A SWIFT route to success

TREASURERS ARE REASSESSING MANY OF THEIR CORPORATE OPERATIONS AND SEARCHING FOR BANK-AGNOSTIC CHANNELS. **LESLEY WHITE** EXAMINES MARKET TRENDS AND THE IMPACT THEY ARE HAVING ON THE BANK/CORPORATE RELATIONSHIP.

As the world emerges from recession, so corporate treasurers are reassessing their treasury operations and bank relationships to maximise efficiency and minimise costs. Taking a more strategic view of the new normality in which they operate, corporations – from SMEs through to large multinationals – are searching for the right treasury models and strategies that will enable them to continue to grow, make further acquisitions and invest in order to survive. Having the right technology, people and processes in place will be crucial to success.

In the current economic climate, greater emphasis is being placed on funding and liquidity management. The role of corporate treasurers has changed. They are now digging deeper into the commercial agenda, working more closely with internal and external suppliers. Liquidity restrictions are easing, but external funding remains costly, so treasurers are looking much more closely at their internal sources of liquidity and how to manage working capital better.

Improved working capital management will not only maximise returns but also help to pay down debt. Gaining greater visibility and control of working capital ensures that excess liquidity is available when and where it is needed, rather than lying idle.

At the same time, treasurers are reassessing their bank relationships. The Lehman Brothers collapse of September 2008 threw a spotlight on counterparty risk. Corporate treasurers began to worry about how "sticky" some of their relationships with banks were. In the aftermath of the financial crisis, the idea of banking with just one financial institution globally carries too high a risk. Corporate treasurers are now focused on selecting a number of banking partners so that they can "lift and shift" relationships should they become concerned about the financial well-being of any of their transaction banks.

In a multibank environment, treasurers do not want to sacrifice the operational efficiencies that centralisation and bank-dependent solutions have delivered. But many corporations are multibanked and operate hundreds of individual accounts around the world. Connecting to multiple banks through a range of proprietary solutions has been a time-consuming and resource-intensive process. To gain visibility and control over working capital, treasurers are looking for a bank-agnostic strategy that will retain the benefits of their key transaction banking relationships.

This multibank focus has led to a reassessment of SWIFT connectivity. SWIFT provides a bank-agnostic channel that can deliver industry standards that are transferable across its member banks. Corporate access to SWIFT began in 1998 with the exchange of treasury confirmation messages with counterparties over the SWIFT network. Connectivity was widened in 2003 when SWIFT launched the Member Administered Closed User Group (MA-CUG), which enables corporations to connect to the SWIFT network under the sponsorship of a SWIFT member bank. In 2006, SWIFT launched the Standardised Corporate Environment (SCORE) – a SWIFT-administered closed user group where companies can interact with their financial institutions.

Most large and medium-sized companies are now aware of

THE ROLE OF CORPORATE TREASURERS HAS CHANGED. THEY ARE NOW DIGGING DEEPER INTO THE COMMERCIAL AGENDA, WORKING MORE CLOSELY WITH INTERNAL AND EXTERNAL SUPPLIERS.

SWIFT, but not all understand the benefits of using its messaging network. In 2005, according to SWIFT figures, 105 corporations were using its network. By the end of 2009, 565 companies across a wide range of countries were accessing SWIFT. Members come from a diverse range of industries, including chemicals, construction, retail, technology and transportation. Many large multinational corporations have migrated to SWIFT over the past few years. With centralised treasury operations, the move to SWIFT is more straightforward than for companies with decentralised treasury departments.

INNOVATION THROUGH COLLABORATION Transaction banks have a responsibility to offer the best solutions to meet their individual clients' needs. They must be able to deliver working capital management and liquidity management solutions that provide local, regional and global capabilities for their clients. At the same time, these solutions must enable corporations to manage multiple banking relationships. Increasingly, SWIFT access is one of the weapons in a transaction bank's armoury.

Our clients tell us that they want their transaction banks to understand their business and their balance sheets – it is now a given that transaction banks can make payments and provide delivery channels. The real value to the bank/corporate relationship lies in how a financial institution can cross-package its products and integrate them to deliver tangible value around working capital.

In the past, transaction banks tended to silo their products, selling them as separate entities for payments, trade finance, liquidity or lockbox activities. Today, corporate treasurers want holistic solutions tailored to their working capital requirements. They want solutions that will have an impact on their balance sheets and improve working capital management. This requires a different approach from banks and innovation in how solutions are developed and delivered.

Innovation in cash management will increasingly come from collaboration, not only between banks and their corporate partners, but also between the larger transaction banks and their regional counterparts.

Those corporations considering SWIFT access rely on their transaction banks to advise them about the best options. At RBS, we can offer advisory services that will help our clients to decide which connectivity option is best for them – SWIFT, host-to-host or the internet, or hybrid solutions that draw on all three areas.

The business case for SWIFT access is not black and white. Hard and soft costs must be taken into account to determine whether the best option for an individual company is indeed SWIFT. For example, not all corporations are ready to centralise their treasury operations – one of our corporate customers operates a number of different treasury operations across its subsidiaries in Europe on a decentralised basis. The treasurer at this company wants RBS to deliver an internet platform to the subsidiaries which the treasurer can access and use to manage the day-to-day needs of the treasury. Until the corporate decides to centralise its treasury operations, SWIFT is not necessarily the right option.

