th anniversary. This book focuses on the one hand on the economical, political and cultural roots of modern payment traffic systems, and on the other illustrates the emergence of those systems. Over approximately 140 pages, the two authors, Fritz Klein and Guido Palazzo, have succeeded in portraying the world of payment traffic and money from its origins to electronic funds in a captivating and entertaining fashion. In the first four chapters, and in three phases, this well-structured book describes the emergence of the market economic order, banks, and the development of payment traffic systems. The fifth chapter is dedicated to the future of money and payment traffic. The authors placed great emphasis on illustrating the developments in Switzerland, and they examined the causes for the tremendous significance of postal services in Switzerland's payment traffic.

This practical volume doesn't just limit itself to telling the description of payment traffic history, institutions and products; it also addresses basic questions about trade and payment. Included are, among other things, comments about the risks in payment traffic and the necessity for trust in individuals, organizations and systems during the processing of market transactions. In conjunction with the anniversary of the SIC system, the creation of this cornerstone of the Swiss financial market infrastructure during the years 1980 until 1987 is of special interest. Back then, the Swiss banking industry broke away from the technological center field with a gigantic and courageous step and placed itself at the very forefront of the development.

Assignat – the first French paper money (illustration from the anniversary book of Swiss Interbank Clearing)

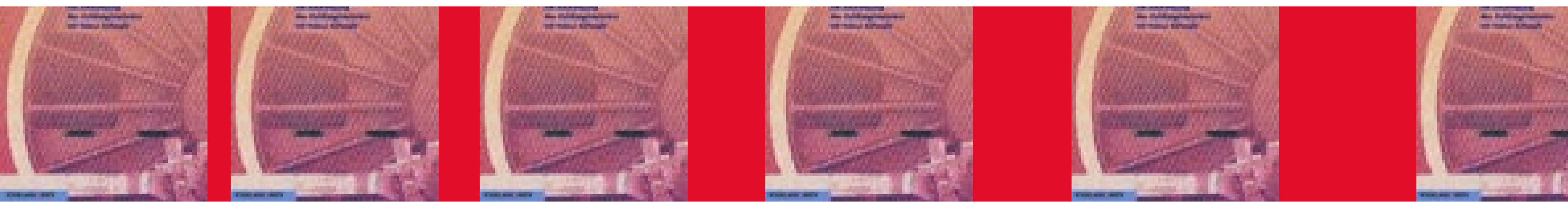
Today, the infrastructure components of the Swiss Value Chain are among the most significant competitive advantages of the Swiss financial industry. SIC processes approximately 700,000 payments with a total value of CHF 180 billion on an average day. This corresponds to more than one third of the Swiss annual gross national product and is clearly a sign of the significance of the financial sector for the Swiss economy.

Chapters four and five contain a concentrated and very topical overview of the most important payment traffic systems and products. In addition to the Swiss systems, the book also introduces us to international systems like TARGET and Continuous Linked Settlement System (CLS). These illustrations clearly demonstrate the tremendous influence modern information and communication technologies have on trade and settlement. And those new technologies enable the application on a global level of the oldest of the security elements in the trade business: processing step by step. This closes the circle from the account of the historical sources of the market economy to the future of digital currency.

The well-written book is equally accessible to lay people with its engaging style and its appealing illustrations. It is rounded off with an addendum providing interesting statistics demonstrating the rise and decline of important modern means of payment in Switzerland.

ADDITIONAL INFO

Please note: At this point, the book is only available in German.
Hard cover, 140 pages (ISBN 3-286-51231-1)
Available for CHF 36.- from
SKV Publishing House, Zurich



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PUBLISHER
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EDITORIAL TEAM
André Bamat, CEO, Swiss Interbank Clearing Ltd., Susanne Eis, SECB Swiss Euro Clearing Bank GmbH, Ruth Furter, PostFinance, André Gsponer, Enterprise Services AG, Beat Härry, Credit Suisse First Boston, Christine Preisig, Swiss National Bank, Bruno Kudermann, Editorial Manager, Swiss Interbank Clearing Ltd., Ulrich Merz, UBS AG, Christian Schwinghammer, Swiss Interbank Clearing Ltd.

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CONTACTS
SIC Operation Center +41 1 279 4200,
euroSIC Operation Center +41 1 279 4700,
Product Management +41 1 279 4747,
SECB Operation Center +49 69 97 98 98 0,
Customer Service SECB +49 69 97 98 98 35

Additional information about the Swiss payment traffic systems can be found on the Internet at www.sic.ch or www.secb.de