

## The Future of Correspondent Banking and Cross Border Payments

- Harry Newman, SWIFT
- David O’Riordan, Allied Irish Banks, p.l.c.
- Andreas Rade, Landesbank Hessen-Thüringen
- Marc Recker, Deutsche Bank

Moderator: Javier Santamaría, European Payments Council

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## Tenth survey on correspondent banking – 2016 – ECB-Eurosystem

- *“...top players on the correspondent banking market have remained the same.”*
- *“...a decrease of almost 10% in loro account turnover since 2014, as well as a decrease in the number of customers and in the average size of transactions.”*
- *“One main reason for the decrease in correspondent banking activity is the increased compliance costs associated with regulatory requirements, specifically those related to Know Your Customer (KYC) and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) procedures...”*
- *“The decrease in correspondent banking turnover and activity overall could also be explained to some extent by the completion of the SEPA migration...”*
- *“... to maintain only those correspondent banking relationships where the business returns justify the cost of investment and where risks can be well-identified and managed.”*

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- *“...a tendency for relatively small banks to have decreasing correspondent banking activity, while larger banks [...] are maintaining or even enlarging their customer base.”*
- *“...a stable or increasing turnover for the largest banks in the surveys (with very few exceptions).”*
- *“...constant decrease in the number of banks participating in the ECB’s surveys and with the higher concentration ratios in the correspondent banking market.”*
- *“...some banks expect an increase in activity due to higher customer numbers and sales of services, while others suggest the opposite, due to an environment of high regulatory burden and limited risk appetite.”*
- *“...an expected increase in competition from fintech companies offering digital solutions. Moreover, smaller banks might enter correspondent banking arrangements in order to avoid the costs and requirements of direct participation in payment systems.*

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SWIFT



Javier Santamaría  
Chair EPC (indp)



