

Changing CLS third party providers: costly or economical?



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Three years after the launch of CLS, nearly one third of all 58 Members offer CLS third party services. Will the landscape look the same in three years? Though CLS is here to stay, the providers of CLS third party services will look very different. Based on highly competitive pricing levels, the original CLS third party business cases are very likely not paying off on a standalone basis. As a consequence, consolidation amongst the CLS third party providers is certain. There is market evidence supporting this – a handful of providers are altering their marketing strategy from active to passive.

This significant shift impacts both the undecided and the committed CLS third party participants. The former, those still seeking access to the benefits of CLS Settlement, should be thinking about over-weighting the staying power/commitment of their provider in the RFP evaluation process. The latter, those who have already committed to a CLS third party provider, need to address a heretofore un-addressed question – what consequences they will face if they change providers either by choice or obligation. It is exploring this second group of participants and the question of 'switching costs' that we shall concentrate on.

The material cost of switching providers arises out of factors that can be grouped into two distinct categories. They are:

- **Transmission mechanism/approach**
SWIFT T-Copy or direct SWIFT vs. CLS third party participant using a proprietary link.
- **Common factors**

Box 1 Transmission mechanism/approach*			
CLS third party using SWIFT T-copy service or direct SWIFT		CLS third party using proprietary link	
Task	Man Days	Task	Man Days
Set up third party client in CUG for T-copy service of new settlement member	0.5	Set up new Member transmission channel	2-5
Change Member recipient of MT300/304	0.5	Alter the format of transferred messages	0-5
Change Member in the message body	0.5	Change Member in the message body	0.5
Cash management changes	1-3		
Common Factors*			
Task	Man Days		
Project Management	5		
Negotiation of contracts	5		
Account opening and closing, respectively	1		
Set-up testing platform, End-to-end testing	5-10		
Communication of SSI changes to counterparts	0.5		
Potential training on the new provider's reporting tool	2-4		

Box 1 breaks these categories down further into the sub-components and provides the man days worth of effort that our experience has shown will likely be incurred in making the changes and/or closing the contracts.

As Box 1 shows, the total costs of switching providers for clients using SWIFT as a message channel are estimated to be approximately a one to one and a half person month. Additional to this is EUR 2,000 cash out to SWIFT for T-copy service change. For clients using a proprietary link, the internal efforts might be a bit higher, but such a solution – in addition to saving the SWIFT costs – has the advantages that status updates and funding advices etc. can also be transmitted via this channel. In short, the higher integration costs are not without an equally higher return. The tighter the level of integration between

CLS third party provider and participant, the higher the level of STP in the CLS third party process at the participant's side.

The takeaway – switching costs are negligible when contemplating a change of CLS third party provider when one considers what is at stake, and hence the focus should be on service and staying power. Market consolidation is certain, so if you find yourself in the unenviable position of having to switch providers, you no longer have to fear the uncertain. You simply have to get out the project plan – again.

* Costs are based on experience and on the assumption that IT changes can be made internally. Cost efforts are indicative only and depend on individual bank set-up. UBS cannot be held responsible for any variation in individual cases