

Prof. Dr. Desmond McForan,
SOUTH-WESTERN UNIVERSITY "NEOFIT RILSKI", BLAGOEVGRAD

MEMBER ADMINISTERED-CLOSED USER GROUPS: THE FUTURE OF THE BANKING – BUSINESS RELATIONSHIP

Abstract: The continuing globalization of many different aspects of international banking, has led to an increase in the application of tailored technology within the international banking system. This paper discusses one emerging new adaptation and development which is thoroughly altering the traditional links between business and its relationship with the international banking system.

Key Words: "closed user groups", SWIFT, SWIFTNet, FX, FileAct, proprietary data.

The Member-Administered Closed User Group (MA-CUG), was first launched in the year 2001. Gradually, some 30 large corporations began directly using the SWIFT network for their payments, foreign exchange (FX) confirmations and reporting needs.

The MA-CUG was an attempt to marry corporate needs together with the potential of the SWIFT network. Corporations found that the combination of the FIN and FileAct systems developed by SWIFT, gave them the necessary tools in order to exchange all required information with their banks. All banks are currently using FIN with the same set of standards e.g. MT 101. The FileAct system, however, gives the additional possibility of exchanging files which are, themselves, in different formats. The problem for banks, however, is that SWIFTNet charges fees for all information sent through the MA-CUG system, because such information is regarded as "traffic". Therefore, common messages such as MT 940 and MT 300, can be exchanged relatively easily, but problems exist when customers of the bank want to exchange an MT 210 in order to announce the arrival of incoming funds. This is also the case with MT 900, MT 910 and MT 942 messages which are used to manage intra-day liquidity.

Each bank has to manage a myriad of both individual and national formats. The development of the XML standard by SWIFT, will probably alleviate this situation,

because this system was created jointly by SWIFT together with the banks themselves, corporations and vendors, and was written at the same time as the new Euro payments instruments.

Some companies are currently offering to corporations outsourcing of SWIFT connectivity and connectability. Where outsourcing of the management of the FIN system is offered, this is mainly for banks, but additionally, some companies are beginning to offer outsourcing for the management of the FileAct system to large corporations.

SWIFTNet for corporations is a revolutionary development in two very important ways:

1. It permits one secure platform for the communication between all banks and all accounts with reduced costs;
2. Corporation Treasurers can now centralize their control over all their information flows.

This could ensure the provision of a single channel of communication for all corporate banking requirements, including the areas of cash management, trade, FX and custody.

Currently, the MA-CUG, is really only a viable option for those corporations which are involved in far-reaching centralization projects. These are, invariably very large corporations. However, as the MA-CUG becomes a more popular vehicle, it will become more appropriate to the smaller

corporation. This is because, the need for heightened security, plus the increasing regulatory demands, together with audit pressures, will mean that middle to large corporations will see a connection to SWIFTNet as a move which will provide a means of underscoring these developments, while at the same time, harmonizing them all into one coherent system.

92 banks are currently offering SWIFTNet to corporations and more than 70 companies are now connected. At present, these are the large corporations, which are the same corporations showing the greatest interest in MA-CUGs e.g. *GENERAL ELECTRIC* and *TOTAL*, but more and more corporations with less than USD10 billion turnover are also now becoming involved.

Corporations are attracted to SWIFTNet for a variety of reasons:

1. Efficiency improvements, particularly in the area of working capita;
2. Regulatory pressure;
3. Fear of fraud;
4. The security of the network;
5. It offers the opportunity for the centralization of payments' functions into a payments/collections factory.

SWIFT is owned by the banks and it was created for the banks. Its governing body has now set up a Corporate Access Group (CAG) of 14 global banks, in order to study the corporate – banking space. The additional reality of having to deal with the Euro, has also meant that European corporations are viewing the SWIFTNet possibilities and potential, with much greater openness. This has had a 'domino' effect, with corporations in the USA adopting MA-CUGs in order to enhance their activities within the Euro-zone, in the advent of the Single European Payments Area (sepa).

Corporations which, initially, had the most interest in MA-CUGs, were those which had a turnover in excess of USD 1 billion per annum. In 2005, however, the

average turnover of all MA-CUG members had reduced to USD 500 million per annum. But the main draw for corporations towards MA-CUGs, is not turnover, it is to what extent that any given corporation is engaging in multi-banking activities, over a spread of geographical regions.

One of the reasons for the up-surge in MA-CUGs in 2005, has been that many transnational corporations want and need to diversify their banking relationships with smaller regional players. These they can now deal with *directly* over the SWIFTNet. Similarly, from the point of view of the banks, investment in a cross-industry standardized system such as SWIFTNet has many advantages:

1. The reduction of operational costs;
2. The reduction of risk;
3. The reduction of investment in various financial messaging platforms;
4. The provision of greater efficiency;
5. The provision of greater accountability.

