SWIFT Discussion Paper

Achieving Financial Integration in the ASEAN Region

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1 Foreword

The ASEAN region is proceeding with pace on its regional and global integration journey. The formation of the AEC in 2015 has provided further impetus and a future roadmap for the member states towards adopting global trends like pervasive connectivity, digitalisation, interoperability and regional financial market infrastructure development. The roadmap reinforces positioning of the region as one of the strongest and dynamic growth markets globally.

As a global member-owned cooperative and world's leading provider of secure financial messaging services, SWIFT enables more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 markets and territories to communicate securely and exchange standardised financial messages in a reliable way, out of which around 700 are supported in the ASEAN markets.

We remain deeply engaged with the ASEAN community and its vibrant financial sector on multiple areas, including provision of secure and resilient financial messaging, regional and domestic financial market infrastructure development, extending cross-border reach, promoting interoperability and standardisation, enhancing cybersecurity, monitoring, analytical and compliance capabilities across financial transaction flows. SWIFT is also closely engaged with the corporate sector in ASEAN, supporting greater integration into domestic, regional and global economies and enabling trade flows that contribute further to the region's economic growth and opportunity creation.

ASEAN regional financial integration seeks to bring long term, sustained growth to the region. SWIFT looks forward to supporting this journey, and continued cooperation with the wider financial community and corporates to make the ASEAN 2025 vision a reality.

Alain Raes
Chief Executive
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2 Executive Summary

The Association of South East Asian Nations (ASEAN) is acknowledged today to be one of the world's fastest growing and most dynamic regions. Ten member states of the ASEAN region are together projected to grow at an annual average rate of 5.2% over 2016-20[1]. Achieving these projections and continuing towards a strong global position as a unified, single market requires a fundamental rethink to regional financial integration.

Formalisation of the ASEAN Economic Community (AEC) in December 2015 and the AEC 2025 Blueprint encapsulates three enabling areas of Payment and Settlement Systems development, Capital Account Liberalisation and Capacity Building in the region for regional financial integration. The blueprint also recognised the need for key measures like harmonisation of standards and market practices with global standards like ISO 20022, and the creation of regional payment infrastructure and cross-border linkages by 2025.

The thesis of this paper is that the process and pace of ASEAN regional financial integration has been inhibited by a core set of problems that are not being adequately addressed today by plans, public policy and coordination of private sector activity.

These problems are:

- Internal disparity constrains the single market opportunity
- External dependency for payment intermediation
- Corporates are Underserved, under-engaged
- Slow financial infrastructure modernisation, particularly in payment systems
- Digital competency is low
- Stakeholder alignment

ASEAN member states must aim to improve connectivity, eliminate barriers to the cross-border flows, liberalise services, reduce external dependencies, adopt global standards and extend domestic financial market infrastructure modernisation plans towards building regional infrastructure.

Addressing the above core problems will go a long way in providing much-needed impetus to regional financial integration and achievement of the goals established in the AEC 2025 Vision. The ASEAN markets are at an important juncture in their ASEAN integration journey, and it is imperative for the markets to establish the framework and support structure to identify and resolve such problems at the earliest.

1 Economic Outlook for Southeast Asia, China and India 2016: enhancing regional ties, OECD

3 State of ASEAN financial integration

3.1 Inflection Point: Sisyphean Task or Herculean Challenge?

In Greek mythology, Sisyphus was condemned for eternity to roll a huge rock up a long, steep hill, only to watch it roll back down – an unending task that was always unsuccessful. Hercules, on the other hand, was famous for his superhuman strength with which he overcame twelve enormously difficult tasks or “labours” to attain victory, the honourable struggle bringing him recognition and immortality.

The ASEAN region today is akin to a rising, strong Hercules, reported to be one of the world’s fastest growing regions and the most dynamic, accounting for some 8.7% of the global population[2]. This gives the region the third largest labour force in the world, after China and India, with its large youth population bringing further demographic dividend. The region’s working-age population has been expanding quickly, too, and will nearly double to around 500 million by 2020. Rising international trade and investments are steadily binding together the highly diverse economies and creating enormous new opportunities for corporate firms that are based or invested in the region.

Despite this strong outlook, in 2015, growth has slowed in 7 of the 10 ASEAN economies, edging down the regional average to 4.4%[3]. The region stands at a point of inflection today and moving to the next stage of growth will require a fundamental rethink to regional financial integration.

The member states also need to ensure at an early stage that key initiatives not slip into Sisyphean spirals, leaving objectives unattained after significant effort has been expended till the target year of 2025.

3.2 AEC 2025 Blueprint: Way forward for financial integration

The AEC 2025 Blueprint identifies “A Highly Integrated and Cohesive Economy” as a required characteristic for the ASEAN region over the next decade, with the main objective being facilitating seamless movement of goods, services, investment, capital and skilled labour within ASEAN to enhance ASEAN’s trade and production networks, as well as to establish a more unified market for its firms and consumers.

The AEC 2025 Vision asserts that the achievement of a “highly integrated and cohesive economy in ASEAN” requires the financial sector in the region to be inclusive and stable. Intra-ASEAN trade and investment is supported by three enabling areas, namely:

A. Payment and Settlement Systems Enhancements:

- **Modernising Payment Infrastructure:** Enhanced to develop settlement infrastructure for cross-border trade, remittance, retail payment systems and capital markets.

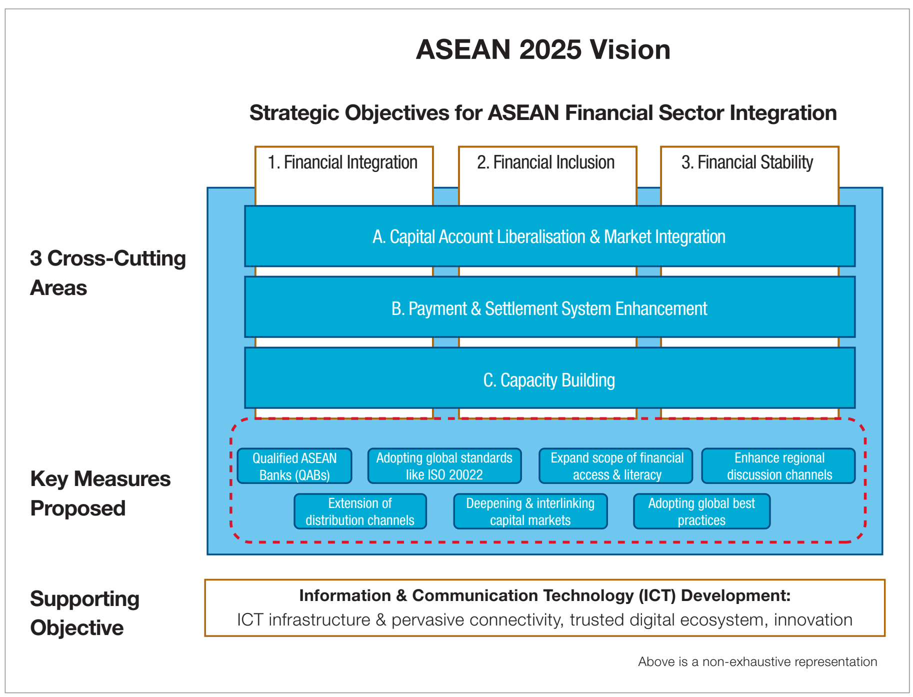


Figure 1.Strategic Objectives for Financial Sector Integration, based on the ASEAN 2025 Blueprint

2 ASEAN Statistical Leaflet – Selected Key Indicators (2016)
3 Asian Development Outlook 2016, ADB

- **Regional Linkages:** Provide an enabling environment to promote regional linkages and payment systems that are safe, efficient and competitive.
- **Harmonised Global Standards:** Requires harmonisation of standards and market practices based on international best practices (such as ISO 20022 – see inset).

B. **Capital Account Liberalisation:** Enhanced to encourage greater flows of capital among ASEAN Member States, to facilitate cross-border investment and lending in the region and following common guiding principles

C. **Capacity Building:** Right-skilling and effective knowledge sharing is required to propagate best practices in financial regulation and supervision, financial inclusion and payment and settlement systems

Various measures related to the ASEAN integration agenda have been initiated by ASEAN member states, and many others are planned to be rolled out. Examples of such measures include bilateral agreements on Qualified ASEAN Bank (QAB) status for regional banks and ISO 20022 adoption within domestic as well as cross-border payments flows in the future.

However, current pace for some of these initiatives, as well as the underlying fundamental problems detailed in Section 4 still present a formidable challenge for these initiatives to achieve the AEC vision objectives by 2025.

What is ISO 20022?

ISO 20022 is a common global standard for financial messaging, and provides an extensible repository of messages supporting all business processes in the financial industry. ISO 20022 provides an approach to unifying multiple existing financial standards (like 15022 or proprietary standards) and is today accepted as the de facto standard promoting global interoperability. As a global member-owned cooperative, SWIFT plays the role of the ISO 20022 Registration Authority, maintaining global and market-specific standard definitions, and sharing knowledge, best practices and expertise on Standards with the global financial community.

The AEC 2025 Blueprint specifies adoption of ISO 20022 by 2025 as a key objective for regional financial integration and development of payments & settlement systems within the ASEAN markets.

4 What is inhibiting ASEAN regional financial integration[4]?

4.1 Internal disparity constrains the single market opportunity

One of the region's most distinctive characteristics is diversity. Regional averages mask huge differences across and within members. As per 2016 ASEAN Statistical leaflet, the per capita GDP in Singapore in 2016 was almost 42 times that of Myanmar. Indonesia, ASEAN region's largest market covering about 40% of the group's land area and GDP, has a population more than 560 times that of Brunei Darussalam, which with 400,000 people is ASEAN's smallest member — yet it boasts a per capita income comparable to that of Western European markets[5].

From an intra-ASEAN perspective, ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand) and LCMVB (Laos, Cambodia, Myanmar, Vietnam and Brunei) represents two major economically diverse groups within ASEAN.

The value of commercial flows in these markets recorded negative growth between 2015 and 2016. However, despite the general slowdown, it is interesting to find that commercial flows within the ASEAN-5 markets are positively growing at +12% by value, while the flows within the LCMVB markets have declined by -7%. The flows between ASEAN-5 and LCMVB also recorded a -26% reduction in value year on year. This is representative of declining trade flows between these two large economic groups, and also within the LCMVB markets, highlighting a widening intra-ASEAN gap that if addressed would help the region achieve it's full potential as a single market.

