

# As big as double entry

PETER DE CRAENE TALKS TO VITO UMBERTO VAVALLI AND GIANFRANCO TABASSO ABOUT STRAIGHT-THROUGH PROCESSING THE ITALIAN WAY.

As one of the world's major gas and oil companies, with around 350 subsidiaries spread over 70 countries, the Italian group ENI has a long track record in finding new ways to improve the cash and treasury management value chain.

In Italy, ENI has centralised cash and treasury management in two dedicated entities:

- ENIFIN is responsible for funding centralised risk management (including foreign exchange and derivatives) as well as treasury and liquidity management; the latter is achieved through the intermediary of a zero-balanced pool.
- Società Finanziamenti Idrocarburi S.p.A (SOFID) is the group's central clearing and settlement services unit. A licensed financial intermediary regulated by the Italian Central Bank, it undertakes the transfer, clearing and settlement of funds for the different ENI subsidiaries on a domestic basis.

At present, SOFID is responsible for 90% of ENI's payments and collections activity. Payments and collections outside the domestic market are processed via a network of direct correspondent banks. It has around 50 correspondent bank counterparts. SOFID prides itself on the efficiency of its structure. As Vito Umberto Vavalli, Director of Payment Systems Development and Advanced E-services management, says: "While we provide a domestic and cross-border fund clearing and settlement service roughly identical to that offered by banks, we are also able to integrate the financial services process with the Enterprise Resource Planning (ERP) systems of our customers and implement the complete 'dematerialisation' of documents. This model allows significant cost reduction and increases the quality of the service."

SOFID adds further value by ensuring adequate reporting and full allocation and reconciliation for each of the transactions it undertakes. It also acts as ENI's certifying authority for Public Key Infrastructure (PKI) certificates as well as being the registration authority for digital signatures. Finally, it is the central hub for electronic document interchange, both within the group and vis-à-vis external parties.

**MONETARY LOGISTICS PROVIDER** While SOFID's original mission focused on monetary transactions, new technology is helping it to move towards the provision of what Vavalli calls "monetary logistics". Thus, instead of limiting itself to the pure mechanics of monetary transmission, clearing and settlement, SOFID increasingly takes care of the accounting implications each transaction has for the relevant business units. This more integrated approach has been made possible by the advent of new technology such as Electronic Data Interchange (EDI) and open standards (EDIFACT, XML). The first step was the creation of ENITER, a dedicated platform for electronic document interchange that could be connected to the group's electronic banking and cash and treasury management platform. The platform's subsequent linkage to a number of back-office accounting systems and regulatory changes (including digital signature legislation) has opened up new avenues for straight-through processing (STP); while the potential for certification of electronic documents and counterparts has allowed the adoption of open networks.

**COMPLETING THE LOOP** The next challenge is to create a complete and auditable STP cycle from the front-office commercial transaction to the back-office accounting and auditing. To this end,

### Executive summary

- Major Italian company ENI is investing in a straight-through processing (STP) system as part of its continued commitment to improving its treasury function.

SOFID has recently embarked on a €5m project to upgrade its existing platform and extend it to cover all of the steps in a commercial transaction. With an expected internal rate of return of around 25% and expected annual cost savings for ENI of €3.5-6.5m, this project offers considerable efficiency gains. Vavalli says: "Automating the invoice processing alone will achieve significant cost savings." While the project represents an important milestone, Vavalli remains conscious that much needs to be done. He says: "However, this is not surprising as the advent of IT is leading to perhaps the biggest change in business practices since the Venetians invented double entry bookkeeping<sup>1</sup>. Consequently, the challenge for business is not so much the technology but the re-engineering it involves." The way forward he believes is to build on the tried and tested interbank methods for money transmission and extend them to the commercial transaction process from front-to-back office. "SOFID with its first-hand experience of these methods", he says, "is well placed to rise to the challenge of creating an integrated money and accounting platform modelled on that of an automatic clearing house."

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1. The Venetian Luca Pacioli published his groundbreaking treatise of bookkeeping, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* in 1494.



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