Joining the party

If treasurers' ears were burning in early October, it's probably because corporate access to Swift was the subject of much, sometimes heated, discussion by bankers at the Sibos 2006 event in Sydney, Australia. Making the bank-run global financial messaging network more attractive to corporate users was one of the four key themes at Swift's annual conference, alongside payments transformation, expansion in to the Bric (Brazil, Russia, India, China) economies and operational risk in the alternative investment sector.

Sibos has swelled from an alcohol-assisted get-together that lets correspondent bankers put faces to names and justify expense accounts to a 6,000-strong networking forum for discussing a wide range of issues relating to the sustained development of the global financial infrastructure.

And it's not only Sibos that has changed over the years. An industry-owned co-operative established in the 1970s, Swift delivers secure, standardised financial messaging services to nearly 8,000 financial institutions. Now it wants to expand to the corporate arena.

UNDERLYING BASIS Swift messages have long been used by corporates. They form the underlying basis of the payment instructions sent to, and the consolidated statements received from, banks via electronic banking platforms. But until recently banks have jealously guarded access to the network itself, typically preferring to communicate with corporates via proprietary connections. The ability of banks to provide customised reporting and payment initiation services – acting as the treasurer's dedicated gateway to the financial world – was initially considered a value-added service that would help cement, indeed protect, the client relationship. In truth, these connections were often expensive to maintain, rarely trouble-free and, in the internet age, increasingly commoditised.

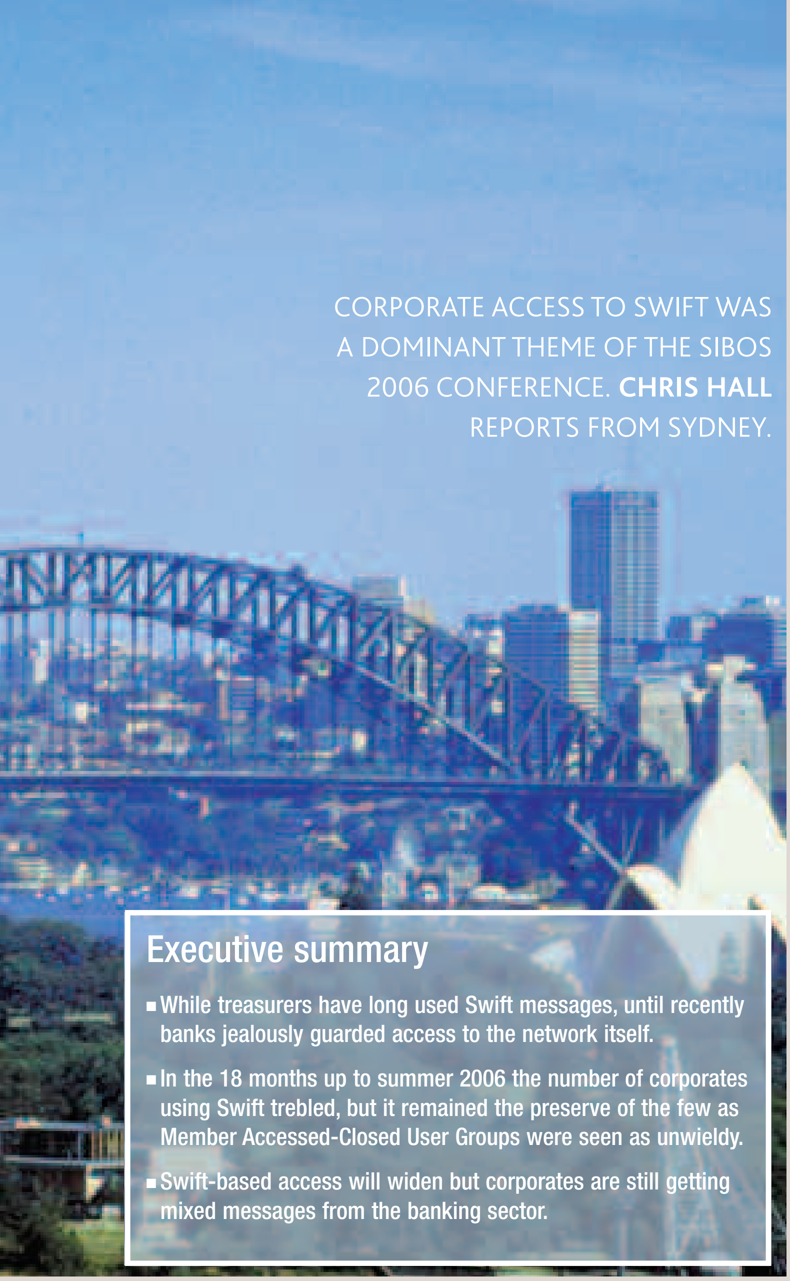
Swift had previously offered very limited corporate access to its network, but its introduction of an internet-based platform, Swiftnet, in 2003 was followed by a drive to increase message throughput from the corporate market. Why maintain customised, dedicated links to each of your banks at substantial cost, it asked, when you could increase straight-through processing and increase visibility and control of funds by communicating with all of them on a standardised and secure basis?

As Swift extolled the value of its network to corporates, Sibos 2004 in Atlanta saw banks scramble to reposition themselves on this new level playing field as providers of value-added services (such as real-time cash reporting) that built on the core Swiftnet messaging capabilities.

