

CLACE 2012

XXVIII Latin American Conference on Foreign Trade

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# Trends & fundamental changes in cross border payment flows

*CLACE 2012*

Chris Conn

*Banking & Corporate Initiatives*

*SWIFT Americas*

## Agenda

- **Market trends**
- How banks are responding
- Latam traffic trends
- Where do we go next?



# Correspondent Banking is an attractive business..

**Correspondent banking** = payments, cash management and trade services, provided by banks to customers via other banks

## Sizeable

Payments generated USD 590 billion revenue in 2010

## Growing

Global payments volumes forecasted to grow 9% per year through to 2020

## Margin potential

Cross-border payments: 2.5% of volume & 10% of revenue in 2010, set to increase to 3.5% of volume & 16% of revenue by 2020

## Low capital required

Fee and commissions based revenue stream

## 2. Regulation and new market forces put pressure on profit

<b>Regulation</b>	Compliance cost: \$10 – 300 million per institution E.g. AML industry cost in 2011: \$5 billion, +7.9% per year
<b>Economic shift</b>	Multi-polar economic and currency system 70% of payments volume growth will come from Asia and emerging markets
<b>Interbank competition</b>	In mature markets, banks will compete more fiercely for the 'juiciest' clients
<b>New entrants</b>	PayPal, Google and telcos changing customer expectation Money transfer operators moving up-market

# Competition is getting more intense

## Customers

- Want more for less!

## Banks

- Competing more intensely for same customers

## New entrants

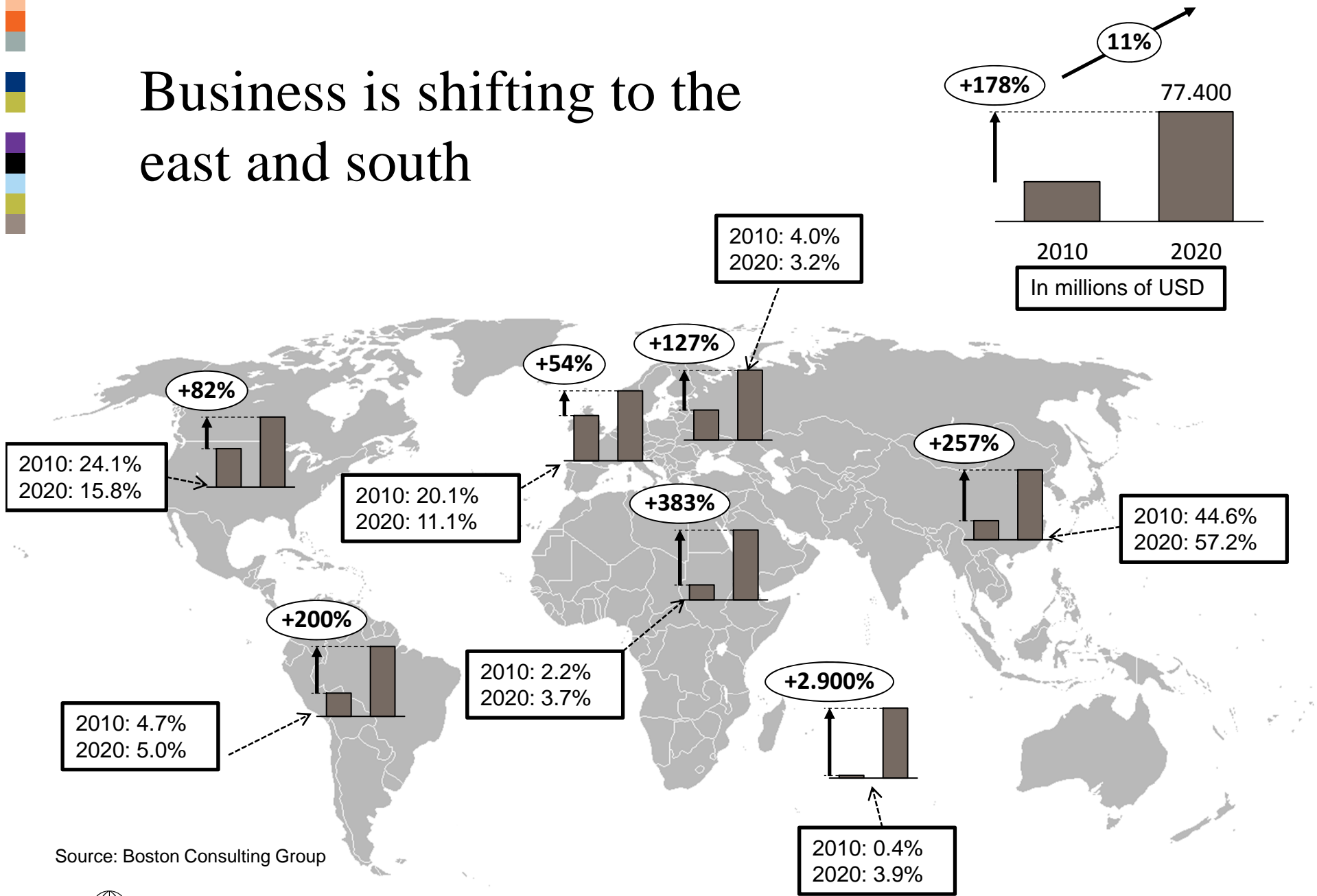
- Entering market and driving expectations

