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A GOLDEN WINDOW OF OPPORTUNITY FOR CROSS-BORDER REAL-TIME PAYMENTS

Insights by Daniel Mayhew, FIS' senior vice president, cross-border payments

It has never been more important to remove the barriers to trade by building open, sustainable and instant payment services across the globe.

Since the 1970s, money has been transferred internationally on legacy inter-bank cross-border payment rails. However, in a global banking world where trade is borderless, routing cross-border payments using traditional mechanisms is not always the right solution for today's "always-on" world.

Removing barriers to international trade is essential for corporate success, and the time has come for payment service providers and central banks to support the cross-border growth of businesses around the world. The need for a new, modern, open network that includes banks, corporations, financial institutions, merchants and fintechs is no longer just nice to have; it's mission critical.

A closed loop in an open world

Because cross-border payments involve bridging the closed loops of multiple currency and domestic payment systems and the complexities presented by the world's many regulatory jurisdictions, they are inherently more challenging to resolve than domestic ones.

Non-real-time cross-border payments take a day or more to reach their destination, only happen during business hours and have cut-off times or deadlines. At initiation, the exchange rate can be unknown and transaction fees vary. Payments may be routed through many banks before reaching the destination, causing further delays and fees. Unless it is a repeating payment, current methods don't even guarantee certainty that the payment is valid for the destination account.

Because of these limitations, payment providers are demonstrating the need for alternatives, as evidenced by the investment dollars that are now dedicated to cross-border initiatives. Not only does such an alternative stand to improve availability of liquidity, visibility and capital risk ratio, screening would drastically improve with real-time capability. The COVID-19 pandemic has further accelerated the reality that real-time digital payments that can move money globally aren't a luxury; they're fundamental to our entire financial ecosystem.

Remove barriers to international trade to support the much needed cross-border growth of businesses around the world; we all need to support one another and play our part.



Ecosystems – compete, collaborate and co-invent

The future is open. The future is for everyone. The future is multi-ecosystems. It is worth stressing that modern ecosystems are not monoliths, they are more like constellations; there is not one box that does everything for everyone. Instead, ecosystems are built on interoperability between stakeholders, with multiple roles to play for banks, fintechs, regulators, merchants and corporations, at different parts of the value chain. The goal is self-supporting ecosystems that empower all parties to sell globally and give everyone a piece of the action. Participants need to understand their position and not forget that they are part of larger ecosystems, not the owners of them.

Several cross-border payment services have been launched over recent years; Ripple, SWIFT gpi and other providers have made considerable inroads into the slow and unreliable correspondent banking networks. In parallel, fintech disruptors such as Revolut, TransferWise and Starling Bank are successfully winning market share from incumbents with simple-to-use, competitive cross-border and domestic payment offerings. SWIFT gpi has rapidly become the standard mechanism within the network for cross-border payments. More than 60 percent of all cross-border payments on SWIFT now travel via gpi, representing more than \$300 billion USD in daily value; half of these gpi payments reach their destination within minutes, and nearly all within 24 hours. While blockchain-based services like Ripple allow banks to facilitate transfers without the need to hold correspondent relationships abroad, they must contend with the regulatory implications of their business model in multiple jurisdictions. By contrast, SWIFT can operate from a trusted position as a legacy system.

Opening up real time to interoperability

Markets are primed and ready for a total refresh in cross-border payments in the form of a new, open network for all types of payment stakeholders that can move money instantaneously, with improved traceability.

Domestic markets already promote real-time services but achieving interoperability in cross-border is the core issue. To address it, central banks need to embrace the opportunity to cooperate by answering fundamental questions like “how could the United Kingdom’s Faster Payment scheme and infrastructure “talk” to the RTP scheme in the United States?” or “how could Australia’s real-time payments payment platform NPP feed directly into Germany’s SCT Inst.?” These questions can play a critical role in ensuring that the friction and pain points of cross-border payments are removed. If all parties commit to cooperating, international markets will get a new opportunity to flourish.

In some parts of the world, this has already been accomplished. Thailand, Malaysia and Singapore, for example, are showing the way as their central banks work together to enable a real-time payment service across the Malay peninsula. P27 in the Nordics is an imminent multicurrency service for cross-border payments between Denmark, Finland and Sweden made possible by central banks interconnecting; Australia, France and India are also making moves in this direction.



The European Payments Initiative (EPI), with the support of 16 banks in five countries, will offer a unified pan-European payment solution leveraging SEPA Instant Credit Transfer (SCT Inst), that includes a card for consumers and merchants across Europe, a digital wallet and P2P payments. The solution aims to become a new standard means of payment for European consumers and merchants in all types of transactions including in-store, online, P2P and even for cash withdrawal. In addition to existing international payment scheme solutions, EPI promises to rival credit card giants and tech companies including Google, Apple, Alipay and WeChat Pay.

The future is open: Modern multi-ecosystems are not monoliths; they are more like constellations.

At the crossroads – go open or closed?

Whether domestic or cross-border, the goal for real-time payments is to become ubiquitous for all users in all use cases, irrespective of destination.

By providing the most efficient route for the customer when trying to execute the payment, the current growth of cross-border, real-time payment providers is a major step toward this goal. However, there are still two possible destinations for cross-border real-time payments: to remain in a series of closed loops or open across markets to respond to real-time needs worldwide. Our vision is certainly the latter, and we are strategically focused on building the network of networks that will propel real-time payments further forward.

LET'S ADVANCE THE FUTURE TOGETHER.

Download your copy of **FIS' Flavors of Fast 2020** report today for more exclusive insights and industry insider commentary on the global real-time payment trends that are driving money movement now, and into the future.

About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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