



# Understanding SWIFT for Corporates

## BEST PRACTICES

SWIFT is a single, secure communications channel used by more than 10,000 banking organizations, corporations and others to exchange millions of standardized financial messages.

Industrial strength, built for security and resilience and offering connectivity and a standard messaging “language,” SWIFT globally reaches virtually all major financial institutions consistently, securely and reliably.

Since its inception, J.P. Morgan has been deeply involved in the development of SWIFT for Corporates. SWIFT, an industry-owned association, has historically offered secure bank-to-bank communications. Much like their global banking networks, corporations have similar requirements for secure, resilient and standardized message delivery.

We actively engage with our clients to better understand how SWIFT for Corporates can be utilized to increase their efficiency and establish an effective treasury management operation. Based on this experience, we have developed a set of points to consider that will help you maximize the effectiveness of this tool.

*(continued)*

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## Is SWIFT for Corporates Right for Your Company?

Using SWIFT, companies are able to consolidate their banking connectivity and leverage standardized formats and features common to most banks. This allows you to streamline communications, normalize formats and create a more efficient payment environment.

SWIFT for Corporates is relevant for many corporations. Initially, the target audience for this channel was composed of large corporates with:

- An extensive bank network
- Multicountry financial operations
- Financial operations that are technology enabled

But recently, corporates of all types have been seeking to take advantage of the added value SWIFT provides.

### CASE STUDY

A major international technology company operating more than 550 accounts across multiple banking partners faced significant treasury challenges requiring extensive oversight and management. The company's treasury and ERP systems were fully conversant in SWIFT standards.

By working with J.P. Morgan to deploy SWIFT for Corporates and ISO 20022, the firm reported that SWIFT allowed them to leverage the same formats and methods across their global bank network, reducing technology expense and streamlining their operational processes worldwide.



## The Benefits of Using SWIFT for Corporates

Corporates face considerable challenges in coordinating the many bank accounts and multiple bank communication channels that are needed for effective treasury management. These challenges range from the high cost of multiple bank interfaces, complex and varied security and contingency arrangements, and an inability to view cash positions across your global bank network. These issues (among others) introduce excess costs, as well as process and liquidity inefficiencies to cash management and related financial operations.

SWIFTfor Corporates addresses these pain points, helping you realize increased global visibility into your cash position through the centralization of account information. This enables you to make better-informed investment decisions and improve your working capital.

SWIFT for Corporates also allows you to replace multiple bank communication systems with a single means to communicate with your banks, delivering savings through improved automation and reduction of in-house treasury and IT staff costs. Further, SWIFT helps improve straight-through processing (STP) and assists in increasing staff productivity and capacity by enhancing the level of automation in your financial operations.

As noted, SWIFT for Corporates provides robust, industrial strength security and reliability. SWIFT boasts a 99.999 percent availability, as well as being a highly secure system used by the world's banks and many payment systems for communicating payment instructions and other sensitive data. In addition, for corporates under stringent regulation (such as Sarbanes-Oxley), using a single process like SWIFT can help satisfy

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## A list of additional potential benefits include:

- Increased geographic reach for your financial operations, increasing visibility of idle cash throughout your bank network
- Improved audit compliance
- Improved STP and processing capacities, as well as related efficiencies through the use of standards to communicate across your bank network
- Security and resilience, integral to the SWIFT network
- Highly secure communication infrastructure
- Support for the nonrepudiation of payments
- Consistent formats across all banking counterparties reached over SWIFT. This reduces the need to maintain separate proprietary banking platforms and the multiple IDs and passwords needed to operate them. *(Note that some proprietary e-banking systems will still likely be required.)*
- Support for corporate-to-bank communications for a variety of purposes:
  - Treasury settlement
  - Accounts payable, accounts receivable and other payment and collection operations
  - Trade finance
  - Securities and custody operations
  - FX confirmations

