



# SWIFT for Retail Payments

*Balancing cost savings, process efficiency  
and risk mitigation*

# Agenda

- **Your challenges, our solution**
- SWIFT for Retail Payments
- Making a compelling business case
- Case studies
- Practical next steps
- More info?





# Scope and challenges

## Scope

- Mainly netting of large volumes of retail payments with low to medium individual value
- Low priority payments settlement on D+1 (batched processing cycles)
- Payments and collections for salaries, pensions, bills, retail payments
- Domestic or regional market players, involving mainly banks but also corporates
- Different type of payment instruments: credit transfer, direct debit, cards, cheques
- Transaction life-cycle monitoring (statement reports, cancelation requests, inquiries)
- Proprietary or standard formats defined at the level of the clearing community
- Various clearing models: bilateral, multilateral or through a centralised system (ACH )
- Banks, commercial or bank-owned payment market infrastructures

## Challenges

- Market initiatives for business and technical standardisation such as SEPA, IPF.
- Lack of scalability and interoperability in retail payments platforms
- Payment systems need to diversify revenue with new value-added services and process in-sourcing
- Geographical expansion to capture volumes and achieve economies of scale
- Increased demand for near real-time or immediate payment execution
- Need for better liquidity and operational risk management
- Unbundling of the scheme management and the payment system operations



# Retail payments clearing services provided by market infrastructures

- **Efficient clearing**

- Provide multi-lateral netting and clearing services to any bank in the community
- Message conversion (i.e.: SEPA, domestic)
- “Gateway” to other remote clearing systems

- **Reliable settlement**

- Execution in the settlement system (i.e.: Target2)
- Transaction status monitoring
- Cash management (monitor and control cash positions)
- Reliable and efficient exceptions management

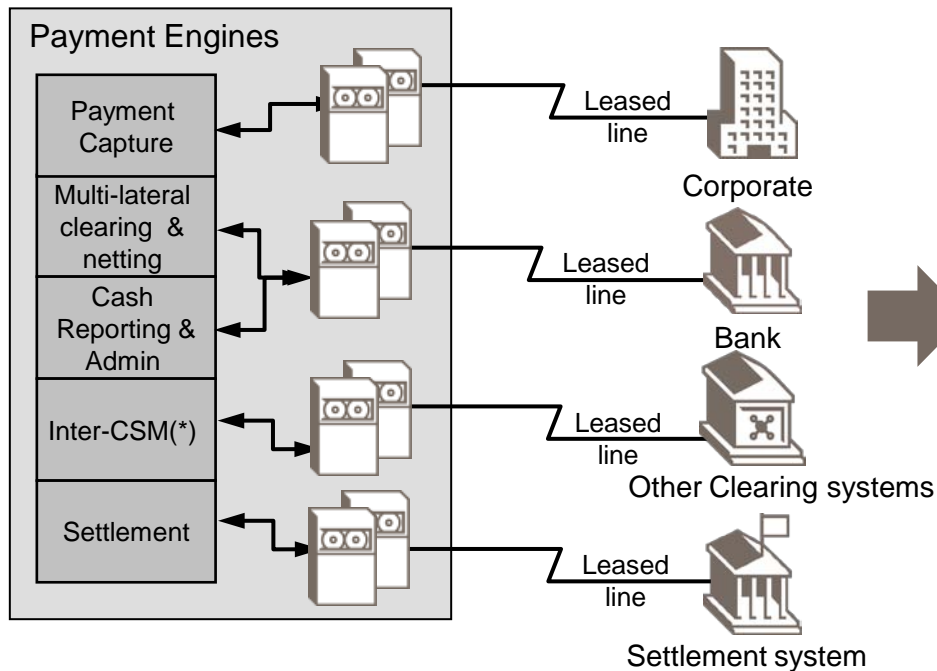
- **Additional services**

- Insource payments capture and processing
- Payment warehousing for direct and indirect participants
- Contract exchanges and accounting
- Daily and monthly statistical reports on business evolution
- Maintain and provision of clearing routing data (channel, scheme)



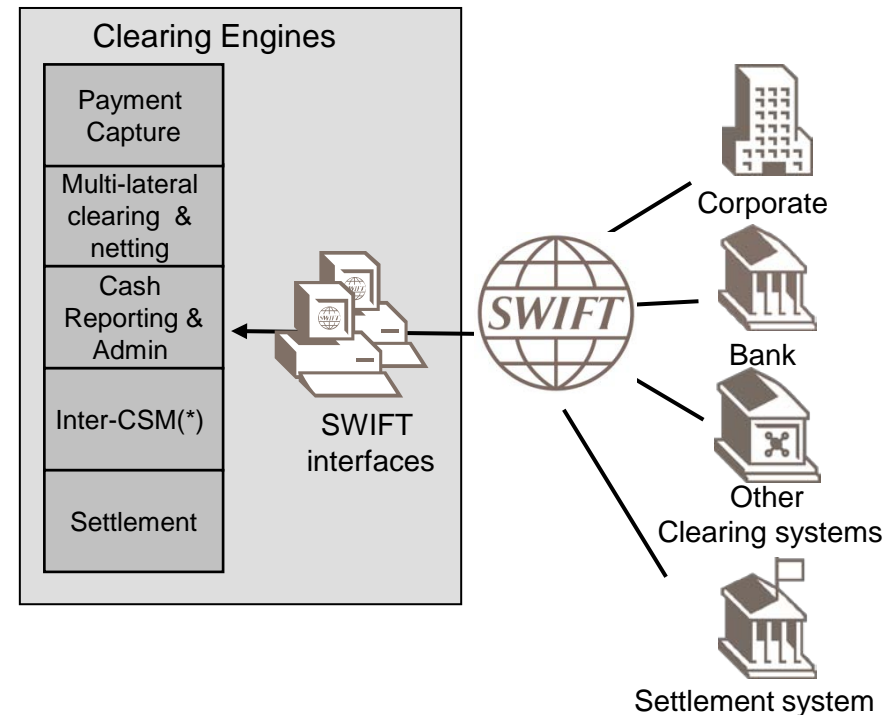
# SWIFT: a single, secure and standardised access to banks, central banks, corporates and other clearing infrastructures

## Multiple channels



- High total cost of ownership due to multiple channels
- Limited reach to domestic customers
- Lack of technical interoperability (messaging, security)

## Single channel



- Scalable and re-usable infrastructure
- Global access to the clearing market place
- Standardised messaging platform with single messaging and security



