Revolution in cross-border payments promises big benefits for the FX industry

SWIFT gpi has delivered fast, traceable and more transparent cross-border payments for transaction banking. The FX industry can now realise the same benefits for institutional FX trades that settle outside of CLS.

Since its launch in 2017, SWIFT's global payments innovation (gpi) has transformed the world of international payments, bringing certainty and speed to cross-border transactions for millions of customers. In the process, it has saved financial institutions substantial sums in operational costs and liquidity management. One of the reasons why gpi has been so successful in the payments industry is that it solves many of the difficulties in cross-border payments without requiring the banking industry to invest heavily in new technologies. Applying the same principles, SWIFT is now actively raising awareness on how the benefits of gpi could also apply to the payments generated by institutional FX transactions.

SWIFT gpi for financial institutions transfers will bring huge value across both the investment and commercial operations of a bank. With this new service, financial institution payments over SWIFT (MT 202s) will receive the same level of service as the gpi customer credit transfers (MT 103s) and gpi cover payments (MT 202 COV) i.e. speed, traceability and transparency on financial institution transfers end-to-end. This should speak to business areas such as securities services, FX, repo, and collateral management that are at the origin of high-value, critical, time-sensitive payments, as well as in business functions such as cash/liquidity management, operations, network and internal transfer pricing.

Catherine Banneaux, GPI Product Management, SWIFT

"This service will give visibility on the finality of a payment as well visibility on incoming transactions for both the beneficiary institution and their account servicer agents."

The new service will be available this year, offering guarantees on speed, instant reporting of exceptions, and real time confirmation of payment to the beneficiary account. Participating institutions each update the central gpi tracker in line with the gpi Rulebook so exceptions are distributed via real time status updates to all players in the payment chain. The rulebook also ensures that specific references are kept unchanged throughout the transaction chain so enabling accurate reconciliation and exception management.

Those involved in payments know that the value of a payment sent in a MT 202 message is on average three times more than in a MT 103. For this reason, there is a lot of interest from FX operations as well as other business areas involved in high-value.

BETTER LIQUIDITY AND RISK MANAGEMENT FOR FX

The new gpi service should significantly improve the relationship between parties to a FX trade as each will know when the payment is released, can track both legs of a FX settlement, and will know when their account has been credited. As well as better exception, liquidity and operational management this new service can help manage the Herstatt risk of settlement failure.

The cash/liquidity management teams always want to know about any delay to high value transactions as these give rise to tension, and the need for compensating actions. Such high-value transactions can be the result of FX payments, collateral management margin calls, CLS pay-ins and securities settlement, to name but a few. For effective cash management, it is vital to see which payments are failing, and for what business line, as early as possible to ensure an account does not become overdrawn, or a payment deadline missed.

The cash management function also has a regulatory responsibility to forecast both end of day, and intra-day balances, across currencies on a global basis. SWIFT gpi for financial institutional transfers supports these liquidity forecasting and funding functions by giving immediate visibility to incoming funds at the time of payment initiation. Tracker auto-generated push forward notifications ensure that high value time critical transactions are tracked, and gives confidence that forecast account balance numbers will be correct - which is what really matters at the end of the day.

The new gpi service should significantly improve the relationship between parties to a FX trade

"SWIFT gpi for financial institutions transfers will help banks to better manage the settlement risk for payments not settling via a PVP process."

Sam Romilly, Business Development, FX Market Manager, SWIFT

A LEAP FORWARD FOR CROSS-BORDER PAYMENTS

SWIFT gpi is the result of sustained engagement with the financial industry across the world to enhance the cross-border payments experience through a coordinated group of related initiatives. And it's demonstrably working. Today, more than 4,000 financial institutions are signed up to gpi, nearly 1,000 of which are live and sending over $300 billion every day. Nearly 2,000 payments corridors are now covered by gpi and a growing number of payments sent on SWIFT are being sent as gpi payments. SWIFT gpi users are spending less time on payment investigations, because they and their end-customers can at any time and in real-time see the progress of their payments end-to-end. They are also investing less in reconciliations, because fees and charges are visible at each stage. With real-time insights into inbound and outbound payments, banks can plan their liquidity needs more exactly, reducing the costs of maintaining liquidity buffers and access to credit.

LINKING TRADES AND PAYMENTS TO BOOST EFFICIENCY AND COMPLIANCE

The key component of gpi is that MT 103 and MT 202 messages now carry a Unique End-to-End Transaction Reference (UETR), which is passed on by each correspondent bank in the payment chain. This allows each individual transaction to be tracked and traced from end-to-end.

In addition, gpi makes use of the MT 202 'Related Reference' field to identify the underlying business transaction behind the payment. It is a key requirement of the gpi financial institutional service that the UETR is always linked to the underlying 'Related Reference' as well as associated account details, and that these elements are included in every status update sent to the gpi Tracker. The gpi Tracker then pushes out notifications that include both the UETR and the 'Related Reference', or can be queried via a GUI or an API, using either, or both, of these references as parameter. This end-to-end tracking gives visibility on payment finality, and so allows FX firms to better monitor counterparty risk. In addition, the visibility of incoming payments together with the push confirmation of credit will enable more precise liquidity forecasting.