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SWIFT gpi for capital markets

Introduction

Capital markets are under pressure. The burden of regulatory compliance, the higher cost of capital, the tightening squeeze on fees and margins, in tandem with demands from customers for greater transparency and real-time data, are all forcing capital markets intermediaries to adapt.

Investment banks, brokers, custodians, asset managers and CSDs all need to find new sources of profitable growth as well as cut costs and risks. SWIFT's global payments innovation (gpi) is already improving the user experience in cross-border payments as well as reducing costs and risks in correspondent banking – and it offers capital markets firms equivalent benefits.

At the heart of SWIFT gpi is the ability to track and confirm a payment in real-time and an end-to-end processing service level agreement. This enables users to manage payments pro-actively, ensuring critical deadlines are never missed, and to cut operational costs by reducing the number of failed trades. Knowing whether a payment will arrive on time can also cut the cost of liquidity dramatically.

Through specific use cases, this paper explains how SWIFT gpi can improve a range of post-trade processes today. It also marks the first tangible step towards the realisation of an objective the capital markets have pursued since the turn of the century: the transformation, through collective effort and collaboration, of post-trade operations.

Why the capital markets need SWIFT gpi

The capital markets generate a lot of payments. Securities are bought and sold for cash. Dividends, coupons, floating rate interest payments, redemption amounts, takeover considerations, renounceable rights, variation margin movements and securities borrowings are all invariably paid in cash. Foreign exchange (FX) transactions generate two cash payments each.

Many of these payments are carried through the SWIFT network, which connects the overwhelming majority of capital markets counterparties safely and securely. In fact, SWIFT data suggests that at least 30 per cent of all payments messages sent over the network are exchanged with a counterparty in the capital markets.

SWIFT gpi reduces risk and adds value through:

The gpi Tracker, which enables users to trace a payment from the sender which originated it, through the correspondent banks that process it, to the ultimate beneficiary, using a Unique End-to-End Transaction Reference (UETR)

Visibility on incoming payments, which allows beneficiaries to be notified that a payment is on its way, even before it has been processed through intermediaries

A Service Level Agreement (SLA), which gives users comfort that payments will reach the account of the end beneficiary and confirmation of credit will be available in the Tracker by an agreed timescale

The gpi Observer, which benchmarks the performance of counterparties against the SLA, providing information that encourages transparency and ensures the agreed service levels are respected by all payment providers

Full transparency into fees and charges, since the exact amounts deducted by each intermediary as a payment passes from the initiator to the end beneficiary as well as the ultimate amount credited are visible in the Tracker

A pre-validation service that reduces the risk of errors by checking payments instructions upfront to see if the beneficiary bank information is up-to-date and correctly formatted

Case resolution, which improves the customer service for enquiries and investigations related to gpi payments by enabling case requests to be created and followed up online with an audit trail

A stop and recall service, which allows users to halt erroneous or fraudulent payments immediately, reducing the risk of mistaken transfers of value and the cost of repairing them after they are made.

Case study #1: Treasury management

Challenge	SWIFT gpi solution and benefits
If cash positions are not monitored and managed carefully, it can lead to expensive borrowing on last minute overdrafts; over-funding of settlement accounts (which require cash to be at hand for delivery-versus-payment settlement to occur); or even breaches of local rules (for example those requiring settlement accounts to be pre-funded) that result in expensive buy-ins.	Real-time monitoring of inbound and outbound payments to establish net cash positions accurately, cutting the cost of credit Avoid under- and over-funding of cash accounts in markets that require pre-funding to settle trades

The case for adopting SWIFT gpi

SWIFT gpi addresses a real business problem in the capital markets: excessive post-trade costs. By sharing data simultaneously between correspondent banks, investment banks, custodian banks, brokers, asset managers and financial market infrastructures, gpi enables all parties to a payment to repair any errors or omissions early enough to avoid reconciliation breaks and consequent settlement failure.

Early resolution of problems likely to cause a payment to fail – through real-time sharing of information – cuts post-trade costs and risks. This fulfils an ambition that both a collaborative investment project (GSTPA) at the turn of the century and new technology, such as Distributed Ledger Technology (DLT), have promised to deliver, but which neither has actually accomplished.

In fact, DLT projects have shown that, although they have the potential to transfer assets efficiently on DLT networks, the simultaneous delivery of payment is challenging. It requires the use of either:

- payment tokens that are not equivalent to fiat currency (domestic legal tender) on the same network; or
- off-network transactions that make use of the existing structure of correspondent banks and payments market infrastructures.

