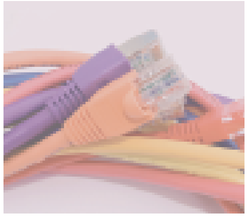
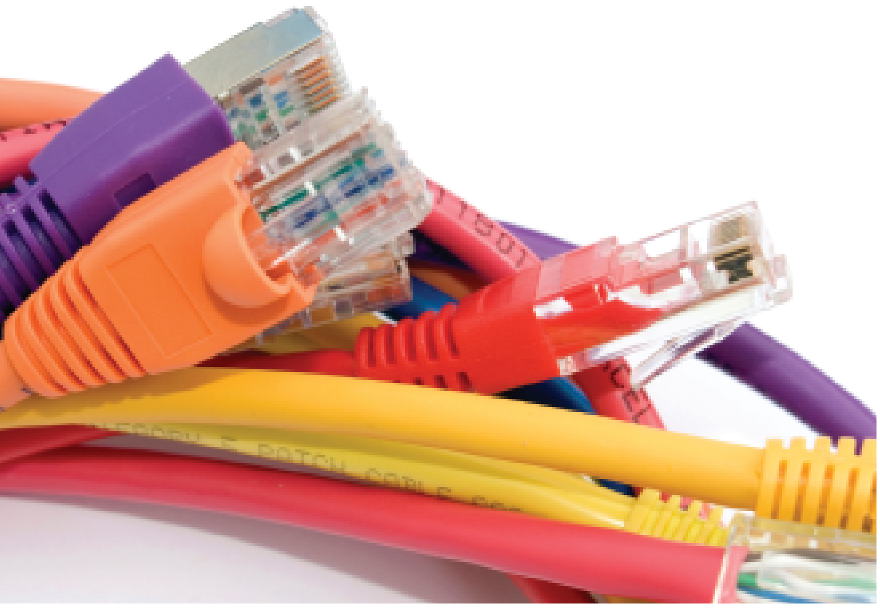


Joined-up banking

THE USE OF SWIFT BY CORPORATES TO CONNECT TO THEIR BANKS IS GROWING RAPIDLY. **MARCUS TREACHER** AND **ANAND MISRA** SURVEY A BANKING CONNECTIVITY LANDSCAPE THAT IS CHANGING FAST.



Collaboration between competing organisations is nothing new for many sectors – electronics, energy, transport, to name a few – and provides the bedrock of successful industries. It usually takes the form of agreed standards and rules of engagement that create a larger addressable market and a more reliable environment in which organisations can compete and prosper.

The banking world too is no stranger to collaboration. Rigorous banking standards have been in place for a very long time. International trade is a superb example of global standards that date back to the mid-19th century. The relatively recent advent of Swift (Society for Worldwide Interbank Financial Communication) in the 1970s created the equivalent standardisation for electronic financial messaging, almost three decades before the rest of the world caught up via the internet.

So it's ironic that communication between banks and their corporate customers has until recently lacked the benefits of this standardisation. In the absence of standards or collaboration, innovative banks have developed extremely powerful go-it-alone electronic banking solutions, many of which have been highly effective. However, for companies that use multiple banks, this creativity has led to unforeseen inefficiencies – multiple connection methods, multiple internet banking systems, multiple feeds of information – that are the opposite of the original intent.

Executive summary

Standardisation in banking communications has been driven by the rise of the corporate treasurer and the emergence of the extended enterprise, and Swift has been pushing hard in extending banking connectivity standards.

So if bankers are so good at creating and adhering to global standards – and have been for such a very long time – why do companies experience so much inefficiency and proliferation of competing methods when they try to access this highly standardised banking world?

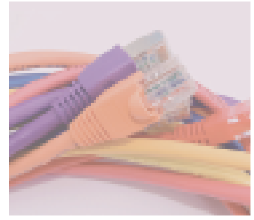
The answer lies in the way that businesses adopt new technologies, standards and methods (and technological adoption is always driven by demand). Simply put, until recently companies put up with banking inefficiencies because they had more important challenges to think about and, in the grand scheme of things, establishing smooth and efficient connection methods to their banks didn't figure.

