



Banking in the next settlement era

Protecting the core while building for a faster and multi-rail financial system

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Introduction

The banking industry is entering a period of significant market-structure change driven by four converging forces: faster settlement cycles, the expansion of real-time payments, the emergence of programmable and tokenized financial infrastructure, and rising regulatory expectations around resilience and governance.

Together, these forces are reshaping how liquidity, risk, data and value move through the financial system. Banks must therefore rethink how they operate in a world where processing is faster, infrastructure is more fragmented, and clients expect greater transparency and control.

Technology debt is no longer only an IT issue. It increasingly constrains business strategy. The challenge is no longer simply technology modernization but adapting to a new market structure while maintaining stability, profitability and regulatory confidence.

Those market trends are putting pressure on five interrelated challenges that will shape banks' ability to compete and grow:

Liquidity management: Faster settlement means banks will need a more accurate, real-time view of where cash is held, better cash forecasting, and the ability to respond to potential pressures before they become problems. Effective liquidity management is becoming a strategic differentiator rather than a purely operational or treasury function. The risk: Banks without strong real-time visibility may need to hold larger liquidity buffers and incur higher funding costs, reducing both efficiency and profitability.

Operational complexity: Banks must be able to operate across increasingly complex environments, including multiple payment schemes, market infrastructures, external providers, cloud environments, data services and regulatory jurisdictions without increasing operational risk, cost or client friction. The risk: Institutions that rely on fragmented systems and manual processes may face rising operational costs and greater risk as market activity accelerates.

Technology modernization: Much of the banking industry's technology was designed for a slower, less connected world.¹ Today, customers and markets expect information and services to be available almost instantly. The risk: Legacy technology estates can slow down product development, increase change costs and make it more difficult to integrate with new financial market infrastructures.

Regulatory expectations: Regulators continue to raise expectations around operational resilience, cybersecurity, third-party risk management, AI governance, model risk, data governance and financial crime controls.² The Basel Committee on Banking Supervision notes that digitalization can amplify existing vulnerabilities and introduce new risks, particularly where banks become more dependent on technology providers and interconnected digital ecosystems.^{3,4}

The risk: Banks that fail to keep pace may face increased compliance costs, greater supervisory scrutiny and heightened operational risk.

Competitive relevance: As financial services become faster, more transparent and increasingly automated, some traditional sources of banking value may come under pressure. The risk: Institutions that cannot meet evolving client expectations risk losing business to competitors, fintechs and infrastructure providers, while also having less influence over the standards and ecosystems that shape future financial markets.

Banks should avoid transformation strategies that attempt to redesign everything at once. A more effective approach is to:

- **Protect the core.** Strengthen resilience, liquidity management, data quality, operational control and core platform reliability.
- **Selectively expand.** Build targeted capabilities in multi-rail orchestration, programmable payments, AI-enabled operations and client transparency.
- **Adapt to the new market structure.** Prepare for a future in which traditional and tokenized financial infrastructures coexist.

This balances near-term resilience with longer-term strategic optionality.

The institutions most likely to succeed will not be those that abandon the traditional banking model. They will be those that modernise its strengths — trust, resilience, liquidity, compliance and client relationships — so they remain relevant in a faster and more connected financial ecosystem.

These changes are not isolated technology trends. They represent a broader shift in how value, liquidity, data and risk move through the financial system. Traditional payment networks, RTGS systems, correspondent banking channels, instant payment schemes, tokenized deposit platforms, DLT networks and potential future central-bank-backed infrastructures are increasingly expected to coexist. The challenge for banks is not choosing a single future model but preparing to operate effectively across multiple models at the same time.





Protect the core

The immediate priority for most banks should be strengthening the capabilities that underpin trust in the institution. Regardless of how market structures evolve, payments, settlement, liquidity management, operational resilience, data quality and regulatory control will remain critical.

Banks should ensure that critical payment, settlement, treasury and post-trade systems can support higher volumes, richer data, shorter settlement cycles and extended operating windows. This requires strong service mapping, capacity planning, recovery testing, cyber resilience, third-party oversight, operational stress testing and end-to-end visibility of payment flows to ensure critical services remain reliable as market conditions evolve.

At the same time, banks should modernize liquidity and treasury operations. Capabilities such as intraday liquidity monitoring, predictive cash forecasting, automated funding alerts, collateral optimization, real-time reconciliation and liquidity stress testing will become increasingly important as liquidity management evolves into a competitive capability.

Data should be treated as a strategic asset rather than a compliance requirement. ISO 20022, the global messaging standard for financial communications, can provide a foundation for richer data, improved reconciliation, stronger sanctions screening, enhanced reporting and better client insight.

Priorities include improving data quality at source, increasing transparency across payment chains and making greater use of structured payment data and analytics.

As banks' technology ecosystems evolve to incorporate APIs, AI, distributed ledger technologies and third-party technology services, operational resilience must extend across the broader technology ecosystem. Strong cybersecurity, cloud governance, third-party risk management, platform observability, recovery testing and governance for AI and emerging technologies should be embedded into day-to-day operations. Operational resilience should be viewed as both a business capability and a competitive advantage.

