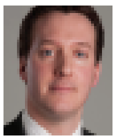
Sweep away the inefficiencies



ANDY PONSFORD LOOKS AT THE OPPORTUNITIES AND BARRIERS TO TRANSACTIONAL AND PROCESS EFFICIENCY IN CORPORATE TREASURIES, AND HOW CONFRONTING THE IMPEDIMENTS TO EFFICIENCY CAN CONTRIBUTE TO AN EFFECTIVE TREASURY STRATEGY.

There are a wide variety of ways in which treasurers can increase their operational efficiency, which in turn mitigates the risk of error and fraud. Efficient business processes also reduce costs, which relieve pressure on margins and facilitate better decision-making based on greater visibility over information and transactions. Efficiency improvements in treasury departments can encompass:

- straight-through processing (STP) – that is, the automated processing of transactions without the need for manual intervention;
- switching from paper to electronic methods – automated clearing house (ACH) payments offer a shorter account credit timescale than cheques;
- taking advantage of market initiatives like SEPA Direct Debit (SDD) to improve collections efficiency and increase the certainty of account credits, assisting with both reconciliation and forecasting; and
- optimising the management of data from multiple bank sources through proprietary multibank portals or SWIFT's Corporate Access solutions (SCORE).

Financial efficiency also involves optimising the liquidity structures that support the needs of the business. This includes rationalising corporate account structures, particularly in Europe, where the 32-country reach of the Single Euro Payments Area (SEPA) has prompted treasurers to question the efficiency of maintaining multiple in-region bank accounts. Companies are also increasingly seeking to reduce the number of banking relationships to reduce fragmentation, build deeper relationships and achieve greater liquidity concentration.

One of the foundations for achieving financial efficiency is to have full visibility over cashflow in all currencies and countries. There are three elements to addressing this:

- the channel through which corporates communicate with their banking partners;
- the format in which information is presented; and
- interoperability between systems to ensure that information flows in a timely, accurate and complete way.

For example, looking at bank connectivity, SCORE enables companies to communicate with their banking partners through a single channel. Future-generation technology will also increasingly enable global banks to provide transparency of transactions and positions across a customer's network of partner banks.

STANDARDS AND SWIFT. Standardising financial messaging formats and ensuring greater interoperability between

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systems is one half of the solution to the challenge of fragmented bank connectivity; rationalising the physical connections is the other.

SWIFT, or the Society for Worldwide Interbank Financial Telecommunication, is an industry-owned co-operative that supplies secure messaging services to financial institutions. More than 500 corporates have now implemented it under the relatively recent SWIFT Corporate Access programme. Although still a minority, many of the implementers are very large corporations, so the scene is set for a portable, bank-agnostic approach to corporate-to-bank connectivity, and J.P. Morgan has been actively promoting and implementing SWIFT with its customers.

A single channel shared by banks and corporates alike, with the potential for optimising a multitude of corporate-to-bank communications, and vice versa, SWIFT Corporate Access is significant. For example, eBAM (electronic bank account management) is now at an advanced pilot stage and eagerly anticipated by both banks and corporates. eBam allows companies to automate the opening, closing and signing of authority mandates for bank accounts, which is typically a manual and inefficient task.

The development of the Trade Services Utility (TSU) is highly complementary to banks' proprietary tools. It enables corporates to extend the value of SWIFT further into the financial supply chain, automating some of the trade processes which frequently impede efforts to increase operational efficiency and accelerate the cash conversion cycle.

COMMON MARKET, COMMON INERTIA. SEPA should be a catalyst for corporates to introduce major efficiencies into their business operations. In Europe, although the industry is teetering on the brink of success, the adoption of SEPA is being delayed by complacency. By taking advantage of consistent payment and collection methods, companies can rationalise both their external account structures and internal processes, such as introducing pan-European centralised payment and collection functions.

Banks such as J.P. Morgan that operate globally and represent the interests of clients operating both within and beyond the euro zone have already put in place the necessary technical investment. They have also geared up with the skills and expertise needed to help corporate clients to take advantage of the efficiencies that SEPA brings. However, until there is greater regulatory force and a defined end date for migration, the perceived barriers will continue to prevail.

PAYMENTS EFFICIENCY. While SEPA will ease the process of making euro payments within the euro zone, and national systems such as the UK Faster Payments Scheme can accelerate the payments process, making payments is still often a time-consuming and expensive task, not least when doing so cross-border.

In Asia, J.P. Morgan recently announced enhancements to its US dollar clearing service offering through Asia Direct. These developments further assist clients seeking the fastest and most efficient means of making US dollar payments to banks in Asia. Clients now have direct access to a larger number of banks across a variety of clearing systems; for example, the solution's coverage has been expanded to members of Japan's Tokyo dollar clearing system.

In addition, J.P. Morgan has invested in intelligent routing technology, which streamlines the processing of payments and speeds up their settlement by enabling the fastest channel for delivery. The technology shields customers from the technical rigours of implementing industry initiatives, and enables banks to be format-agnostic when accepting payment instructions from customers, so the bank can support a wide range of formats including Edifact Paymul, IDOC, MT103, XML formats, and so on.

Another way in which banks can enable their customers to take advantage of comprehensive capabilities globally in a convenient way is by sensibly leveraging the relationships that leading local providers have with international banks in countries where their bank has no direct presence.

MODERN METHODS. The challenges to greater efficiency are, in many cases, the bastions of an older world that, with new objectives, technology and willingness to collaborate can be scaled and overcome. With every initiative that is adopted and that becomes part of the financial fabric, the world becomes smaller and global business a little easier.

With change comes risk, but lack of change arguably brings greater risk. Many of the initiatives we see today that bring opportunities for greater efficiency, lower costs and more rapid access to information and transactional capability are not out of reach for most corporate treasurers. These initiatives can act today as a catalyst for change, commercial advantage and financial efficiency.

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