Branching Out: A retail banking podcast series

Season 2, Episode 2: Retail and transaction banking: Moving money for customers large and small

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Kristin Korzekwa: Hi everyone, and welcome to *Branching Out*, the podcast where we explore trends in retail banking through conversations with leaders from across the financial ecosystem. I'm your host, Kristin Korzekwa.

Bill Dworsky: And I'm Bill Dworsky. On today's episode, we're excited to talk with Greg Murray, head of transaction banking product management at Santander. Greg, great to chat with you, and thanks so much for joining us.

Greg Murray: Thanks, Bill and Kristin. It's really good to be here. I appreciate the invitation from Deloitte.

Bill Dworsky: So, Greg, transaction banking has a lot of intersection points with all the other parts of the bank, including retail and others. Can you tell us a little bit about your role at Santander. How did you end up…what does your day-to-day look like?

Greg Murray: So, throughout my career, I've worked at a number of top global banks in the payment space. I joined Santander in 2018 to facilitate the growth of the cash management business in the

US across multiple products. So, as you know, Santander is one of the country's largest retail and commercial banks with about a $100 billion in assets. So, when I joined here, early in my time, my day-to-day, to answer your question, was really focused on what we call foundational initiatives. So, things like investing heavily in our infrastructure, expanding our fundamental product offerings, and things along those lines. But over the past couple of years, my focus has increasingly shifted to how we differentiate ourselves, how we add value to our clients' daily lives. And a good example of that, and it's another area where I get increasingly involved in, is with the wholly owned fintech subsidiary of the group called PagoNxt, which itself is a leading payment solution provider. And we work with them, as an example, to bring out an end-to-end payment tracking system, which enables a lot of our clients to track where their payments are at any point in time. So, those are the sort of things I've been getting more and more focused on.

Kristin Korzekwa: Wow, very interesting. Sounds like maybe not a typical "day in the life of" then with all those different initiatives that you focused on, Greg. But thinking about, I guess, the different roles that you've had at Santander as well as elsewhere in transaction banking and payments, how are you seeing organizations sort of adjust the way they operate as it relates to advancing their payments and money movement businesses, either within a specific initiative or as it relates to integration across the different parts of the business that are impacted?

Greg Murray: I think the space where I would say most banks, and certainly for ourselves, but also for the industry, I think—I work very closely with colleagues in the industry and have done so for quite some time now—is we are perennially on alert for competitive challenges from outside the banking space. So, a lot of the fintechs have been extremely creative over the last 10 to 20 years in looking at opportunities to serve the clients that would typically be bank clients. So, folks that would typically, for instance, go into a branch or to an online banking app to make a payment. A lot of the fintechs have come up with very creative and simpler ways to move money around the world. Now, ultimately, they all rely on banks and the rails that we belong to. So, there's sort of a symbiotic relationship to some extent. An ex-boss of mine once called it "co-opetition," where as much as we compete with some of these creative fintechs, we also provide the rails that help to solve and settle the transactions that go across those rails whether it's from a bank or from an alternate, a nonbank provider.

Kristin Korzekwa: "Co-opetition"—I like that. I'm going to steal that one.

Bill Dworsky: Yeah, I love that, Greg. And I'd be curious to kind of double-click a little bit into PagoNxt that you mentioned as an example of kind of decision-making around how to compete, how to cooperate, and just kind of where to position within the fintech ecosystem. Can you share just a little bit about some of the thought process in incubating and working with PagoNxt as it's grown over time?

Greg Murray: As I mentioned, PagoNxt is a wholly owned sub of the group. So, it actually was borne of an internal group that was focused on what we call global trade, which includes payments, foreign exchange, trade finance, and things along those lines. It became a wholly owned sub because we recognized that there was an opportunity for an organization like this, which had all the expertise and the assets at its disposal, to be able to create value for not only the network as a whole, the Santander network as a whole, but potentially, other smaller institutions that could use the benefit and the power that we bring as a Santander group to the table in terms of technology, applications, things along those lines. We work with PagoNxt as needed to serve the needs of the US, and one of those needs that we had a couple of years ago was the opportunity to provide our clients with the ability to track payments end to end. And working with PagoNxt, who is very engaged with the rest of the industry, including SWIFT, which has an end-to-end tracking capability called GPI, which stands for global payment innovation. We were able to work with PagoNxt to leverage their access to that service and extend it to our clients. So, there's more to come, there's a lot more on the roadmap that I think PagoNxt can help us achieve, but that would be one quick example of something that we were able to bring to market using or leveraging the capabilities that PagoNxt brings to the table.

