



# Managing liquidity risk: industry pain points and SWIFT solutions

**Market research**

June 2010

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## Executive summary

Liquidity risk is a 'hot topic' in the financial industry.

The entire spectrum of stakeholders - individual institutions, central banks, regulators, politicians – is mobilised to take action, as the financial crisis painfully demonstrated gaps in many institutions' ability to manage their liquidity and associated risk, and in regulators' supervision and liquidity frameworks.

In follow-up to the white paper "Managing liquidity risk in a changed and global world" issued in March<sup>1</sup>, SWIFT carried out a study to better understand industry pain points and assess the potential of SWIFT solutions for liquidity risk management.

The research report includes insights from 255 treasury, liquidity and liquidity risk managers at financial institutions obtained via a survey carried out in cooperation with gtnews and 47 face-to-face meetings held by SWIFT with financial institutions, consultants and application vendors.

In conclusion, the research highlights that:

- **79% have a liquidity management project**, going into 2012 and beyond;
- **90% want more intra-day liquidity reports** (38% have < 25% transactions reported same day);
- **68% want to build a central liquidity view**, receive a copy of Nostro reports sent to branches;
- **59% would buy integration services** from SWIFT to process liquidity reports into applications;
- **55% would buy a transactional, risk or regulatory reporting application** from SWIFT;
- **87% want more traffic data and business intelligence** from SWIFT on counterparty concentration, trend analysis, benchmarks and peer comparison to support liquidity risk management.

In addition, several suggestions were made to develop new collaborative solutions, in particular to develop industry practice regarding intra-day reporting messages.

We hope this research provides you with valuable insights, including for your own operations.

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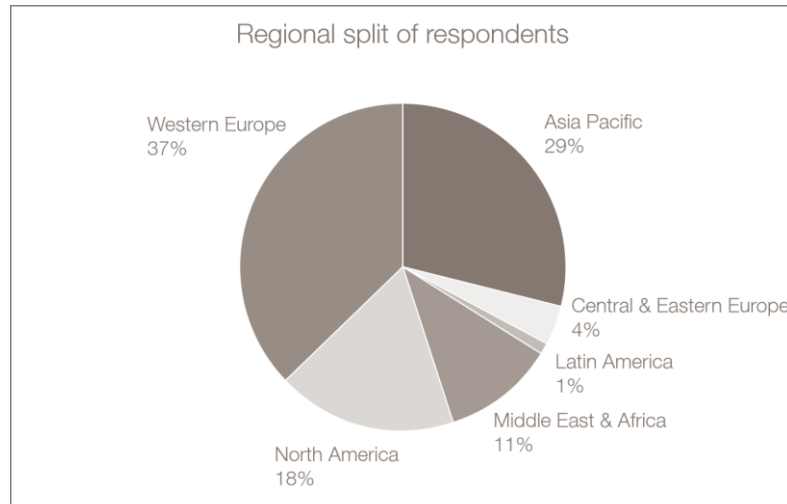
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<sup>1</sup> The SWIFT white paper on liquidity risk management is available [here](#) for download from swift.com

## 1 Research demographics

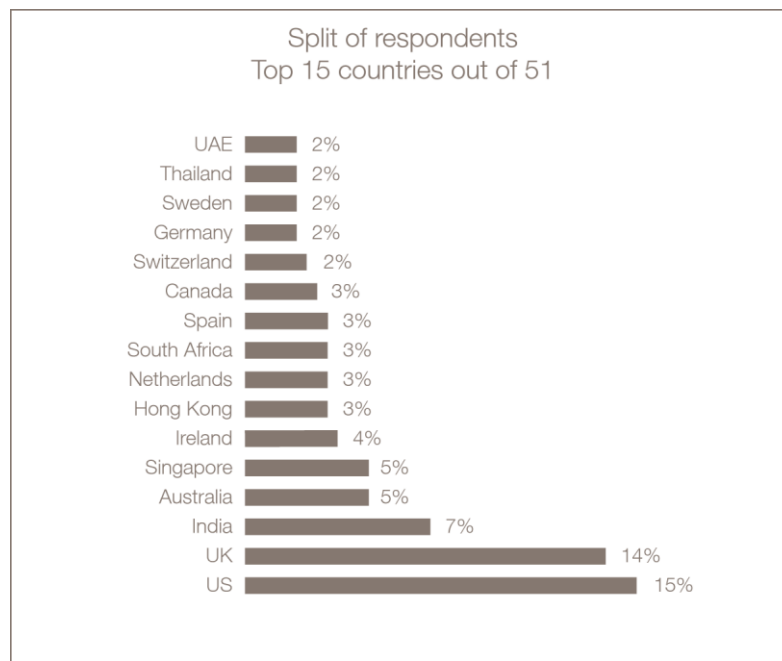
A total of 255 treasury, liquidity and liquidity risk managers participated in the questionnaire.