(\*) CSM: Clearing and Settlement Mechanism

# Benefits of using SWIFT

## Global market reach

- Thousands banks
- 500+ corporates
- 19+ Retail payments systems (i.e.: ACHs)
- 60+ high value payment systems (i.e.: Target2)

## Interoperability and flexibility

- Supports both proprietary or standard format
- Same infrastructure for all currencies
- Credit transfer, direct debit, cheque
- Flexible exchange method to cope with each local clearing community requirement

## Cost efficiencies

- Closed business community
- Single security and file transfer
- Non-repudiation (proof of sender)
- Reliability and availability (99.999% uptime)



# What customers say on SWIFT value

***“Combining the strengths of our partners, SIA and SWIFT, we have launched our new pan-European retail payment clearing house (STEP2) within a record timescale of 10 months. SWIFTNet was an obvious choice to allow for open access to STEP2 by a very large number of banks in SEPA.”***

Gilbert Lichter, Secretary General of EBA

***“VocaLink’s international expansion required a partner with global reach and SWIFT provided access to a global market.”***

John Doyle, Director of Channels at VocaLink

**“We took  
SWIFT  
to ...**

***“Using Bulk Payments, Seceti is able to offer a full SEPA-compliant solution based on a flexible technical architecture allowing Italian banks to respect timings and investments.”***

Stefania Lasaracina, International Payments Systems, Seceti

***“The co-operation agreement with SWIFT fits perfectly with our strategy to lower entry and transaction costs and to expand the Eurogiro offering.”***

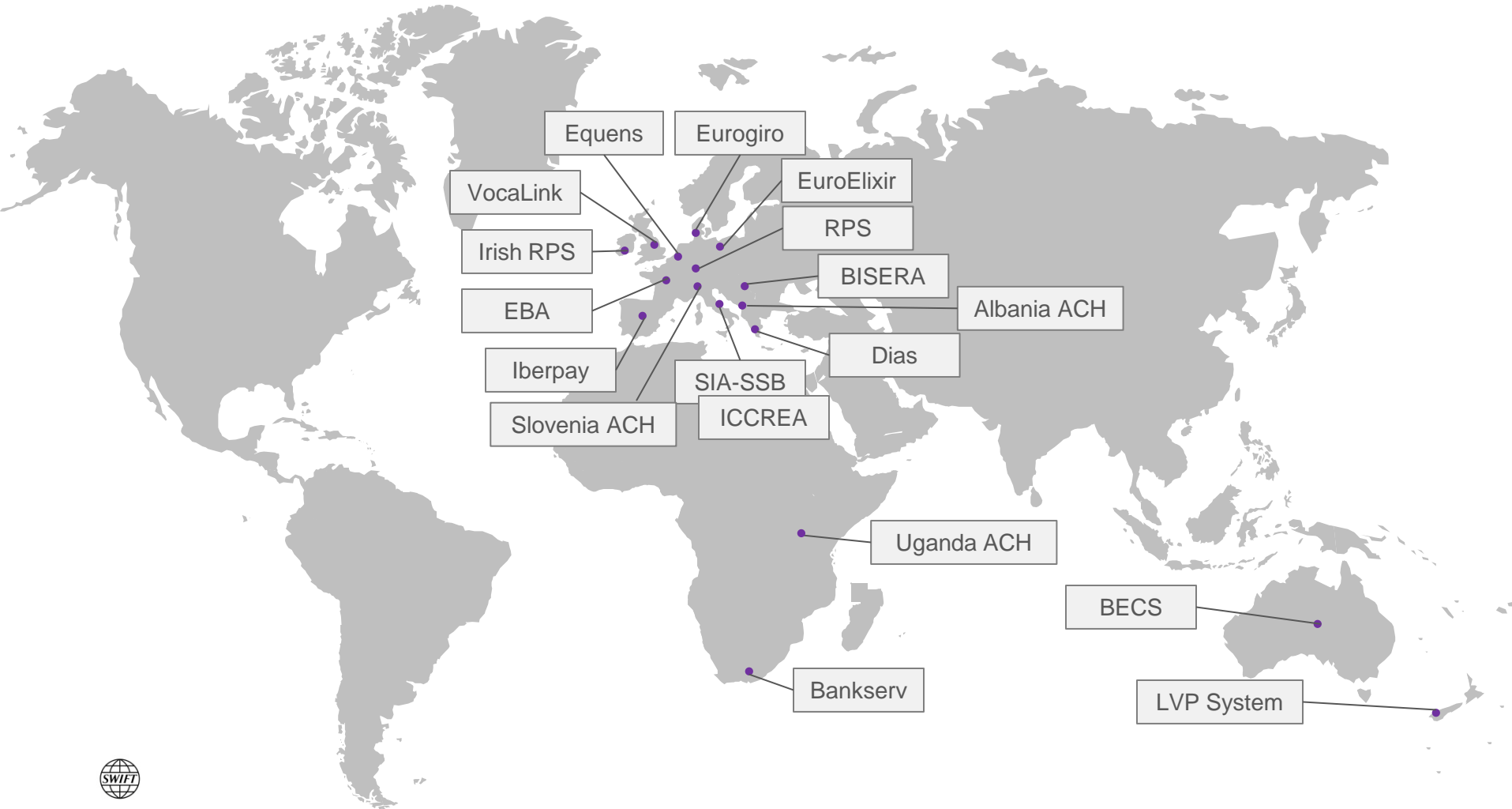
Henrik Parl, Managing Director, Eurogiro A/S

***“The decision to enter into the Alliance Lite wholesale agreements will position BANKSERV within the service bureau space in South Africa and elsewhere in Africa.”***

Brad Gillis, Head, business division at BANKSERV.



