Sibos 2010

With thousands of banks and a growing number of corporations attending each year, the Brussels-based international banking network SWIFT's annual Sibos conference has become a crucial forum for debates in transaction banking. This year's conference, to be held in Amsterdam, will be no exception. In this special Sibos section, *Global Finance* highlights four key issues that are likely to generate particular interest at the conference. Transaction banks have always maintained that the payment is commoditized, but their corporate customers are demanding higher levels of innovation from the banks, particularly around the information that accompanies payments, eliminating the costs and inefficiencies associated with paper and enabling clients to initiate and authorise payments via multiple channels.

At this year's conference innovations around mobile wallets, next generation payment hubs and cash management portals are likely to dominate the debate. Another area in which banks are demonstrating increasing interest is global remittances. Worth an estimated $420 billion according to World Bank estimates, this market is dominated by money transfer agencies such as Western Union. However, the banks believe they can add value through compliance and risk management, particularly as more remittances move online or are sent via mobile wallets. With the financial crisis having dented global trade and the supply of trade finance, bankers will also be discussing the state of the trade finance market and how they are integrating their cash and trade businesses more closely to address the working capital needs in companies' financial supply chains. Although this year's conference is in Amsterdam, Asia is also likely to remain a major theme not only this year but also in years to come as growth in that region outstrips the developed world and transaction banks come under increasing pressure to provide a more localized and relevant offering to companies looking to do business in one of the fastest growing regions in the world.

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GLOBAL FINANCE

Change Management

Banks are changing the way they look at their own transaction business to help companies see further into their working capital management processes. By Denise Bedell

The need for integrated trade and cash solutions was significant even before the recent financial crisis, but the crisis accelerated the demand for holistic management of the working capital process. During the crisis, companies were desperately searching for alternative sources of funding, and even large corporates had to find new funding sources and ways to make better use of cash. This meant not only cutting costs but also understanding how to generate additional funding—primarily by increasing efficiency, reducing financial terms and extending payment terms in the supply chain.

Jon Richman, global product head for trade and financial supply chain in Deutsche Bank's global transaction banking division, notes: "Trade volumes have certainly increased, and risk premiums and margins have normalized post-crisis, though they are not at pre-crisis levels either." Treasurers continue to focus on fine-tuning working capital and cash flow management through improved trade terms. As trade has once again picked up, the benefit is mounting.

"Really responding to these trends involves committing to fundamental structural changes"

It also demands a"change in product offerings to leverage the best of the [organization's] traditional cash and trade pieces" —*Carl Stocking, Citi*

Corporates are increasingly looking at how they can leverage bank offerings to create efficiencies within their supply chain. Within the realm of trade finance there has been growth in the use of traditional trade finance products—such as documentary credits and collections, which proved particularly useful during the crisis—but beyond that there is a continued rapid adoption of financial supply chain suites. Adnan Ghani, head of global trade finance and transaction services at RBS, says: "Supply chain finance is one type of facility to allow banks to help improve the working capital cycle either by extending days payables outstanding or reducing days sales outstanding. This way it is win-win-win because suppliers receive cash almost immediately, buyers get to extend payment terms, and the bank supports both the buyer and supplier."

Richman adds: "This suggests that both the long-term trend toward open-account-based terms remains intact and, more importantly, that these solutions are now seen by corporates as an important component of their liquidity, cash flow and risk management tool set."

From a bank perspective, supply chain management solutions present opportunity but also risk. Carl Stocking, head of global market management at Citi Global Transaction Services' bank services group, notes: "These trends have a strong implication about credit risk and the need to mitigate that through proper structuring plus the use of outside risk mitigation tools." They also have implications for the balance sheet. Stocking says: "These types of solutions are balance-sheet-heavy, especially under Basel II and Basel III. It's also important therefore for banks to have a well thought-out asset optimization strategy, including establishing partnerships with other banks."

Financial supply chain solutions are still relatively new to many companies and, as such, still tend to be viewed as stand-alone products, at least at first. To create the most value, automated payments and liquidity solutions traditionally seen in the cash area are being directly linked to financial supply chain solutions. This is definitely where companies are headed, but most are not there yet.