Responses were well balanced between geographical regions. The high return from Western Europe (37%) does not come as a surprise considering the advanced regulatory activities in this region, including new regulations already in implementation (i.e. UK FSA).



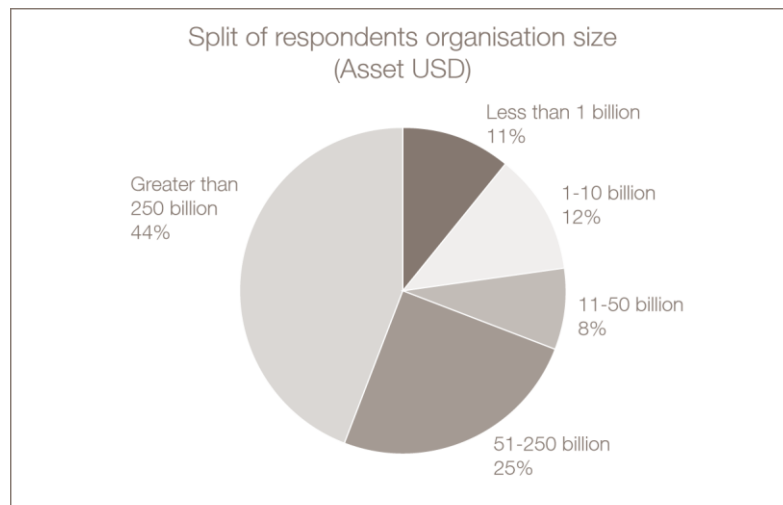
Percentage of respondents (source: SWIFT)

Managers from 51 countries replied. The fifteen countries with highest response rate are listed below. The two front runners – the United States and United Kingdom - can easily be explained by the recent changes in the respective regulatory landscape of these countries (FSA in the UK, interagency policy statement in the US). Countries with a traditionally strong regulatory framework appear next (India, Australia, and Singapore).



Percentage of respondents (source: SWIFT)

As could be expected, a large number (44%) of respondents represent large organisations (> 250 billion USD assets). Interesting to note is that 31% are from small financial institutions (< 50 billion USD assets), who see liquidity risk as a concern as well.



Percentage of respondents (source: SWIFT)

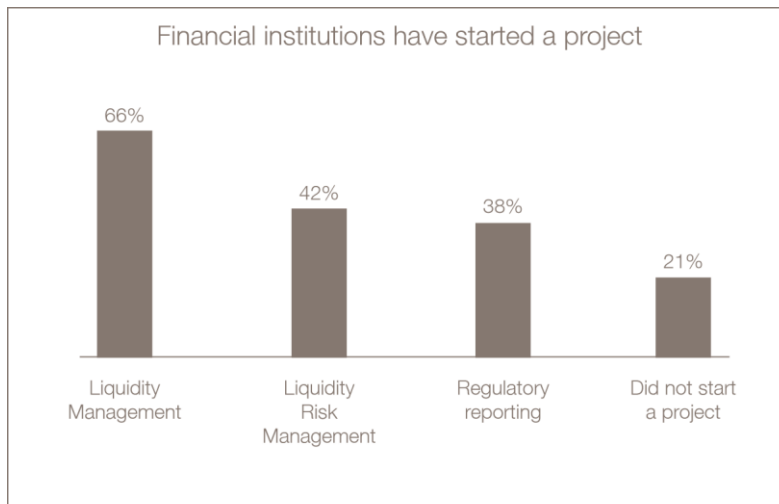
## 2 Survey results

### 2.1 Financial Institutions are investing

Financial institutions are investing to improve their liquidity risk management.

