THE CHOICE COULD BE OURS

DAVID BLAIR OF NOKIA APPEALS TO TREASURERS TO ACTIVELY PUSH BANKS TO PRESERVE CUSTOMER REFERENCE DATA THROUGH BANKING SYSTEMS, TO ENABLE PROCESS AUTOMATION.

The treasurer's lot is not an easy one. More often than not our activity is non-core to our employers. If we are lucky enough to have financially savvy management, we may be considered necessary hygiene rather than context to be off-loaded along with the other outsourced support functions. In any case, in these challenging times, we come under increasing pressure to do more with less.

In such circumstances, a casual observer might expect treasurers to be a radically innovative bunch, always trying to find new ways to work smarter. Unfortunately, we seem to be a deeply conservative bunch, hiding behind the sanctity of money. This is ironic: money – being just a collection of (hopefully secure) bytes on a network – is highly conducive to technological reinvention.

SEARCHING FOR BETTER WAYS. At Nokia, the search for ever-improved processes in our effort to survive as a cost and technology leader pervades treasury, as well as other operations. I find myself sitting in meetings with my logistics colleagues. After they have explained how they can move physical parts around the world for pennies, it is deeply embarrassing – not to say career-threatening – to try to explain why it costs me $10 to move a few bytes of payment around.

Nor can I shirk my responsibility for this. My logistics colleagues did not wait for the logistic service providers such as Exel to bring them ready-made solutions on a silver platter. They had to go out and find suitable partners and push them to think and act out of the box. And if I whine that money is highly regulated, they laugh me out of the room – these people have dealt with some of the most recalcitrant customs authorities on the planet. And they have succeeded – to the benefit of both their commercial and governmental counterparts.

Being just a simple treasurer, I am unlikely to succeed in wiping clean hundreds of years of banking legacy so that we can enjoy payment services at email prices. With some frustration, I have decided to accept the legacy clearing systems as entrenched and unchangeable. Consequently, I focus my efforts on what I can change – our intra- and inter-corporate processes. *The Economist* has written about "a 14th century banking system", referring to correspondent banking ('Dreams of a cashless society', *The Economist*, 5 May 2001). Various new approaches to clearing have been proposed and some have even gone live. Interestingly, the banks themselves seem the most enthusiastic to avoid using the traditional clearing systems – witness interbank solutions such as Visa and MasterCard, continuous link settlement (CLS), Step2 and the like*. If the banks are so eager to avoid traditional clearing, surely that might be a sign that companies should also be looking for cheaper options?

ALTERNATIVE CLEARING SYSTEM. Some industries such as credit cards, airlines and telecoms have developed vertical solutions for off clearing settlement. Visa and MasterCard offer horizontal solutions such as VisaCommerce* which are genuine alternatives to traditional clearing systems. But most corporate efforts try to work around legacy clearing systems rather than to effect any fundamental change. The RosettaNet Payment Milestone Program* falls into this category. We are not trying to redesign any clearing systems, and in fact we have explicitly stayed away from the banking space *per se*

RosettaNet is an XML* standards organisation for the high-tech and electronics sectors. A self-funded, non-profit group, RosettaNet is a consortium of major information technology, electronic components and semi-conductor manufacturing companies working to create and implement industry-wide, open e-business process standards. These standards form a common e-business language, aligning processes between supply chain partners on a global basis. **www.rosettanet.org**

(no new clearing, no new payment standards, no new bank processes). We are focusing only on the part we can change – our own corporate systems and processes.

The RosettaNet Payment Milestone Program sponsors have determined that we can save time, reduce costs, and improve customer satisfaction by automating accounts receivable reconciliation. The current manual reconciliation process is labour-intensive and the resulting delays frustrate customers waiting to see their account clear. In close co-operation with banks and Swift* with solution providers, and with other standards bodies such as Twist* we have developed a process that automates accounts receivable reconciliation using existing legacy banking systems.

Furthermore, the sponsors have designed the process to be standards agnostic – it will work across any banking system with any flavour of corporate-to-corporate communication – RosettaNet, other eXtensible mark-up language (XML), electronic document interchange (EDI), iDoc, etc*. All enterprise resource planning (ERP) systems support automated posting, so the process does not require reworking of internal processes within a corporation. We hope that by making the process totally generic, we can encourage adoption across industries and regions, and kick-start a virtuous cycle of network benefits for everyone.

