# TRANSFORMATION IN CROSS-BORDER PAYMENTS
# THROUGH SWIFT GPI

**BANK** OF THE **WEST**
**BNP PARIBAS**

## NEW TRANSPARENCY AND CONTROLS ADDRESS LONGSTANDING CHALLENGES IN CROSS-BORDER PAYMENTS

**Day-to-day challenges in managing cross-border payments have long plagued corporates and their banks. The implementation of SWIFT global payments innovation (gpi) is intended to address and alleviate the most pressing of these concerns.**

**The multiyear initiative, being rolled out in stages by the global banking community, addresses many of these issues by improving the customer experience for both sender and recipient. By providing greater end-to-end transparency, as well as improved speed[1] and the flexibility to transmit and cancel payments en route, the new service is a much-anticipated improvement to the global payments landscape.**

**This White Paper provides important background to the challenges facing clients and describes the benefits that SWIFT gpi is intended to deliver.**

## KEY BACKGROUND TO THE CURRENT SOLUTION

For decades, banks have facilitated cross-border payments for their clients. But the process has often been cumbersome and opaque.

"Historically, clients have sent their cross-border payments through a black box, with no understanding of the full cost or the point at which funds would be credited to the recipient," explains Larry Feinberg, Head of Digital Payments, Corp & Commercial Banking, Bank of the West. "Improvements to the cross-border payment experience are long overdue."

Because of the correspondent banking relationships that underlie cross-border transactions, banks and clients alike were confronted with multiple points of friction, costs, and delays. In particular, the clearing and settlement of every cross-border payment involves multiple parties—banks, market infrastructures, and corporates. This has been the source of several pain points in the client experience as well as significant complexity for banks to manage.

### Calls to Action

Over the years, pressure has mounted on banks from clients calling for greater transparency, improved execution, and enhanced self-service. This pressure has also been driven by growth in cross-border trade, massive technological innovations, and global events, which have pulled clients in every segment more heavily onto digital channels. With the unprecedented surge of clients interacting with banks through digital channels, there is a clear need for faster, more data-rich payment products.

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# 4 KEY AREAS OF CONCERN

**❶ Certainty of Transaction**

A primary concern for clients is payment certainty. When a payment reaches the recipient in a timely manner, there are no issues. But exceptions are common and can lead to complexity, high costs, delays, and cumbersome processes. At the core of these pain points is a longstanding lack of transparency in cross-border payments. In cases where a bank or its client needs to know the current status of a payment, they are dependent on operations specialists undertaking manual research to ascertain basic information. "Clients face legal and reputational risk when their vendors are not paid on time. Timeliness and payment confirmation are critical deliverables for our clients," says Meghan Birmingham Leader, Head of Transaction Banking, Corp & Commercial Banking, Bank of the West.

**❷ Predictability of Fees and Exchange Rates**

For clients involved in a high volume of cross-border payments, transaction costs can be significant. Given the historical lack of transparency, clients have not had the visibility into fees. Additional costs can be an unwelcome source of friction between a corporate and its suppliers when intermediary fees are deducted along the payment chain, leading to incomplete payments. Further, exchange rates can be notoriously difficult to manage and confirm, making the true transaction cost nearly impossible to anticipate.
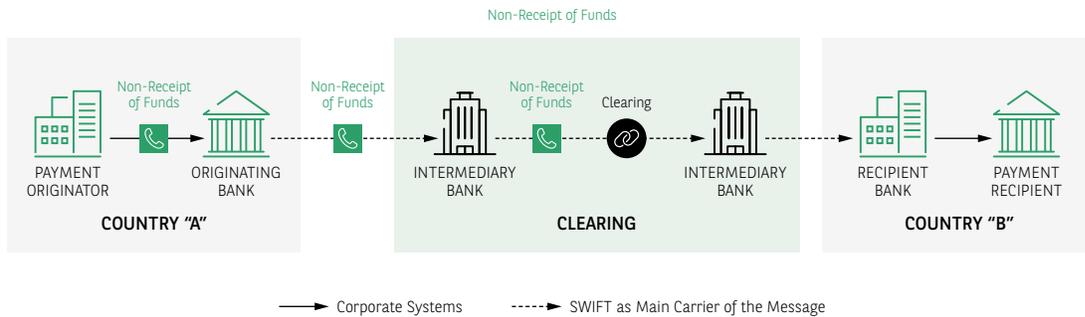
**❸ Transparency of Status and Completion**

