

PERSPECTIVE

SWIFT adoption challenges



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Introduction

Treasury centralization, liquidity management, operational expenditure management, data reference, trade finance, and e-banking have incessantly raised operational challenges for corporations. SWIFT (Society for Worldwide Interbank Financial Telecommunication) and other technology providers have built solutions to address most of the industry's requirements, improve automation, and advance liquidity and capital management.

SWIFT provides global connectivity to corporations through its network and through services such as format harmonization, SCORE, SWIFTRef, KYC, and a single channel connectivity targeted at the industry's needs. Despite such support, the adoption of technology has remained a matter of concern.

The paper presents SWIFT adoption challenges that the industry faces and the Infosys point of view highlighting greenfields.

Technology roadblocks

- The principal challenge for a corporate is to monitor its cash position for effective liquidity management. Decentralized structure within a bank makes control of payments a challenging act. In difficult times of shrinking credit position, corporations wish for more transparent and real time data to make calculative decisions.
 - The industry's evolution in terms of volume and value of transactions has resulted in development of new monitoring policies by the regulators. Such developments have pushed for more granularities of data in internal and external reports. Under such mandates, accuracy of data is paramount to maintaining and improving STP rates. Traditional connections act as bottlenecks preventing STP:
 - Corporate back-office systems and bank interfaces – A corporate possibly holds accounts with multiple banks and will require connection to heterogeneous platforms to access accounts.
 - Interfaces of banks – The connection string between a banking application and the corresponding bank could be based on multiple standards (internet, EDI, or country-specific).
- The above connection structure leads to high operational and maintenance cost.
- Regulatory initiatives such as FPS and SEPA provide opportunities to corporations to connect with customers more efficiently. However, such initiatives create unforeseen implementation challenges such as upgrading infrastructure to process transactions in record time and operational challenges such as providing additional regulatory reports. These not only add to the operational costs of financial institutions but also build roadblocks for corporations if they do not conform to such regulatory reforms.
 - Continuous improvement in business efficiency is imperative for corporations. Technology and new regulatory processes come handy during such times. A windfall gain for an Indian financial institution was due to an inefficient trade finance process, wherein a corporate held a sum of money in a current account for a prolonged period to support a trade order. This resulted in a financial loss for the corporate that was making the purchase (as corporations are not compensated by interests on the amount held in current account), while the financial institution gains from the available float. Technology solutions such as the revised SWIFT MT798 and the Bolero standards try and address these challenges.

Technology Provider's Response

SWIFT (Society for Worldwide Interbank Financial Telecommunication) offers a single, secure communication channel accessed by more than 9,000 banking organizations and corporations in over 200 countries to exchange standardized financial messages.

