SWIFT – Benefits and Considerations for Corporates

John Cowart, CTP
Corporate Cash Management
Deutsche Bank New York

Peter Schmitz
Global Treasury Product Management
Dell

Stephen Gehring
Regional Manager
SWIFT Pan - Americas
Corporate Treasury
Globalization

John Cowart, CTP
Global Transaction Banking
Introduction: Deutsche Bank

Founded 1870
Employees 2009 81,929
Branches Globally 1,995
Countries with DB Presence 72
Clearing
Annual Payments Processed HVP: 74M; ACH: 1.34B
Total Assets Eur 1,926 billion
Shareholder Equity Eur 41.5 billion
Net Revenues Eur 7.2 billion
Net Income Eur 1.2 billion
Rating S&P: A+; Moody’s: Aa3;
Fitch IBCA, London: AA-
1. Globalization – Regional Trends
2. Challenges – Corporations and Banks
3. Global Structural Trends
4. Centralized Treasury - Pain Points & Remedy
1. Globalization – Regional Trends
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Regional Payments Dynamics

North America

- US – 109.6 Billion non-cash transactions in 2008*
- Electronic payments now outnumber checks in terms of volume
  - 2008 Payment Usage – by type**
    - Check: 25.5%; Debit Cards: 37.4%; Credit Card: 23.7%; ACH: 23.6%; Wire: 1.4%
- Growth rates in electronic payments likely to continue considering the advancements made in ERP systems
  - 2000 to 2008 Growth Rates - ACH: +280%; Wire: +180%; Check: (39%)
- Over 23 billion ACH transactions in 2008 within the US
- International ACH Developments
  - Cross-Regional ACH expansion

*BCG – Global Payments 2009
** Federal Reserve Payments Study
Regional Payments Dynamics

Asia

• 45.6 Billion non-cash transactions in 2008*
• Old Tigers (Hong Kong, South Korea, and Singapore)
  – 14.8 Billion non-cash transactions in 2008
• New Tigers (Indonesia, Malaysia, Philippines, Thailand)
  – 7.3 Billion non-cash transactions in 2008
• China and India - 11 Billion non-cash transactions in 2008
  – 2008 to 2009 Volume Growth Rates *
    • China: +11% CAGR; India: +17% CAGR
• Paper-based countries (China, India, Sri Lanka, Indonesia) are transforming clearing processes to electronic
• Increasing usage of ACH based transactions (including direct debits)

*BCG – Global Payments 2009
Regional Payments Dynamics

Europe

- EU 15 – 88.1 Billion non-cash transactions in 2008*
  - Projected to grow to 161.1 by 2016
  - 8% CAGR from 2008 to 2016
- Electronic payments dominate EU 15 (2003 cashless volume)
  - 32.8% cards, 28.1% credit transfers, 25.8% direct debits, 13% checks
- SEPA Payments live in 2008 – cross boarder payments
- SEPA Direct Debits live in Q4 ’09 – cross boarder direct debits
- PSD Live in Q4 ’09 – harmonization of electronic payments

*BCG – Global Payments 2009
1. Globalization – Regional Trends
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Globalization – Corporate Client Challenges

- Globalization is creating opportunities and squeezing margins
  - Driving need for low cost non-cash payment and collection products
- Payment options provide competitive advantage
  - Increase speed, convenience, and security
- Cost reduction and regulatory pressure (e.g., SOX) driving need to automate and increase global visibility of cash flows
  - Need for real-time information and reporting (ERP and Treasury systems)
- Expedited availability of incoming funds - globally
- Improved fraud control of payments
- Standard handling of remittance information (auto-reconciliation)
- Remittance/Reference data survivability
- Payment tracking (visibility into clearing and bank-to-bank systems)
Globalization – The Bank View / Challenges

