

# THE NEW PAYMENTS LANDSCAPE



Swift

The payments industry faces immense pressure on multiple fronts. Waves of technological advances, regulatory scrutiny, and changes in consumer and client behaviours and expectations, are all breaking on the shores of a once staid and relatively unchanging business. While the challenges are many, there are signs that the industry is facing them head-on, developing a new, more innovative and dynamic payments landscape.

The disruptive forces the industry faces are coming together in a short timeframe and within a cost-contained environment.

Consumers want their retail experience to be replicated in the banking world; this means instant, frictionless services. At the same time, corporate clients want to reduce payment costs and are entering new trade corridors; they also want transparency, predictability and timeliness of payments.

Regulators have weighed in on consumers' behalf, promoting new products and services through open banking regulations that pave the way for new, non-bank institutions, along with financial technology companies to enter the payments market. The wider post-crisis regulatory push means compliance is taking up more of payments professionals' time. Data privacy (via GDPR), security and resiliency are key concerns.

In particular, managing financial crime compliance requirements and addressing the cyber threat in the high speed world of real time payments is becoming ever more

challenging. Dealing with these threats at a community level is the only way to protect the financial ecosystem.

Finally, technological advances are bringing into play powerful and flexible new capabilities such as AI and distributed ledger technology. In many cases, the new entrants have been more adept at harnessing such technologies – in proof of concept, at least – than the payments market incumbents.

Payments actors must keep up with the pace of change and prepare for the future to remain competitive in such a rapidly evolving landscape.

## The industry response: correspondent banking is being revolutionised

Historically, cross-border payments have been relatively slow, lacking in transparency and suffered unpredictable fees. The imperative to improve customer service in the cross-border space brought leading banks together with SWIFT to create the global payments innovation (gpi) initiative. Objectives from the outset have been to deliver same day use of funds, transparency of fees, end-to-end payments tracking and the unaltered transfer of remittance information.

Live since January 2017, more than 145 transaction banks have signed up to the service, with more than 40 using SWIFT gpi to exchange hundreds of thousands of payments a day, in over 200 country corridors. SWIFT gpi

### Challenges for the Payments Industry

Many disruptions coming together in a short timeframe and cost-pressured environment

#### NEW CONSUMER BEHAVIOURS & NEEDS

- Y, X generation (NOW!)
- reduction of cash usage
- more payments
- cross channel view
- payments methods re-definition (API, internet based, contactless...)
- expectation for 'frictionless'
- demand for more security.

#### TECHNOLOGY CHANGES

- mobile, wallets, cryptocurrencies
- DLT & AI
- platform/Architecture renewal
- biometrics (e.g. facial recognition)
- cybersecurity.

#### REGULATORY PRESSURE

- compliance
- data privacy (e.g. GDPR)
- open Banking (e.g. PSD2)
- resiliency.

#### INDUSTRY TRENDS

- cost reduction pressure
- new trade corridors
- ISO 20022 adoption
- instant Payments
- GTB business evolution: transparency, predictability
- timeliness
- competition from non-FIs & Fin/Reg Tech
- faster pace of change
- addressing fragmentation and interoperability issues.



is revolutionising cross-border payments by increasing their speed from days to minutes and even seconds. Nearly 50% of gpi payments reach the beneficiary in less than 30 minutes. As a result, bank clients benefit from shorter supply cycles, goods are shipped faster, less liquidity is used, and there are far fewer enquiries and resulting costs.

Gpi also addresses key corporate treasury concerns, including lack of transparency. The gpi Tracker gives the status of cross-border payments in real time and enables banks to review information about each bank in its path and any fees that have been deducted. This information is then passed on to corporate clients, offering a data-rich experience with greater levels of visibility into each payment and their overall liquidity. The Tracker is accessible via APIs, which enable banks to embed the Tracker information into their payment flow applications and front-end platforms. As a result, corporate treasurers can track gpi payments in real time.

### **Faster payments coming faster than expected**

Australia is the latest market to go live with real time. The recently launched New Payments Platform (NPP) has been designed to remove inefficiencies and improve how consumers, businesses and government departments transact with one another. Key features of the NPP include 24/7 real-time, line by line settlement via the Reserve Bank of Australia's Fast Settlement Service; PayID, way to link a financial account with an easy to remember identifier, such as a mobile phone number or email address; an open access platform to encourage innovation through competition; and overlay services that will provide new value services to Australian consumers, businesses and government.

NPP was developed collaboratively by 13 Australian banks or authorised deposit-taking institutions, and will provide the basic infrastructure to connect these financial institutions, and through them businesses and consumers. SWIFT helped to design, build, test and deliver the NPP and will play a key role in operating the infrastructure for the NPP.

Many of the components from NPP will be part of SWIFT's ongoing instant payments strategy to ensure 24/7, instant, high-volume, low latency services. For example, SWIFT is developing an instant messaging solution that will provide

connectivity to EBA Clearing's RT1 instant payments system and the Eurosystem's TARGET Instant Payments Settlement (TIPS) service. In addition, SWIFT is working with other clearing and settlement mechanisms to ensure participants are given the choice of a SWIFT channel on the largest number of markets. SWIFT's offerings in Europe will go live in November 2018. SWIFT's evolving portfolio already allows users to connect to other instant payments systems such as TCH's in the US and the Faster Payment System's in Hong Kong.

### **The future: cross currency, instant payments?**

Moving on from cross-border but single currency instant payments in the euro area, cross-currency instant payments will not happen on day one of any new instant payments system. In addition to the challenges on the technical and operational levels, there are also business challenges and foreign exchange (FX) requirements. Banks and central banks will have to agree how cross-currency instant payments can be exchanged, processed, guaranteed and settled.

Putting aside the FX element, there are interoperability challenges that are related to market practice and preferences. Once systems are linked, those differences will have to be considered. For example, there is no standard definition of how instant an instant payments system will be; it ranges from five to 20 seconds. If you hook up a five-second system to one that clears in 20 seconds, there will be payment fails.

There are some tough decisions ahead for different payments communities, and collaboration and harmonization will be crucial. Part of SWIFT's core mission is to help communities come together to define these standards and market practices. SWIFT gpi is an example of how existing networks can be revolutionised to deliver this high speed future.

As a result of all the changes that are underway, industry players are faced with a myriad challenges. Not only do they need to find solutions – they must also create opportunities. In the new payment landscape, a delicate balance of harmonisation, innovation and collaboration will be key.