

# Sterling Commerce



## Creating Communities: Why the Financial Sector is Motivated to Change

As new financial sector communities emerge, it can be interesting and informative to analyze the detail of their evolution in comparison to the expectations and forecasts that surrounded their launch.

Historically, the evolution of financial communities has been very slow, with material changes and enhancements becoming visible only following decades of operation. As with all commercial activity, however, things have accelerated recently and communities formed only a few years ago have already progressed through a sequence of changes, some of which were planned and some of which occurred in reaction to market conditions. More often than not, and for various reasons, the original roll-out designs of new finance sector initiatives are modified as the community develops.

Everyone can cite illustrations of 'history repeating itself,' and, if patterns can be detected, then it is easier to forecast future trends with greater confidence.

Changes in the format or operation of a given finance sector community are motivated by shifts in one or more of the factors that motivated its formation, such as:

- New statutory or regulatory controls/ requirements
- Emerging/new markets
- Process cost reduction
- Business development opportunity (new revenue)
- Technology innovation

Some factors are more complex — for example, stakeholder investment and critical mass. A new community will generally consolidate around an initiative taken by one or more principal interested parties or an industry association, and will become operational only if it attracts 'buy in' (plus any mandatory investment) from a number of participants, sufficient to ensure commercial viability. All participants will need to see an adequate and continuing return on their investment, which may be represented as any combination of increased revenue, reduced costs, reduced risk and/or improved customer service. If critical mass is not achieved, then either the community will fold, or it will stagnate into a small regional co-operative of marginal value.

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### **The EBA STEP2 Community**

The EBA STEP2 community is a good example of a new community formed in response to the effects of regulatory change. Within the Euro currency zone, there is poor justification for charging more for low value cross-border payments than for similar domestic payments, and the regulator has determined that charges will be levelled. The banks' existing cross-border settlement processes did incur higher costs, which they were no longer allowed to pass on to their customers, so an alternative low-cost clearing system was required — EBA STEP2. So far, so good. A successful innovation with plans for future expansion.

The roll-out of EBA STEP2 membership, however, has been uneven. Organizations have taken different strategic decisions. To date, 87 have joined as direct members. Some 1,350 are indirect members, which means that they have entered into an agreement with a direct member bank to host their low value Euro cross-border payments. The indirect members, presumably, have not invested in the technology required to access STEP2. However, connection solutions are available and in the overall spectrum of sector technology, represent a very modest investment.

Obviously there's a savings in by-passing even modest costs of systems integration, but the host banks are unlikely to be accommodating the indirect participants for no reward, so the latter are incurring a direct or indirect hosting cost. Also, since these two categories do not account for all of the banks that have low value Euro payments to clear, a third category of banks is, presumably, maintaining its 'traditional' cross-border correspondent settlement services and absorbing the cost of the mandatory reduction in customer pricing.

So the EBA STEP2 community — formed as a consequence of regulation — has a profile that would have been difficult to predict when the new clearing solution was planned. Key stakeholders have made significant investment with the intention of driving out a hosting business both to secure critical mass and to generate new revenue.

For others, justification for direct membership is found within the volume of Euro payments generated by their own customer-base. Indirect participants and non-participants calculate that the value to them of direct connection to STEP2 is marginal or negative, or are postponing their decision to accommodate the impact or further regulation in Euro payments, and/or the inclusion in STEP2 of additional payment instruments.

### **Multi-Enterprise Collaboration in the Finance Sector**

New communities are also formed as a result of commercial rather than regulatory drivers; and at the present time, analysis of all these emerging communities can be of greater strategic interest than analysis of evolution inside the enterprise. Multi-enterprise collaboration in the finance sector has always been important, but now it's under scrutiny. The main reason for the closer focus is that sector organizations are particularly looking for cost efficiency and new business opportunity outside the four walls of their individual enterprises. The challenges of internal cost reduction and enhancement of internal automated processing have been dominant for the last decade, and remain important; but externally, the same challenges now present some great opportunities.

