

SWIFT for Corporates – Questions Answered

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- The preceding article looked at how businesses are focusing more than ever on liquidity management – with SWIFT as part of their solution. This article covers answers to questions that companies might ask when considering using SWIFT.
- The decision to use SWIFT depends on a company's individual circumstances and business requirements.
- Arguably, the first factor to consider is the visibility of funds as businesses want to keep track of their cash at all times and be fully aware of how much remains unused.
- Migrating to SWIFT naturally requires a business case. There is a one size fits all offering whereby the cost depends on the transaction volume and type of connectivity required.

Corporates considering using SWIFT want to know the answers to several questions. What are the benefits? What if a company already has a single cash management banking partner? Is SWIFT only an option in a multi-banked environment? Is there an ideal shape and size of company that fits the SWIFT offering?

Fierce lobbying persuaded a reluctant bank-owned SWIFT to open its door to corporates in 2001, and since 2007 it has been attracting corporate participation as a result of its standardised corporate environment (SCORE). To date, approximately 500 corporates have migrated to SWIFT.

The implementation of SWIFT for corporates is not as difficult as one might think and the opportunities provided considerably outweigh the investment and effort required. This article sets out the key factors that will lead corporate treasurers to the optimal answers for their business.

What Does SWIFT Actually Offer Companies?

There is a common misconception that SWIFT is only for corporates with large transaction volumes. Rather, SWIFT's offering can be tailored to suit a variety of needs (see Figure 1).

FIGURE 1: SWIFT's Offerings are Tailored to a Company's Needs

SWIFT connection	Volume of message types	Comment
Alliance Lite – web-based	Up to 4,000 messages per month	Target – new companies with lower volumes
SWIFTNet – direct access	Unlimited	Global companies that prefer to maintain the SWIFT connection in-house
Service bureau	Unlimited	SWIFT connection is hosted and maintained by a third party
Member concentrator (indirect access)	Unlimited	A SWIFT member that will offer a broader remit of services, such as registration and receiving SWIFT invoices, including administration of the SWIFT contract

Source: SWIFT

Benefits for Companies

Deciding whether to connect to SWIFT and whether it is the optimal solution depends on the company's individual circumstances and business requirements. The benefits of SWIFT for corporates include the following.

Lower Costs and Straight-Through Processing

Corporates have found that the disciplines set out by SWIFT such as presenting standardised payment files and receiving standardised bank statements have resulted in higher straight-through processing (STP) rates. SWIFT creates a single communication channel allowing for transaction instructions to be transmitted efficiently between a corporate and its banks. The more banking relationships, the higher the savings.

In addition, standards used by SWIFT for payment files, bank balances and deal confirmations allow increased STP, thus improving staff productivity by reducing manual input. Banks also benefit from high STP rates since no manual intervention is required, and, to that end, they will be more disposed to offering a tariff that reflects the automation level.

That said, it is important to be cautious when dealing with regulated countries since banks will require supporting documentation for cross-border payments in accordance with local regulations. While the underlying fee can be lower due to the “clean” nature of the payment data presented, there will be charges to cover the costs of validating and processing the supporting documentation. However, SWIFT's file transfer mechanism, which is content-agnostic, can be utilised to process this documentation, as well as SWIFT's new ISO 20022 XML standards¹.

The flip side to this is that a company with established cash management banking partners should already have ironed out the creases.

Network Availability, Security and Reliability

Leonard Schrank, former chief executive officer of SWIFT, commented that airline passengers require 100% uptime when flying – 99% is simply not acceptable. The same is true for SWIFT, which boasts 99.999% availability, a reliability rate that is hard to top. It is important to remember that though some of the leading international banks may have highly robust infrastructures because of the size and scale of their own networks, the same may not be true at the local bank level where companies may suffer from regular breakdowns of their electronic banking systems.

Visibility of Funds

Arguably, this should be the first factor to consider. Although the sharing of e-statements has been available for at least three decades (based on the exchange of SWIFT messages) the process of aggregating through a leading cash management bank's delivery channel takes time to set up – and, indeed, maintain. SWIFT is “bank agnostic” allowing data to be received directly, thus facilitating the process of collation. A company only needs to inform its banks to report balances and transactions to its own SWIFT address.

Information is key as businesses are focusing more than ever on effective liquidity management. They want to keep track of their cash at all times and be fully aware of how much remains unused. SWIFT offers a simplified retrieval process allowing the company to receive electronic bank statements directly from all counterparty banks, and has the flexibility to be extended to receive interim and intra-day statements.

1. *ISO 20022 is the standard set by the International Organization for Standardization (ISO) to provide the financial industry with a common platform for the development of messages in a standardised Extended Markup Language (XML) syntax. For more information, see www.iso20022.org. For other definitions and concepts relating to SWIFT not included in this article, see the preceding article or consult the SWIFT website, www.swift.com.*

Compliance

Although Sarbanes-Oxley (SOX) is a piece of legislation aimed at reforming the accounting and financial practice and governance in the US, its influence is nevertheless felt in every corner of the globe, so becoming close to an international standard. In the context of SOX, supporting a number of bank interfaces requires the application of stringent controls. It is easier then to have a single interface, which, as company users comment, significantly reduces the administrative effort in maintaining accurate records and maintaining up-to-date bank communication processes.