Marc Recker  
Deutsche Bank

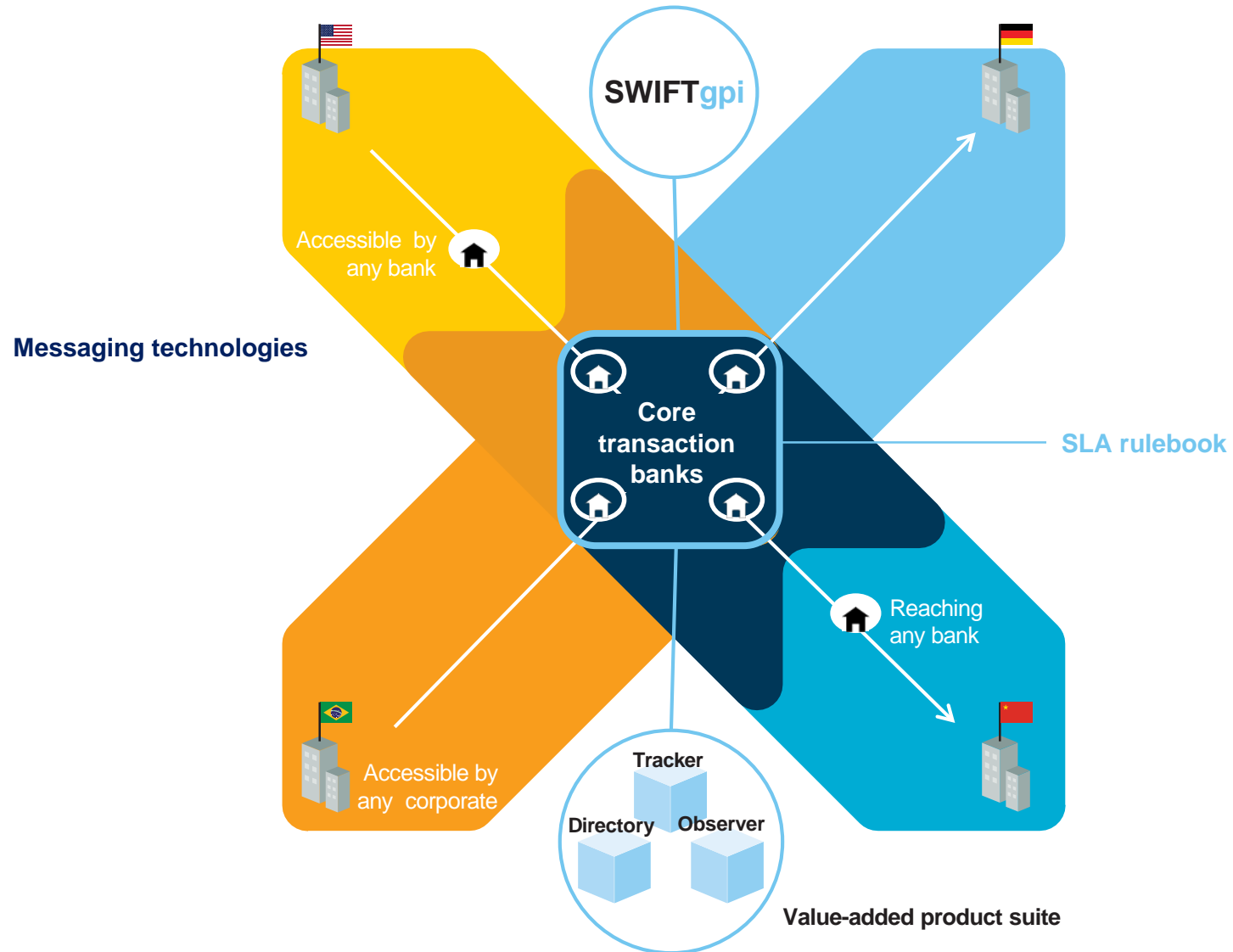


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Andreas Rade  
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# Time for SWIFT gpi – correspondent banking reinvented



