Be part of
Reducing friction in cross-border payments

6 ways financial institutions can deliver
a better payments experience

Ebook |

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Why reducing friction in cross-border payments is essential

When making a payment, extra time, a lack of predictability as well as visibility and a loss of information can have costly consequences.

That's why when it comes to reducing friction in cross-border payments, financial institutions have no time to waste.

The competitive landscape in payments is intensifying, customer expectations are higher than ever, and new entrants to the market are capitalising with simple and elegant value propositions leveraging new and existing rails.

Consumers now have access to an unprecedented level of choice in how to move their money, and competition is fierce. Delivering an excellent customer experience in cross-border payments is essential to stay in the game.

How can you start to deliver a better customer experience? How can you upgrade your payment processes? After all, cross-border payments face a number of complex interconnected factors, including time zones, different regulatory regimes and currency changes that are outside of any one institution's control.

To achieve cross-border payments that are instant and frictionless requires a community effort. No bank can achieve this in isolation.

That's why SWIFT is bringing together our community to enable all financial institutions to deliver an instant and frictionless payments experience.

In this ebook, learn more about how we're reducing frictions by transforming the way payments are sent via our network, and what you can do to deliver a next generation payments experience to your customers.

Meeting increasing customer expectations
The diversification in ways to make cross-border payments has given businesses and end-consumers unprecedented choice in how to move money.

This proliferation has set a new level of customer expectation, with instant and frictionless becoming the norm. Financial institutions must be able to offer the same service level or risk losing ground.

Opportunity to deliver new value
With challenge comes opportunity. By embracing new means of collaboration, agreeing at an industry level to implement better service levels and embracing new technology, the SWIFT community is now able to leverage its unparalleled reach to offer new and exciting products, powered by technology such as APIs.

New entrants to the market
But the competition is not far behind. New entrants to the payments space are now able to leverage existing rails to offer a frictionless user experience, with great value for customers.

The growing importance of cross-border payments

Having the ability to seamlessly move money around the world to pay for goods and services has never been more critical.

[1] 2020 McKinsey Global Payments Report
View Report →

According to McKinsey, the value of cross-border transactions was about **$130 trillion in 2019**,[1] marking a significant peak after a decade of consistent growth. Although the 2020 figure is likely to be impacted by the economic shock triggered by the Covid-19 pandemic, the crucial role of cross-border trade in keeping the global economy turning remains.

$130 trillion

The growth in cross-border payment volumes is being driven in large part by the following factors:

[2] *Enhancing Cross-border Payments* Stage 1 report to the G20: Technical background report, FSB
View Report →

[3] FSB Stage 1 report
View Report →

The increasing sophistication of global supply chains

Businesses are increasingly global, parts, raw materials and goods are sourced from all over the world. Global supply chains are fuelling the need for greater cross-border commerce, as corporates, SMEs and other businesses strike relationships with counterparties around the globe. Paying and settling invoices in a timely fashion is imperative to ensure factories remain productive, materials arrive promptly, shipments are met and deliveries of goods meet deadlines.

Rapid growth in e-commerce and B2C trade

As businesses continue to globalise, so too does the choice for consumers. According to the FSB, 15-20% of e-commerce transaction value is already international,[2] placing a new emphasis on financial institutions and merchants to find ways to offer flexible and seamless payments experiences, even when money has to travel across currencies and time zones. Cross-border e-commerce continues to grow with the use of the internet.

Continued demand for seamless remittances

International remittances continue to remain a critical means of moving money for millions of people around the world, especially for global businesses with central treasuries who need to pay a global workforce on time every month. Remittances inflows have increased by 64% in the last decade, from $432 billion in 2009 to an estimated $707 billion in 2019.[3]

Growing cross-border investment flows

Trends in the capital markets, in particular the proliferation of the ‘retail investor’ as seen in the early part of 2021, has prompted a significant spike in cross-border payments volume. As an increasing number of investors across the globe participate in the buying and selling of financial products such as equities and bonds, as well as other assets, so too will the number of payments into and out of the capital markets.

