



SWIFT's Big SCORE

EXTENDING THE VALUE PROPOSITION BEYOND FINANCIAL INSTITUTIONS

In 2007, SWIFT confirmed that securities transactions account for roughly half of its business. In addition to expanding its securities capabilities, SWIFT has opened its doors to a wider variety of participants, including broker-dealers and corporate users.

More than just a messaging system, SWIFT's services and standards provide an ever-growing community of users with faster, easier and more cost-effective connectivity across all of their banking relationships.

FAST GROWTH AMONG CORPORATE USERS

The culmination of several years of planning and discussion, SWIFT's 2006 Annual General Meeting opened the SWIFT community to corporate entities for a wide breadth of messaging services, led by their "SCORE solution" (Standardised CORporate Environment), and the uptake has been remarkable.

Twenty-four new corporate entities joined SWIFT in the first quarter of 2008, quickly bringing the total to more than 300 corporate users. Traffic statistics suggest that new corporate users are also implementing quickly. SWIFT's FIN message traffic had an annual growth rate of 33% among corporate users, well ahead of messaging growth in the traditional arenas.

Perhaps more interesting, corporate entities are also leading the way in new usage of SWIFT's FileAct capability, choosing to leverage FileAct for low-value or low-urgency payments (e.g., ACH) to maximize the cost-efficiency of the network. FileAct traffic surged 70% among corporate users during 2007.

As evidenced in Figure 1, penetration of the corporate market is taking place across industry

sectors, with a common reference point of multiple banking providers and frequent cross-border needs.

CAN INVESTMENT COMPANIES ACHIEVE SIMILAR RESULTS?

With a few clicks on swift.com, one can learn that General Electric (GE) is claiming a 406% return on investment in SWIFT. Since few companies have a footprint or treasury operation equal to GE's, what is the value for a much smaller investment management firm?

The value proposition is the same as for multinationals: a single, reusable, nonrefutable, resilient and secure channel for all banking partners. SWIFT leverages common standards and practices and provides a venue for the community to continuously update these standards—all at an ever-more-reasonable price.

SWIFT continues to steadily address typical challenges for smaller players. Prohibitive membership fees have been eliminated, and service bureau capabilities have been established to allow users to band together to achieve economies of scale in their gateway connections to SWIFT. There are also myriad middleware solution providers available to help turn raw data into standard message formats.

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AN INNOVATION WITH BROAD APPLICATIONS

Most recently, SWIFT has begun testing and will shortly roll out a very simple connectivity option for low-volume users. It's as simple as a USB memory stick that can be attached to any PC, creating a secure, encrypted and authenticated Internet session. This provides users access to the full reach of the SWIFT network and includes some facilities to upload or even manually enter standard transaction messages. While primarily a solution for low-volume transaction needs, this tool may also present departmental niche opportunities.

JPMorgan, for example, has encountered situations where a client has SWIFT connectivity for specific portions of their business, but in a different subsidiary or run by a different IT team. In these cases, access is either a costly internal development or just not high enough on the list of priorities. A simple connectivity solution may be an effective way to bring STP capability to additional departments, and an interim step on a firm's longer-term path to STP and IT efficiency.

Another important reason to revisit SWIFT is its continued progress in extending its reach on the street side. SWIFT has had considerable success in connecting with market infrastructures such as RTGS cash clearing systems, central securities depositories (CSDs) and central counterparties (CCPs). As more and more local market infrastructures embrace the SWIFT network and standards, the value of end-to-end use of SWIFT

increases. Common use of standards facilitates STP opportunities, and reinforces the resiliency and reliability of the full communications chain.

In 2007, traffic between market infrastructures and financial institutions exceeded traffic between banks for the first time. This trend will likely continue as some major

market infrastructures—like the Depository Trust & Clearing Corporation (DTCC) in the United States—plan their next generation of systems and service capabilities.

SWIFT is on the right track with SCORE and market infrastructure programs, enhanced by ever-simpler connectivity. A broader set of companies may now wish to have another look at SWIFT products and services, as well.

For more information about opportunities to enhance your firm's securities messaging capabilities, please contact your JPMorgan representative. ○