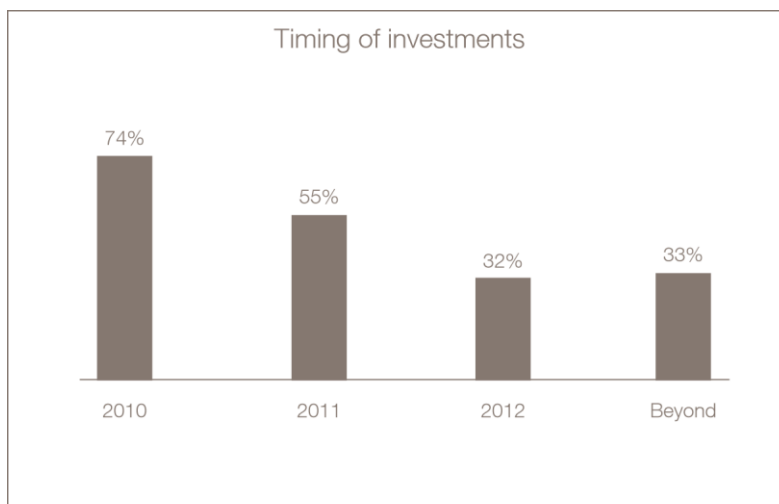
79% of respondents confirm that they started a project in operational liquidity management, liquidity risk management and/or regulatory reporting. The highest focus is at the foundational level, starting with operational liquidity management.

On the other hand, the survey reveals that 21% did not start a project yet!



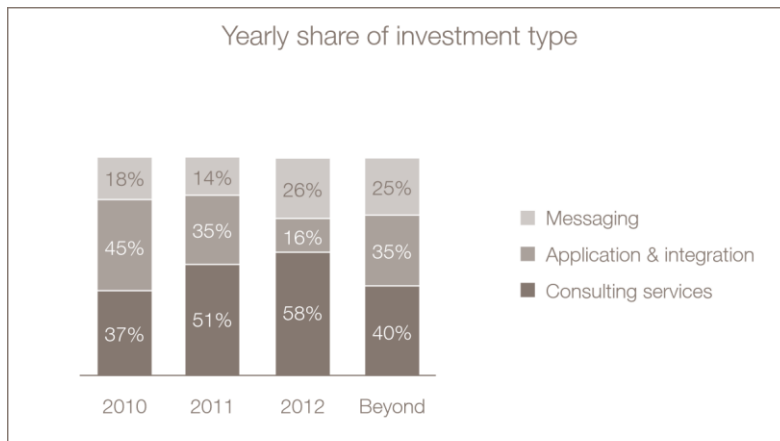
Percentage of respondents (source: SWIFT)

While there is a focus in 2010, most investments span multiple years and carry beyond 2012.



Percentage of respondents (source: SWIFT)

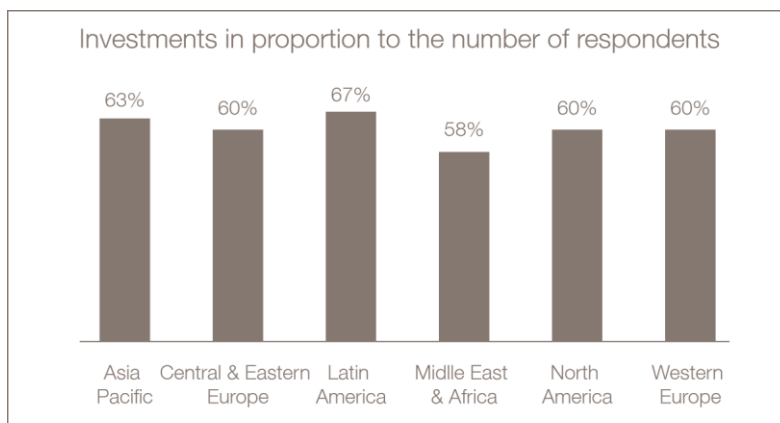
The type of investments is mostly concentrated on application and integration in 2010, then on integration services in 2011 and 2012, and finally on messaging towards 2012 and beyond.



