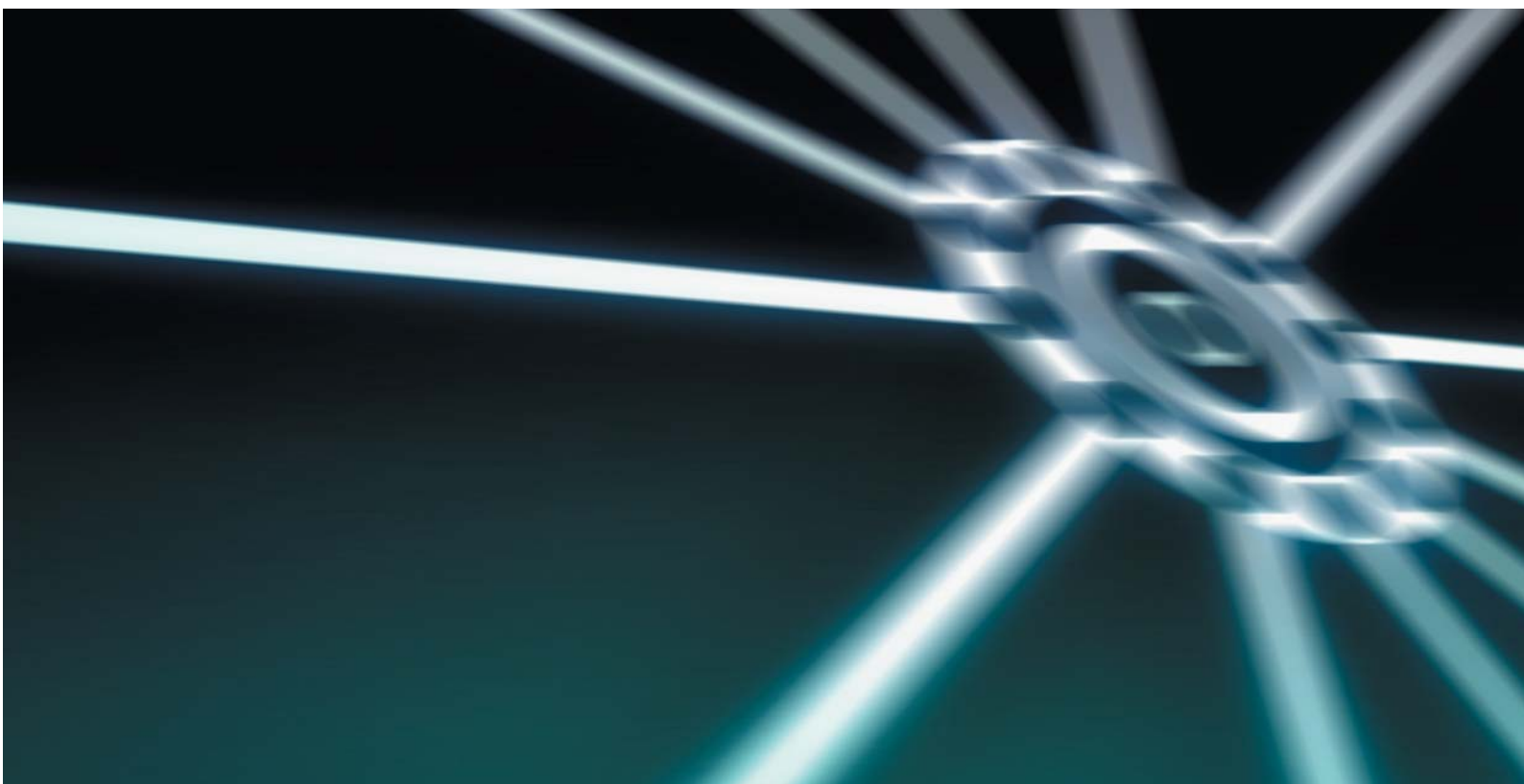


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## Special report SWIFT service bureaux



SWIFTNet is the industry standard for interbank connectivity, and with an increasing number of corporates joining the network, it is also looking to extend the benefits of standardised messaging to multinationals, as well as financial institutions in emerging markets. Yet, implementing and maintaining SWIFT connectivity in-house can be costly and time consuming, particularly for smaller-to-medium sized institutions and companies that want the same messaging capabilities as larger global banks, but without the upfront investment and domain expertise. An alternative is to outsource SWIFT connectivity to a service bureau. In the following pages, leading SWIFT service bureaux outline the business case for outsourcing connectivity to a third party, and the value-added services they provide beyond connectivity.

# Lowering the cost of ownership

For those firms that do not want to bear the upfront cost of connecting to SWIFTNet directly, Colin Day, vice president, marketing and business development, SunGard STeP, says there is another option.

