

Connectivity standardization: an essential for an efficient treasury

The goal of efficient and risk-free treasury operation can only be achieved through straight-through processing, for which standardization is a must. Because of this, corporates must carefully consider their connectivity strategy.

By Manish Jain, director, information products, Citi

The global nature of business today has led many organizations to rationalize their treasury and cash management services to manage their working capital better. A prerequisite for managing working capital is the ability to view cash almost in real time. Gaining global visibility across the entire enterprise is fast becoming an essential part of treasury operations.

Traditionally, treasuries have attained this visibility via a complex setup of account balance feeds from their banks and/or manually gathering this information through bank proprietary electronic banking platforms. However, a higher level of visibility can be attained through standardization and straight-through processing (STP), resulting in the automation of the data-gathering process and reducing the need for human intervention while leading to exception-based management. As corporates centralize their treasury operations, they are finding myriad technology solutions to increase automation and achieve STP.

Connectivity: the first step towards STP

The key areas necessary to achieve true STP and greater visibility are connectivity, security and format standardization. Standardized connectivity is an important first step. Historically, corporates have connected to banks using either leased lines or dial-up connections. Dial-up was very slow and clunky and leased lines, while offering security and reliability, were expensive to build and maintain, especially when used with multiple banks. As internet-based networks advanced and became more secure, corporates began using them to send and receive information from their banks.

Today, a majority of corporates use the internet to connect to their banks. Internet access is cheap and the network itself is quite reliable in most countries. Once a high-speed

connection is in place, there are no additional access costs. Additionally, internet-based connectivity is quite secure, typically using 128-bit encryption. However, this type of connectivity still requires an individual connection to each bank. In all practicality, this means that the corporate needs two connections to each bank - one for daily use and one for contingency purposes. This can quickly become expensive and tedious to maintain, depending on the

secure network than the internet as it is a members-only, closed network and therefore less prone to security breaches by hackers. Most importantly, it can offer true standardization and simplification of connectivity. By establishing a single connection to SWIFT, corporates have the ability to communicate with all of their SWIFT member banks.

A closer look at key SWIFT services

Today, there are three main ways in which a corporate can join SWIFT:

Treasury Counterparties (TR-CO) – TR-CO allows corporates to exchange deal confirmations with their banks. This was the first step in allowing the corporate community to access their banks using the SWIFT network. Due to its limited offering, it is only used by a few corporates that have a significant volume of deal confirmations.

Member Administered – Closed User Group (MACUG) – MACUG was the next step in further opening the SWIFT network. This model allows a corporate to join a bank's MACUG and use the SWIFT network to exchange payment transactions, status and end-of-day account balances in addition to deal confirmations. However, MACUG still requires corporates to register with each bank.

SCORE - In 2007, SWIFT introduced the Standardized Corporate Environment (SCORE) as an alternative to the MACUG offering. Under the SCORE model, corporates need only register with SWIFT to connect to member banks. Although they are not required to join each bank's MACUG, corporates still have to negotiate a separate bilateral agreement with their banks regarding the services they intend to use on SCORE. While MACUG is like an open network where any information can be exchanged, SCORE is a bit more restrictive as it limits the

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number of banking partners.

SWIFT: an emerging alternative

From a connectivity perspective, SWIFT has historically been the exclusive realm of the banking community, providing secure, standardized messaging services and interface software to financial institutions worldwide. However, all of that changed when SWIFT converted to IP-based technology and opened its network, allowing the corporate community to interact directly with their banks. SWIFT offers a more reliable and

services (for example, cash reporting can't be used by SCORE customers) and also ensures that only properly formed messages can be transported across the network. These differences aside, the underlying technology and transaction processing between MACUG and SCORE are the same.

In addition to various membership options for joining the SWIFT network, corporates can leverage a variety of messaging mechanisms. SWIFTnet FIN is based on the traditional MT messages and primarily used for treasury transactions – payments, deal confirmations, account balances, instruction to deliver or receive securities. SWIFTnet FileAct is a mechanism through which corporates can send or receive files containing any type of data. This is primarily used for sending mass payment instructions and receiving prior day balance information in a payment factory environment.

Taking a long-term view

Standardizing through SWIFT connectivity alone may not be a very valuable business proposition, but rather should be considered as part of overall treasury rationalization. Connectivity is, after all, a means to an end for achieving risk-free and efficient treasury operations. While creating a business case for SWIFT connectivity, it is important to take into account the direct benefits (reduced cost of maintaining multiple connections), indirect benefits (reduced risk) and costs (cost of setting up the SWIFT environment including software, hardware, programming, cost of integration with ERPs or treasury workstations and operational costs including the message costs charged by SWIFT). While connectivity rationalization may make a good business case in some instances, for the majority of corporates a more justifiable business case is one that results in full STP across the range of treasury operations providing much needed visibility to manage cash more efficiently.

Understanding the challenges of SWIFT

In addition to performing a cost/benefit analysis, it is important to be aware and prepare for the challenges faced when implementing

SWIFT connectivity. Not all banks are connected to SWIFT and even those that are do not always offer connectivity to corporates. Thus, a corporate may have to consider rationalizing its banking relationships or be willing to live with some level of inconsistency in its environment.

Many banks also do not offer true STP outside the key money markets, instead processing these transactions manually over the SWIFT network once they are received in their operations department. For a corporate, this lack of automation can impact both visibility and the ability to manage its cash.

Software availability in the market and expertise on SWIFT products is still not widespread. Building an infrastructure and finding the right talent can be challenging. And finally, simplification of connectivity alone does not lead to visibility of cash – a significant amount of work needs to be done to normalize and aggregate the transaction related data from banks.

The Citi difference

Citi's Information Xchange is a hub-based transaction processing infrastructure offering standardization through any communication channel – internet, leased lines and SWIFT. Citi's SWIFT Xchange offers an environment that is easy to implement, cheaper to operate and offers true STP while providing many value added services. The centralized hub processes global transactions in a standard way, thus simplifying implementation, providing step-by-step transaction visibility and automation leading to exception based management. This hub can be accessed from any of the 100-plus countries where Citi has a presence and can result in a reduction of SWIFT's per message fees by making all transactional traffic domestic. Citi's data aggregation and tracking service captures and normalizes Citi and third-party bank account information in real time providing visibility to cash around the world. Citi tracks late or missing data (including that from non-SWIFT banks) and proactively chases non-reporting financial institutions, while powerful analytic tools like Citi's TreasuryVision provides a

multidimensional view of cash by counterparty, currency and legal entity.

Achieving the goal

The goal of efficient and risk-free treasury operation can only be achieved through STP for which standardization is a must. Because of this, corporates must carefully consider their connectivity strategy. Ultimately standardized connectivity coupled with format standardization can significantly improve the ability to view and manage cash.

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