Using SWIFT as a powerful bank connectivity tool
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The bank connectivity and transparency challenge

As global companies grow, they often develop a large, diverse network of bank relationships to meet business needs – for example, to support counterparty risk management, regulatory compliance, cross-border transactions, contractual customer agreements and local credit providers. But most treasury departments struggle to gain transparency in all of their accounts. They need real-time balance reporting information to make fast, informed funding and investment decisions.

When companies can only access their account information through each bank’s online banking platform, the burden falls on the treasury departments to collect data from each bank, consolidate it and transform it into a format that people can use to manage liquidity. This process takes too much time, requires too much effort for already overloaded staff and causes reports to be out of date by the time they reach decision-makers.

While some bank systems can be used to capture the account information of a company’s other bank partners, most provide limited detail and payment instructions that cannot be initiated from the host bank system. As a result, treasury departments still need to access the other bank’s banking platforms. Relying on bank systems to access account data can also cause other problems. For example, if a company no longer wants to work with a given bank (or the bank no longer wants to bank with the company), treasury departments are at risk of suddenly losing visibility to its bank network.

What’s needed is a way for corporate treasury departments to obtain real-time balance reporting information and connectivity to their banks – and in a way that’s safe, self-service and immediate.

To this end, several software companies have developed specialized software called treasury management systems (TMS) that enables companies to connect once through a single interface, gain access to all of their bank accounts globally and transact directly with them. One of the most widely used methods is SWIFT, the Society for Worldwide Interbank Financial Telecommunication that provides a global, secure, standardized means for companies to communicate with banks.

While SWIFT will likely not offer a perfect connectivity solution for global liquidity management, for a company with a significantly large, global banking footprint it offers the ability to significantly improve cash management when used in conjunction with a TMS product.1

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1 Note: for a response to recent reports of SWIFT security incidents visit: https://www.swift.com/security-notice.
SWIFT: a new paradigm for business-to-bank connectivity

SWIFT was founded in 1973 when 239 banks from 15 countries collaborated to create an industry-standard solution to communicate cross-border payments between financial institutions. SWIFT went live with its messaging system, SWIFT FIN, in 1977, replacing the widely used Telex technology. Rapidly adopted by financial institutions worldwide, the SWIFT infrastructure currently serves more than 11,000 institutions in more than 200 countries. More than 6.1 billion FIN messages were sent in 2015 on the SWIFTNet Network, which is equal to a traffic volume of 24.22 million messages per day.

SWIFT SCORE: the next generation

In January 2007, SWIFT expanded its offerings to corporate customers with the first release of The Standardized Corporate Environment, or “SCORE.” SWIFT SCORE enables corporations to use SWIFTNet to connect with banks using a standard message protocol. While SWIFT initially focused on only the largest companies (and priced accordingly), today, 36% of SWIFT SCORE customers have annual revenue of less than $1 billion and 34% of SCORE users have annual revenue of between $1 billion and $10 billion.

SWIFT SCORE has proven to be a key part of global visibility and treasury centralization solutions. By utilizing SWIFT SCORE, companies can take advantage of a standardized messaging protocol that reduces the number of communication channels between their company and its banks.

A simple start-up process

When companies join SWIFT SCORE, they are assigned a unique business identification code (BIC). The BIC is an eight-digit code (or 11-digit code for banks that need to identify branch locations) that identifies the sender/recipient in a SWIFT message transmission. With a SWIFT address and TMS solution, a company can eliminate the need to access separate proprietary electronic banking portals in order to obtain complete balance reporting or to initiate payments and transfers. As shown in Figure 1 (on the left side), before SWIFT, treasuries had to make multiple, host-to-host connections via banking portals to access account data and engage in transactions. As shown on the right, with SWIFT, companies can use a single, standardized gateway to connect with all banks and conduct all transactions with them.
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Figure 1: Treasury-bank interactions before and after the implementation of SWIFT

Multiple bank channels

- High cost
- No global visibility into cash
- Impossible to centralize
- Challenge of multiple connectivity channels and formats

Single, standardized gateway

- Lower cost
- Transparency and view on cash
- Increased control and security
- Reduced risk
- Time saver

*Source: SWIFT*
SWIFT service bureaus act as an intermediary between the SWIFTNet and the TMS through an ASP or SAAS configuration.
Flexible connectivity options

As shown in Figure 2, SWIFT offers several distinct ways to connect to the SWIFT environment: directly via permanent leased lines, through the internet or via SWIFT’s cloud service (Lite2).

**Figure 2: Flexible connectivity options**

<table>
<thead>
<tr>
<th>Direct infrastructure</th>
<th>Alliance Lite2</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWIFTNet connectivity infrastructure owned and operated by the customer</td>
<td>cloud-based</td>
</tr>
<tr>
<td>Simplified secure connectivity, more business oriented</td>
<td></td>
</tr>
</tbody>
</table>

*Source: SWIFT*

The role of SWIFT service bureaus

While SWIFT simplifies bank connections, managing SWIFT connections isn’t easy for a number of reasons. The TMS landscape continues to change rapidly due to industry consolidation and the shift from hosted to cloud-based platforms. The functional requirements of a company’s TMS may also change over time, necessitating that companies seek a new TMS solution. In addition, most companies do not have the SWIFT expertise in house — nor want to incur the information technology support costs — to set up the dedicated hardware and software required by SWIFT.

For these reasons, when selecting a TMS solution, many treasuries turn to an off-site, internet-based solution to manage their connection with SWIFT. These solutions, which are commonly referred to as SWIFT service bureaus, manage the connection between their enterprise resource planning or TMS and their banks. Given the rapid changes in the TMS landscape, having management of the SWIFT connectivity hosted by a separate service allows for a much quicker migration from one TMS solution to another, as there’s no need to retest the connectivity with all the banks when changing the TMS.