# Retail payments clearing and settlement systems and schemes on SWIFT

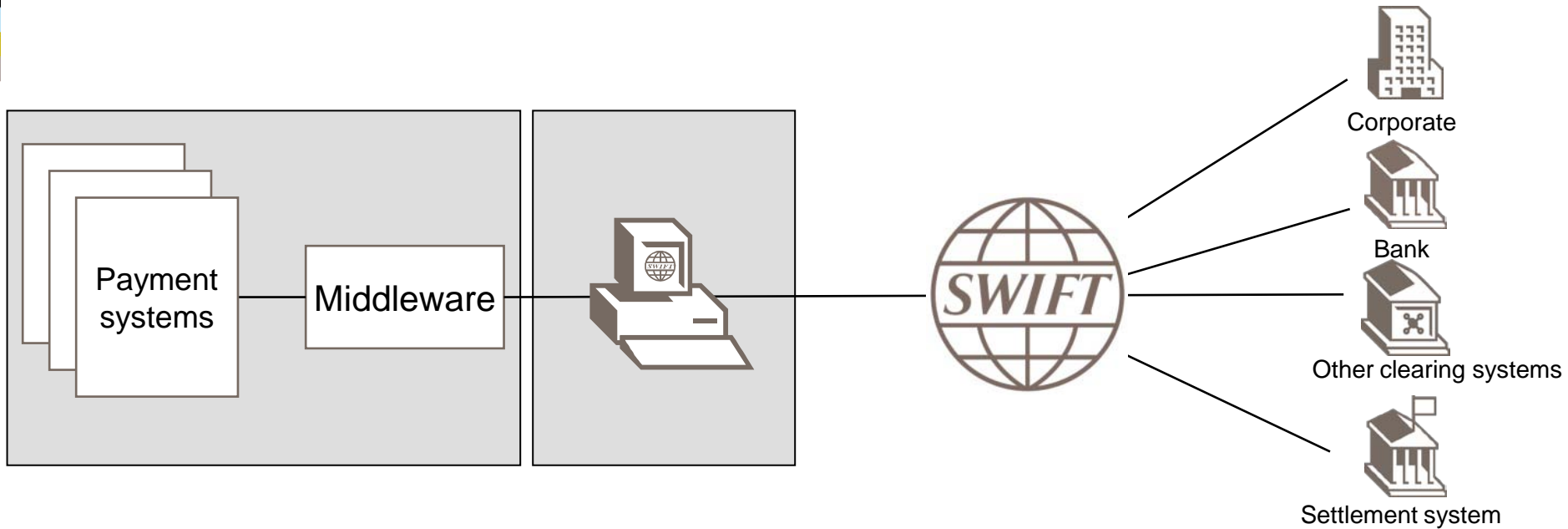


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# The solution – a collaborative partnership



## Reference data

provided by SWIFT or by the payment system

## Integration

provided by partners or by SWIFT Consultancy

## Connectivity

provided by SWIFT, banks and service bureaux

## Messaging

provided by SWIFT

## Standards

provided by SWIFT or by a payments community

## Market players

banks, corporates, other payments clearing systems, central banks



# Services for retail payments

Payment instruments	<b>Credit transfer, supplier bills, direct debits, salary payments, pension payments, cards, cheques</b>				
Payment scheme	<b>Community based rules and agreement including admission criteria, operating rules, billing options and business SLAs</b>				
Services	<b>Payment initiation</b>	<b>Payment clearing and netting</b>	<b>Payment settlement</b>	<b>Liquidity and Cash management/ reporting</b>	<b>Exceptions and Investigations</b>
Reference data	<b>BICPlusIBAN</b>	<b>BICPlusIBAN SEPA Routing</b>	<b>BICPlusIBAN</b>	<b>None</b>	<b>None</b>
Formats	<b>MX ISO20022 Proprietary</b>	<b>MX ISO20022 Proprietary</b>	<b>MT</b>	<b>MT, MX ISO20022 Proprietary</b>	<b>MX ISO 20022 Proprietary</b>
Messaging	<b>FileAct</b>	<b>Bulk Payments FileAct FileAct Copy</b>	<b>FIN FIN Copy InterAct/Browse</b>	<b>FIN, FileAct, InterAct Browse</b>	<b>InterAct (FileAct)</b>
Administration	<b>Closed User Group administration by the market infrastructure or by SWIFT</b>				



# Value-added file transfer service for retail payments clearing

## Efficiency and value-added services

- Enhanced Header to provide payment summary information
- Copy service to a 3<sup>rd</sup> party market player, i.e.: a central bank
- Routing directories with clearing channel and scheme adherence information (SEPA Routing directory)
- BICPlusIBAN directory to map the IBAN to the BIC codes

