



# The Hub Online Series

## Navigating the new normal for payments

The future importance of interoperability for economic recovery

Julie Bolan

SWIFT is an industry-owned, not-for-profit cooperative providing financial messaging services to the global finance industry

**11,000**

Financial institutions,  
Market Infrastructures  
& Corporates

**3,000**

of which are in Asia  
Pacific

**200+**

Countries & territories

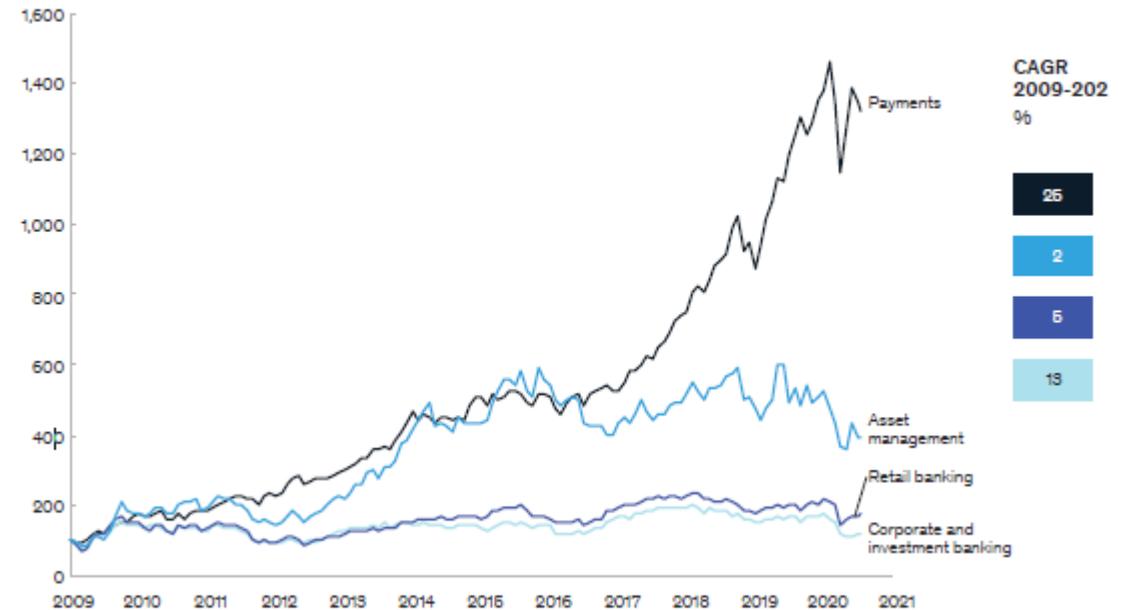


# Payments and the pandemic - Headlines from The 2020 McKinsey Global Payments Report

- Despite the pandemic, **payments remained among the best-performing segment around the world, but this momentum did not extend for banks**
- **Payment providers outperformed other banking sectors** in terms of shareholder returns
- **Digital payment have soared**, driven by accelerated consumer migration to digital channels and is expected to continue
- Interchange and cross-border payments fees are **pressured by regulation and competition**
- In a **highly competitive market where it remains difficult to charge transaction fees**, the payments P&L outlook for many banks is challenged
- Under pressure from multiple forces, **successful banks will develop a new operating model** better suited to changing times

## Payments companies continue to outperform other banking sectors in value creation

TRS performance of public companies<sup>1</sup>  
Indexed to 100 = January 2009



<sup>1</sup> Based on an analysis of public companies; custom indices (market-cap weighted) based on identified public European peers: payments N=27, retail banking N=20, asset management N=17, corporate banking N=5; 2019 data as of October.  
<sup>2</sup> TRS CAGR for Jan 2009-July 2020. Source: S&P Capital IQ; McKinsey analysis

**The COVID-19 crisis is having a significant and widespread effect on global payments across sectors. The most striking and potentially lasting impact is an accelerating pace of change in the industry.**



# G20 x-border initiative: Frictions in cross-border payments with numerous players, time zones and differing regulatory requirements across jurisdictions

## Payments are complex

### Validation

Gathering data on the parties, confirming legitimacy and regulatory compliance, checking format and content of payment message and verifying sufficient availability of funds

### Transmission

Identifying the next recipient in the chain, transforming the data for onward sending and notifying the status of the status of the payment.