## Legacy

- Systems and processes inhibit rapid innovation



# Business is shifting to the east and south



Source: Boston Consulting Group



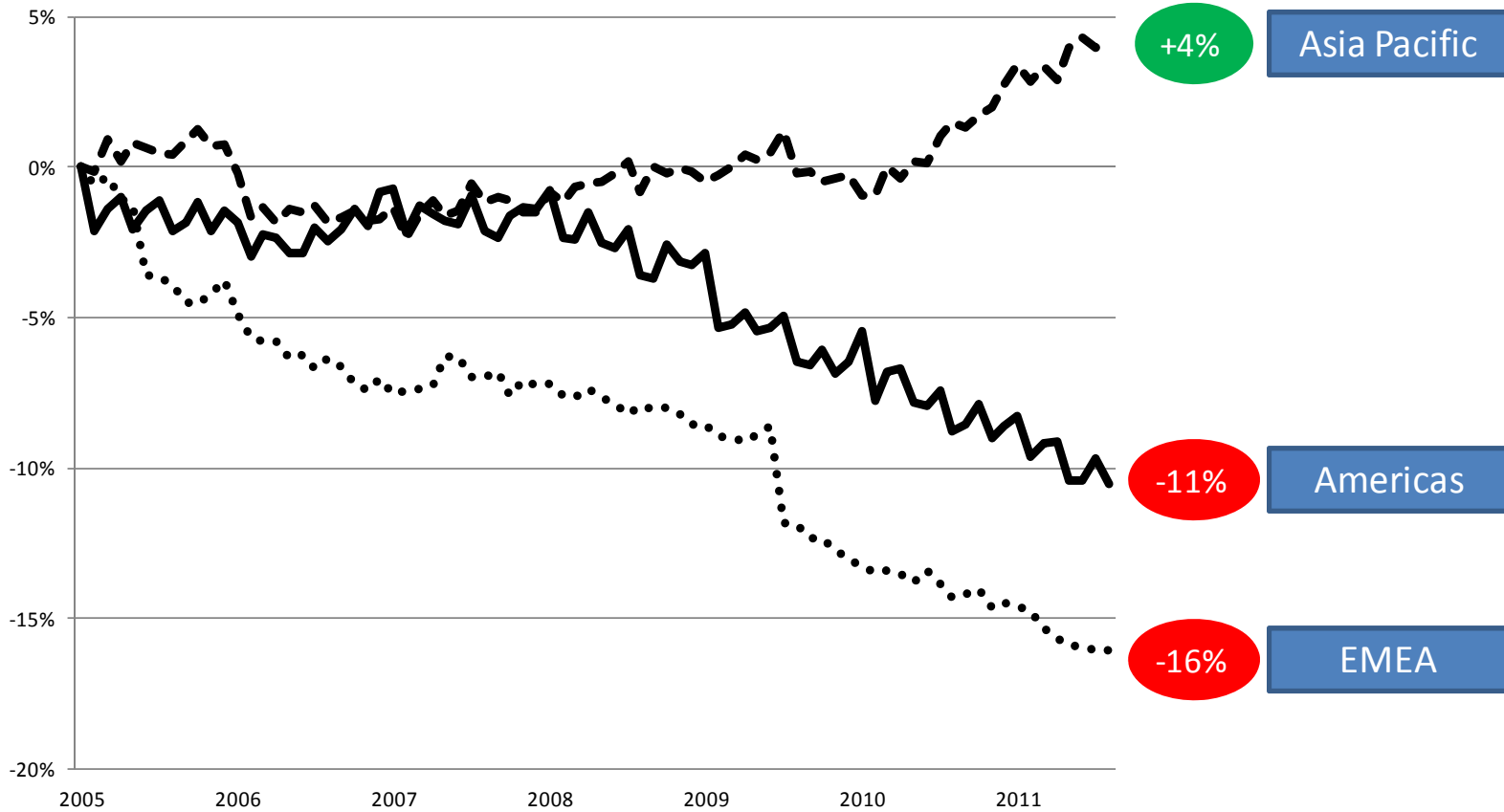
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## Top-80 payments banks reduce nostro relationships in EMEA and Americas



Source : SWIFT Traffic Watch: Interbank Statements (MT950); average number of nostro relationships





# Within banks, change is happening but in itself not sufficient

## Strategic realignment with the business

- Focus business and customer activities
- Understand segment strengths
- Market right products, weed out non-performing
- Move product expertise closer to clients

## Fewer but deeper relationships

- Rationalise nostro network (expand in Asia Pacific)
- Concentrate volume on fewer partners
- Evolve reciprocity to deeper partnership

## More, pro-active performance management

- Monitor financial and compliance risks in the network
- Monitor multiple business lines within each relationship
- Monitor performance across correspondents
- Align operations, eg route payments consistent with business strategy

