

A single window to the future via a Swift messaging hub

By Parth Desai, ACE Software Solutions

It is no secret that times are tough and that banks are in serious need of cost saving measures and the introduction of new efficiencies to meet the requirements of the new market order. There is little leeway for mistakes, as the competitive environment is fierce and banks must focus on keeping their costs as low as possible in order to survive these harsh economic times. Investment in solutions that provide connectivity is therefore key to cutting headcounts and maintaining healthy bottom lines. This is where centralisation comes into the picture: by investing in a Swift messaging hub, banks can realise valuable cost savings and operational efficiencies.

In the current market environment, banks simply do not have the budgets to maintain costly in-house systems, multiple proprietary messaging connections to their customers and the high headcounts required to deal with the basics of payments messaging. Banks' current systems are unable to scale and cope with the increase in payments messages in such a volatile market environment. They therefore need to adopt a unified approach to payments messaging across all message types, for all counterparties.

This is where the concept of a Swift messaging hub comes into play. Swift has significantly grown in importance over recent years, as more and more firms connect to the SwiftNet network. Even corporates have got in on the action via the network's Standardised CORporate Environment (SCORE) initiative, which allows corporates to link to multiple banks across the Swift network.

The attraction is simple: connecting to SwiftNet provides an opportunity to tackle all the challenges of the payments market head on, achieve end-to-end STP and reduce processing costs to an absolute minimum. Moreover, SwiftNet provides financial institutions with a secure and reliable financial messaging platform to reduce the complexity, risk and cost of processing domestic and international transactions.

The Swift network provides a single window on the world for financial communications with partners, clients and market infrastructures. SwiftNet has also significantly expanded its geographic coverage over recent years – for example it added the Hong Kong Monetary Authority's Clearing House Automated Transfer System to the list of its market infrastructures connected to the network in July.

Furthermore, SwiftNet is far more than just a medium for messaging; members have access to a growing number of services through the same consolidated infrastructure, including SwiftNet Cash Reporting and the SwiftNet Trade Services Utility. Swift also completed its rollout of SwiftNet Phase 2 last year, which enhanced the security of the network and allows more granular control over counterpart relationships and message traffic.

Swift has also been instrumental in the drive to achieve a more harmonised European payments market via the Single Euro Payments Area (SEPA) and its messaging standards are considered to be an integral part of the future of the payments market going forward. It has gradually emerged as a universal standard in messaging and those banks that fail to take notice of its significance may be left behind in the evolution of the financial services market.



Challenges of connectivity

Connecting to SwiftNet, however, poses its own challenges. Banks that connect directly are faced with the prospect of a high total cost of ownership (TCO), low performance, restrictions on scalability and, potentially, high operational risk. It can prove to be a highly complex task to link all of a firm's back office and communications systems with the SwiftNet network individually, thus leading to a spaghetti-like mess of connection points.

This approach is costly because of the duplication that must be carried out in order to connect these individual systems to the network. This also makes it time consuming; rather than switching on immediately, firms are forced to wait for a whole catalogue of tweaks to be carried out.

The challenges do not end there however: once up and running, these intermediate steps can create processing delays and reduce overall performance. Operational risk therefore becomes a factor, with so many more points of failure to monitor than a consolidated approach.

Financial institutions are all looking for a low TCO in these times of economic hardship and, unsurprisingly, this duplication of effort does not provide this benefit. High maintenance costs result from the fact that several back office systems must be maintained and kept in sync with the slew of updates that Swift issues every year. All of these systems must also be upgraded for routing rule changes. This potentially means that firms are left with legacy applications lingering in the background, while they are forced to introduce new software and hardware to cope with the changes.

In this risk aware climate, banks cannot afford to scrimp on business continuity and backup systems and this adds yet further duplication and cost to the equation. Each of the systems that are maintained to deal with Swift messages must each have their own individual backup systems, resulting in high availability costs and increased redundancy.