CONNECTIVITY OPTIONS IN A MULTIBANKED ENVIRONMENT The cost of maintaining and operating multiple proprietary banking platforms in a corporate treasury is no longer sustainable. Moreover, as the number of countries that corporations deal with increases, it becomes more challenging to manage multiple banking interfaces, focus on continuity and security of payment information and, at the same time, keep an eye on the bottom lines. The key to greater control over treasury operations and liquidity is flexibility. Solutions that take into account the multibanked nature of treasury operations will be the key to successful working capital management.

There are a number of connectivity options, including:

- **SWIFT Service Bureau** Utilising SWIFT can simplify how a corporate manages connections to multiple banks by automating payments and statement reporting through a single connection. Enterprise resource planning (ERP) and treasury management systems (TMS) can be interfaced to the SWIFT network, providing a link into banking partners. The RBS SWIFT Service Bureau enables companies to gain SWIFT connectivity without the cost of setting up and maintaining a SWIFT connection themselves. Companies can outsource SWIFT connectivity to RBS and enjoy the benefits of direct connectivity without tying up capital in an expensive infrastructure.

  An important element of the RBS SWIFT Service Bureau is that the bureau contract is held directly with RBS rather than with a third party, and the service is fully supported by RBS. Using the bureau, a corporate can continue to send messages in the format that it prefers. RBS will translate these messages into the appropriate SWIFT standard and provide information back to the corporate in the required form. At present, treasurers struggle to achieve this with existing ERP systems.

- **SWIFT Corporate Access** More technically advanced clients may consider direct connectivity into the SWIFT network via RBS's SWIFT Corporate Access service, which provides a single solution to manage multiple bank connectivity. Users gain direct access to RBS's global network and can choose from a number of connectivity options to suit their particular business model, consolidating multiple proprietary bank interfaces into a single solution. SWIFT Corporate Access supports a corporation's international payments needs, offering

global reach, a secure processing environment, improved straight-through processing rates, and timely balance and reporting information.

- **Access Online** Access Online brings together trade, cash management and foreign exchange (FX) services in a single, integrated, web-based solution. By integrating RBS's online payments, balance and transaction reporting platform with its trade finance portal and a fully automated FX dealing platform, RBS enables its corporate clients to manage global cashflows and execute transactions more effectively. Access Online tracks and manages account balances, transactions and open cash positions, enabling users to transfer surplus funds into higher-yielding liquidity products. It provides a secure environment for trade documentation, confirmations, statements and reports, and supports FX requirement from any location.

- **Access Direct** This is a host-to-host global payments engine for corporations and financial institutions. From a single window, users can send cross-border commercial payment instructions, in domestic (and other) currencies, from any location in the world, in a single file. Users can connect their payment back-offices directly to RBS's extensive international network. A single electronic file can be generated for all transactions, with a mix of execution dates, payment types and countries.

  Access Direct distributes individual payments to the appropriate clearing systems and supports multiple payment formats. Corporations and financial institutions receive an extensive set of file and transaction-level acknowledgements – and end-of-day and intraday bank statements – via a single channel. These acknowledgements enable users to consolidate automatic status updates into their own systems.

HOLISTIC SOLUTIONS There are many options around connectivity models for corporations. Transaction banks must be able to interact with and deliver payments through these models on a flexible basis. They can do so either individually, message by message or through options such as FileAct, which enables corporations to send bulk or high-volume files via SWIFT in XML or Edifact formats.

Transaction banking is becoming a commoditised environment and banks will increasingly differentiate themselves through the innovation and value-add that they can bring to their corporate clients through the various connectivity options.

Part of this innovation will be delivered by collaborating with other banks to provide robust message standards for corporations. At present, there is some confusion surrounding SWIFT standards among the corporate community. By harmonising product codes and translating them into a single format, the SWIFT Service Bureau can greatly alleviate these problems, but banks also need to work together more closely to overcome such problems.

Through forums such as the Corporate STP Board, banks are working out how to collaborate with each other to make their corporate clients' lives easier. For example, a multibanked corporation that wants to communicate with its banks via the XML standard should be comfortable in the knowledge that it is using the same version of XML that all of its banks are using. Increasingly, corporations are pushing their main transaction banks to sit around the table and solve such problems.

THE REASSESSMENT OF TREASURY OPERATIONS BY MANY CORPORATE TREASURERS IS TRANSFORMING THE BANK/ CORPORATE RELATIONSHIP.

Transaction banks also need to deliver local, regional and global products to support treasury structures. An understanding of local market conditions and requirements is crucial: a corporate treasury may be able to automate and centralise 80% of its payments activity through SWIFT, but there always will be certain payments in particular jurisdictions that require, for example, documentation to be delivered to a branch for payment to be made. Corporations need their transaction banks to provide different levels of support and service through all their delivery channels.

Another area of differentiation is in bringing together the physical and financial supply chains. The credit crisis highlighted – for large corporations in particular – how reliant they are on many, sometimes very small, suppliers spread around the world. Ensuring continuity of supply is crucial to larger corporations and by bringing together the supply chains, transaction banks can help their corporate clients to better manage their counterparty risk.

On the working capital side, RBS's move to integrate its cash management and trade platforms to support the end-to-end procurement-to-pay cycle will enable customers to manage supply chain finance and the payments that result.

TRANSFORMING TREASURY OPERATION The reassessment of treasury operations by many corporate treasurers is transforming the bank/corporate relationship. The search for bank-agnostic channels will place pressure on transaction banks to deliver added value via holistic solutions that enable corporations to maximise liquidity while minimising costs. There are many options for corporations and for their transaction banking partners. The goal of all these options will be to deliver fully integrated services that will help corporations to transform their treasury operations in the post-financial crisis environment.

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