Careful not to compete with its own members, Swift has developed initiatives that leverage its network to the benefit of both banks and their corporate clients. For example, at Sibos 2005 in Copenhagen it launched the Trade Services Utility (TSU) platform for exchanging trade documents and transaction data between corporates and banks with the aim of improving back-office automation and supporting the development of banks' supply chain financing solutions.

In the 18 months up to August 2006, the number of corporates using Swift to communicate with their banks trebled to 168. The majority have joined one or more MA-CUGs (Member Accessed-Closed User Groups, which are set up by banks) to send and receive messages via a standardised Swift gateway.

Although used by global corporates such as General Electric, Shell and Arcelor Mittal, MA-CUGs were felt by many to be unwieldy, as a corporate needed to joint a MA-CUG for each of its banks. In June 2006, a proposal to introduce a new, simpler corporate category (Score, or Standardised Corporate Environment, see *Box 1*) to encourage more corporate membership received 98.6% support.



CORPORATE ACCESS TO SWIFT WAS A DOMINANT THEME OF THE SIBOS 2006 CONFERENCE. **CHRIS HALL** REPORTS FROM SYDNEY.

Executive summary

- While treasurers have long used Swift messages, until recently banks jealously guarded access to the network itself.
- In the 18 months up to summer 2006 the number of corporates using Swift trebled, but it remained the preserve of the few as Member Accessed-Closed User Groups were seen as unwieldy.
- Swift-based access will widen but corporates are still getting mixed messages from the banking sector.

Box 1. Corporate access to Swiftnet

At Sibos, Swift reaffirmed its ongoing commitment to facilitating easier corporate access with a five-point plan to make Swiftnet more user-friendly over the next few years:

1. Fostering standardisation As well as developing usage guidelines for current Swiftnet messaging, Swift will pilot XML for cash management with 13 banks, six corporates and four vendors. The pilot implementation target is the second half of 2007. Swift also plans to focus on the standardisation of remittance information.

2. Simplifying back-office integration Swift is undertaking a series of initiatives with most corporate-to-bank vendors – including treasury application vendors, middleware providers and ERP suppliers – that will let them support Swiftnet integration. Some of these initiatives – with SAP, for example – are directed at achieving end-to-end integration.

3. Introducing an easier model for corporate access Swift for Corporates (Score) is Swift's new many-to-many model for corporate access. It combines the benefits of previous models by giving corporates access to multiple banks through a single connection while allowing them to exploit multiple messaging formats. Available to corporates listed on a regulated stock exchange in a Financial Action Task Force member country.

4. Supporting a broader spectrum of services With cash and treasury management services already launched on Swiftnet, phase 2 will bring in securities services, exception and investigation, trade services and secure email.

5. Simplifying the on-boarding process A new "Making it easier to work with Swift" programme means corporates will benefit from on-boarding and implementation roadmaps, faster network activation and, from March 2007, a dedicated product bundle, Swiftnet Kit for Corporates.

INTO THE CORPORATE SPACE But this shift by Swift into the corporate space is still considered controversial and banks are still getting to grips with its implications, reluctant to let go of the certainties of proprietary connectivity.

A panel discussion, entitled *Corporates on Swift: The opportunity starts here*, also reflected uncertainty among banks and corporates on the next steps forward. At its core, this seems a question of where banks compete and where they collaborate. Will they continue to plough money into proprietary connectivity channels or redirect investment into new services that corporate clients can access via the standardised Swiftnet platform?

Banks were urged by John Murphy, Managing director for Trade and Transactions at ANZ Banking Group, not to continue to go it alone. "We have a responsibility to promote this channel [Score] over the existing proprietary channels," he urged. "Banks want to compete on product, on service, on relationship – there's no value to anyone in competing on technology."

Despite Murphy's insistence, it was clear that corporates had yet to receive an unambiguous message from their banks. Fellow panellist Gianfranco Tabasso, Chairman of the Payment Commission of the European Association of Corporate Treasurers, said: "We're still not quite sure how far banks want to standardise; they don't seem to want to go beyond a certain point."

So will treasurers note a shift in approach by their banks over the coming 12 months, with Swift-based services replacing proprietary interfaces?

Only time will tell, but one conclusion that can be drawn from the deliberations in Sydney is that the change will not be restricted to larger corporates. Almost two-thirds of a bank-dominated audience indicated that mid-sized firms (that is, those with less than €500m annual turnover) should be targeted for Swift-based access.

In a session on low-value payments, Richard Pattinson, Senior Director for Barclays Treasury at Barclays Bank, said that clearing infrastructures and banks' back-offices needed to be rationalised and "de-siloed".

Urging banks to stop talking and start collaborating, Pattinson said: "The reality is that we have to cut down on the number of infrastructure providers." He also predicted that banks would increasingly move to a single gateway for all payment types, "any file, any format, any scheme".

Sibos 2006 ended with a call to banks by Swift's outgoing CEO, Leonard Schrank, to "Bring your customers" to next year's event, reflecting the desire of the organisation to pull more non-banks into its orbit.

Whether or not your bank sends you an invitation to a Boston Tea Party come October 2007, treasurers should expect some major changes in cash and payments services, and sooner rather than later.

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