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SIBOS 2018: PAYMENTS

A CATALYST FOR CHANGE

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INTRODUCTION

Every industry has its key event, where everyone involved comes together to discuss important issues of the day and drive business. For transaction banking and payments, that event is Sibos. Indeed, many people in the industry only attend this single event. Therefore, to describe it as a conference and exhibition does it a disservice, as for many it's the most important source of leads, learning, and intelligence for their year.

Celebrating its 40th year in 2018, Sibos has travelled around the world, reflecting the global nature of both the event and the business it represents. This year the event went to Sydney, returning for a third time (the last being in 2006), and moving from last year's venue, Toronto. Despite the pressures on both time out of the office and attendance at an international conference, SWIFT reports that over 7,500 registered for the event from over 150 countries. Attendees had the opportunity to meet with over 210 exhibitors and hear more than 450 speakers.

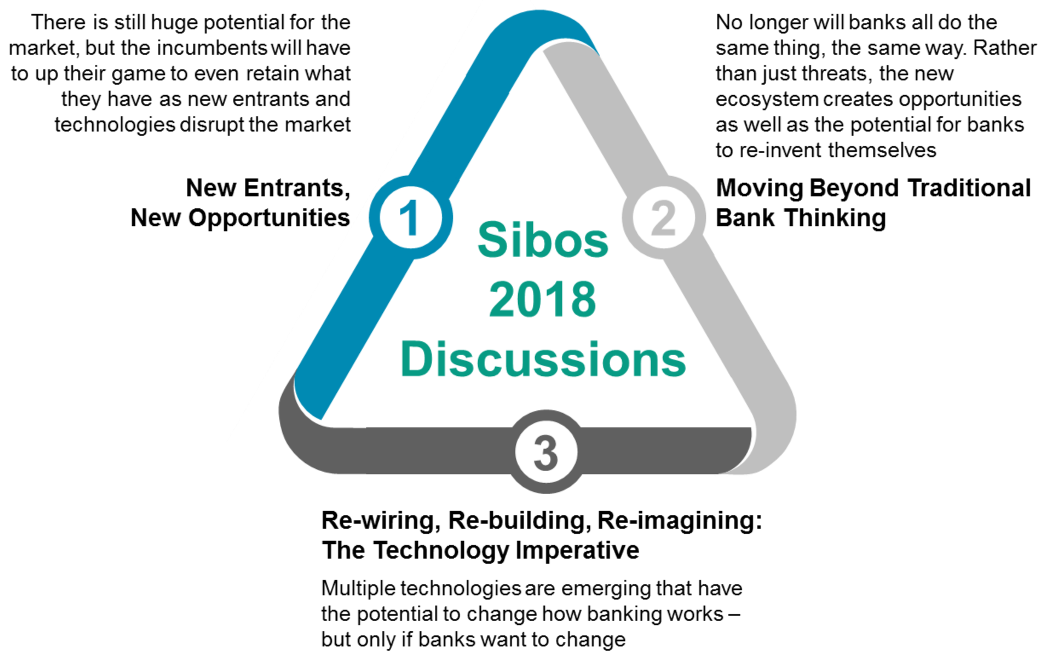
This is one of three reports that SWIFT has commissioned Celent to write — on payments, cybersecurity, and financial crime compliance — to highlight the discussion at this year's Sibos, both on stage and in the many meetings that took place over the course of the week. Each report provides a summary of the key takeaways on the three areas, and we have weaved many strands together to bring out the bigger picture, and why this matters to the industry. It should be noted that the reports reflect the opinions of Celent and not those of SWIFT.

PAYMENTS: A CATALYST FOR CHANGE, NOW STRONGER THAN EVER

Payments, once perceived by many outside the space as a dull utility where regulators allowed "benevolent monopolies" to exist, has now truly moved on. Although it is still a highly standardized industry, regulation actively encourages competition. In other words, not only is doing nothing not an option, but those who are slow to change or who fail to recognize how they are enabling much larger changes will find themselves left behind as the industry pivots into a very different dynamic.