What Companies Want

From a corporate perspective, companies increasingly want to bring together the disparate elements of the physical and financial supply chain. They want a single, standardized interface to their banks with integrated reporting of activities to manage cash flows more holistically. And they want that interface to include a range of services, including cash management, trade finance and financial supply chain. However, many companies are either not yet comfortable enough with the product offerings or simply not ready to once again increase infrastructure budgets to invest in the deep-level re-engineering that is involved in internally moving to a single, fully integrated enterprise-wide cash, trade and supply chain solution. Niklas Callerström, global head of supply chain services in global transaction services, merchant banking at SEB, says: "Their interest has increased—and that came out of the crisis; however, they are still very much focused on individual products." He says that most companies have not come so far as to increase resources toward a holistic solution. "They are more or less using the same resources as before but trying to understand the big picture."

Ghani: "The bank supports both the buyer and supplier"

Stocking: "These types of solutions are balance-sheet-heavy"

Meanwhile, companies want their banks to help them get this bigger picture without massive internal change to their own processes. Banks historically operated and thought in a cash silo and a trade silo, while corporates focused rather on payables and receivables, with a credit silo layered in—which would determine, for example, if they needed a letter of credit or other trade finance product. Callerström says, "Banks were talking one language and corporates a different language." As companies began to recognize the benefits of looking more holistically at the physical and financial supply chains—and banks began to realize the potential benefit of inserting themselves further downstream and upstream into corporate cash and trade processes—this focus changed.

In order to help corporates have a fully integrated approach and view, many big banks have altered their internal focus to align more closely with corporate functions. The first step was the creation of global transaction banking or global transaction services divisions, which brought together—at least on paper—the trade and cash product lines of the bank. Deutsche Bank and UniCredit are prime examples of banks that chose this route.

Some banks—such as SEB and RBS, for example—have brought these lines together under one umbrella from a product management perspective.

At some banks, however, the integration appears much deeper. Citi and J.P. Morgan have moved beyond product management to integrate these product lines on a more fundamental level. This sort of integration is essential, says Enrico Camerinelli, senior analyst at Aite Group. "The real competitive edge is to stop selling discreet products and start selling a portfolio of products."

Most banks now assess their people's performance in terms of how much they sell of the cash product, trade product and so on, Camerinelli says. "But the real differentiator that shows how serious banks are with converging cash, trade finance, foreign exchange, payments and so on is how much they are willing and able to internally have that change management process to build toward a single unit operationally and from a systems perspective."

Stocking adds: "Really responding to these trends involves committing to fundamental structural changes in the way the bank thinks about its business and measures results, and a fundamental change in product offerings to leverage the best of the traditional cash and trade pieces of the organization." ■

Uncharted Territory

Banks are struggling to keep up with nonbank rivals in the race to create the next generation of payment systems. By Anita Hawser

It may have been unfettered innovation that got banks into hot water during the financial crisis, but they are now under more pressure than ever to find creative new solutions to help corporations better manage their finances. This time, however, it is not increasingly complex and sophisticated financial instruments that they are focused on but a different kind of innovation. "In order for financial services firms to prosper, they need to innovate in the way they deliver services, considering such options as collaboration and "coopetition" with other industry participants," said analyst firm TowerGroup in its summary of SWIFT's 2009 Sibos conference in Hong Kong.

Banks are collaborating with mobile-phone operators and IT solution providers to develop new payment channels. But if you look back over the past 10 years, most of the major innovations in payments, such as PayPal, peer-to-peer payments and mobile wallets, were led by nonbank providers, says David Sear, divisional managing director of Travelex Global Business Payments. The banks, however, maintain that they have been innovating. Last year at Sibos, Citi announced its next-generation cash management portal, CitiDirect Banking Evolution (BE), which featured the latest in social networking and collaborative technologies for corporate treasurers and banks. "CitiDirect BE is still one of the leading examples out there of banks that are looking to offer capabilities to a new range of customers," says Colin Kerr, industry manager for payments and core banking at Microsoft. "It is innovation in the sense that it provides Citi with the ability to white-label discrete components of functionality to other banks."

