

Embracing the future

PAUL NIXON AND KEVIN MARTYN DISCUSS HOW ONE SOLUTION TO TODAY'S PROBLEMS FOR TREASURY OPERATIONS REVOLVES AROUND SWIFT.



Executive summary

In a business climate that is creating a huge strain on treasury operations, HSBC's solution can offer the following in three levels:

- Technology and integration with a non-proprietary single interface providing a standard format and multi-bank connectivity.
 - Account balance and payment transaction management with automatic reconciliation providing a strong exception reporting model.
 - An embedded treasury management system which provides cash, investment, debt and FX management within an in-house bank/payment factory set up.
- And all of the above are supported by a commercial model which eliminates capital expenditure and reduces the total cost of ownership to a simple monthly fee.

Corporate treasurers are looking for managed payments solutions in the face of a turbulent external environment which is transforming treasury operations. The credit crunch has created scarcity of liquidity and the credit which is available is more expensive, forcing treasurers to focus on working capital optimisation and managing liquidity in real time. Treasurers are also under greater pressure to keep working with multi-banking partners in order to maximise the credit lines needed to support their business. Changes in the business such as globalisation, the move into emerging markets and the need to integrate mergers and acquisitions are putting an ongoing strain on treasury operations. Under particular pressure is the need for treasurers to have visibility over the whole of the banking arrangement. Even though banks like HSBC have a wide reach there is no one bank with the global reach which can help treasurers avoid multi-banking. All of these factors result

THIS CAPITAL SQUEEZE IS A MAJOR BARRIER TO LARGE-SCALE BUSINESS ENGINEERING.

in a myriad of different banking and treasury systems which the treasurer must wire together so that the company has a working payment system.

Companies are looking at ways to drive off the cost of functions such as finance and administration through the use of outsourcing and off-shoring. Treasury is not immune from this and it needs to eliminate costly manual processes. The quest is always the same; how to get maximum value from the minimum deployment, particularly so at the moment when capital outflows are restricted. This capital squeeze is a major barrier to large-scale business engineering.

THE TREASURERS' NEEDS Whatever the problems treasurers face in doing their job they are still faced with the need to manage the essentials such as obtaining the daily visibility on all bank account balances wherever they are in the world and whether the organisation operates a centralised or decentralised model.

In practical terms this means the treasury team having the ability to load account balance information automatically into cash position worksheets and reconcile cash balances. In addition treasurers need to be able to calculate end-of-day positions automatically based on all known cashflows including maturing investments, foreign exchange (FX) trades and vendor payments in a timeline to meet local currency cut-off times. For multi-national corporates control over payments processes is essential, especially at this time, and that has two aspects; first, the central control of local



account balances through the ability to submit payment instructions to local banks and second, the ability to capture cashflow information on all outgoing instructions such as vendor and employee payments.

We all know that a multi-connected world leads to an imperfect operating environment where, at the moment, the only way to achieve these objectives is for treasurers to have a multiple-banking environment with multiple format conversions and applications.

Insoluble problems? HSBC thinks not. Fully aware of the problems that treasury teams of large multi-banked global enterprises are facing on a daily basis, HSBC has come up with a future-proof solution which is scalable, robust and fits in with the enterprise's current operating systems and structures.

The solution revolves around SWIFT. There has been an increasing demand from corporates for SWIFT as they see a clear advantage for their treasury operations. SWIFT has strong appeal as it can simplify the complex, delivering value beyond pure network capability, offering a single channel to multiple banks, enabling automation combined with open standards, and giving multiple message types in a single channel. And, because it is non-proprietary, it offers a multi-bank solution which is secure, resilient and integrated.

HSBC is taking all the benefits of SWIFT and offering corporates a real solution to their treasury and payment needs. Offering a modular solution which will grow and develop with customers' business the HSBC managed payments solutions has three layers of value: at the start is technology and integration with the non-proprietary single interface, based around SWIFT and delivered through a service bureau, providing a standard format and a multi-bank connectivity; at the next value level is account balance and payment transaction management with automatic reconciliation providing a strong exception reporting model; while the highest value is the embedded treasury management system (TMS), powered by Wall Street Systems, which provides cash, investment, debt and FX management within an in-house bank/payment factory set up (see box for greater detail).

CLEAR BENEFITS The key to this solution is its flexibility and value for money for corporates with a reduced investment and improved return on investment (ROI). The managed service – which is typically taken up on a three year or a five year basis – is a comprehensive solution offering support, maintenance and implementation and the fee includes the cost of the software licences. For the treasurer, the fixed fee provides certainty of cost enabling accurate budgeting which eliminates or reduces a whole raft of costs. As well as software licensing, the costs taken out are value added software application costs, ongoing development and project costs and upgrade costs. And in comparison to other solutions, treasurers should see reduced support maintenance costs and supplier management costs. And because the model grows with the corporate there is a variable cost model.

RISK MITIGATION As one of the risk experts in the organisation, the treasurer will appreciate the risk mitigation

Managed payment solution

The managed payment solution offers:

- Payment instructions transmitted via single SWIFT channels to multiple banks.
- Integration of multiple bank statements from SWIFT and transmissions via a single interface.
- TMS to enable cash, investment, debt and FX management.
- Automated reconciliations with engine exception reporting.
- HSBC undertakes re-mapping of file format to a format banks can process to support global reach.
- Single interface and standard process.
- Solutions delivered capex-free as a service on a monthly fee basis.

WE ALL KNOW THAT A MULTI-CONNECTED WORLD LEADS TO AN IMPERFECT OPERATING ENVIRONMENT.

that this solution offers. Not only future-proof and scalable, the solution is compliant with regulatory rules affecting payments and provides a full transaction audit trail. SWIFT provides a secure delivery channel and the bureau is hosted in fail-safe 24/7 dual data centres.

FAST FORWARD TO THE FUTURE This is a solution which passed proof of concept in autumn 2008 and is a live option for both corporates and financial institutions. It works for organisations whatever systems or procedures they are operating, such as payment factories or shared service centres anywhere in the globe. Managed payment services is a solution embracing best of breed suppliers while having HSBC as the contracting party. With a solution analogous to a pay as you go phone, the comprehensive services meet immediate requirements as well as providing the flexibility, scalability and future-proofing for the long and medium-term. In all it meets the needs of corporate treasurers in a changing world.

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