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Cross-border payments evolution: common standards & public/private cooperation

The world of cross-border payments is changing. While there have been developments over many years and through many generations of technology the market continues to evolve. Viewed as an ecosystem, crossborder business involves not only the payer and payee but correspondent banks, domestic market infrastructures, service providers and vendors. It's a complex web of interconnected systems, standards and practices that evolved slowly and often in isolation, and that now work together.

Many small differences across the system in terms of data and data formats lead to automation breaks, loss of data and delay. In many cases, these legacy data formats were optimised to minimise size and processing complexity, constrained by the technology of the day. However, the environment for payments has become much more demanding, with customers expecting real-time experiences, and regulation demanding complex sanctions screening and AML measures.

As highlighted in CPMI's recent report, the overall system needs to be modernised to address new needs.

But this poses a dilemma: reform too slowly and risk disruption from new technology or models, at least for major corridors; reform too quickly and risk fracturing the existing system, which provides unparalleled access in terms of markets, currencies and accounts.

Finding the right balance will require coordinated action from public and private sectors. In the private sector, the SWIFT community has so far taken an evolutionary approach, its gpi initiative building on existing standards and protocols to provide transaction tracking and other modernisations. Another welcome development, already well in hand, is the industry's convergence on a common modern data standard across all the major components of the ecosystem, embracing both public and private sector. ISO 20022, which is already the de facto choice for new or refreshed market infrastructures, from November 2022 will also be adopted for cross-border payments.

Consistent shared data end-to-end, between customers, banks, MIs and service providers, addresses today's fragmentation and its inherent risks, enabling higher automation rates, more effective compliance processing, and richer contextual data benefiting payment system users.

For cross-border flows, SWIFT will deploy new technology to ensure banks can move at their own pace to adopt ISO 20022, while maintaining community interoperability and ensuring the integrity of payment data. Public sector implementers can accelerate the realisation of these benefits, by cooperating to harmonise local implementations with their international peers. Regulators can also help by taking advantage of the convergence of transaction data models to harmonize AML/CFT standards.