# But significant barriers to change remain

Compliance burden increasing

Inconsistent service quality from correspondents

Difficulty to drive out new product and service features

## Agenda

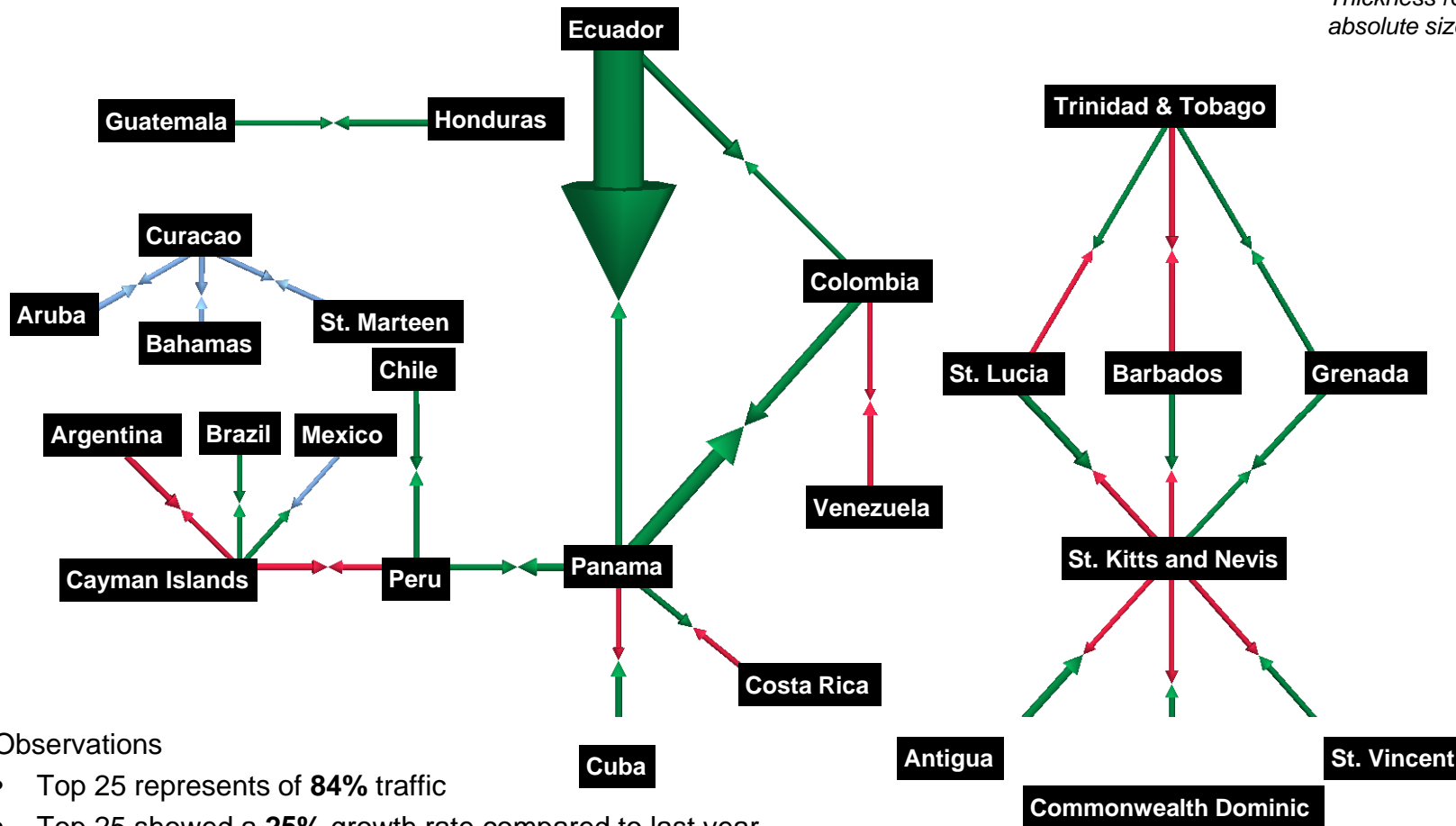
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# Top 25 Intra LATAM payment corridors

May 2010– Apr 2011 vs. May 2011 – Apr 2012  
 MT103 and MT202, Live, Cross-Border, excluding MI traffic