We discerned three closely related themes at Sibos (listed below in Figure 1). Virtually every conversation touched on all three, with one overarching message: the industry will look and act very differently in a relatively short space of time.

Figure 1: Three Interlinked Discussions Dominated Payments at Sibos 2018



Source: Celent

New Entrants, New Opportunities

The industry now recognises that new entrants are not the enemy, though many of the sessions referenced them disrupting the industry, still implying a “them” and “us.” More recently banks have started to realise that there is a mutual benefit in working with new entrants or nonbanks. Banks such as HSBC have invested in fintechs, such as Kyriba, while they also piloted to providing access to organisations such as Nutmeg and Wealthify through the First Direct brand, capitalising on its Open Banking efforts. Furthermore, many banks are actively involved with much earlier stage businesses or ideas, through hackathons and incubators for example. In this model, banks are trying to offer additional services or augment their existing services.

At Sibos 2018, discussions moved the thinking further. Banks are beginning to realise that new technologies enable new and different opportunities with the new entrants. This allows banks to think very differently about how, and where, products are created:

- A number of vendors announced platforms where banks could both use their technology and collaborate with others on cloud-based solutions.
- Other vendors have created marketplaces of curated fintechs; that is, a selection of smaller vendors, where each vendor has done at least some of the due diligence that would be required by a bank.
- A growing number of banks have launched their own portals, offering APIs to third parties to build products from.

Traditionally banks have either bought off-the-shelf products or built them themselves. Going forward, they could still build them themselves, but use off-the-shelf components.

That would give them a solution tailor-made for them, by them, but using standard components that would be easier to upgrade. Or, taken a stage further, some of the solution could sit within a bank, some in the cloud, and some within the vendor's platform. This hybrid model was one reason why a number of banks used the phrase product curation rather than product management.

Some banks are taking that thinking further, contemplating what activities they even need to do themselves. There were a number of high profile outsourcing deals in the payments space in the runup to Sibos 2018 and some, such as Solaris Bank, are placing significant bets that banks will outsource at least some of their payments business.

Moving Beyond Traditional Bank Thinking

The Celent attendees at Sibos 2018 have been in the industry for many years, having probably racked up more than 30 Sibos's between us. Consequently, it would have been easy for us to be a little cynical about the discussions around change. Change often needs to be done *en masse*, and usually moves at the pace of the slowest … or the most reluctant. As a result, discussions at Sibos have often focussed on the need to change but have lacked the necessary "how."

At Sibos 2017 in Toronto, discussions felt tangibly different. They were much more along the lines of "We *will* change" than ever before. This was quite possibly as a realisation that the time for talk was possibly over. Yet it still came as a surprise to hear in Sydney about just how many imminent or actual changes were taking place (many of which are discussed here in the three papers).

The consultancy Oliver Wyman released a paper at Sibos called "Wholesale Payments: Disrupt from Within" which encapsulates the reasons for change (emphasis from Celent):

> *The scale and pace of change that new entrants will bring to the industry is uncertain. Incumbents still have advantages. The depth of systems integration between a large corporation and its payments supplier mean that switching supplier remains costly and time-consuming. And the ability to package payments with other services is also a potential source of advantage for the incumbents.*
>
> ***Nevertheless, given what is at stake, and given the disruption caused elsewhere by tech players, incumbents will need to lift their game.***

The banks are realising, whether by seeing the opportunity or by feeling the threat, that change is needed, and needed now. The same paper, and indeed several others released at Sibos, highlighted the growing revenue opportunity, but all pointed out that the competition for it would be fierce, and not just from banks.

The opening Big Issue Debate, "Re-engineering international payments for a fast, digital age" reflected this clearly. The very first response talked about the need to think about the changing needs of the client, to see how banks can better service those clients. Swift's gpi is an example of such a response. Yet the panel (and Celent) believe that banks are strongly positioned comparative to new entrants. As the quote above highlights, the banks have both an advantage and a head start in terms of the depth of relationship with their customers. Despite all the concerns about how trust in banks has declined, retention rates for banks are the envy of nearly every industry.