For this to happen we need companies to first start to use the process and, second, pressure their banks into supporting the process. While the process works with legacy banking systems, some banks may have to adjust the way they work to ensure that they follow best practice in the matter of preserving customer reference data through the banking systems.

A problem is that many banks have, over the past 50 years, got into the habit of overwriting customer reference data with their own internal reference data. To be fair, this was a reasonable compromise in the past when corporate customers did not seem to use the customer reference data capabilities of the banking systems.

Now that companies want to start to use the customer reference data, we are facing decades of legacy behaviour that has to be cleaned up. While this is not about new systems or even material revisions, even a seemingly small clean-up in legacy banking systems has a cost. So the banks need a clear message from their corporate customers that we want this clean up to be carried out.

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ONLINE FX TRADING. Unfortunately, corporate treasurers have a very poor record in getting their wishes heard as a customer group by their principal service providers, the banks. A case in point is the evolution of online foreign exchange (FX) trading.

In the late 1990s, a couple of technology companies saw in the FX markets a huge volume of homogenous high-value transactions being executed in a very inefficient and non-transparent way. They saw an opportunity to create technical solutions by moving the front- and back-office processes onto the internet. The prime example is Currenex (www.currenex.com).

The global FX market is dominated by banks which provide a valuable service in providing liquidity, but also profit handsomely from their position as prime intermediaries (or from a hugely asymmetric market). As Currenex floated onto their radar screens they panicked and sunk reportedly hundreds of millions of dollars into two rival platforms, Atriax and FxAll, each backed by separate and competing groups of banks representing some 30% of the market.

Banks have a history of investing in technology supposedly to benefit their customers (often without asking customers what they really want). Most of these are not profitable and end up getting sold to technology companies. In early 2002, Atriax duly folded. Commendably, two of its three shareholders – JPMorgan and Deutsche – saw the light and became platform agnostic, supporting both Currenex and FxAll.

WHERE'S THE BEEF?

For most companies, accounts receivable reconciliation is still a manual and painful process. It is not usual for funds to arrive with no useful information on the credit advice. Often, the chain of correspondent banks is so long that the original payer of the funds (aka the ordering party) is not shown on the credit advice received by the beneficiary. An accounts receivable clerk has to use a mix of experience and luck to identify from which customer (buyer) the funds came. Then he or she has to try to figure out which invoices the customer intended to pay, sort through partial payments, cash discounts, and so on.

In the meantime the customer (buyer) is being told that their money has not arrived. In addition to the sometimes long delays within the banking systems – usually called float – there are likely to be processing delays at the beneficiary (seller) while the accounts receivable clerk sorts through incoming credit advices as described above. The customer is likely to feel frustrated that their money is not applied sooner and their balance is not reduced accordingly. Sales are delayed while the customer's account is cleared. Delayed sales can often turn into lost sales. Therefore, in addition to the administrative time and cost wasted on accounts receivable reconciliation, companies face possible lost sales and reduced customer satisfaction.

The traditional solutions, such as bank lockbox services, essentially outsource the problem to a bank or other service provider who does the same manual work. It is not evident that banks with their heavy regulatory burden have a lower cost base than the corporate customers for whom they undertake this outsourcing. Nor is it clear that banks can perform the manual process any faster than corporates, and if they lack the direct customer experience of corporate accounts receivable clerks they may even be slower. In an April 2002 study, Killen & Associates estimated that a typical company with sales of $1bn has avoidable working

Many banks still unilaterally support FxAll only. They seem to be trying to squeeze liquidity out of Currenex and to kill it off. Why? No doubt because of a lot of invested money and ego, but mainly because it is nice (for the banks) to be trading on a platform designed, owned, and run by banks.

Just how nice? Consider the moment of closing a deal itself. On Currenex, when a customer clicks to deal, both sides are locked in. In FxAll, when a customer clicks to deal, the customer is in fact passing to the bank a free option to deal at that price. The bank may choose to refuse to deal. This gross iniquity has created a Kafkaesque situation where FxAll banks boast about how few deals they refuse. In Currenex, they would not have the luxury of deciding whether they deign to deal with their customer.

