

The future of PostFinance is now

After more than 160 years of being a federal institution, the Swiss Post is becoming a corporation. PostFinance, too, becomes an Ltd and comes under the regulatory control of the Swiss Financial Market Supervisory Authority FINMA. Exactly what that means is explained in the following interview with Hans-Rudolf Thönen, member of the PostFinance Board who has been working for the payment traffic provider for almost 40 years. He's taking both a look back and one ahead: from the evolution of IT from the little yellow payment book right up to today's technical trends in payment traffic.

CLEARIT: Mr. Thönen, you are truly a veteran of the Swiss payment traffic business. What was the most interesting or the most exciting time in your career?

Hans-Rudolf Thönen: I am just as excited about it today as I was the first day. There isn't one particular thing that springs to mind. But there was a point in the late 80s when technical advances had truly started to make an immense impact on the production area. It was fascinating that I was able to implement steps on my own that advanced the PostFinance payment traffic. To see the potency of IT as the driving power of change was very significant. My fascination with the payment traffic environment is still here, every day.

“When in the future PostFinance Ltd is supervised by FINMA, we will be receiving the typical regulations governing our industry, and that will strengthen our position in the Swiss financial center.”

That fascination will continue when PostFinance obtains the FINMA licence and becomes a bank. What does this mean for the payment traffic of your organization?

The division that deals with prevention of money laundering will in all likelihood be under FINMA supervision by 1 December, with complete monitoring expected by 2013. I think that will help us especially in the area supervision. Now we'll have a regulator with broad experience in the banking business, and we will be monitored the same as all other financial institutions. That's quite necessary for us being the fourth-largest financial player in the Swiss market.

So how does this new situation affect your processes, your business?

Our customers won't notice much of a change. Being monitored in this way is an especially important step for

us internally, one that we have been preparing for a long time. For instance, we have been operating at a high level in the area of money-laundering prevention. But there is no doubt that the wealth of experience within FINMA will further advance us and that we will certainly benefit, and it goes without saying that in various other areas we will have to re-integrate ourselves differently. Here, too, we have been preparing for many years. When in the future PostFinance Ltd is supervised by FINMA, we will be receiving the typical regulations governing our industry, and that will strengthen our position in the Swiss financial center.

You mentioned above that the IT developments in the 80s strongly impacted the world of payment traffic. For more than one hundred years, the little yellow post-payment deposit booklet has survived any technical trend. When will the receipt-booklet's final hour be?

I don't know whether I'll experience that. It's in the character of the Swiss that they make so many payments at the post office. In comparison with the rest of Europe, we are in a special situation. It seems that to physically hold the booklet in their hands is proof for many customers that the payment actually was made. Besides, it's not just the silver-haired set who make their payments like that, but the younger population, as well. Each year we sell 300,000 of these booklets – a very large number, indeed. Personally, I don't understand why, with the options available today, payment information would manually be copied from a receipt into a booklet. We wanted to streamline this process for our customers, but the effort had to be cancelled shortly after its launch about five years ago. Since all relevant information had been obtained by the post office, we would print out the receipt and hand it to the customers. We tested this change at ten post offices and informed the customers that the booklet would no longer be accepted, but instead the receipt would be made available to the customers. Immediately, many people switched to those post offices where the yellow booklets were still accepted. The desired effect was never achieved.



Short Biography

Hans-Rudolf Thönen entered the IT area of PostFinance in 1973. He is the COO and a member of the Board since 1993. During his career he has held various leadership positions in diverse areas of PostFinance. In addition, he has held a number of board membership mandates (Paynet and Eufiserv) and was president of TeCo ep2.

The costs for this type of service would seem to be excessive.

Obviously, this type of payment costs us more than others. But in accordance with the Postal Act, the parliament stipulates that every Swiss must have access to a post office within a 20- to 30-minute commute, where they can make payments using cash. So PostFinance meets this basic service mandate.

“Over the past year, the number of PostFinance staff in pay-slip processing has more or less been reduced by half.”

How have your staffing numbers changed over the past ten years?

The number of transactions is steadily decreasing significantly in the area of paper-based payments. The exact opposite can be observed in electronic processing. Over the past year, the number of PostFinance staff in pay-slip processing has more or less been reduced by half. But these are no longer big changes; those we had earlier on. In the late 80s, during a first step and with the change from manual operations to PCs, we had to eliminate around 1,000 jobs. During a second step in 1996, when integrated IT was introduced, almost 900 more jobs were lost. The reductions over the past eight years haven't had as big an impact. Thanks to our high straight-through-processing rate, only a few payments need to be manually processed. Post office pay-slips, for example, are scanned directly at the respective post offices and run through fully automated processing – a total of about 180 million payments per year. At the PostFinance Operations Center we are still processing payments by letter through payment order, but that number is decreasing by about 7% annually. I'm assuming that this service will no longer be offered sooner or later, as opposed to the little yellow payment book.