## Community features

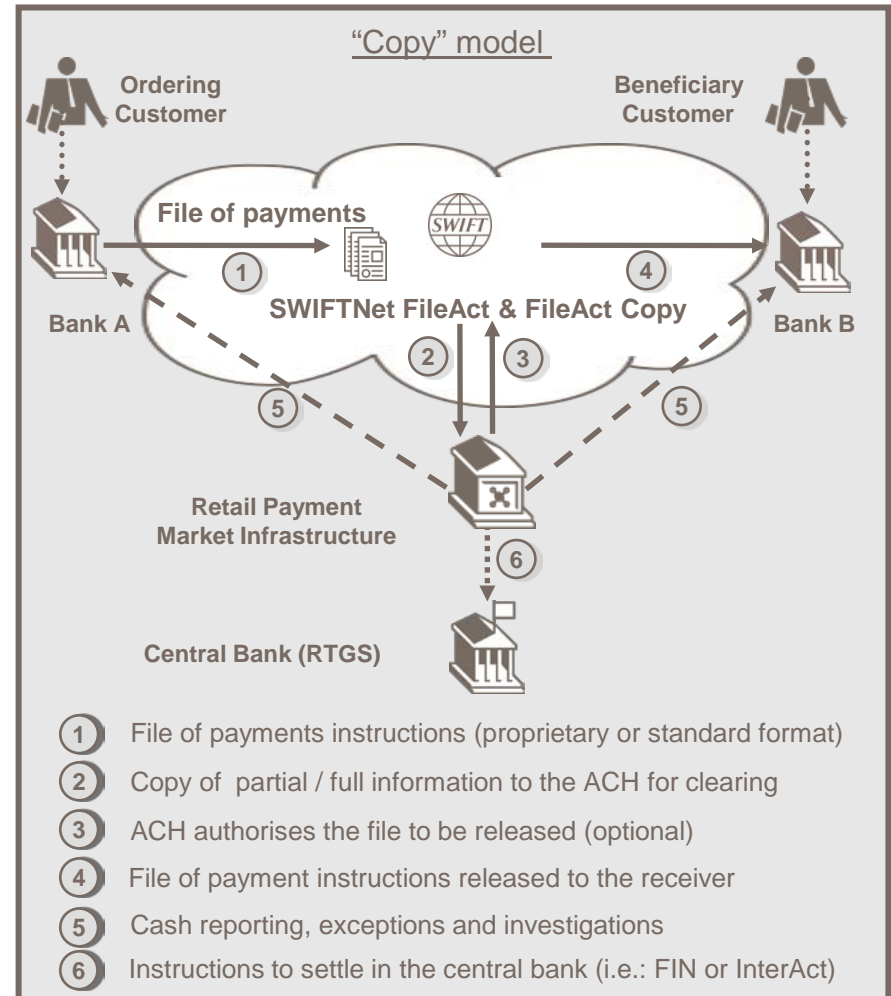
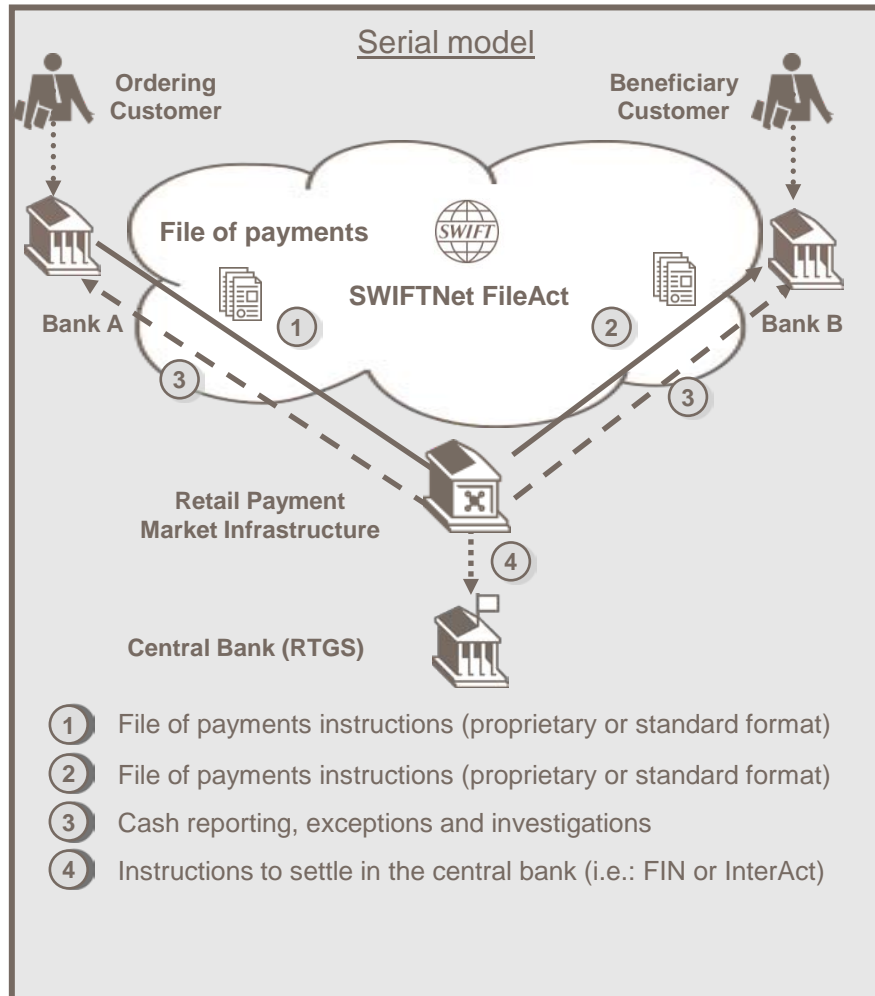
- Closed User Group administration and management
- Bilateral or multilateral clearing setup options
- Rulebook describing a common operating framework (i.e.: formats)
- Direct or reverse billing options

## Cost efficient, secure file transfer

- Non-repudiation, delivery notification, urgent priority
- Reliability, security, resilience
- Real-time and store & forward transfer capability
- 0.07 to 0.02 eurocent per payment depending on the community volume



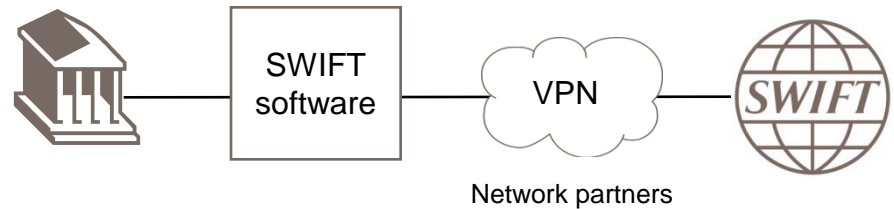
# Retail payment messaging models



# Connectivity options, adapted to your needs and your customers

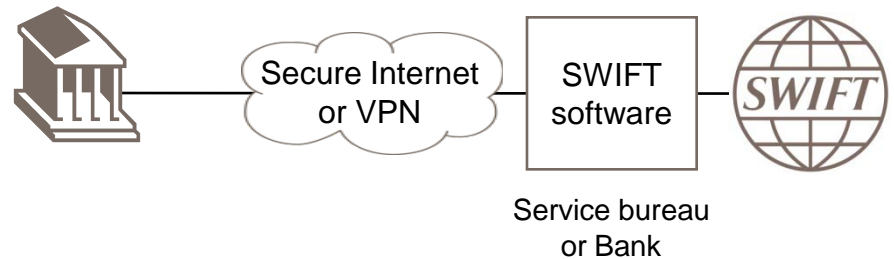
## Direct connection

Global or large bank  
Millions payments/year  
Manage your own SWIFT connection



## Indirect connection

Medium bank  
Hundred thousands payments/year  
Outsource SWIFT connection



## Alliance Lite

Small bank  
+/- 200 files of 200 Kb/day  
Light software footprint



# Integration options

- Do it yourself
- Or, choose an application that is “SWIFTReady”
- Several vendors have “SWIFTReady” middleware (see [www.swift.com](http://www.swift.com))

