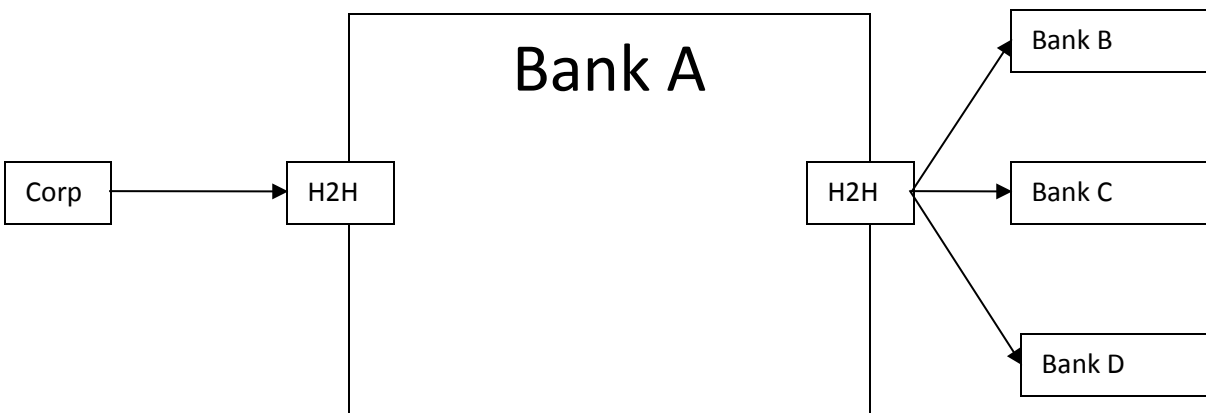


In North America, the number of banks a corporate engages with range from 1 to 4 on an average, while in Europe, the same number is found to be as high as 20, according to a recent payment survey conducted by gtnews. It is widely believed that with the onset of SEPA in 2014, a wave of consolidation will be witnessed in the banking industry. It would be interesting to see what the average number would level off to be in Europe. Even with banks riding the consolidation wave, the need for low cost multi banking solutions will continue. While the SWIFT based connectivity models are being perfected, Host to Host (H2H) connectivity, hitherto used by banks to fulfill ERP connectivity requirements of a corporate, has been deployed quite effectively by banks such as BNP Paribas to provide a conduit to its clients to other non-treasury banks.

How multi-banking works:

Consider the following scenario – a corporate wanting to send bulk drawdown requests to its partner banks, sends the file over the H2H which is received by the Treasury Bank. This model entails using the H2H adaptor at both ends within the Treasury Bank's environment. The client side component collects new files as they are generated by the accounting package or an ERP system on the corporate side, compresses/encrypts the file and transmits the same to the Treasury Bank over a public or dedicated network.



The Treasury Bank, on file receipt, checks if decryption or decompression is needed and whether the file carries any digital certificate that needs reading. The file is then parsed followed by reference check of the file format preference of the partner bank to ascertain if file conversion is warranted. In-flight file conversion happens. A similar lightweight client side component also sits in the outgoing side of the Treasury Bank environment. This component works on the converted file and transmits the file to the destination partner bank.

The following are the main considerations of a corporate in its multi-banking strategy:

1. Cost

An important consideration in the multi bank strategy of a corporate is the charges associated with traffic generated by the corporate on the different banking partners. SWIFT based SCORE (Standardized Corporate Environment) heavily hinges on the sender to receiver BIC code locations. If the two BICs belong to the same country, domestic charges apply. Corporates embracing the SWIFT based connectivity model, usually perform a cost analysis based on the study of the BIC locations, within the domestic landscape, of the recipient banks and the Treasury bank, to determine indicative charges for a sample real life mass of in-country multi bank traffic. Similarly before a corporate decides on a Host to Host based multi banking model, it can use the price catalogue from the Treasury Bank and estimate the bank fee linked cost for a given volume of traffic with an indicative mix of local service requests.

Multi bank model using H2H connectivity works well within the domestic environments in keeping the connectivity costs low. Treasury banks offering this model to their corporate clients and wanting to make a compelling pricing proposition could study the SWIFT pricing for domestic boundary based messages.

Host to Host based links to a treasury bank is reasonably wide spread and can be used to expand to handle the partner bank service request transmission through the Treasury Bank. This helps to elongate the investment in the Host to Host infrastructure both for the corporate and for the bank.

2. Ease of Connectivity Alliance Lite and Alliance Lite 2 are SWIFT provided connectivity adaptors that greatly simplify SWIFT connectivity and support both online and batch based requests and do not require connectivity infrastructure. Corporates connecting to SWIFT also consider SWIFT service bureaus to take care of the complexity involved in connectivity. In case of Host to Host based multi banking, the connectivity is through installation of a light weight client side component in the corporate customer's environment.

3. File Format

A significant volume of multi bank service requests are batched and sent in the form of files to the partner bank. Similarly, statement of the account, transaction listing requires file based responses to be sent back to the corporate. Thus file format design and transformation support becomes a critical ask from a multi banking support. Banking industry is realizing that challenges around getting clients to adopt a standardized format which ISO 20022 XML is fast becoming a global issue. Measure of message/file format compliance in the corporate community adoption is evident in the SEPA zone. This being the case, the ability to receive file formats that a corporate is comfortable with is an invaluable feature, irrespective of the approach that is chosen. The host to host model requires the Treasury bank to be able to

receive the files in client preferred format as well as transmit it in the partner preferred format requiring a two step conversion process.

4. Request Aggregation

Another aspect of the host to host based multi banking model, and which also impacts the cost, is the ability to aggregate requests directed to multiple partner banks into a single consolidated file. This requires the Treasury Bank to be able to:

- Detect if there are multiple destination banks in the file
- File debulking
- Regroup the randomly scattered records using partner bank identifier
- Create separate child files for each partner bank
- Transmit the child files to the partner banks
- Receive response back from each partner bank
- Aggregate responses into a single response file that corresponds to the original request

5. Content Agnostic

A corporate expects to send and receive responses to all types of service requests to its partner banks via this Treasury Bank sponsored bridge. Below is a sample list:

- Intraday balance position from partner bank
- End of day balance position from partner bank
- ACK/NACK from partner bank
- Payment status reports from partner bank
- Account receivables file from corporate to partner bank
- Virtual card account issuance request from corporate to partner bank
- Truncated check deposit and image data
- Trade finance requests – Documentary credits related life cycle based requests, collection bills etc

The Host to Host based model usually supports all these different request types and therefore gets an uptick on this criterion.

Conclusion:

Corporates have long been challenged to manage their processes effectively when operating with multiple banks. A treasury bank has the power to unlock the real value of a corporate's cash management for which the bank must continuously innovate. Low cost full featured multi-banking support using host to host connectivity framework offers a compelling case which will continue to prevail for some time to come.