

WHITE PAPER

Choosing a Corporate-to-Bank Integration Model

Corporate treasurers are creating state-of-the-art Treasury organizations to improve the speed and quality of financial decisions while reducing operational cost through shared services. The key challenge is choosing the best methods to integrate the systems that collectively produce insights treasurers need to meet corporate objectives—Treasury Management Systems, ERP platforms and banking partner systems. Use these four corporate-to-bank integration models to help guide your treasury transformation journey.



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Treasury 4.0 is the application and implications of the Fourth industrial revolution (Industry 4.0) to create a state-of-the-art Treasury organization to support strategic business objectives. However, CFOs are challenging their treasurers to transform treasury operations while reducing costs. Recent trends are providing direction on how best to achieve this challenging task.

Organizations continue to centralize finance activities into shared services. Centralization necessitates increased integration with company-wide working capital and supply chain management activities in Treasury. More often than not, the Treasury team uses a comprehensive Treasury Management System (TMS) solution to oversee working capital, intercompany funding/lending and risk management while the Accounts Payables and Receivables teams use an Enterprise Resource Planning (ERP) platform for processes involving procure-to-pay, inventory management, collecting receivables and meeting payment obligations. Typically, the TMS and ERP are provided by different vendors and thus require integration with each other as well as to external banking partners.

With different technologies being used for Treasury and non-Treasury functions, the challenge is to find the best methods to integrate disparate and complex corporate systems with banking partners. In this analysis, OpenText examines four traditional models that Corporate Treasury can use to integrate with their banks, reviewing the pros and cons of each.

Leveling the Playing Field: Corporate-to-Bank Integration

Before we examine the various models, it's important to set them within the appropriate strategic context. Corporate-to-bank integration is about more than just connecting with banks. It's about Treasury's ability to function as a decision-making unit within the larger organization and to better anticipate changes in the market and in the business, thereby supporting the objectives of the company as a whole for critical tasks like:

- Global cash position
- Cash forecasting
- Liquidity and financial risk management
- Understanding the cashflow drivers of a business
- Tax and Insurance implications

Good Treasury decisions are based on the analysis of relevant data presented in appropriate systems and tools. Much, if not most, of this data is sourced from Treasury's banking partners, which needs to be integrated with those systems.

Corporate-to-bank integration, then, is really a subset of the organization's overall Business-to-Business (B2B) ecosystem. B2B integration is inherently complex, costly and continuous. Because Treasury competes with other internal functional areas for resource allocation and prioritization, it needs to regularly address these questions:

- Is there a better way?
- Can newer technologies and capabilities be used to automate manual activities?
- Can Treasury integration requirements be met with cloud-based service offerings?
- What standards can be applied across multiple banking partners?
- How can I reduce my total cost of ownership (TCO) and improve our productivity and efficiency?

- How can we add more value to the business?

With this context in place, we can now examine the four models for integrating with multiple banking partners.

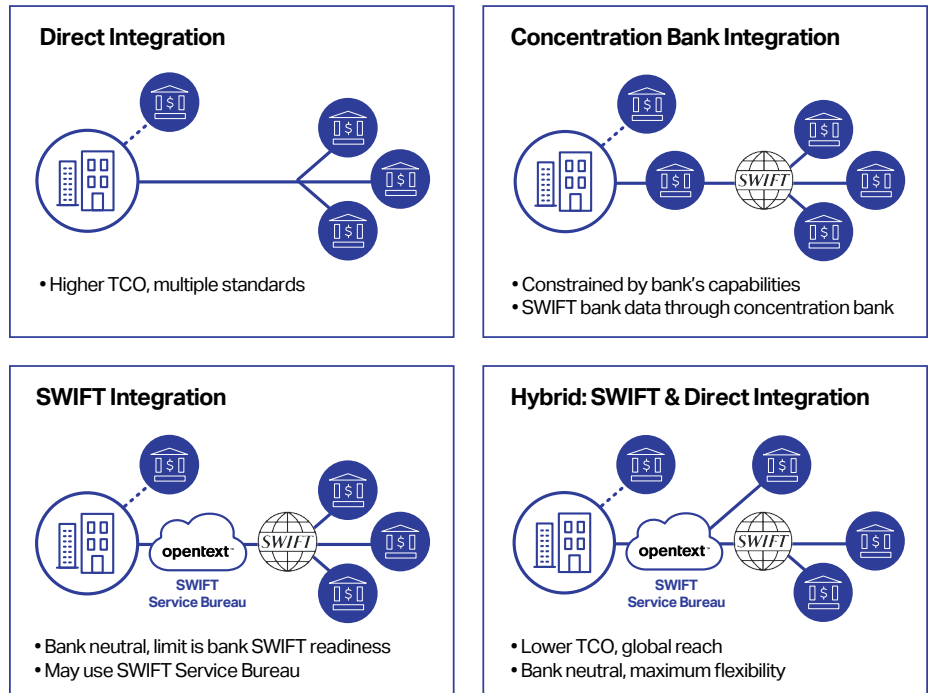


Figure 1 – Multiple Bank Integration Models

Direct Integration

The direct integration model enables Treasury to take advantage of a distinct means of exchanging data directly with each of its partner banks. For some banks, this means a host-to-host or machine-to-machine information exchange using an agreed upon data communications protocol, such as AS2 or HTTPS. For others, an online or mobile bank cash management application may be used that allows file upload and download. Along with differing means of exchanging data, the direct integration model often includes a variety of data formats which adds the need for data translation. For statement reporting, BAI2 may be received from one bank while MT940s are received from another. One bank may accept an IDoc and another EDIFACT.