ASEAN Insights: SWIFT Analysis Methodology Used

The scope of the analysis is MT103 messages, which are SWIFT messages for Credit Transfer payments. These Credit Transfer messages are highly correlated and are a strong proxy for payments settling global trade obligations.

Commercial flows refer to the payment instruction sent by the bank of a Client A, typically a corporate, to the bank of a Client B for the import of goods or services. For example, the bank of Client A in Singapore initiates a payment to Client B's beneficiary bank in Malaysia, for an import to Singapore by Client A of certain goods from Client B in Malaysia.

In this analysis we also refer at times to financial flows related to the above commercial flow, particularly when looking payment intermediation of the commercial flows in a third party country/region. For example, the payment or financial flow for the above commercial transaction between Singapore and Malaysia might be settled in United States, in US Dollars.

Please refer to the appendix for more details on the SWIFT analysis methodology used in this paper.

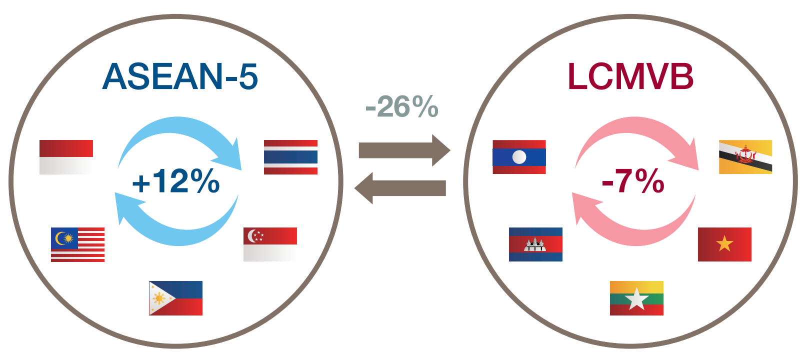


Figure 2. Annual growth in intra-ASEAN commercial flows for ASEAN-5 and LCMVB markets, 2016 Source: SWIFT Watch

4 Refer to the appendix for SWIFT data analysis methodology used in this paper
5 ASEAN 2030: Towards a Borderless Economic Community, 2014

The above also raises the following considerations for review:

- Is there an overall reduction in trade flows within the ASEAN region, and specifically for LCMVB markets?
- Or alternatively is the ASEAN region losing internal trade volumes to new trade routes being formed with markets outside ASEAN?

SWIFT data analysis in Figure 3 indicates that the answer might be closer to the latter, i.e. that LCMVB markets are extending commercial flows (indicative of trade flows) with Extra-ASEAN economies, at the expense of their counterparts in ASEAN.

Which markets are contributing to this growth in extra-ASEAN commercial flows?

Across 2015 to 2016, LCMVB commercial flows with ASEAN-5 markets reduced from 36% to 32% by weight, while extra-ASEAN commercial flows from LCMVB markets increased from 62% to 66% by weight in 2016. The major extra-ASEAN markets that are the recipients of increased commercial flows with LCMVB countries are China, Japan and Hong Kong. LCMVB commercial flows for exports increased by 15% for China, 6% for Japan and by 16% for Hong Kong. LCMVB Markets import related flows from China and Japan also saw a 6% growth, while there was a reduction by 11% for Hong Kong. Commercial activities amongst ASEAN-5 are expanding, increasing from 14% of total commercial flow values in 2015 to 16% in 2016, while that with LCMVB remains stable at around 2%.

Extra-ASEAN commercial flows retain a strong majority by weight in overall commercial flows from the ASEAN region.

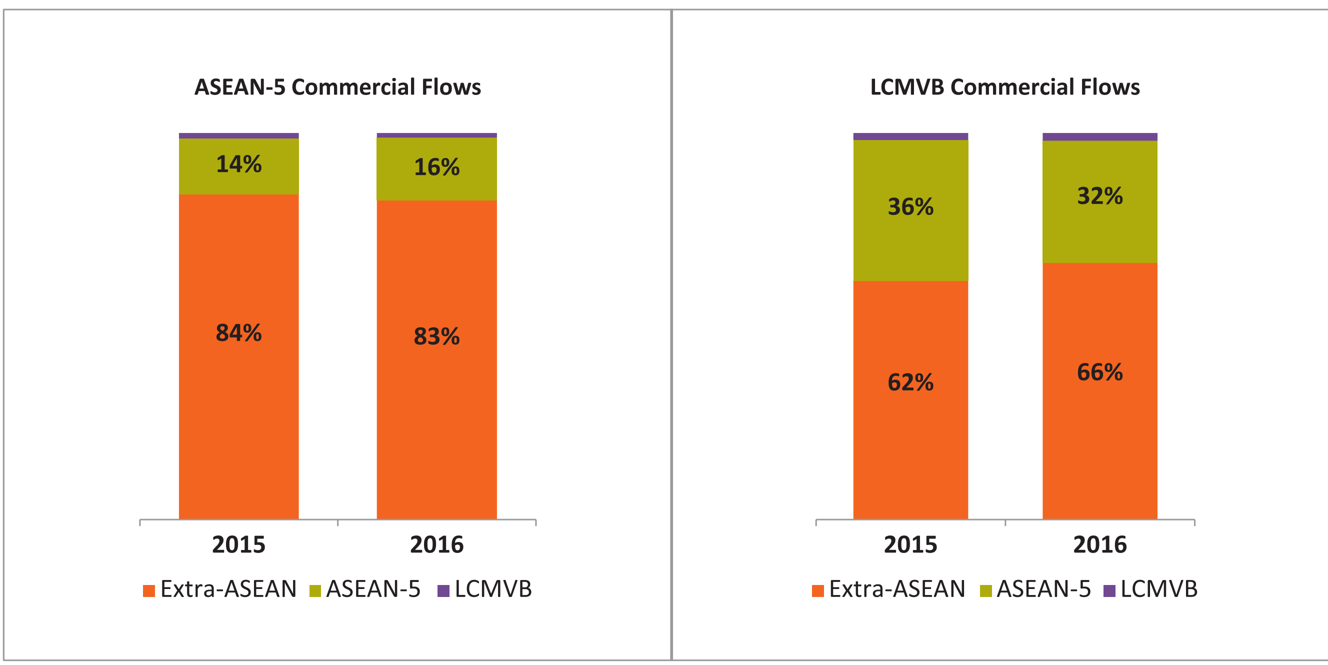


Figure 3. Geographical split for ASEAN-5 and LCMVB Commercial Flows. Source: SWIFT Watch

Figure 4 is another visual representation of intra-ASEAN commercial flows:

- Thicker, denser lines in the upper half indicate relatively higher value of commercial flows amongst the ASEAN-5 group.
- The importance of Singapore in the region and in ASEAN-5 is reflected clearly both as a recipient and initiator of commercial flows in ASEAN
- LCMVB markets in the lower half reflect significantly thinner lines, indicative of lower volumes and growth.
- Some LCMVB markets indicate reduced commercial inflows (incoming red arrows) across many of their ASEAN trade partners.
- As reflected by the heaviest lines in the above map, the largest commercial corridor in the region lies between Singapore and Indonesia – the green colour signifies an overall growth rate YoY of 35% for commercial inflows from Singapore to Indonesia, and growth of 27% in the reverse flow.
- We note a majority of the inward flows to Singapore reflecting positive growth. In stark contrast a reduction in most of the inward flows to Laos, Myanmar, Cambodia and Brunei is noted.

Figure 5 further highlights the disparity between ASEAN-5 and LCMVB markets in terms of relative value of commercial flows, as well as net balances.

- ASEAN-5 markets channelise more than 90% of intra-ASEAN commercial flows, and are relatively more balanced with overall inflows being larger than outflows by 2%
- LCMVB markets represent the minority at less than 10% of total intra-ASEAN commercial flows, and total outflows being larger by 23% than inflows.

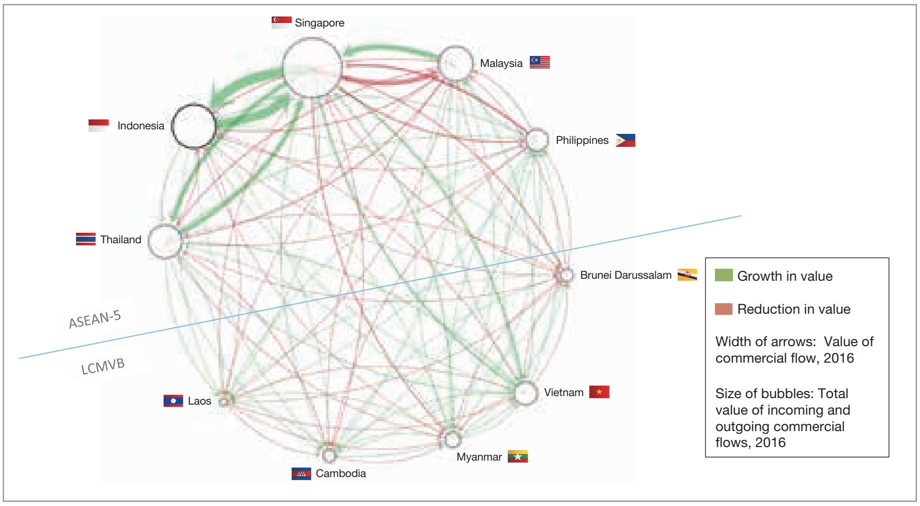


Figure 4. Visual representation of Intra-ASEAN commercial flow volumes and annual growth rate for all markets, 2016. Source: SWIFT Watch

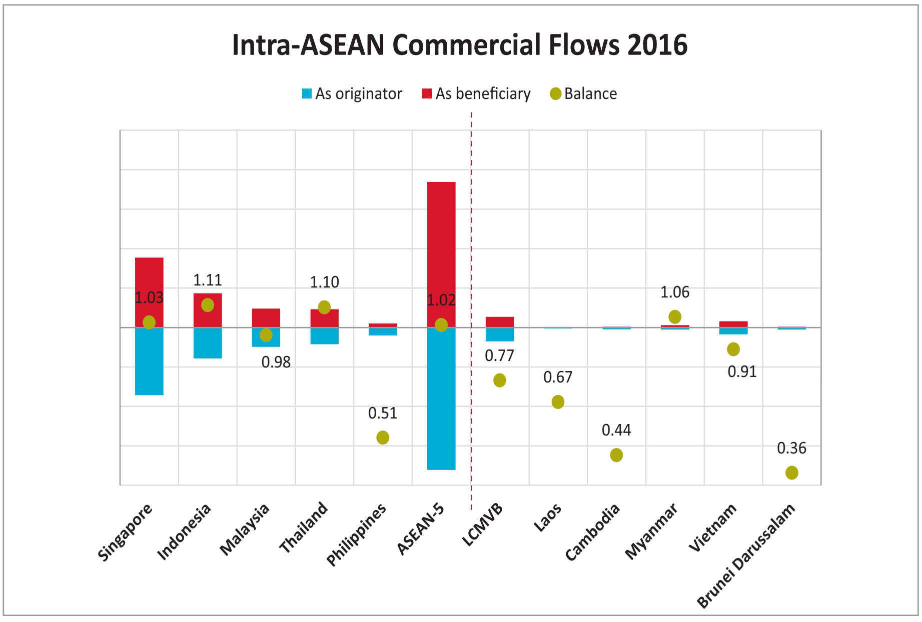


Figure 5. Relative values for inflows (as beneficiary), outflows (as originator) and net balance of intra-ASEAN commercial flows for ASEAN markets, ASEAN-5 and LCMVB for 2016. Source: SWIFT Watch

- Indonesia's commercial inflows are in effect 11% larger than the outflows, marginally higher than Thailand at 10%.
- On the other side of the spectrum we see Laos, where the commercial outflows (as originator) are larger than the inflows (as beneficiary); a gap of 33% is observed.

