

Can SWIFT Offer Effective Bank Connectivity for Corporate Treasuries?

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Abstract

Corporate interest in SWIFT has accelerated in response to the increased importance of complete and efficient cash management resulting from the global financial crisis. SWIFT provides a secure, rapid and standardised channel for communications between corporate treasuries and their banks. This article summarises the basic considerations for corporates who are considering launching a SWIFT evaluation project, and explains the role of treasury management systems in controlling, managing and making sense of the information transmitted through SWIFT.

Increased Levels of Corporate Interest

IT2's recent conversations with our existing and prospective clients indicate that more and more corporations, in Europe and North America, are showing heightened levels of interest in SWIFT membership. This interest focuses on treasury-to-bank communications relating to core treasury information, and in some cases extends further into the management of operational cash flows. The actual rate of uptake, in the form of integration projects, has to date been steady rather than spectacular – but it is significant. One underlying factor that is driving the process is the enhanced focus on cash visibility and usage that has emerged in reaction to the continuing liquidity crisis. SWIFT represents one way in which corporate treasuries can improve their connectivity with banks, and hence enhance the quality of their visibility of the cash balances of their bank accounts, in a timely, reliable and accurate manner. . Secondly, SWIFT's increased interest for the corporate markets has led them to take a number of steps to accommodate corporate needs.

Is SWIFT Friendly to Corporate Users?

Before SWIFT opened its doors to corporate membership, corporates were reliant on communications via bank workstations, and the use of specialist third party operators. These of course remain fully valid solutions; and SWIFT adoption may not be appropriate for some organisations, depending on the detailed nature of their banking relationships and costs.

However, excluded from what many saw as an exclusive inter-bank club, many corporates lobbied for the opportunity to apply for membership. SWIFT has moved to lower the entry barriers to corporates, and granted full corporate access in 2004. Some corporate treasurers involved in the early evaluations of SWIFT membership found a situation that was rather different from the Windows environment in which they were

accustomed to interact with technology. In comparison, many reported that SWIFT had (unsurprisingly) something of a mainframe solution look and feel – and its operations were supported by a matching set of acronyms and other jargon with which users needed to become familiar.

Corporate treasury language can accurately summarise core requirements with respect to SWIFT functionality as ‘statement / bank report import, confirmation process management and secure payments initiation and tracking.’ Most corporates who looked at SWIFT could see the benefits that would come through very fast, secure and robust bank communications – but some found it hard to construct a reliable cost/benefit analysis that would justify the relevant expense and effort. The bridge between the corporate world and the SWIFT world is often supplied – physically or metaphorically - by third parties, as discussed below.

The Corporate Case for Adopting SWIFT

Ultimately, most companies will naturally base their decision on the adoption of SWIFT on economic considerations, and the cost/benefit details are typically established on a case-by-case basis as corporates evaluate their use of SWIFT with service bureaux, with specialist consultants, with their TMS vendor and with SWIFT itself. The general case for adoption is based around the perceived costs and risks of supporting multiple banking interfaces versus the secure, robust and standard channel provided by SWIFT. SWIFT’s exceptionally high level of technical robustness is illustrated by the organisation’s security controls, published availability performance (99.995%) and 24/7 support service. The SWIFT solution’s standard channel offers one way of greatly simplifying and standardising the whole business of bank communications, and so enables treasury to focus on its professional responsibilities of cash and risk management, rather than having to divert effort into data exchange.

