

COSTLY AND TIME-CONSUMING, INVESTIGATION OF EXCEPTIONS HAS TRADITIONALLY RELIED ON MANUAL CHECKING. NOW AN AUTOMATED SOLUTION IS IN SIGHT

## Exceptions prove the rules

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Exceptions are the curse of the financial services industry. They are the risk, the cost and the inefficiency. Every day in an average payments operations department, 2% to 5% of all payments are subject to inquiry. This doesn't seem to be a bad ratio. In fact, if looked at the other way, it means that an average payments operations department is achieving an STP rate of 95% to 98%.

But what if we told you that the industry estimates that these 2% to 5% of transactions, exceptions that is, consume up to 25% of trading profits? I bet you'd reconsider the position. Management of exceptions and investigations remains one of the most resource-intensive and costly activities for any payments institution. So while many institutions are achieving impressive STP rates, it's clear that the cost of handling each inquiry produces a multiplier effect on the total cost of a payment.

The market is starting to understand the impact of exceptions on their operations. At the same time, excellence in customer service is fast becoming a key differentiator between service providers. Correspondent banks and corporates are choosing their service providers based on their value-added services and the levels to which they satisfy the growing requirement for data transparency and real-time information. Quick and efficient resolution of problems is an influencing factor in retaining customers. This translates directly to the requirement for efficient processing of transactions that

do not process straight-through; ie, effective automation of exceptions. Yet most financial services firms are still not reaping the benefits of automating management of their exceptions.

By leveraging technology advancements and implementing standards that reflect industry best practice, we will see the market evolve further. SWIFT's latest business solution, SWIFTNet Exceptions & Investigations is finishing its pilot among major players in the payments market. It has marked a significant step forward on the road to automation.

### WHERE IS THE MARKET TODAY?

The majority of top financial institutions have automated a part of the exception management process. We estimate the level to which most institutions are automated today ends at the ability to write errant transactions to a queue. Automating processes beyond simple identification of exceptions is very low.

Several issues prevent the industry from reaching greater efficiency:

- Obstacles to automation – use of free format messages and multiple communication channels that do not support automated solutions
- Longer turnaround times – lack of agreed industry practice, creating significant inefficiencies.
- Lack of customer take-up of online services – proprietary and internet-based services do not cater for single access and information standardisation



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Perhaps the complex web of communication that each transaction faces is to blame. Financial institutions all have customers or counterparties with whom they transact business, typically external to the organisation. Communication with these parties occurs via phone, fax, email, SWIFT or some other form of electronic portal. With so many different media and "standards," it becomes difficult to automate the process.

#### **AN EXCEPTION = AN EXCEPTION = AN EXCEPTION...**

Once you boil it down, however, a trade is a trade. There are attributes on a foreign exchange transaction that are identical to those on a stock/securities transaction. And the steps taken to resolve the exception are the same. Researching underlying transactional data and performing business activities to resolve the issue accounts for 85% of the overall time expended on exceptions processing.

This is where "rules-based technology" comes into play. The majority of exceptions are derived from requests for additional information, with as many as 60% arising from incorrect beneficiary details. By applying rules-based technology to the process, these steps are automated and, in turn, can reduce firms' labour-intensive burden. The cost of dealing with enquiries varies according to the level of automation in each institution, but by implementing automation strategies, the average staff-related cost per enquiry has fallen by 50% to EUR 10.70.

#### **THE BENEFITS OF AUTOMATION**

Still, SWIFT estimates that only 4% of the 60% of exceptions that could be fully automated actually are. In 2003, SWIFT completed a study of the processes and costs of handling exceptions and investigations for bank-to-bank treasury and commercial payment instructions at 13 medium and large financial institutions. The study concluded that there is a need for an industry solution to improve automation for Exceptions and Investigations (E&I). Use of unstructured, free-format messages, such as

the SWIFT MTn99, combined with a lack of industry rules are problems that require focus and resolution in the domestic and cross-border payments domain. As SWIFT concludes its pilot of the new XML-based messages to standardise the investigations process, complex workflows and time-consuming data transformation are replaced with speedier resolution times.

The SWIFT Exceptions and Investigations business solution is designed to address four types of inquiry that make up 75% of inter-bank investigations:

- Beneficiary claims non-receipt
- Unable to apply
- Request for cancel
- Request for amendment

SWIFT workflows are not proprietary and will help the industry to process exceptions more efficiently. It is precisely the ability to generate and process them, in a timely manner, which will be the differentiator. The business case for Exceptions and Investigations standards tends to have a different slant dependant upon geography. For example, in the United States customer service improvements are the order of the day, whereas in Europe, it's more about risk mitigation. The common thread, however, is cost.

#### **CONCLUSION**

It is only through the increasing adoption of industry standards, rules, regulations and best practice that the financial industry will be able to drive out risk, lower costs and improve the customer experience.

SWIFT, vendors, and the financial services community are beginning to understand that the same level of technology and focus needs to be applied to the exceptional item as has been given to those transactions that flow straight through an institution's processing infrastructures.

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