Singapore: A hub for Intra-ASEAN commercial flows

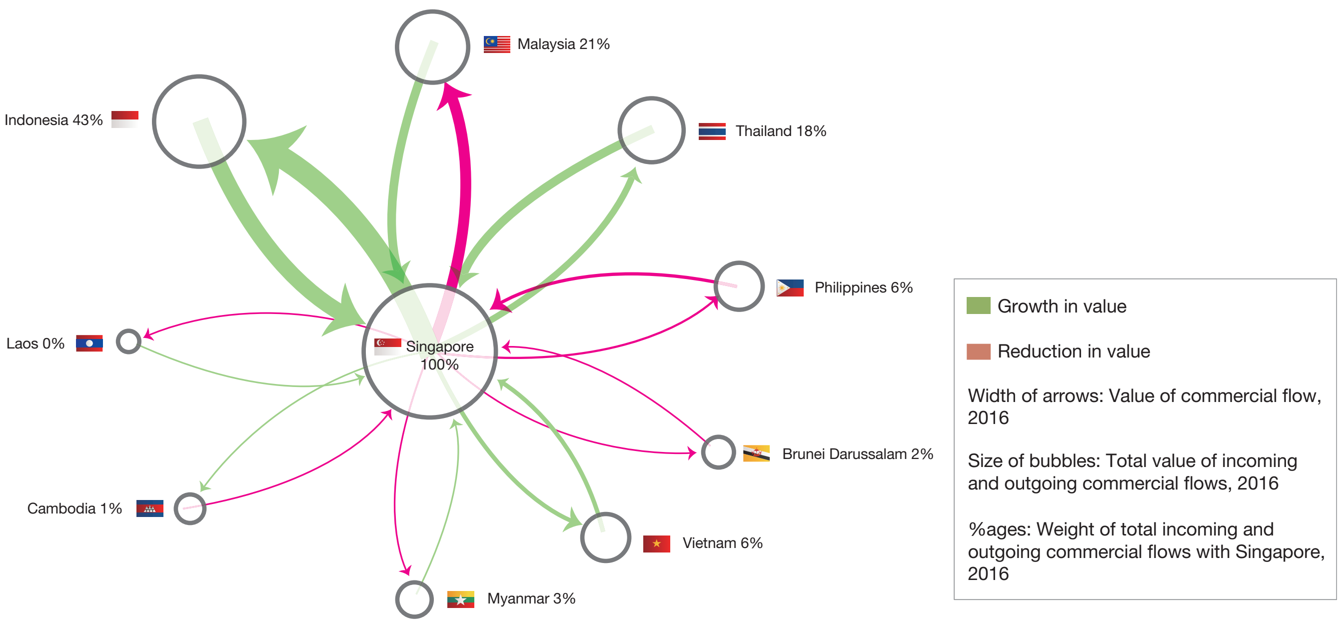


Figure 6. Visual representation of commercial flows between Singapore and other ASEAN markets, 2016. Source: SWIFT Watch

Singapore's strengths in attracting and channelling large capital flows have made it a gateway for foreign direct investment into ASEAN, as evidenced by strong investment in industries that serve regional supply chains, such as logistics, shipping and financial and professional services.

Singapore is clearly the most important market in the region from a commercial flow perspective, with 88% of the flows either originating, or having a beneficiary in Singapore in the first three quarters of 2016.

The largest trade corridor in the region between Singapore and Indonesia and has seen a growth of 35% in commercial flows (representative of trade flows) from Singapore to Indonesia and a growth of 27% in the reverse direction. Only the 7th ranked corridor (between Thailand and Malaysia) is without Singapore being present in the commercial flow. As another comparative review, the size of Thailand – Malaysia corridor represents only about 5% of the value of the corridor between Singapore and Indonesia.

Among the ASEAN-5, Indonesia is the driver of flows with Singapore, noting 24% growth in values received from Singapore, and Indonesia sent in 27% more values into Singapore in 2016. There is a significant reduction in the commercial flows from Singapore to Malaysia (4%), while the reverse direction has increased by 5%. Flows in the Singapore to Thailand corridor saw an increase of 8%, where Thailand had a +1% increase to Singapore.

For LCMVB markets, Brunei has had a drastic drop of flows with Singapore in 2016, a loss of 70% of values sent from Brunei to Singapore, and 80% the other way round. Cambodia, among all its LCMVB peer markets, has received the highest growth in values coming from Singapore at 36%, as opposed to Vietnam (19%), Laos (-11%) and Myanmar (-9%).

With Singapore's pivotal positioning in ASEAN regions commercial flows, a few salient aspects to consider:

- Is Singapore capitalising its advantageous position in ASEAN trade flows to the benefit of the overall ASEAN region? What more can be done in this regard?
- Does this position of Singapore in ASEAN trade flows aid other ASEAN markets?
- With the decreasing commercial flows between LCMVB and ASEAN-5 markets, are the trade corridors from LCMVB countries gradually shifting focus from Singapore as well, to other global trade hubs?

4.2 External dependency for payment intermediation

A significant portion of ASEAN commercial flows have financial flows different from the commercial flow, implying that the market where the trade related payment is being settled is different from the originating and recipient markets. This highlights the ASEAN region's high dependence on extra-ASEAN markets as well as currencies for intra-ASEAN trade related payments settlement.

Let's consider an example of a trade transaction between Singapore and Malaysia with payment currency as US Dollar that is settled in the United States. Here, the commercial flow remains between Singapore and Malaysia, however the financial flow (i.e. payment settlement) is intermediated via United States.

In 2016, 45% of the Intra-ASEAN commercial flows had a different financial flow, a figure that reduced slightly from 49% in 2015. Transactions within the same ASEAN market (domestic commercial flows) saw a cumulative increase of 7% in the payments settled outside ASEAN in 2016 as compared to 2015

Since payments for the majority of Intra-ASEAN commercial flows are currently settled outside ASEAN, some key considerations to review:

- What are the benefits and disadvantages for the ASEAN region with majority of ASEAN commercial transactions being settled outside the region, and in a non-ASEAN currency?
- Are there strong incentives for each ASEAN market to push for settlement of domestic trade transactions in the respective domestic currencies? Are there related programs in individual ASEAN markets and at a regional level to support such an incentive?
- Would a move towards increased settlement of ASEAN domestic trades in domestic currencies provide significant benefits to the ASEAN corporate sector as well, including lowering transaction charges, removal of forex losses, bringing in more predictability and speed to settlement and increasing efficiency across the supply chain?

Intra-ASEAN commercial flows can be classified as cross-border or domestic, where the former implies two different ASEAN markets involved in the trade transaction, and the latter implying commercial flows within one ASEAN market. In both these cases we see that majority of related payments are intermediated outside ASEAN.

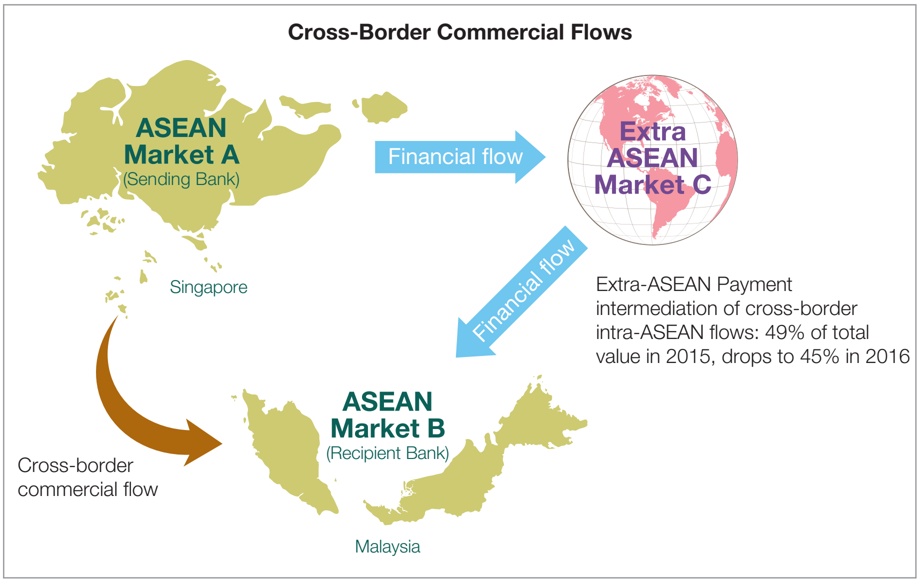


Figure 7a. External payments intermediation of cross-border intra-ASEAN commercial flows. Source: SWIFT Watch

For these domestic flows, as shown in Figure 8, ASEAN-5 markets are driving the cumulative growth of 7% for the region, with 18% of the payments for Singapore domestic commercial flows being externally intermediated, and higher at 21% for Malaysia and 22% for Thailand.

In the LCMVB markets, Vietnam had an increase of +203% year on year in financial flows settled outside the market. The same flows have decreased by -24% for Indonesia, -27% for Philippines.