And this is particularly so, in an ever-increasing regulatory environment.

Each banking relationship requires its own MA-CUG, initiated by a SWIFT-member bank. However, it is extremely easy to add new MA-CUG's, once any given corporation is connected to SWIFTNet. In fact, the time needed to do this, can be as little as 2 hours.

Once the MA-CUG is in place, a wide-range of transactions can be completed over the SWIFTNet system, such as:

1. Payment instructions – whether these are local, cross-border, financial or commercial;
2. Confirmations;
3. Securities trading;
4. The sending of balance and/or transactional information over a secure system.

However, currently, the initial costs tend to be prohibitive for smaller corporations, and the advantages of being connected to

the network tend to be long-term, rather than immediate. As the system expands, however, the initial costs will inevitably reduce, making the advantages of membership more economical for smaller corporations and enterprises. However, in considering MA-CUGs, the question of the volume of operations undertaken by any given corporation is irrelevant. The cost, for example, of having to send one person to visit one overseas bank in order to investigate one manual process, may even exceed the MA-CUG system cost. Even changing the signature at an overseas bank if an overseas staff member leaves, can be extremely disruptive and time-consuming for corporations. MA-CUG implementation annuls these problems at one stroke.

Currently, there are two possibilities for corporations to connect to the SWIFT network:

- i. via a bureau;
- or,
- ii. direct.

Bureau connectivity is one answer for the smaller firm or medium-sized corporation to enter the system. This is because the bureau can also perform the following, relatively-expensive peripheral functions for the connection:

- Anti-Money Laundering (AML) filtering;
- Resilience;
- Re-formatting of data,

to name but a few. In fact, one of the major reasons for using bureaux to connect to the system, is for the ease of data translation. This is because, proprietary data which is forwarded to a bureau, can be translated into the current FIN(SWIFT) standards or, can even be converted into a particular bank's required file format (FileAct).

Therefore, although the first wave of MA-CUGs saw large corporations joining the network with *direct* connections, the second-wave saw medium corporations joining the network via bureau connectivity. As

other influences come into play, joining corporations will become smaller and smaller.

MA-CUG's are already being widely employed in the securities business in order to offer a means of connecting fund managers with one another. In fact, most current new connections are either fund managers or securities brokers. SWIFT's FileAct solution, transmits any message file – regardless of either format or size – between corporations and banks. This can even mean sending a file to a local correspondent bank for clearing through the local Automated Clearing House (ACH). Therefore, the very existence of MA-CUG's allows banks the right to entitle corporate customers to have direct access to the SWIFT financial messaging network. However, if a corporation wishes to communicate with more than one bank, it has two alternatives:

- i. join several MA-CUG's;
- ii. use an overlay bank in order to send and receive messages from other banks.

The advantages for corporations are two-fold:

1. It permits Straight-Through Processing (STP);
2. Provides a single "gateway" to their principal cash-management bank.

This provides the corporation with the possibilities of greater control, a significant reduction in risk, as well as lower costs. Currently, 60 corporations are registered MA-CUGs, with another 80 in the process of registering. By the end of 2006, SWIFT expects the total number of MA-CUGs to exceed 350. Since more than 65% of all SWIFT messages originate from Europe (the birthplace of SWIFT), it is only to be expected that the vast majority of existing MA-CUGs are also to be found in Europe.

In France, French banks are currently using a common communication protocol called ETEBAC, for communication between their MA-CUG's. On the other hand, banks in Germany the Netherlands, Austria,

Hungary and Poland, communicate with their MA-CUGs via the "Multicash" protocol. In the UK, where there has always been a "single-bank" tradition, this means that small- and medium-sized corporate customers tend to utilize the same bank's proprietary software in order to integrate with the bank's cash management platform. This ensures that such corporate customers conduct nearly all of their transactions in this manner. The result is, that individual UK banks each have their own proprietary software for integration with their individual cash management platforms.

This situation has arisen in the UK because of two factors. Firstly, there is the mortgage-debenture structure where, under English law, a lending bank is permitted to take a legal charge over *all* of a corporate customer's fixed and floating assets. This means that banks have been discouraged from providing unsecured credit facilities or services to another bank's client. Secondly, during the 1970s there was major consolidation within the UK banking system, reducing the number of banks available for potential corporate clients. This is a unique situation, because corporate clients tend to be internationally-oriented and, therefore, maintain multiple banking relationships. This situation is reflected in the fact that taken together, both the UK and Eire have only 12% of all existing MA-CUGs. However, this also points to the fact that corporations are joining MA-CUGs precisely because they want to be freed from their dependence on one single bank.