# Age of discovery or discover we aged?!

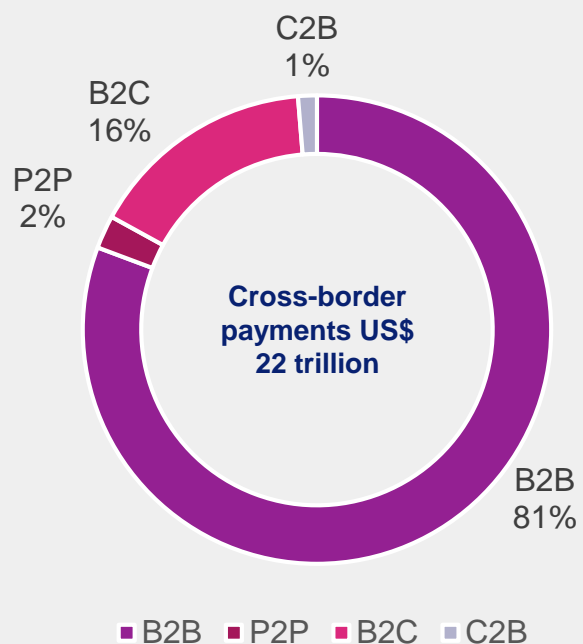


# Continued growth in Cross Border Payments – Is Correspondent Banking model fit for purpose?



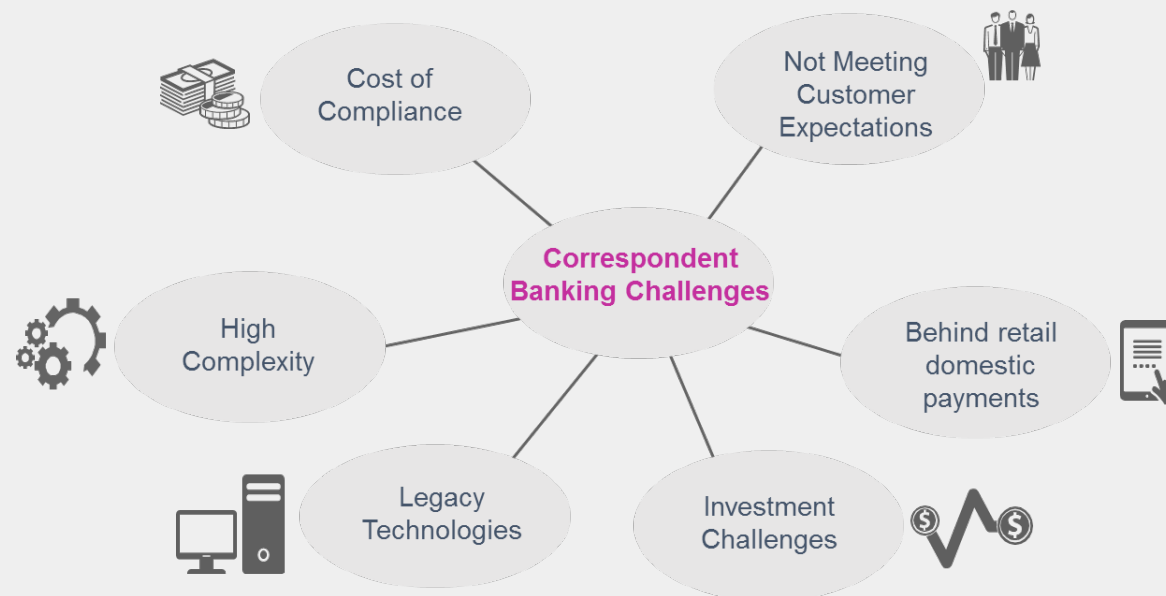
## Growth in Cross Border Payments

- Globalisation driving 'borderless commerce' (business & consumer)



Source: EY Payments Insights (2017)

## Fit for purpose?



# Correspondent Banking – The Current Customer Perspective



## Customer Experience Today

Customer Experience Dimensions	Correspondent Banking
Speed	1
Price	1
Security and Compliance	5
Transparency & Predictability	2
Convenience & ubiquity	2
Openness & Inclusivity	4



## Customer Expectations



- ✓ Cross border needs to match retail (domestic) experience – speed/convenience/low cost/transparency
- ✓ Customers indifferent as to HOW the industry facilitate their transactions (once their needs are met)
- ✓ “Innovation needs to start with the customer need”

Source: McKinsey – Rethinking Correspondent Banking (2016)



# As we look to the future...



1

The payments industry needs to radically change in order to transition to an instant cross border customer experience to facilitate global commerce

2

By 2020 Real-time domestic Payments schemes will be in place globally. How can Cross-Border payments respond?

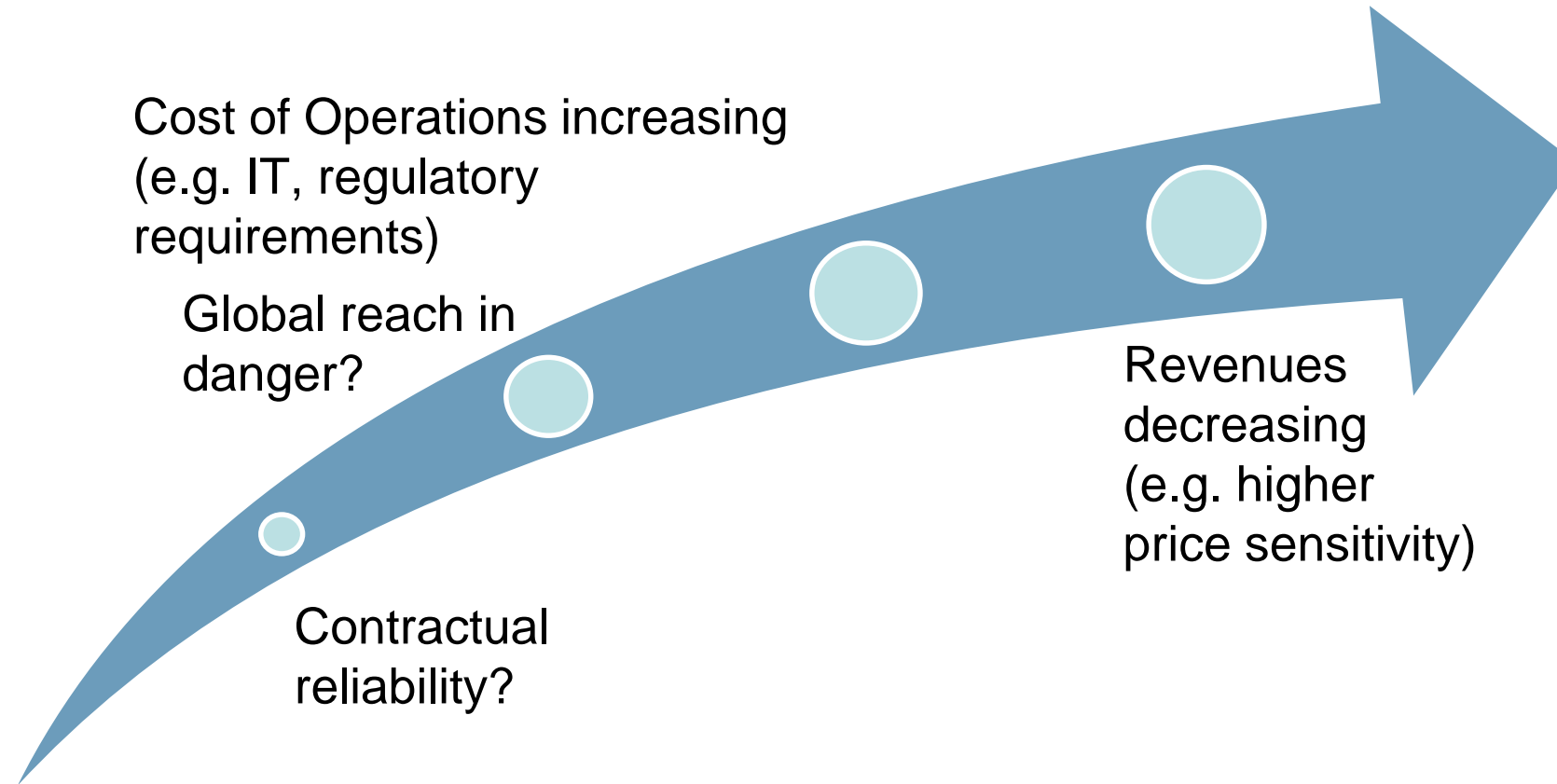
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Collaboration is key amongst the Regulators, the Banking sector and Technology enabled players to exceed customer expectations