Citi is not the only bank that places so much emphasis on technology and innovation. Wells Fargo enjoys a reputation for behaving more like a technology company than a bank, as demonstrated by its award-winning Commercial Electronic Office portal, which was one of the first online banking portals in the corporate banking space. As Steve Ellis, head of Wells Fargo Wholesale Services, points out, being physically close to Silicon Valley helps, but he also says that innovation is part of the bank's lifeblood. And despite having gone through one of the biggest bank mergers thus far—with Wachovia Bank—the bank, he says, is spending as much money this year on innovation as it has in previous years.

Ellis acknowledges that it is hard for banks to lead when it comes to innovation, but Wells Fargo's secret, he says, is that it doesn't manage by committee. So when it came to developing mobile-phone applications, Ellis says he simply went to his boss four years ago and said, "Everyone's got a cell phone, it's going to be really big." His boss, says Ellis, "let me do things like get a small team together to come up with some high level ideas and spend a lot of time with customers looking at what they use. It is not easy for a lot of banks to do that."

Although there is rapid development under way in new customer-facing technol-

"There is a large opportunity to move payments into the electronic space"

"In the US we are going to have invoices go through the ACH network. That kind of stuff obviously needs to happen" —*Steve Ellis, Wells Fargo*

ogies, such as voice recognition, tablet PCs, the iPad and smartphones, approximately 80% of payments are still cash-based. "There is a large opportunity to move payments into the electronic space," Ellis says. And while it is easy to get distracted by all the emerging payment channels, Ellis says the real opportunity for banks is not peer-to-peer payments, which may be cool but will not fundamentally change banking. He says it is more about migrating manual paper-based processes onto electronic channels.

"In the US we are going to have invoices go through the ACH network," he explains. "That kind of stuff obviously needs to happen." However, Ellis says, we won't suddenly see all companies using electronic trade finance because the workflows are not easy to automate. He does believe, though, that customers are becoming more comfortable with using new tools.

Instead of focusing so much on evolving payment channels, Diane Reyes, global head of payments at Citi Global Transaction Services, says banks still need to innovate around existing payment channels. "Banks do a pretty good job of getting [a payment] to its destination next day or same day, but it is not as close to real-time as clients would like to see." Citi is bent on solving inherent challenges to make instantaneous payments a reality across its global network for correspondent and corporate clients.

Van Wezel: "Banks should position themselves to tap the new flows"

"Just asking clients what they want gives us the opportunity to innovate," asserts Ray Zabarte, global head, payables in transaction banking at Standard Chartered. "It doesn't have to be massive industry change." However, Sear of Travelex says companies like his are capitalizing on areas where the banks have failed to innovate. As an example he cites Travelex's international payment solution, which provides richer data (e-invoices) with the payment so it can be more easily reconciled.

Ron van Wezel, head of emerging payment streams for global transaction banking at Deutsche Bank, says all payment providers, big or small, bank or nonbank, are thinking about payments innovation. Deutsche Bank GTB is developing a number of emerging payment streams, including mobile payments, e-payments, cross-border ACH payments, and remittances. However, he says, emerging payment options cover only part of a client's payment needs. "Therefore, successful innovations will have to be complementary to legacy payments," he explains. "For example, mobile payments are a promising innovation to facilitate payments at the point-of-sale, but merchants require the provider to also support their card and cash payments."

Kerr says banks are also looking at e-wallets for social networking sites such as Facebook or Xbox gaming networks. "It is an opportunity for the banks to get a step ahead and stay connected to their customers, rather than being disintermediated," he says. The banks say they can add value to mobile operators' offerings by providing risk management capabilities such as Know Your Customer. Zabarte says banks can provide a trust service that helps to safeguard the value held in collective mobile wallets. "So hypothetically, if there is $1 billion worth of balances in mobile wallets, there would be an equivalent amount sitting in a trust account held at a bank, so mobile wallet owners can rest easy that their money is always intact," he explains.