When most people think of SWIFT they think of the secure, reliable messaging network that connects approximately 8,000 financial institutions and a growing number of corporates across 208 countries and territories. This network is known as SWIFTNet. SWIFTNet is an IP-based messaging platform, which includes the core FIN messaging service and three additional services: InterAct, FileAct and Browse.

SWIFT also offers a growing number of business solutions that span payments, trade finance, securities trading and corporate service, which allow the financial services industry, “access to shared solutions through which they can build a competitive edge.” It is safe to say that since its creation back in the 1970’s, SWIFT has become the de-facto standard for communication across financial services.

SWIFT operations, the means by which member organisations connect

to, integrate and process their SWIFT messages, vary depending on the size of the institution. Traditionally, organisations have implemented SWIFT operations in-house, requiring a ‘laundry list’ of line items to support it. These items include licensing a SWIFT gateway, either from SWIFT or a SWIFT interface vendor, licensing connectivity/message transformation software, implementing these with specific customisations to support your business, leasing communications lines, hiring skilled personnel to support the operation, purchasing hardware and taking on the cost of maintenance and depreciation.

## Re-evaluation time

For larger players, in-house SWIFT operations are expensive, but necessary to support the high volume, complex products they trade. Even for smaller players, the cost of all of these items equates to more than USD

100,000 per year. But a new paradigm is emerging as the standard connectivity model that will enable small-to-medium size financial institutions and corporates the same messaging capabilities as the larger global banks. They are SWIFT service bureaux. Service bureaux are offered by a number of vendors in the industry; 103 according to SWIFT’s website; and as the market continues to invest in this way of connecting to SWIFT, demand is spurring new offerings.

SWIFT service bureaux are not just for smaller players, as a number of Tier 2 firms have already outsourced their SWIFT infrastructure. The mandatory migration to SWIFTNet Phase 2 places a significant cost and resource burden on all SWIFT members, and this has forced a number of institutions to re-evaluate their requirements and take this opportunity to outsource their SWIFT operations to a third party service bureau.



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Colin Day  
SunGard STeP

### Anatomy of a service bureau

Essentially, SWIFT service bureaux should offer the same functionality as in-house SWIFT operations, but without the significant cost and resources to implement and maintain them. By outsourcing SWIFT operations to a third party, initial set up costs are reduced and year-over-year costs such as maintenance, staff, hardware, data centre space and depreciation are eliminated.

Firms looking to outsource their operations should consider the following:

- Does the vendor offer full disaster recovery plans?
- Do they ensure guaranteed message delivery?
- Is message validation and correction available to reduce errors?
- What is their expertise with SWIFT updates and annual changes?
- Are complete and up-to-date SWIFT message libraries provided?
- What options to the service are available?
- Is it customisable?
- Can it be integrated with a company's in-house systems?
- Are messages sent in real time?
- Do staff need to be hired to interface with the outsourcing provider?
- What other financial networks and applications does the vendor provide connectivity for?
- Can the vendor handle sudden peaks in message volume or long-term traffic growth?

### SWIFTNet for corporates

Corporates can access SWIFT through one of three membership categories; Treasury Counterparty (TRCO), Member Administered Closed User Group (MA-CUG), or the new Standardised Corporate Environment (SCORE). Under SCORE, any corporate that is listed on a registered stock exchange in a FATF (Financial Action Task Force) country can participate and connect to all financial institutions on the network with which they have a relationship. All they need to do is join a single closed user group (CUG) containing many financial institutions.

Formerly, dependent on the number of banking relationships each company maintained, corporate access to SWIFTNet took place via a number of MA-CUGs. In the MA-CUG, corporates can only directly

communicate with their banking service providers through sponsorships. In essence the MA-CUG allows connection to one bank; SCORE allows corporate connectivity with many banks (within the FATF); and TRCO connects only the corporate treasury to SWIFT, but allows connection to all banks.

Corporate SWIFTNet connectivity is similar to that of banks and still requires connection lines, messaging gateways, message transformation software and staff expertise. Often the best option for a corporate is to outsource their SWIFT operations to a vendor that understands both the financial and corporate domains, as well as the intricacies of SWIFT messaging. But corporate access to SWIFT does not allow for corporate-to-corporate messaging. Corporates wanting to communicate with one another can join a vendor-administered communication network that also connects to SWIFT.

Whether a large multinational, a mid-tier investment manager or a top tier global investment bank, the SWIFTNet connectivity paradigm is not a 'one-size-fits-all' approach. It is up to the institution to decide the most cost effective means, while still protecting the business it wants to conduct over the network. //

# The price is right

**Hans Cobben, chief operating officer, SunGard AvantGard Payments, explains why an increasing number of corporates are looking to outsource their SWIFT connectivity to a third party.**

Over the past few years there has been a marked increase in corporate demand for SWIFT connectivity. This requirement has typically been driven by strategic initiatives such as treasury centralisation, payment factories, liquidity management or an e-banking project. At the same time, a key part of SWIFT's growth strategy has been to get more corporate treasuries using SWIFTNet to communicate with multiple banking providers.

