

The adoption of SWIFTNet connectivity

29 December 2010

By Jørgen Jensen
Nasarius director

Nasarius, a Nordic consultancy specialising in payments, cash management and treasury, hosted a SWIFT industry reception in Copenhagen in early November 2010. With unique insights from SWIFT, Royal Bank of Scotland, Nordea and animated panel discussions, the participants considered how corporate customers can use SWIFT to streamline financial messaging and the best means of building a cost-effective business case for the adoption of SWIFTNet connectivity.

The Nasarius 'SWIFT Information Day' was chaired by Joergen Jensen from Nasarius, alongside Peter Hoogervorst from the Royal Bank of Scotland, Janne Marletta from Nordea, John Ballantyne from SMA Financials, Christoph Stiefel from BPP and Alan Scutt from SunGard.

Streamlined Communications with SWIFTNet

Jan Heinsbroek, SWIFT's senior account director, opened the event with a thought-provoking presentation on SWIFT's role in international payments and how SWIFTNet connectivity streamlines communications between banks and their corporate customers.

Having explained the range of financial instruments and messages supported by SWIFTNet, Heinsbroek said: "You can generally group all messages into one of two categories. The first are FIN messages, also known as MT messages, which are standardised messages typically generated from corporate customers' own treasury systems. The second group are the FileAct messages which can contain any information to or from the bank in pre-agreed formats but which are typically used for bulk payments." (see Figure 1)

Heinsbroek went on to explain that alongside the two groups of message types, there are three main ways for corporate customers to connect to SWIFTNet. With the 'direct connectivity' option, the corporate customer is responsible for managing the SWIFT installation and the connection to the SWIFTNet network. The 'indirect connectivity' option allows corporate customers to outsource the entire SWIFT installation and connection to an accredited SWIFT service provider, such as BPP. The final option is SWIFT's 'Alliance Lite' which, as a web-based service, offers easier installation and lower support requirements balanced against more limited messaging functionality.

The Business Case for SWIFTNet

Rasmus Heskier Schiønning, partner at Nasarius, focused on how corporate customers can build a business case for the adoption of SWIFTNet as well as clarifying some of the confusion around the solution – these included its relevance to both small and large corporate customers, its cost, and the technical and legal issues surrounding its implementation.

Heskier Schiønning explained the six steps necessary for building a business case for SWIFTNet connectivity:

1. Understanding how SWIFT connectivity works

This stage of collecting information was cited as being particularly relevant to the majority of attendees at Nasarius's SWIFT information day.

2. Recognising the effect of SWIFTNet

Heskier Schiønning explained that SWIFT's connectivity solution is not just a project for corporate customers' IT departments. SWIFTNet needs to be considered as part of an organisation-wide change programme, encompassing the four factors – process, organisation, IT infrastructure, third parties and banks – in the 'Nasarius wheel' to ensure their interdependence is mutually beneficial.

3. Current and future changes within the organisation

What are the probabilities of changes in banking relationships, the likelihood of mergers and acquisitions, and any planned IT infrastructure changes and how will SWIFTNet connectivity be effected by these changes?

4. Project limitations

Is SWIFTNet connectivity an isolated project or is it one of a number strategic changes to a corporate customer's relationship with its bank(s) and/or IT infrastructure evolution?

5. What are the numbers?

Corporate customers need to factor in costs such as SWIFT fees, service provider fees and project costs against the benefits of lower maintenance costs, reductions in bank charges, retirement of out-dated systems and better cash management.

6. Making the decision

The decision to implement SWIFTNet should also consider 'soft factors' such as greater flexibility, higher reliability and more manageable IT services alongside the quantifiable benefits (see step five, above). Corporate customers should therefore take a long-term view of the operational, financial and IT benefits of SWIFTNet connectivity.

Nasarius's Heskier Schiønning concluded with a perspective on SWIFT's roadmap for future initiatives. These included the 3SKey functionality which will allow corporate customers to use the same personal signature at multiple banks, eBAM for opening and closing accounts directly through SWIFTNet, and Exceptions and Investigations for the automation of stopping and amending payments and checking lost payments or unknown inbound payments.

SWIFT Panel Discussion

The use of service bureaux for SWIFT connectivity formed a large part of the interactive panel discussion – it began with discussing why corporate customers could not take care of the SWIFTNet connectivity themselves, particularly as they are already familiar with managing multiple external electronic communication channels.

In the context of service bureaux, the members of the panel explained the difference between SWIFTNet connections and VPN or https connections. SWIFTNet connectivity demands the installation of software from SWIFT on dedicated servers for test and production environments. Furthermore, corporate customers need specially trained staff to run the system. Even though this may not be a full time job, corporate customers would need to train several members of staff to operate the system as a back-up for holidays and staff sickness, making it unnecessarily expensive. The advantage of a service bureau is that many corporate customers share the same infrastructure and personnel, resulting in lower costs and reduced risk.

The members of the panel, including representatives from both SWIFT and Nasarius, agreed that more and more corporate customers were moving towards using service bureaux, emphasised by the number of customers with direct SWIFTNet connectivity switching to a service bureau. Nasarius estimated that a typical service bureau installation would cost around €25,000 to install and a further €25,000 per annum to run, depending on the volume and type of transactions. Further costs might include technical support and the use of additional services such as message-format mapping.

The panel discussion moved on to the ISO 20022 XML payments standard. Nordea explained how it

was ready to accept these types of messages, both for euro payments and also for Danish, Norwegian and Swedish currencies. This initiated a discussion about the readiness of ISO 20022 and its development. The new version is expected to be available in Q1 2011, with the intention that all banks would accept the same format for the same payment type, avoiding the confusion that followed the EDIFACT standard. This promised a uniform, bank-independent format but resulted in several bank dialects.

The acquisition of panellist SMA Financials by Bottomline Technologies highlighted the trend towards consolidation among service bureaux. The market consolidation is based on size and economies of scale as competition between service bureaux increases and the price of connectivity is driven down as new service bureaux start up. While members of the panel were unsure about which would happen first – market consolidation or the introduction of new service bureaux – all agreed that competition would increase and prices were likely to fall.

Closing Remarks

Nasarius's SWIFT industry reception was closed by Nasarius's Joergen Jensen, who concluded that SWIFTNet connectivity has now matured to the extent that it is no longer only the largest global companies that can enjoy the benefits of SWIFT connectivity. With lower costs, decreased complexity and greater standardisation, now is the time for corporates of all sizes to investigate whether SWIFTNet would be an option for them.