Other banks are also looking to add value in the corporate-to-bank aspect of mobile payments. "Deutsche Bank GTB's mobile strategy is focused on providing clients with solutions to optimize their cash collection and corporate disbursements processes and to support merchants with new payment options in both e-commerce and point-of-sale environments," van Wezel explains. Arguably, however, the corporate space still lags the consumer space when it comes to uptake of mobile payments. Sear believes corporate appetite for electronic payments must become better established before mobile applications can take off, while van Wezel believes new payment options like mobile will speed up the process of going electronic, providing alternatives to checks and cash. "Introduction of Near Field Communication–based mobile payments and contactless cards will allow merchants and banks to cheaply substitute low-value payments," he says. "So, although 'cashless' is not yet on the horizon, 'less cash' is definitely in the works." But can the banks innovate quickly enough, or will a PayPal of the mobile world beat them? "I'd like to think that we can come up with good ideas," says Zabarte. Van Wezel says the global interoperability that banks have achieved through standardization and linkage of networks is a significant asset. He says emerging networks, including PayPal, will have to interconnect to offer a similar ubiquity of service and global reach. "At the same time," he says, "banks should position themselves to tap the new flows in the emerging payments space—otherwise, they will be reduced to settling the net payments without direct customer payment interaction." ■

Banks Make A Bid For A Growing Market

Technological innovations and the rapid acceleration of globalization are driving a sharp increase in banks' interest in the remittances market. By Anita Hawser

"We are on the cusp of something significant," says Marcus Treacher, head of e-commerce, global transaction banking, HSBC. While HSBC processes billions of payments on its network every day, the bank has not traditionally played a major role in the global remittances space. Treacher believes that is about to change. The World Bank estimates that "global remittances totaled $420 billion in 2009, of which $317 billion went to developing countries, involving some 192 million migrants, or 3.0% of the world population." Remittances are typically payments sent back home by migrant workers, and the World Bank says these inflows can make up a significant proportion of GDP in receiving countries.

Treacher says the aggregate cash flows and number of participants in remittances are enormous. The difficulty, he says, is that it is a fragmented market with the top 10 remittance corridors (including the US to Mexico, the Philippines, India and China, and the UAE to India) accounting for approximately 25% of global flows in remittances, while the top 100 corridors account for 60%. "So if you want to be relevant as a remittance provider," explains Treacher, "it is not just about the US to Mexico or the Middle East to India. You have to have ubiquitous coverage."

"The remittances space has largely been a cash-to-cash market—a model that is not as suited to banks' transaction services, regulatory and compliance framework," says Diane Reyes, global head of payments at Citi's global transaction services. "But as remitters' needs evolve to include new—and more electronic—payment types, the remittance market is a prime opportunity for banks to become more involved." The remittances market is largely dominated by money transfer agencies such as Western Union, which has an estimated 17.4% share of the global

"The challenges accelerate when you start doing remittances cross-border"

"You need to know the local legislation and payment rules–this is where banks can add a lot of value" —*Diane Reyes, Citi*

remittances market. Its network reaches 200 countries through approximately 430,000 agent locations.

According to the World Bank, the fees and costs associated with remittances remain high because of "underdeveloped financial infrastructure in some countries, limited competition, regulatory obstacles, lack of access to the banking sector by remittance senders and/or receivers and difficulties for migrants to obtain the necessary identification documentation to enter the financial mainstream." And as most remittances are cash-to-cash, the challenge is making that process simple and reliable, says Treacher, adding that it is difficult to get things like Know Your Customer compliance right. "With remittances, the KYC, processing and people costs are huge. That is what is holding this back. We need to find lower-cost ways of doing it."

However, a number of factors are converging to make the remittance market more attractive to banks. With hybrid money transmission models emerging, such as cash to account, cash to mobile, card to mobile or mobile to mobile, banks, Reyes says, are starting to feel more comfortable playing in the electronic space. "These new electronic channels make it easier to do due diligence on the bank account of the remitter and the recipient," she explains. Other banks point to the provision of trust services for mobile remittances as well as aggregation services using SWIFT messages to move information pertaining to remittances cross-border.

Yet, Khalid Fellahi, senior vice president for Africa and head of mobile transaction services at Western Union, says the money transfer agency has the systems, people and procedures in place across the countries and territories in which it operates to ensure KYC and anti–money laundering (AML) compliance for cash-to-cash transfers in accordance with local regulations. "Banks may try different things," he says, "but if they want to be a successful player in the remittances business, they should partner with a global company like Western Union, which has 90% brand recognition," he says. "It is extremely difficult to replicate what we do without substantial investment."