## SWIFTReady Payments applications

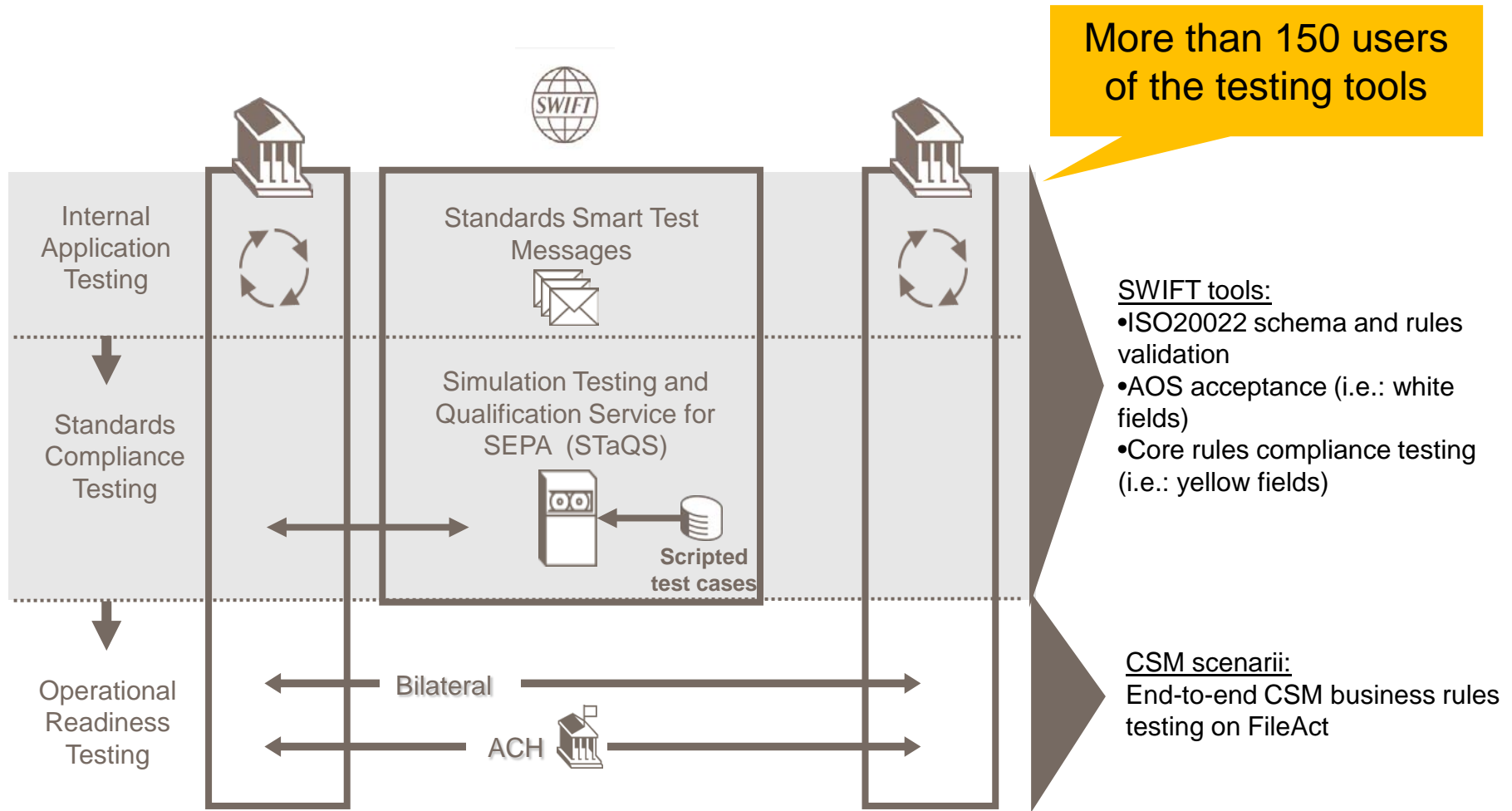
Provider	Application	Release	Label year
<a href="#">ACI Worldwide Inc.</a>	ACI Money Transfer System	2.0	2009
<a href="#">CMA Small Systems AB</a>	RTS/X	4.6.2	2009
<a href="#">Fundtech</a>	PAYplus FTS	3.X	2009
<a href="#">Fundtech</a>	Global PAYplus	3.X	2009
<a href="#">Montran Corporation</a>	Global Payments System	2009	2009
<a href="#">Oracle Financial Services Software Ltd</a>	Oracle FLEXCUBE Universal Banking	10.4	2009
<a href="#">Tata Consultancy Services</a>	BaNCs Payments	5.0	2009
<a href="#">Tieto Corporation</a>	Tieto Payment Suite	4.1	2009

## SWIFTReady SEPA applications

Provider	Application	Release	Label year
<a href="#">Business Information Systems (BIS)</a>	qPayintegrator	2.0	2009
<a href="#">CSC Deutschland Solutions GmbH</a>	PTS/SEPA	1.5	2009
<a href="#">Net Solving S.P.A.</a>	Anè - APPLICATIVE NETWORK ENVIRONMENT	2.0	2009
<a href="#">Oracle Financial Services Software Ltd</a>	FELXCUBE Messaging Hub	V.SM Rel 2.2	2009
<a href="#">TAS Group SpA</a>	Gari Gold for SEPA	1.1.0	2009