SWIFT Data Analysis indicates that for commercial payments originating from ASEAN and going outside the region, or to a beneficiary within ASEAN, majority of transactions have the US Dollar as the settlement currency. For intra-ASEAN commercial flows, usage by weight of US Dollar is 85% of total, while for extra-ASEAN commercial flows, the weight is 78%.

Bank of Thailand observed recently that in 2015 currencies of "advanced markets" accounted for 85% of Thailand trade with key ASEAN trade partners like Indonesia and Malaysia[6].

The largest part of payments being intermediated outside ASEAN are US Dollar denominated (96%) and are cleared through the United States (97% of US Dollar flows), with only a small part being EUR-denominated (1.5%) and intermediated through Europe. In 2016, see a decrease of 37% in the CNY being used as the clearing currency for financial flows. Only 0.3% of the intra-ASEAN cross-border flows are being cleared in Hong Kong, while clearing in Hong Kong for ASEAN domestic flows halved from 6%, to 3% of total.

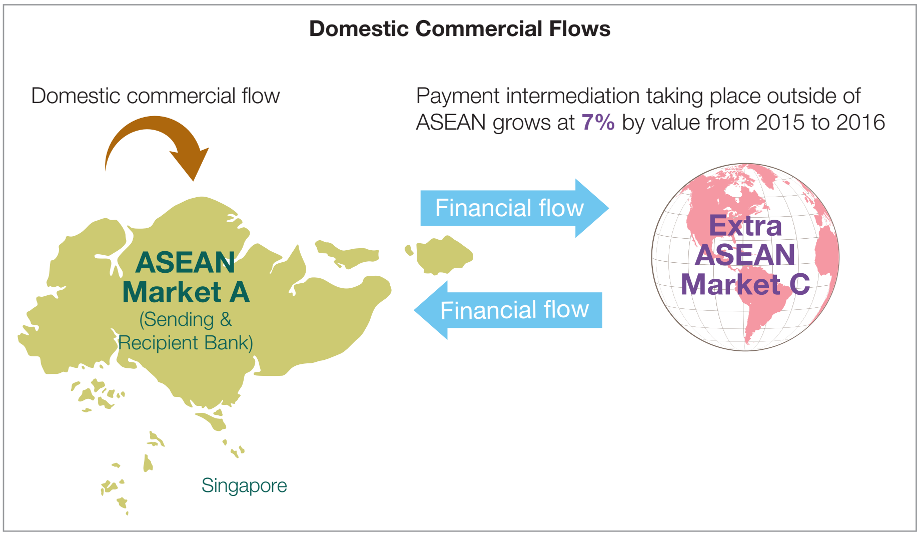


Figure 7b. External payments intermediation for commercial flows within single ASEAN market Source: SWIFT Watch

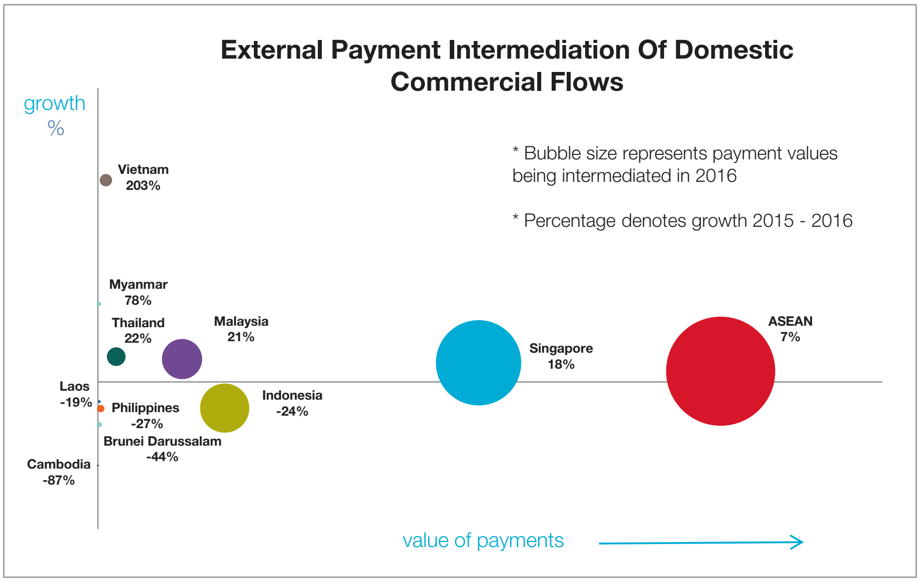


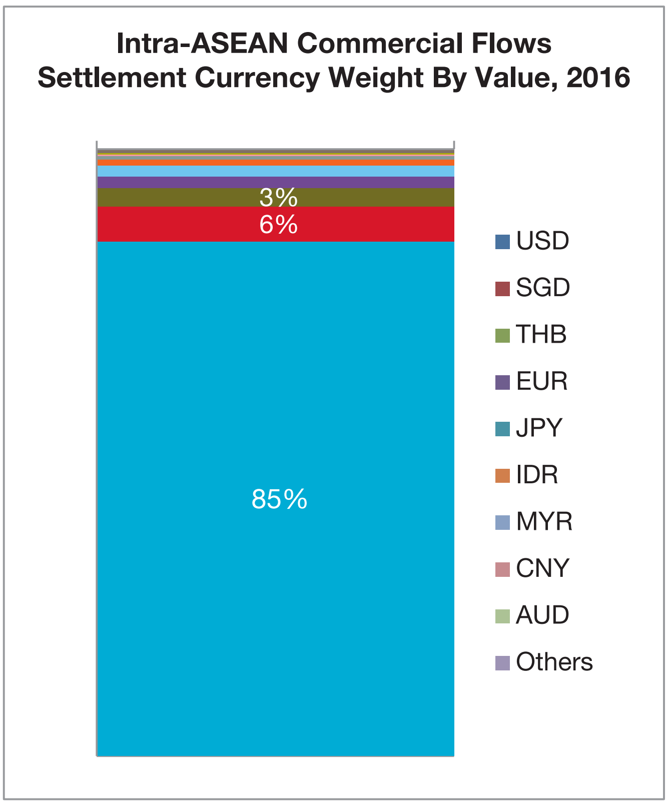
Figure 8. Annual growth in payments intermediated in non-ASEAN market for commercial flows originating and ending in same ASEAN market. Source: SWIFT Watch

6 Bank Of Thailand Governor's Speech on "Monetary policy challenges during the great transition: perspectives from an emerging market central bank", Dec 2016

The settlement currency dominance by the US Dollar is reflecting an upward trend, illustrated by a 10% growth in volumes YoY from 2015. At the same time we see a major decline (45%) in the usage of the Singapore Dollar for the same commercial flows, with an increase in the other material currencies like the Euro, Japanese Yen and also ASEAN currencies like the Malaysian Ringitt – at the expense of the Singapore Dollar.

United States hence continues to be the primary clearing centre for ASEAN commercial flows by volume, accounting for majority of the total intra-ASEAN trade. However in terms of value, United States actually reflected a marginal decrease of 3% in 2016.

In terms of value Hong Kong's position as a clearing centre has slipped as well (-22%) whereas Singapore still retains its pivotal position. The value of intra-ASEAN payments processed in Singapore has increased by 15% in 2016.



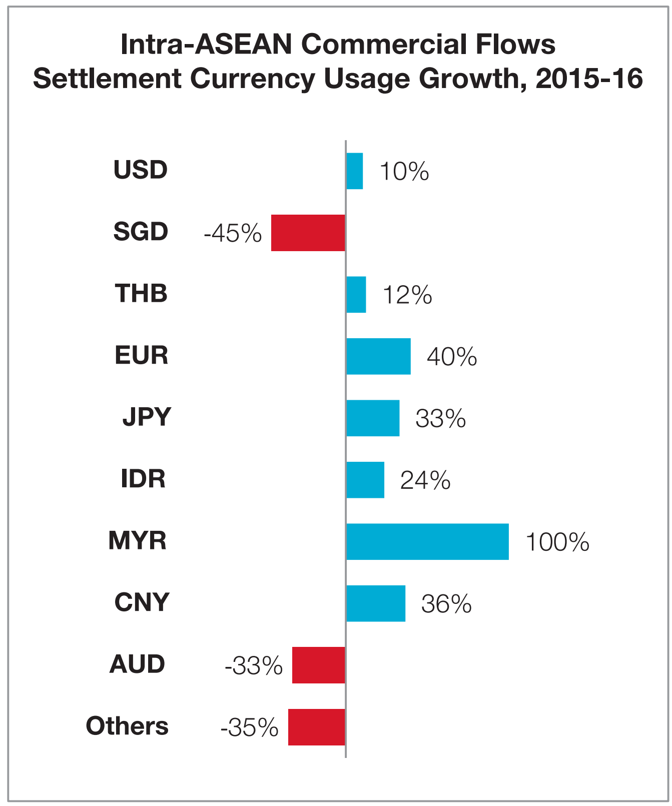


Figure 9a (left). Settlement currency usage for intra-ASEAN commercial flows, weighted by value for 2016
Figure 9b (right). Settlement currency usage for intra-ASEAN commercial flows, annual growth from 2015 to 2016
Source: SWIFT Watch

Extra-ASEAN Commercial Flows: Currency Usage

For 2016 cross-border commercial flows with a beneficiary outside of ASEAN, US Dollar is the settlement currency in 78% of the cases and has been stable. Also in those flows the United States remains the main clearing centre for associated financial flows.

As per Figure 10, ASEAN markets reflect a predominance of the US Dollar for commercial flows to the extra-ASEAN markets. EUR as a currency for the financial flow has increased across the board, but varies significantly in importance in each of the markets. CNY is still negligible as a commercial payments currency and varies in growth and weight across the region.