Percentage of respondents (source: SWIFT)

The survey shows that financial institutions of all regions are improving their liquidity risk management, even in regions less directly impacted by the financial crisis: 25% of respondents with a liquidity management project are based in Asia Pacific, and 36% of regulatory reporting projects have been initiated in this region.

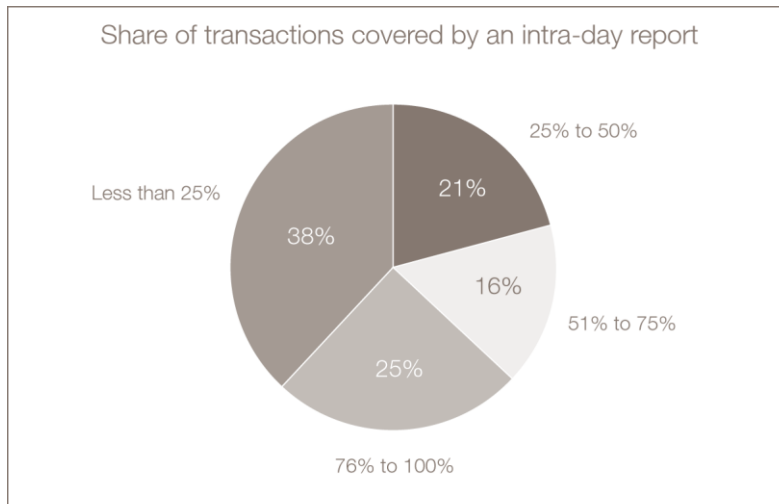
Looking at investments planned in proportion to the number of respondents, all regions are very aligned, with about 60% of respondents in each region having started a liquidity risk related investment.



Percentage of respondents (source: SWIFT)

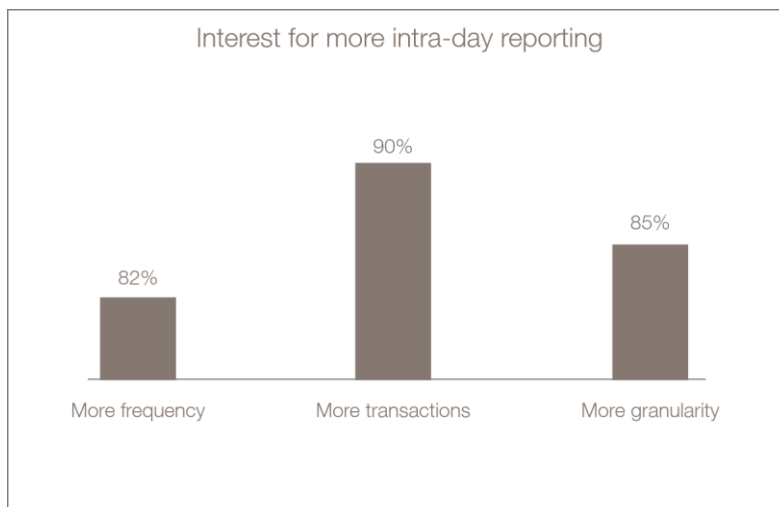
## 2.2 Increased need for intra-day reports

Financial institutions now have to demonstrate their ability to manage liquidity on an intra-day basis. However, a staggering 38% declare that currently less than 25% of transactions are reported on the same business day!



Percentage of respondents (source: SWIFT)

It should not be a surprise then that 90% of respondents want to have more transactions reported on an intra-day basis. 85% want more granular reports and 82% a higher reporting frequency.



Percentage of respondents (source: SWIFT)

A large number of financial institutions are looking to build a central view of their liquidity, as they have a decentralised Nostro account management. It is a challenge for the treasurer to establish a global, firm-wide liquidity position. 68% of respondents are interested to receive a copy of the Nostro reports sent to their branches - rather than having to rely on or wait for the branches to report this information into the central treasury. SWIFT's FINInform service can be used for this purpose.

