Swiss financial service providers and their infrastructure operations seek to lead payment traffic into the future with projects such as LEON, which entails the electronization of bills and the payment thereof. Nevertheless, cash remains significant and the elimination of paper payment slips is inconceivable at the present time. Despite this, Zeno Bauer, in the following interview, Chairman of the Swiss Payments Council, expresses his confidence that development is proceeding in the right direction.

CLEARIT: The agreement between PostFinance and the banks to work together with e-billing and direct debiting announced on 24 November 2014 has since been approved by the Swiss Competition Commission. How significant do you consider this cooperation to be?

Zeno Bauer: The added value is that the various procedures will be merged into one. That much is clear. Synergies that have long since been requested by billers will thus be created. They certainly expect that any cost reductions will also positively impact the prices of the end product. This would enhance the attractiveness of what is offered. A single processing platform for e-bills and direct debits placed centrally at SIX and a central interface go hand-in-hand with massive process simplifications and therefore cost reductions for all parties involved. A standard user interface for all payers also makes it easier for billers to look after their customers, because billers are often approached for assistance and not the payer’s bank. Added to this are simplifications in the registration process for both billers and payers. All in all, e-billing can be positioned more strongly in the market with the unified strengths of all involved parties. This should help e-billing to finally achieve the breakthrough.

Do you have specific examples?
A major share of payment recipients must send two files today – one to the PostFinance system and one to the banking system. This redundancy is eliminated by the harmonization. Furthermore, the biller can undertake his collections through a single interface instead of at least two, as is the case today.

“The LSV platform must be updated and the existing e-billing infrastructure at SIX is near the end of its lifecycle. This means that investments must be made in any case.”

Neither direct debits nor e-bills, with a total of approximately 6% of the total transaction volume, are major products in this country. Nevertheless, a great deal of money will be invested in the new joint solution. Where do you see the added value of the path chosen for the financial institutions?

There I must go back and point out the initial position. The LSV platform must be updated and the existing e-billing infrastructure at SIX is near the end of its lifecycle. This means that investments must be made in any case. At the same time, we must ask ourselves whether we believe in the future of the two products. Discussions have shown that the banks in particular have been, and continue to be, convinced about e-billing in a digital world. Our goal must be to make e-billing a component of the product portfolio of each and every biller. This requires that all ERP software providers support e-billing. Every e-banking customer should be able to pay bills on a computer or mobile device with one click or even issue a standing order to pay phone bills, etc. We are nevertheless aware that great persuasive efforts must still be made until the e-bill becomes every day reality when shopping in a furniture store, for example, or when shopping online. In my opinion, the potential is entirely there for it to be used around the clock. We are not too far away from this goal. I am thinking of the planned two-hour operations time shift at the SIC system into the evening so that payments can be conducted during the usual office hours on the same day. However, to enable real end-to-end processing for real-time payments, 24 hours a day, 7 days a week, an appropriate scheme, process adaptations and probably only minor adjustments to the infrastructure at SIX would be needed. I am for the fastest possible implementation.
There are currently three different forms of the ISO 20022 pain.008 message in the Swiss Recommendations – one for the PostFinance scheme, one for the banks and a third for the joint scheme. How does this impact the financial institutions and their customers?

We are hard at work on this right now. In the medium-term, there should be just one form and a maximum of two versions, the current one and the previous version. The challenges particularly lie in the migration phase, which shall run through mid-2018. The three forms are necessary for a transitional period through the end of 2018. The goal is that just one common form is to be used starting 2019. This also means that as of 2019, at the latest, the interoperability between PostFinance and the other banks will be ensured for direct debit collections.

“We should not assume that we will be able to entirely do away with paper slips in the next few years.”

The strategic promotion of the e-bill is an important vehicle for accelerating the elimination of paper-based payment slips, which is what the financial center is striving for. How does the new development of the paper-based standard slip fit within this context?

If it were up to me, we would have already fully arrived in the electronic world. However, we must remain realistic: we should not assume that we will be able to entirely do away with paper slips in the next few years. Paper will still be with us for a while.
longer. It is thus sensible, along with the new developments with e-billing, to modernize the paper slip so that it can be processed more efficiently. Ultimately, it is up to the banks to pass on the cost advantages of individual products and processes to their customers through attractive pricing.

Cash money is still the dominant means of payment in Switzerland. Nevertheless the trend here is also moving in the direction of dematerialization. To what degree can the promotion of e-billing help support this trend? Cash offers various advantages. It is anonymous, needs no technical tools and furthermore is a legal means of tender. Still, the trend towards dematerialization will continue apace in Switzerland as well – the Scandinavian nations are already quite a bit ahead of us in this regard. With the LEON project, we are ultimately striving to improve the electronic linking of bank accounts. Central for this effort is that the trend in payment traffic moves in the direction of 7/24/365. Of course, for various reasons, there must be an amount limit for the foreseeable future; it is no different today in the credit card field. Otherwise, I can also imagine the use of e-bills at the point of sale in retail shops, which would also contribute to the reduction of cash. For me, that is something that is part of the future.