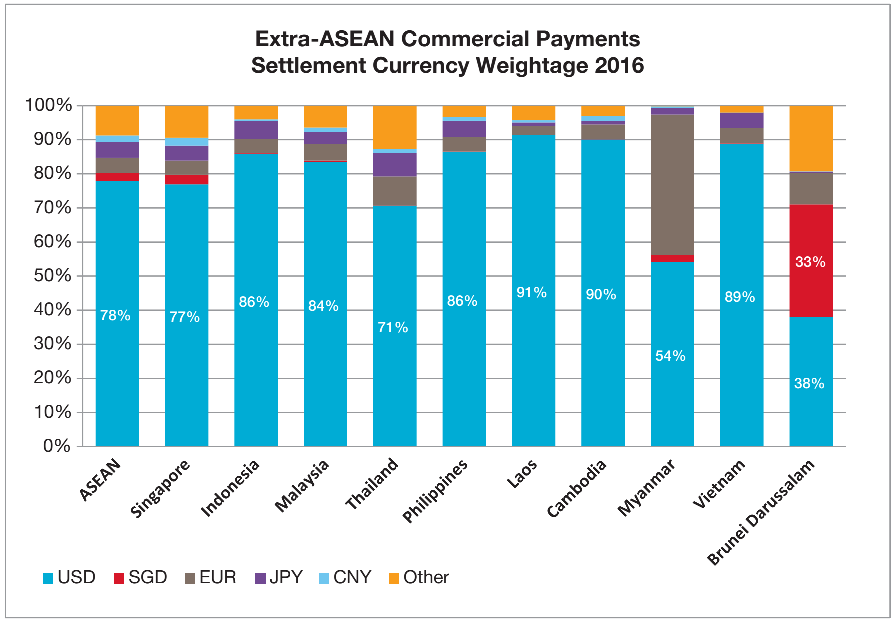


Figure 10 Settlement currency weighted usage for extra-ASEAN commercial flows in 2016 markets Source: SWIFT Watch

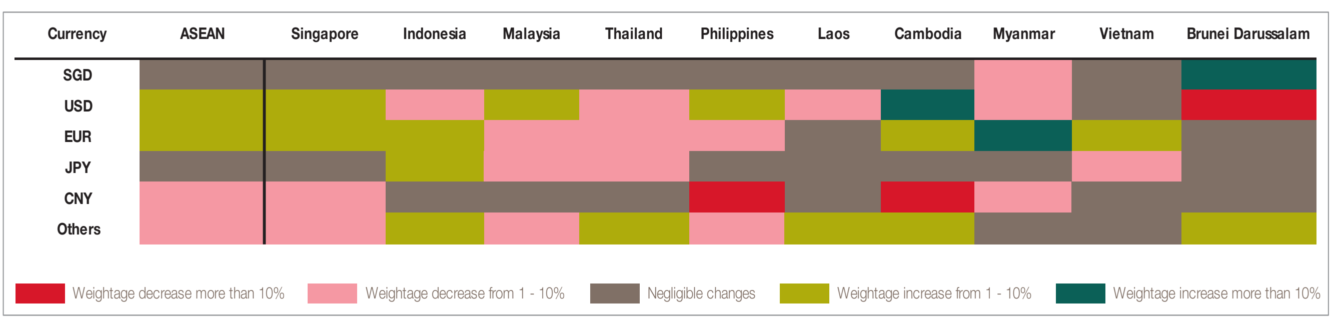


Figure 11 Annual trend in ASEAN weighted usage of currencies for extra-ASEAN commercial flows, 2015-2016. Source: SWIFT Watch

Figure 11 indicates changing trends in currency usage across ASEAN markets:

- Brunei commercial flows had a decline in usage of USD and a significant increase in usage of SGD (increased by more than 10%)
- Cambodia had a significant increase in usage of USD and reduced usage of CNY, while Myanmar had an increase in the use of EUR for commercial flows
- Philippines commercial flows also had a reduction in CNY usage, with increase in USD and EUR.

4.3 Underserved and underengaged corporates

The ASEAN Economic Community is expected to enhance cross-border production linkages further and local businesses must be ready for upcoming challenges. At the same time, they can take advantage of the changes and expand their operations across ASEAN, transforming into real regional entities or “ASEAN enterprises”. However, local firms often lack access to information about market characteristics and potential customers. Moreover, many small firms have limited ability to use existing data to develop business strategies. Supportive policy, regional initiatives and financial market infrastructure to address such challenges will strengthen the private sector’s role in deepening ASEAN integration from the grass root level.

Over the past few years, ASEAN members have proliferated Free Trade Agreements (FTAs) and broader economic partnership agreements (EPAs) to facilitate trade and investment with key economic partners — and allowing firms to boost competitiveness. Notable agreements with extensive ASEAN and extra-ASEAN membership include the Trans-pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

With many such initiatives facilitating growth in ASEAN trade and underscoring the strong potential in the region, recent industry studies have reflected a positive sentiment towards ASEAN integration related benefits, with a watchful eye however on actual achievements, involvement of the corporate sector and benefits accruing to the Corporate sector, for example towards maturity of regional infrastructure for banking and payments services.

Some excerpts from these studies:

- Micro, Small and Medium Sized (MSME) Enterprises represent upto 96% of all enterprises, 60% to 90% of all employment, and 30% to 60% of GDP across ASEAN member states. And yet the programme to make regional integration work for them has (at best) made steady, not stellar progress.
- As per a Boston Consulting Group (BCG) study[7] of companies’ sentiment on ASEAN integration undertaken in 2014, companies both within and outside the region are remarkably bullish about what integration will mean for their businesses and industries, as well as for ASEAN economies. In fact, most of them are actively preparing for integration.
- An AmCham and US Chamber of Commerce study indicated that 86% of surveyed US companies expected their level of trade and investment in ASEAN to increase over the next five years, with the top three reasons being diversification of their customer base (41%), maximising regional integration (34%), and capitalizing improvements in infrastructure (33%)[8].

What are the reasons for the above optimism? Some insights are provided by the BCG study:

- The ten nations of ASEAN are on track to create one of the world’s most important economic growth zones. The region’s strong productivity growth indicates that Southeast Asia’s private sector is determined to improve its competitiveness.
- Actions taken by ASEAN governments and private sector post 1997-98 crisis provided a strong, stable footing that is fully supported by mature banking systems. Private sector has responded vigorously to market-opening moves like the signing of trade agreements with other markets.
- More recent government efforts to foster trade integration, like the AEC goals of achieving a “single market” and programs within individual markets promoting the positive impact of regional integration amongst the corporate community.
- ASEAN’s growing, relatively young, and increasingly affluent population remains a key driver of growth.
- Integration is fostering the rise of regional companies and brands, many with strong international presence or ambition
- Regardless of whether the AEC goals are achieved on schedule, the process of integration has gained momentum of its own, driven by a private sector that recognises the region’s growing opportunities. Even if government progress stalls, companies are confident that the negative impact on growth would be minimal. If the AEC goals are attained, on the other hand, the upside would be significant.

7 “Winning in ASEAN: How Companies Are Preparing for Economic Integration”, BCG Perspectives, 2014
8 ASEAN Business Outlook Survey 2016, AmCham and US Chamber of Commerce

Industry Insight: ASEAN Integration for Corporates

By Chris Humphrey, Executive Director, EU-ASEAN Business Council

At the ASEAN Leaders' Summit in Kuala Lumpur in November 2015, ASEAN declared the inauguration of the ASEAN Economic Community (AEC), heralding a key development in the much anticipated and welcomed ASEAN integration project. However, as any one doing business in the region will tell you, and indeed as ASEAN and its Member States readily acknowledge, the AEC is far from complete. There has been good progress, most notably on tariffs, but there is still a long way to go, particularly in the area of removing non-tariff barriers to trade, opening up service industries and in developing financial markets. To date, perhaps, most significantly, the biggest achievement so far of the AEC has been to raise awareness of the region as a place to do business and invest in.

Taken as a single market, ASEAN has the 6th largest GDP in the world, according to the latest World Bank figures, the third largest population, the third largest foreign exchange reserves and the fourth highest export values. This has not gone unnoticed – many European businesses see huge opportunities in this region which is why Europe is ASEAN's largest source of foreign direct investment, accounting for around a fifth of inward FDI in 2015. Foreign direct investment inflows to ASEAN have skyrocketed from just US$22.6 billion in 2000 to US$121 billion in 2015, a testament to the surge in confidence in the region's economic strength and taking FDI flows to the region beyond those to China.

For many, ASEAN is seen as it should be: a hot bed of innovation, opportunities and possibilities. This is a very dynamic and growing region; a region that has the potential to be the key driver for growth not just in Asia but also for the global economy. GDP growth across the region as a whole is still predicted to be above 5% for the next few years, surpassing anything that the more developed world is presently seeing.

ASEAN has also grown increasingly vital to the Asia Pacific's trade and commercial environment. The AEC should act as a catalyst to boost intra-regional trade. However, as noted above, much needs to be done to bring the full benefits to fruition and ensure that the economic prosperity and development that the AEC promises is felt in every part of the region. An example of the distance to be travelled still lies in banking penetration rates: according to McKinsey & Co nearly three-quarters of the people in Vietnam, the Philippines and Indonesia do not have formal bank accounts – until this changes the full potential of things such as e-commerce, which rely on the ability of buyers and sellers to easily send and receive payments, will remain unrealised.

We see a number of key areas that ASEAN needs to more rapidly address to ensure that the full potential of the AEC is realised. These include:

- Easing cross border payments and money flows to enable intra-ASEAN trade and, in particular, to assist MSMEs in cross-border transactions;
- Easing customs procedures to remove unnecessary bureaucracy, through greater dispensations for lower value goods and increased automation of paperwork – again something that would greatly assist MSMEs;
- Accelerating the removal of Non-tariff Barriers (NTBs), which would allow for increased intra-ASEAN trade and improved market access, thus promoting competition and lowering costs; and,
- Developing deeper and more comprehensive capital and bond markets to help with long term investments which are all vital to the economic and social development of the region.

This is by no means an exhaustive list, but each of these would help enormously in the economic development and integration of region – heling MSMEs and MNCs alike, and helping to ensure that economic prosperity is move evenly spread.

The region needs to speed up the implementation of the AEC to achieve each of the items above. Putting in place a regional wide payments and settlement system would speed cross border payments and reduce costs for all concerned – something that SWIFT is working on. Customs is an area where quick wins are possible, and there are signs of movement in the right direction on this, but it means transforming minds from revenue collection as the prime focus of customs authorities to one of trade facilitation: increased automation will assist and this is coming, slowly, but changes in policies and regulations by governments are needed.

Removing NTBs in the region remains perhaps the biggest single challenge. Non-Tariff Measures, not all of which are admittedly NTBs, have been on the rise. At last, with the Masterplan on ASEAN Connectivity, there is a concrete and more realistic plan to work towards their removal – but ASEAN need to bite the bullet collectively on this and involve the private sector more to identify the true NTBs and to prioritise them.