Why do cross-border payments sometimes take longer than domestic ones?

When we pay a friend for our share of the bill, or buy our weekly groceries, we're increasingly accustomed to a payments experience that feels instant. The funds are debited from our account in real-time and often appear with the beneficiary in minutes.

When it comes to moving money across borders, however, things become more complex for a number of reasons...

Processing compliance checks

As payments move through different countries, transactions are checked multiple times to ensure they comply with local financial crime controls, such as sanctions screening. These checks play a vital role in protecting the integrity of the financial network, stopping money laundering and terrorism financing activities in their tracks, but can also cause delays.

Checks must meet local requirements, are costly to perform and can disrupt automation if, for example, a payment is incorrectly flagged as a sanctions hit. This can lead to manual interventions and ultimately the rejection of payments.

Local operating hours

Payments are being made 24/7 all around the globe. However, balances in bank accounts can only be updated during the hours when the underlying settlement systems are operating.

This creates delays in clearing and settling cross-border payments, particularly in corridors with large time zone differences.

Fragmented data

Payment messages need to contain sufficient information to confirm the identity of parties to the payment and confirm the legitimacy of the payment.

Data standards and formats vary significantly across jurisdictions, systems and message networks. This makes it difficult to set up automated processes, causing delays in processing and increasing technology and staffing costs.

Legacy technology

While many financial institutions and market infrastructures have taken significant strides in modernisation, some of the entities responsible for processing cross-border payments have constraints such as a reliance on batch processing, a lack of real-time monitoring and low data processing capacity.

These limitations are exacerbated when handling cross-border payments, in particular when different legacy infrastructures need to interact with each other. The requirement to interface with legacy technology can also act as a barrier for emerging business models and technologies to enter the market.

Where do frictions commonly arise in the payments process?

The payments process today: Where do frictions commonly arise?

34% of exceptions on SWIFT are the result of formatting errors (acct format # incorrect, routing code incorrect)

21% of payment exceptions on SWIFT are the result of account issues (closed, blocked, account name mismatch)

17% of payment exceptions on SWIFT are the result of invalid or missing data (regulatory information missing etc.)

Payment initiated by customer

Friction point 1
The bank's customer inputs information that could stop or slow down the payment or have it returned to them, for example they enter the incorrect account number or a beneficiary account which has closed, meaning the payment is returned when it is processed by the creditor agent.

Payment sent by debtor agent

Payment handled by intermediary bank

Friction point 2
The intermediary bank receives a sanctions hit when it screens the payment. This requires the payment to be paused as the bank performs additional checks and requests further information from the debtor agent.

Payment received by creditor agent

Friction point 3
One leg of the payment happens outside of rails with embedded tracking, which means that all parties in the chain lose 24/7 visibility on where it is.

Recipient receives payment

Friction point 4
The customer of the debtor agent forgets to add an invoice number to the payment, meaning when the creditor receives it, they have difficulties reconciling it in their back office.

6 ways financial institutions can reduce friction

Over the next year and beyond, we will incrementally deliver many of the building blocks needed to remove friction in payments.

We will do this by enhancing the SWIFT platform to centrally orchestrate transactions end-to-end, taking the next step towards enabling instant, frictionless cross-border, account-to-account payments.

This way, making payments – and performing the necessary compliance checks – becomes faster, more efficient and more cost-effective, without compromising on security. Whilst improved data quality, advanced analytics and insights, and new value-added services all become possible, leading to new and exciting customer experiences.

Here are 6 ways you can reduce frictions in your payments:

1

Embrace new forms of collaboration

No individual bank can achieve frictionless payments on their own. To truly transform the experience of sending cross-border payments, the entire community of financial institutions must come together to deliver a seamless cross-border payments experience.

This can be achieved through tighter service levels, embracing new unified data models, re-imagining the way money flows across borders and investing in common solutions to solve common industry challenges.