In every industry, clients look to their bank to provide transparency on the status of their cross-border payments. While banks are well positioned to handle these inquiries—employing direct messaging with other SWIFT member institutions—this has placed a significant burden on client service teams. Payment inquiries must be directed through correspondent banks, then communicated back to clients to determine any necessary actions. The lack of communication across the value chain creates a high informational cost for banks and their clients, undermines corporate cash flow forecasts, and can strain relationships with a client's suppliers and busines partners when funds are not received as expected.

**❹ Reliability of Speed[1]**

The speed of payments is also especially critical in many cases, most notably during merger and acquisition (M&A) transactions. Delays can be especially costly for high-value payments, and they are challenging to address without the ability to track current status and confirm receipt of funds.

**Previous Challenges Before SWIFT gpi**

Banks have facilitated cross-border payments for decades through an often cumbersome and opaque process. Transaction certainty, predictability, transparency, and reliability were all lacking.

Non-Receipt of Funds

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|---|---|---|---|---|---|
| Non-Receipt of Funds | | Non-Receipt of Funds | Non-Receipt of Funds | Clearing | |
| PAYMENT ORIGINATOR | ORIGINATING BANK | INTERMEDIARY BANK | | INTERMEDIARY BANK | RECIPIENT BANK | PAYMENT RECIPIENT |
| **COUNTRY "A"** | | **CLEARING** | | **COUNTRY "B"** | |

→ Corporate Systems       ⇢ SWIFT as Main Carrier of the Message

**Challenges**

- Credit to the recipient is slow
- No visibility into fees deducted en route to the recipient
- Information is not easily shared among participants
- No transparency into current status of payments

**Causes**

- Lack of rules for faster payment processing
- Source of fees unknown and requires manual research
- Lack of communication among all parties
- Lack of traceability of payment status

## THE INTRODUCTION OF SWIFT GPI

SWIFT gpi is intended to address both the challenges and opportunities that exist in the cross-border payment space.

To align all participating banks, new multilateral service-level agreements outline the business rules governing the operation of gpi services. These rules serve to improve payment speed, increase fee transparency, enable end-to-end tracking, and ensure remittance information is unaltered throughout the payment chain.[1]

## REAL-TIME, END-TO-END TRACKING

Fundamental to the gpi transformation is the gpi Tracker, a cloud-based solution for connecting all parties in the value chain, end-to-end. This multistep capability focuses on improving speed, transparency, and traceability of cross-border wires. More specifically, the focus is on the MT103 SWIFT message used for client cross-border payments.
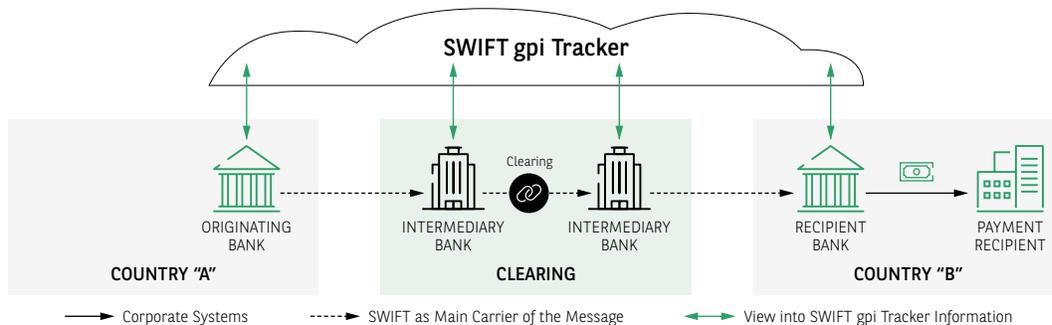
This aspect of SWIFT gpi is built on four core principles:

1. Funds should be available within the same day, provided they're received before the cutoff time of the recipient bank. According to SWIFT: "Nearly 50% of gpi payments are credited to end recipients within 30 minutes, 40% in under 5 minutes, and almost 100% of gpi payments are credited within 24 hours."[2]

2. End-to-end payment tracking and confirmations will be enabled via the gpi Tracker. The introduction of a new, unique end-to-end transaction reference (UETR) makes the tracking experience intuitive to clients. Similar to the way a parcel is tracked in real time and updated with locations, timestamps, and delivery statuses, gpi cross-border wires can also be tracked in much the same way.