An increasing dematerialization of cash money leads to more money flowing through electronic channels. The electronic clearing of payments between the banks will correspondingly have to be able to process far more than the current transaction volumes. This occurs today both through the central bank system and the Post circulatory system. In your opinion, is the central bank system, even in a scenario in which cash money is no longer dominant, the appropriate vehicle to process retail payment transactions?

I cannot imagine that the scalability of our system could represent a problem. With the SIC system we have a huge advantage in that there are practically no credit risks. If one day we should have transaction volumes that are much greater than what is usual today, then we would possibly have to reassess which system the transactions would have to run through. Does everything, down to the smallest payment, have to be settled in real time? So it is not a matter of scalability, but rather a question of fully automated processing. This must be absolutely and stringently guaranteed for future retail payments. For banks today, the scanning of payments and the rejecting of certain transactions are problems that simply cannot be ignored. Each rejection results in manual intervention, which is correspondingly associated with costs. We need to get a handle on this. That is only possible if the manual interventions can be reduced to almost zero. The “Faster Payments” project, which should be launched this year, will deliver solutions for future clearing. Today, I view it as an advantage that we can process small and large value payments through a single system. However, it is, of course, important to prioritize; it cannot be that a five centime payment has the same priority as a payment worth millions. Furthermore, at the current time, it cannot be properly estimated what influence the blockchain technology will have on the payment traffic processes of the future. And, who knows, perhaps one day alternative currencies will also assume an important role in payments.

“As soon as a furniture salesperson asks me unprompted whether I would prefer an e-bill, then we will be moving in the right direction.”
Promoting e-bills over paper bills is the superordinate aim of the harmonization project. Where do you intend to primarily approach this, among billers or consumers? The consumer is currently not greatly impacted by this. We must apply the lever predominantly among billers. I think that we must gain even greater insight into the billers’ processes in order to understand how we can further increase the degree of utilization. The integral view goes through SIX, which can offer everything, from payment transactions to electronic billing, to terminals at the POS. As soon as a furniture salesperson asks me unprompted whether I would prefer an e-bill, then we will be moving in the right direction. While that is not yet possible today, with LEON it will be. But there are still a few steps that must be taken until then. However, e-billing clearly has the potential to replace paper billing to the greatest possible degree.

Although the acceptance of paperless is steadily increasing, the direct debit authorization in physical form remains attractive. How do you intend to gain customers for electronic processes? The direct debit is a well established product and is fully automated, down to the paper-based direct debit authorization. This means that the use of direct debiting over the use of cash money already represents a step into the world of electronic processes. Nevertheless, by far, not all payers use e-banking, a logical, essential requirement for switching entirely to an electronic payment process. The constant improvement and simplification of electronic payment processes, the e-bill in particular, should convince users and encourage them to change. We are well on the way towards this, since a wide range of improvements will be delivered with LEON.

Tablets and mobile phones have become indispensible in all areas of life. How do you intend to address this trend towards mobility? The e-bill is basically very well integrated in the mobile payment world. A click is all that is needed to approve a payment. All banks are applying considerable funds to simplify payments through tablets and especially mobile phones, and particularly to make them fast and available around the clock. Usability and especially the security of the process play a significant role towards this end. Unfortunately, the two aims are often at odds. From the payer’s perspective, we must do all that we can to continuously improved user friendliness.

Direct debits and e-bills are part of the joint plans of the Swiss financial center to standardize payments. In your opinion, how well are the players prepared for the changes in terms of credit transfers, payment slips, etc.? Up until a few months ago, we assumed that communication with bank customers regarding the harmonization of Swiss payments will occur solely through the banks. The situation has since changed somewhat. We now know that communication must be supported centrally in order to decisively promote the harmonization. Therefore, we have applied funds and established the brand PaymentStandards.CH, under which brochures for end-customers will also be published. However, it is also worth mentioning here that the payer as the end-customer is practically unaffected. Besides the banks, billers and software providers are impacted. We need to do even more here, particularly when it comes to declination of the harmonization to the end. Time is of the essence if we want to stick to the schedule that has been set. Everyone is aware of this.

Interview:
Gabriel Juri and Christian Schwinghammer
SIX Interbank Clearing

PaymentStandards.CH
Under this brand, the Swiss financial center has intensified its communication activities pertaining to the standardization of payment traffic since December. A new, handy brochure entitled, “Harmonization of Swiss payments – What companies should know”, offers a comprehensive overview of the affected payment instruments, the reasons and goals of the joint project and the many advantages for companies in particular. The 24 pages contain plenty that is worth knowing along with practical checklists which should facilitate migration planning – regardless of whether companies use individualized or standardized software solutions. The free brochure is currently available in German and French. It is primarily suitable as a tool for customer advisors at financial institutions for communication with their business customers. All banks that participate in SIC, and which are domiciled in Switzerland or Liechtenstein, received sample copies in January with the option of ordering more. Two dozen banks have profited from this offer to date. So far feedback has been very positive, such as this: “A huge compliment for the extremely professional brochure. Not only is it wonderfully illustrated, but the topic matter is described simply and comprehensibly.”