



CASE STUDY: Leading bank automates swaps confirmations

Challenges

- Low-volume, high-value complex swaps transactions
- Difficult to automate
- Lack of centralized multi-party clearing and settlement
- Interaction with counter-parties in unstructured forms such as fax, email and telephone
- Need to automate fax and email-based swaps confirmations process

Why Zarion

- Prototype ensured that potential benefits were easily demonstrated
- Quick return on investment
- Proven technology

Results

- Automated swaps confirmation process at Dublin office
- More efficient, automated interaction between swaps payment team and counterparties
- Vital live information updates, eg interest rate changes
- Entire process traceable for audit purposes
- Single electronic view of all swap-related correspondence

Zarion/Global360 products

- TouchPoint2
- Execute360
- Insight360

Background

The company is the only pure public finance bank worldwide. Its strategy is to establish itself as the preferred financial partner for the public sector worldwide. The bank has a market capitalization of over \$6.6bn and controls subsidiaries, branches and representative offices in 15 countries.

The challenge

The bank dominates a series of niches for structured financial products. Operations are characterized by low volume, high value complex transactions. In addition, there are several product lines. These factors suggested it would be challenging to apply process automation solutions because of the perception that both low volumes and varied product lines militate against such automation. To complicate matters further, there was a lack of centralized multi-party clearing and settlement for many of its products because of their specialized nature.

The challenge was compounded by the fact that interaction is generally in unstructured forms such as fax, email and telephone.

The solution

The first element of the projects undertaken by Zarion was to automate the fax and email-based swaps confirmations process. A swap is a contract where two parties agree to exchange their interest payment liabilities on an agreed amount of each other's debt, for a fixed time period. Zarion's first step was to handle the confirmation activities that are carried out when a new swap is set up.

This was a relatively straightforward business process automation project which ensured that:

- The high value email and fax correspondence was tightly controlled
- Service levels to counterparties for completion of trade confirmations could be managed
- Full traceability for the whole process could be assured

A second stage extended the system to the regular events in the life of a swap where money moves between the counter-parties. For each of these movements, more contact with the counter-party is required, to agree the amounts to be paid before these payments are settled. Here, the possibilities for automation were less obvious. To solve this, the bank and Zarion agreed on an innovative approach; Zarion created an analysis exercise using visualizations to help bring the concepts involved in the solution to life.

The prototype was built using Zarion's TouchPoint2 software after the requirements had been established in a series of workshops. The prototype was developed into a solution which went live just 8 weeks after the first workshop. This approach facilitated significant and meaningful involvement of time-poor senior staff, whose scarce availability is frequently a key issue in failed capital markets technology projects.

Business benefits

Using the latest components of Zarion's TouchPoint2 together with Global360's Execute360 product, Zarion's swap payments solution yielded many benefits:

- Interaction between the swap payment team and counterparties, which was previously labor intensive, is now much more efficient
- All trade-related email correspondence is tightly managed within TouchPoint2
- Vital up-to-date information such as interest rate changes is available to the team while they work.
- The process is now traceable for audit purposes
- The visibility of work throughout the process has been improved and the team has a single electronic view of all correspondence related to a swap
- They team now has the ability to report on outstanding work waiting to be approved.

The solution also considerably reduced the potential for large scale losses. As each error could result in a major loss, to reduce the error rate in a series of high-value transactions from, say 3%, to 0.5% or even 1%, has significant benefits for the bottom line.

The future

As a result of the success of this approach, DEPFA has made a further commitment to Zarion and Global360 and is now implementing Insight360. The Insight360 project is focused on building an operational model for scenario planning and on developing metrics in order to monitor the performance of individuals and teams.

The bank is also commissioning Zarion and Global360 to take in the back office processes for the Guaranteed Investment Contracts (GIC) product which they sell from their New York offices. This takes advantage of features for automated fax generation in Global360's Execute360 product.

GIC is a debt security issued by a financial institution for a certain term and interest rate, providing a guaranteed return to the investor, usually with limited flexibility in access to funds before maturity.

This is a high value product, the volume of which is expected to grow dramatically. The present paper-based process is not efficient or traceable and Zarion's solution addresses this:

- Extending the present swaps confirmations process to cover GIC confirmations in the USA and Europe
- Greater efficiency will be achieved through close integration with the existing summit system. The present manual process, in which GIC statements are printed and faxed, will be completely automated.

As this process is carried out at the bank's New York office, implementation will standardize the US and European processes. This is highly significant and demonstrates their confidence in the product and a desire to broaden the use of Zarion's TouchPoint2 to encompass new processes worldwide.

With the completion of this project, the bank will have a model in operation which can be rolled out across its full range of activities around the world. This will put the bank within reach of achieving its major ambition of a profit per employee of over \$1,000,000.

“The benefits to us were significant: high value transactions which depend on traditional paper, fax and email-based systems are a significant control risk. Zarion used Global360 products and its own solution to create a system with far less scope for error and losses. As a result, we are committed to bringing similar Zarion process solutions to other areas of our business.”