Initiatives such as SWIFT gpi have paved the way for cross-industry collaboration to deliver a better, more transparent experience for moving money.

Now, we're going a step further with a richer, more integrated approach to managing transactions, which will deliver more benefits to more financial institutions across the SWIFT community.

This model harnesses a transaction manager to put the business transaction at the centre. This ensures complete, up-to-date data is available to all transaction participants, and unlocks the potential for value-added services to be harnessed by all participants in the transaction.

Discover how we are collaborating with financial institutions to transform global transactions →

2

Take advantage of payment pre-validation

Many of the errors that impact the smooth flow of a payment from debtor to creditor are the result of simple errors. How many times have you had a payment returned because you input the incorrect beneficiary name or account number for example?

Being able to pre-check key payment information against a global database, populated with data from the richest data sources (directly from the banks themselves) and using tools such as APIs to integrate seamlessly into your processes, will dramatically reduce the likelihood of simple errors like these wasting time.

Discover Payment Pre-validation on SWIFT →

3

Automate exception management

When something does go wrong with a payment, you want to be able to fix the problem quickly, and keep your customer up to date with the status of the investigation.

What's more, you want to be able to minimise the damage if funds have been paid in error.

To achieve this requires an exception management process that is completely seamless, leveraging the latest technologies and, crucially, is embraced by each bank in the chain.

Being able to automate exceptions and investigations can bring significant cost savings, process efficiencies and strengthen the relationships with your correspondents and clients.

In addition, when a payment has been sent in error, or is fraudulent, you need to be equipped with the tools to stop it immediately and recall it back.

Discover case management on SWIFT →

4

Embed value directly in your customer channels

Many of the friction points in cross-border payments ultimately result in the end client bearing the brunt; a slow payment means a delay to supply chains, and risks leaving goods and services going undelivered.

By integrating services such as payments tracking, data or exception management tools in a self-service model, you can equip your clients with greater transparency and prevent frustrating support requests for your front-line staff.

Not only does this remove a step in the chain of your customer having to contact you, but it enables a more frictionless customer experience.

Discover how you can integrate tracking information directly in your customer facing portals. →

5

Adopt ISO 20022 for richer data

A payment is only as good as the data that underpins it. With clean, rich data, transactions can be processed simply, enabling straight-through processing. This eliminates the operational burden of repairing payments, adding data manually or adopting manual workarounds.

This is what makes ISO 20022 a game changer. As the financial community adopts ISO 20022 for cross-border payments, richer payments data will become the de facto standard across correspondent banking, unlocking opportunities for banks to modernise and create new solutions for their clients.

An additional benefit from this approach, beyond the efficiency gains, is the potential for harnessing new tools and services, powered by technology such as APIs. With cleaner, consistent data, the opportunity for financial institutions, big and small, to deliver a 21st century product experience becomes possible.

Find out about ISO 20022 →

6

Streamline fraud prevention and compliance checks

Payments must be fast and frictionless, but they must also be safe and compliant. Fraud prevention and compliance measures can create additional checks, however they are vital to maintaining trust and ensuring the integrity of international payments.

The best way to increase security – and reduce frictions in managing compliance requirements – is by taking a community-based approach. That's why we are collaborating closely with financial institutions to streamline fraud checks and other compliance controls.

SWIFT Payment Controls, a tool to prevent and detect fraud, helps banks monitor and protect their core payments with real-time alerting, enabling them to efficiently respond to fast-moving suspicious transactions.

And, as part of our strategy to enable instant, frictionless transactions, our enhanced platform will provide a set of common transaction processing services, including pre-validation, sanctions screening, fraud detection, and more – mutualising capabilities that today are typically provided, and invested in, by each financial institution individually.

This will help financial institutions reduce friction, improve end-to-end efficiency and lower total costs.

Discover SWIFT Payment Controls →

Discover the enhanced SWIFT platform →

To find out more about how you can reduce friction in your cross-border payments, use the links provided in this ebook or contact your SWIFT Relationship Manager.

SWIFT