Another example is the presentation of quotes. In Currenex, quotes are ordered in real-time, with the best at the top of the list. (A first-year computer science student would be able to figure out that this is what customers want.) In FxAll, quotes are listed in historical order which makes selection harder for the customer.

In Currenex, a customer can deal with an unlimited number of banks. There are good reasons to limit the number of banks per deal, but it is left to the customer to decide that. In FxAll, there is a fixed limit of five banks.

To me, Currenex is a clearly superior technology. It is also clearly in the interests of all parties that trading be conducted on a neutral and independent platform.

I am not aiming to argue the benefits of Currenex versus FxAll. What I want to address is the roles of treasurers in all this. When I ask treasurers using FxAll why they prefer FxAll, they invariably answer that they choose FxAll because that is where they expect the greatest liquidity.

Of course, with a large number of powerful banks exclusively supporting FxAll with a view to killing off Currenex, it is not unreasonable to expect liquidity to accrue to FxAll.

But what if we decided what was best for us from a technical and structural perspective – and then insist that our banks trade on the platform of our choice? Isn't chasing the liquidity putting the cart before the horse? The liquidity will surely go where the customers are. Some treasurers are pushing their banks to join Currenex, the fact that it continues to thrive in the face of such powerful opposition is testament to its attractiveness to discriminating customers.

My point here is not to rescue Currenex. I don't think it needs it. But rather, that treasurers are in a position to affect their service providers' direction. And that this is a power we need to use more effectively and more consciously. I can imagine sitting with a bunch of treasurers in a couple of years time, and hearing them complain about how the banks have cornered us in with a bank-owned monopoly trading platform and are "ripping us off". We will have only ourselves and our own apathy to blame.

I hope that the issue underlying the automation of accounts receivable reconciliation – namely the capital expenses of $27m. That is a lot of saving to fund an XML server and the effort of getting customers online.

RosettaNet Payment Milestone Program addresses this issue directly by automating the process (see glossary* visit www.rosettanet.org). This ensures that costs are minimised – an XML server is definitely much cheaper than either corporate or bank clerks – and that incoming funds are posted as fast as possible to clear the customer's account – the XML server works in real-time.

For banks, this process allows them to increase customer satisfaction and sell more value-added services to their customers. In addition, RosettaNet is introducing SWIFT XML (which is aligned with TWIST and IFX) for corporate-to-bank communications, which will allow banks to save huge amounts of money now wasted on proprietary legacy systems. Banks will benefit from straight-through processing and greater transparency through automated payments and repairs, as well as query handling. In future, the prevalence of autoreconciliation and the associated electronic information flows will allow banks to offer working capital and risk management services that are as yet undreamed of. Indeed, it provides a platform for taking outsourcing to a whole new dimension.

preservation of customer reference data through the banking systems – is sufficiently generic and clearly beneficial to all parties that we can work together to make it happen.

When we look at the RosettaNet Payment Milestone Program process design, we can see that it is not only generic, but that it allows implementation based on very minimal criteria – having a machine readable remittance advice of some sort and bank ability to preserve the unique remittance identifier (URI).

Within the RosettaNet community, we intend to use RosettaNet PIP3C6* as the remittance advice and to use Swift XML to communicate with our banks. But the process *per se* can also work with legacy corporate-to-bank communication methods. The bottom-line requirement of the banks is that they preserve the URI through their systems.

This does not seem like a very demanding thing to ask. Also I would hope that it is not contentious amongst corporates. The ability to pass reference information through banking systems will serve us in many ways. It need not be an identifier for a remittance advice – it could be an invoice number or a deal ticket number and so on. It is up to your imagination.

So far, I have not managed to imagine how a global bank commitment to preserve 16 characters of customer reference data through their systems would harm any corporation. Therefore, I would think that corporate treasurers as a whole could rally around this idea and communicate unequivocally to their banks that they want this to happen.

Even if a corporation does not see an immediate use for preserving customer reference data, I would hope that it would not be seen as a bad thing. Therefore, I hope that we will increasingly see preservation of customer reference data as a hurdle on cash management requests for proposals (RFPs) and requests for quotations (RFQs).

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**A glossary of terms used in this article can be found at www.treasurers.org/thetreasurer/latest.cfm*