



Information paper

Transforming Cash and Trade Operations in the Indian Asset Management Industry

Standardisation and automation as the path to increased efficiency and straight through processing

Foreword

At a time of great change, asset management firms arguably have a tougher game to play than ever. A mild recovery has lifted industry profitability since the financial crisis, yet challenges abound. Undoubtedly, the global pool of assets under management will grow in the years to come, especially in India – but only those firms that adapt swiftly to the changing environment will benefit.

India's robust growth has nonetheless taken place against considerable headwinds. Nervous financial markets, new regulatory frameworks, more demanding investors and fierce competition are all conspiring to make profitable growth hard won. Governance, risk, regulatory complexity and reporting, transparency, operations and technology are all challenges today.

This information paper will focus on operations and technology and we believe that only with standardisation and automation, can operational efficiency be achieved. The key to success lies in the financial standards that can be the common language enabler for financial institutions to communication with one another. This information paper will:

- Detail the challenges we see in cash and trade operations
- Outline the need for transformation
- Discuss the benefits of standardisation and automation

For the past few decades, SWIFT has been engaged with the securities industry in over 200 countries, working extensively with market participants and the Securities Committee of the SWIFT Board, to service this segment that it now accounts for close to 50% of the cooperative's traffic volume and some 70% of traffic growth (year to date 2016). At the same time, SWIFT's securities community has broadened considerably, encompassing custodians, market infrastructures, brokers and, increasingly globally, investment managers. SWIFT started with settlement messages but over the years has added asset servicing, funds, trade confirmation, and collateral management messages.

Leveraging on our expertise here in India, SWIFT has been partnering with the financial community for over 25 years now in securities, trade, treasury and payments messaging. And most recently in 2014, SWIFT India Domestic Services was created as a joint venture with nine local banks, servicing as a provider for the domestic Indian financial community – with the objective of enabling harmonised exchange of structured financial information between domestic participants and allow for alignment with international standards.

As the Indian asset management community works towards higher levels of automation, standardisation and straight-through-processing, my team looks forward to supporting you in this journey.

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1. Introduction

The Indian business landscape has been through near-constant change, as market events, technological changes and regulatory reforms continuously bring up new challenges for the asset management industry. At the same time, declining revenues and increasing cost pressure add further complexity.

Amidst all these, the Indian asset management industry has been forced to reduce the inefficiencies caused by manual processes and improve the timeliness of information. Despite years of investment in straight through processing (STP), the industry has not yet achieved the operational efficiency required to confidently say that operational risk is under control, due to a lack of standardisation and the proliferation of bespoke channels between different counterparties.

This paper examines a range of problems currently holding up STP progress and operational risk management, including the lack of uniform adoption of standards and inadequacy of STP across counterparties.

2. Challenges with current cash and trade operations

Today, the main area of concern amongst operations managers is the pressing need to automate cash and trade operations with their counterparties like custodians, broker-dealers, banks and securities market infrastructures (SMI). Operations managers are clearly aware of their top five challenges:

- Clear cash visibility by defined regulatory and market deadlines
- Varied modes of communication across counterparts
- Operational risk and delay due to manual processing
- Management of different security and compliance protocols
- Availability of channels and resiliency

2.1 Clear cash visibility by defined regulatory and market deadlines:

A typical asset management company (AMC) will have a multi-banking relationship where investments are received across different schemes and cash is utilised by fund managers for investments across markets. Due to current regulatory requirements, fund managers need to have clear cash visibility by 2pm (liquid schemes), as cash needs to be invested on the same day.

In a normal scenario, asset management companies have scheme-wide accounts across multiple banks. During the business day, cash information is aggregated from different accounts for investment visibility purposes. Dedicated teams will manually track new credit across accounts through internet banking and then manually update the back office with that information.

- Automatic data scraping: a number of asset management companies utilise technology to automatically scrape data from the internet. The system logs into internet banking and at every specific interval, automatically scrapes data and publishes it on a dashboard. The challenges with this model are: a) not all banks provide functionality to automatically login to internet banking b) a risk of errors due to data scraping

For investments to take place, the operations teams need to move the cash from multiple scheme accounts to a pool account within the same bank, and later from the pool account at different banks to a central collection (investment) account. In a normal scenario, an operational manager will manually initiate debit instructions through internet banking, payment letters by courier or fax.

2.2 Varied mode of communication across counterparties

Communication of asset management companies with their counterparties is still largely manual; sending trade orders by phone or chat service, receiving trade notifications by email or verbally, sending settlement instructions by proprietary channels, payment instructions by spreadsheet or fax and so on. Despite investments in high-end back office systems, operations managers still perceive that due to the large number of non-automated counterparties, automation and STP cannot be achieved.

