

CAPCO

MODERNIZATION OF WIRE PAYMENTS

CONSIDERATIONS FOR CAPITAL MARKET FIRMS



SPEED READ

- The complexity of wires paired with a need of customer centric payment functionality has afforded banks the opportunity to invest in wire modernization.
- A focus on client needs, market competition, risks, regulation, and process efficiency provide challenges across retail, commercial, and institutional banking.
- The vendor technology landscape for payments is evolving with an ever-growing list of solutions. Any successful vendor implementation has, at its core, the leveraging of technology solutions to enhance internal payment processes and data management.
- Payments data management will be a key strategic driver across the industry – initiatives, like ISO20022, will allow banks to leverage payments data to drive optimized CX.

INTRODUCTION

The capital markets and commercial banking landscape is undergoing large-scale modernization across customer experience, operations, and technology. Much of this is driven by ever-increasing digitization across the product value chains, colliding with regulatory and industry reaction to increasing transaction complexity. This modernization is particularly relevant within the payments ecosystem. Whilst many advancements have been made in card and P2P payments, wire payment processing has historically been neglected across many institutions. Dated technology stacks and inefficient processes paired with increased regulatory scrutiny on all nature of wire payments have led to bloated payment organizations and increased cost per payment. Organizations are investing heavily across all facets of the payments lifecycle to drive the transformation required to modernize their payments services.

Wires, the critical transactional movement of money and a mainstay in financial services, continue to evolve with a focus on technology, cost, control, client expectations, and process efficiency. In theory, wires are a simple transaction between two entities where the payment life cycle should follow a standard process. In practice, wires can become complex depending on the purpose of the transaction, where and to whom it is being sent, volume, controls, and overall payment architecture.

This article will examine the current challenges and trends with wires and examine the opportunities in the space.

ONE SIZE DOES NOT FIT ALL

Wire needs vary based on business line, volume, and prioritization where the approach to resolving solutions can factor in the following components

	 RETAIL BANKING	 COMMERCIAL BANKING	 INSTITUTIONAL BANKING
 FOCUS AREAS	<ul style="list-style-type: none"> • Operations • Deposits • Client Experience • Risk & Controls • Automation 	<ul style="list-style-type: none"> • Operations • Lending • Client Experience • Risk & Controls • Automation 	<ul style="list-style-type: none"> • Efficient Operations • Trade Execution • Regulation • Risk & Controls • Treasury and Capital
 BUSINESS LINES	<ul style="list-style-type: none"> • Unsecured Lending • Mortgage/Housing Finance • Collateralized Loans • Student Lending 	<ul style="list-style-type: none"> • Commercial Loans • Equipment Finance • Syndicated Loans 	<ul style="list-style-type: none"> • Capital Markets/Securities • Trading • Lending • Margin
 PAYMENTS	<ul style="list-style-type: none"> • Consumer Cards • P2P • Loyalty • Bill Pay • High volume, low dollar 	<ul style="list-style-type: none"> • B2B Wires • Real-Time Payments (RTP) • Cash Management • Merchant Acquiring 	<ul style="list-style-type: none"> • T+1 • Wires (SWIFT, Fedwire, CHIPS) • Margin, coupons, fees • High volume, high dollar
 BUSINESS AGILITY	<ul style="list-style-type: none"> • Client Onboarding • Mortgage Transformation • Digital Self-service • Omni-channel Experience 	<ul style="list-style-type: none"> • Digital Channels & APIs • Virtual Assistants • Client Experience • Digital Marketplace 	<ul style="list-style-type: none"> • Intelligent Automation • Speed to Market • Client Retention • Client Portals

CHALLENGES

The key challenges facing financial institutions concerning wire processing can be summarized into themes focusing on higher client service demands, new regulations, and efficiency and scalability

1. Client Focus and Market Competitiveness:

Clients expect their banking institutions to provide payment services that go beyond the basic fund transfer. This expectation is particularly prominent within non-retail banking where wires are the predominant payment rail. Various industry initiatives to aid in wire modernization are in flight (i.e. ISO20022), however the leveraging of these initiatives to drive real optimized end-customer experiences will be a challenge for some banks.

Modernization Considerations:

- Consolidation of payment platforms
- Future-proofing to incorporate future payment services (i.e. RTP/ISO20022)
- Client self-service/portal capability
- Leveraging payment data to drive optimized CX

2. Increased Risks and New Regulations:

The payments value chain – more so than ever before – is subject to many internal and external anomalies which pose risk(s) to the integrity of the payment. The risks can be grouped into those which result in fraud, those which result in non-compliance with regulation and those which result in a failed client experience.

In the case of fraud, understanding the types of fraud can be critical to staying ahead of potential risks. With ever-evolving fraud schemes targeting financial institutions, enhancing payment's fraud systems and controls, both the business and technology platforms, will continue as a focal point in the industry.

