Achieving Frictionless Payments with Swift pre-Validation.

Swift

EACT SUMMIT

Achieving Frictionless Payments with Swift Pre-Validation

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Agenda

1. Swift strategy: Instant and frictionless transactions

2. Update in our payments portfolio

3. Increase your confidence as the sender of a payment instruction

4. Pre-validation adoption view

Swift

Corporates are key to achieve Swift strategy, presenting opportunities to create value

Swift strategy

Instant and frictionless transactions end-to-end

Provide new rich data and transaction services

Expose value to end-client, capture new flows

Enablement

ISO

Transaction manager

Embedded value services

Swift

ISO 20022 and Transaction Manager will enable structured and rich data end-to-end

ISO 20022 live
on SWIFT and key
domestic payment systems

Live (March 2023)

+

Transaction Manager
introduces new rails
for all banks on Swift

May 2023

=

Enabling ISO 20022 end-to-end with
rich and structure data and
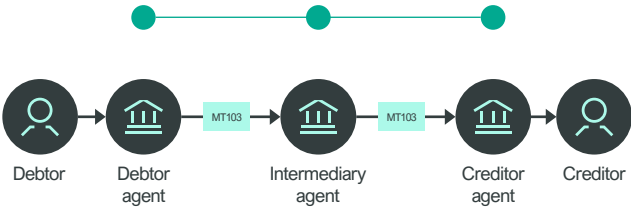embedded value-added
services

Swift

From sequential message exchange to transaction management

May 2023

Traditional messaging

Traditionally in correspondent banking, messages that relate to a payment transaction business flow are executed one after the other.
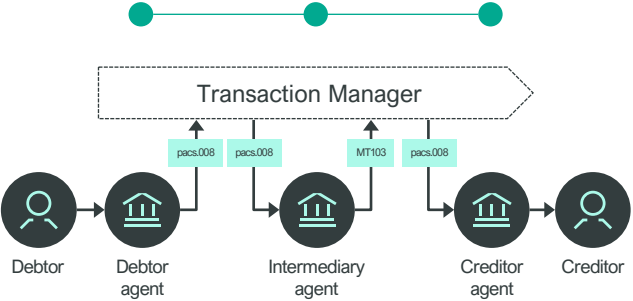
Tracking and service levels

In 2017, Swift gpi introduced a business transaction view providing more data for clients, traceability of payments and faster movement of money, while at the same time leveraging the existing technology and rails.

Transaction manager

Transaction Manager (TM) moves away from point-to-point messages by introducing new rails with central processing capabilities.

TM ensures channel and format interoperability, complete, up-to-date data and integrated value-added services

Swift

Cross-border payments product portfolio

SME/Consumer   Wholesale

Instant
Speed, predictability and transparency for all payments

SWIFT Go

- ✓ **Average confirmation time under 2 minutes**
- ✓ **630+ banking groups signed up**
  - ✓ ~ 60% of LVP traffic potential
  - ✓ 130+ countries, more than 80 banks live
- ▪ **Q2:** Swift Go fee model evolution to boost adoption and usage
- ▪ **2023:** Gain market share, open up new corridors

SWIFT gpi

- ✓ **95% of payments confirmed in 24 hours**
- ✓ **ISO 20022 ready**
  - ✓ Pilot completed
  - ✓ Service rulebooks available
- ✓ **Return of funds tracking live – CCT**
- ▪ **Q2:** Return of funds tracking – FIT and COV

Frictionless
Increase reliability by preventing issues and streamlining investigations

Pre-validation

- ✓ **170+ banking groups signed up**
- ✓ **Central Beneficiary Account Validation** – 83% global bene accounts coverage; representing 377m unique accounts
- ▪ **Q1:** Contextual validation including country rules validation (live)

Case management

- ✓ **208 banking groups signed up**
- ▪ **Q1:** Kicked-off the Case Expert Group aiming to provide Usage Guidelines and business workflows to enable Case to the entire banking community
- ▪ **2024:** Extension of Case to all banks and all E&I flows on SWIFT

Foundations
Rich and structured data, with end-to-end interoperability and payment tracking