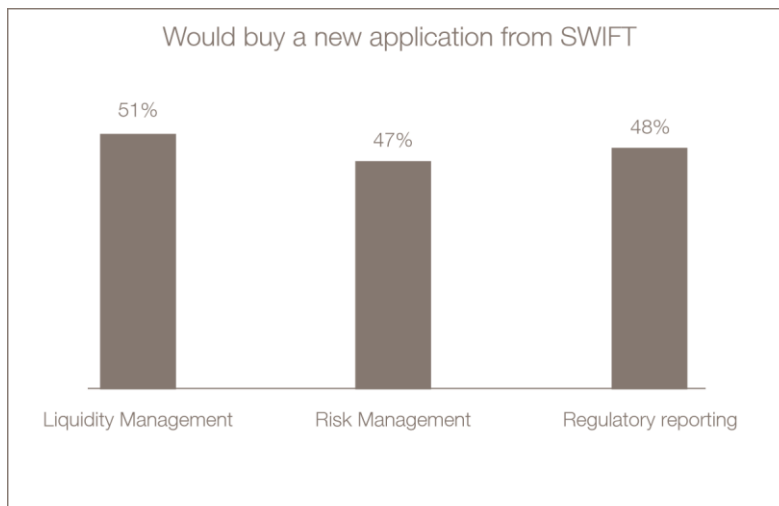
### 2.3 Integration services to link it all together

With more liquidity information and intra-day reports to be gathered from multiple systems and branches, 58% of the respondents would consider consulting services from SWIFT to integrate it all.

### 2.4 Investing in applications

Many institutions did not yet integrate their counterparties reporting in their applications and calculate liquidity positions at the end of the day based on internal projections. Gaps are only discovered the next day, after the accounting reconciliation has taken place.

A significant number of respondents are looking to acquire a new application or replace an internally developed solution: 55% would buy a liquidity management, liquidity risk management and/or regulatory reporting software from SWIFT.



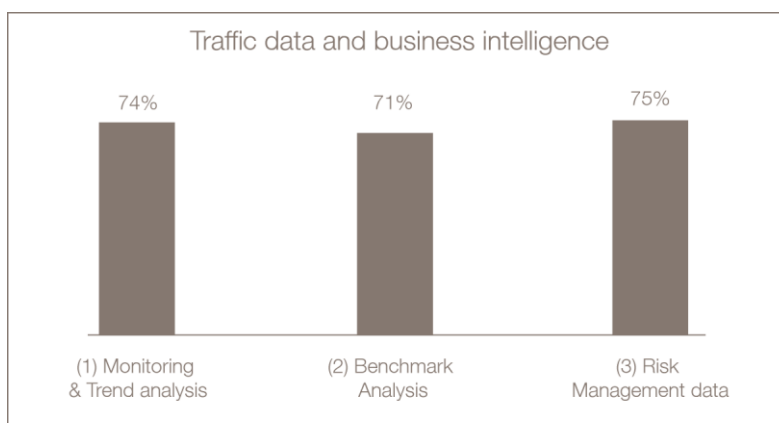
Percentage of respondents (source: SWIFT)

Most of them would do this investment in replacement of a solution they have today, which in 74% of the cases is a non-integrated in-house developed solution.

### 2.5 Traffic data and business intelligence

The survey also points to an enormous interest in SWIFT traffic monitoring and trend analysis, benchmark and peer comparison as well as data on counterparty concentration risk (in/outflows to top counterparties) in support of liquidity risk management.

On an aggregate level, 87% are looking for more traffic data and business insights from SWIFT.



Percentage of interested respondents (source: SWIFT)

## **2.6 Collaborative industry solutions**

A number of suggestions were made by the respondents to develop new collaborative solutions.

For example, 78% identified the need to develop an industry practice on the usage of reporting messages. This would namely ensure the provision of more detailed information on the underlying transaction and thus lead to a higher level of automated reconciliation with internal projections.

## **3 Conclusion**

Financial institutions are investing heavily in liquidity risk management as confirmed by the large number of respondents to this survey.

The two main pain points remain lack of:

- intra-day bank-wide view on funds,
- traffic data and intelligence for liquidity risk management.

As a consequence, institutions have oversized liquidity buffers and increased funding needs. They also have to bear substantial overdraft charges, intra-day credit lines costs and potential penalties for not being compliant.

Respondents clearly see SWIFT as a trusted partner to provide practical solutions.

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