What developments can we expect to see over the next few years?

I think that the electronic payment traffic will grow significantly, thereby replacing the paper-based one. We already have 1.3 million customers who make their payments via the Internet – an upward trend. Online purchases through direct payment will increase, too.

Staying with electronic payments: How much have you been affected by online innovations by such players as PayPal a while back, and now by Google?

Service providers such as these will increasingly enter the market. That's a given. Seeing ourselves as an innovator within the Swiss payment traffic, PostFinance is trying to remain at the forefront and to implement all technical novelties. Just recently, we have communicated to our customers that they may scan and pay invoices with their

mobile phones, a significant step forward. We assume that younger people will use this option in order to pay faster, independently of where they are. But we'll use all those other channels as well to offer our customers the opportunity to process their payments and benefit from technical advances cost effectively.

And how is the pricing per transaction developing here?

The per-transaction fees drop with increasing volume. Original investments in new processes are always significant, but with increasing numbers we rapidly achieve good cost structures. But what really matters is the total cost consideration of a process. It's crucial to avoid crossover between media. Any system able to simplify or avoid media breaks between billers and payers lowers costs.

How are you facing this challenge?

With e-billing, for instance, where the invoice is produced and presented electronically and I can process a payment with three simple clicks. That completely eliminates breaks from one medium to another avoiding sources of errors. Reference, debtor and beneficiary information can be omitted altogether in processing.

“We're already cooperating well with the banks. In technical areas, we coordinate via various committees, heading in the same direction, and moving forward together.”

How will holding the banking permit in your hands impact your cooperation with other financial institutions?

We're already cooperating well with the banks. In technical areas, we coordinate via various committees, heading in the same direction, and moving forward together. It's obvious that we compete in the same market. But we also closely cooperate in the area of card-based payments, which is steadily and significantly increasing each year. As the former president of the TeCo ep2 association, the organization that, along with acquirers, issuers and POS terminal producers, laid down the technical infrastructure for all of Switzerland – I also know that especially in this area, cooperation is working very well, to everyone's benefit. The same holds true for the two payment traffic systems. PostFinance, on the one hand, has efficient solutions in bulk payments. On the other, the interbank payment system SIC has its own strengths. Both systems co-exist well, but tension is part of competition. And besides, PostFinance also processes payment transactions for five banks, UBS and some cantonal banks among them – proof that with good service and accepted processing fees, we can cooperate. Just now we have been able to renew contracts. We are the largest processor for



payment partners, and in connection with the “too big to fail” requirements the big banks have to meet now, additional cooperation is possible. Let’s wait and see. The path toward new models and new types of business is conceivable. I’m certain that our cooperation in this environment will be very much in demand.

Does this mean that the collective mindset has become stronger?

It has become much stronger. Today, we are also represented in all the committees surrounding SEPA, actively

participating and having a say. And for more than ten years we have been one of the SIC owners.

One question comes to mind for those involved in payment traffic: When will Switzerland receive a uniform slip, replacing the red or orange payment deposit slips?

That is an ongoing discussion. If it even makes sense to strive for a uniform slip in these times, there would need to be significant benefits. Switching to a new one would bring about huge changes in everyone’s processing. Producing a slip would be the smallest of these problems. Such a change would take about ten years for the old processes to be finally replaced by new ones, in my opinion. Bar codes, for example, have been discussed for more than 20 years. It remains to be seen whether now is the time for that. <

Interview:

Gabriel Juri, SIX Interbank Clearing

gabriel.juri@six-group.com

André Gsponer, Enterprise Services AG

andre.gsponer@eps-ag.ch

From manual labor to 24/7 service, 365 days per year

In 1994, 500 central staff and 1,700 employees at the postal offices worked, predominately manually, to process payments and payment orders across many interfaces. At the computer center, the behemoth computers are humming while the offices have PCs. 1,000 jobs are eliminated.

Two years later, the dawning of a new era. Manual processing mostly disappears; another 900 jobs are lost. With computers capable of processing up to 5 million payment deposit slips per day; with printing and packaging conveyors producing up to 120 million pages per year; and with robot systems for data carrier handling (30,000 data carriers per month), payment processing turns from production to an industrial enterprise. 1,350 of 1,650 production

staff handle processing, IT, back-office and customer service. Centrally maintained customer and account files allow account data access around the clock. Withdrawals can be made from anywhere, at any time and verified against available balances before booking.

New automated services enter the market one after another. Customer service around the clock, payments are conclusively recorded and processed at the post office or processed by the customers themselves. Production has evolved into a whole new modern service area. All staffers have the same tools available: PC, monitor, printer.