The Banker

MARCH 2013
SPECIAL REPORT

A NEW WORLD ORDER

Reshaping international banking operations

BIG BANKS' GTB STRATEGIES

SUPER-REGIONAL BANKS

REGULATION

NEW IMPERATIVES IN PLATFORMS

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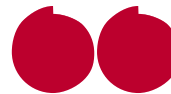

THE LIQUIDITY YOU GET FROM GLOBAL TRANSACTION BANKING IS STICKY. IT IS ON THE OPERATIONAL ACCOUNT, RATHER THAN THE EXCESS CASH, WHICH TENDS TO GO INTO FIXED OR STRUCTURED DEPOSITS ***Karen Fawcett, page 2***

The Banker

Published by Financial Times Ltd, Number One Southwark Bridge, London SE1 9HL, United Kingdom
Tel: +44 (0)20 7873 3000. Editorial fax: +44 (0)20 7775 6421 Website: www.thebanker.com

One-year subscription rates: £645* – Full access to TheBanker.com and The Banker magazine. *VAT will be charged if applicable

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Printers: Wyndeham Roche Limited **Distribution:** Seymour Distribution Limited, 2 East Poultry Avenue, London, EC1A 9PT. Tel: +44 (0)20 7429 4000
Subscriptions and Customer Services: Financial Times, CDS Global, Tower House, Lathkill Street, Sovereign Park, PO Box 5891, Market Harborough, Leicestershire LE94 7ZT
tel: +44 (0)1858 438 417, fax: +44 (0)1858 461 873; e-mail: ft@subscription.co.uk
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Registered Number: 00202281 (England and Wales) ISSN: 0005-5395

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Registered office: Number One Southwark Bridge, London SE1 9HL, UK

A MEASURED APPROACH TO GTB
Introduction

The opportunities in the global transaction banking space may be numerous but, knowing the high costs associated with technological and regulatory changes, most banks are pursuing a specialist strategy rather than trying to capture every segment of this attractive market. Duygu Tavan reports.

As one of the few relatively reliable sources of revenue in the banking sector at present, global transaction banking (GTB) is enjoying something of a renaissance. Margins may be under pressure, in line with general market trends, but banks that are actively seeking ways to differentiate themselves from competitors are finding new approaches to vie for clients.

The reasons for making operational, product and service investments in the GTB space are compelling, especially at a time when impending regulatory deadlines are forcing banks to reshape and redefine other business units, such as trade finance, which is being impacted by the key ratios being brought in under Basel III.

Of course, regulation is having an impact on GTB as well. But the over-riding market sentiment is that it is a business area offering long-term growth and revenue opportunities. As Enrique Jiménez-Hererra, head of the global transaction banking unit at Spanish bank BBVA, says, GTB emerged from the crisis as a more re-enforced business, unlike trading and long-term lending, for example.

NICHE MARKETS

The prospect of long-term client relationships, emerging trade corridors and better synergies between banking operation units as a result of technological advances is encouraging banks to fine-tune their transaction services to capture some of the revenue potential.

Instead of expanding to make themselves into a global brand, many banks are steering towards specialist markets, looking to carve out a niche that differentiates them from competitors by offering a unique selling proposition. This proposition may place an emphasis on certain products, services or regions, and is sometimes even targeted at specific client profiles.

This is creating a new world order that highlights not only the possibilities offered by new methods of client engagement but also those opened up by new technological advances. Market trends are also bringing to light the fact that the emerging markets, especially those in Africa and Asia, are a force to be reckoned with in the world of international banking. Local banks in these emerging markets are fast establishing themselves as regional super powers, and they are benefiting from the fact that a number of US and European banks have sold what they now consider non-core assets in their overseas markets.

Further aiding regional expansion in south-east Asia is a project to integrate the economies of the Association of South-east Asian Nations, which has a targeted end-date of 2015. When it is realised, this will allow banks in these regions to operate across borders seamlessly and, for banks such as Australia's ANZ and Malaysia's CIMB, it will facilitate regional expansion. Of course, there will still be challenges to overcome in establishing a regional franchise – each market has individual needs and localised regulations – but these are all manageable obstacles for banks.

GLOBAL GAME

At the other end of the spectrum are the global banks, such as Bank of America, BBVA and Barclays. These players have also recognised the benefits of a product-specific, service-specific or region-specific approach to transaction banking.

GTB has become one of the main pillars of their strategy to drive fee-based income in many global banks. For BBVA's Mr Jiménez-Hererra, GTB is not only a relevant business, but also one of the key priorities for the bank's corporate and investment banking unit.

For Standard Chartered, which has traditionally focused on emerging markets, it is now reaping the benefits of both its expertise and physical presence in these markets. Karen Fawcett, group head of transaction banking at Standard Chartered, says that the bank's transaction banking strategy has not changed.

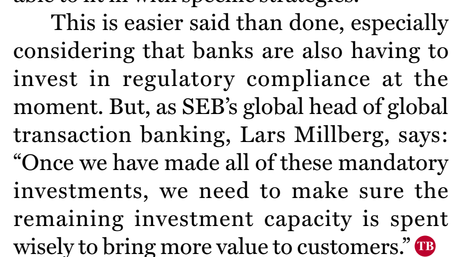
"We still serve corporate and institutional clients for and in Asia, Africa, and the Middle East," she says. "We have teams on the ground as well as teams that serve clients from the US, Australia, Europe and Japan that are coming into our key regions."

Ms Fawcett says that the bank's core goal is to "deepen the relationships it already has with its clients and continuously look for opportunities to add value through services within transaction banking as well as the other business units across wholesale banking, [such as] financial markets, corporate finance and private equity."