• Mandatory investment spend is growing for both ACH and HVP clearing businesses
  – Credit and compliance (KYC, embargo filtering/reporting, and AML)
  – Market Demand (Extended Remittance / IAT / Same Day ACH)
  – Implementation of new clients and existing client development
• Capability / Value driven investment spend requirements are growing as well
• Transaction volume growth and pricing pressure (reduced margins)
  – Pricing increasingly regulated or commoditized
• Convergence of payment instruments, however pricing discipline remains
  – Migration from HVP to ACH yet ongoing regulation changes requiring investments
  – Value in real-time settlement, conversion/transliteration, and service levels
• Competitive nature of the business requires scale and low cost operation
  – Continued focus on standardization and interoperability
• High fixed costs for service delivery as volumes shift from one platform to another
• European harmonization driving consolidation and rationalization decisions
<table>
<thead>
<tr>
<th></th>
<th>Title</th>
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<tbody>
<tr>
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</table>
Strategic Opportunity – Current Corporate Market Trends

**Drivers**
- Cost Reductions
- Risks & Control

**Trends**
- Centralization
- Automation
- Standardization

**Results**
- Centralized Treasuries
- SSC / Payment factories
- In-house Banks
- Single ERP/TMS
- Enterprise Wide Visibility
- Seamless IT interfaces
- Dematerialization of paper
- Straight-Through-Processing
- SWIFT for corporates
- XML formats
- Fraud Deterrence (e.g. Positive Pay)
Cash Management Structures

- Collection factories via Global Direct Debit / Collections « on behalf of »
- Shared Service Centers
- Payment factories / Payments « on behalf of »
- Regional / global liquidity centralization (In-house Banks)
- Local liquidity centralization
- Decentralized Cash Management by subsidiaries / branches

Level of centralization

Cost reduction

Risk and control

Time

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Typical Centralized Treasury Structure

Incorporating Automation and Standardization

**Subsidiary 1**
- Corporate Wide ERP System
- ERP Data
- **Payment Factory**
  - Executed Payments File
  - Accts Payables Files
  - Accounts Pay Management
  - Payment Aggregation
  - Reconciliation
  - Payment Repairs
  - Cash Forecasting

**Subsidiary 2**
- Corporate Treasury
- Collected Payments File
- Accts Receivables Files
- Collections Factory
  - Invoices
  - Collections Reconciliation
  - Exception Processing
  - Invoicing

**Subsidiary 3**
- Local Clearing House
- Customer
- Invoices
- Reporting
- Exception Processing

**Subsidiary X**
- Local Clearing House
- Exception & Investigation
- Rejected, Inquiries
- Credit File / DDA Reporting
- Payments
- Outbound High / Low Value Payments

**Deutsche Bank**
- Supplier/ Vendor
- Remittance File
- Incoming Credits

**Local Clearing House Country A**
- Outbound High / Low Value Payments

**Local Clearing House Country B**
- Local Clearing House

**Local Clearing House Country C**
- Local Clearing House

**Local Clearing House Country D**
- Local Clearing House
Typical Centralized Treasury Structure

Incorporating Automation and Standardization

Subsidiary 1
- Accts Payables Files
- Executed Payments File

Payment Factory
- Accounts Pay Mgmt
- Payment Aggregation
- Reconciliation
- Payment Repairs
- Cash Forecasting

Subsidiary 2
- Accounts Pay Mgmt
- Payment Aggregation
- Reconciliation
- Payment Repairs
- Cash Forecasting

Subsidiary 3
- Accts Receivables Files
- Collected Payments File

Collections Factory
- Accounts Rec Mgmt
- Regional lockbox aggregation
- Collections Reconciliation
- Exception Processing
- Invoicing

Subsidiary X
- ERP Data

Corporate Treasury

Pay On Behalf Of

Deutsche Bank
- Remittance File
- Exception & Investigation
- Reverts, Inquiries
- Credit File / DDA Reporting
- Invoices
- Executed Payments File

Supplier/ Vendor
- Outbound High / Low Value Payments
- Incoming Credits
- Local Clearing House Country A
- Local Clearing House Country B
- Local Clearing House Country C
- Local Clearing House Country D

Customer
- Invoicing

Local Clearing House

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# Globalization – Centralized Treasury Structure