Kristin Korzekwa: Very interesting. Yeah, so I mean, maybe on the digging deeper into the topic du jour, and in the spirit of payments tracking and transparency, let's maybe shift gears to one of the hot topics, I understand, in transaction banking right now as it relates to ISO 20022. And so, first of all, Greg, first question is, am I saying that correctly? There's a lot of numbers in there. Am I saying it properly? And two, recognizing that some of our listeners may not be as familiar with this topic, can you just share a little bit about it—about what it is? Why is it so impactful to banks?

Greg Murray: Yeah, it sounds good. There's actually no right or wrong way to pronounce it. I mean, I usually call it ISO 2-0-0-2-2. Some call it 20-0-22. It is a bit of a mouthful, but it is what it is. But simply put, for those who aren't familiar with it, it's really a global standard for payments. That's the simplest way to put it. But before we go into what it's actually introducing, it's probably worth mentioning that payments—so, that would include wires, ACH, even checks and cards—have all been subject to standards for a good 50 years or so. So, you've got SWIFT, you've got Nacha, you've got BAI, those are just to name a few. So, standards aren't new to the payment industry, but in the realm of cross-border payments, the current standards do leave some room for improvement, specifically in the areas of data structure and data carrying capacity. So, when you think about the current state today, wires (as it relates to cross-border payments) really remain the primary means by which money moves across borders. And given that the market conventions from country to country tend to differ, it's not unusual for some payments to suffer delays and/or returns from time to time. So, what ISO 20022 does at its core is it introduces a lot of things, but they break down into really two fundamental improvements over legacy formats. So, the first would be better structure. So, for example, address fields. If you're trying to pay a person or a company in another country, it depends on what that person or company told you as an individual or as another company as to how to pay them. And the address information could be formatted in a relatively—it may all go into the same block of text, but it could be formatted differently. City could come before country, country could come before city. It's not as clear-cut as it could be. So, what ISO 20022 does is it specifically indicates where in the address field the information needs to go: city goes here, country goes there, that first line of address goes here, and so forth. So, that'd be one example of creating better structure. The second piece that ISO introduces is it enables payment messages to carry more data than currently possible. So, for example, complete invoice data could accompany a payment that ultimately enables the receiver to reconcile or apply the funds more reliably. So, that's the simplest way, I guess, I could put ISO. There's a lot more to it, but those are the two sort of … that's how I break it down.

Kristin Korzekwa: From what I understand, there are certain markets internationally that have already adopted it, certain institutions that have adopted it. Can you give a little bit of a lay of the land around where has ISO been adopted, and what does that journey look like for US banks?

Greg Murray: It is a global (as I think I mentioned) initiative. So, it's not unique to the US. There are a number of countries and/or banks within those countries that have already adopted the ISO standard. If I recall correctly, globally, I think about 19% or 20% of banks, according to SWIFT, are now ISO ready. And I think, in the US, that number is about 26%.It's been a long road, but I think we're in a much better place now. And I think, ultimately, within the next year, or year and a half, we should see a significant amount of adoption globally.

Bill Dworsky: So, Greg, I'm trying to put myself in the shoes of the customer here, kind of the end-bank customer, whether it's a small business, whether it's a large corporate, whether it's somewhere in between. I can see a lot of value for those types of business customers in some of the extra richness of data that you described coming through the payment stream. Are you seeing more interest and/or questions from different types of customers that engage with the bank that may gain value from that extra data or that extra richness that they can get through the new standards being adopted?

Greg Murray: Well, that's interesting the way that you phrased that question because I would say if we're looking to understand to what extent there are questions coming from these various segments, I would say it's actually—at least in my experience—it's been pretty low. However, your question had another angle to it, which is what does it really mean for our customers in each of these segments?