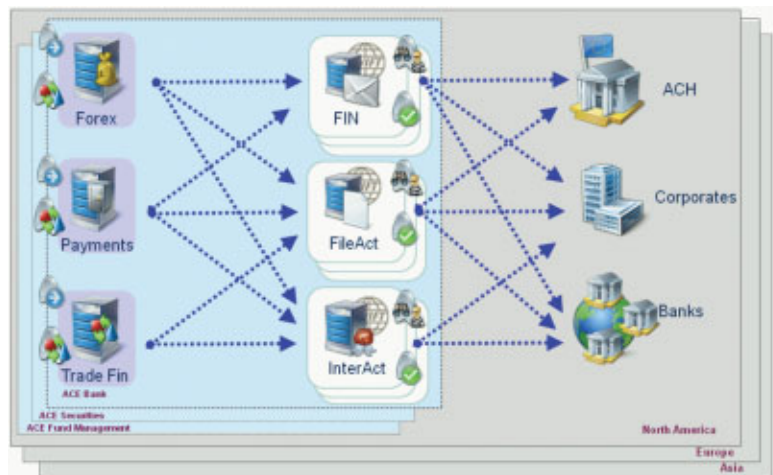
A Swift messaging hub: making SwiftNet simple

The case for a consolidated streamlined hub approach to SwiftNet connectivity and Swift messaging is therefore rather obvious. A single window approach involves substantial cost reductions via the centralisation of the processing of Swift payments messages and the elimination of point-to-point linkages. This necessarily results in a reduction in required headcount and duplicated technology, as well as the benefit of consolidated enterprise-wide visibility and control of all payments messages.

A Swift messaging hub also allows banks to connect to other financial infrastructures across the enterprise, including multiple branches, departments and back office systems, thus optimising the investment in existing SwiftNet infrastructure and reducing costs. It provides an independent unifying layer to a bank's payments architecture and allows their back offices and network applications to operate independently from each other.

This is a valuable addition to a bank's payments infrastructure, allowing them to react more quickly to market events and stay on step ahead of their competition. Intraday operational control is achieved via the ability to view all transactions at all times and not just on completion. It also consolidates a bank's Swift messaging on to one platform for all branches and entities, thus resulting in more effective risk management, as well as efficiencies of scale.

A unified Swift messaging hub differs dramatically from an in-house legacy application approach because it allows banks to add value to their offering. There is understanding and control of the operational environment outside the messaging



application, which essentially means that banks can tailor the messaging environment to the needs of their clients. Payments can be prioritised by client criteria and content rather than value.

Traditionally payments were solely prioritised by banks in terms of value, but the new world order has changed this requirement and corporates are demanding higher levels of service. Banks must therefore have the ability to tailor their offerings to meet the specific requests of their customers and thus retain their competitive edge. Accordingly, a messaging gateway needs to provide payments parameter understanding and messaging prioritisation must be able to be determined by factors other than value. This includes service level agreements, predetermined cut off times, holidays, whether a client is categorised as premium service and client value. Rules-based actions can therefore be used to generate more revenue as well as reducing costs.

Banks can also use this messaging hub as a means to manage exceptions without an onerous level of manual processing. There is complete end to end message processing so that banks are able to track any problems and exceptions are dealt with in as an efficient manner as possible. Such an approach should also allow for payment search and tracking on amount, value date, reference and currency parameters.

Scalability and high performance are two of the key benefits of a Swift messaging hub solution. Banks are enabled to rationalise their applications so that the whole institution can benefit from functionality such as OFAC monitoring. They are able to deploy reusable shared services and adopt an incremental approach to institution-wide deployment of various functionality. This means that despite tight budgets, banks can scale up their capabilities as and when they are needed.

Operational risk reduction is another area of significant importance in a market where banks' risk management practices are being scrutinised so closely by regulators and clients alike. One unified system therefore allows greater transparency, higher availability, fewer maintenance tasks and a simpler process flow for bank staff to monitor.

In the future, it will be increasingly difficult to compete without a consolidated approach to payments and Swift messaging. If banks do not invest in a hub approach to the SwiftNet network now, costs and risk will continue to be very high and they may find themselves being left behind by their competition.

