



Financial Flows
Working Capital & Process Optimization
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Welcome to Podcast No 6 today with the title:
SWIFT Payment Gateway

SVEN OLOF ANDERSSON

Welcome to podcast number 6. We hope you enjoyed our last podcast on how to finance a company. Today, Martin and I will discuss Swift Payment Gateways: What they are, who would benefit from using it and what's involved.

MARTIN SCHNEIDER

Swift Payment Gateways are geared toward corporate treasuries that wish to connect their daughter companies' bank accounts. It manages a number of banking relationships across multiple accounts in various countries. These companies can consolidate all their banking with one single SWIFT solution. That means they have one single access point to all their bank accounts worldwide. Such gateway leaves the decision fully open, if payment are done locally or centrally.

SVEN

Is this a new and a fairly revolutionary way of managing bank connections worldwide?

MARTIN

Well, the Swift System has been around for 30 years. It is the system for all banks worldwide to exchange information. I remember 20 years ago, when I was working in the treasury department for a multinational, I wanted that my employer would become a Swift member, but the system was simply reserved for banks. It wasn't even available for financial companies within a corporation. Now it has evolved and has become a popular option for many multinational corporations.

SVEN

A Swift Payment Gateway seems a monumental undertaking and costly. How does a company justify such a project?

MARTIN

Well, look at it this way: If a multi-national company with, say, 30 branches or daughter companies on all continents moved to one single ERP and spent 20 million Euros for such a project.

Then the same company can now connect the bank accounts via Swift for a fraction of the costs of the 20 million mentioned.

Also risk management can play a role: Look at all these pins and tans and Streichlisten! They are local risks. So Swift can play an important role in corporate risk management.

SVEN

What is a bank's stance toward clients that have Swift Payment Gateway? I imagine that if a company uses a special channel or gateway to a bank, then the bank knows the client is bound by that contract and not likely to leave. Once a company uses Swift, the company doesn't have that hurdle and can change banks more easily.

MARTIN

That's only partly correct. It explains why prices for Swift aren't uniform and contracts differ from bank to bank. When a company chooses Swift as payment gateway, it is the first step towards freedom from banking obligations. And cash pooling can be transferred from bank to bank from one day to another.

Nevertheless, building a Swift link to a bank still means a small project with each bank. So once such connection is concluded, the corporation isn't about to move elsewhere.

Let me outline the basic project step how to connect corporation and bank:

First, the local e-banking contract is replaced by a new contract with each bank. This contract can be negotiated centrally.

Second: Price changes could be an issue. Some banks charge nothing to connect Swift, others ask for a one-time fee. Once the Swift connection is ongoing some banks ask for a running fee. This needs to be negotiated with the account manager.

Third, it involves installing the technical connection to the bank. I've had interesting cases where cultural habits needed smoothing out. Finally, the project involves testing the connection and going live. This is done between the IT-Departments.

Involved in such a project are legal staff, account managers and IT of each bank.

SVEN

What kind of software is involved?

MARTIN

Mostly the asp-Software of a Swift service bureau will coordinate all these flows. Such service bureaus use a standard software and will have the same screen look at each local company. It will replace all the local e-banking screens worldwide. Of course all the pins and logins and Streichlisten will vanish. All security is built into the software of the service bureau. This also requires a strict middle office with a four-eyes principle at the parent company.

SVEN

I assume you know the cost and payback time involved. It is worth the project? How are the running costs later on?

MARTIN

Excellent question! But check this first before saying Swift could be expensive.

If your company has five or ten ERPs i.e. accounting systems throughout the world and your employer has no intention to move toward one ERP, yes then they continue to use e-banking.

What that means however is that processes are not unified and local companies report to the headquarters via excel and other tools. This reporting continues to be costly as it often involves copy/paste information from one tool to the next.

For a multi-national that deals with many banks, Swift helps them maximise resources and tighten control over payments so it's a cost-effective solution.

Just consider: SAP and others became the standard in ERP and accounting. Swift is the standard in payment. Why not connecting these two standards?

SVEN

What if we do all the payments company-wide with one single bank? Would that not replace Swift?

MARTIN

Yes, Sven, this also an excellent way to save resources and streamline processes. Some of our clients do this. But keep this in mind: it is risky to be dependent on one bank. What if it is hit during the financial crisis?

Three years ago, we had some excellent banks that served as cash management banks. Some or even most of these once reputable names are now in question.

The financial crisis taught us that it may be wiser to work with several banks to leverage risks.

SVEN

How can companies trust Tomato? If Swift is fairly new, what makes you an expert?

MARTIN

Tomato not only serves corporations but also banks. Remember I started off as a banker. For example, we help banks to improve their service in payments. I was first involved in a Bank-Swift-Project in 1992. We also worked on Swift and payment projects in 2005, 2006, 2007 and 2008. Personally I feel very safe to guide corporations through such a project.

SVEN

Wow Martin, you convinced me. You mentioned earlier that you have documentation you'll be happy to share and you will offer a roadshow to any company that is interested.

MARTIN

Correct, I have been living and optimizing financial flows for over 30 years. I enjoy the process and helping wherever I can and I am needed.

SVEN

That was podcast no 6, we count you enjoyed and hear you again.

MARTIN

Thank you Sven and see you soooooon agaaaaaiiiiiiiiiin.