



Taking bank statement reconciliation to the next level – is ISO20022 XML statement messaging the answer?



Mark Sutton
Director, Senior Payments and Integration
Sales Consultant, Citi



Ed Barrie
Assistant Treasurer,
Itron, Inc.

The adoption of ISO 20022 XML messaging in the payments and collections origination space has enabled the corporate community to enjoy the benefits of simplification through standardisation. For the multi-banked corporate, ISO 20022 XML messaging provides the opportunity to establish a low-cost, low-maintenance cash management architecture that enables both financial and operational efficiencies. This article considers the challenges that currently exist in the bank statement reconciliation space and the experience of Itron, who are one of the early adopters of the ISO 20022 XML statement message – camt.053.

At Citi, we see the key challenges with the operational account reconciliation process fall into four main categories:

Data Quality

- Partial or combined payments.
- Truncated or missing information.
- Separate remittance information/different data formats.

Local Payments Practices

- Differences in local in-country clearing systems.
- Available and preferred payment and collection methods.

Operational Set-Up

- No standardisation of systems and processes.
- No KPI (key performance indicators) or not aligned between the SSC and the core business operating units.

Technology

- Limited capabilities within existing ERP system around auto-matching rules based logic and ability to process proprietary reporting formats.
- Increased dependency on IT resources for change.

All of the above adversely impact the ability to implement a smooth and efficient account reconciliation process.

Improving automated matching rates will deliver further financial and operational savings and process efficiency gains, moving the Corporates into the best in class operating model category through achieving the following:

- Improved cash application through higher auto matching rates.
- Reduce DSO (day's sales outstanding).
- Improved customer service as credit lines are freed up.

- Improved risk management through earlier identification and management of late paying clients.

Citi has long recognised the importance of helping its client achieve greater straight through reconciliation. Establishing a centralised global data repository that enables the provision of enriched itemised statement reporting has helped corporate clients improve both the A/P (account payables) and A/R (account receivables) process. This architecture also ensures this richness of information is broadly format agnostic. With just under 1,600 fields and benefiting from the harmonisation work completed by the Common Global Implementation Group, it is easy to understand why there is growing interest around the camt.053 XML statement message for the multi-banked corporate community. In this next section, we look at the specific challenges and benefits that Itron Inc. have achieved through adoption and consider some of the areas that can still be improved upon.

Itron, Inc. is a global multi-national corporation providing technology solutions and services to the utility industry with subsidiaries in 30+ countries. Itron became a corporate SWIFT participant in November 2012 leveraging the SCORE model and currently receives end of day bank statement reporting from close to 35 banking partners using a mixture of MT940, BAI and camt.053.xml. Itron also receives current day statement reporting from six banking partners using MT942 and BAI. Itron has been receiving camt.053.xml statements from three global partner banks for the last year and is testing this format with three additional partner banks right now.