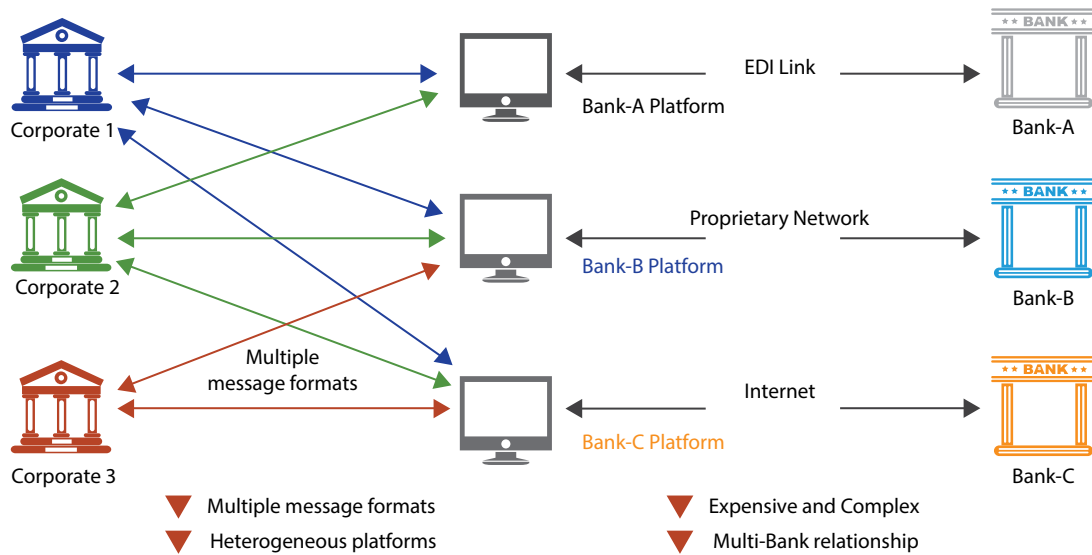


Figure 1 - Typical corporate connectivity model with multiple banks

Consolidation of connectivity channels onto a single platform simplifies execution, enhances security, and improves STP, thus reducing operational risks. Centralized infrastructure saves expenses on maintenance and operation of multiple platforms while providing a window to scale-up operations.

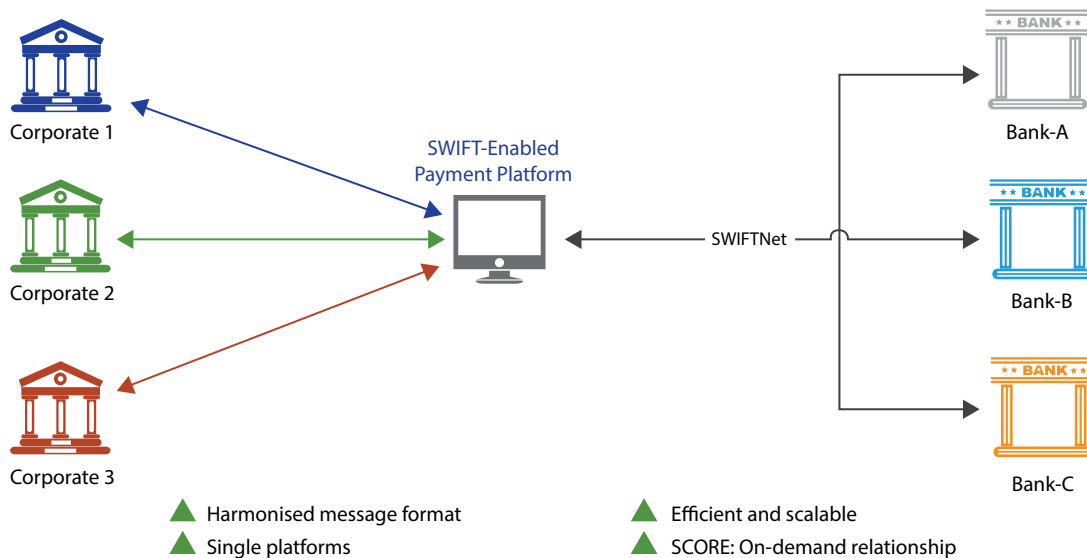


Figure 2 - Structured architecture with involvement of SWIFT connectivity



- **Security:** SWIFTNet provides non-repudiation service, ensuring guaranteed delivery of messages. Via SWIFT, corporations use a single and secure setup to communicate to financial service providers. Streamlining security mechanisms leads to advanced security management and control. Encryption and authentication technology of the highest levels bundled with the SWIFT network ensure guaranteed and secure payment execution.
- **Treasury centralization:** Streamlined and integrated communication is utilized to transmit standardized message formats. Internal applications can benefit from standardized formats by aggregating cash positions received from different centers (geographies).
 - Centralization of account information leads to clearer global visibility of cash position. SWIFT also offers timely and standardized balance and transaction reporting that provides better control and visibility of cash position at an enterprise level. The process is automated to minimize financial risks. This consolidation further saves treasury expenses and IT manpower.
- **Standardized Corporate Environment (SCORE):** SWIFT offers access to banks for cash and treasury management. With SCORE, it enables the exchange of FIN (SWIFT's core store-and-forward messaging service) and FileAct (which allows secure and reliable transfer of files and is typically used to exchange batches of structured financial messages and large reports) messages between corporations and banks. Once connected to SCORE, corporations use a single, secure window to interact with all financial service providers. A single platform provides secure and authenticated service to corporations for data transmission.
- **Regulatory compliance:** Compliance bodies and customers regularly seek information on accounts or transactions that are spread out unevenly due to lack of message coherence. Harmonization of message standards is advantageous to industry for regulatory compliance and customer management.