But over the past five years, this sentiment has changed radically. Two important trends across several industries are driving this major shift:

- **The rise of the corporate treasurer:** Companies are increasingly looking to their treasury functions for insightful, competent management of financial flows, working capital, investment and funding. This in turn puts pressure on treasurers and their organisations to establish greater visibility, scope and timeliness of banking information across all banks that support the company.

- **The emergence of the extended enterprise:** More and more companies are integrating their value-creation processes both internally and across their supply chains and distribution networks, to iron out inefficiencies and drive down production costs. IT is critical in making the processes of manufacturing and business administration more efficient, and the interconnection of different computer systems into networks that stretch beyond any one organisation is fundamental to improving efficiency.

Both these trends create a considerable shift in the importance that companies place on high-quality bank connectivity supported by high-quality international



standards. Companies need to exchange richer information with their banks, seamlessly, with precision and speed.

This in turn is driving a considerable reassessment among banks of the way they provide services to corporate clients, which will have a profound impact on the services and investments that banks make in the future and on how far they are prepared to collaborate over connectivity.

THE GREAT ENABLER In many ways, Swift has been the great enabler in setting standards for financial messaging and new solutions for corporate connectivity.

In 2001, when Swift first introduced the Member-Administered Closed User Group (MA-CUG) concept, early adopters were primarily a handful of European multinational companies exploring connectivity options to optimise their day-to-day treasury management. Since then, things have changed considerably and Swift corporate solutions are now widely recognised and used by almost 360 multinationals all over the world, including the Middle East.

At the most basic level, banks now allow companies to use Swift to connect to them, the main benefit being that several banks can be engaged by any one company without worrying about different connection methods. After a slow start, the use of Swift by companies to connect to banks is growing at a considerable rate, worldwide, across all major industrial sectors.

Some of the more recent developments in the Swift landscape include the following:

- **Swift channels:** Many banks are now ready to support Swift channels for corporates, and some have even fully integrated Swift channels into their e-channels delivery and cash management propositions.

- **Score model:** A Score model was launched in early 2007 to standardise the rulebooks and implementation guides defined jointly by Swift, banks, corporates and vendors. However, to be eligible for Score, a company needs to be listed on a stock exchange in one of the 32 Financial Action Task Force member countries, which unfortunately prevents Middle East companies from joining the scheme, although this did not kill the initial MA-CUG model.

The MA-CUG offerings have benefited from Score and today most banks apply the Score rules and standards to their MA-CUG solutions, making standardisation available to non-Score companies too. The only difference between the two models is the registration process, which is more extensive for MA-CUGs. This is expected to change and in the future there may be a single, simple, standardised model supported by a light on-boarding process.

- **Bureau solutions:** Direct and heavy implementation of Swift hardware on companies' premises has now been taken over by service bureaus, so treasurers don't have to deal with Swift's technical aspects. Most companies have now opted to outsource their entire infrastructure to a third party.

- **Member-concentrator model:** Swift has also launched the member-concentrator model, which is designed for banks providing connectivity via a bureau and also to offer admin support to corporates for the management of the on-boarding process, Swift invoicing and so on. This option is helpful to treasurers adopting Swift as they benefit from a single entry point: their partner bank, to which they delegate the management of the connectivity and the Swift-related administrative burden. This is a good option for Middle East companies as it removes the need for MA-CUG administration. Few banks are currently providing such services but this should change quickly.

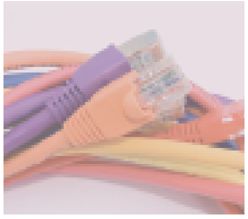
THE USE OF SWIFT BY COMPANIES TO CONNECT TO BANKS IS GROWING AT A CONSIDERABLE RATE, WORLDWIDE, ACROSS ALL MAJOR INDUSTRIAL SECTORS.