### Funding

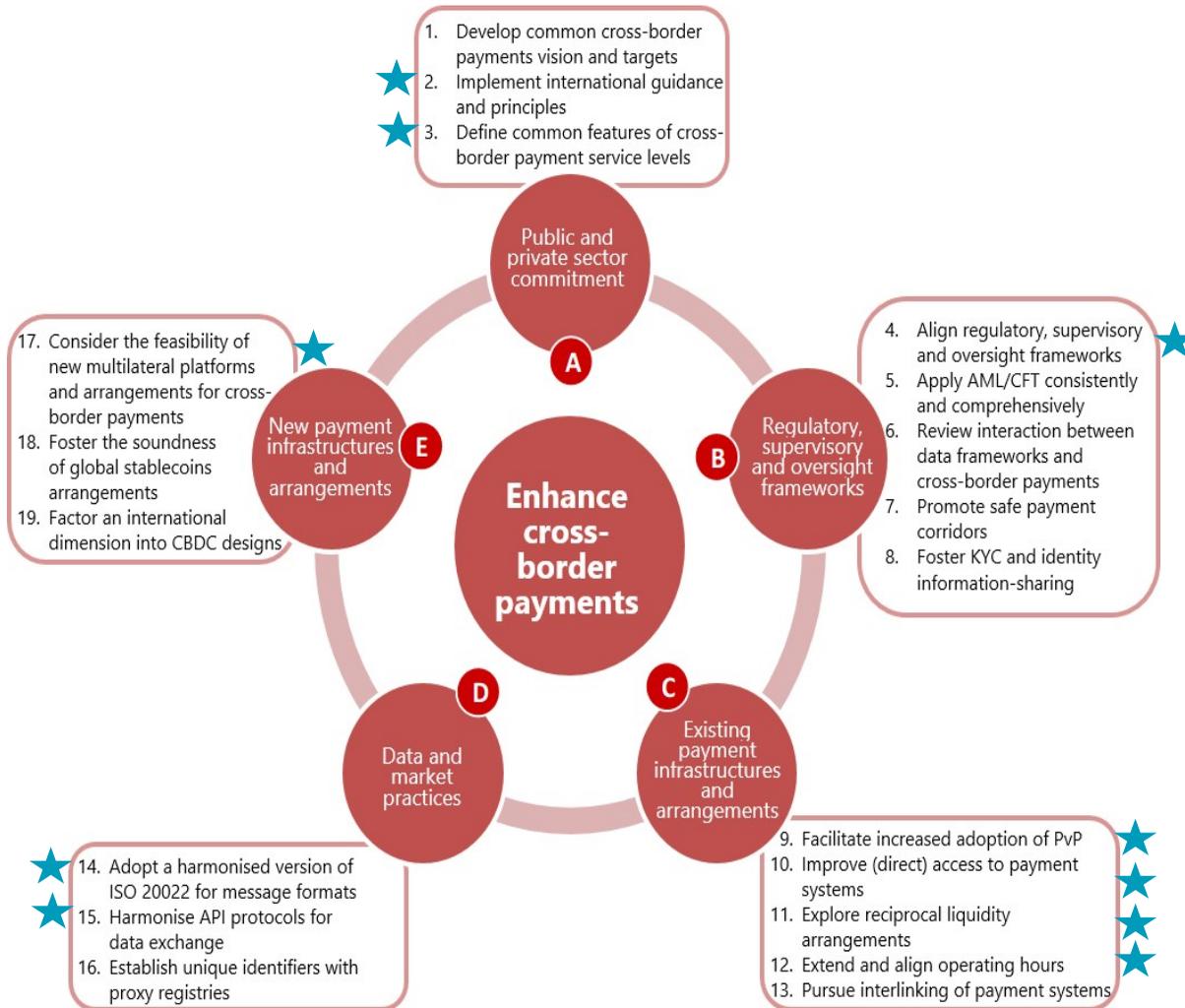
Receiving incoming funds, transforming currency if needed and releasing funds to the next recipient

## And there are frictions

- Fragmented and truncated data
- Complex processing of compliance checks
- Limited operating hours across different time zones
- Legacy technology platforms (e.g. not operating in real time)
- Funding costs
- Long transaction chains



# CPMI's 5 focus areas and 19 Building Blocks



- A. Commit to a joint public and private sector vision to enhance cross-border payments**
- B. Coordinate regulatory, supervisory and oversight frameworks**
- C. Improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments markets**
- D. Increase data quality and STP by enhancing data and market practices**
- E. Explore the potential role of new payment infrastructures and arrangements**



## The SWIFT Strategy

**Our mission: to deliver instant and frictionless international transactions with full transparency, end-to-end integrity and global reach, supported by smart data and mutualised services**

Strengthen our core, support customers in high growth segments

Evolve from messaging to transaction management

Deliver end-to-end data integrity and enable rich data analytics

Stay secure and resilient, ensure backwards compatibility

Financial institutions front and centre – ecosystem powered responsible innovation

# Why do we need to evolve as an industry?

5 market trends highlight the need for change

## 1. Upstream disintermediation

- New trade, FX and securities solutions managing transactions in new ways, absorbing payment/settlement as a side effect

## 2. Stronger competition

- Unmet customer needs leaving opportunities for competitors
- Market entry by new players intensifies competitive landscape

## 3. Tighter compliance

- Higher compliance cost and risk
- Uneven regulatory burden on existing players

## 4. Increased cost of doing business

- Compulsory market changes
- Window of opportunity is closing in securities market

## 5. Rapid adoption of new tech

- Enabling customer experience improvements, and new business and operating models
- Widespread innovation and disruption



# Payments Focus

Increase business value and efficiency

## Enhance customer experience

- Upfront predictability through tighter rulebooks and SLAs, building on gpi
- Deliver a framework for how fees and processing times are exposed