SWIFT gpi, by contrast, is already live and being used around the world. Every day, payment transactions with a total daily average value of $300 billion are sent via gpi. More than 3,500 financial institutions are live or committed to implement gpi, including all of the largest global custodian banks and investment banks. They and their customers are already able to track and trace payments made in the capital markets, and network effects are accelerating the rate of adoption.

The value of this ready and convenient access to a growing range of counterparties is clear. SWIFT gpi does not require revolutionary changes to technologies and processes. It upgrades the existing systems instead. Since capital markets are highly fragmented, with multiple layers of intermediation, the reduction in manual intervention is arguably more valuable than it is in correspondent banking. The value of payments in the capital markets is also higher than in correspondent banking, further increasing the benefit of gpi.

Case study #2: Reconciliation

Challenge	SWIFT gpi solution and benefits
Cash payments that cannot be reconciled are a major source of unnecessary costs for capital markets intermediaries and their clients. Cash breaks often occur because: – the instructions contain inaccurate or inadequate information; or – unexpected charges or fees were deducted along the payments chain, causing a mismatch in the amounts.	Getting early sight and more complete visibility allows potential problems to be detected and resolved earlier Pre-validation minimises the risks of inbound and outbound payments containing inaccurate information gpi reduces the time spent investigating and reconciling unmatched payments and gpi case resolution helps resolve client queries faster

How SWIFT gpi works

It is not just easy to join SWIFT gpi, it is also simple to use. That's because, since November 2018, all SWIFT users attach a UETR to every payment instruction message they send over the network, and by end 2020 all financial institutions on SWIFT will be required to confirm payments have been credited to the gpi Tracker.

This means that investment banks, custodian banks, brokers, asset managers, national (CSDs) and international central securities depositories (ICSDs), and central counterparty clearing houses (CCPs) are already generating UETRs. This enables all parties to a payment to be able to track and recognise it at any time on its journey from the initiator to the final beneficiary.

However, to take advantage of the full benefits of gpi, market participants must also subscribe to the gpi service and to a set of business rules, described in an SLA. The SLA specifies the service standards all users must achieve. The immediate goal is to increase the speed at which users of gpi finalise the delivery of each payment to the end-beneficiary and update the gpi Tracker.

Since the level of adherence of each user to the SLA is published in the gpi Observer, users can see which of their service providers is achieving the highest standards. Since this can be expected to encourage financial institutions to put pressure on low performing service providers – or shift their business away from them – it will lift the overall standard of service in capital markets payments.

Case study #3: Corporate actions

Challenge	SWIFT gpi solution and benefits
There is often a delay between the announcement by an issuer of the value of an entitlement (such as a dividend) and the actual or back-dated transfer of value. This creates problems for custodians in reconciling and allocating payments and dealing with client queries.	Greater transparency allows crediting of client accounts with entitlements earlier, with a much lower risk of non-payment
	Pre-validation allows the account details of the beneficiary to be checked for accuracy and completeness before payments are released, reducing reconciliation risk
	Getting earlier sight of inbound payments allows missing entitlements to be pursued proactively with paying agents

The benefits of SWIFT gpi for the capital markets

A major cause of inefficiency in post-trade operations in the pre-gpi marketplace was the lack of information about the status of a payment once it was released. Once a payment began its journey from the payer to the payee, there was no way of knowing whether it had reached the beneficiary, what fees and charges were deducted, or whether the payment was altered along the way, until it arrived – or failed to arrive.

gpi not only overcomes this lack of information about payments in transit but offers additional benefits that include:

A lower cost of investigations, claims and reconciliations because access to tracking information and case resolution services by all parties to the transaction means exceptions are handled earlier and more efficiently

A reduction in operational risk through improved certainty of credit, quicker receipt of funds and fewer allocation errors, because mistakes can be detected earlier and corrected before they cause problems

A reduction in compliance risk through earlier sight of data about the origin, destination and purpose of a payment, mitigating the risk of allocating funds to the wrong account or inadvertent commingling of client and in-house funds

A stop-and-recall function which can halt not only mistakes, but also payments suspected of fraud before they reach their destination

Greater transparency into fees and charges deducted from payments, simplifying and accelerating the task of reconciling inbound payments with internal records and facilitating cost-benchmarking of service providers

The ability to benchmark intermediaries by following the speed and quality of service along the payments chain, enabling users to put pressure on their providers and raise standards overall

A measure of protection against regulatory obligations to ensure information about payers and payees is complete through an automated pre-validation service that checks payments for completeness before they are sent.