## Identifying the Pain Points

<table>
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<th>Pain Point</th>
<th>Centralization Remedy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cash Forecasting and Liquidity Management</td>
<td>• Provides a consolidated view of all cash positions on a global basis – cash pooling</td>
</tr>
<tr>
<td>• Minimizing Working Capital Expenditures</td>
<td>• Provides increased efficiency around order-to-cash and purchase-to-pay cycle processes</td>
</tr>
<tr>
<td>• Issues with Financial Reporting</td>
<td>• Empowers the treasury department with full transparency in terms of reporting capabilities</td>
</tr>
<tr>
<td>• Transparency Issues with Financial Risk and Compliance</td>
<td>• FX Hedging simplification and improved interest rate arbitrage capabilities</td>
</tr>
<tr>
<td>• Inconsistent Internal Policies and Procedures</td>
<td>• Standardization of internal policies afford consistent treatment of vendors and introduces scalability to the treasury operations function</td>
</tr>
<tr>
<td>• Internal Lending</td>
<td>• Allows subsidiaries to manage short term lending needs</td>
</tr>
</tbody>
</table>
Global Treasury Banking

Peter Schmitz
Project Overview
Dell Inc.
## Changing Role of Treasury Systems

*There are numerous drivers contributing to this evolution of the corporate treasury function…*

<table>
<thead>
<tr>
<th>Key Drivers</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased globalization and competition</td>
<td>Treasury processes are becoming increasingly complex</td>
</tr>
<tr>
<td></td>
<td>The ability to optimize cash flows and liquidity while simultaneously managing risk is becoming a vital competitive differentiator</td>
</tr>
<tr>
<td>Need for greater transparency and control over global cash</td>
<td>Corporations are increasingly looking for more accurate, real-time visibility into cash balances worldwide</td>
</tr>
<tr>
<td>Resource constraints</td>
<td>Treasurers are seeking to do more with less by automating non-value added tasks</td>
</tr>
<tr>
<td>Increased regulatory requirements and accountability (e.g. Sarbanes-Oxley, FAS 133) and more intense investor scrutiny</td>
<td>Greater focus on accuracy of financial information, process documentation, controls and risk management</td>
</tr>
<tr>
<td></td>
<td>Treasurers are increasingly looking for the ability to proactively ensure compliance</td>
</tr>
<tr>
<td>Corporate systems integration</td>
<td>Corporations are adopting ERP systems for their general ledger and best practice is for treasury to integrate directly</td>
</tr>
<tr>
<td>Centralization</td>
<td>Corporations are looking to consolidate their banking relationships and to centralize their treasury operations – therefore reducing costs, complexity and improving controls</td>
</tr>
</tbody>
</table>
Changing Role of Treasury Systems

… however, there are barriers that Corporate Treasury is facing in its journey to value added business partner.

<table>
<thead>
<tr>
<th>Key Challenges</th>
<th>Consequence</th>
<th>Impact</th>
</tr>
</thead>
</table>
| Treasury is decentralized and in multiple locations | • Multiple banks and bank accounts used in different locations  
• No systematic approach to data collection and co-ordination | • High bank fees  
• Increased time spent on bank relationships |
| Non-Standardized Processes          | • Organizations are still reliant on spreadsheet solutions for data capturing and manipulation (e.g. Daily activities such as bank reconciliation and exception processing)  
• Processes are not standardized across business units which use their own “tools” to handle data | • Lack of group cash transparency  
• Efforts are duplicated  
• Weak controls |
| Poor Systems Integration            | • Financial data is held in multiple systems, or is not available in a timely fashion – processes such as cash forecasting become difficult and inaccurate  
• Financial risk is not properly understood, group wide liquidity is not controlled or accessible | • No overall picture & ineffective position management  
• Lack of timely and accurate forecasting  
• Ineffective risk management |
| Under Utilization of Technology     | • Real-time cash throughout the organizations’ multiple business units is not available  
• Inaccurate tracking and flagging of maturities and payment schedules; penalty and missed maturity costs are not eliminated  
• Real-time performance measurement and risk management throughout multiple business units (e.g. “what if”, Value at Risk) is not available. Costs are higher and hedging is not as effective | • Idle cash, unnecessary borrowings, inefficient transaction flows  
• Missed opportunities (e.g. FX and borrowing spreads) |
Treasury Management System