**RED** = decrease  
**GREEN** = increase  
*Thickness represents absolute size of flow*



## Observations

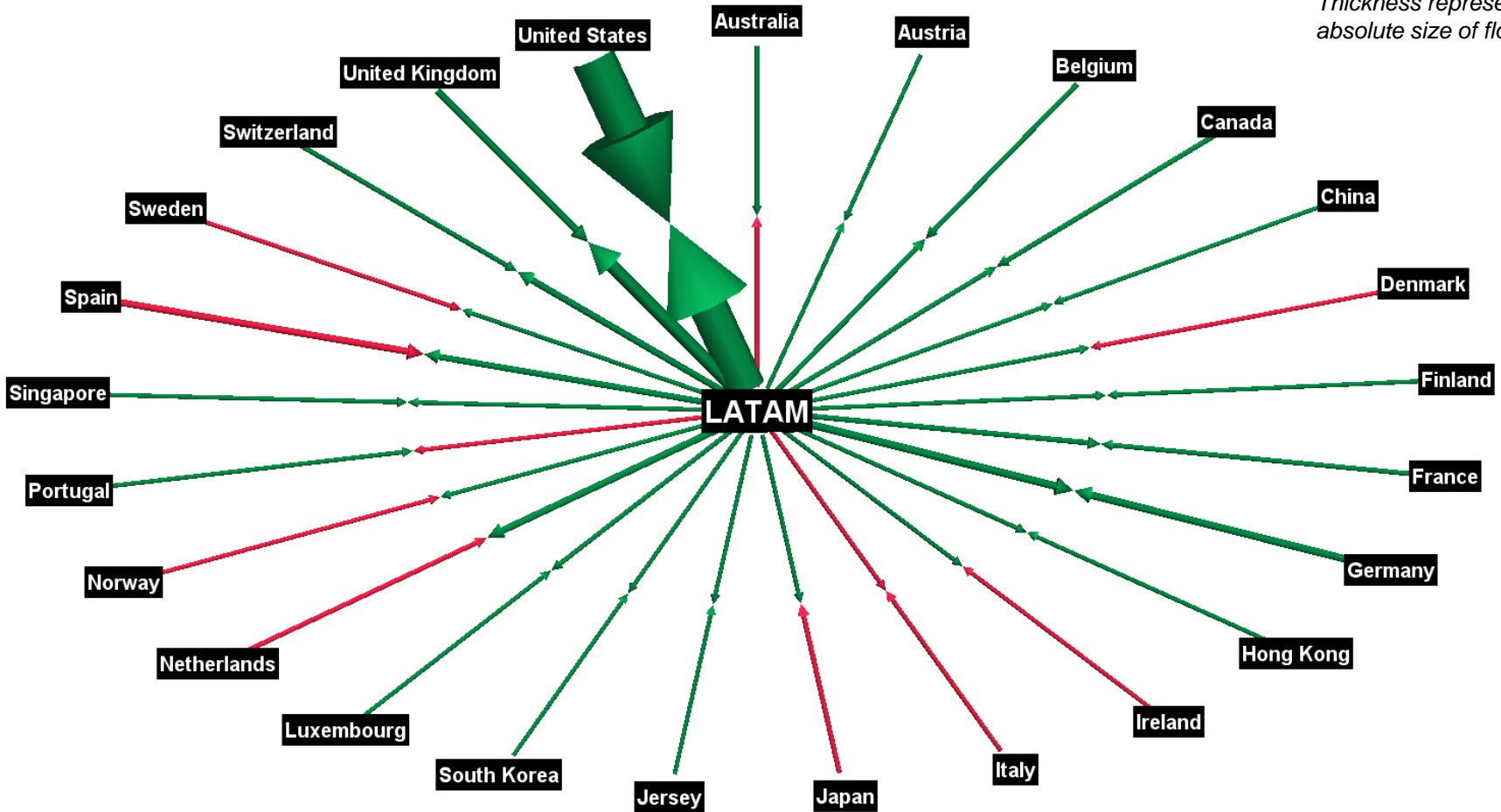
- Top 25 represents of **84%** traffic
- Top 25 showed a **25%** growth rate compared to last year
- Where is Brazil?
- Where is the majority of Intra LATAM traffic, proprietary networks?



# Top 25 Inter LATAM payment corridors

May 2010– Apr 2011 vs. May 2011 – Apr 2012  
 FIN Cat MT103 and MT202, Cross-Border, excluding all MI traffic, live

**RED** = decrease  
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- As of April 2012, top 25 equals **99.8%** of traffic sent and received
- Nr. 1 trading partner USA is good for **66.2%** of total traffic
- Top 25 grows by: Sent **14.5%** Received **9.5%**