2. Challenges with current cash and trade operations

2.3 Operational risk and delay due to manual processing

As we have illustrated above, asset management companies' operations are still very manual as counterparties use proprietary spreadsheets or even faxes for communication. Operations teams need to invest significant time to process this information, which varies in form across counterparties. The table below highlights the level of automation (both in standards and channels) across asset classes in the Indian market:

2.4 Management of different security and compliance protocols

Dealing with multiple internet banking portals, proprietary settlement channels of custodians and clearing house trade reporting regimes, requires operations teams to manage different security protocols like tokens, IDs and passwords.

Also, for counterparties to process instructions, they need authorisation from the designated approver within the asset management company. For example, a payment instruction through via payment letter requires the signature of authorised officials, per regulatory compliance rules, which is time-consuming and can delay the processing of instructions.

Instructions sent through fax do not automatically generate back a confirmation of receipt. Operations managers need to follow-up with counterparties for confirmation over call or email.

2.5 Availability of channels and resiliency

The availability of internet channels for communication is also a challenge for operations managers, as it can impact their entire operation, from trade to settlement, through to payment and collections. With the increase in volumes of transactions, existing infrastructures will also have issues related to resiliency which further increases operational risk.

	Trade/ Allocation	Trade Reporting	Confirmation	Settlement Instruction	Payment & Collections
Equity	Instruction over phone or third party chat	NA	IFN format over STP channel	IFN format over STP channel	Net banking, FTP (file upload/download), Payment letter, Fax
F&O	Instruction over phone or third party chat	NA	IFN format over STP channel or email/fax	Proprietary files over custodian channel or fax	
Corporate Bond	Instruction over phone or third party chat	Manual file upload or manual entry through portal	Email/Third party chat service. Verification of reporting time over phone	Proprietary files over custodian channel or fax	
CP & CD	Instruction over phone or third party chat	Manual file upload or manual entry through portal	Email/Third party chat service. Verification of reporting time over phone	Proprietary files over custodian channel or fax	

* Based on SWIFT understanding

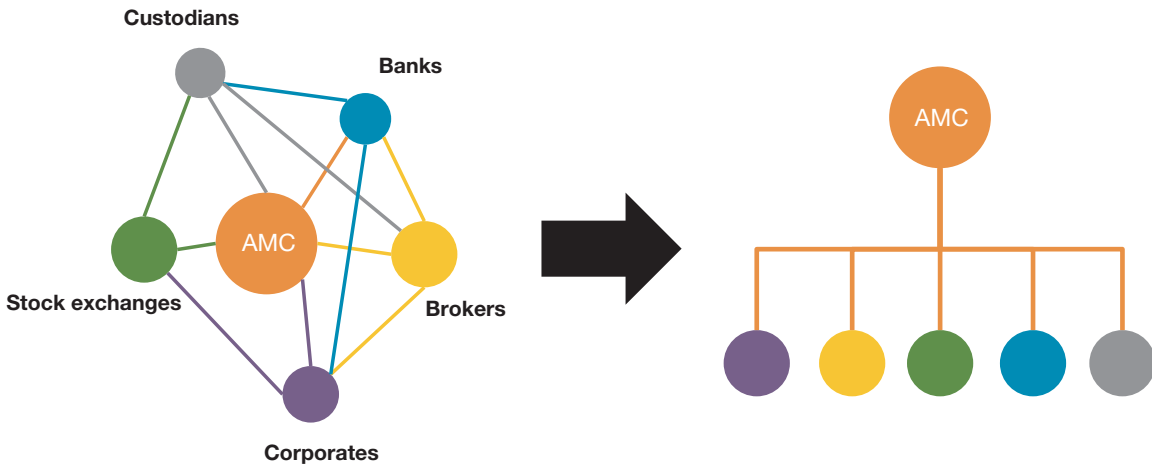
3. Need of transformation and SWIFT's role

As Indian asset management companies look to overcome the operational inefficiencies that come with manual processing, automation and standardisation of the relevant business processes are essential to realise STP. SWIFT's solutions enable asset management companies to eliminate the risk of errors due to manual processes. In the current economic environment, SWIFT is key to cutting operational costs and reducing operational risks, boosting operational efficiency and improving asset managers' bottom line.