In Europe, the catalyst for the creation of MA-CUG's has been the introduction of the Euro. This has led to the centralization and harmonization of treasury departments within corporations and has also been underscored by the introduction of the SEPA in 2008. This has meant that

"Europe has embraced widespread use of open standards for cross-border payments, in addition to national and trans-European real time gross settlement systems such as CHAPS and TARGET." (1)

Effectively, the introduction of the Euro, has heralded a time for the rationalization of both banking systems and banking relationships. This has been underpinned by the geographical proximity of the countries of the European Union (EU). It is these influences which have ensured that more than 50% of all existing MA-CUG's are to be found on mainland Europe. In fact, according to Pierre Bousselier, General Manager of *ARCALOR TREASURY*, MA-CUGs could change

"... the banking market to one where service becomes the deciding factor in choosing who to use,"(2)

ARCELOR currently participate in 16 MA-CUGs and have nine more planned.

BNP Bank is at the forefront in the banking industry with regard to the creation of MA-CUGs, and it intends to offer increasing added-value services, including added reporting functionality, because the critical situation for the corporate treasurer is, that s/he should receive information from banks which matches that information which is to be found in the company's accounting books. Currently, it is also in the process of developing personal signatures on the SWIFTNet network, and in particular with the FileAct system. The bank is also addressing the issue of controls on banking mandates.

SWIFT have begun to develop and market an incentive programme known as the "Concentrator". In this programme, the bank SWIFT member bank who wishes to act as a "concentrator" will benefit from reduced prices for its customers and, will itself be in charge of the administrative and technical aspects of the SWIFTNet solution. In fact, SWIFT expects this programme to attract up to 1,500 corporations, particularly in France, Belgium, the United Kingdom, Denmark and Spain.

In the USA, there is no industry-wide standard for "real time gross settlement" (RTGS) transactions, in either formats or communications methods. Most US banks

offer no support for ACH transactions from SWIFT. This is because a majority of European and Asian banks have been able to make local ACH payments from a standard multi-credit SWIFT MT 101, for several years now. This system is outside of the US clearing system. It is for this reason that SWIFT-based MA-CUG's are not currently an option in the USA, although there is an MA-CUG presence there.

Throughout the USA, most corporations use a unique overlay bank, which has its own proprietary electronic solution. This is because there is a lower incidence of multi-banking relationships in the USA. It also explains the lower take-up of MA-CUGs throughout the country. Only 20% of all MA-CUGs which are currently in operation, are to be found in the USA.

Multinational corporations are in the process of creating MA-CUG's, in order to provide their subsidiaries with a common tool by which they can send their payment instructions in the same way, to each of their banks. The oil giant *TOTAL* is involved in 10 MA-CUGs but is expected to increase its involvement to participate in up to 25 by the end of 2005. SWIFTNet offers one system for communication with all banks. For *TOTAL*, this means for example, that all its exploration and production subsidiaries, wherever they are in the world, will have a uniform connection to the international banking structure.

Before the creation of MA-CUGs, corporations which were designated as being non-bank financial institutions (NBFIs), had no access to the SWIFTNet system. Because the system was created specifically and exclusively for the banks by the banks,

access to NBFIs was impossible. It is the creation of MA-CUGs which has made such access a reality. The advantages for such firms are, that through MA-CUGs, they have much greater control over their payments, as well as over their investigations. Similarly, such companies see an extension of same-day Euro-payment deadlines, a reduction in transaction costs, plus, a substantial increase in the general delivery speed of messages.

SHELL, another oil giant, uses 4 MA-CUGs, mainly for treasury payments (based on the MT 101 message) and bank statements. However, it also uses them for its FX messages.

The future in messaging, is probably the use of digital identifiers, delivered by independent (non-SWIFT) providers, enabling 'e-invoicing', payment processing, wholesale financial markets (both FX markets and traditional money-markets) and, the billing of bank services. The very real development of MA-CUGs has forced large swathes of the banking industry into adopting a standardization mode of operations.

Similarly, SWIFTNet connectivity, will not be the only option available to corporations in the future. The real potential is the movement towards open standards and open IP (internet protocol) platforms, and corporations will probably end up using both these types of system at one and the same time. However, it is very unlikely that SWIFTNet will be out-played by these other systems, simply because it is a dedicated financial payments and messaging network which has the highest-security integrated into the system.

REFERENCES:

1. Hughes and Campbell. *BNP-gt.news Special Report: SWIFTNet and MA-CUG's* (September 2005).
2. *Ibid.*