SWIFT Adoption Challenge

Despite the aforementioned solutions, adoption of SWIFT is a not-so-attractive option for corporations. Multiple factors define the situation:

- **Optional service:** While SWIFT provides robust and established connectivity network for banks, it remains an optional service for corporates, who demand an efficient and cost-effective service. SWIFT members are expected to be well-versed with the services to support day-to-day operations, in addition to fundamental requirements of security officers to supervise the operations. Automated file transfers, ACKs DN, pilot vs. live, and SEPA rulebooks create further challenges for corporates.
- **Cost factor:** In comparison to direct banking channel, SWIFT charges connectivity and traffic to gain income. Traffic is not a business commodity in case of direct banking and in many cases it is offered free of cost.
- **Delayed and inflexible solution (MA-CUG & SCORE):** Since it is much easier to integrate in-house developed solutions to existing systems, corporations in Europe have encouraged banks to develop their own communication standards to fetch all the necessary information at the account as well as at the transaction level in a report. They expect banks to create a robust and flexible system with standards to transmit varying and detailed information of transactions. Creating an independent and comparatively smaller entity than SWIFT, this approach lets banks and corporations revise the expectations at a short notice.
- An X-Digit tag approach is implemented by a few global banks in Europe to address such demands of corporations. The solution provides around 800 X-Digit tags to cover details of transactions.
- **Better solutions (SWIFTRef):** Independent service providers such as Experian and Accuity provide similar services where financial institutions can connect to external partners for enriched or verified payments data. Such providers also enjoy the first mover advantage over SWIFT.
- **Complexity Scope of trade:** André Casterman of SWIFT, on mobile.theasset.com, points to the complexity of SWIFT 798 implementation: "The real driver for a corporate [to implement MT798] is to standardize the bank communication, that is, moving away from people accessing bank-specific portals and keying in transactions manually and instead automating these flows to have, as much as possible, an STP to the internal ERP. SWIFT connectivity is only 10% of the complexity. We only support the end of that process, i.e., sending and receiving the MT798 flows, whereas the whole application in the corporate ERP system needs to be upgraded to facilitate the centralized management of these trade transactions." Additionally, Bolero, a solution provider for trade-finance communication, claims to provide better communication standards through its multi-bank trade solution.
- **Not everyone's cup of tea:** Considering the investment and time required to reap the benefits of connecting to SWIFT, the solution is not convincing enough for small enterprises, or those that deal domestically with only one or two banking partners. Additional investments into third party applications and their integration with the internal ERP system could be daunting for small entities.
- **Technology adoption:** SWIFT MT standards can create a second thought considering the time and effort the bank needs to implement in developing parsers for complex MT fields and 240+ message types. A single mistake can expose the business to the additional cost of repairing the transaction at the bank's end apart from the reputational cost in front of partners.
- **Competing products:** SWIFT is not the only solution provider with such a bouquet of applications. A competing protocol, Electronic Banking Internet Communication Standard, or EBICS, is well accepted in Germany and France and is looking to expand its reach across Europe. Moreover, many banks prefer their own proprietary electronic connections, which are often Web-based; hence easier and faster to implement than SWIFT.