Yet, as corporates evaluate the costs and operational requirements for SWIFT connectivity, often they realise that they do not want to bear the upfront investment and ongoing management overhead of connecting to SWIFT directly, using their own in-house infrastructure. For this reason, many corporates are turning to service bureaux to provide the infrastructure and connectivity.

A SWIFT service bureau is often a less expensive, faster and easier alternative to direct connectivity, allowing for a full range of SWIFT messages,

including securities, treasury, derivatives, payments and corporate actions, in a fully serviced and secure environment. The indirect access model offers a continuum of service that helps satisfy SWIFT requirements from the largest to the smallest operations. Additionally, a SWIFT service bureau can offer connectivity for banks and securities firms to help bring another tier of organisation the same benefits that global players garner from SWIFT membership.

## **Not a core competency**

By far, the most pressing topics for corporates in 2007 have been treasury cost reduction, compliance and improved straight-through processing (STP). In an effort to address these challenges, corporates are looking to access SWIFT, which promises increased visibility, STP, standards, security and reduced transactional costs. However, as with any new technology, this also comes with increased concerns around support

and maintenance. As an alternative to implementing and maintaining a dedicated SWIFT interface in-house, many corporates are looking to outsource this to a SWIFT service bureau. In this scenario, the corporate subscribes to a service (much like any utility) and the service bureau is then responsible for the interface from the corporate to the SWIFT network.

For many organisations, SWIFTNet is not a core competency, and thus connectivity is often better administered by a services and technology provider that manages the day-to-day operation. This allows the corporate to outsource the management of the network and connectivity, while still offering the same benefits and level of access afforded through a direct connection.

The added benefit of a service bureau is lower total cost of ownership, as well as lower operational costs required to support and administer an in-house solution. Lower total cost of ownership eliminates any requirements

to purchase and maintain in-house hardware or the need to deploy and support SWIFT software. A service bureau also offers a fully-redundant infrastructure, which includes disaster recovery, load balancing, standby servers and a reduction in potential points of failure. Rather than rely on in-house administration, the service bureau offers domain expertise, with its core competency being connectivity. This includes following strict guidelines, regulations and standards set forward by SWIFT, which are audited on a routine basis. For this reason, many corporates opt to use a service bureau that can help manage changes to formats and regulations.

#### Member/Concentrator

For some, however, there is an additional benefit in using a SWIFT Member/ Concentrator. A

Member/Concentrator offers the same benefits as a service bureau, but takes on an additional burden for the corporate, including:

- Assistance in the application process
- Ordering of SWIFT products and services on behalf of the corporate
- Receiving SWIFT invoices and administering the account
- Helping with basic service requests
- Use of an existing communication channel link.

Member/Concentrators have the capability to provide the full range of SWIFT services; establishing and monitoring the interfaces and physical connections to SWIFTNet. This involves maintaining the SWIFT hardware and



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Hans Cobben  
SunGard AvantGard

software, as well as workstation licensing fees. It transforms financial transactions into ISO industry standards and provides 24x7 support as well as SWIFT expertise.

This model in no way diminishes the ability of the participant to retain their own market presence and identity (by using its eight character bank identifier code). This form of connectivity is cost-efficient and eliminates process replication, message duplication and resulting costly errors. The use of a Member/Concentrator is particularly attractive for corporates that would rather focus on their core business instead of building costly connectivity and relying on a dedicated technical resource or domain expertise in one small part of their operations.

Domain expertise is perhaps one of the most compelling reasons to contemplate a service bureau over

direct connectivity. Corporate treasury and finance departments are continually under siege due to an outpouring of new regulatory requirements and standards that they must follow. This often puts the corporate in a situation where they are always chasing change.

When selecting a service bureau, interoperability, accuracy, flexibility and high performance are high on the list of evaluation criteria. With respect to interoperability, many organisations require solutions that offer interfaces to existing ERP and treasury workstations. This and the ability to scale, not only in terms of volume but also in terms of scope, with the capability to easily interface with new systems – either brought into the fold via internal technology changes or acquisition activity, is integral.

Whether the choice is direct, indirect connectivity via a service bureau or a Member/Concentrator, the end result is that corporates now have more choice in terms of how they connect to SWIFT. There will always be a portion of corporates that opt for the direct, in-house option where they maintain the infrastructure, systems and knowledge base. For others, the cost benefits and flexibility associated with service bureaux or Member/Concentrators will be more appropriate. //



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