- **Alliance Lite:** Live since November 2008, Alliance Lite is the latest Swift connectivity option, especially designed for smaller players with fewer than 200 messages/files per day. Alliance Lite is web-based, benefits from a global reach and can connect 900 banks via the secure Swift network. Inexpensive and with a very light footprint, Alliance Lite offers Swift for Corporates functions in a mouse click. It does not remove the need to register for Score or MA-CUG, but a commercialisation scheme is being discussed by banks and vendors. Coupled with a member-concentrator model, it could provide the ideal framework.

- **ISO 20022** Another development is the creation of the Universal Financial Industry (UNIFI) message standard, or ISO 20022. This standard for developing financial messages is based on XML (Extensible Markup Language, which is commonly used to design web pages), which has been agreed by various industry bodies, including Swift.

ISO 20022 extends the standardisation achievements of Swift to non-banks, making it easier to create, send and receive messages relating to a wide range of disciplines in a standard form, thus allowing for financial and time savings. It provides a development methodology, a registration process and a central repository, including a data dictionary and business process catalogue, so that different organisations and standards bodies maintain consistency when developing financial messages. ISO 20022 covers payments and reporting, along with securities, foreign exchange and trade services messages. ISO 20022's standardised implementation rules aim to remove country or bank-specific elements from the connectivity process.

While the use of XML in the corporate-to-bank space is still in the early stages, there is already evidence of the success of some corporate pioneers. Vendors are also starting to incorporate XML formats in their products. In Europe, the Single Euro Payments Area has adopted XML as the official format for data exchange, not only between banks but also between corporates and banks.



FUTURE SERVICES Leading global banks have also been exploring collaborative identity management solutions with the goal of easing the burden of account maintenance and creating stronger levels of security and authentication, supported by global standards.

Together these changes – spearheaded by Swift, ISO 20022 and global banks – make it possible for new banking connectivity services to be created that could not have existed before. Examples include:

- Direct connectivity to a company's enterprise resource planning (ERP) system for bank transactions to be triggered at the point of need – in some cases automatically – rather than having to be stored up and sent in bulk for separate rekeying or transmission to the bank, with delays and overheads.

- Direct bank connectivity via corporate ERP systems and treasury workstations enables banking information – balance changes, availability of funds, status of letters of credit, foreign exchange rates, investment vehicles, and so on – to be made available to the systems supporting a company's core operations.

- Multi-banking solutions called bureaus can link multiple banks to a single corporate ERP system without the need for a company to connect to Swift directly, bringing the above benefits of multi-banking with minimal setup.

Corporates across the Middle East are adopting combinations of these new services at an impressive rate, with increasing interest in ERP integration and greater adoption of Swift corporate access as important leading indicators.

Across the region, HSBC applies a wide range of connectivity solutions, including direct ERP integration, Swift connectivity and online banking, via its internet banking channel HSBCnet.

There is strong demand among HSBC's Middle East clients for each of these solutions, from large multinationals to smaller entrepreneurs and startups. As Middle East corporate treasurers continue to focus on efficiency and effective use of banking information, this trend for greater corporate connectivity is set to continue and accelerate.

HERE TO STAY The shift to easier, faster and cheaper corporate-bank communication is an irreversible one, although the development of a standard playing field will take time, as the solutions created for larger corporates become available for smaller ones. Over the next couple of years, expect to see:

- an overall move towards simpler, faster bank connectivity – in particular, the use of Swift by non-banks will continue to grow at impressive rates;
- vendors and banks bringing new solutions to market that enable ERP systems to talk to bank systems using XML, taking advantage of standards to create very tightly integrated financial support for corporate processes; and
- internet banking systems evolve beyond basic e-banking into windows for corporate clients into their financial positions, performance and needs. Several of these will also be multibanked.

This is the start of a fascinating new phase in financial services for companies. A true unlocking of potential driven by those age-old enablers: collaboration among competitors and standardisation.

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