- **MT-MX migration:** SWIFT wanted to migrate from old EDIFACT kind of standard-FIN MT to modern MX ISO 20022 standard. However, most of the banks rejected this and did not offer to interact with MX channels. This has resulted in a co-existence phase where they are presently supported by SWIFT.
- **Channel vs. message services:** While corporates prefer real-time FileAct service to send messages as a payload, the service does not validate file content or the messages. Hence, it is considered an unreliable service thereby questioning the primary objective of improving STP.
- **SWIFT-certified products' lifecycle:** The lifecycle of a product can create a multitude of challenges not just in banks but also in corporates. A recent involvement in an account shared the industry concerns at the conclusion of a SWIFT-certified messaging application – MINT. The product implemented to streamline communication medium within a bank and with the corporate had raised worries as the product was nearing its end. Industries prefer and recommend to banks to develop bespoke solutions to address such imminent product lifecycle challenges.
- Connects to SWIFT with little upfront investment
- Minimizes operational costs and overhead
- Connects directly to SWIFT without using a third party
- Does not require maintenance of SWIFT infrastructure at your site
- **ISO 20022 XML standard:** SWIFT has developed the ISO 20022 XML standard that offers flexible framework to the industry to streamline their in-house and external system communication. It was developed to alleviate the problems the industry is facing in adopting SWIFT MT. The industry has free access to a data dictionary of business and message components and a business process catalogue containing message models and corresponding XML schemas. The repository access allows users and developers to customize their communication message while being in sync with the industry standards.
- **SWIFTRef – global reference data utility:** SWIFT provides high-quality reliable payments reference data to corporations through SWIFTRef utility. SWIFT sources such data from originators such as banks, regulatory bodies, code issuers, and local communities. SWIFT can submit this data directly to the ERP systems of a corporation through its flexible formats. Corporations can easily comply with new regulatory norms (such as SEPA) and improve their STP rates by reducing processing cost. SWIFT-validated data (such as IBANs, BICs, national bank codes, and SEPA routing information) from SWIFTRef can provide information to corporations to improve processing rate.
- **Global KYC utility:** SWIFT has developed a central utility for KYC data, thus providing standard information to banks to perform due-diligence process on customers. The solution intends to help banks manage their compliance challenges and save on the high costs associated with implementing KYC-related regulations. This expands SWIFT's reach in compliance solutions.
- **Sanctions screening and testing service:** SWIFT, in collaboration with Fircosoft, provides a sanctions screening centralized alert service to small and medium-sized financial institutions and corporations to comply with sanction laws.
 - In partnership with Omnicision, SWIFT provides real-time sanctions testing service to validate filters placed for cross-border transaction screening.
- **Bank payment obligation:** Supply chain finance in trade is predominantly a manual paper-intensive operation that causes delays, inefficiencies, and increased costs for companies. SWIFT's BPO solution and related ISO 20022 messaging standards provide access to relevant data – giving banks the ability to provide risk mitigation, finance, and payment services while introducing additional automation and efficiency into the supply chain management process.

SWIFT's learnings

Latest developments at SWIFT display its emergence into new boundaries to address industry concerns. The developments include ISO 20022 format, SWIFTRef – global reference data utility, BPO, and global know your customer (KYC) utility.

- Keeping complex connectivity as a dithering factor, SWIFT has created a cloud-based service – Lite2 for SMEs. The service is a good choice for the following reasons:

- **MyStandards:** While we are witnessing a co-existence of standards in the industry, SWIFT's latest offering – MyStandards – addresses the concern about message standard definitions and industry usage. The service has created a centralized space to store standard related content for management and implementation.

- **Analytical features:** Help developers and analysts compare specifications and guidelines and assess the impact of standards releases

- **Documentation features:** Reduce ambiguity and create fit-for purpose business or technical (machine-readable) references

- **Distribution features:** Allow organisations to fully manage access to their content and their community of users

- **Maintenance features:** Provide an easy way to manage and maintain your publications

Infosys View

Corporations demand seamless, efficient, cost-effective, and transparent solutions to their varying needs.

SWIFT-FileAct acceptance in SCORE is a game changer to support one such industry requirement. With scalability and SWIFTNet strength, SWIFT has strengthened the reason to connect to its network. Although the price factor is a pushback for corporations, the recent revaluation of MA-CUGs and SCORE connectivity is a fitting step.

While efficiency remains a concern for banks and corporates, a broad adoption of SWIFT messaging formats even outside

SWIFT network is a prudent way to improve efficiency and decrease adoption cost.

Applications developed on the peripherals of SWIFT connectivity act as the bridge between banks and corporations, providing tailored solutions for internal requirements. As every line of business expects transactional information suitable for its internal consumption, vendors must develop more robust, scalable, and plug-and-play solutions for corporations.

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