Tracker

ISO 20022

Transaction Manager

- ▪ **Tracker ready for ISO 20022**
  - ✓ ISO 20022 messages tracked (MI and early adopters)
- ▪ **ISO 20022 ready for community activation in March 2023**
  - ✓ ISO 20022 and In-flow translation live since Q3 2022 (Opt-in)
  - ✓ Full technical readiness and confidence of community for go-live as per plan (end of March 2023)
- ▪ **Transaction Management ready for activation in May 2023**
  - ✓ Feb 2023: Orchestrated community testing successfully completed with 31 banks (70+ scenarios tested)
- ▪ May 2023: traffic activation starts with an incremental ramp-up until Sep 2023

Payment pre-validation : Industry challenges

April 2023
EACT Summit

Unknown local
market practice

Expensive
manual processes

Resulting in
unsatisfied customers

700M

Payment transactions

€2B

Friction costs

5%

Payments encounter friction

65%

of root causes could be addressed
with Payment Pre-validation

Swift

The current reality for Corporate– preventing errors and protecting data

Corporates need security and a unique solution to pre-validate their payments

Need for a trusted and secure centralized institution to protect the data shared with the banks

The solution needs to be complementary with the new instant payment model, as it will help to reduce the risks

Swift

(un)certainty

increase your confidence as the sender of a payment instruction

Swift

The current reality – industry cost and impact

Debtor → Debtor agent → **Payment instruction** → Swift → Creditor agent → Creditor
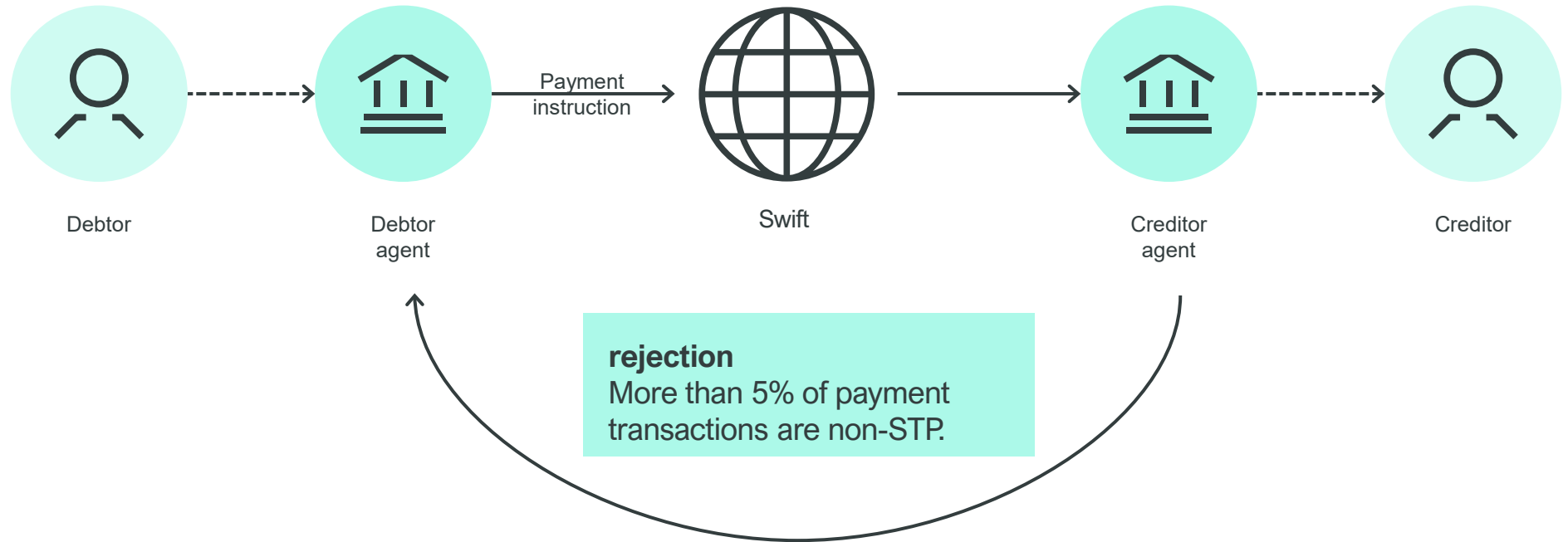
rejection
More than 5% of payment transactions are non-STP.