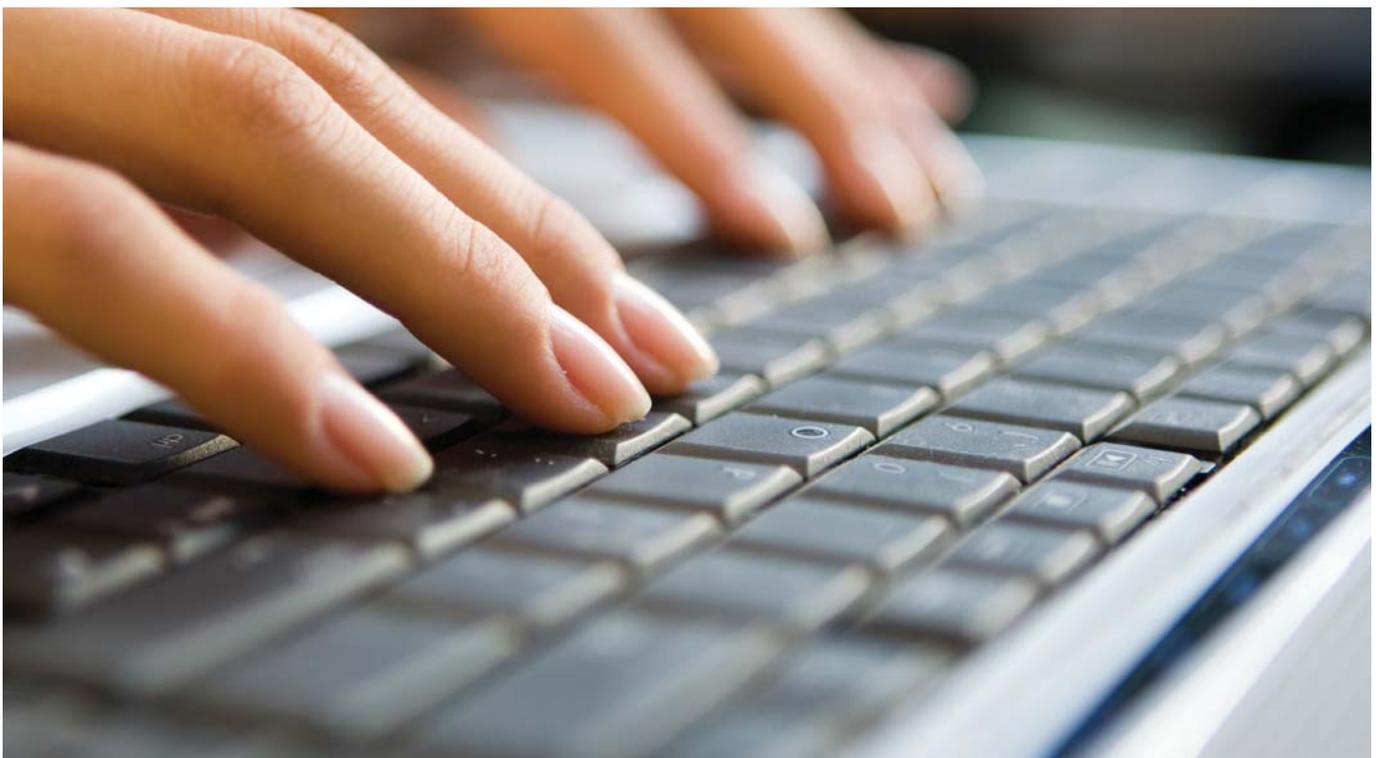
The benefits of migrating all of our banks from legacy MT940 and BAI statement reporting to camt.053.xml can be grouped into three main areas:

1. Enhanced data
2. File management
3. Enhanced risk management

Enhanced data

Transaction details mapped into discrete XML fields (tags) enable a higher degree of straight through processing (reconciliation), reporting and analysis. Exception items, requiring manual reconciliation, are greatly reduced which allows us to meet daily and month-end bank account reconciliation deadlines. Here are four examples:

- End to End ID number for payments initiated by Itron from our Oracle ERP system which allows for transaction auto-matching within both our TMS (IT2) and Oracle systems.
- Foreign exchange details including counter currency code (SrcCcy), original currency amount (AmtCcy), spot transaction rate (XchgRate), FX spot contract number (CtrctId). These values can be mapped into our ERP system to automatically calculate realized FX gain\loss on the transaction, eliminating the need for manual reconciliation. Mapping this information into our TMS allows for more effective analytics on FX spot related activity.
- Fees charged on transactions (payments) if disclosed and provided in discrete fields (tags) can be mapped into both the TMS and Oracle and automatically recorded to the appropriate G/L account while also allowing the



underlying transaction to be automatically matched and reconciled. When fees are deducted from the principal amount of the transaction but not disclosed or broken out separately then auto-matching cannot occur and the transaction must be manually reconciled.

- Enhanced Related Parties data including in some cases the IBAN of the remitter of the payment, full name of remitter, SWIFT BIC code of remitting bank, address of remitter and remitting bank. These values make it easier to apply the payment (in some cases through enhanced auto-matching). Enhanced Related Parties data is also important when receiving payments from organizations that use Pay-on-Behalf or making payments to organizations that use Receive-on-Behalf structures and the ultimate remitter or beneficiary needs to be known.