And for that, I think the implications are somewhat different. So, I could potentially try to explain that if you wish. So, in the retail space, so going to the opposite end of the spectrum, those payments are typically, I would say, communicated individually or sort of ad hoc. In other words, when a consumer customer makes a payment, it's typically based on a need that the customer has at the time: sending money back home or paying a tuition bill or something along those lines. And to this end, I think what we'll find is that the impact, there will need to be change, but we can help our consumer clients with that change by essentially updating the systems to which they input their instructions to guide them into … whereas today you might have a free format field for address, tomorrow, you're going to have a structured field. So, now, you'd have to just structure the data in the field. So, in other words, we can tackle the challenge at the point of entry as opposed to in the commercial space where you have to tackle it from the source system. And then just real briefly on the small business space, I think there it's going to be a bit of a blend. Some of the smaller businesses have a very basic set of payment needs. Others, perhaps especially as they aspire to move into perhaps the larger business space, the mid-corp space, middle market and so forth, might actually have AP and AR systems that have to be updated. So, it's going to be a bit of a blend, but hopefully, I gave you some of the "bookends," if you will, to what this change could potentially mean.

Kristin Korzekwa: Yeah, that's really helpful context that I can see where the changes would impact the different types of customers and stakeholders differently. And, of course, as is the way with small business, they're always a bit of a hybrid. So, Greg, earlier you were touching on some of the sounds like I'll call them "benefits" of ISO, and ISO adoption around additional data, more structured data, and more information coming through as a part of that payment. Can you just dig in a little bit deeper on kind of what does that mean in terms of the benefits of implementing ISO?

Greg Murray: There's a notion that we hear all the time that cross-border payments are slow, there's a lot of errors, and what have you. And that's true to some extent, but it's probably worth pointing out that if you're familiar with what I mentioned before when I spoke about PagoNxt and the payment tracker that we adopted using PagoNxt services, it's powered behind the scenes by what SWIFT calls GPI, that global payment innovation framework that they have. So, GPI has been in place now for at least six, seven years or thereabouts, and it tracks every payment that goes through the system to figure out how long it took for that payment to be delivered. And according to that tracker, 90% of cross-border transfers are delivered within 30 minutes, and nearly half of those are done within five minutes. So, that's an excellent track record for—this is a standard, this is not even necessarily ISO compliant, but it just sort of underscores that the way money moves through the banking system is actually pretty fast, but it hits the remainder of those payments. So, the 10%-ish, which are typically delivered within 24 hours that tend to generate the most noise. And that's what causes this perception that cross-border payments via banks are slow and not transparent. You don't know where the payment is, if it happens to be delayed. But the reason (this is why I'm getting to ISO in a second)—the reason why that happened, the most, I guess, the largest contributor to any delay that happens is a result of the information in the payment. Either it's missing address data or there are acronyms in the payment or some other information that's incomplete. And when that happens, it makes it difficult for, for instance, the receiving bank to apply the funds. So, the fact that ISO will add more structure to the data enables us to reduce the opportunity for payments to stop and/or be returned. In addition, by enabling customers to add more data, to send more data, it gives banks and all the other parties in the chain that have to evaluate that payment potentially the information they need in order to resolve any questions they might have about that payment. So, there's definite advantages to what ISO will do in order to help that tail end of the payment process where certain payments take more than, let's say, 30 minutes to be delivered.

Bill Dworsky: Yeah. Greg, a lot of dynamism here. When we talk about ISO readiness, it seems like it's a little bit of a kind of an ever-evolving target or kind of moving targets aside from the couple headlines that you mentioned next year. How are you thinking about maintaining pace, kind of keeping up with that evolving landscape, like changing customer needs on the payment front and kind of continuing to stay one step ahead of the competition, so to speak, here?