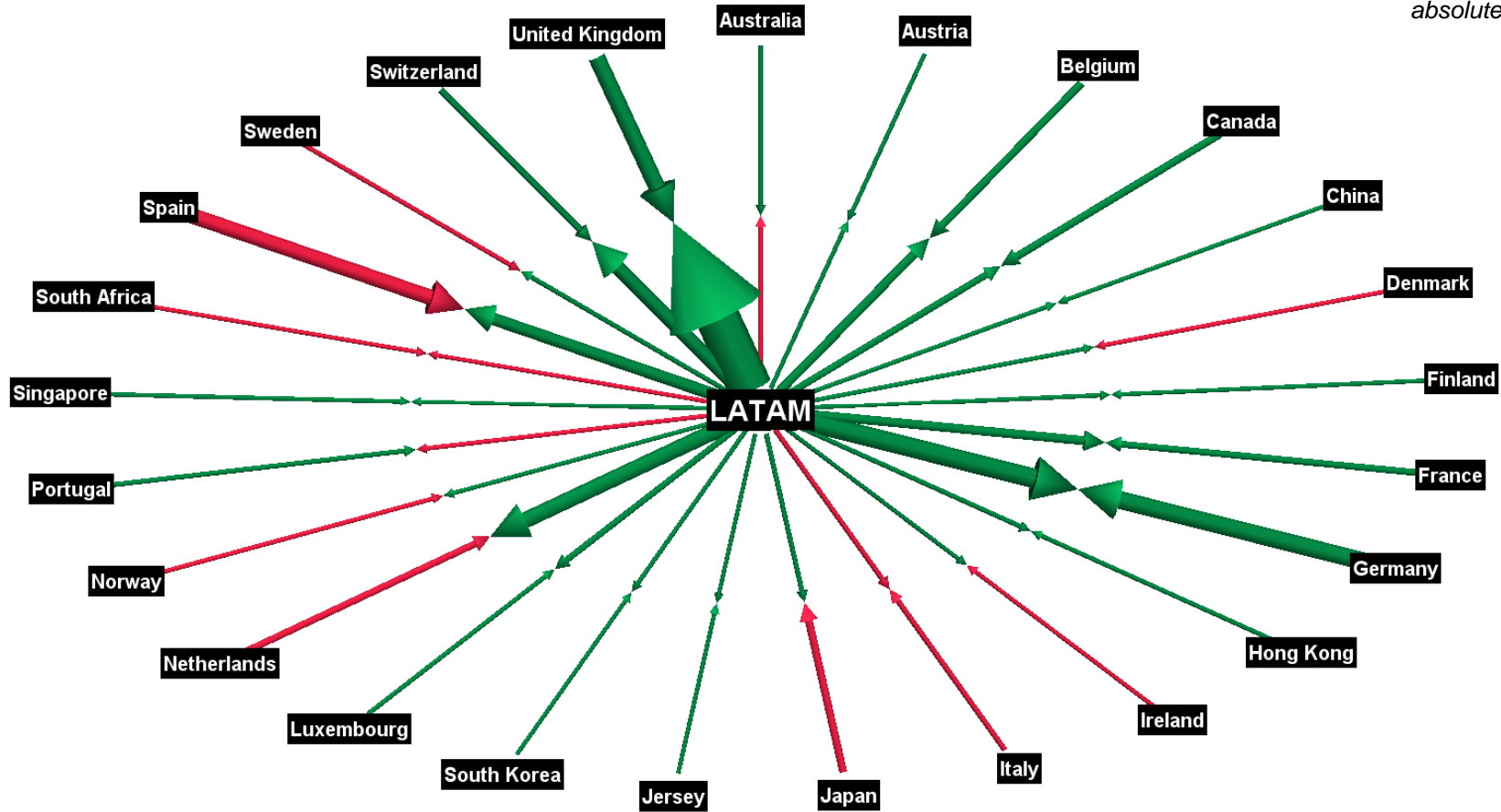




# Top 25 Inter LATAM payment corridors excluding USA

May 2010– Apr 2011 vs. May 2011 – Apr 2012  
MT103 and MT202, Cross-Border, excluding all MI traffic, live

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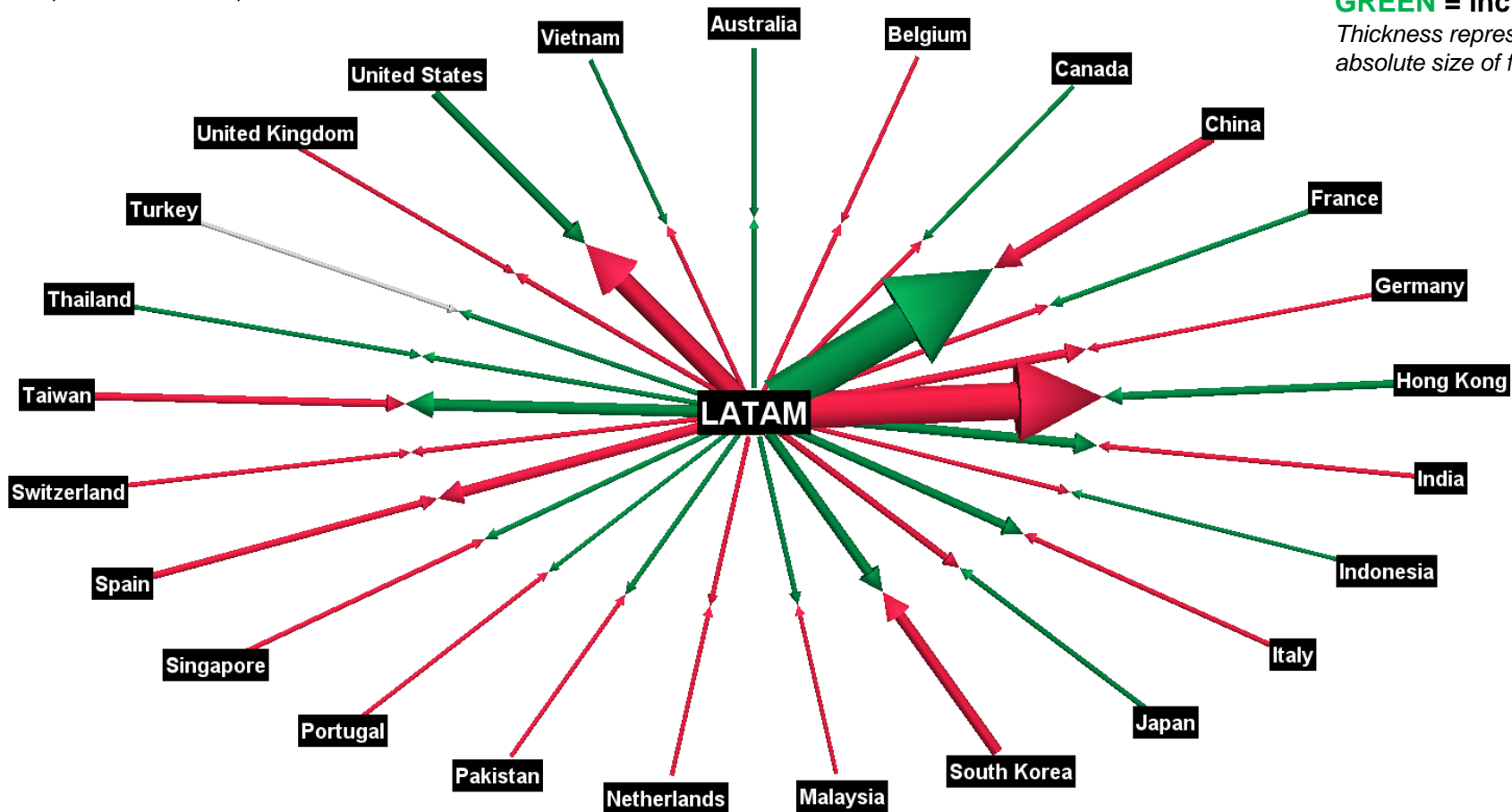