this friction costs the industry around **2B EUR annually** and represents more than 35 million payment transactions

the cost to handle a single non-STP payment is in the order of **50-100 EUR**

payment delays can take days to resolve at creditor, but also debtor, side and can result in late fees

handling issues (/repair costs) are often expensive manual processes to run and maintain

Swift

What is Swift's payment pre-validation service
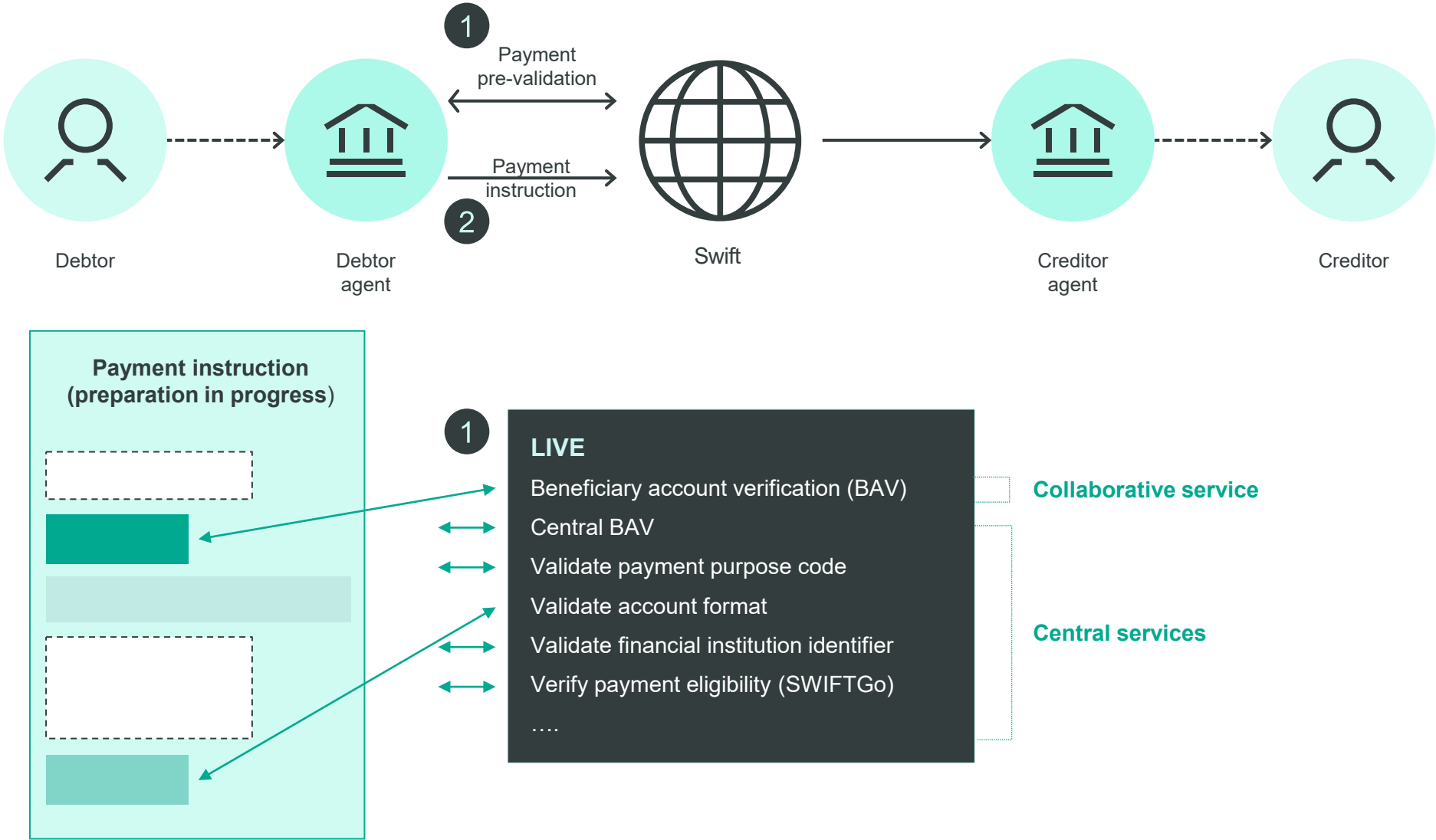
Collaborative service – Beneficiary Account Verification (BAV)

