
The Increase of STP in Nordic Bank Connectivity

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Although steps are being taken among Nordic banks and corporates to increase straight-through processing (STP), there is a still considerable scope for development.

Creating STP for payments in the Nordic currencies has always been complex and expensive. Most large corporates don't understand why creating an electronic interface between their enterprise resource planning (ERP) system and the bank's payment systems needs a major project running over several months. After all, it is not the first time there is an interface.

However, one has to consider the environment in which the interface is being made. In the Nordic area, the local banking associations designed some advanced payment types early on that have increased STP for all parties. In Denmark you have FIK payments, in Norway KID references and in Sweden OCR payment services. They allow for the creditor to send a country-wide unique number to the debtor, who should include it in the payment references, enabling 100% automatic clearing of open items.

As there are many ways to do these types of payment, both manually and electronically, the number of payment types increases fast. For example, in Denmark it is not uncommon to have more than eight different payment types for Danish kroner alone. There are five different types of FIK payments to support, plus normal domestic payment and international payments - both standard and urgent. One has to consider that each payment type requires a different output to be sent to the bank and therefore additional setup in the ERP system is needed to handle the formats and extra configuration in the mapping tool to produce the right output.

In the Nordic countries, the usage of Edifact is very widespread. Unfortunately, different banks don't accept exactly the same output for the same payment type, which means you are required to have different mapping for different banks - which adds to the complexity, effort and time required for the project. Most companies get custom-made solutions from the implementation consultants, as there are almost always special conditions to be aware of. Time-consuming process changes and adoptions are usually needed. Corporate IT strategies for the selection of middleware also affect the cost and timeline for the implementation. Further rigorous testing of the solution can be cumbersome owing to its scope - and if the banks don't respond in a timely manner, the time taken to test a solution can be considerable.

This fact means that changing banks can be expensive for a large corporate that wants to have high STP for payments. This can be seen, on one hand, by the bank as a protection and a way to keep their clients, but is a barrier to gaining new clients on the other.

We have observed recently that several large Nordic banks taking steps to making it easier to connect ERP systems directly to their payment systems. They are developing standard 'plug-and-play' solutions to ERP systems, especially SAP, which is popular among the big corporates. There are players in the market offering plug and play solutions but usually this is license-based - and the technology implies additional software implementations. The trend among the Nordic banks is to offer solutions where the formats can be incorporated in the ERPs. The banks are co-operating with third parties to develop and help with the implementations. One of the big banks has even got one of the ERP providers to develop bank-specific formats for all the Nordic countries. This reduces costs and makes the customers independent of third parties. The ownership of the formats and further development and changes lies with the corporate. This means that the corporate will have full control of the format mapping and can use internal resources to do changes and further developments.

The Future of ISO 20022

The ISO 20022 format has not yet taken off in the Nordic area. The major banks are now ready to accept the format, but there is still no major Nordic corporate using the ISO 20022 format for payments for all the Scandinavian currencies and payment types. The Nordic banks and corporates were leaders when it came to the Edifact format and it became the standard to be used by large corporates when they needed connectivity to multiple banks.

Even though Edifact is an ISO standard, each bank had its own interpretation of the format, which led to the increased cost of bank connectivity as discussed earlier. The major banks have now prepared themselves to use ISO 20022, but unfortunately it looks like we are going to see a repeat of the Edifact scenario, as the Nordic banks each have developed their own interpretation of ISO 20022 for the Nordic currencies.

From this point of view, it would have benefited all parties - both banks and corporates - if the Nordic banks had joined forces and come up with a common way to implement and interpret the ISO 20022 format. The effect of this would have been to:

- Lower the implementation effort, especially to multiple banks.
- Reduce the costs of switching bank.
- Reduce the testing time required in the implementation.

The Use of SWIFTNet

A further initiative to reduce the bank connectivity costs is the use of SWIFTNet connectivity. It is especially beneficial if the corporate uses multiple banks, as you only need one physical connection either to SWIFTNet or to a SWIFTNet Service Provider instead of multiple connections to the banks.

Nordic corporates haven't been leading in this field. Today, just a handful of Nordic corporates use SWIFTNet connectivity. Since the beginning of the 2000s there has been a mantra among most large corporates to reduce the number of banks used to handle payments to as few as possible - in extreme cases, just one bank, potentially reducing the need for SWIFTNet connectivity.

The liquidity crises and the new reality within the funding markets have taught many corporates about the importance of keeping a relationship with multiple banks - and that also means giving them some of the payments business as the balance between funding and getting cash management business hasn't gone out of fashion. However a corporate is most likely to install SWIFTNet installed given the corporate is changing bank connectivity or making changes to their payment systems. It is rare that you will see an installation of SWIFTNet connectivity alone without a wider project scope.

The interest among large Nordic corporates in SWIFTNet connectivity is high and many experts are active advising the corporates. The usage of SWIFTNet for bank connectivity is, therefore, bound to increase in the near future, as in many other parts of the world.

There is a steady movement towards using new technology and reduction of the costs of bank connectivity, but it is not a revolution, nor are we going to see the Nordic banks and corporates in the lead this time.

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