Global, scalable, integrated, controls

Objective
Globally implement a total front, middle, and back office Treasury management system enabling real-time information and straight through processing from point of deal capture to settlements, confirmations and accounting

Value Analysis:
• Scalable global coordination of cash and risk management transactions
• Better internal controls and communication
• Faster accounting close; Smoother intercompany and FX settlement process
• Interface to global banking systems
• More efficient cash positioning translating to better predictability of cash flows
• Standardization and automation of global processes
• Scalable to support global business growth both in terms of volume & scope
# Treasury Management Systems Best Practices

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Common</th>
<th>Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of automation</td>
<td>▪ Treasuries rely heavily on spreadsheets</td>
<td>▪ Treasury has a structured system</td>
<td>▪ A fully integrated treasury management information system exists</td>
</tr>
<tr>
<td></td>
<td>▪ Problems exist in the areas of efficiency and control related to data integrity, system reliability and system access</td>
<td>▪ Treasury is partially automated</td>
<td>▪ Straight Through Processing (STP). Treasury systems are fully automated, reducing time spent on repetitive processes</td>
</tr>
<tr>
<td>Integration of risk systems</td>
<td>▪ Stand alone risk management function</td>
<td>▪ Risk management systems are partially integrated with other systems for data gathering</td>
<td>▪ Risk management systems fully integrated with other systems</td>
</tr>
<tr>
<td></td>
<td>▪ Risk management is manually based and spreadsheet reliant</td>
<td></td>
<td>▪ Full audit trail for risk management</td>
</tr>
<tr>
<td>Deal capture &amp; settlement</td>
<td>▪ Fragmented deal management system</td>
<td>▪ End-to-End deal management system (from trade capture to settlement)</td>
<td>▪ End-to-End deal management system</td>
</tr>
<tr>
<td></td>
<td>▪ Inefficient market information</td>
<td></td>
<td>▪ Real-time prices and market information</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Use of ‘what-if’ scenario tools</td>
</tr>
</tbody>
</table>
High Level Overview of Treasury Banking

- Treasury WorkStation
  - Treasury Sub-ledger and Cash Management
- Auto Account Reconciliations
  - Rules-based auto-matching
- ERP
  - Dell Ledger
- FX-Tool
  - FX Analytics
- CBDS
  - Single point of connectivity for Dell Bank data
- SWIFTNet
  - Highly secure financial messaging

*Blue represents Accounting $s and Green represents Actual $s*
The goal is to select a treasury management system via a request for proposal that is based on critical functionality and technical needs.

**Approach & Planning**

- **Request for proposal redaction**
- **Sending RFP**
- **Evaluation & Selection**
  - Editor's answers evaluation
  - Test cases evaluation
  - Negotiation & Selection
  - Implementation planning

**Key**

- Decision points
- Output
# Treasury Management System

## Activity details for RFP Preparation Themes

<table>
<thead>
<tr>
<th>Financial Operations</th>
<th>Cash Management</th>
<th>Bank Interfaces</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transactions:</strong></td>
<td><strong>Affiliates' Cash Management</strong></td>
<td><strong>Flows management (from affiliates to the banks)</strong></td>
</tr>
<tr>
<td>- Dealt financial operations</td>
<td>- Daily cash flow</td>
<td><strong>Validation workflows</strong></td>
</tr>
<tr>
<td>- Settlements, calculation rules...</td>
<td>- Bank reconciliation</td>
<td><strong>Data exchanged with the banks (reporting, notifications, alerts...)</strong></td>
</tr>
<tr>
<td>- Accounting (IFRS, GAAP)</td>
<td>- Workflows (FX request...)</td>
<td><strong>Static data management</strong></td>
</tr>
<tr>
<td>- Efficiency tests</td>
<td>- Conditions</td>
<td></td>
</tr>
<tr>
<td>- Workflows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interfaces</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td><strong>Central Cash Management</strong></td>
<td></td>
</tr>
<tr>
<td>- Reporting (Valuation / IAS...)</td>
<td>- Daily cash position</td>
<td></td>
</tr>
<tr>
<td>- Simulation (VAR, VAN, Pricing)</td>
<td>- Current account management</td>
<td></td>
</tr>
<tr>
<td>- Risk Analysis (scenarios, Montecarlo, historic...)</td>
<td>- Bank reconciliation</td>
<td></td>
</tr>
<tr>
<td>- Credit risk limit</td>
<td>- Operations management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Workflows (payments on behalf of...)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Reporting</td>
<td></td>
</tr>
</tbody>
</table>
Benefits / Drivers of Centralization