## Make transactions easier

- Simple API connectivity to initiate payments in bank's landscape
- Expand reach through a global address book to link proxies to bank accounts

## Enable instant and remove friction

- Pre-process and pre-validate transactions utilising SWIFT and 3<sup>rd</sup> party data
- Offer mutualised services to remove industry friction and reduce costs

## Innovate and future proof

- Facilitation of existing and new settlement and clearing models (e.g. instant, dynamic)
- Enable new industry payment mechanisms (e.g. central bank digital currencies)

**Enabling instant and frictionless cross-border, account to account payments**



# ISO 20022 – Opportunity to build interoperability and enhance efficiency

## Enriched Data

Details of the remittance, purpose of the payment, the original source and ultimate beneficiary

## Rich data end-to-end

Rich data end-to-end means all actors in the value chain are acting with the same data

## Improved compliance

Improved data quality and structure supports automation of compliance activities and reduces false positive

## Better customer experience

Richer data set for banks and customers to analyse for customer insights and business intelligence

## More efficiency

Improved data quality and structure supports machine readability with fewer errors and less manual intervention

## Payment system harmonisation

By 2025 the high value payment systems of all major reserve currencies will have moved to the standard

## Innovation

Harmonised and standardised messaging and API's creates the foundation to develop new services

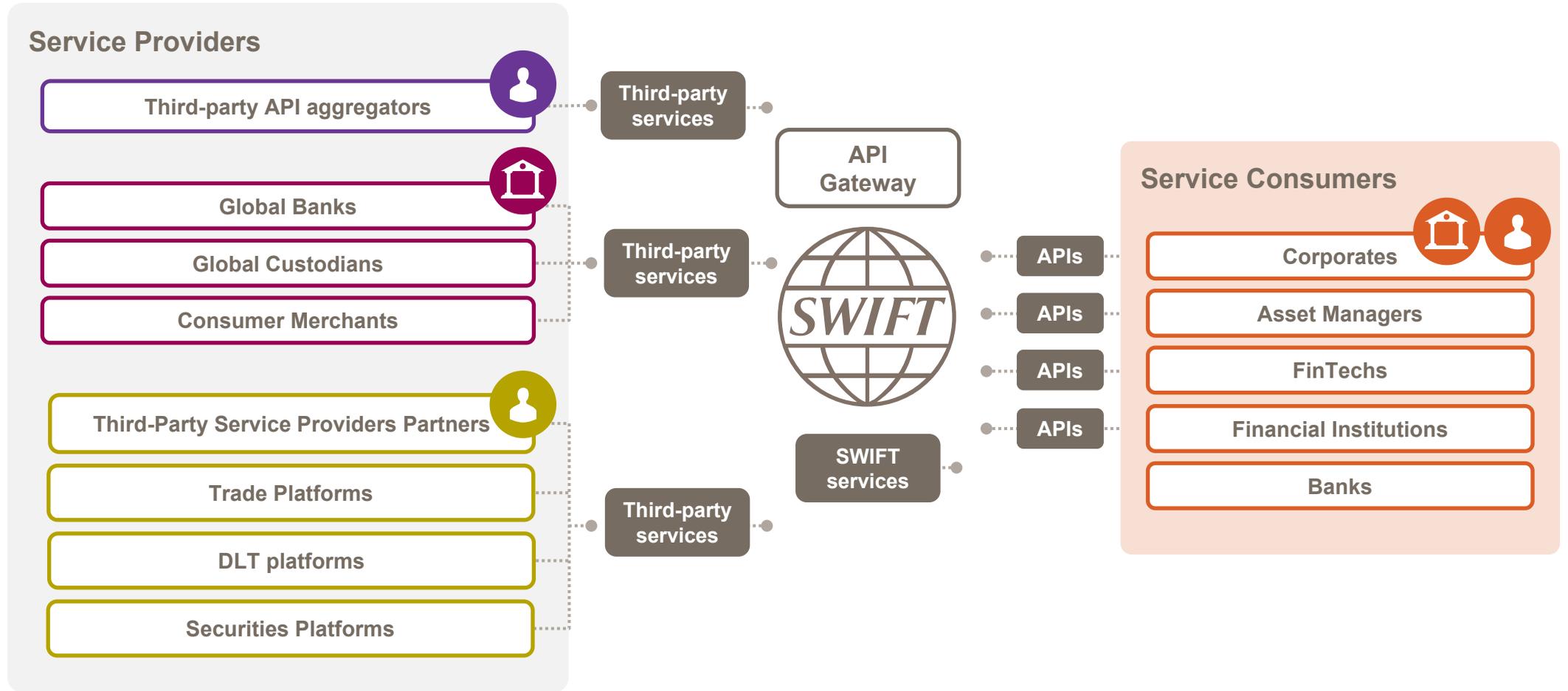
## Flexibility

A simpler, faster and more cost effective way to be compliant with future emerging standards and technologies

**ISO 20022 benefits...  
Improved customer experience,  
compliance and efficiency as  
well as payment system  
harmonisation and  
interoperability**



# The SWIFT API ecosystem





[www.swift.com](http://www.swift.com)