

## THE ECONOMICS OF THE SWISS PAYMENTS INDUSTRY

*The business of payments involves far more than the transaction of money using cash, cheques, credit cards, direct debits, and transfers. Integral to it are also the instruments needed to make a transaction, such as the accounts that companies and consumers keep and the liquid balances – whether positive (deposits) or negative (overdrafts and credit card loans) – that payment users must hold to enable them to transfer value.*

By this definition, Switzerland's payments business is a large industry in its own right. With annual revenues of CHF 4 billion – about 7 percent of the revenues of the Swiss banking industry as a whole – it is comparable in size to the real estate and mobile telecom industries. Moreover, compared to the rest of Europe, the Swiss payments industry is highly efficient. The industry's costs – which amount to 9 percent of the banking industry total costs – represent only 0.6 percent of GDP. A large part of the associated efficiency gain is passed on to the end customer with the result that the per capita profitability of the industry is below the European average.

**Overall, the Swiss payments industry yields approximately CHF 500 million of profits per year and its efficiency derives from two main elements:**

- A low usage, in absolute terms, of cash, due to a payment behavior characterized by fewer, larger payments than in the rest of Europe and a de-facto absence of cheque payments (cf. graph)
- The cost of non-cash payment transactions, which is among the lowest in Europe, reflecting low fragmentation of the clearing infrastructure and the high level of standardization and STP rates reached by the Swiss infrastructure

**To safeguard its profitability and maintain and improve its current efficiency, the Swiss payments system needs to:**

- Continue lowering the cost of cash by:
  - **Reducing the use of cash.** While Switzerland has a low absolute number of cash transactions, their relative share is still significant – 79% of the total. On this aspect, the country trails behind France, where cash represents only 65 percent of total transactions, the United Kingdom (69 percent) and the BeNeLux countries.
  - **Investing and innovating to lower the operational costs of cash.** An example of such efforts is UBS's deployment of cash-recycling ATMs which, by 2005, had been installed in more than 35 percent of its locations in Switzerland.
- Further increase the efficiency of the electronic payments system by:
  - **Increasing the use of direct debit as opposed to credit transfers.** Direct debits represent only 8 percent of the total number of electronic payments.

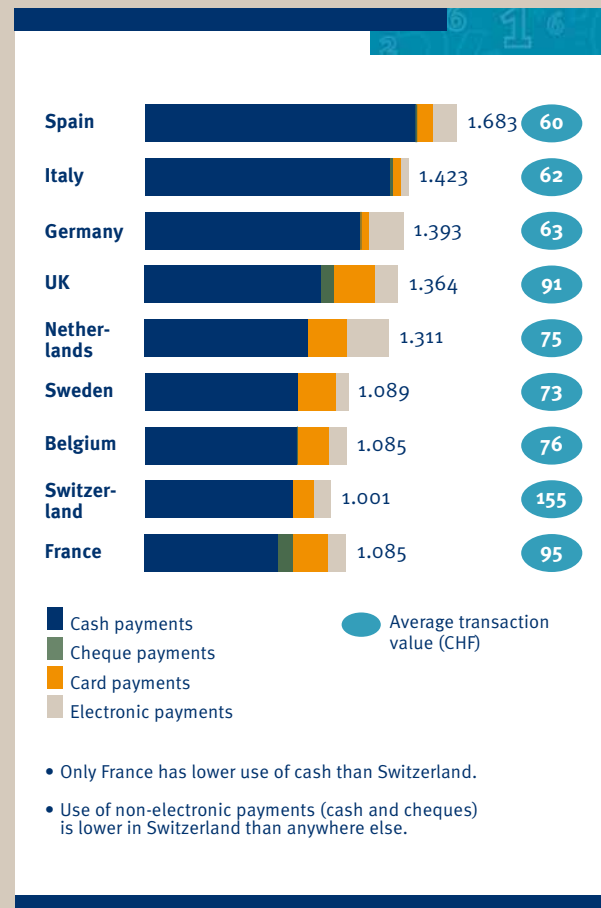
- **Reducing the paper-based initiation of credit transfers.** These still represent around 60 percent of all retail-initiated transfers. Their substitution by electronic initiation should leverage, promote and enhance the existing EBPP solution ([www.e-bill.ch](http://www.e-bill.ch)).
- Leverage innovation to identify new sources of revenue. Examples include:
  - **Promoting the development of contactless cards to increase convenience and ease of use of payment cards at point of sale.** Beyond its application in traditional retailing, contactless technology could have significant potential in public transport. Switzerland records the highest utilization of public transportation in Europe and every year over CHF 4 billion are spent on the transportation network, but payment takes place either by cash at the station or on the transport itself or through pre-paid passes. The Oyster program for London Transport and the Octopus scheme in Hong Kong are examples of the successful application of contactless payment technology to mass transport. Oyster now accounts for more than 75 percent of all London Underground and bus payments while Octopus covers up to 90 percent of metro, rail, and bus tickets in Hong Kong.
  - **Encouraging payment by mobile telephone for small-ticket payments and location-based payments.** One successful example that could be replicated in Switzerland is the SMS-based payment system for street parking that has been introduced in Antwerp in Belgium. After only eight months the system accounts for 10 percent of all Antwerp parking income, and it is now being rolled out in other cities.

Overall, the Swiss payments industry is in a fortunate position. To maintain it, it must use technological innovation both to improve its infrastructure so that it can continue to provide customers with value for money, new services and a choice of payment instruments, and to find new revenue streams. ■

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## RETAIL PAYMENT TRANSACTIONS PER HOUSEHOLD, 2004



Source: Team Payments Profit Pools