1 Payment pre-validation

2 Payment instruction
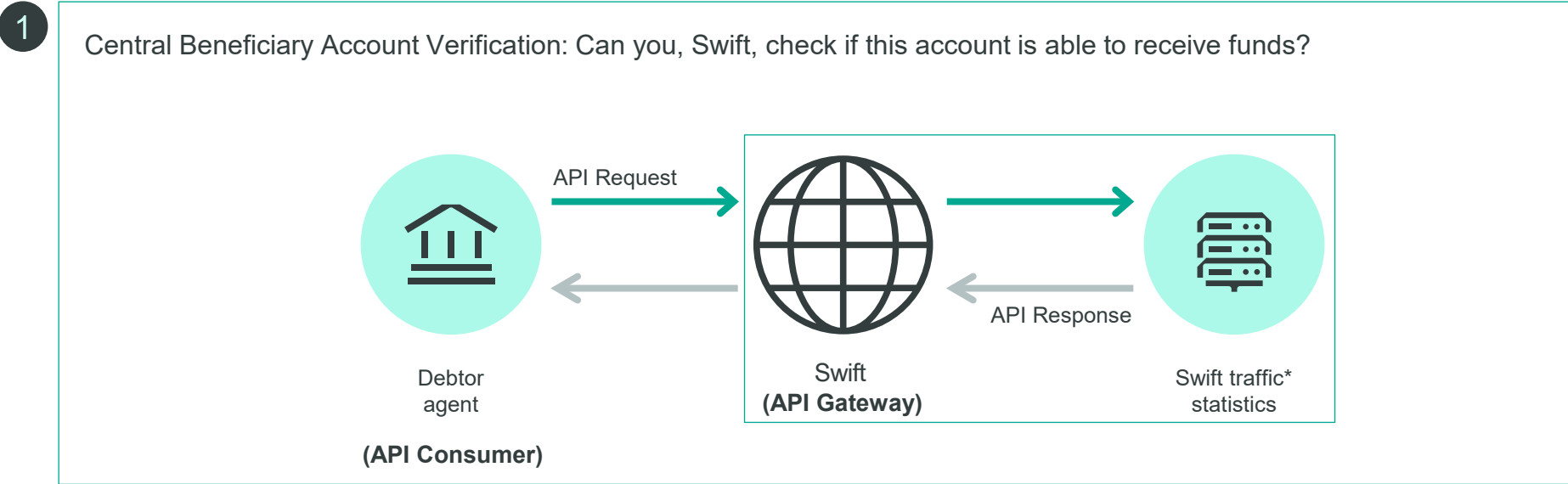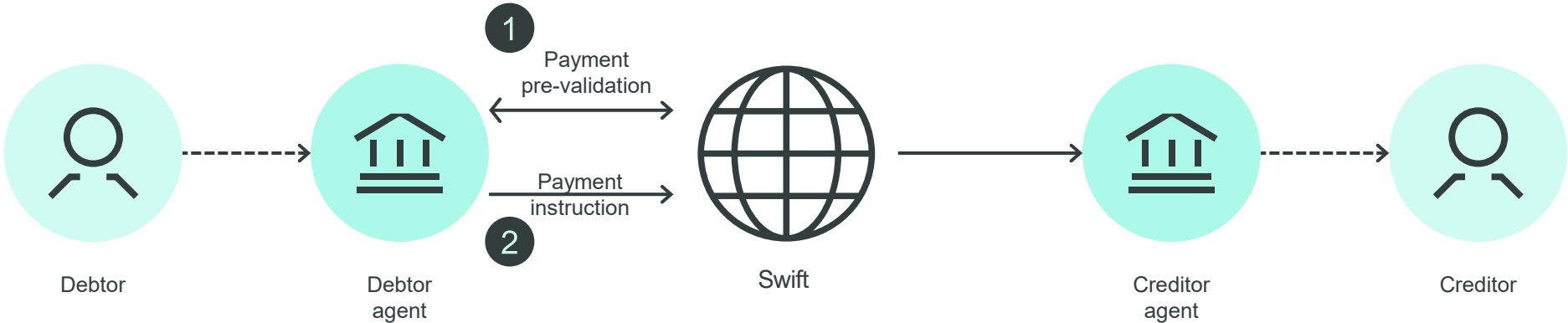
Debtor

Debtor agent

Swift

Creditor agent
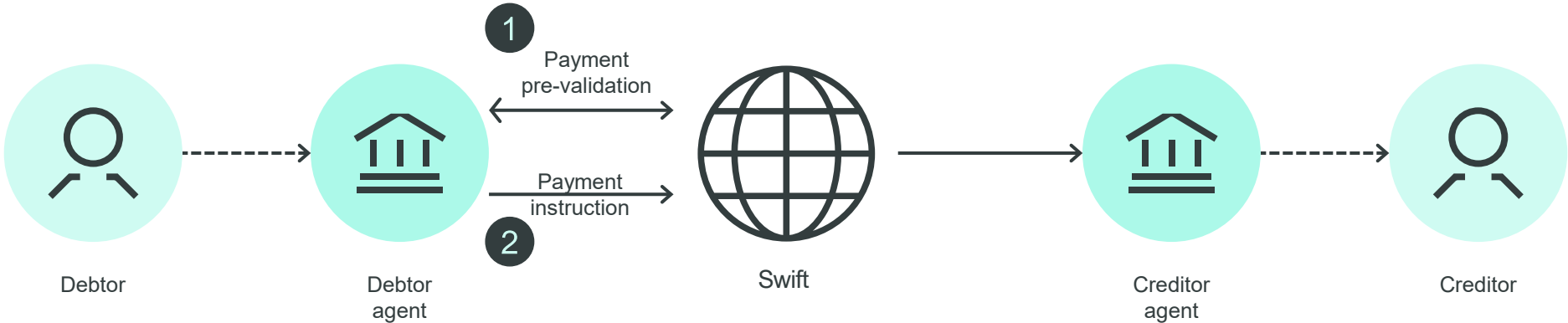
Creditor

1 Beneficiary Account Verification: Can you, the creditor agent, check if this account is able to receive funds?
Optionally and dependent on the Data provider: Can you also check if this name matches this account?

API Request

API Response

Debtor agent

Swift

Creditor agent

(API Consumer)

(API Gateway)

(Data provider)

Swift

Central service – Central Beneficiary Account Verification (CBAV)

1 Payment pre-validation

2 Payment instruction

Debtor — Debtor agent — Swift — Creditor agent — Creditor

1 Central Beneficiary Account Verification: Can you, Swift, check if this account is able to receive funds?

API Request

API Response

Debtor agent
(API Consumer)