From the banking viewpoint, the enhancement of 'edge-to-edge' business activity has several dimensions. The interaction between banks and their corporate customers is, on balance, a focus area for business retention and growth, and banks are looking to develop and lock-in corporate communities. The challenges for these banks center around finding ways to:

- Provide distinctive front office service
- Package the service portfolio for the corporate treasury
- Provide the large corporate with multi-national, multi-currency liquidity reporting
- Anticipate credit line requirements and authorize good business instantly
- Provide real-time, on-line connectivity between the corporate treasurer and the corporate sales trader in the dealing room

Edge-to-edge obviously happens out of the bank's back office as well. On balance this is a focus area for cost control and cost reduction. [How many payment systems are being maintained? And why so many? How many correspondent accounting relationships are being maintained?] Here, the question 'why so many?' is particularly pertinent across Europe and the SEPA zone, where many traditional cross-border inter-bank accounting relationships have probably become redundant, at least for their original purpose of facilitating FX settlements. How many network connections are being maintained, and which will process selected categories of data traffic most efficiently, securely and cost-effectively?

Additional communities evolve around specialist services, as with banks that provide securities custodial services to a number of client banks, and those that provide corporate cash management services, necessitating consolidation of real-time accounting data from a number of third-party banks.

Interest in community development reaches the boards of multinationals. Global corporations operate in multiple geographical locations and have huge volumes of data to move — purchase orders, invoices, accounts receivable and payable, payroll, pensions, dividends, FX and securities orders, cash management transfers and trade services transactions to name but a few. And generally these corporations are multi-banked. They run communities of financial services providers, often using different providers for different specialist services, and always comparing service levels and prices across the community in order to secure the most favorable business opportunities.

### **The Emergence of New Global Communities — Risks and Opportunities**

To secure a wide range of cost and operational benefits, multi-enterprise finance sector communities, small and large, are erupting everywhere at a faster pace than ever before. There are, however, some risks. For example:

- Outsourcing service provision from 'spoke' organizations to a 'hub' provider concentrates and increases operational risk. A business continuity problem at the hub will have wide, and possibly regional consequences, and the allocation of subsequent claims and corrections can be a huge task if the community process integration solution does not incorporate the functions required to handle such events.
- Longer term outsourcing by design results in lower technology investment in the client organizations, but also leads to a steady decline of expertise, so that the cost of re-assuming independent operations becomes increasingly high.
- For client organizations, business visibility can be greatly impaired. For most services, they need 'dashboards' displaying and reporting real-time process status in considerable detail. To deliver this, a sophisticated community integration solution is critical.
- Multi-enterprise commercial considerations can change. The most cost-effective service provider this year does not necessarily provide the best value next year.
- Communities do not always evolve as expected or planned, and certainly must be capable of rapid reaction to changing market conditions. The acquisition of a subsidiary or a single new customer can, for example, introduce a significant change in the volume of outbound payments, so that the existing marginal return on an outsourced payments service immediately turns into a daily operating loss.

For many reasons, therefore, the viability of all communities must be regularly monitored, and the capability to change and re-form these communities must be built into their technical design. One element is fundamental to this readiness for change. Flexibility and extensibility of the integration technology that carries data traffic between the community members is vital.

B2B integration platforms like Gentran® Integration Suite from Sterling Commerce are key to achieving integration that is flexible and extensible. The Gentran Integration Suite is:

- Built to carry any type of business data or transactions, or a mixed payload.
- Based on the detail of the data content, they can route information intelligently between destinations.
- Able to move single data packets or very large bulk files, or any combination.
- Unintrusive to the existing technology in any community organization, because they can translate data formats and standards between applications, networks and platforms.
- Able to be deployed incrementally, so that community migration can occur in manageable phases.
- Supplied with comprehensive data security options and utilities enabling complete process visibility.
- Built to enable rapid implementation and rapid modification.

Members of multi-enterprise finance sector communities must therefore be future-proof to change. Future-proofing is delivered by investment in the right multi-enterprise process integration solution. The right solution guarantees continuity of choice. The choice to stay in. The choice to get out. The choice to go join a better community!

### About Sterling Commerce

For over 30 years, Sterling Commerce has helped FORTUNE® 500 customers thrive in a global economy. Our multi-enterprise collaboration solutions integrate processes outside the enterprise to optimize the performance of business communities. With more than 29,000 customers worldwide, we have unparalleled experience in the retail, consumer packaged goods, manufacturing, financial services, healthcare and telecommunications industries. Our collaboration solutions can be hosted or packaged. Sterling Commerce is an AT&T (NYSE:T) company. For more information, visit [www.sterlingcommerce.com](http://www.sterlingcommerce.com)