3. Transparency of fees is provided throughout the payment chain, including deductions against the payment amount and exchange rates applied. This information is documented in the gpi Tracker and is provided as part of universal confirmations mandated by SWIFT. Confirmations indicate whether a payment has been credited to the end recipient, rejected, or transferred outside of the SWIFT network. As of year-end 2020, all gpi banks were required to send a final confirmation for every MT 103 sent on the SWIFT network.[3] This requirement gives both clients and SWIFT member banks visibility into all in-network transactions.

4. The service will maintain unaltered remittance information sent along the payment chain. This guarantees the integrity of information provided by many clients to direct further payment instructions and make reference to the purpose of payments.

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**Today's Transparency with SWIFT gpi**

Thanks to new enhancements with SWIFT gpi, clients now benefit from improved speed,[1] transparency, and traceability of cross-border payments.[4]



SWIFT gpi Tracker

ORIGINATING BANK — COUNTRY "A"

INTERMEDIARY BANK — Clearing — INTERMEDIARY BANK — CLEARING

RECIPIENT BANK — PAYMENT RECIPIENT — COUNTRY "B"

→ Corporate Systems    ----→ SWIFT as Main Carrier of the Message    ↔ View into SWIFT gpi Tracker Information

**SWIFT gpi Tracker Is Here**

Since the inception of the gpi program, many larger banks have completed the required changes and extended their own gpi services via electronic channels for their clients. For banks, the gpi services are made possible with lower relative investment and improved time to market because they can leverage the existing SWIFT rails as well as the bank's existing payment processing systems.

The enhancements made possible by the gpi Tracker provide end-to-end visibility on a payment's status from the moment it is sent until it is confirmed by the recipient bank. This additional capability benefits both the bank and its clients. Clients are now empowered to view real-time status and fee information about their outbound cross-border wires, rather than relying on the bank's client services team to perform investigations into any payment delays and fees. Importantly, the true cost of any single payment is also easy to ascertain using gpi tracking data.

## STOP-AND-RECALL

An additional deliverable of the gpi program aims to reduce inefficiencies that can lead to higher costs, particularly when investigations are needed. This includes the gpi Stop and Recall service, which enables clients to recall a transaction immediately if an error has occurred or if fraud is suspected.

By allowing clients to electronically request their transactions be recalled, the cancellation process is streamlined and can be confirmed in real time. This can be accomplished regardless of where a wire is in the payment chain, as the recall request—initiated with the original transaction reference (UETR)—will be routed to whichever bank is in possession of the funds.[5] The gpi Tracker—providing end-to-end tracking information to all banks in the payment chain—makes this all possible. Banks are then able to present this information to clients on multiple channels, providing critical and timely information about their clients' cancellation requests.

## THE BENEFITS ARE NOW

Through collaboration with member banks and corporates, the SWIFT gpi program aims to remove the frictions that had persisted in cross-border payments, further develop connectivity with market infrastructures, adopt the data-enriched ISO 20022 messaging standard, and enable more value-added services for clients.

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[1] We and any bank in the payment chain reserve the right to reject, impose conditions on, cancel, delay or suspend any instructions to initiate any funds transfer.

[2] Swift.com. The digital transformation of cross-border payments. <https://www.swift.com/our-solutions/swift-gpi/about-swift-gpi/fast-transparent-and-trackable-payments#:~:text=SWIFT%20gpi%20lets%20you%20make,are%20credited%20within%2024%20hours>

[3] Swift.com. Unlocking payment confirmations for all. <https://www.swift.com/our-solutions/global-financial-messaging/payments-cash-management/unlocking-payment-confirmations>

[4] Tracking information and payment confirmations are reported as provided by other gpi members processing a SWIFT wire. This information may be incomplete in cases where a payment is processed by a non-gpi member.

[5] This service routes a request for cancellation of an outbound wire to the bank currently in possession of the funds. The request may be declined at the discretion of that bank.