All these benefits ultimately translate into better services for clients. Real-time tracking and fee transparency enable a faster response to any client investigation. The ability to make faster payments means that funds can be released closer to cut-off times. In addition, capital markets participants will be able to provide their own customers with enhanced cash management services, based on more accurate and timely information. This in turn reduces their need for credit and collateral and enables them to reinvest funds more promptly.

Case study #4: Margin calls

Challenge	SWIFT gpi solution and benefits
Clearing brokers and triparty agents make daily cash margin calls, to ensure the settlement of their clients' obligations with their counterparties. These obligations are often of substantial value, and must be met before a specific cut-off time.	Predict which cash payments will settle on time and meet cut-off deadlines
	Cut the cost of sourcing liquidity from lenders
	Manage daily liquidity requirements on a better-informed basis

What comes next

Currently, the scope of gpi is cash payments. However, as the service is adopted by the industry, it will be expanded to include securities, derivatives and foreign exchange (FX) transactions as well. Attaching UETRs to securities, FX and derivatives transactions is intrinsically more difficult, however, because they are often netted or partially settled between execution and final settlement.

This could be overcome by extending gpi to cover securities (MT 5XX), derivatives and FX (MT 3XX) message types, and by SWIFT members agreeing to a common method of linking the net payment UETR with the underlying transactions through, for example, "parent-child" references. This would enable net payments to be unbundled, with benefits that extend beyond operational efficiency.

Eventually, gpi could supplant the present methods of post-trade information processing altogether. Messages about a transaction will no longer need to be passed along a chain that relies on each intermediary reconciling the details of the transaction with their own records, altering them if necessary, and only then passing the information on to the next link in the chain. Instead, all parties will have access to the same information at the same time and be able to detect issues and take corrective actions without waiting.

Real-time access to information about which payments are incoming, outgoing, or in need of repair, has one further potential advantage. Richer and more timely data about payments would make it easier for all institutions in the capital markets to deploy artificial intelligence (AI) and machine learning (ML) to identify the exceptions and the information which is missing, and then apply the missing data by robotic process automation (RPA).

These ideas need to be further qualified with the industry so that we can align on priorities and collaborate to co-create solutions.

Case study #5: Fund management

Challenge	SWIFT gpi solution and benefits
To calculate net asset values (NAVs) for funds, fund accountants need accurate daily cash forecasts based on large numbers of purchases and sales. Fund managers in general need a clear statement of net cash remaining after settlement of all outstanding trades so that this surplus can be reinvested.	Early and accurate insight into inbound and outbound payments improves the accuracy of cash forecasts
	Enables investment decisions to be made closer to deadlines
	Surplus cash can be reinvested with greater confidence for the benefit of the fund

Conclusion

Errors and omissions in cash payments account for a significant proportion of the reconciliation, investigation, and claim costs and risks that are incurred in capital markets. SWIFT gpi offers an immediately available solution to track payments and reduce or even eliminate these costs and risks altogether.

More gpi service enhancements will be added as capital market participants exploit the benefits of being able to track payments in real-time, accelerate the transfer of funds and understand the costs they incur as they do so. And the value generated by gpi will continue to increase exponentially as the service evolves from its origins in payments to encompass the other half of every securities, derivatives and fund transaction.

About SWIFT

SWIFT is a global member owned cooperative and the world's leading provider of secure financial messaging services.

We provide our community with a platform for messaging and standards for communicating, and we offer products and services to facilitate access and integration, identification, analysis and regulatory compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories. While SWIFT does not hold funds or manage accounts on behalf of customers, we enable our global community of users to communicate securely, exchanging standardised financial messages in a reliable way, thereby supporting global and local financial flows, as well as trade and commerce all around the world.

As their trusted provider, we relentlessly pursue operational excellence; we support our community in addressing cyber threats; and we continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies. Our products and services support our community's access and integration, business intelligence, reference data and financial crime compliance needs. SWIFT also brings the financial community together – at global, regional and local levels – to shape market practice, define standards and debate issues of mutual interest or concern.

Headquartered in Belgium, SWIFT's international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT's international office network ensures an active presence in all the major global financial centres.

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