



# Are you up to speed with post-trade payment processing?

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Do you know how to implement a payment processing project using a proven implementation method? This article will help you better understand the details involved in a payment processing project and its implementation process.

This overview covers implementing a corporate actions project (coupon processing), its standard requirements, operational perspective, static data management, technology and applications, best practices, costs and timelines. As well as covering implementing a coupon processing application, we'll provide insights for banks that want to improve the efficiency of their coupon

processing business and save money into the bargain. Also, in the broader sense, you'll get an idea of how to replace an existing application with modern technology.

**The resulting value proposition will be that you can demonstrate a professional, end-to-end payment project implementation (a post-trade solution).**



## Corporate actions

The corporate actions domain deals with dividend processing for equities and bond coupon processing for retail investors.

As a retail investor, you'll see stocks sometimes split, giving you bonus shares. This is also a corporate action. Some corporate activities happen at the organizational level and are often related to mergers and acquisitions.

Corporate actions is a massive domain, so we'll narrow our focus to bond coupon processing and how it works from an operational standpoint. Also, how to implement it from an IT perspective and the importance of involving a change management team.

Here's what the standard requirements look like for a payments project.

# Requirements gathering

A coupon is a payment made to a bond investor. For example, you buy a bond that promises to pay 7% interest. If you invest \$10,000, you can expect to receive \$700 a year.

Sounds simple enough, but there's a lot happening behind the scenes to make that work.

Your requirement from an ops perspective is that as a financial organization, you should be able to process payments accurately and on time:



**First**, you should have feed licenses from financial feed providers like Moody's and Reuters that tell you which payments to make



**Second**, you ought to be able to generate events and payments for your customers and send PDF confirmations



**Third**, you must be able to generate SWIFT messages to help process transactions. Generally, MT202 and MT103 are used for settling transactions related to coupon payments



## An operational perspective on coupon processing

The ops team needs to have an application (off the shelf or homegrown) that will help them know which payments to process and when to do it. There are many applications to choose from (e.g., Merit from Cognizant, Gloss from Broadridge and Syn from GBST), the only difference being cost and the support available for banks. Any application that supports settlement instructions setup and the generation of SWIFT messages will work for any bank.

If yours is a small bank, then you could do coupon processing manually using various tools.

At this point, we should review the backbone of any payments processing project — static data management.



# Static data management (reference data)

Static data management is one of the critical elements of coupon processing. The static data includes SSIs and contact information.

## Key points:

- Standard settlement instructions are used to email PDF confirmations to customers for their payments
- If the confirmation email fails to arrive, deliver it manually
- For certain benefits, ops may decide to use manual processing so they can make modifications before payment is completed
- Ensure you've set up your static data correctly to avoid failure
- There's inherent predictability in coupon processing, unlike equity business, where you cannot predict too far ahead

## Best practices:

- To avoid human errors, get your vendor to automatically upload SSI details in your application. It will make the process faster and smoother
- Deploy internal controls to upload SSIs into production once you've implemented your product and the vendor warranty expires
- Use good SMEs with knowledge of SWIFT and trade settlements to set up your SSIs
- Verify that confirmation text follows the bank policy. Work with your compliance and legal departments to get their confirmation



# SWIFT

SWIFT is a standard payment protocol used worldwide. SWIFT understanding is a great plus for all analysts, ops and IT consultants working in post-trade areas. Coupon processing usually happens as a bank-to-bank transfer, and MT202 is populated for payment purposes as a standard by banks. Static data is used for populating SWIFTS.

Hence, SSI and static data form the spine of payment processing projects, including coupon processing.

**Armed with this knowledge, you should be able to implement any payment processing project. Here are some best practices for you to use.**

## Best practices for project implementation

Pick the best inexpensive payment processing application that offers the automatic processing of payments. SSIs must be set correctly and reviewed by SMEs and ops before you use the application in production. Engage SMEs for the life of the project. Ops can work in the static with internal functionality like defaulting and manual payments. Ops must ensure they have a workaround for all the processes not covered by the application. Engage your vendors, internal teams and IT continuously for acceptance testing and regression.



## Team structure

To implement a coupon processing project, you need a project manager, a good SME who knows SWIFT and the application under consideration. It is also a good idea to have 2 SIT testers and 1 or 2 UAT testers. If a bank is willing to implement a coupon project with 8-10 critical requirements related to sending a confirmation/SWIFT and settling them, the project should take around 5-6 months. The final estimate will vary according to requirements.

**The main takeaway is to successfully implement a payment processing project, understand the critical requirements from both operational and technical perspectives, pay attention to the static data setup or migration as a key activity and pick an application that's right for you before starting your coupon processing journey.**

## About **the author**



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Yogesh has 19 years of IT experience in banking and finance. Before joining Luxoft, he held leadership positions across the UK, United States, Singapore, Malaysia and India, working with clients like Standard Chartered, Credit Suisse, American Express, CLSA, Natixis, Bank of Ireland and MUFG Securities. He specializes in regulatory reporting, anti-money laundering, client lifecycle management and investment banking. Yogesh also writes and speaks about these topics. Any spare time is spent with his daughter, jogging, reading or experimenting with new ideas.

Learn more about how Luxoft can help you streamline your payment processing projects by visiting [luxoft.com/capital-markets](https://luxoft.com/capital-markets) or **contacting us** — we have many more insights to share with you.

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