- Eliminate Redundant Processes / Operations
- Reduction in Bank Fees
- Simplified Uniform Controls
- Improved Straight Through Processing
- “Single Source of Truth” for All Statements and Payments
- Research Repository Historical Activity
- Simplification of SOX controls
- Simplify IT processes
- Data Stewardship
SWIFT for Corporates

Stephen Gehring
Regional Manager
November 2010
Agenda

- Corporates on SWIFT – Adoption
- Breakdown by industry sector
- The SWIFT ecosystem for corporates
- Project Plan: Definition and Planning
- Customer feedback
- What’s new? Extending the value proposition
- Q&A
Corporates on SWIFT: Adoption

# registered corporate entities

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>108</td>
<td>181</td>
<td>282</td>
<td>402</td>
<td>565</td>
</tr>
</tbody>
</table>

Geographical split

- Asia Pacific: 11%
- Americas: 20%
- EMEA: 69%

FIN growth: 19%
FileAct growth: 42%
## Corporates on SWIFT: By industry sector*

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Distinctive Corporates</th>
<th>Additional Corporate Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Financial Services</td>
<td>135</td>
<td>148</td>
</tr>
<tr>
<td>Automobile and Parts</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Software and Computer Services</td>
<td>27</td>
<td>6</td>
</tr>
<tr>
<td>Oil &amp; Gas Producers</td>
<td>26</td>
<td>6</td>
</tr>
<tr>
<td>Support Services</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>Food Producers</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Pharmaceuticals &amp; Biotechnology</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>General Industrials</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Electronic and Electrical Equipment</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Others</td>
<td>219</td>
<td>11</td>
</tr>
</tbody>
</table>

(*) Using the Industry Classification Benchmark (ICB)

31 other industry sectors
The SWIFT ecosystem for corporates

- **Integration**: provided by partners (middleware also provided by SWIFT)
- **Connectivity**: provided by SWIFT, banks and service bureau
- **Messaging**: provided by SWIFT
- **Financial services**: provided by banks

Business standards

SWIFT and standards bodies

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Define project scope

Which applications to connect to SWIFT?

How to connect?

What formats & messaging to use?

Which banks to connect to?

FIN for payments (MT101), statements (MT940/2) and FX confirmations (MT3xx)

Treasury Workstation

ERP(s)

Payment factory/middleware

SWIFTNet connectivity

SWIFTNet

FileAct as file transfer to transport any format: domestic, ISO 20022, ACH, BAI, …
Customer feedback

“... the only way to make our vision – reach all our banks via one connection – a reality”
Group Treasury, DuPont

“... run a central platform with a single standard for every country and every bank”
VP Finance & Treasury, T-Mobile International

“We implemented SWIFT to ...”

“... reach all our banks directly, with the highest security”
Head of Treasury Control and Reporting, Novartis

“... build one central ‘source of truth’ for banking data”
Group Manager, Treasury, Microsoft
What’s new?
Extending the value proposition

- Trade for Corporates
- Electronic bank account management
- B2C Account reporting
Thank you

For more information please contact:

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Regional Manager
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415 279 6041 cell
stephen.gehring@swift.com
Questions?
Planning the project

- Define scope
  - Financial services
  - Banks
  - Applications
  - Formats and messaging
  - Type of connection

- Contact banks
  - Contact relationship manager or see swift.com
  - Agree service modalities. Contract template available

- Select software & Connectivity
  - Contact SWIFT
  - See SWIFT ready partners on swift.com

- Pilot
  - Join SWIFT
  - Install software, connect to SWIFT
  - Run test pilot

- Roll out
  - Per bank
    - Kick-off meeting
    - Setup and test live environment
    - Go live

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Contact Information

Thank You!

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