## I. Recent developments

- Increasing regulatory requirements
  - Sanctions, compliance, due diligence
  - PSD2
- Stronger focus on clearing mechanisms / ACH settlement instead of account relationships
- New clearing initiatives (e.g. instant payments)
- Market players exiting the correspondent business or specific products
- Reduction in RMA relationships and correspondent accounts

## II. Current situation and topics



- Smaller banks in need for institutions acting as clearing hub
- Continued focus on clearing systems and common initiatives
- Indirect access opportunities required
- Avoidance of redundant services
- Chance of co-operation with e.g. FinTechs and PSPs

## III. Future trends

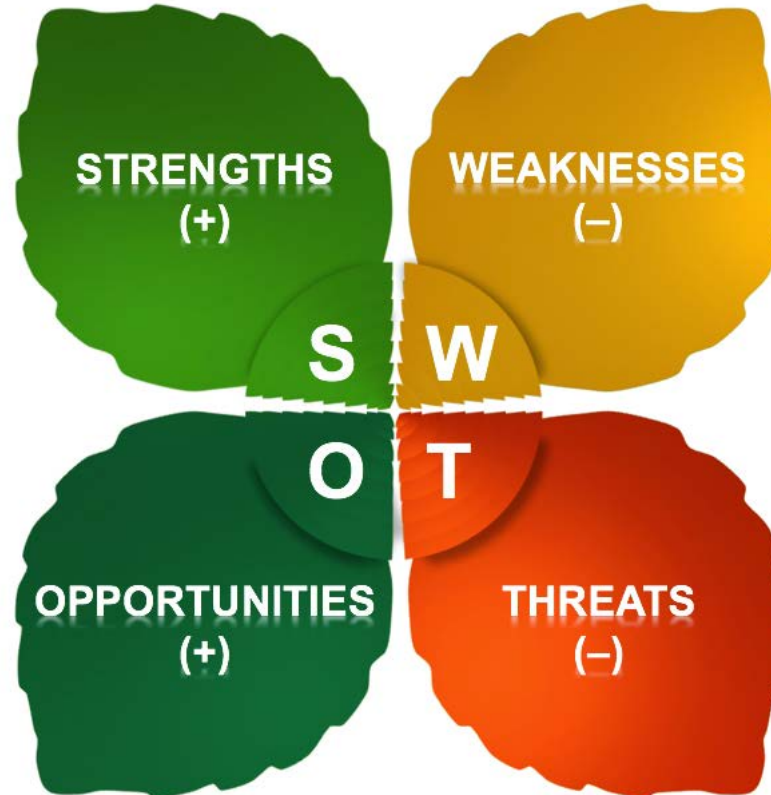
- “Finally there is a real-money transfer from A to B.”
- Clearing hubs with indirect access functionalities
- Big variety of FinTech / PSP services entering the market
- Increased transparency
  - Required by regulation
  - Requested by market
- Joining forces with FinTech / PSP providers
  - Maintaining the existing service level
  - Enhancing client’s experience
  - Identification of relevant services and their providers
  - Delivery of accepted (additional) services

