

REDUCE OPERATIONAL RISK
AND DECREASE COSTS:

*OPTIMIZE STP WITH EXCEPTION
& INVESTIGATION AUTOMATION*

INTRODUCTION

Exceptions are the curse of the financial services industry. They represent risk, cost and processing inefficiencies. On a daily basis within an average payments operations department, approximately 1-2% of all payments are subject to some form of inquiry or investigation. While many institutions are achieving impressive STP rates in the area of payments processing, it is 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 and investigations on their operations, more so now than in the past, as most banks have to track the cost of errant transactions as part of their Basel II reporting requirements. At the same time, excellence in customer service is fast becoming a key differentiator between service providers. Correspondent banks and corporations 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 attaining and retaining customers. This translates directly to the requirement for efficient processing of transactions.

A SWIFT RESOLUTION

Good things come to those that wait and in the world of exceptions and investigations this is definitely the case. But the wait is now over. In 2003, with input and guidance from 15 Banks and 2 Software Vendors, including SunGard, SWIFT set out a business case to address a significant inefficiency in the market and combined with a detailed analysis of the cost and effort involved set about bringing new standards and processes to the market. In 2006 the work was done and the new messages and processes were ready. SWIFT lead the charge and now the financial services industry can benefit from the right standards, the right processes and the right tools to handle exceptions and investigations efficiently. A significant number of banks have pledged to adopt the new processes representing a large proportion of the SWIFT payments volumes.

"We believe the SWIFTNet Exceptions and Investigations solution will help the entire banking community to reduce operational risk and costs and will significantly improve overall client satisfaction."

-Daniel Cotti, head of global transaction products, ABN AMRO

DEALING WITH INCREASING VOLUMES AND COSTS

Fortunately these new capabilities are available just in time. A recent study by SunGard indicates that both corporations and banks believe there will be a significant increase in the number of exceptions under SEPA. With payment exceptions currently running at 1-2%, survey respondents felt that an increase to 4-8% was likely in the coming years. While this might not seem like a large number, the increase is in the order of an anticipated average of 400%. Without the new standards and processes, this increase could be insurmountable for an exceptions and investigations department. Only by adopting the new processes, procedures and tools in time will it be possible to ensure this migration period can be handled within existing resources. While the expected volumes are one reason, another reason is the costs.

Handling exceptions is expensive. When examining the resolution process, researching underlying transactional information and performing the business activities to resolve the issue accounts for 85% of the overall time expended on exceptions processing. The majority of payment exceptions are derived from requests for additional information, with as many as 60% arising from incorrect beneficiary details. By applying a consistent process, these steps can be automated and, in turn, can reduce the labor-intensive burden. The cost of dealing with inquiries varies according to the level of automation within each institution, but by implementing automation strategies, the average staff related cost per inquiry has fallen significantly for those institutions adopting the new processes.

While efficiencies and cost reduction are admirable goals in and of themselves, the benefits manifest themselves in the speed and accuracy of resolving client issues and

ultimately customer service becomes the differentiator. The inability to quickly resolve a payments issue will set banks apart in the coming years.

NEW STANDARDS

The business case set out by SWIFT investigated the exceptions and investigations process in a significant amount of detail. The report quickly concluded the existing FIN MTx95 and MT x96 messages were and still are insufficient to handle the exceptions and investigation processes. Simply encouraging players to participate in the process to use the messages better was not an option, as these messages are not sufficiently structured or flexible to cater for a structured the workflow.

SWIFTNet E&I XML Messages

To solve the problem, SWIFT did what it does best and created standards. These standards cover the vast array of exceptions and investigations workflow processes for payments and enabled financial institutions to communicate precisely the information required and in the process required to solve the problem. SWIFT has working closely with vendors' trusted partners, such as SunGard, to ensure that these messages can be integrated into existing systems.

In total there are 16 new SWIFTNet Exceptions and Investigations messages automating four business flows relating to payment transactions: Request for cancellation, Request for modification, Unable to apply, and Beneficiary claims non-receipt. These messages have been live since September 2006 and are being adopted by more and more institutions.

"SWIFTStandards XML for exceptions and investigations provides a common business protocol for the financial industry. It sets the foundation for a much larger project as it will be re-used for other business areas. This development in the payments arena complements the cash management portfolio providing tools that banks need to reduce costs, meet customers' business demands, and comply with legal requirements."