## Decisions and Options – SWIFT for Corporates Tips

Best practice recommendations start with a solid foundation and include the full project life cycle:

- 1. Planning and preparation**
- 2. Building a business case**
- 3. Considering your connectivity options**

## A BRIEF HISTORY –

### How SWIFT for Corporates Evolved

The SWIFT for Corporates initiative was first introduced in 1999 in limited form. SCORE, the most recent (and most convenient and capable) form of membership was introduced to the market in January 2007. As a member of SWIFT, J. P. Morgan was, and remains, a leading proponent of SWIFT's SWIFT for Corporates initiative, believing that both corporations and banks can benefit greatly from this tool. Since its inception, corporates have been able to use SWIFT's single, secure and reliable messaging platform.

Under the initiative, SWIFTNet messaging has fostered greater standardization and consistency for corporates and banks, while maintaining an environment that allows for distinction among financial institutions. XML standards are helping to deliver straight-through processing (STP), allowing users to achieve savings through reduced errors and improved service. Since its introduction, the SWIFT for Corporates initiative has led to simplified back-office integration, with broad and growing support from vendors. Ongoing initiatives with many treasury application vendors, middleware providers and ERP providers support SWIFTNet integration.

As of SCORE's introduction in January 2007, corporates have been able to take advantage of cash and liquidity management solutions. Eventually those services broadened to include securities services, exception and investigation, trade services and secure e-mail. As of end 2011, more than 900 corporations globally make use of SWIFT SCORE and its variants.

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## Planning and Preparation – Things to Consider Prior to SWIFT Membership

What is universally true for any organization planning to use SWIFT for Corporates is that adequate budget resources will be required to acquire and deploy the needed infrastructure. Proper planning and assistance from partners can go a long way to help realize the advantages of SWIFT for Corporates.

It is important to note that after you deploy SWIFT for Corporates, you will not automatically be able to communicate with any bank on SWIFT. Not every bank on SWIFT, by default, supports the SWIFT for Corporates model. You must first survey your banking partners to determine whether they support the SWIFT for Corporates model, or if they utilize a Member Administrated Closed User Groups (MA-CUG) relationship.

Further, speak with your banks about the services and message types they support over SWIFT. By gathering this data, you'll be better positioned to build the business case for SWIFT. J.P. Morgan can facilitate communications with your banks that are SWIFT members but do not participate in SWIFT for Corporates, allowing you to further leverage your investment.

## Building the Business Case for SWIFT for Corporates

If you are considering SWIFT, the development of a formal business case is recommended since a capital investment will be required to install needed technology structures. Understanding the potential return on investment and total cost of ownership measured against your most pressing business needs and treasury challenges should be determined.

In addition to examining the costs associated with SWIFT such as registration, connectivity and messaging, and non-SWIFT-related expenses (including project management, operations and application integration), it is important to consider benefits that may be difficult to quantify. These cost savings include security (avoidance of fraud and fewer manual errors), compliance (less control points and reduced documentation) and improved control over the payment-initiation process.

## Preparing for the Needs of Tomorrow

Corporates using SWIFT for Corporates will be prepared for tomorrow's needs as SWIFT readies future applications such as:

- ISO 20022 XML messaging, further standardizing SWIFT messaging
- Electronic automated management of bank accounts (eBAM) and authorizations/permissions, modifications and closings
- Transaction exception handling (exceptions and investigations)
- Automation of investment matching and reconciliation beyond money market instruments



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Other important factors to keep in mind:

- **The cost of internal processes** – Build a model for work-hours spent and costs associated with gathering and incorporating banking data. In addition, remember to quantify security credential management, as each bank will have its own requirements. Further, by adopting standardized SWIFT formats across multiple banking institutions, you will be able to eliminate the rekeying of payments for your various banks.
- **Inventory your banks and accounts** – Assess the amount of actively managed cash and the value and volumes of accounts that are not actively managed. This assessment will enable you to develop a global financial positioning model. Once you have visibility into all your accounts, you will need to determine if you have to pool all your transactions for a comprehensive view.
- **Understand your total cost-of-ownership for your banking infrastructure.**
- **Assess current technology and any necessary changes** – Evaluate your core systems, such as treasury, accounting, and your ERP applications and assess any requirements for integration with key banking communications applications (e.g., cash accounts, payables). Speak with your ERP or workstation provider(s) to see if they are SWIFT capable. If so, find out what formats they support across the various business processes you envision deploying over SWIFT. SWIFT standards now include ISO 20022 XML, as well as the traditional MT format.