Enhanced structure

- Contiguous statement for each bank account within the camt.053 vs. the legacy MT940 “pages”. We receive numerous MT940 messages per day (sometimes more than 2,000 messages per day) and we often end up with missing “pages” from some banking partners which creates significant work on our side to follow up with the transmitting bank to resolve.
- Ability to group reporting for accounts by region which allow us to more effectively monitor the expected receipt time (i.e. all accounts for APAC, EMEA, LATAM or NAM regions in distinct files).
- Multiple transaction code types can be supported (i.e. SWIFT, BAI, ISO 20022 and proprietary) allowing us to leverage the most effective codes that represent the nature of the transaction in order to facilitate auto-matching, auto-journal entry creation, reconciliation, reporting and analytics.
- Enhanced bank account balance and transaction summary values (which we use as control totals for data validation and reporting) including:
 - Opening/Closing Ledger and Available Balances
 - Summary of transactions and amounts as well as summary of debit and credit transactions and amounts
 - Float amounts and days availability on certain transactions (generally checks) which support liquidity management and planning

Enhanced Risk Management

- Enhanced transaction level data when populated in the applicable defined XML fields (tags) can help support more effective compliance through comparisons to watch lists which in turn helps organizations meet expanding risk management, regulatory and compliance requirements including:
 - Legal Entity Identifier (LEI)
 - Ability to link derivative and capital markets contract\ transaction ID’s to payment transaction numbers

- Linking of Credit Facilities, Letters of Credit\Banks Guarantees, Merchant ID’s and other related services to payment transaction numbers

- Forward value dated funds availability (if large) is a critical element of the cash position\short term liquidity planning and oftentimes these values are not available in legacy statement formats.

Challenges to the corporate:

- Initial learning curve of camt XML file structure schema compared to legacy BAI/MT940.
- Inconsistent support for populating XML fields (tags) between banks (although the great work from the CGI group is helping drive harmonization\standardization of content and business rules).
- Banks are just beginning to offer this format, so internal knowledge and expertise may be limited at this stage.
- Limited other corporates to engage for knowledge sharing.
- ERP/TMS systems may need to develop programs to read XML statements but support is expanding and many middleware applications can help.

Opportunities

In order to fully achieve the benefits of ISO 20022 XML statement reporting, the industry and the CGI working group need to further define the data definitions and business use cases.

An example of an opportunity for further discrete mapping for additional value and benefit is for populating extended remittance data details. The current use of the Remittance Information <RmtInf> tag and the Additional Entry Information <AddtINtryInf> tag as Unstructured <Ustrd> data elements supports more remittance details than what is available in the legacy statement formats. This data should be mapped to discrete fields (tags) in order to be used within ERP systems where items like invoices paid, deduction amounts taken or invoices disputed could be used for more effective straight through processing, auto-matching and auto-reconciliation.

Additional and significant value can be unlocked in the financial supply chain through the expanded and consistent use of ISO 20022 XML message standards for payment processing and statement reporting if all of the parties come into alignment (banks, payment clearing systems, ERP and TMS vendors, middleware vendors, etc.) while also helping support ever expanding regulatory and compliance requirements.

Itron is actively working with our banking partners to migrate from these legacy formats and is willing to share our experiences with others in hopes that there is more uptake in using the camt.xml statement formats. Increase use and demand of these formats will encourage banks and system vendors to further invest in building out enhanced support of the formats and data content.

Conclusion

Reflecting back on the original question around whether ISO XML statement messaging is the right answer, in the case of Itron, they have clearly improved and enhanced their existing statement reconciliation processes. However, before embarking on this type of initiative, there are a number of key considerations in order to ensure a more informed decision is made, including:

- Firstly, what are the challenges and issues you are currently experiencing with your statement reconciliation process and can these be addressed migrating onto XML statement messaging?
- Understanding the capabilities and potential development options within your own ERP/TMS architecture and the associated availability and cost of appropriate resourcing?
- What are the capabilities of my banking partners including how the XML statement is generated and what transaction code options are supported?

Notwithstanding the above, as Corporates increasingly focus on achieving greater standardisation and portability, in addition to improving statement reconciliation processes, we should all expect greater interest in this relatively new global financial reporting standard.

transactionservices.citi.com

© 2014 Citibank, N.A. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates, used and registered throughout the world. The information contained in these pages is not intended as legal or tax advice and we advise our readers to contact their own advisers. Not all products and services are available in all geographic areas. Any unauthorised use, duplication or disclosure is prohibited by law and may result in prosecution. Citibank, N.A. is incorporated with limited liability under the National Bank Act of the U.S.A. and has its head office at 399 Park Avenue, New York, NY 10043, U.S.A. Citibank, N.A. London branch is registered in the UK at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, under No. BRO01018, and is authorised and regulated by the Financial Services Authority. VAT No. GB 429 6256 29. Ultimately owned by Citibank Inc., New York, U.S.A.

GRA25037 03/14