# Top 25 Inter LATAM Letter of Credit corridors

May 2010– Apr 2011 vs. May 2011 – Apr 2012  
MT700, Cross-Border, live

**RED** = decrease  
**GREEN** = increase  
*Thickness represents absolute size of flow*



- As of April 2012, top 25 equals **96.4%** of Letters of Credits sent and received
- Development of Letters of Credit stagnated between 2011 and 2012



# Liquidity, risk and regulation

May 2010– Apr 2011 vs. May 2011 – Apr 2012

Live, Cross-Border, Excluding MI traffic, Market = LATAM

Intraday Reports		Volume May '10-Apr '11	LATAM Growth	World growth	LATAM share May '11-Apr '12
<b>Sent</b>					
MT900	Confirmation of Debit	1,167,705	34.1%	12.70%	2.04%
MT910	Confirmation of Credit	631,330	27.8%	7.30%	0.80%
<b>Received</b>					
MT900	Confirmation of Debit	2,669,497	12.4%	12.70%	4.67%
MT910	Confirmation of Credit	3,417,096	11.1%	7.30%	4.35%

## Observations:

- Relative slow growth in confirmations of Credit received
- Considerably outperforming world growth in Statement sent and Customer Statements received

Statements		Volume May '10-Apr '11	LATAM Growth	World growth	LATAM share May '11-Apr '12
<b>Sent</b>					
MT940	Customer Statement	8,752,297	20.3%	11.50%	4.59%
MT950	Statement Message	2,071,852	42.9%	7.30%	1.44%
<b>Received</b>					
MT940	Customer Statement	2,856,450	53.9%	11.50%	1.50%
MT950	Statement Message	3,048,997	5.8%	7.30%	2.12%






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# SWIFT thought leadership in banking



**Managing liquidity risk**

White paper


March 2010



**Managing liquidity risk**

Industry pain points


June 2010



**Managing liquidity risk**

Collaborative solutions


August 2011



**RMB internationalisation**

White paper


September 2011



**SEPA end date**

White paper


September 2011



**Correspondent banking 3.0**

White paper

January 2012



**Mobile payments**

White paper

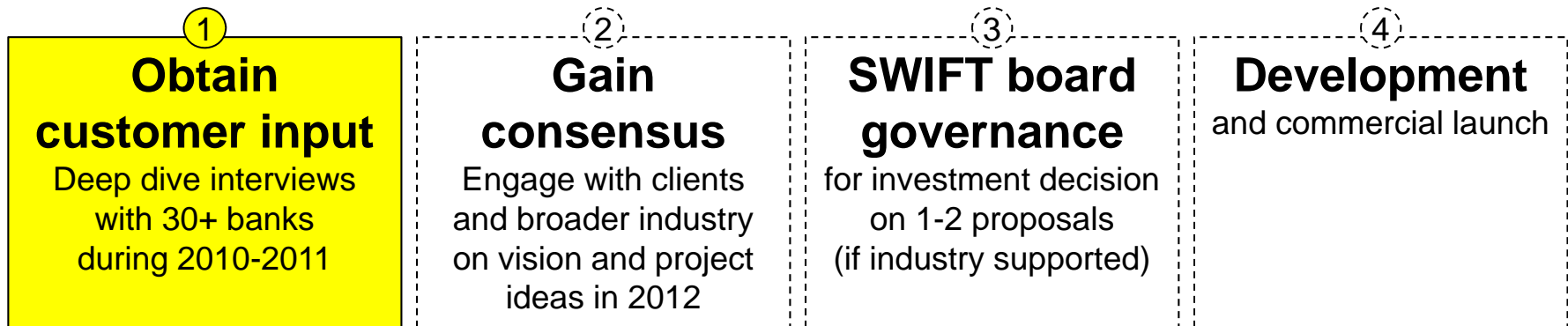
May 2012

# Objective and approach

Objective

Together with the industry, develop a **vision** for the future of correspondent banking, underpinned by **new collaborative services** that enhance our banks' business

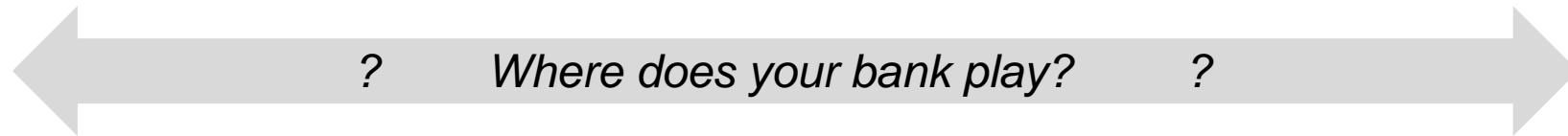
Approach



# White paper – our thinking in 6 steps

1. Correspondent banking is an attractive business
2. But regulation and new market forces put pressure on profit
3. Changing the current model is necessary but not enough
  - 1.0 (mid 1970s) = automate the telex, with many correspondent banks
  - 2.0 (late 1990s) = more efficiency, global transaction banking
4. Leading to a new vision for 3.0: ‘experience banking’
5. Underpinned by new collaborative projects
  - Ideas for discussion proposed in the white paper
    1. Enhanced business intelligence services
    2. An interbank EBAM service
    3. A bank-owned global service for P2P payments, mobile enabled
    4. An international MI to reach many small banks
6. Call for action
  - Let’s discuss, to gain consensus on vision and projects
  - Purpose: develop 1 or 2 new collaborative services

# A new vision for 3.0: experience banking



Mid 1970s

**“Automate the telex”**

Banking community created SWIFT

- Long list of correspondents is sign of importance
- Banks do T/T & wire transfers, between application islands
- Main payments flow: EU - US