## Consider Your Connectivity Options

Connecting with SWIFT will place certain technology requirements on your firm. Different options are available to support those requirements. The determining factors in selecting a connectivity option include consideration of the following:

- Owning versus renting your technology
- The trade-off between fixed investment costs and variable operating costs
- The support available to the finance function from your technology department

Organizations that do not have the desire or budget to manage a direct connection to SWIFT, or that conduct most or all of their cash management with a single bank and use a bank-provided workstation or Internet solution, may find an investment in establishing a direct connection to SWIFT to not be cost effective or desirable.



## Common Misconception Around SWIFT Format Standards

A common misconception is that SWIFT standardizes file formats so thoroughly that establishing new banking relationships will be a simple matter of “plug-and-play” without the need to create bank-specific rules.

SWIFT does standardize a majority of fields, allowing you to quickly establish account visibility, but you will find that every bank provides the relevant “information to account owner” (transaction details) differently.

ISO 20022 seeks to alleviate these challenges by providing discrete fields for many elements and offering additional capabilities beyond the traditional SWIFT MT messages, but many of the fields are optional in nature, and not all banks are ISO capable across all transaction types.



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The following alternatives may prove to be more prudent:

**SWIFT Alliance Lite** – SWIFT Alliance Lite provides low-cost access to SWIFT for companies with low-volume traffic requirements. This browser-based solution is often used as an entry into SWIFT, or to build a test case for an eventual move to SWIFT Direct connection or the utilization of a service bureau. This product enables an organization to access all counterparties through a secure, low-cost Internet connection without a significant investment in technology.

**Service Bureau** – For organizations that don't want to purchase and install hardware and software, or incur the costs of training and maintenance, connection via a SWIFT-approved service bureau is a viable alternative. This third-party solution reduces up-front investment costs and can deliver value-added options such as message translation services. Outsourcing a connection to SWIFT can speed up implementation for corporates because connectivity is already established and expertise is already in place with the provider.

**Online Banking Solution** – J.P. Morgan offers browser- and files-based ebanking services, including J.P. Morgan ACCESS<sup>SM</sup>, an Internet-based workstation delivering integrated access to information reporting, investment and transaction services, and inquiries in real time regardless of where you do business. Through these services, J.P. Morgan can provide you multibank payment initiation and reporting drawing on SWIFT capabilities without requiring SWIFT connectivity. Further, these services can be used to complement use of SWIFT to optimally support your financial operations.

## Defining Your Access Models

In addition to communication, SWIFT offers two types of access models:

- **SCORE** – A one-to-many open model where SWIFT dictates what message standards can be exchanged with any bank that supports SCORE. The advantage: One administrative relationship to reach all your bank networks that are SCORE members (now approximately 1,000 banks).
- **MA-CUG** – A one-to-one model where the messages and/or formats that will be exchanged are agreed on between the corporate and the bank. This model is most suited for use as a complement to SCORE in those cases where a message is not permissible over SCORE.



## How to Get Started with SWIFT – Talk to us!

The best way for your organization to get started with SWIFT is to have a dialogue with J.P. Morgan and with SWIFT to learn more about the process. We would be happy to help you determine whether SWIFT is right for you.

At J.P. Morgan, we regularly engage in this conversation with our clients, helping them get the most out of SWIFT. We welcome the opportunity to help you take advantage of this exciting new industry event.

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