Finally, changing rules and regulations to allow for more innovative investment vehicles and greater freedom for insurance companies in particular investing funds in longer-term schemes is essential if ASEAN is to fund its huge investment needs. This is not an overnight task, but it is something that is becoming increasingly urgent.

4.4 Slow financial infrastructure modernisation, particularly in payment systems

As per the ASEAN 2025 blueprint, one of the key enablers for financial integration in the ASEAN region is the modernisation of the domestic Payments & Settlement Systems and the formulation of a regional payments infrastructure.

ASEAN member states are currently at varied stages of maturity in reviewing and implementing modernisation plans for Payment and Settlement Systems, promoting standardisation, developing settlement infrastructure for cross-border trade, remittance, retail payment systems and capital markets in the region. The resultant momentum is expected to enable an environment that promotes regional linkages, supports deeper integration of SME’s and Corporates from the ASEAN region in global value chains, boosting regional and international trade, while increasing treasury function efficiency and speed of payments.

Harmonisation of standards and market practices in ASEAN in alignment with international best practices like ISO 20022 will foster greater stability and efficiency within as well as outside the region. ASEAN markets, led by their respective central banks and regional forums like the Working Committee for Payments and Settlement Systems (WCPSS), are currently reviewing models for regional payments integration along with the adoption of a common standard like ISO 20022 as a strong enabler.

Some key considerations towards reaching an equitable, mature and globally competitive end-state of payment market infrastructures across the ASEAN region:

- What are the challenges for the ASEAN region in achieving equitable maturity in payments markets infrastructures? Is equitable maturity a preferred and achievable end state for the region?
- Is the increase in trade volumes of ASEAN markets with global markets adequately supported by adoption of global standards for interoperability? The AEC 2025 Vision expects adoption of global standards like ISO 20022 by 2025, is that an achievable goal for the ASEAN markets today?
- With high disparity in maturity of payments market infrastructures across ASEAN markets, what is the best approach to aligning the region as a whole on a common regional payments market infrastructure, as envisaged by the AEC 2025 blueprint. Are there any learnings from other regionalisation initiatives? What are the initial steps to be taken on a more immediate basis?
- How important is public-private collaboration for the success of such endeavours? What would be the best model to ensure balanced and full participation from all relevant stakeholders?
- Are there any ongoing global initiatives that the ASEAN markets can adopt holistically to support the regions Financial Integration initiatives? What are some of the global best practices that can be imbibed by ASEAN as part of its regional payments integration journey?

Let's review some of these aspects in further detail. Figure 12 summarises current status and ongoing payments and settlement system developments across the ASEAN domestic markets:

	Payments & Settlement Systems			Recent Highlights
	High Value/ RTGS	Bulk Low Value/ACH	Real- Time/ RT-RPS	
Brunei Darussalam	✓BN-RTGS	✓BN- ACH	✗	• Launched RTGS, ACH, e-cheques on ISO 20022
Cambodia	✗	✓NCS	✗	• Reviewing Payments Modernisation plans
Laos	✓LA-RTGS	✓	✗	• Reviewing Payments Modernisation plans
Indonesia	✓BI-RTGS	✓	✗	• Reviewing Payments Modernisation plans
Malaysia	✓RENTAS	✓	WIP	• Implementing Real-Time Payments infrastructure on ISO 20022 • Multi-currency RTGS services launched in 2016 • Reviewing adoption of ISO 20022 for high value payments
Myanmar	✓CBM-NET	✗	✗	• Reviewing Payments Modernisation plans
Philippines	✓PhilPaSS	✓	WIP: NRPS	• Reviewing ISO 20022 adoption for high value payments • Reviewing Real Time Payments
Singapore	✓MEPS+	✓	✓FAST	• Published Singapore Payments Roadmap, reviewing governance and legal framework • Ongoing implementation of Central Addressing System for FAST • Launched industry consultation on Payments
Thailand	✓BAHTNET	✓	✓PromptPay	• National e-Payment Master Plan being implemented • PromptPay launched in 2017 • Central Bank interested in upgrading payment systems to international standards
Vietnam	✓ HVTS	✓LVTS	WIP	• Payments roadmap being finalised • Central bank led community review of ISO 20022 in progress • Reviewing low value payments modernisation plan for Real-time and ISO 20022 standards

Note: The above listing of market infrastructures and highlights is non-exhaustive, and as per information available at the time of drafting this paper. RTGS: Real Time Gross Settlement, ACH: Automated Clearing House, RT-RPS: Real Time- Retail Payments System

Legend:

ISO 20022: Not planned / Not Applicable

ISO 20022: Under review

ISO 20022 implemented

WIP: PSS modernisation plans are currently under review/or implementations are in progress

Figure 12. ASEAN payment market infrastructures and ISO 20022 maturity. Source: SWIFT

Low ISO 20022 Adoption: Figure 12 highlights that a large segment of the ASEAN region has not even taken initial steps towards moving their payments market infrastructure towards adoption of global standards like ISO 20022. Despite this being a stated key objective in the AEC 2025 blueprint, the region as a whole is still distant from capitalising on the benefits of adopting ISO 20022 across payments, trade and securities-related flows. Some of the benefits from ISO 20022 implementations:

- Accepted as the de facto standard for the global financial community, streamlining cross-border interoperability with other markets
- Provides an extensible, scalable structure and methodology for definition of local market practice derivable from available global standard
- “Future proof”, extendable to new technologies and business constructs as they emerge
- Providing greater ease in technical integration and information interchange
- Enabling more “intelligent messaging” with richer data and extended business functionalities, like extended reference information for remittance instructions and supporting deeper analytics
- Availability as an open standard, providing coverage and usage across the entire financial industry

Varying Maturity in Payments Infrastructure: Maturity of domestic payments market infrastructure varies widely in ASEAN markets. While some markets like Singapore are quite advanced there are many markets that are establishing renewal programs for legacy payment systems, and beginning to understand the potential benefits of global standards like ISO 20022.

Despite this diversity, there are a few notable trends across ASEAN payments markets:

- **Renewal** – Payment market infrastructures in ASEAN are currently reviewing and implementing various renewal options on their legacy payments markets infrastructure. These include adoption of global standards like ISO 20022, secure and resilient connectivity options, extension of operating hours and days, increasing number of settlement cycles per day etc. to better serve the increasing demands of their respective, growing markets
- **Resiliency** – With rising cyber threats and the need for increased readiness levels, payment market infrastructures are reviewing enablement of multi-layered resiliency frameworks, supported by strong cybersecurity and governance controls
- **Regionalisation** – Domestic payments modernization programs are gradually aligning with regional initiatives like the AEC 2025 Blueprint however a universally accepted approach is yet to emerge
- **Regulation** – Regulatory mandates and guidelines are influencing core and ancillary payments processes and systems, and includes regulation related to sanctions screening, compliance, Know-Your-Customer, regulatory reporting and other areas
- **Real time** – There is a gradual move to implement real time payments infrastructure, operating 24 X 7 X 365, although systems are being implemented in non-standardised manner meaning that interoperability across markets may be challenging. The usage is mostly for low value retail payments, and utilization of the service itself by end customers is typically driven via payment services on digital channels like mobile, internet banking and ATMs with anytime, anywhere access. Other features noted in ASEAN real time payments include deployment of centralised addressing service for easing customer friction at payment initiation, and the usage of ISO 20022 standards.
- **Reinvention** – We also note multiple government and central bank-led initiatives in the ASEAN markets reviewing emerging and innovative technologies for application to payment systems. Many of the central banks in ASEAN have now allocated resources to develop their Fintech and Innovation agenda, and to drive industry engagement and future roadmap as per maturity of the respective markets. Global cross-border payments are also undergoing extensive innovation and change. SWIFT and the global banking community-led global payment innovation (gpi) program is bringing same day credits, more predictability on fees and transparency to global cross border payments. Banks in ASEAN are actively participating in this initiative as well, towards providing the above benefits to their corporate clients.

Regional Payments Integration needing strong regional governance and public-private collaboration:

From a regional perspective, various ASEAN bodies like the WCPSS, Committee of of Foreign Investment and Trade (COFIT), neutral organisations like SWIFT and many other stakeholders have been reviewing possible options of implementing regional payments infrastructure, however key questions remain around identification of a universally accepted regional payments integration approach, lack of a central regional payments governance body engaging both public and private sector representation, lack of a single trading currency in the region, varied maturity in deployment of global standards like ISO 20022 in the region, amongst others.

SWIFT remains a strong advocate and supporter of regionalisation initiatives to further progress financial market development. Given that ASEAN region is not a common, harmonised market in the European sense, regional payments integration here requires a solution that provides harmony, whilst preserving the inherent diversity of the region.

Learnings From Other Regional Payments Integration Programs

Other regional integration efforts like South African Development Community (SADC) and the Single European Payment Area share common traits, including the establishment of empowered centralised governance bodies, a common regional payments framework, strong public-private collaboration early in the effort, utilisation of global best practices & expertise, and the use of global standards like ISO 20022.

	Single European Payment Area (SEPA)	South African Development Community (SADC)
Where do we start?	• Payment Schemes – SEPA Credit Transfers, SEPA Direct Debits • Cards: SEPA Cards Framework • Promote reuse and cost efficiencies	• Cross border & intra-SADC transactions • Initial focus: High Value Payments Systems integration • Start with Common Monetary Area (CMA) markets • Promote reuse, cost efficiencies and Straight Through Processing (STP)
Who defines the principles of engagement?	• European Payment Council (EPC): Harmonising e-payment schemes, achieving SEPA vision, coordinating with other stakeholders • Public-Private collaboration (Eurosystem, European Commission, EPC, Government institutions, SWIFT and others) • Multiple guidelines and papers were issued	• Bankers Association (SADC-BA) – determines all aspects related to central RTGS • Public-Private collaboration (SADC-BA and Committee of Central Bank Governors) for payments integration, • Others: Banks, World Bank, SWIFT etc. • Regional Market Practice guidebook called “Beige Book” issued by SADC-BA
How to reach a common understanding?	• Standards: ISO 20022, BIC, IBAN, SEPA Cards Standardisation Volume • Others: Single EURO currency	• Use of international standards to ensure interoperability • Each market keep its own currency and financial infrastructure • Regional settlement currency ZAR (South African Rand)

Figure 13. Learnings from SEPA and SADC for ASEAN Regionalisation Initiatives. The above list is a non-exhaustive representation. Source: SWIFT

Establish centralised governance body

Hence, as a first step towards achieving the goal of regional financial integration, SWIFT strongly recommends the establishment/identification of a centralised governance body for driving relevant public-private sector participation, tasked with the objective of initiating, promoting and executing standardisation of payments in ASEAN markets, and in parallel developing the regional payments infrastructure roadmap.

