

GTNews

Guide to SWIFTNet - Part 6: Developments in 2009

Valerie Morel, SunGard AvantGard - 10 Feb 2009 - in association with SunGard AvantGard

The last part in this series provides a summary of issues covered in 2008 and considers developments going forward into 2009.

In the past year, there has been a substantial increase in the uptake of SWIFTNet for corporates compared to previous years. Organisations are now realising the advantages that SWIFTNet can bring in terms of harmonising corporates' bank connectivity, and the technical component is also now better understood.

Part of the increase in adoption can be attributed to the fact that it is now easier to access SWIFTNet. This is partially attributed to adjustments made within the SWIFT model and also to the increased adoption of member concentrator models provided by vendors.

First, SWIFT is putting in a lot of effort to make the on-boarding process simpler and less costly; and second, vendors are filling in the gap by offering connectivity as an extra service to their customers. Therefore, instead of squandering a number of days attempting to figure out dense paperwork, vendors can provide it as a service on top of a global offering for the corporate client.

Most corporate customers have chosen to connect via a member concentrator service, where a technology firm, such as SunGard, not only takes care of the SWIFT connectivity (effectively outsourcing the technical part) but also takes responsibility for the administration duties. This is a critical factor in the adoption rates as previously, many corporations found that filling out the technical documents for the first time was not only difficult but also costly in terms of the time spent.

Domain of the Multi-banked Corporate

From personal experience, many corporates are now contacting SunGard about connecting through SWIFTNet, and these include many firms that we spoke to two or three years ago. At that time, they thought that there might be something in it for them, but wanted to wait to find out what others were doing before they took the plunge. Many corporates want to be seen as leading edge, but they don't necessarily want to be 'bleeding edge'.

Today, these same corporations are coming back to us to inquire about SWIFTNet with confidence. They are looking toward each other to see how the market is evolving because no one joins SWIFT just to simply explore the notion; typically treasurers do not simply wake up in the morning thinking: "I'm going to join SWIFT today." The drivers to join are often a combination of a number of factors. There are companies that are motivated to join SWIFT because they are convinced that it can bring value to their organisation in terms of cost reduction and improved visibility, but it has to fit into a project timeline - and an investment timeline - that is much broader than simply a bank connectivity project.

For example, if a corporation is working on centralising its treasury, SWIFT can bring value to this project in terms of getting a real-time view of liquidity, or at least a

consolidated view of account and liquidity positions. Or if a corporation is working on implementing a shared services centre or payments factory to centralise its payments, whether across Europe or the US, then within that project they can also look at how they organise their bank connectivity. Either way, the SWIFT connectivity project is typically embedded in a more strategic initiative.

SWIFT is still a solution that is particularly suitable for larger, often multinational or multi-banked corporations because the problem the corporate faces has to be big enough to allow for a project that includes SWIFTNet connectivity. It's not only the size of the company but also the complexity of the bank relationships and the need for centralisation, either by setting up a payments factory or a treasury centre/central treasury system. If a corporation has only one or two banking relationships and is active in just one or two countries, then traditional proprietary e-banking solutions may be adequate.

There are some large multinational corporates that work with only one or two banks, so probably they won't replace host-to-host connections that they have put in place. On the other hand, there are many mid-cap companies, for example in the distribution sector, that have quite complex bank relationship structures because they need local banking partners in almost every country - and sometimes even more than one per country. If a corporate sets up a shared services centre or a centralised payments factory and out of that centralised solution it then wants to set up 20 bank connections, then the straight-through processing (STP) dream is shattered.

Impact of the Credit Crisis

Obviously, the 2008 credit crisis has had a big impact on the industry as a whole because now there is much greater scrutiny of spending and all new projects have to go to procurement in a more detailed way than before.

On the other hand, the current economic climate emphasises the need for improvement projects. These are mainly projects that are directly related to liquidity, not SWIFT connectivity per se, but a project where SWIFT connectivity fits in, whether it is in centralising payments or gaining efficiency and cost-efficiency in the payment processing chain. The objective is to increase cash flow visibility to make sure that the company doesn't miss out on investment opportunities; therefore, the driver for this project becomes even more important than it was before the credit crisis.

Another issue highlighted in the current economic climate is banking dependency: with SWIFT, a corporate is completely bank-independent from a technical perspective. Until now, corporations may have not seen a burning necessity for bank independence, but the crisis has shown that there can be a major benefit in being able to 'click and pay', or roll out payments to a different bank on a short-term basis.

Corporate Treasurers' Top Priorities

As part of bigger projects, rationalising bank channels remains a priority for corporate treasurers. From a cost benefit perspective, with the liquidity issues and more crisis situations looming, it will probably be harder to get rationalisation high up on the chief executive's priority list because even though the investment is typically small the benefit is relatively small as well. Only when it is seen as part of the bigger project, such as shared services centres or treasury centres, centralising payments or rationalising the execution of payments across organisations, will rationalising bank connectivity become

an important priority. More than before, it has to be seen as part of a corporate's global strategy.

The main challenges in the year ahead will be around liquidity management, which is going to top of the list of every treasurer and CFO. SWIFTNet can assist with liquidity management in a number of ways, but just because a corporate is part of the SWIFT network doesn't mean that it automatically has a real-time view of liquidity. Clearly if a firm still has to rely on its local affiliates to get the information to the central treasury system then it's virtually impossible to have an accurate and quick view of its liquidity. The corporate has to have already embarked on the road to harmonised performance in which the centralisation of its bank channels will play a large part, so that it can very quickly integrate payment information into a treasury management system (TMS) and make payments through least-cost routing for payments.

STP is still an issue for corporate treasurers, particularly if they are working across a number of countries where there are different situations in every country. Also, terms like automation, integration and STP are IT words, whereas to move the discussion into the boardroom, a treasurer really needs to transform these issues into centralisation and harmonisation.

Many customers are currently working on 'time processing' - a system approach where everyone across all the affiliates and groups is working in the same way, not only to make payments processing more cost efficient, but also to make it more secure and auditable. Most think that it is about executing payments in a more efficient way, but it is really about gaining an accurate view of the firm's position in different accounts across the globe.

SEPA

SWIFTNet connectivity is part of the single euro payments area (SEPA) discussion because every time a corporate sets up a new solution, whether at the payments factory or collection factory or in a treasury management system, at a certain point in time they need to decide how they will reach out to their bank.

There is a growing adoption of SEPA Direct Debit (SDD) and Credit Transfer (SCT). SunGard is working with direct debit issuers, both from a debtor and creditor perspective, which are typically utilities companies looking for new solutions that cover local schemes and also international schemes.

Conclusion

With respect to the recent increase in the adoption of SWIFT among corporations, there are a number of new initiatives on the table, such as digital signatures and discussions around standards. Electronic bank account management is also something that is emerging in industry debates, as well as electronic invoicing with reconciliation and end-to-end traceability. There is still much discussion to happen within the industry to take us well into 2009 and beyond.