Greg Murray: Well, I think when it comes to standards, we don't see it necessarily as a competitive play because we're all in the same boat. Actually, just speaking here for the banking community, we benefit when we're all speaking the same language, so to speak. When we send a payment to another bank, when they send us a payment, the more common the language is between us, the more likely we will be able to serve our customers appropriately and quickly. So, I think I mentioned before that when we look at standards, that's kind of a BAU (or business as usual) thing, if you will, for us and other banks. So, when we look at ISO, however, we need to think about not just the need for banks to comply, but how do we help our clients, our respective customers up that curve? And there's a couple of ways that we're looking to do that at Santander. One is through education and the other is through a phased migration. So, in terms of educating our clients, another thing that we're looking at is to make sure that not only do we help them understand what ISO is all about and the benefits that it will bring, but also what they need to start thinking about, with respect to the other parties that they potentially interact with. So, for example, if they're using an ERP [enterprise resource planning] system that is provided by a vendor (and there are many out there), we recommend anyway that they ought to reach out to those vendors to understand what are those vendors doing with respect to those ERP systems to migrate toward an ISO-compliant environment. Another area that they probably want to look at is their suppliers. Will the AP department receive invoices with expanded data? Will suppliers be able to accept and apply those payments with data structured differently? Will the AP department need to update their payment templates? Those are sort of the questions that they might need to anticipate. And then same thing with customers. If a customer is paying our client, can the AR department expect to receive payments with expanded data and be able to properly process and apply those payments? So, again, the recommendation we have for our clients as we seek to share with them what ISO is all about, is to also think about other parties in the chain that will probably either have some questions of their own or have answers as it relates to what they plan to do. But in the commercial space, if they're not already ISO-compliant, our goal is to be able to enable them to continue transmitting in their legacy format. And we will take the onus of adapting that information to the standard required by the Fed in March of next year. So, we're going to try to help them achieve, or help them help us achieve our goals to working collectively together by March of 2025. Now, that strategy is only as good as what we're capable of doing by March, because once we get to November of next year, which is when the SWIFT requirements kick in, there are going to be some additional fields required, like purpose of payment, that a client today may not have. On the retail space, however, we expect to be a bit more straightforward because we will tailor the payment experience upfront. So, if a client is making a payment through an online channel or a mobile channel, we will make sure that what is presented to them is in a format that enables us and them to comply with ISO; again, because they're not typically dependent on an ERP system or some other upstream source of data as the commercial space is. So, hopefully, that helps get to your question as it relates to how we're going to help achieve that transition over the course of time.

Kristin Korzekwa: Yeah, it makes a lot of sense. That's helpful, Greg. And maybe the last question: As you think about the journey that you've been on, any gotcha moments that you would share with our listeners—or maybe asked a different way, any advice that you might have for your peers out there that are heading down this path or that are in the midst of ISO compliance?

Greg Murray: Yeah, I'd say not so much any gotcha moments, but I would say we've learned a couple of things so far. One, we can't look at ISO as just an IT or standards initiative. We can't just say to our IT guys, "Well, here's the ISO handbook, you guys figure it out." It really requires engagement from all parties in the end-to-end payment chain. So, obviously, IT because they're doing the bulk of the compliance work, but there's payment operations. Client service needs to be empowered, for example, to answer client questions. The onboarding process, if we've got clients who have set up templates or have name and addresses on the bank database that need to be changed to reflect ISO formatting, then they need to be involved. The folks who monitor the fraud queues, the folks who handle sanctions. Sanctions is a big one, we think, because today, the sanctions function requires heavily on data strings to figure out whether there's a payment that has potential compliance risk with OFAC. But with the structured data, that should make the process a bit more straightforward, but it still requires a change. Then you've got the channels—the actual online or mobile channels that our clients use. And, of course, certainly, last but not least, our clients. As we talked about earlier, we have to make sure they're aware of what this means, that they understand what we're doing to help them on this journey. So, that was one learning. It's not just about IT, it really requires engagement of all parties in the chain. So, the second thing that we felt was important as we got closer to the ISO effort is to make sure that given the implications of ISO to the banking community as a whole and our role in that community, in terms of moving money on our behalf, as well as on behalf of our clients, we felt it was important to make sure that this project had visibility broadly across the bank and across various organizations on up to our C-suite.

Kristin Korzekwa: Yeah, thank you, Greg. I certainly have a more complete understanding of some of the operational implications. And it sounds like quite an undertaking, even just from a stakeholder management and engagement perspective, to your point, to ensure that an important initiative, a critical initiative like this doesn't get sort of lost in the shuffle. So, that's great advice. Well, Greg, thank you so much. This has been a great conversation. We have covered a lot of ground. And thank you very much to our listeners out there for tuning in to today's conversation as well as our Deloitte teammates and friends at Hangar Studios who made the episode possible. If you're looking to go deeper on any of the topics we discussed today with Greg, please check out our podcast webpage at deloitte.com/branchingout where you'll find show notes and relevant links from our conversation today. If you have ideas, suggestions, other feedback about the show, please drop us a note at branchingout@deloitte.com, and we look forward to exploring the future of retail banking again with you soon.