Reuse infrastructure where possible

Due to the diverse nature of the region and varying readiness and maturity of the domestic payments and settlement systems in the ASEAN markets, it will be beneficial to focus on infrastructure reuse and starting with design fundamentals of a harmonised cross-border standard for the region, with utilisation of global standards like ISO 20022. The ASEAN region must also review and utilise global best practices, experience and expertise from other regional payments initiatives.

Ensure ISO 20022 adoption plans in place for all ASEAN markets

Adoption of global standards like ISO 20022 is recognised by the AEC as a 20205 Blueprint goal, Currently the assessment and preparedness levels of the individual markets for ISO 20022 adoption are greatly varied, and requiring each market to define their roadmap to achieving this goal. As a global member-owned cooperative, and Registration Authority (RA) for ISO 20022, SWIFT remains fully committed to supporting payments modernisation and regionalisation initiatives in ASEAN, including ISO 20022 adoption related initiatives.

4.5 Digital competency is low

It took more than two decades to connect the world's first three billion people to the Internet; the next billion will come online in a matter of years. Whereas the first two billion used a PC to get online, the next wave of users will make digital decisions on a mobile device. This new generation is predominantly young and living in emerging markets, such as ASEAN. To play a significant role in this new digital era, ASEAN has to keep pace with technology. ASEAN's strong and vibrant economy, favourable demographics, ICT investments, and ongoing economic integration have laid the foundation for the region to become a global leader in the digital economy, with a potential to add an incremental $1 Trillion in GDP over next 10 years[9].

ASEAN 2025 blueprint also acknowledges this driver for growth, and establishes Information and Communication Technology (ICT) Development as a key objective for ASEAN markets over the next decade, specifically focusing on:

- **Pervasive connectivity in ASEAN:** Strong ICT infrastructure to facilitate the creation of a business environment conducive to attracting and promoting trade, investment and entrepreneurship.
- **Innovation:** Support ICT innovations and entrepreneurship as well as new technological developments such as Smart City, and Big Data and Analytics
- **Building a trusted digital ecosystem** including through further strengthening cooperation on cyber security and developing measures to protect personal data.

Fragmentation, inefficiency, paper flows

From an ASEAN region perspective, trade related workflows are today supported by largely paper based flows, which inherently retain growing inefficiency within the burgeoning trade volumes within the region. Though the AEC promotes Trade Digitisation initiatives in many of the ASEAN markets, these remain focused on digitising the trade lifecycle within individual markets, and the regional view still remains fragmented with these programs moving ahead slowly in a siloed manner. Maturity of the in-market trade digitisation initiatives is a necessary step however, before regional goals can be achieved.

There is also a growing demand from various stakeholders, including corporates, commercial banks and government agencies, to move towards paperless transactions, automation of end to end processes with new digital trade finance instruments and technologies.

As a key enabler of trade, modernisation of payment infrastructure remains a tightly coupled dependency for trade digitisation in the ASEAN region, however with a large disparity existing today amongst payment systems maturity across ASEAN markets, a significant gap remains in addressing this need.

Other areas of required focus include adoption of global standards like ISO 20022 for streamlining and optimising exchange of trade related messaging, accelerating handing of document discrepancies and enhancing visibility on credit lines.

9 The ASEAN Digital Revolution, A.T. Kearney

Digital Disruption, Cybersecurity and Emerging Technologies

Emerging and innovative technologies are changing traditional models of operation in ASEAN, and have specially impacted the distribution of services in the last mile. Pervasive mobile and internet penetration across the region have changed the nature of business across retail, corporate as well as government related flows and given a new definition to building customer experience journeys.

ASEAN economies' progress on the digital roadmap goes hand in hand with increasing cybersecurity threats as well as the need for sophisticated protection. There is a strong need for collaboration on this area to ensure the financial community is aware, prepared and tooled to protect against breaches, thefts and attacks. SWIFT has also initiated a global program called the CSP (Cyber Security Program) that supports the global financial community, including ASEAN, in being better prepared and aligned against this rising threat.

Emerging technologies like distributed ledger technology, big data analytics, API's, cloud and mobile are bringing in new business models, higher efficiencies and changing the customer experience in ASEAN markets. Many of the ASEAN markets have either formalised or are creating forums and supervisory bodies to manage the markets Fintech and Innovation agenda. Some of the ASEAN central banks have also taken lead in their markets on the financial innovation agenda.

4.6 Stakeholder alignment

One of the key challenges to successful integration in the ASEAN region remains coordination between various integration initiatives and national agendas, regional and sub-regional initiatives, while avoiding duplication and moving in the same direction.

Many of the challenges faced due to insufficient capacities can be addressed by carefully aligning planning and implementation at various organisational levels[10]:

- Building the ASEAN Economic Community as a priority goal does not feature prominently as an explicit target in many national plans. In general, national and regional targets do not typically align, though this varies according to the market and sector considered.
- A greater degree of alignment with aspects of the AEC Blueprint is seen when domestic policy is central to implementation, and in the promotion of SMEs, priority integration sectors and other industries explicitly covered by the Blueprint.

10 OECD Economic Outlook for Southeast Asia, China and India 2016

Figure 14 contains a non-exhaustive list of key stakeholders in the region providing momentum to various initiatives and measures supporting the regional financial integration agenda.

This list is an indication of the significant and wide-based effort being applied towards ASEAN Financial integration initiatives, and also hints at inherent challenges related to stakeholder alignment, decision making, strong governance, end accountability for a multitude of actions required to achieve regional financial integration goals.

One of the key stipulations under the AEC is the need for well-coordinated Public-Private partnership in solving integration problems, which inherently mandates closer coordination and centralised oversight over larger groups with complex compositions. Currently this is an area of challenge, and though the dynamics of the individual groups/ forums/organisations drives aggressive action plans, at a holistic level there is a large gap to be covered in streamlining, concentrating and orchestrating the end results successfully.

Some considerations for review:

- Which ASEAN integration initiatives will benefit from improved stakeholder alignment? What measures can be taken to be taken to achieve this in the short to medium term?
- How important is a balanced approach towards public-private engagement in integration initiatives? How can that be established/enhanced for regional programs across ASEAN?
- Are there any learnings from other regionalisation programs in this regard?

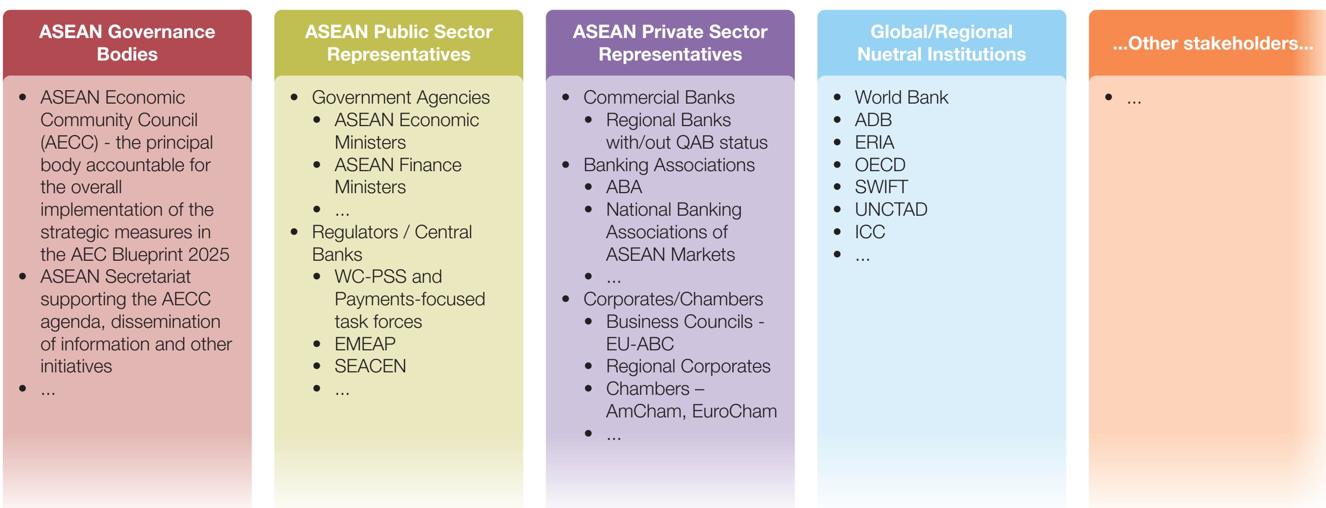


Figure 14. Non-exhaustive list of key stakeholders involved in ASEAN Regional Financial Integration[11]. Source: SWIFT

11 WC-PSS: Working Committee for Payment and Settlement Systems, EMEAP: Executives Meeting of the East Asia and Pacific Central banks, SEACEN: South East Asian Central Banks Research and Training Centre, ABA: ASEAN Bankers Association, EU-ABC: European Union ASEAN Business Council, AmCham: American Chamber of Commerce, EuroCham: European Chamber of Commerce, ADB: Asian Development Bank, ERIA: Economic Research Institute for ASEAN and East Asia, OECD: Organisation for Economic Co-Operation and Development, UNCTAD: United Nations Conference on Trade and Development, ICC: International Chamber of Commerce

5 Recommendations towards achieving regional financial integration goals by 2025

ASEAN Financial Integration Challenge	Recommendation(s)
Internal disparity constrains single market scale opportunity	• Review disparities between ASEAN member states identifying the enablers of inclusive and equitable growth in the region • Initiate at reducing the current divide between ASEAN-5 and LCMVB markets
External dependency for payment intermediation	• Monitor commercial flows and external payment intermediation for ASEAN and individual markets • Establish action plans for increasing settlement of domestic commercial flows within respective ASEAN markets • Formalise agreements amongst ASEAN markets for greater flexibility in settlement of trade and investment in local currencies
Underserved and underengaged corporates	• Study the needs of corporates in ASEAN from a regional and individual markets perspective • Ensure balanced and deeper engagement of the private sector on ASEAN integration initiatives
Slow financial infrastructure modernisation, particularly in payment systems	• Establish action plans for adopting ISO 20022 standard across ASEAN payment market infrastructures • Review market-specific payments market infrastructure development needs and align payments modernisation roadmap accordingly. • Formalise a regional governance body to lead action plan for regional payments integration, including balanced public-private inclusion and an initial pilot “proof of concept”
Digital competency is low	• Engage strong public-private partnership in defining digital economy framework and trade digitalisation programs • Initate ISO 20022 adoption plans in ASEAN markets for regional and domestic financial messaging flows • Implement strong cybersecurity frameworks at a market level, adopting global best practices and engaging global programs
Stakeholder alignment	• Identify market-level champions accountable for regional initiatives • Formalise governance and cooperation model amongst these ASEAN champions • Establish deeper and more regularised collaboration mechanisms at the regional, sub-regional and market level

Figure 15. Recommendations to address core problems hindering ASEAN Regional Financial Integration. Source: SWIFT

6 Conclusion

This paper demonstrates that the ASEAN region is not simply diverse but also highly dependent externally, e.g. as shown by the commercial and financial flows underlying trade transactions. Slow modernisation of Financial Market Infrastructures, an Underserved corporate sector and low digital competency can continue to hinder ASEAN growth. A highly coordinated public and private sector leadership response is ultimately required to achieve goals for financial integration established by the region.