Most effective: When there are relatively few banking partners.

Advantages	Challenges
<ul style="list-style-type: none"> • Treasury instructions processed seamlessly as data is exchanged with banking partners • An effective and efficient model 	<ul style="list-style-type: none"> • Cost and dedicated resources • Continuous monitoring of information security and encryption of their data, as well as changes in formats • Higher total cost of ownership if scale increases



Concentration Bank Integration

A second option is the concentration bank model which uses a single, lead bank to concentrate data flows from secondary banks into Treasury. The concentration bank forwards payment instructions and collects status information and balance reporting data from the company’s “other” banks and delivers this data to the company. The integration role is shifted to the concentration bank.

There is typically a significant implementation lead time to implement this model. The concentration bank must negotiate secure interfaces—often proprietary in nature—and support arrangements with each of the company’s other banks on behalf of the client. In addition, the concentration bank may need to prioritize and build new bank interfaces.

Most effective: When the corporate has a solid long-term relationship with a concentration bank.

Advantages	Challenges
<ul style="list-style-type: none"> • Uses a single channel for corporate connectivity • Lower up-front development costs 	<ul style="list-style-type: none"> • Treasury is fully dependent on a single bank for routing and distribution • Integration challenges (both technologically and operationally) between the concentration and non-concentration banks • Lower development costs may not always result in overall cost savings as the connectivity fees of the non-concentration banks are replaced with fees from the concentration bank

SWIFT Integration

With this model, Treasury employs the SWIFT network to exchange messages and data with its banking partners, using standard formats for those messages. Integration becomes less about individual bank interactions and more about data integration to internal financial systems. The SWIFT integration model shifts the cloud to the SWIFT Service Bureau. SWIFT regularly reviews and adapts the requirements for the SWIFT Service Bureau to ensure adherence to SWIFT standards.

A SWIFT service bureau focuses on providing a secure, reliable and scalable network for the smooth movement of messages. Through various messaging hubs, software and network connections, SWIFT service bureaus enable its clients to send and receive transactional messages. Nearly 50% of SWIFT traffic is for payment-based messages, the rest is for security and other Treasury transactions.

Advantages	Challenges
<ul style="list-style-type: none"> • SWIFT standardization offers cost and efficiency gains • SWIFT Service Bureau simplifies the daunting task of SWIFT connectivity for in-house IT teams 	<ul style="list-style-type: none"> • SWIFT does not yet have a message format or standard for every financial transaction, e.g. US ACH or UK BACS do not have a corresponding SWIFT MT or MX message format • Need alignment with all banking partners to leverage SWIFT as a channel for Corporate Treasury

↗ The Interpublic Group of Companies, Inc. (IPG) Success Story

↗ Business Network Financial Services

↗ SWIFT Service Bureau for Corporate Treasury

↗ Transaction Banking

Most effective: When Treasury wants to use the SWIFT network to exchange standard messages and data with its banking partners.

Hybrid—SWIFT and Direct Integration

This model takes the best of the Direct Integration and SWIFT models by using each where most appropriate. Like the other models, the hybrid model retains the use of human interaction by Treasury with a bank's web portal and/or online banking application. It also includes point-to-point data connectivity between systems such as a Treasury Workstation (TWS) or TMS and the information reporting or payment initiation solutions of bank partners. With the choice of Direct integration as well as SWIFT connectivity, the hybrid option combines all the benefits and efficiencies of those two models.

Most effective: When Treasury needs a flexible and scalable hybrid integration approach to appease a multitude of banking partners

Advantages

- Offers all the cost, efficiency and standardization benefits from SWIFT
- Hybrid model provides connectivity options to the various banking partners as to how they want to connect
- Maximum flexibility and scale

Challenges

- Dedicated IT resources (in-house or service provider) are needed to implement, monitor, support and perform necessary maintenance and upgrades and to resolve issues.

Conclusion

The rapidly changing treasury technology market has created a range of integration options for Corporate Treasury to leverage. Because every company is at a different stage of its growth progression or centralization of its Treasury function, no specific model may emerge as an absolute best. A viable option to resolve your integration challenges is by leveraging the potential of both cloud computing service providers and the expertise of your financial service partners.

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