# Testing options (SEPA only)

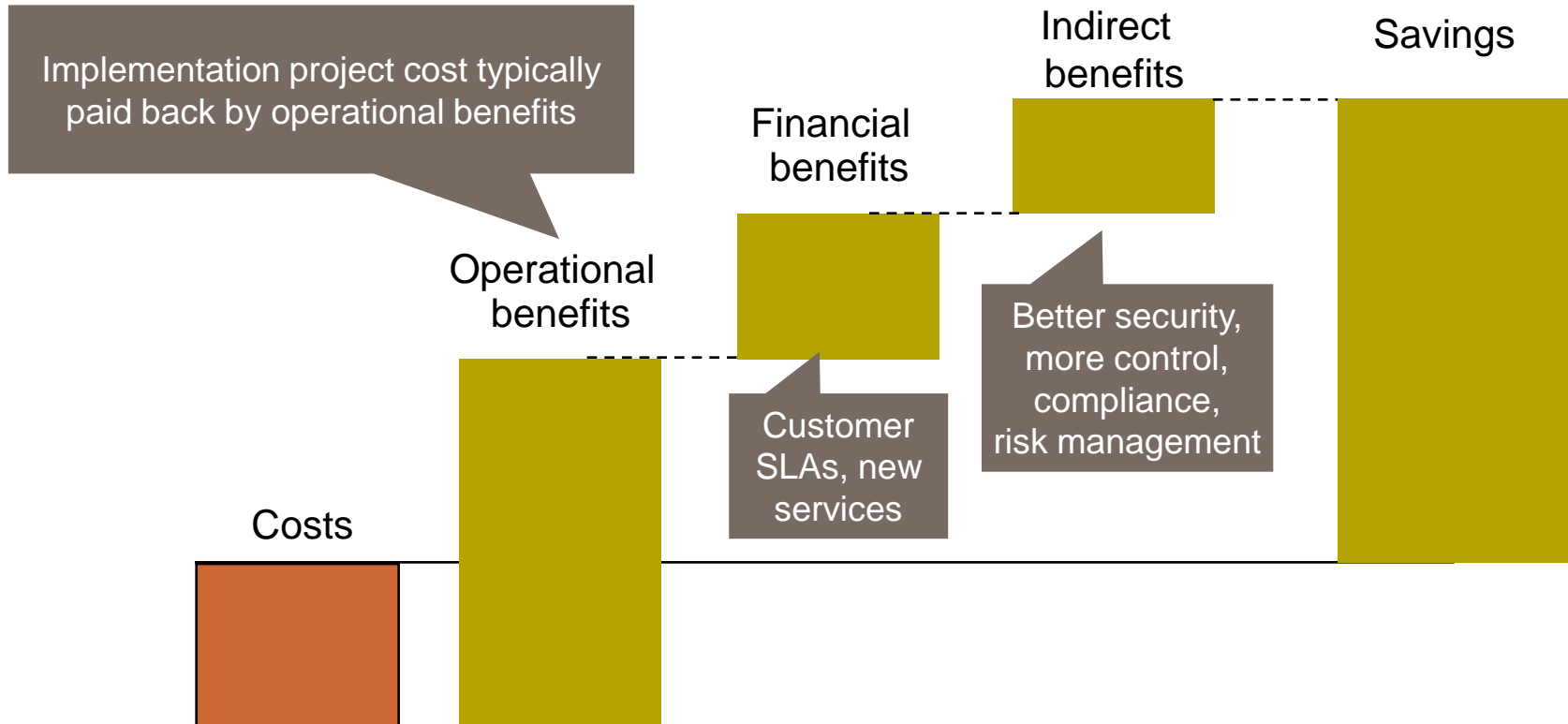


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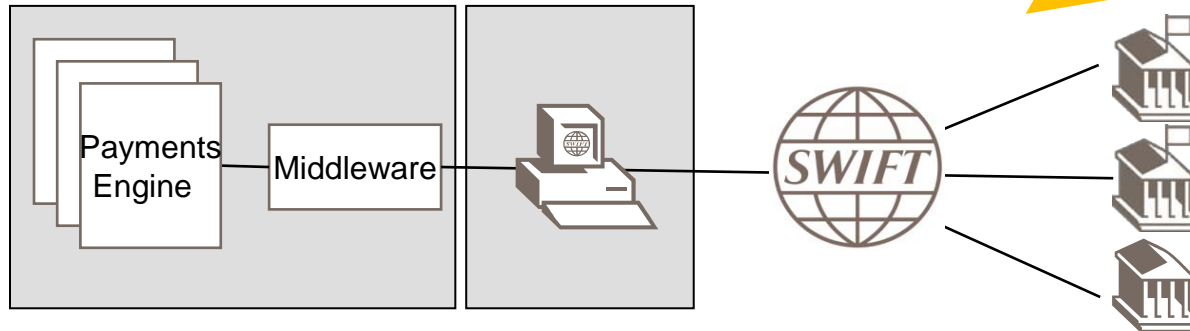


# Making a compelling business case



# Assessing the total cost of ownership (TCO)

TCO as of 10 KEUR/year



1. Overall project costs
2. Integration costs (payment engine, middleware)
3. Hardware costs (machines, routers, lines)
4. Operations costs (prime and disaster sites, site monitoring and operations)
5. Registration to the market infrastructure closed user group: 1 KEUR/year
6. Payments traffic in files: 0.02 – 0.07 eurocent per payment
7. Software costs depending on the type of connectivity

Connection type	Software description	One-time (KEUR)	Annual (KEUR)
Direct connection	Software ownership and maintenance	44	14
Indirect connection	See Service Provider	n.a.	10-50
Alliance Lite	Connectivity with up to 200 files of 100KB per day	n.a.	10



# Quantitative and qualitative benefits

Driver	Benefits	Measures
Operational efficiencies	Staff reduction, reallocation and/or growth containment	# FTE * cost per FTE
	Transaction efficiencies	Economies of scale with payments volume growth (e.g.: organic growth trends from 6% to 10%)
	Rationalising systems and/or building scalability	# systems * 5 to 20 KEUR
Financial benefits	Lower end transaction cost and better price transparency for end-users	Customer retention levels (KPIs) Offering attractiveness compared to competitors (value proposition)
	Meeting clearing and settlement cut-off times and obligations	# of charges and amounts for delayed execution # of unmet customer SLAs (KPIs)
	Revenue from innovating in new adjacent services	# of new successful services and revenue # of new market segments and size
Indirect benefits	Avoidance of fraud, manual errors, reputation risk	# of losses and amounts due to frauds or errors (benchmarks)
	Meeting compliance regulations	Less control points, documentation, legal costs, ... Improved liquidity management levels (KPIs)



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# Examples of Retail payments systems on SWIFT