This strength can be a double-edged sword. While we don't claim banks are complacent, we do believe that industries with more competition and churn are *more* focussed on providing a higher level of customer experience. This tallies with what has become something of a mantra for Celent this year: customer experience is likely *the* differentiating factor for many banks.

Banks then need to shift their focus to deciding *what* that their differentiating aspect will be. There are a number of models emerging. Many of the revenue opportunities discussed were not possible or conceivable a relatively short period of time ago. Solaris Bank of Germany is set up to be an infrastructure bank for other banks, a technology company with a banking licence; BBVA is using extensive APIs to leverage their data and analytics capabilities.

Discussions at Sibos, both on stage and in private, showed that some banks are actively pursuing new opportunities. That said, many discussions noted with surprise how many banks aren't, even though some of the underpinning technologies (such as Open Banking) are mandated. This serves to highlight the progress that some banks have made in creating the vision. Indeed, some US banks remarked that they wished Open Banking had been mandated in the US. They felt that they had done a great job in their IT efforts, yet this was somewhat lost because they were having to "prime the pump" and educate the market of the benefits.

One big question was raised, but never adequately answered. The corporate customers are being courted by the new entrants, many of which have quite different business models. It remains to be seen as to how the changes in banks are viewed by corporates, or indeed, if they're known about at all. After all, banks can only win if they've been invited to compete in the first place.

Re-Wiring, Re-Building, Re-Imagining: The Technology Imperative

While perhaps a few banks have a true handle on their costs at a product level, most know that a large sum can be directly or indirectly related to payments. A recurring theme was therefore reducing that cost base while creating more flexible, tailored solutions for their clients to compete with the new entrants. What then is interesting is the range of technologies that are now sufficiently mature — in the banks' eyes, at least — to enable this. Five in particular stood out: APIs, Cloud, Blockchain, AI, and Real-time.

Figure 2: Five Technologies Will Combine to Create Even Greater Opportunities — And Disruption

Source: Celent

1. **APIs.** APIs were one of the most frequent of all discussion points, and not just from those markets where Open Banking has been mandated. While Open Banking is widespread, APIs have travelled even further. Yet there was still a mix of levels of

understanding of what APIs even were, and far less around the strategy that ought to surround them. Most discussions focussed on the public facing aspect of APIs, yet there is much to be gained from internally facing APIs. One thing that the fintechs have clearly demonstrated is that their approach of "build once, use every time" gives them much lower cost, and much more agility.

2. **Cloud.** Cloud is certainly not new, and certainly not unfamiliar territory to banks. Even the regulators are often using some form of cloud. What hasn't traditionally been palatable has been the use of multi-tenanted cloud for things that banks consider core, such as ACH transactions. Sibos 2017 saw many of the larger vendors announce partnerships with large cloud solution providers, which in turn have been working with banks and regulators to figure quite what needs to happen to make it acceptable. Sibos 2018 saw further announcements, including a cloud-native proof of concept (POC) to host SWIFT infrastructure and enable cloud-native payment transfers on Microsoft Azure, and widespread discussion about how banks were beginning to assume that cloud was the future. Admittedly, many of the conversations were about private cloud, perhaps only a small step forward from hosted solutions, but the steps to make this happen will make banks that much closer to "true" cloud adoption.

3. **Blockchain.** This topic continued to dominate the agenda, with a number of examples being launched or being profiled as being live. As little as three years ago, the industry was sceptical that the technology would ever amount to being something that could be useful to them, and so this highlights the rapid pace of change. Yet … while perhaps some of the hype has fallen away, and banks realise that it can't and shouldn't be technology for technology's sake, proponents must still demonstrate that it solves a problem. A number of discussions seemed to include Blockchain for no apparent reason. Multiple people gave almost the same soundbite:

   – "The first question we often get asked is how it will run on blockchain, yet last year they never bothered to ask whether it would run on SQL or Oracle. Why do they care now?"