Late 1990s

**“Make it more efficient”**

Each bank improved its product

- Do ‘on-us’ first, created MIs, smaller relationship network
- Central product & operations, GTB - managed as a business, market + business intelligence
- Main payments flow: US -> CN



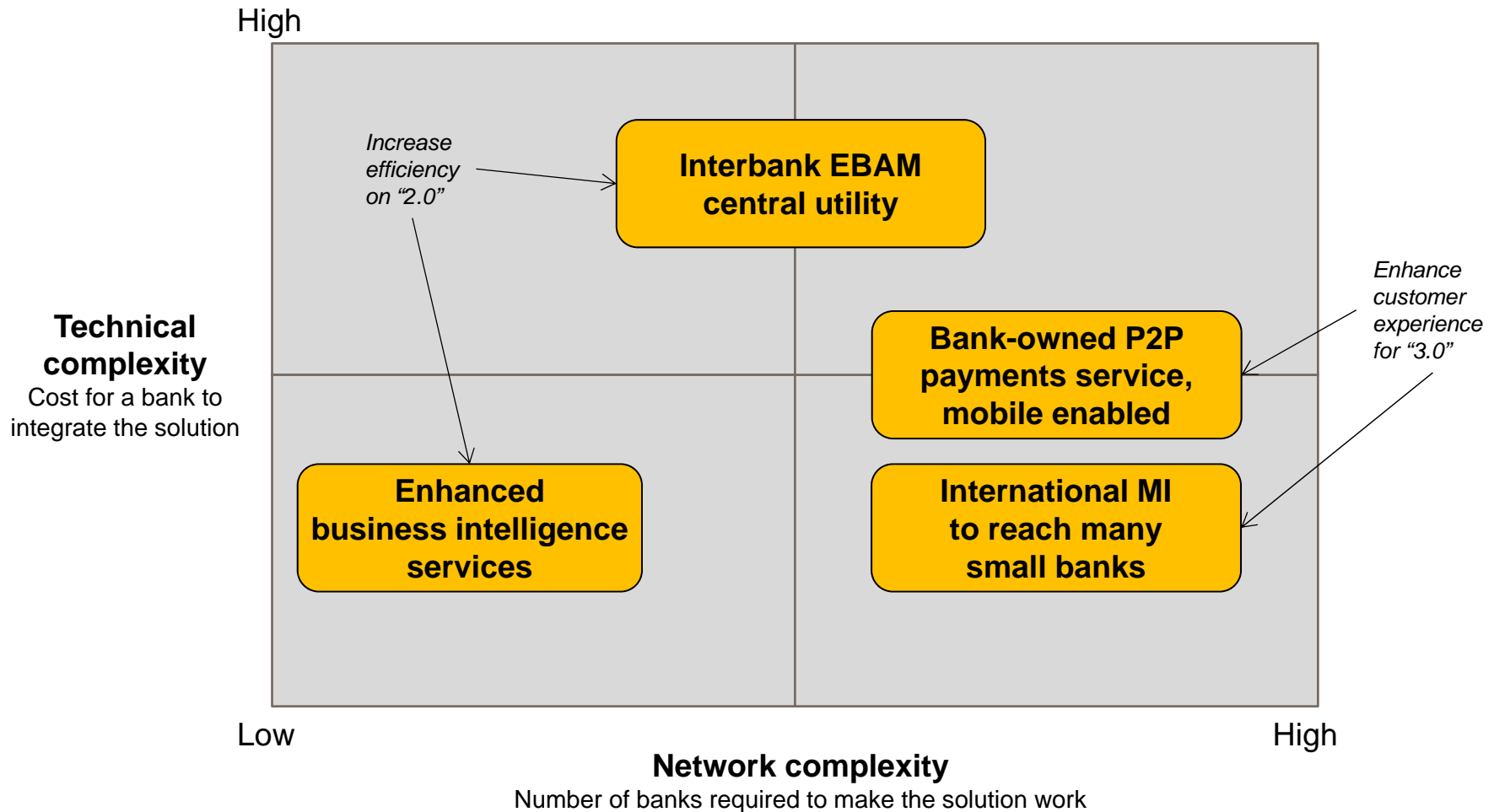
Mid 2010s

**“Banking made simple”**

Customer triggers banking service

- Integrated with client channel and customer service provider
- API into new/outsourced core platform + 3<sup>rd</sup> party solutions, consumer intelligence
- Multi-polarity, more in Asia

# New collaborative project ideas



## Call for action, and next steps

Let's discuss, to gain consensus on vision and projects

Purpose: develop 1 or 2 new collaborative services

Any investment decision will follow SWIFT governance process



What do you suggest?