Modernization targets:

- Holistic payments risk monitoring and management
- Dynamic fraud controls
- Scalable screening programs

3. Efficiency Strains and Straight Through Processing (STP)

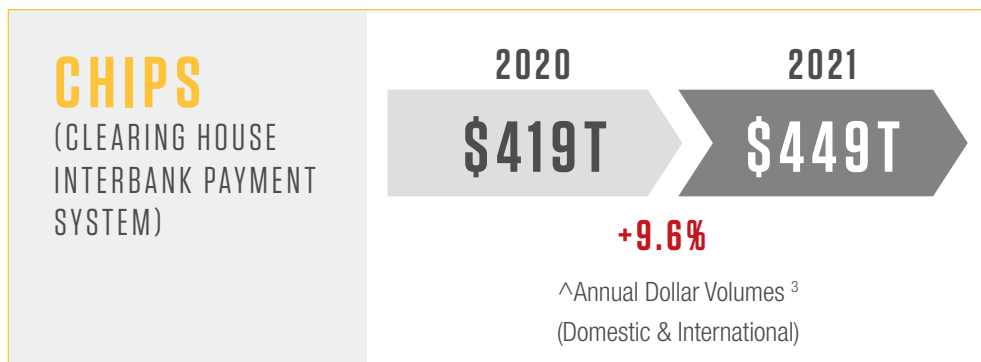
Institutions are moving to reorganize their payment organizations and rationalize the technology payments stack (e.g., decommissioning payments mainframe) to drive an efficient payment service. Payment STP is a challenge many institutions are focusing efforts to solve. Even with systemic automation, many functions still have significant breakpoints.

Modernization targets:

- Increased incoming and outgoing payment STP rate
- Technology-aligned operating model (cloud adoption)
- Reduced cost per payment

BY THE NUMBERS

Wire volume continue to increase across the main network



DRIVERS

Market and regulatory challenges will persist and evolve; therefore, change can be difficult. When is the right time to adapt? There are four key drivers catalyzing the need for wires modernization today.

1. Vendor Technology Options:

While there are limitations to the overall RTP network, it continues to mature and has driven discussion about how banks can leverage RTP within their wires ecosystem. This is forcing payment organizations to think about their legacy wire systems and look at vendor functionality to remain competitive. The financial services industry has benefited from significant advancements in vendor technology that have led to an increase in innovative and scalable payment solutions.

Firms face strategic decisions in modernization: Implement a vendor solution (e.g. payment hub) for a complete overhaul, enhance/improve existing wire application, or look at a hybrid approach based on business needs.

2. Static data/SSI/ISO20022 Adoption

Data orchestration and remediation are on the rise as organizations meet industry demands for global payment standards and formats. The ISO20022 payment messaging adoption is driving FIs to execute changes to their infrastructure, payment systems, reference data, and processes. Various industry utilities and clearing venues will mandate ISO20022 compliance at various stages between 2022 and 2025. FI's must manage an adoption plan to deliver compliance against the industry timelines and their strategic aspirations.

A core challenge in any ISO20022 adoption will be the remediation of source payment data – which will affect technology and process changes across the reference data organization.

3. Increased Operational Efficiency Demand

Reducing cost per payment is a key strategic agenda item for many FIs. Solving payment STP will drive not only optimized risk reduction but also significantly drive down cost per payment. Increasing incoming & outgoing payments STP will also allow for streamlined people structures within the payments organization.

4. Payments Risk Management Improvements

Wire fraud and financial crimes are only increasing in complexity and frequency in the current environment of increased payment volumes. Payment controls and robust payment governance are key to risk management. Any successful payment risk management program must balance the application of controls with the trade-offs in business objectives and efficiency.

New Screening technology and robust compliance management frameworks are a must-have within financial services inclusive of policies and procedures, staff education, monitoring, remediation of violations/compliance weaknesses, and report generation.

Financial firms will modernize their payment lifecycle or be forced to stand aside. A targeted approach to modernization will be key to finding success and optimizing costs verse effectiveness. Not all elements need to be built from scratch, and in most cases, a balance should be struck between building and seeking outside support.

NEXT STEPS

There are three approaches a financial institution should consider when modernizing their present payment system, and a fourth option is a hybrid approach with considerations from the first three.

1. Focused Enhancement

A needs-based approach based on upgrading/modernizing elements within the current payment lifecycle

Key advantages to approach:

- Introduce system upgrades to meet the evolving wire landscape and to harness advancements such as ISO 20022
- Internal systems – Enhance current infrastructure with new functionality or vendor offerings like translation engines, saving money and development time
- Vendor systems – Upgrade to latest offering or version for focused need, improving time to market

2. Utility Framework and Integration

Integrate solution based on wire type and business need with the thought of using 'Utilities' across business lines. A utility framework is built at the enterprise level and adapted at the LOB.

Key advantages to approach:

- Establishes a framework for wire channels (i.e. SSI Utility), drives security and decreases risk
- Scalable across all volume and functional needs and ability to leverage efficiencies, such as straight-through processing of wires from initiation to settlement, cost-effective
- Potential for cleaner data and fewer touches

3. Implement Payment Hub:

Strategic solution orchestrating all payments into the correct and most effective channel – with business rules overlaid on a singular payment platform

Key advantages to approach:

- Centralized platforms with cross-functional capability
- Ability for complete transformation and visibility to enhance controls of the end-to-end payments flow, a replacement for multiple applications
- Effective and consistent application of governance
- Agility in responding to changes in payment regulations and industry requirements

4. Hybrid approach:

Leveraging existing systems and in-house applications while integrating optimal vendor solutions

Key advantages to approach:

- Implement a preferred vendor integration strategy – Establish an integration layer between external vendor code and internal legacy applications
- In-house applications can be maintained/upgraded for process efficiencies

For financial institutions, 2022 will hold multiple changes in the payment space. Customer demands, new regulations and outdated technologies will drive firms to seek out solutions for their business needs. Firms will need to modernize and optimize to keep up with their competition by realistically looking at their current state and making the ideal changes for an efficient and lasting target state wires environment.

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving transformation in the financial services and energy industries. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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