4. **AI**. Artificial intelligence and machine learning were described by some as this year's blockchain, meaning that many were guilty of including them in their discussions or press releases, yet with less tangible examples. Despite this cynicism, there were interesting real-life examples discussed, though many were relatively simple in nature, such as robotic process automation (RPA), rather than more advanced, such as analytics. That's not to downplay their impact but to highlight how many relatively easy entry points there are to harness the technology, and how many banks are already doing so.

5. **Real-time.** Real-time, in all its guises, was probably the single most discussed topic. This wasn't just about payments, but the need for instant across all aspects of banking. Not a single technology per se, but a requirement now for all technology. Some of the discussions were very specific, particularly country-level real-time payment discussions, most notably NPP, given that we were in Australia, SEPA Inst from Europe, and the progress to real-time in the US. And of course, Swift's gpi service was both widely discussed and promoted across the conference agenda. One example that tied both these together was SWIFT releasing results from its instant cross-border payments proof of concept, which involved banks in China, Singapore Thailand, and Australia. The trial demonstrated that by enabling gpi in real-time domestic systems, payments can be effected almost instantly, even when they involve domestic settlement and non-gpi banks Yet speed was also discussed in the context of increasing customer expectations, and the new need to be more agile in response to a changing market. With speed come challenges, with less time to do

all the necessary checks and processes, and the “24/7” nature has profound implications for availability and maintenance.

As a list of trends, they are perhaps interesting but unremarkable. Regular attendees of Sibos can no doubt recognise which Sibos was which simply by the technologies or themes discussed. What is interesting is how combining trends effectively multiplies their impact. For example, in a digital world, customers (and the customers’ customer), expect instant service, whatever time of day or night. To be able to handle that, banks increasingly to need to invest in ***all*** of the above priorities bar blockchain (and depending on the product, blockchain may yet be involved too). More fundamentally, given all the banks’ discussions on competitors and the need to be digital, it’s difficult to see how banks can do this without completing the majority of these changes. For example, how will a bank service a customer, whatever time of day or night, in real-time, without utilising AI?

This theme enables and underpins the first two themes. It’s difficult to see how a bank can change its business model or could maximise the new opportunities without changing its capabilities. This is why it was so difficult to clearly separate the three themes, and indeed, banks must keep each of them in mind as they move ahead.

THE PATH FORWARD

Despite the transaction banking and payments industry being built upon co-operation between institutions, there are few places other than Sibos where the industry gathers to discuss what is happening and on such a global scale. Given the changing needs of the market, the shifting position of its players, and how increasingly important it is to think globally, it should come as no surprise that now more than ever, Sibos remains a key event for the industry.

So what should industry players expect or do before they reconvene next year? The very location of the host city, London, is perhaps symbolic of the upheaval and uncertainty the financial services industry will face in a post-Brexit world.

Banks need to prepare for ever greater change. Sibos 2018 demonstrated that changes have already started. Banks are traditionally risk-averse, and, given the pressures that they already face, doing more than the regulatory changes and those that have clear, short-term revenue impact can seem a stretch. So how should they do that?

1. **Think the unthinkable**. By that we mean banks shouldn't limit themselves to thinking about their current technology constraints, or what they've always done, because both of those are likely to change very soon, if they haven't already. The single largest blocker today may be the banks' current thinking; the desire to change is critical.
2. **Go further than is required**. Most banks have approached Open Banking as a regulatory change and are doing exactly what is required. Those banks who are looking at the spirit and intent of the change, and seeing how they could benefit from it, are in the vanguard. Every bank had the same opportunity, but few took it.
3. **Join the dots**. The discussions at Sibos shifted away from singular trends and instead talked about several, as they are all happening concurrently. There were fewer discussions of how those trends enabled another. Many of the technologies will be combined to do very different things. It's not so much parts of a jigsaw puzzle, as a big box of tools and universal parts that hold almost infinite possibilities.

By Sibos 2019, we don't expect the world to have radically changed given the need to change existing systems and cultures. We do expect, though, that many banks will have started their journey to the new world. Sibos will, as always, be pivotal in shaping the industry going forward.

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