Fellahi says he sees a lot of what the banks do as complementing Western Union's offering. "When somebody is not banked, they can come into a bank location for the first time, and that is an excellent way for banks to start selling an account or other services to them," he explains. "The question banks need to ask themselves is, Do they want to develop their own model for worldwide remittances or leverage something that already exists?" Fellahi points to Western Union's relationship with Absa Bank (part of the Barclays Group) in South Africa as an example of how it complements the banks. Customers can go into any Absa location and remit money in cash or send money directly from their bank accounts online or via their mobile phones. They can also use Absa's online and mobile-banking channels. The advantage for Absa, says Fellahi, is that the bank can leverage Western Union's global network without having to establish a presence in multiple locations or through multiple partnerships. "Our objective," Fellahi explains, "is to provide customers with convenience and multiple channels for remitting money."

Treacher: "With remittances, the KYC, processing and people costs are huge"

Banks Reap Benefits

Treacher says the sweet spot for the banks is on the capture side: remittance customers could potentially be converted into banking customers. "The middle part is providing FX and KYC, which is also profitable and where the bulk of the revenue is to be earned," he adds. Reyes says the entrance of mobile operators into the remittances space also provides banks with a wealth of opportunities. Referring to "closed-loop" systems that mobile-network operators run in various parts of the world, she says doing AML and KYC checks in one country is important "but the challenges accelerate when you start doing remittances cross-border. You need to know the local legislation and payment rules—this is where banks can add a lot of value. Mobile operators are more and more starting to partner with banks who have the experience in the markets they want to be in."

Although Fellahi anticipates that cash-to-cash will continue to be used for the bulk of remittances, he says Western Union also provides online and mobile remittance services as part of its multichannel strategy. It partners with mobile operators like M-PESA in Kenya, Smart and Globe in the Philippines, or Maxis in Malaysia to enable customers to send and receive money via mobile wallets. "We are making sure we are present in every channel," Fellahi explains. "It is early days for mobile, but it is picking up quickly." In emerging markets, mobile wallets have enabled a lot of people to become "functionally banked." In Europe, Fellahi says, most customers are already banked, so adding mobile is just another convenient channel that can be linked to existing instruments like debit or credit cards or direct debits from bank accounts.

Western Union has also invested in mobile gateway technology for network operators and banks and has adapted its compliance engines for mobile. "The most difficult thing," says Fellahi, "is building all the connections. You need to connect people in different countries, if it is cross-border. Western Union has it already." And although mobile remittances certainly seem to tick all the right boxes, Reyes of Citi says it is about striking a balance between "social inclusiveness," which means allowing more people in the world to take advantage of payment services, and safety as it concerns AML and fraud. "It comes down to getting the timing right," says Treacher, talking about banks' entry into the remittances space. And now that more people are buying smartphones, maybe the time for banks to make serious inroads into this market has finally arrived. ■

Regional Development

Corporates are demanding increasingly sophisticated cash and trade solutions within Asia. Those banks that want to stay competitive must step up their game. By Denise Bedell

Asia is a key growth area for transaction banking as a result of not only the internal economic development in Asian countries but also the increased international trade between countries and with the West. This drives a need for management services for trade finance, currency and working capital. As these trends continue, and as Asia's economy continues to grow in prominence, global transaction banks cannot afford to be without a presence in the region.

Anthony Nappi, head of global transaction services for Asia Pacific at Citi, says: "This region is the growth engine of the world." A combination of local corporate growth and increased investment by multinational corporations means the region is an increasingly important market for transaction banking services. Its importance will only continue to grow as Asia's share of world trade increases. "The increasing growth of the middle class will create a new demand for goods, and consumption will increase, thereby decreasing—not decoupling—reliance on the OECD markets," says Nappi. "FDI/FII continue to flow into the region, as the world continues to see Asia as the region for growth and as more fund managers come to Asia. The commercial and capital flows that result from these trends all form the foundation of the continued growth of the transaction banking business."

All of the biggest global players have already begun to shift focus and assets to the region—growing their local footprint, as well as increasing staff and resources to build their transaction banking presence. The next step will be for global banks and domestic providers to develop more products geared specifically for the diverse domestic markets that make up the region. Neil Katkov, senior vice president, Asia, at consultancy Celent, says: "Transaction banking services offered by domestic banks in most Asian markets are still behind the offerings of the big global banks."