Despite the potential advantages for companies considering SWIFT, one nagging doubt may still linger: What's in it for the banks? For decades they have been espousing the benefits of their own electronic channels. Is there any benefit to them in ditching these treasured platforms?

Benefits for Banks

There is a risk that a company's bank is not supportive of the SWIFT channel approach. However, there are benefits for banks as outlined below.

Role as Innovator

Banks are embracing corporates that use SWIFT. Remember that SWIFT is owned by banks, and therefore it was the banks that voted to allow companies access. SWIFT alters the dialogue between banks and corporate customers, shifting the focus to be less on proprietary technology and more on strategic management. Banks are keen to present themselves as innovators, encouraging their clients to migrate to SWIFT and showcasing SWIFT as a viable alternative to their own channels. Even with a standards backbone set up, there is still plenty of opportunity for a bank to differentiate itself and compete efficiently.

Enhanced Value-Added Services

Where a corporate customer has decided to migrate to SWIFT as its primary channel, the bank is free to focus on its unique selling points – and, indeed, enhancing them. Instead of spending money on the core information technology infrastructure, investment in future will be on value-added differentiation. This is already happening. Take, for example, receivables management. Accounts receivable in a country, region or regions has always been considered “too difficult to do”, yet that has been proven wrong.

Opportunity for Additional Flows

A bank that leads the dialogue with a company has a clear advantage in capturing additional flows. A corporate can truly appoint a “global” bank for its accounts payable processing. As previously mentioned, the increase in STP rates is good news for banks that are keen to control their costs.

Response to Company Demand

The danger for the banking community in ignoring the demand for SWIFT is tantamount to burying its head in the sand. If banks don't take the lead in forwarding the agenda, a competitor will. Remember, banks are keen to present themselves as innovators – for example, by linking SWIFT connectivity to payment file formatting. After looking at the risks, SWIFT concluded that all companies could join, and that there were benefits in doing so for companies and banks alike.

How Broad is the Business Case?

Having examined the relative benefits to corporates, and indeed for banks, the final consideration is the key elements of a business case for the corporate to advance SWIFT for corporates. Here we have drawn on the

success of others companies that have successfully implemented SWIFT.

Is joining SWIFT so challenging that the project is unrealistic because of the amount of spending on IT? There are costs, of course, to cover:

- ▶ Joining SWIFT;
- ▶ Integration of systems;
- ▶ Process re-engineering; and
- ▶ Project management (internal or external).

Migrating to SWIFT naturally requires a business case. Common drivers follow the benefits to companies as mentioned above. Yet in and of themselves they don't stand up in isolation. Following are some of the key drivers.

- ▶ **Multi-bank management:** Does a company have to be multi-banked to move to SWIFT? The answer is no. But how many companies keep all their eggs in one basket? None. Since the challenge for the treasurer is keeping many mouths fed, core lending banks are keen for asset-light ancillary business, hence most companies have more than one banking partner. Furthermore, coordinating flows of data is, as mentioned earlier, a challenge using the traditional approach.
- ▶ **Optimising return on investment:** Specifically investment in enterprise resource planning (ERP) systems. SWIFT connectivity now further enhances the ERP business case: the more instances of integration that can be achieved, the better the usage. One company – admittedly a large multinational – has estimated the return on investment of switching to SWIFTNet at 406%, resulting from a marked reduction in connection failures, simplification of the number of interfaces from 40 to one, and finally, an increased volume of activity through working with a single channel.
- ▶ **Format standardisation:** As previously suggested, combining SWIFT connectivity with a broader project can result in significant benefits. For the past two decades, a number of formats have been available – SWIFT emulation, EDIFACT (e.g. PAYMUL)² and ERP proprietary formats – yet none have really worked. All have spawned different quests by the various users to try to find a common group where integration can be simplified and uniform. The XML ISO 20022 standard provides the first real opportunity to achieve this.

SWIFT has a one size fits all offering whereby the cost depends on the transaction volume and type of connectivity required. There are three ways of connecting:

- ▶ Direct connection;
- ▶ Through a service bureau
- ▶ Using Alliance Lite (the newest, low-cost web-based connection)

Conclusions

Single bank or multi-bank? It doesn't really matter. Better questions to ask are: What is the strategic direction of the company? and, to achieve that, how would SWIFT help? A number of key issues have been examined above – the benefits to the company, the benefits to the bank, the business case for SWIFT and a checklist for implementation. Does it all add up? If so, maybe it's time for your company to call its leading cash management banking partner and SWIFT to invite them over for coffee and a chat.

2. *EDIFACT is the electronic data interchange standard for administration, commerce and transport. The standard has been adopted by the United Nations for business messages, and is managed by SWIFT. PAYMUL is the multiple payment order message type used in EDIFACT.*