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Achieving the network effect – SWIFT gpi can empower Asia's payments industry

SWIFT global payments innovation (gpi) has the potential to transform the cross-border payment market in Asia – for both corporates and financial institutions. For this to materialise, however, Deutsche Bank's experts believe that an increasing number of the region's banks need to become gpi-ready

Among the most common frustrations in today's cross-border payments sphere is that it can take several days – even up to a week – for funds to be credited to a beneficiary's account. Understandably, the age of "on demand" services is shifting treasurers' expectations when it comes to the speed of payments. This is only one side of the coin, however: to reconcile received and invoiced amounts more easily, corporates also require greater visibility over a transaction's fees, as well as foreign exchange (FX) rates used. Without this information, the true cost of a transaction can become obscured.

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Such pain points prompted the creation of SWIFT gpi, a new payment standard for cross-border payments. It joins together all payment intermediaries via a cloud-hosted interface, giving them improved visibility over transaction fees and FX rates used. And – although predominately bank-led – SWIFT gpi is designed with the corporate client firmly in mind.

Jan Luebke

Head of Institutional Market Management APAC, Cash Management, Deutsche Bank,

Crucially, it allows the same-day processing (and availability) of funds – a development that should enable corporates to grow and become more efficient.

Describing the initiative's importance to the cross-border payment space in Asia, Jan Luebke, Head of Institutional Market Management APAC, Cash Management, Deutsche Bank, says, "Deutsche Bank is fully committed to SWIFT gpi both in its present and future forms. Following November's SWIFT Standard Release, we process all USD and EUR payments using SWIFT gpi. This should ease the corporate customers' supply chain relationships when transacting in these currencies."

"While 120+ are committed to offering SWIFT gpi payments, we would like to see more banks carrying out their implementation projects," he adds. "This will give SWIFT gpi the momentum it needs to become the universal payment standard."

Easing cross-border payments in Asia

So, in practice, what does SWIFT gpi mean for payments in Asia? The initiative is being rolled out in three phases – with each stage dedicated to addressing a major challenge faced by the payments industry.

Phase one of SWIFT gpi, known as V1, responds to the evolving customer requirements when it comes to cross-border payments. During this phase, which has been in effect since February 2017, payments sent and received by gpi-active financial institutions are made available on the same day (if instructed before the bank's cut-off time). Meanwhile, the SWIFT gpi Tracker, a cloud-based program, delivers greater traceability and transparency.

"Here, a payment's status and associated fees, as well as unaltered remittance information are documented – much in the same way a logistics courier would document delivery of a customer's parcel," says Luebke.

To be introduced in November 2018, the initiative's second phase, V2, primarily seeks to address some of the cost and inefficiency challenges suffered by financial institutions when processing cross-border payments. For instance, the Stop and Recall Payment service (gSRP) can stop an in-flight payment immediately – no matter where it is in the correspondent banking chain (so long as it has yet to reach the beneficiary bank). This capability should optimise the cancellation process for payments, and will introduce a market standard where none currently exists.

A third phase, V3, explores the potential to integrate distributed ledger technology (DLT) into SWIFT gpi payments. Though it remains unclear, thus far, as to the ultimate operational benefits of DLT, a proof of concept project has made progress on developing DLT for key industry requirements, including data confidentiality, governance, identification framework and scalability.

"We are contributing to the initiative's future design, by participating to the DLT projects," explains Luebke. "Through its contributions to the initiative, Deutsche Bank hopes to demonstrate – both to our clients and the wider banking community – why SWIFT gpi should become the universal payment standard for cross-border payments globally."

The critical mass

Mutually beneficial by nature, the initiative requires that a critical mass of financial institutions begin routing their payments via SWIFT gpi. Yet, according to Nancy So, Head of Institutional Cash Sales and Client Management APAC, Cash Management, Deutsche Bank, uptake of SWIFT gpi has so far been incongruent between regions – and its adoption in Asia has been slower than elsewhere.

"It may be only a matter of time before pressure mounts on Asian banks to become SWIFT gpi-enabled – which will help drive SWIFT gpi's network effect"

Of the current 120+ signatories globally, the majority are EMEA-based, while uptake from Asia Pacific-based institutions is at around 28%. Dissuading Asian banks from committing to SWIFT gpi may be that the majority of payment flows in the market infrastructure are USD and EUR-denominated.

So explains, "Not all Asian currencies will be serviced by the new standard initially. Those banks handling predominately Asian currencies might be more inclined to connect to SWIFT gpi via their correspondent bank. However, SWIFT gpi's rise to prominence in Asia could still occur once the benefits –particularly its ability to create standards across jurisdictions – become increasingly evident to the region's corporate treasurers and finance officers."

Nancy So
Head of Institutional Cash Sales and Client Management APAC, Cash Management, Deutsche Bank

Certainly, with faster, convenient payment systems the norm in the retail space, corporate clients are likely to start demanding similar from their corporate banking experience. And once the tide turns increasingly toward SWIFT gpi, financial institutions in Asia Pacific may be more inclined to prioritise its implementation.

So concludes, "It may be only a matter of time before pressure mounts on Asian banks to become SWIFT gpi-enabled – which will help drive SWIFT gpi's network effect. With this in mind, banks should look ahead to identify the jurisdictions in which corporates are likely to demand SWIFT gpi, and ensure that they are ready to act accordingly." ■

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