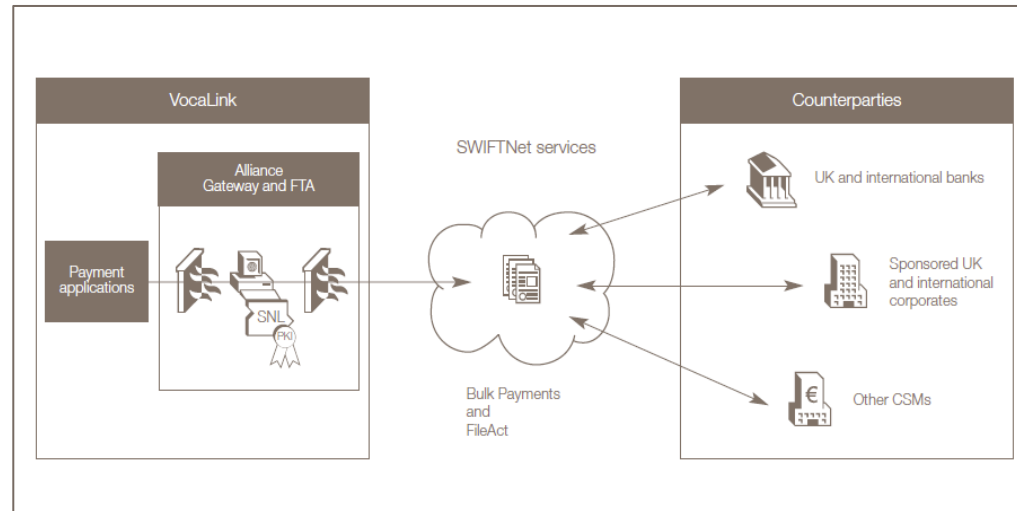
	EBA/Step2	Equens ACH	Eurogiro	VocaLink
<b>Payment instruments</b>	Credit transfer Direct debit	Credit transfer, Direct debit	Credit transfer, direct debit	Credit transfer, direct debit,
<b>Payment scheme</b>	SEPA SCT and SDD scheme for EBA members	SEPA SCT and SDD, as well as domestic schemes	Multi-currency transfers (i.e.: Euro (SEPA), USD)	All GBP and EUR payments (SEPA)
<b>Services</b>	Centralised clearing, cash monitoring and exceptions management	Centralised clearing, cash monitoring and exceptions management	Multi-lateral framework for payments clearing, settlement, cash monitoring and exceptions management	Centralised clearing, cash monitoring and exceptions management
<b>Reference data</b>	SEPA Routing directory	SEPA Routing directory (Equens Italy)	SEPA Routing directory	SEPA Routing directory
<b>Standards and formats</b>	MX (ISO20022)	Proprietary and MX (ISO20022)	MT103, proprietary and MX (ISO20022)	Proprietary and MX (ISO20022)
<b>Messaging</b>	FileAct	FileAct	FileAct	FileAct
<b>Administration</b>	CUG services by EBA	CUG services by Equens	CUG service by Eurogiro	CUG service by VocaLink
<b>More information</b>	<a href="http://www.abe.org/">http://www.abe.org/</a>	<a href="http://www.equens.com">www.equens.com</a>	<a href="http://www.eurogiro.com">www.eurogiro.com</a>	<a href="http://www.vocalink.com/">http://www.vocalink.com/</a>



# VocaLink case for retail payments

## Company profile

- Specialist provider of retail payment services for banks and corporates
- Processes both £ and € payments (SEPA)
- +90% of salaries and +70% of bills in UK
- 15% of European automated payments
- +90 mio payments on peak day
- New Faster payment services



## Challenges

- Reach into new (international) markets
- Improve processing capacity and drive down costs
- Provide innovative payment products
- Common infrastructure for local BACS community, European and international ACHs, (EBA,..)

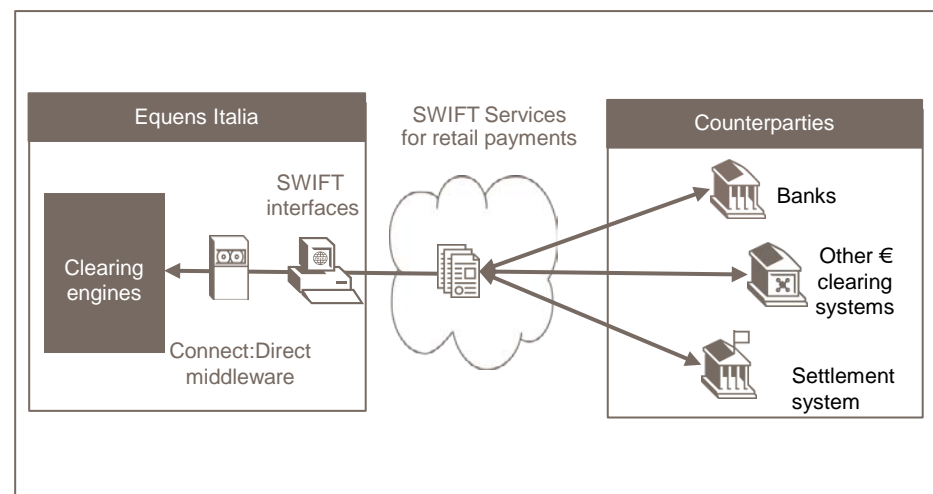
## Key benefits of using SWIFT

- One single channel to all market players
- Secure, reliable, resilient, cost effective channel for communicating with all banks
- Transmission of large volumes of critical data in restricted timeframe

# Equens Italia case for retail payments

## Company profile

- Joint venture between ICBPI (Istituto Centrale delle Banche Popolari Italiane) and Equens SE
- Electronic payments management services
- Infrastructural, software and operating services
- Domestic and international debit, credit and pre-paid cards.
- Outsourcer for domestic clearing of RNI, ACH and SEPA
- Over 50 banks in Italy
- Over 8.5 billion payments at the Equens group level



## Challenges

- Compliance with international standards
- Highly competitive and open market environment
- Pressure to offer cost-effective processing
- Target market in Italy and in Europe
- SEPA compliance

## Key benefits of using SWIFT

- Reach large number of banks in SEPA
- Use both domestic and SEPA XML standards
- Ability to reach Target2 and EBA/Step2
- Benefit from low entry costs by leveraging existing SWIFT infrastructure.

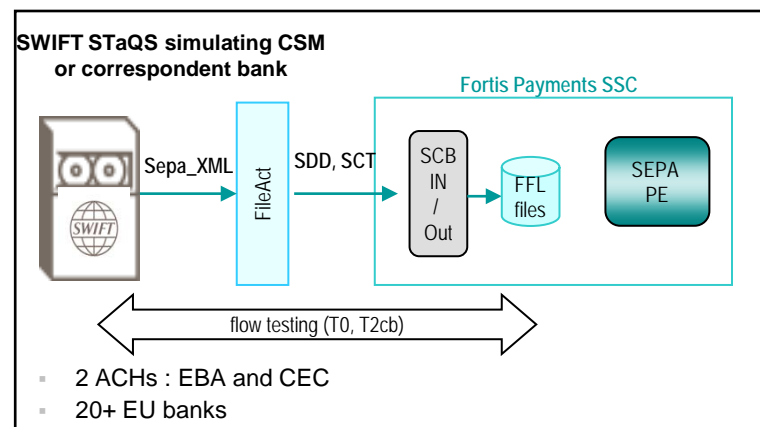
# BNP Paribas Fortis case for SEPA Testing

## Company profile

- One of the largest financial services provider in Benelux
- Outstanding expertise in payment services in Europe
- Direct access to all euroclearing systems (Target, Euro1, Step 1 and Step 2)
- European coverage with 3 operation centers (BE, NL, TK)