The volume of ASEAN commercial flows with extra-ASEAN markets is growing at the expense of intra-ASEAN commercial flows, representative of the need to review measures enhancing intra-ASEAN trade and realising the regions full potential as a unified single market.

There are significant differences identified in the maturity of the payment market infrastructure across ASEAN markets, as well as the adoption of global standards like ISO 20022. Both these aspects pose a challenge to the establishment of regional payments infrastructure as well as global interoperability. Strong public-private engagement is required to support development of the digital agenda across the region and streamlining the various AEC related initiatives and measures.

Addressing the impediments highlighted in this paper will move the ASEAN region towards achievement of AEC 2025 Blueprint goals and help strengthen its position as an engine of global growth and development in the future. If the goals are to be achieved by 2025, the time to act is now!

SWIFT remains committed to supporting the ASEAN Economic Community and ASEAN integration initiatives in achieving these goals for regional financial integration.

Appendix: SWIFT in ASEAN

As a global member-owned cooperative and world's leading provider of secure financial messaging services, SWIFT enables more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 markets and territories to communicate securely and exchange standardised financial messages in a reliable way. This includes approximately 2700 financial institutions in APAC and nearly 700 in the ASEAN region, including commercial banks and central banks, a number of market infrastructures that are already operating on the SWIFT messaging platform. SWIFT also connects corporate entities to banks and other financial institutions, supporting their efforts in deriving the benefits of regional payments integration initiatives and standards harmonisation. The SWIFT network today supports global flows equivalent to the global GDP every 2 to 3 days. This is at a scale of more than 25 million messages per day. Each message sent over SWIFT takes only a few seconds to reach the receiver.

As the registration authority for ISO 20022, SWIFT plays an active role in various market practice groups and initiatives to promote best practices and facilitate integration. For the past three years, SWIFT has engaged broadly with the ASEAN financial community, including central banks, commercial banks and other agencies such as banking associations, in working towards this common goal.

Through its member-owned cooperative structure, market presence, expertise and tools, SWIFT is well positioned to provide operational and cost-efficient assistance to participating market infrastructures in the region, in their effort to create regional payments infrastructure. This includes offering our experience in supporting large community projects and market infrastructure initiatives and sharing expertise and deep understanding of global and local payments landscape, as well as experience from other regionalisation initiatives.

From a regional payments infrastructure perspective, in addition to supporting the gradual adoption trend on ISO 20022, SWIFT proposes reuse of available SWIFT infrastructure in ASEAN markets to help establish regional payment infrastructure. This involves the establishment of an "ASEAN scheme" over existing SWIFT infrastructure with financial community members in ASEAN member states and will help enable "ASEAN payments" messaging over secure, highly available and resilient existing SWIFT messaging infrastructure, but uniquely identify them as ASEAN payments for selective treatment by the banks as per agreement. The scheme can be initially piloted by enabling secure Credit Transfer payments (the lowest common denominator supporting commercial flows globally) amongst a authorised group of ASEAN member banks, with oversight of related ASEAN central banks and other supervisory entities.

To support the AEC 2025 Blueprints objective of establishing an ASEAN regional payments infrastructure by 2025, SWIFT proposes to establish such a pilot between at least two ASEAN markets. Such a pilot will support full adoption of ISO 20022 standards, integration with domestic and cross-border systems, and deploy global standards in terms of security, resiliency and availability into the foundation of the ASEAN regional payments infrastructure.

Outcomes from the SWIFT global innovation agenda across cross-border and domestic payments modernisation, cybersecurity, financial crime compliance, emerging technologies (like distributed ledger technology, APIs etc.) are deployed back to the global financial community. Examples of such SWIFT initiatives and platforms that also benefit ASEAN are the SWIFT Global Payment Initiative (gpi), SWIFT Customer Security Program (CSP), SWIFT Labs and Innotribe.

SWIFT gpi is today the largest initiative in cross border payments occurring globally, dramatically changing global correspondent banking, specifically the way the banks interact with corporates. This initiative is successfully bringing change to the cross-border payments fabric in ASEAN, and has the potential to bring speed, certainty, transparency and innovation to the cross-border payments from and to ASEAN markets. This will greatly assist the banking and corporate community in ASEAN with streamlining cross-border payments, introducing efficiencies across supply chains and assisting with trade digitalisation and broader "digital" agenda in specific markets.

More information on SWIFT gpi and other SWIFT initiatives is available at www.swift.com.

Appendix: SWIFT Data Analysis Methodology

The scope of the analysis in this paper is MT103 messages, which are SWIFT messages for Credit Transfers. These Credit Transfer messages are highly correlated and are a strong proxy for payments settling global trade obligations.

Commercial flows refer to the payment instruction sent by the bank of a Client A, typically a corporate, to the bank of a Client B for the import of goods or services. For example, the bank of Client A in Singapore initiates a payment to Client B's beneficiary bank in Malaysia, for an import to Singapore by Client A of certain goods from Client B in Malaysia.

In this analysis we also refer at times to financial flows related to the above commercial flow, particularly when looking payment intermediation of the commercial flows in a third party country/region. For example, the payment or financial flow for the above commercial transaction between Singapore and Malaysia might be settled in United States, in US Dollars.

A payment that originates in an ASEAN market and returned to a beneficiary bank in the same market is a domestic payment. A payment that is originated in a market in ASEAN and reaches a beneficiary in another market within or outside ASEAN is defined as cross-border payment, but could also follow a financial flow via a third party country like United States, with settlement in US Dollars. Further, a payment issued from market A to market B as import-related, while a payment received is defined as export-related.

For this particular study we are comparing MT103 messages data for the first 3 quarters of 2016 with the same period in 2015, and also considering these as indicative of the annual trend. Although SWIFT is not able to make the distinction between pure trade, remittances, or corporate treasury related activities from the credit transfer messages, it is concluded from experience that the larger part of flows we are analysing are related to trade.

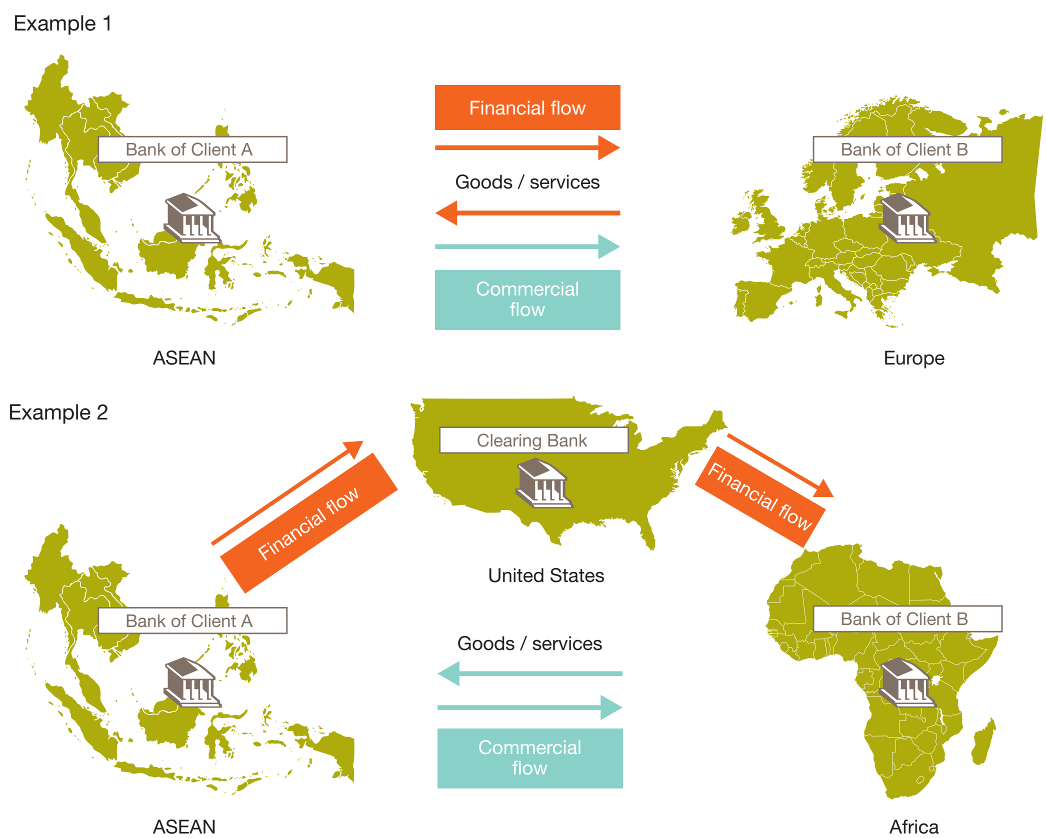


Figure 16. Examples of cross-border commercial flows and related financial flows

About SWIFT

SWIFT is a global member-owned cooperative and the world's leading provider of secure financial messaging services.

We provide our community with a platform for messaging and standards for communicating, and we offer products and services to facilitate access and integration, identification, analysis and financial crime compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories, enabling them to communicate securely and exchange standardised financial messages in a reliable way.

As their trusted provider, we facilitate global and local financial flows, support trade and commerce all around the world; we relentlessly pursue operational excellence and continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies.

Headquartered in Belgium, SWIFT's international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT's global office network ensures an active presence in all the major financial centres.

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