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# The Future of Correspondent Banking and Cross Border Payments

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Question Marks



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Stars



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Cash Cows



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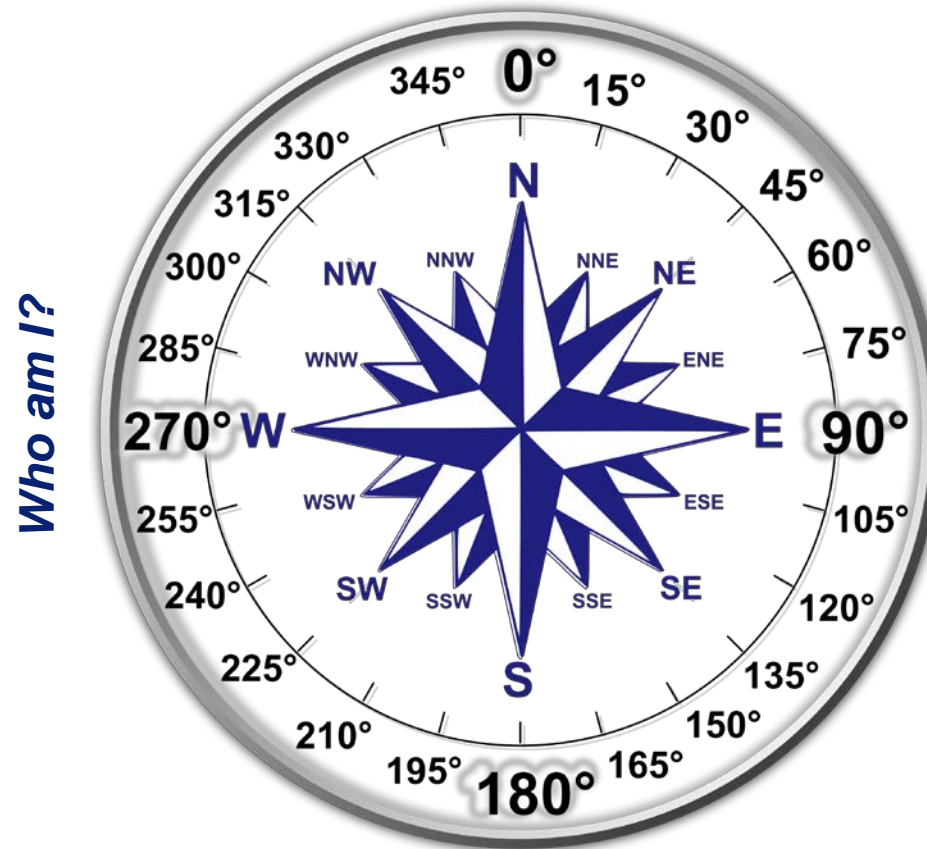
Dogs

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*Where am I going?*



*What is my purpose?*

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*Where do I come from?*

## Thank you to speakers

- Javier Santamaría, Chairman, European Payments Council
- Harry Newman, Head of Banking, SWIFT
- David O’Riordan, Head of Payments, Cards and Treasury Services, Allied Irish Banks, p.l.c.
- Andreas Rade, Director, Network Management & Sales Payment Services – Banks, Helaba
- Marc Recker, Head of Market Management, Institutional Cash Management, Deutsche Bank