-Lazaro Campos, SWIFT

SWIFT FIN Messages will be Retired

In the world of exceptions and investigations, the existing SWIFT FIN messages x95 x96 messages have been very important and have served the industry well. In the business case, SWIFT was ranked as the most often used communications channel for Exceptions and Investigations activity. This is due to the secure and authenticated nature of SWIFT and something that is not provided by other tools such as phone and fax. With many organizations still heavily, if not solely, reliant on these messages it is worth noting that the timeline to migrate from MT FIN payments-related Exceptions and Investigations messages to the new MX messages was approved by the SWIFT Board of Directors in June of 2007. Migration will start in early 2009 and will last for three years, ending by the end of 2011 with the removal of MT related messages.

NEW PROCESSES

New standards have indeed helped create the potential for automation but standards are only one part of the solution. SWIFT has gone to great lengths to codify the rules surrounding the appropriate use of the messages in an overall process. This process rulebook is as important as the standards. A common example that demonstrates the positive effect of the rulebook in conjunction with the new standards is the no bypass rule.

In the case where an agent (Bank B) is forwarding fund to the recipient (Bank C) on behalf of the originating bank (Bank A) and an exception originates at Bank C, Bank C will Request Bank B for more details. Bank B will ask Bank A and if Bank A responds to Bank C directly this will leave Bank B with an open case. The rulebook is robust enough to cover these situations and in this case the “No Bypass” rule aims to avoid these situations.

The rulebook combined with the standards is a great codification of the exceptions and investigations process. This does however mean that existing ad hoc processes and procedures will need to be adapted or in some cases discarded and new ones created.

NEW TOOLS

New Standards and new processes are a welcome result of SWIFT’s effort. However these standards and processes need to exist within the systems of a financial institution to have any effect. SunGard, as a leading vendor and as a trusted partner in this space, has worked with SWIFT and financial institutions throughout the development of the Exceptions and Investigations standards and has created standard and tailored offerings for banks of all sizes and complexities. There are three key challenges that need to be addressed when looking at the new Exceptions and Investigations world: routing, message and case creation, research automation.

Routing – Handling the New World

The new Exceptions and Investigations world revolves around the new MX swift messages. These are based on the new SWIFTNet services. Going forward, it is critical to have the capabilities to identify the message and be able to route it to the correct destination. Organizations can select SunGard’s automated Exception & Investigation solutions that can provides the appropriate tools to handle all the new SWIFTNet messages and the detection and routing of messages to the correct application.

Message and Case Creation - Covering the Basics

While many larger participants are already automated, simply handling the incoming messages and rules will be a challenge for many institutions. With SunGard’s solution, the messages can be parsed, displayed and tracked to ensure interactions with the participants using the relevant message standards new MX or old MT. In addition to the initial message handling, SunGard’s solution also handles the Case creation and management process which is a key concept in the new world of Exceptions & Investigations. As the new messages are XML based and part of a larger workflow, banks without even a basic system will struggle to deal with any of the new messages.

Automating Research – Maximizing Value

Moving up the value chain, the institutions that want to take advantage of the automation capabilities of the messages will find that the standards and rules still leave a lot of work to be done internally. Over 60% of the effort spent on investigating the exception is gathering transactional information from existing systems. While these are unique to the institution, they are perfect ripe for automation. SunGard has developed a holistic approach to exceptions and investigations management a packaged solution that includes the ability to increase the level of automation based upon the specific conditions within your institution.

Exceptions can be automatically identified and workflow initiated to query relevant systems, request transactional details from relevant parties and open automated case files for routing to the appropriate agents.

During the transition the additional translation between existing FIN messages and their XML counterparts in the exceptions workflow would be done automatically.

In essence, systems can do the most repetitive tasks and can present a case file with the information required by an investigations team to add human value and authorization to the workflow as required. In this way, the most significant effort is reduced or eliminated.

CONCLUSIONS

Exceptions and Investigations are often seen as a post settlement problem. Traditionally, they are initiated by the sender or beneficiary and dealt with accordingly in a best effort service mentality with a significant hidden cost to a financial services organization. This model is changing and SWIFT has reviewed and implemented a textbook case of transaction automation: Identify a best practice, provide standardizations and create rules.

SunGard has played a key role in providing vendor input into this process and has the right tools for banks, financial services firms, and corporations of all sizes. It doesn't matter whether your institution is in need of a simple tool in order to manage routing and deal with the new formats or looking for a complete payments Exception and Investigation automated workflow and case management tool, SunGard can bring the right capabilities to the table.

It is important that you fully evaluate your options and contemplate your requirements not just today but into the future. Flexibility, control and the ability to map to sophisticated business rules is critical for a long-term solution.

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ABOUT AMBIT

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