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Conducted by **Albert Bressand and Catherine Distler in La Hulpe.**

A single window on the financial frontier

As we conclude this book, in light of all we have learnt from these eminent contributors, is it your feeling that new business models are challenging the way financial institutions create value and interact? Are they living on a financial frontier?

Leonard H. Schrank: First, it's been a real pleasure for SWIFT to have hosted this forum which deals with themes of critical importance to our industry in a very appropriate and timely manner. The world has just gone through the boom of e-euphoria followed abruptly by what you call e-disenchantment. Rather than lamenting over lost illusions, now is the time to reflect on the business models that can be turned into the foundations of sustainable success on this financial frontier.

It is a critical time to move forward, especially for infrastructures like SWIFT. I strongly agree with Andy Grove that we have to "believe in the Internet more than ever"¹. Indeed, by the time other organizations regroup, the SWIFT community of financial institutions could take key decisions as to the business models that will make it successful and secure for the next ten years. So, to

1. "Andy Grove's rational exuberance", Interview by John Heilemann, *Wired*, June 2001, p.136.

answer your question, we are most certainly living on the “financial frontier” and we must seize the opportunity to shape it for the future. So much is at stake.

What are the key challenges that the industry faces on this financial frontier?

LS: There are traditional as well as new challenges. What has not changed is the relentless pressure to reduce costs, while providing higher levels of service. In this respect, straight through processing (STP) remains a major imperative. SWIFT can centrally estimate the straight-through rates among various sub-segments of its messages and can measure on a regular basis an aggregate STP rate for different parts of the industry. The result is clear: the industry is improving globally, but there is still much that can be done – valued perhaps in hundreds of millions of dollars per year in cost savings to the industry.

There are also at least four new challenges that financial institutions must confront head-on if they want to remain on top of competition and to meet their customers’ expectations. There is the challenge of the *Internet* and its spirit of global, user-friendly communications and interoperability – who can afford to ignore that it shapes users’ expectations? There is the challenge of tighter integration between *the world of securities and that of payments* – who could ignore that financial institutions must take their clients through both markets in support of the same strategy? There is the challenge of *financial consolidation* – who can ignore the benefits this will have for their customers and the implications of this for their own systems and bottom line? And there is also the challenge of working increasingly *closely with regulators* to eliminate or greatly reduce cross-border risks – who is not proud of what has been achieved in this respect with CLS, GSTPA, EBA and other recent market infrastructures and of the common messaging and standards infrastructure provided by the SWIFT cooperative to make all this possible?

Can you summarize in one sentence the next major contribution that SWIFT can make to help the industry as a whole meet these challenges, old and new? How can SWIFT assist in the adoption of the new business models on this financial frontier?

LS: In the past, the really short answer to your question would have been three letters: STP. Yet STP must now be taken to new levels; it must apply across applications and across infrastructures for the organization as a whole and not simply for any given transaction.



Yasse Tabuchi

Arbre solitaire (Lonely tree), 1977

So my short answer today is two words that are taking these three letters forward: single window.

STP is now an easily understood – even if difficult to achieve – objective, and the contribution of SWIFT is a straightforward one that every institution acknowledges. But why would the financial industry look to SWIFT to provide a “single window”? Why would all financial institutions agree that this is now a worthwhile across-the-board objective that should inspire them in their efforts to remain profitable, successful organizations?

LS: We know from our cross-sectional studies that STP rates are still dismal in a surprisingly large number of market segments. And we know how much could be saved by improving these rates.

But this book is about the financial frontier, and the frontier itself is about integration: across borders, across markets, within and across organizations. Until now, each market and each community, each closed user group has tended to develop their infrastructures as if the cost of cross-market integration could be ignored. Each develops its own clearing and settlement application and,

unfortunately, has tendencies to incorporate in that application their own version of messaging and standards. Then, they turn to SWIFT or someone else to provide a cheap network simply to connect to their customers. In the process, they lose sight of the network externalities on which overall efficiency depends.

The end result of such an approach for the industry as a whole would be that each market infrastructure would end up having its own message standards, its own security standards, its own technical standards, and so on. If an institution uses six or seven market infrastructures, it would then need to have six or seven interfaces, six or seven message standards, as well as separate security models for each. Some refer to this under the name of “vertical silos”. Let me refer to it, more generally, as fragmentation. Overcoming fragmentation by providing common platforms and standards can save the industry significant amounts annually.

The “single window” is a way to provide an alternative to fragmentation by offering market infrastructures the opportunity to outsource their global messaging needs to SWIFT while focusing on their clearing and settlement applications. If SWIFTNet messaging is used by multiple market infrastructures, then financial institutions can access any of these different infrastructures through one single interface, using common message standards, secured in a common manner. Not only does this reduce costs, for them and for their customers, but it also offers a stronger platform on which to develop new services at the interface of all these applications.

A single-window sounds great but might it not deprive a number of financial institutions of the competitive advantages that come with the proprietary infrastructures that they have developed or could develop?

LS: Do you really believe that one gets closer to competitiveness by embarking on the re-invention of the wheel for each of these specific market applications? Personally, I am far from convinced.

You may have a point, nevertheless, in suggesting that some organizations may benefit from market inefficiencies by selling “proprietary” solutions to deal with their current needs and customer requirements. Very often in the past, our largest customers built applications and even entire networks because they perceived these as competitive advantages. But over time, sometimes very quickly over time, these competitive advantages became competitive necessities – everyone needed them. So, they then begin to look for common solutions – cooperative solutions. Our challenge is to anticipate

these common solutions for the future, rather than having the industry build them, and pay for them, many times over. So, I say, we must live with our times (and technologies), and the times mandate that where messaging and standards are concerned, go with SWIFT.