## Challenges

- Cover **native SEPA XML** Standards
- **Complement** end-to-end interactions / business-like scenarios
- Focused on the format of the **individual transactions**
- Guarantee the **adherence to industry standard** definition



## Key benefits of using SWIFT

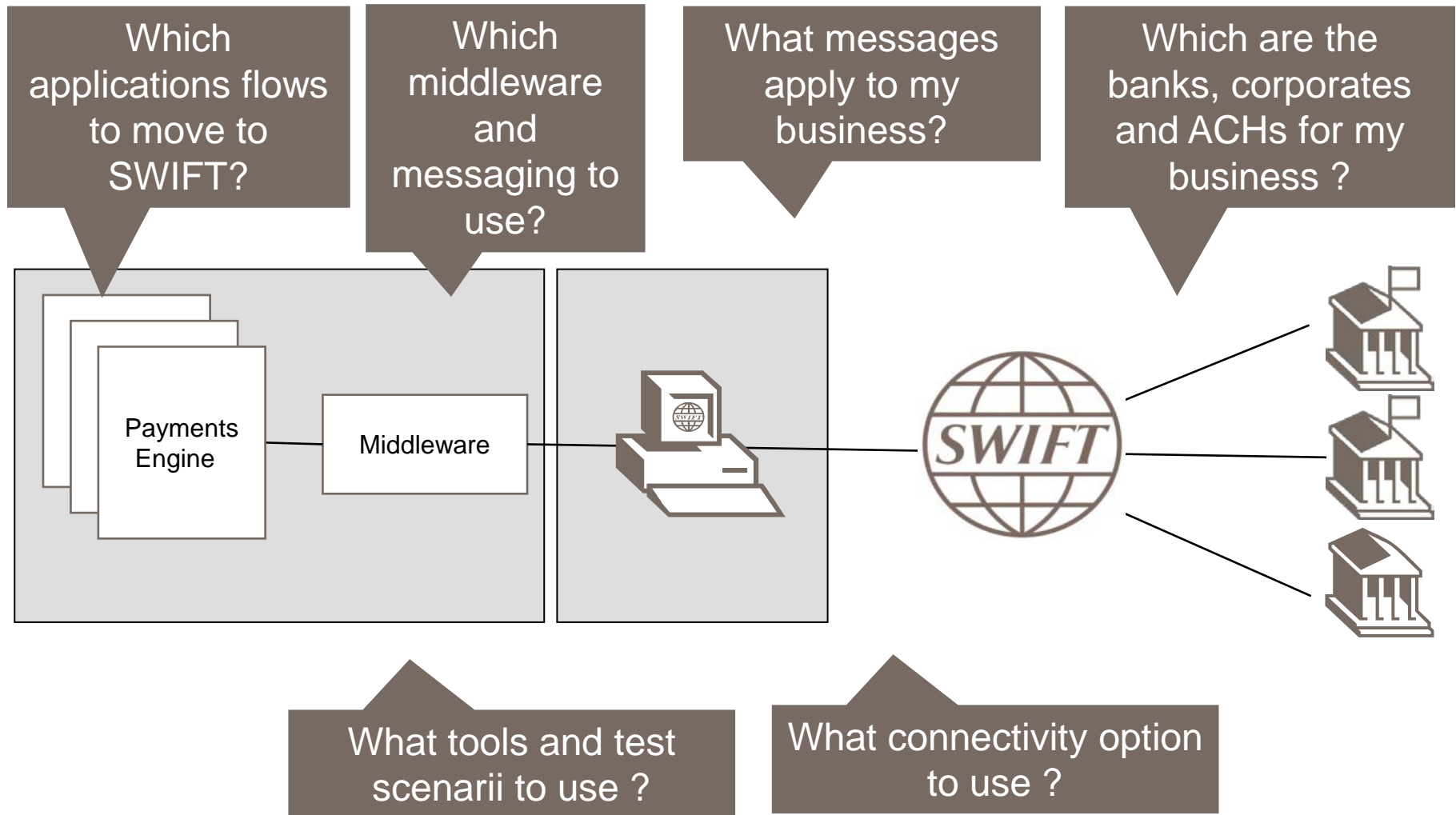
- Reduce the overall testing effort by 20%
- Cover +90% of the tests for native SEPA messages (XML)
- Resolve upfront 40% of the incidents
- Guarantee standards interoperability for all external clearing channels
- Enhance significantly the quality of the operational testing with external entities

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# Defining your project



# Plan your project

## Define

- Identify the type of payments and flows
- Identify the formats and messaging requirements
- Assess the volumes
- Identify ACHs, Corporates and banks
- Select the model: bilateral or multilateral
- Assess the impact on applications and middleware
- Choose the type of connection (direct, indirect, Lite)

## Prepare

- Contact relationship manager or see [swift.com](http://swift.com) for more information
- See SWIFT Ready applications
- Join SWIFT (see the ACH CUGs define on [www.swift.com](http://www.swift.com) )
- Train on SWIFT services, connectivity and standards
- Define the testing plan and scenarii

## Implement

- Install and configure the software
- Integrate the application and middleware
- Implement the guidelines of the ACH(s)

## Test

- Setup pilot and live environments
- Execute pilot and end-to-end tests
- Notify operational readiness to ACH and SWIFT

## Roll out

- Kick-off meeting with each counterparty per clearing channel
- Test live environment
- Go live

Typical timeframe (depends on number of flows to migrate)

- **6-12 months**, for the middleware or EAI of a payments shared services platform with 4 market channels (ACHs, banks)



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# More info?

- Your SWIFT relationship manager
- [swift.com](http://swift.com)
- [swiftcommunity.net](http://swiftcommunity.net)
- Your ACH(s)
- Other banks on SWIFT





# SWIFT for Retail payments Market Infrastructures

*New developments*

# New developments

## More standardisation

- ISO 20022 migration plan for Exception and Investigations
- New messages for SEPA SDD e-mandates management
- ISO20022 for card payments
- New standards to Modify and Verify Party and Account Identification Information

## Easy SWIFT

- Consultancy services to assess improve processes
- Integration services for back-office integration

## New services

- Multi-lateral netting platform for ACHs
- SDD e-mandates management platform
- Mobile payments and electronic payments forums
- Working group to look at personal digital identity
- E-invoicing initiative





Thank you