# Thank you

Learn more about SWIFT's traffic reports at  
[http://www.swift.com/business\\_intelligence](http://www.swift.com/business_intelligence)

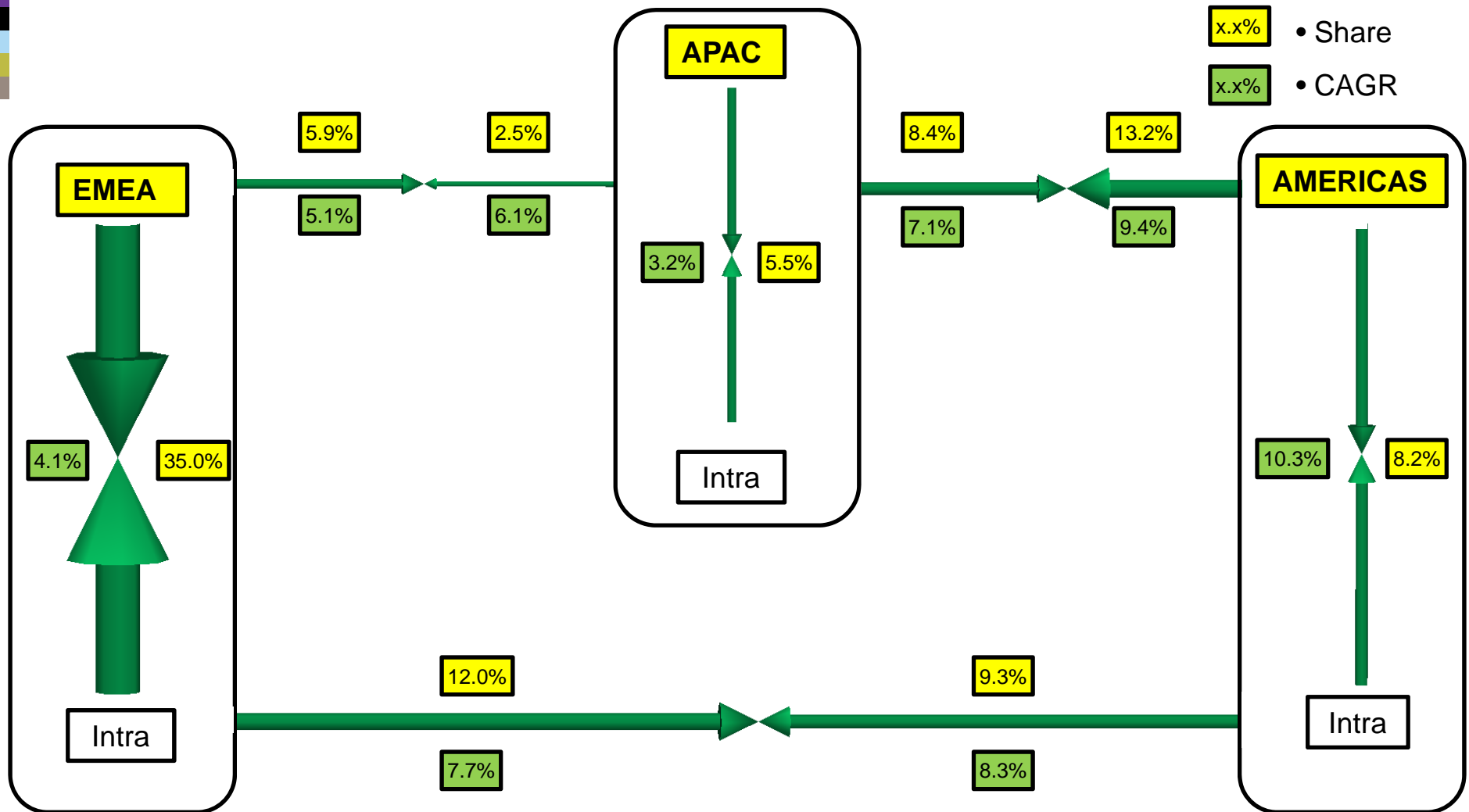


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# General traffic developments, across the regions

MT103, live-traffic, Excluding domestic traffic, FI to FI traffic, YTD April 2012 vs. YTD April 2006



# Top 20 LATAM payment countries

Swift HVP system  
live

May 2010– Apr 2011 vs. May 2011 – Apr 2012

MT103 and MT202, Live

Top-20 countries	Sent	Growth	% Domestic		Received	Growth	% Domestic
Chile	3,957,860	15.5%	71.4%		3,426,714	17.0%	82.5%
Mexico	3,471,776	15.5%	3.2%		4,192,820	14.0%	2.7%
Brazil	2,747,924	8.0%	1.9%		2,252,513	2.6%	2.4%
Ecuador	1,004,038	17.9%	45.3%		1,056,903	-8.4%	43.0%
Panama	997,525	23.0%	0.1%		1,055,433	26.4%	0.1%
Venezuela	971,342	25.5%	18.1%		215,839	23.9%	81.5%
Argentina	860,024	9.1%	1.7%		615,909	7.3%	2.3%
Colombia	850,462	14.3%	0.0%		743,299	8.0%	0.0%
Peru	715,592	8.4%	0.1%		840,634	2.7%	0.1%
Uruguay	593,376	13.1%	34.0%		663,886	11.4%	30.4%
Dominican Rep.	454,225	18.0%	33.8%		487,098	21.0%	31.5%
Bahamas	388,275	4.5%	22.4%		334,792	17.8%	26.0%
Bermuda	383,922	52.3%	5.7%		272,352	14.7%	8.0%
Costa Rica	380,615	12.3%	0.0%		396,468	13.9%	0.0%
Trinidad and Tobago	357,210	3.9%	20.2%		231,845	7.0%	31.1%
Cayman Islands	326,465	2.7%	0.0%		227,936	13.7%	0.0%
Guatemala	270,868	4.9%	0.0%		392,214	17.5%	0.0%
Paraguay	259,698	11.5%	15.1%		143,890	16.1%	27.2%
Curacao	226,860	-	10.5%		188,287	0.0%	12.7%
Bolivia	216,099	17.0%	0.0%		234,549	-13.2%	0.0%