“Leveling the playing field” is not the appropriate criticism to describe what a single window would do for market infrastructures or global financial institutions. Far from depriving the institutions that develop such infrastructures of their competitive advantages, the use of common messaging standards would allow them to serve their customers better, at lower costs and with higher volumes. Everyone wins.

Concretely how would this “single window” work? What changes would it entail for financial institutions?

LS: The single window works by using one set of messaging to access all applications in different markets. This frees financial institutions from having to develop what I would call “*fat applications*”.

A fat application is one in which the core clearing and settlement application comes with all the bells and whistles of messaging, security, authentication, validation and the like integrated directly in. True, some IT directors argue that they can develop their applications with “messaging” more cheaply than using SWIFT, but at the cost of ignoring the needs of customers for integration and interconnection. Our value proposition is, instead, that they should develop a “lean application” and plug and play into SWIFT messaging, powered by Global Crossing. A single window based on SWIFT messaging would allow financial institutions to concentrate on their core value propositions and bring “lean applications” faster to the market, with the added benefit of well-tested standards, security, global reach and interoperability.

Are you practicing what you are preaching? Are you developing lean applications at SWIFT?

LS: Yes, SWIFT certainly tries to practice what it preaches. Most of the responsibility lies directly with the Executive of SWIFT. But the franchise of SWIFT is also based on its worldwide community of financial institutions. It’s our most important asset. Our Board, its national groups and user groups around the world give us our global reach and industry impact. It also can slow up our decision making. That’s a consequence of being a cooperative: cooperatives move at cooperative speeds! We are working at improving that.

We are suggesting to financial institutions that they can benefit from outsourcing their messaging to SWIFT. It is fair then to look at what SWIFT has done to make itself “leaner” as you say.

Twenty-five years ago, SWIFT had to build its own network – there was no other alternative. Four years ago, when we announced the next generation of SWIFT, we planned to build our own secure IP network and at that time it still made sense. But the world has continued to change and, a little over a year ago, we realized that we would never have the scale to compete with current IP network providers as they have now developed. So we took the bold move to outsource our network to Global Crossing which now runs the most modern, global fiber-optic network in the world. The savings to SWIFT from this move will be in the hundreds of millions of dollars over the next five years. That’s a good example of becoming “leaner”, I’d say.

Our partnership with Global Crossing will allow SWIFT to benefit from their global scope and economies of scale, while permitting SWIFT to move up its value chain and focus on messaging services. Our costs go down, we can offer lower prices to our customers, and our service levels go up. Similarly, market infrastructures and financial institutions should consider “outsourcing” their global messaging needs to SWIFT so they can focus on their value added applications such as clearing and settlement. Everyone should focus on their own core competencies, and benefit from the economies of scale and services of other infrastructures where appropriate. We believe SWIFT messaging is the answer in many cases. We must all become leaner, faster to market and focused on what we do best!

Mervyn Davies, in this book, makes the point that technology-related decisions have become too important to be left to “the technology guys” and should be taken at Board level. Would you agree?

LS: I agree. I remember at Sibos in Sydney, back in 1997, John Bond of HSBC predicted that the future CEOs of financial institutions would come from the IT area. Today, enormous sums of money are being invested in IT. Boards had better be able to track these and assess the value for the firm. The investments should be “business driven” and certainly not “technology driven.” Also, it’s clear that any company that is technology-ignorant is at risk of mortgaging its future. So the challenge for us is how to raise the profile of what SWIFT is doing. Our vision twenty-five years ago was to automate the telex and achieve 300,000 messages per day. We’ve achieved that vision by far – the telex is automated and we routinely exceed 6 million messages per day.



Yasse Tabuchi

Arbres éclatés (Split trees), 1979

It's time for a new vision and a new profile. Believe it or not, there are customers who still book SWIFT bills to their postage-and-delivery cost center!

The Wall Street Journal recently called SWIFT “one of the dominant franchises of our network age”². Is that true?

LS: Absolutely! During the recent dot.com revolution, some people thought that the Internet would provide easier and better solutions than SWIFT. It turns out that linking thousands of financial institutions for mission-critical applications is not that straightforward. Today, when people talk about community, exchanges, and e-commerce they use SWIFT as a primary example – “SWIFT is the most successful worldwide community of financial institu-

2. “SWIFT tackles survival threats: financial industry cooperative studies strategies to fight competition” by Kevin Delaney, *Wall Street Journal Europe*, June 13, 2001.

tions.” That is the asset! That is the killer application! We’re now viewed as the “mother ship” and everyone wants to be in our slipstream. We exchange electronic messages to the tune of 5 trillion dollars a day. This is what comes out from the Wall Street Journal analysis of the SWIFT “franchise”.

Our challenge and our vision are to harness this franchise in a much more effective manner. The needs for the industry worldwide are to reduce costs of inefficiency and to improve their interoperability and automation. The benefits for the industry can be measured in hundred of millions of dollars if not in billions of dollars per year.

How confident are you that this potential can be realized? You said last year that SWIFT is a “network with an attitude”. Is this attitude the one needed to create that *single window* that would provide the industry with the benefits but also with the constraints that you describe?

LS: Well, an essential aspect of this attitude is that “failure is not an option”. My feeling is that we are failing every time we allow “information pollution” to increase to the detriment of the industry as a whole in the form of incompatible standards or proprietary versions of supposedly common standards and messaging – in other words, fragmentation. One of the benefits of the SWIFT attitude is that we take a very demanding look at the implementation of messaging and standards. Indeed, I feel that STP will call for increasingly tight definitions and implementation. It is not only a matter of deciding about standards and interoperability in general, it is also essential to execute in the most disciplined and rigorous manner. This is where the SWIFT attitude helps and will continue to help.

I look forward to the day when I can tell you that SWIFT is the industry’s global financial extranet with an attitude!