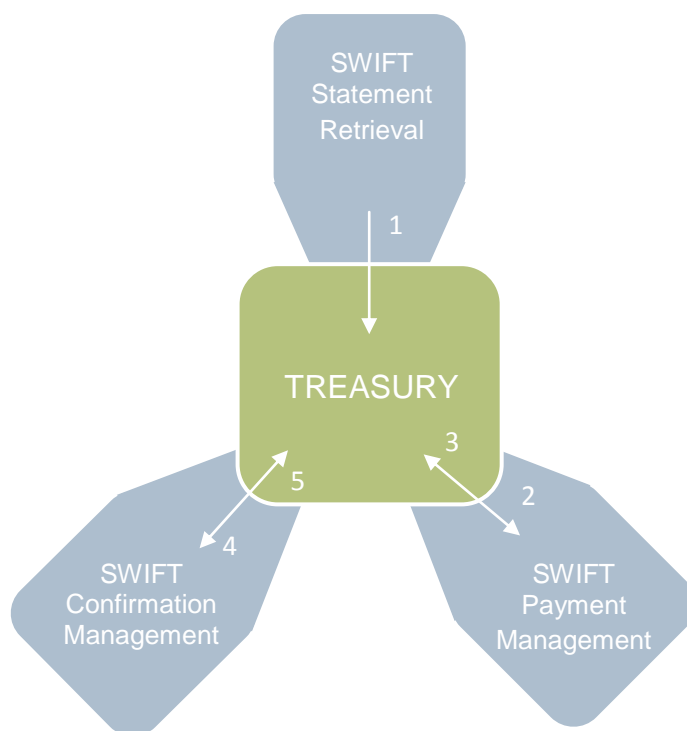
SWIFT has taken a number of steps to accommodate corporate needs. Non-SWIFT messaging standards such as BAI can be managed through the ‘Fileact’ service. Also, SWIFT has introduced SWIFT Alliance Lite, which is designed for lower volume users and offers straightforward connectivity options.

In IT2’s recent experience, corporate treasury departments who have adopted SWIFT either engage the services of SWIFT bureaux (such as SMA, BankServ and Synergy) as an outsource partner to manage the SWIFT end of connectivity with the TMS, or they use a bureau as a specialist consultant to implement a direct connectivity solution hosted on in-house technology.

The TMS as the Treasury Control Hub

The key business areas in which corporate treasurers generally evaluate SWIFT based solutions are the retrieval of bank balance and transaction information, the secure management and monitoring of payments, and deal confirmation process management, as illustrated:

GENERALISED TREASURY/SWIFT INTEGRATION



1. Bank balance & transaction data (such as MT 940s & 942s)
2. Settlement instructions (such as MT 101s & 102s)
3. Payment status tracking ('ACK/NAKs')
4. Deal confirmation details (such as MT 300s & 320s)
5. Confirmation matching status

These information flows alone do not offer a complete treasury management solution: balance & transaction statements need to be interpreted, reconciled and integrated with reporting; payments need to be formatted and controlled, under strict segregation of duties and authorisation limits; deal confirmations need to be formatted, and treasury processes need to be controlled based on confirmation status. The corporate treasuries who have successfully integrated SWIFT into their operations have consistently implemented or redeployed their TMS as a control hub, to ensure that SWIFT connectivity is properly and effectively managed.

Functioning as a control hub, the TMS schedules and controls all the information transfers with SWIFT. Without a TMS control hub, treasury would have to find alternative means of scheduling, formatting, translating, controlling and securing all SWIFT communications. In practice, the TMS assumes responsibility for performing a number of key functions, whose failure can lead to significant financial loss, for example as a consequence of a large payment missing the currency cut-off time. The key TMS-SWIFT control hub functions include:

- The automatic upload of prior day bank balance and transaction statements before the start of business, and also with periodic intra-day updates.

- The timely, secure and controlled formatting, export & tracking of payments.
- The automated management of deal confirmations.

The TMS's SWIFT control hub functions are a key part of treasury's integrated cash and risk management workflows, providing the essential control and management to accomplish the following business processes:

- Automatic bank account reconciliation, validating treasury's bank position.
- Complete cash positioning and forecasting, combining bank balances with information from other sources, including the TMS database, ERP and accounting systems and forecast data.
- Controlled initiation, routing, authorisation, release and tracking of payments.
- Confirmation preparation and export, eliminating a time-consuming manual process.
- Import and processing of confirmation matching information, providing a key control on the initiation of subsequent STP workflows based on validated matching.
- Timely export and status tracking of properly authorised payment messages, providing a secure and effective payments management service.

Conclusion

The full integration of TMS and SWIFT, whether direct or indirect via a bureau, provides a secure and proven route for implementing best practice STP treasury workflows. SWIFT integration can form part of full treasury process STP, where volumes and risk levels justify this. Other systems that may additionally be integrated with the TMS include dealing portals, market rate feeds and ERP systems (for accounting & forecasting purposes).

Those treasurers who adopt the SWIFT route see it as a resilient and dependable service. When integrated effectively with a TMS, the resultant service allows them to concentrate on efficient cash and risk management operations. So SWIFT can certainly offer effective bank communications for corporate treasuries, when it is integrated with a TMS to act as the essential control hub.