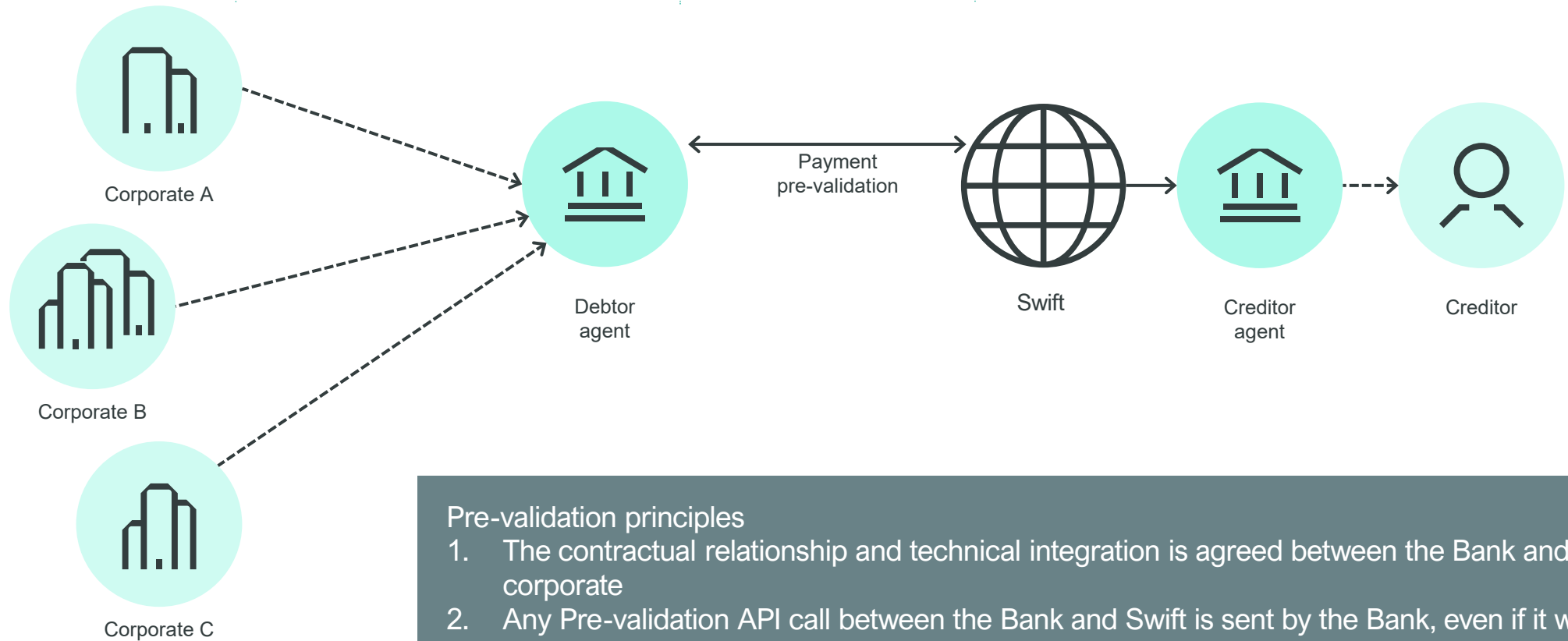Swift
(API Gateway)

Swift traffic* statistics

*Traffic from the whole community except those located in: AT, DE, IT, CH

Swift

Use case - corporates

Corporates can benefit from the Pre-validation service through their banking partners and channels

Bank subscribe and integrate the Payment Pre-validation service

Corporate A

Corporate B

Corporate C

Debtor agent

Payment pre-validation

Swift

Creditor agent

Creditor

Pre-validation principles
1. The contractual relationship and technical integration is agreed between the Bank and the corporate
2. Any Pre-validation API call between the Bank and Swift is sent by the Bank, even if it was originally triggered by a Corporate.
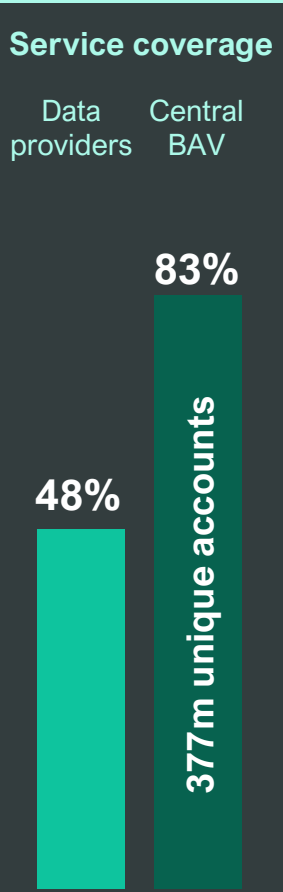
Swift

Adoption numbers, including BAV and CBAV service coverage

171
Banking groups subscribed

50+
Banks Implementing

27
Live banks

15
Data providers live

Service coverage

Data providers   Central BAV

83%

48%

377m unique accounts

Subscribed institutions

Swift

Date: 04/05/2023

Payment pre-validation – key points

Friction creates risks to manage due to lowered predictability of an account receiving funds
A payment may not be credited on time, potentially incurring late fees
A creditor agent may need to resolve issues with the payment, same for a debtor agent but (days) later
Handling issues are often expensive manual processes to run and maintain

Swift's payment pre-validation API services can address 65% of payment rejection root causes
There are two main types of pre-validation

- Central validation driven by SWIFT managed datasources

- Data-provider collaborative validation driven by creditor/beneficiary banks

Swift is continuously looking to enhance the service by

- expanding the number of validators

- improving the quality of the validation results

Swift

![Swift logo — a globe icon next to the word "Swift"]