SWIFT India provides a common platform for all communications across counterparts:

- Enriched end to end communication
- Increased automation and straight through process
- Decreased fraud and improved security
- Improved reliability of communications
- Improved services to your own customers

SWIFT India provides a common platform for all your communications



4. Benefits of standardisation and automation

There is a clear need to improve cash and trade operation processing for asset management companies in India. The main priority is to automate and standardise communication with counterparts, which will help increase operational efficiency and STP.

How can SWIFT help?

SWIFT eliminates the need of proprietary channels, multiple file formats, letters and fax required for communication with counterparts and replaces them with one single, standardised, secure and resilient global and domestic platform. Below are the areas where SWIFT can help.

	Current Process	Over SWIFT
<p>Payment (Intra account, inter account), vendor payment, other payments</p>	<ul style="list-style-type: none"> - Currently AMC send paper instruction, fax or initiate transaction through net-banking - Manual processing and challenge of maintaining tokens and password for each channel - Call back confirmation for fax instruction 	<ul style="list-style-type: none"> - Over SWIFT channel AMC's can push a standardise payment instruction to banks - Single secured channel for communication across banks with immediate confirmation - Full integration with back office system
<p>Collection (Cash visibility)</p>	<ul style="list-style-type: none"> - Currently AMC has dedicated team who continuously monitors the net banking and track every new credit in account across banks. Later, manually update back office with credit to have clear visibility for Fund manager - Risk of manual error, manual processing, availability of net banking connectivity and delay (2pm dead line) 	<ul style="list-style-type: none"> - Over SWIFT channel, banks can push intraday account statement message to AMC's after every specific time interval - As it will be a standardise statement message, AMC's can develop a dash board which read the SWIFT message and generate consolidate statement automatically
<p>Trade Reporting (Corporate Bond, CP and CD to Market Infrastructure)</p>	<ul style="list-style-type: none"> - Currently AMC upload file or manual keying through frontend provided by SMI for trade reporting - Proprietary frontends for each SMI. Different file formats or GUI for manual keying - Limited or no integration or STP 	<ul style="list-style-type: none"> - Single channel for AMC's for trade reporting across SMI's - Standardise messaging and full integration with back office system - Trade match confirmation
<p>Fixed Income Settlement Instruction (to custodian)</p>	<ul style="list-style-type: none"> - Currently AMC upload settlement file over custodian frontend or sends instruction through fax or email - In case of multiple custodians, AMC need to manage multiple file formats - Also the end of day report send's by custodian over email 	<ul style="list-style-type: none"> - Over SWIFT channel AMC's can push a settlement instructions to custodians in standardise formats. - Single secured channel for communication across custodian. Standardise report

5. Conclusion

Asset management companies are dealing with an expanding range of asset types, a growing number of counterparties and escalating transaction volumes, while also carrying an increased risk and compliance burden. Deploying innovative investment strategies can help them compete and control operational risks and costs, while ensuring scalability through automation and standardisation.

SWIFT can help the industry meet these challenges by providing a single, low-cost way of communicating across all counterparties – including broker-dealers, custodians and banks – in an automated way, supporting funds, equity, fixed income and alternative investments. Leveraging SWIFT's services enables asset management companies to eliminate costly and error-prone manual processes and multiple communications protocols, clearing the path to increase their international reach. What is needed is a community-level commitment to drive automation of the securities industry through the adoption of SWIFT.



About SWIFT India

SWIFT India Domestic Services Pvt Ltd (“SWIFT India”) is a joint venture created by SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication), the global banking cooperative, and (in alphabetical order) Axis Bank, Bank of Baroda, Bank of India, Canara Bank, HDFC Bank, ICICI Bank, Punjab National Bank, State Bank of India and Union Bank of India, to address domestic market needs of the Indian financial services industry. Based on proven SWIFT technology, the company provides messaging services to domestic market infrastructures, banks and corporates, enabling the financial community to exchange automated, standardised financial information securely and reliably, thereby reducing costs and risks, improving compliance and services to its customers.

SWIFT India's mission is to support the community in the next wave of banking industry transformation. SWIFT has been operating in Asia Pacific for over 30 years, starting in Hong Kong and Singapore. Since 2005, SWIFT has opened three additional sales and support offices in Asia, bringing the total number of offices to nine across the region. This includes a Control Centre in Hong Kong and a new corporate services hub that opened in Kuala Lumpur in 2013.

For more information, please refer to our website www.swiftindia.org.in

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 financial crime 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, enabling them to communicate securely and exchange standardised financial messages in a reliable way. As their trusted provider, we facilitate global and local financial flows, support trade and commerce all around the world; we relentlessly pursue operational excellence and continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies.

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

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