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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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-

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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." ■