While some TMS providers may bundle the SWIFT service into their offerings, having a separate SWIFT service gives companies greater flexibility in future TMS selection, as they do not need to change their service bureau if they change TMS providers. Given this advantage, when selecting a TMS system that’s bundled with SWIFT connectivity, it’s important to understand if the company will join SWIFT SCORE, or if the TMS will provide connectivity to banks through a BIC address owned by the TMS provider. If the configuration is the latter, it will make it more difficult for the company to switch TMS vendors in the future. In fact, the process of connecting the company’s banks to the new TMS will be as time and labor intensive as the previous system setup shown in Figure 1.
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Message service options and considerations

The two most common message services used on SWIFT are FIN and FileAct. FIN is the oldest established service that exchanges messages formatted with the traditional SWIFT MT standards (MT stands for message type). Some of the more frequent files transferred over SWIFT FIN are the MT940, MT942 and MT101. The MT940 and MT942 are end-of-day and intraday balance reports, respectively. The MT101 is a request for transfer.

SWIFT FileAct enables the transfer of large files. It’s typically used to transfer large batches of messages such as bulk payment files, large reports or other operational data. An MT940, for example, only contains the balance report of a single bank account. If a bank can send the MT940 data using FileAct – and a company has a large amount of accounts with that bank – the bank can send all the MT940 balance reports in a single file transmission. So instead of receiving several hundred or even thousands of MT940 reports using FIN, they can use FileAct and receive just a handful of reports, making it easier to detect missing data.

Costs are also a consideration when choosing between FIN and FileAct. While SCORE membership is inexpensive compared to the setup and license cost of a TMS and SWIFT service provider, banks often charge for the setup and testing of the FIN or FileAct connection. In addition to setup cost, most banks charge monthly SWIFT connectivity fees that vary widely from zero to more than $70 per account per month. Some banks are willing to negotiate the cost; the size of the banking relationship and other factors may come into play during negotiations.

An average message service fee of $35 per month on 2,000 accounts equals $840,000 per year. So depending on the number of accounts a company has, message service costs can be significant and should be factored into any purchase decision. Costs can go even higher due to additional fees imposed by service providers. SWIFT, for example, charges a minimum network charge of $188 per month plus an additional fee per message that is based on message volume. At the lowest volume tier, the cost for domestic messages is 5.96 cents and international messages are 19.96 cents. At the highest volume tier, the unit cost drops to 2.52 cents and 3.68 cents, respectively. SWIFT network and message charges are based on pricing as of 8 January 2016 and an exchange rate of EUR = 1.13 USD.

Joining SWIFT SCORE can result in a significant increase in reporting costs. So, as with all treasury solutions, a cost-benefit analysis should be done to determine if SWIFT SCORE implementation costs are worth it, and thus if it’s the best alternative for a company to connect its banks to the TMS system.
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Typically, no company achieves 100% connectivity. In practice, 80% connectivity to bank partners might capture 95% of a company’s liquidity, and it can be considered sufficient for optimizing cash management.

SWIFT limitations: not so swift?

As effective as SWIFT is as a method for connecting once and gaining access to many banks worldwide, it’s not a panacea. For example, while it does connect with 11,000 banks in more than 200 countries, consider that in 2014, there were 6,799 Federal Deposit Insurance Corporation insured banks in the US alone. At EY, we’ve seen estimates of about 15,000 banks worldwide, but that seems intuitively low. In addition, all SWIFT banks are not SCORE-enabled. Some banks will not offer SWIFT reporting as a service to their clients due to lack of technology for automated SWIFT reporting or lack of demand from their clients. Other banks cite regulatory or other barriers to offering the service.

So, for a variety of reasons, treasury departments will likely find that some of the banks they do business with will not offer SWIFT reporting. And moving from a non-SWIFT-enabled bank to a SWIFT bank may not always be feasible, depending on the reason for the bank account. Hopefully, most companies find these kinds of banking partners are outliers, and the balances they hold are not material compared to the company’s overall liquidity. It’s worth investigating to see if there are other software solutions available to connect non-SWIFT banks to a TMS.

Another common issue with SWIFT occurs when companies try to obtain visibility into cash. The reporting of overnight or short-term investment vehicles may be difficult to achieve, as not all types of accounts are capable of being reported via SWIFT, even at SWIFT-member banks. Many companies concentrate significant amounts of short-term surplus funds in auto-sweeps or other overnight and short-term income products. Unfortunately, the cash transferred from demand accounts to these accounts will report a zero balance in the MT940 report, but the investment account balances cannot be reported via SWIFT. This can result in a significant amount of cash and cash equivalents not being reported by the bank to the company electronically. To capture those funds in their TMS, companies need to establish a manual feed into their TMS.

At the same time, treasuries should ensure that the TMS they select can work with other popular messaging standards besides SWIFT, such as ISO 20022 XML, which could someday supplant SWIFT as the preferred bank messaging platform. While today SWIFT has the longest track record and greatest penetration, ISO 20022 XML is widely adopted by banks in Europe, and its use is growing in other markets outside the US.

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Key takeaways

SWIFT can vastly simplify how corporate treasury departments connect with the banks they do business with, gain transparency into balances and transact. Especially for companies with a large, global banking footprint, when used in conjunction with a TMS product, SWIFT offers the ability to significantly improve cash management. With 40 years of operating experience and more than 11,000 member banks, SWIFT offers the level of security, stability and global reach that warrants consideration for any company looking to improve its cash management.
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