Finally, banks should reduce operational friction through targeted automation of high-volume, high-risk and high-cost activities, including payment repair, reconciliation, settlement exceptions, trade breaks, sanctions investigations, reporting and control processes. Doing so can improve efficiency, accuracy and risk management while reducing dependence on manual intervention.



Selective expansion

Once the core is strengthened, banks should invest selectively in capabilities that create new value: improved client service, increased operational efficiency and greater flexibility across future market infrastructures, without requiring wholesale replacement of existing systems.

This phase should be approached through controlled experimentation rather than wholesale transformation.

The key priority is to prepare for a world in which multiple payment and settlement models operate side by side. These networks may include real-time gross settlement systems, instant payment networks, correspondent banking channels, SWIFT messaging, tokenized deposit platforms, distributed ledger networks and future wholesale forms of central bank-backed infrastructure.

Banks should explore capabilities such as conditional payments, payment-versus-payment, delivery-versus-payment, escrow-style transaction logic, automated compliance triggers, programmable treasury sweeps and smart contract-enabled settlement workflows.

Corporate and institutional clients increasingly expect visibility and control over financial flows. Banks can differentiate themselves by providing real-time payment tracking, settlement updates, treasury services delivered through APIs, predictive cash flow insights, automated reconciliation and proactive alerts when issues arise. This turns internal modernization into external client value.

Banks should also view tokenization as a matter of infrastructure preparedness, not simply as a digital asset strategy.⁵ Regulators, central banks and market participants are exploring tokenized securities, tokenized money, digital collateral and programmable settlement models. The European Central Bank has noted that Project Agorá provides insights relevant to European initiatives such as Appia and Pontes, which focus on tokenized financial ecosystems and links between DLT platforms and TARGET Services.⁶

AI should be another area of focused investment, particularly where it improves productivity, control and resilience.

The greatest value is likely to come from practical uses such as liquidity forecasting, fraud detection, payment repair prediction, sanctions screening, regulatory analysis and technology operations monitoring. AI can also improve software development and testing processes. Adoption must be supported by strong governance, explainability, model monitoring and human oversight.

Banks should not attempt to predict one future infrastructure model. They should build the capability to operate across multiple models and create value through flexibility, intelligence, resilience and client connectivity.

Priorities include improving data quality at source, increasing transparency across payment chains and making greater use of structured payment data and analytics.

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Adapt to the new market structure

The future financial ecosystem is likely to be characterised by coexistence rather than replacement.

Traditional infrastructure, real-time payments, tokenized deposits, central bank money, commercial bank money, DLT networks and programmable services are expected to operate alongside one another. Winning banks will be those that can bridge these environments safely and efficiently.

Future-ready banks will need to operate across traditional real-time settlement systems, correspondent banking networks and instant payment schemes, even as tokenized deposits, tokenized securities, distributed ledger-based settlement networks and new forms of digital money gain traction. Advances in artificial intelligence will increasingly shape how financial institutions manage operations, risk and decision-making.

The strategic challenge is not choosing one model over another but building the capability to operate across all of them.

This will require modular architecture that can evolve, integration capabilities that allow systems and external platforms to connect seamlessly and high-quality data.

Equally important is developing a workforce that understands digital assets and tokenization.

Competitive advantage will come from the ability to manage complexity, interoperate across infrastructures and preserve trust as financial markets become faster and more programmable.

What executives should do now

The near-term focus should be on assessing exposure, strengthening the core and identifying high-value automation opportunities. The medium-term focus should be on multi-rail capabilities, client transparency and targeted participation in tokenization initiatives. The longer-term focus should be on positioning the bank as a trusted orchestrator across traditional and emerging financial ecosystems.

0-12 months: Establish the foundation

- Assess exposure to faster settlement, extended operating windows and multi-rail market change
- Map critical payment, settlement, liquidity and reconciliation processes
- Identify manual exception hotspots
- Review operational resilience of critical platforms
- Build or improve intraday liquidity visibility
- Create an ISO 20022 data-value roadmap
- Establish governance for AI, tokenization and programmable settlement experimentation

12-24 months: Build selective capabilities

- Implement payment and settlement orchestration capabilities
- Automate payment repair, reconciliation and settlement exception management
- Develop real-time liquidity forecasting and collateral optimization
- Build client-facing payment transparency services
- Participate in selected tokenized cash, tokenized deposit or DLT settlement pilots
- Modernise architecture around APIs, observability and event-driven workflows
- Strengthen regulatory evidence and resilience reporting

24+ months: Position for the future market structure

- Operate effectively across traditional and tokenized rails
- Develop programmable payment propositions
- Integrate digital asset custody and tokenized collateral services where commercially justified

- Build adaptive operating models for extended or near-24/7 market activity
- Use AI to continuously optimise liquidity, controls, operations and client service
- Position the bank as a trusted orchestrator across financial ecosystems

The right response is not a single transformation program but a sequenced roadmap that protects the bank's core while building enough flexibility to capture future market opportunities.

As the banking industry moves into a new era defined by faster settlement, richer data, greater interoperability, tokenization, AI-enabled operations and increasing resilience expectations, the challenge is not simply adopting new technologies. It is adapting business models, operating models and risk frameworks so that banks remain trusted, profitable and relevant.

Banks that modernize successfully will continue to capture value while remaining relevant in a faster, more connected and increasingly programmable financial system.



Sources

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