In more mature markets—for example, Japan—the main domestic players have been improving their cash management offerings over the past few years and focusing on Internet delivery. In contrast, developing markets offer limited cash management

Nappi: "Now it's impossible to find a company without an Asian strategy"

McLaughlin-Moore: "Companies are looking for ... new capabilities"

solutions for corporates. Because demand is more mature than supply, many of the big global cash management players have been ramping up their presence and delivery capabilities throughout Asia.

Says Katkov: "Most strikingly, global banks are seeking partnerships with domestic banks to deliver services to local corporates." This partnership approach works well, as domestic banks generally control the local customer base but lack the advanced services and global network of the multinational banks. It gives global banks access to the domestic corporate market and local banks access to the range of higher-end product offerings that their clients want.

The demand for more-sophisticated solutions and platforms in Asia Pacific has skyrocketed. Linda McLaughlin-Moore, Asia Pacific head of treasury services product management & delivery at J.P. Morgan Treasury Services, says: "Companies are looking to banks to deliver new capabilities that will provide them with innovations to enhance their control over the corporate cash conversion cycle at a lower cost. The corporate treasurer is going to drive banks to deliver more for less."

To achieve the same or similar profit margins, long-term transaction banks will need to further centralize operations, standardize processes as much as possible and embed technology into their processes and solutions, which will ultimately help strip expenses, she notes.

Rapid Change

Part of the difficulty, however, is that Asian markets are in a state of swift change. Local banking systems are undergoing rapid evolution, for example. This creates an issue when it comes to product development, because investments made now may prove fruitless in three or four years, as new regulatory and infrastructure changes occur. On the other hand, there is an openness to, and desire for, innovation that creates its own opportunity. Notes McLaughlin-Moore: "The push of e-check clearing in Thailand, for example, is well ahead of other developed markets, and in India, so too is the growth of low-value electronic banking. More generally across the region, mobile banking is far more popular than in Europe, the US and other developed markets."

In addition, the rapid development of the financial markets is providing access to funding that is enabling corporates to focus on growth and development and is driving their interest and investment in new technologies and platforms—adoption of which is happening at a much faster pace than in more developed markets. "The region is one of the most sophisticated transaction banking services markets in the world—and is home to an emerging breed of global corporate champions," says Nappi. "As they expand, they want transaction banking services that provide solutions to help them compete better in the global marketplace."

There is growing demand for regional and global liquidity structures, the consolidation of high-volume, low-value activities—such as payables and receivables—into shared service centers, working-capital and supply-chain financing solutions, as well as a significant increase in Export Credit Agency–backed solutions, Nappi adds.

Just like their Western counterparts, Asian corporates have learned the lessons of the financial crisis. They have focused more intensely on what they can do to drive bottom line growth and reduce internal expenditures throughout the physical and financial supply chain. They are, for example, looking to move fixed costs to variable by outsourcing noncore activities, such as payables and receivables. "Another key driving force is the ability to maximize liquidity in the system. A few extra basis points on several hundred million dollars, over the course of a year, is definitely accretive to the bottom line," says Nappi.

Plus, as with companies around the world, one big lesson learned by Asian corporates during the recent crisis that is driving their demand for better, more-advanced and more-tailored cash and trade products is the importance of improved visibility and risk management. McLaughlin-Moore notes: "Interest rate risk, counterparty risk and transparency of balances all tie in to the growing demand for real-time information. While important before the financial crisis, these elements are now absolutely critical to a corporate looking to compete on a regional or indeed global level."

It is clear that Asian companies as well as global corporates with Asian operations are ready and willing to look at more-sophisticated solutions for regional cash and trade management. Those banks who want a piece of the action will have to step up and provide country-specific, globally integrated solutions if they hope to stay in the game.

Nappi adds: "Just a decade ago it was a case of hunting for companies with Asian strategies; now it's impossible to find a company without an Asian strategy. This region and how to expand in it is on the agenda of every major board meeting globally." ■

"The region ... is home to an emerging breed of global corporate champions"

"As they expand, they want transaction banking services that ... help them compete better in the global marketplace" —*Anthony Nappi, Citi*