



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

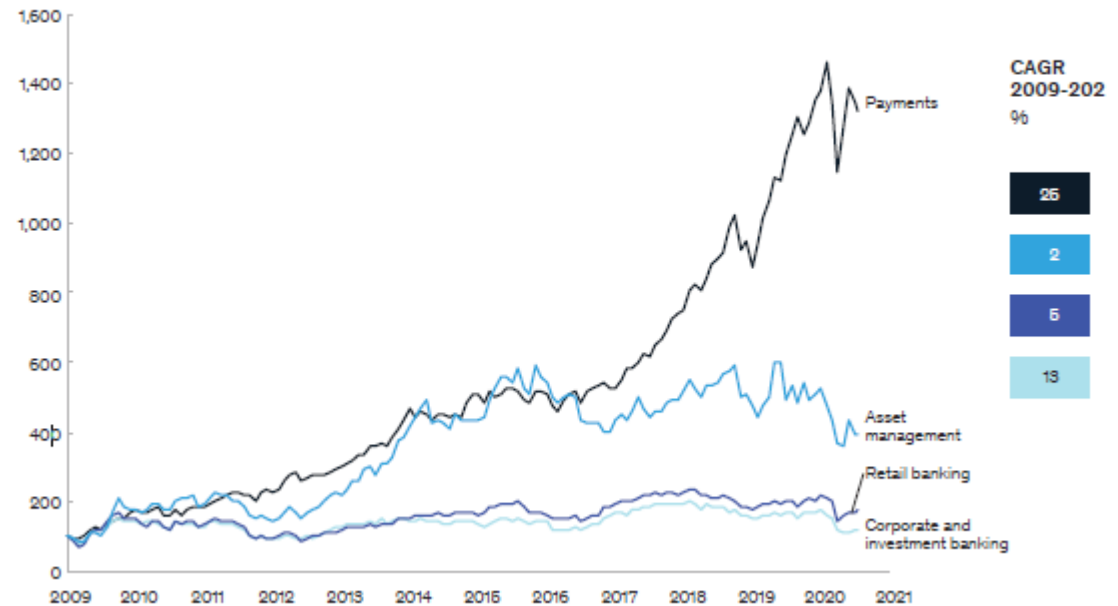


Payments and the pandemic - Headlines from The 2020 McKinsey Global Payments Report

- 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 companies¹
Indexed to 100 = January 2009



¹ 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.
² 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 3rd 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 2022 – 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

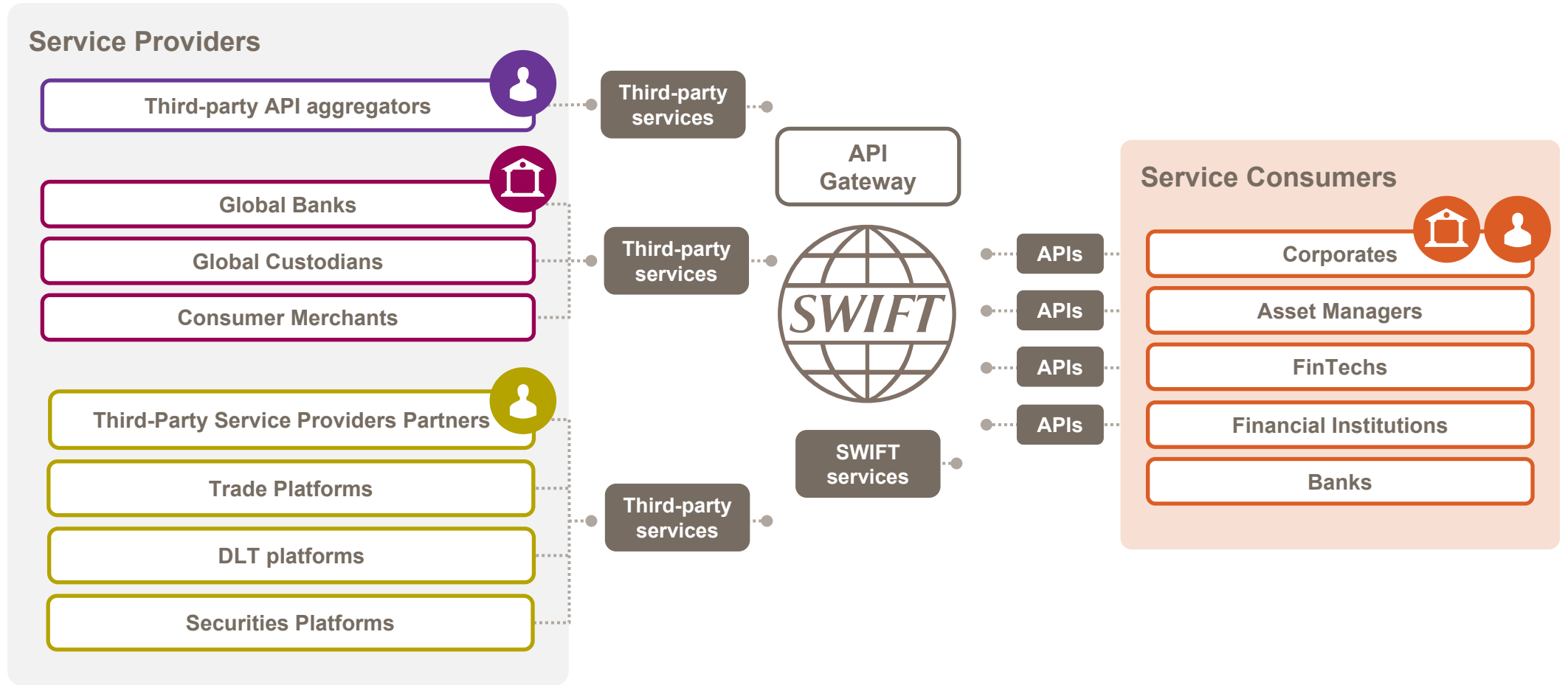
Flexibility

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

**ISO 2022 benefits...
Improved customer experience,
compliance and efficiency as
well as payment system
harmonisation and
interoperability**



The SWIFT API ecosystem





www.swift.com