



JP Morgan

implements SWIFT's Exceptions and Investigations solution to leverage investments in rules-based technology to improve its inquiries management service

“JPM sees the future of straight-through processing in services such as SWIFT's Exceptions and Investigations solution. We are already receiving requests from a number of financial institution clients to support the service”

John Hunter, Senior Product Manager for US Dollar Clearing, JPMorgan

One of the world's largest providers of cash management services, JPMorgan is the market leader in US dollar clearing originations, processing more than seven million transactions per month. More than two million of these monthly transactions are initiated via SWIFT. JPMorgan Chase and Co. is a leading global financial services firm with assets of USD 1.4 trillion and operations in more than 50 countries.

Business challenges

- Reduce cost and operational impact of the manual investigations process
- Leverage investments made in rulesbased technology
- Reduce inquiries turnaround times
Benefits for JPMorgan
- Achieve STP of 60% of SWIFT-originated investigations
- Reduce exception-processing labour costs by 40%
- Reduce inquiry response time by 50%
- Shift staff away from mundane service messaging to focus on providing value-added service
- Drive consistency in the service model by automating workflow
- Improve service quality

Business challenges

JPMorgan is the world's largest US dollar clearing bank. The bank processes more than seven million transactions per month,

and more than two million of these transactions are initiated via SWIFT.

As part of its large US dollar clearing volume, the bank also processes approximately 130,000 transaction investigations per month — a 1.17% investigation-to-transaction ratio. This may appear insignificant until one considers the bottom line and operational impact.

Managing exceptions and investigations is an extensively manual process. It remains one of the most labour-intensive activities for most back-office operations. Investigations staff must follow transaction verification trails from payment initiator to processing bank to recipient bank to payee. Due to a lack of common inquiry standards and formats, less than 1% of investigations are automated.

JPMorgan employs hundreds of staff dedicated to servicing inquiries and investigations. Despite the large staff, long investigation turnaround times can still be a challenge. These delays have a direct impact on client service, and can also increase costs.



The solution

In 2003, JPMorgan and 12 other large financial institutions asked SWIFT to perform an industry study on the processes and costs of handling exceptions and investigations. Areas examined included bank-to-bank, treasury and commercial payment instructions. As a result of the study, SWIFT concluded that a new industry standard was necessary to deal with exceptions.

JPMorgan took a leading role in working directly with SWIFT and other partner banks to define the business criteria for exception automation. At the same time, the bank created a business case outlining the need to upgrade its legacy systems. To improve customer service and case management mainframe systems, the bank selected the new PegaSystems' Rules Process Commander (PRPC) platform. PRPC enables JPMorgan to create rules-based automation for traditionally manual processes used in carrying out investigations.

"PRPC is a strategic business decision designed to enhance our customer service capabilities," explains John Hunter, Senior Product Manager for US Dollar Clearing at JPMorgan. "SWIFT's Exceptions and Investigations solution (E&I) will also allow us to leverage the solution's flexibility and drive greater efficiencies."

Prior to PRPC, investigations staff had to be trained in all of the unique processing codes required to navigate through mainframe terminals. When multiple steps were required, the staff needed to have a clear understanding of exception procedures to appropriately service and close cases. With exceptions standardised, staff is no longer required to interpret an endless variation of exception incidents. By automating workflows, JPMorgan is able to reduce the learning curve for new operators, reduce response time, and provide a uniform customer experience.

E&I is based on a predefined data model for initiating and responding to payment investigations. It is expected to drive more quality and consistency in the investigation process and become the default investigations standard.

The existing FIN messaging protocol exists in a world of legacy network infrastructure that does not support automation. Migration to a rules-based processing solution such as PRPC and XML-based messaging applications represents a shift in

straight-through processing (STP) for the industry.

"We are big believers in PRPC, because we not only see the cost benefits of moving to the new UNIX platform, but also the capability to leverage applications such as E&I to simplify processing and drive additional efficiencies in our back office," says Hunter.

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Benefits for JPMorgan

"The pilot programme demonstrated the efficiencies that can be achieved through automation of the E&I process," says Hunter. "It is estimated that by leveraging E&I, automation levels could be raised to approximately 60%, improving the banking industry's balance sheet by USD 165 million a year in savings and new revenue."

Introducing more automation can reduce the unit cost per messaging inquiry. With the average cost around USD 40, savings can be substantial. JPMorgan anticipates automating more than 60% of its investigation messaging, driving significant savings directly to the bottom line. The firm also sees an opportunity to reduce messaging costs. When several counterparties use E&I, a fee is charged only at case initiation rather than at each message interaction.

As the E&I service is open to all types of payments, JPMorgan plans to leverage the standard not only for SWIFT-initiated investigations, but also for investigations stemming from an underlying Fedwire or CHIPS transaction, deriving even greater benefits.

Another large impact with E&I will be with customer service. Today, it may take days, and sometimes weeks, to resolve a customer concern. The reason for the delay is often communication impediments in the payment chain with correspondent banks. By automating

the process, financial institutions can systematically respond and forward investigation messaging. This automation removes delays in the communication process and frees up resources to focus on differentiating customer service.

More advantages

E&I can help save on staffing costs, as fewer people are required for manual research tasks. With the solution in place, employees can be realigned to concentrate on the most critical cases and resolve crisis situations faster. In addition, staff can be reassigned to more strategic roles or those that add higher financial value.

Several other incentives to adopt E&I are emerging. First, service providers are considering charging fees to financial institutions for free-form inquiries that require manual intervention. This is consistent with the industry practice to apply higher fees for non-STP transactions.

Second, as STP becomes the inquiry standard, financial institutions will have the opportunity to compete on STP versus non-STP pricing. If this trend continues, it has the potential to impact back-office budgets at a wide range of financial institutions.

SWIFT recently issued a migration timeline for eliminating a number of the FIN-formatted service messages from the SWIFT network by the end of 2011. This migration paves the way for E&I's XML messaging protocol.

"JPMorgan sees the future of STP processing in services such as E&I," Hunter says. "We are already receiving requests from a range of our financial institution clients to support the service. We see that there is a clear relationship between the number of banks using the solution and the cost savings. The more banks that adopt it, the more savings are possible."

Solution overview

- PegaSystems Smart Investigate for Payments™ (PRPC) 5.1
- Exceptions and Investigations 1.1

For more information please contact your SWIFT account manager or visit www.swift.com