UP TO PACE

Whatever their growth strategy, to achieve long-term success in the GTB market, banks must ensure that they remain competitive and up-to-date in terms of technology. Given the pace of change, existing technologies must be constantly reviewed and, when necessary, replaced. Technology must also remain flexible; the platforms that are utilised in the international banking business must be able to support the design and launch of localised products as well as be able to fit in with specific strategies.

This is easier said than done, especially considering that banks are also having to invest in regulatory compliance at the moment. But, as SEB's global head of global transaction banking, Lars Millberg, says: "Once we have made all of these mandatory investments, we need to make sure the remaining investment capacity is spent wisely to bring more value to customers." TB



THE REGULATORY CHALLENGE FOR CROSS-BORDER BANKING

Regulation

It is not just the number, but also the complexity and regional variations of new banking regulations that is posing a challenge to international banks. Jane Cooper reports.

A sea change has occurred in the global banking industry and a wave of regulation is now a priority for senior bankers around the world. Ask any banking executive what the major trend is that affects their role both now and in the future, and the answer will undoubtedly be 'regulation'. For those running banks, regulation has been a key concern since the onset of the global financial crisis.

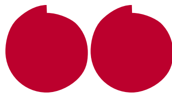
What is often viewed as a regulatory onslaught or clampdown is not only a response by the authorities to make the financial system safer, but also part of longer term changes that have seen the global banking industry become more interconnected and more technologically advanced.

The regulatory burden poses unique challenges to banks operating across borders and for wholesale banks that are operating in numerous jurisdictions. The regulations are now beginning to take shape and are being implemented in various countries, but the variations between the jurisdictions in how the rules are put into practice are complex.

Cross-border banks have to navigate the various local differences in the countries where they operate. Added to this challenge is some inconsistency between the rules and uncertainty about how they will be implemented. Regulation has affected the cost of doing business and is also impacting the strategic planning and structural organisation of cross-border banks.

NEW REGIME

If regulation is the major theme for senior bankers, then it is Basel III specifically that is set to have the most impact on cross-border wholesale banks. The third round of the Basel Accord sets stronger rules for capital levels and introduces liquidity and leverage ratios. Set at a global level, the regulations have already started to be implemented with a final deadline of 2018.



THE BANKS THAT ARE WELL CAPITALISED AND HAVE MANAGED THEMSELVES WELL AND COME THROUGH THE CRISIS WITH RELATIVELY CLEAN BALANCE SHEETS WILL HAVE AN ADVANTAGE

Douglas Landy

Douglas Landy, partner at law firm Allen & Overy and an expert in US financial regulation, says that out of all the regulations affecting the global banking industry, Basel III is the most significant. He explains that one consequence of the increased capital requirements is that capital and cash are trapped within a bank, which impedes its return on equity, which, in turn, impacts the bank's ability to raise capital.

While the banks may struggle to keep on top of all the changes, the challenges are not insurmountable, according to Mr Landy. "The banks that are well capitalised and have managed themselves well and come through the crisis with relatively clean balance sheets will have an advantage," he says.

As banks begin to adjust to this new regime, other knock-on effects have already begun to take shape. Patricia Jackson, head of financial regulatory advice for Europe, Middle East, India and Africa at Ernst & Young, also highlights Basel III as the most significant regulation to affect cross-border wholesale banks. One of the effects of Basel III, she says, is that there has been a retreat of banks going back into their core markets. And in terms of cross-border banking products, it is trade finance that has been the most affected, she says.

Banks have restructured and retreated as a way to boost their capital levels, and the new regulations have given trade finance a risk weighting that makes it more attractive for banks to pursue other, more profitable product lines.

REGIONAL VARIATIONS

Basel III is designed to create a global standard for the global banking industry. But for international banks there have been differences in the time frame in which the rules will be applied and also divergences in how the rules will be implemented at a local level.

In Europe, for example, local regulators have been debating the final shape of the Capital Requirements Directive IV – the EU's framework that reflects Basel III – and implementation is taking longer than first anticipated. As with any European regulation, there is the potential for differences in how the rules are transposed in each of the EU countries. While there has been concern that there may be divergences in how Basel III is applied in Europe, Ms Jackson says that European regulators are seeking to harmonise the rules to cause less confusion.

In the US, the implementation of the Basel III international framework – in the form of the Dodd-Frank Act – is also taking longer than was first anticipated. Added to this has been the addition of a further, US-specific regulation in the form of the Collins Amendment, which imposes a capital floor and affects how capital is defined. Banks' overall capital levels cannot fall below the minimum requirements established by the federal banking agency – the Federal Deposit Insurance Corporation – for depository institutions. This means that banks cannot use more sophisticated and aggres-

Individual approaches: local regulators have differed in their implementation of Basel III, in the US (pictured), for instance, an amendment was made by senator Susan Collins to impose a capital floor

sive risk-weighting methodologies for their capital optimisation.

SWISS FINISH

Another country that has come up with stricter rules for its banks is Switzerland – the so-called 'Swiss finish'. A spokesperson at the Swiss Bankers Association (SBA) says that the regulatory framework was set up mainly by the Swiss Federal Council and the Swiss Financial Market Supervisory Authority, and was based on the international capital adequacy rules.

On top of this, the Swiss National Bank, which is responsible for macro-prudential supervision, has also identified systemically relevant institutions and has set higher standards for international banks UBS and Credit Suisse. Banks in Switzerland have agreed to the capital adequacy ratios defined under the 'too big to fail' package – Swiss legislation for systemically important institutions – and Basel III requirements for all institutions.

"Switzerland is a pioneer in implementing capital requirements and has implemented Basel III consistently with the recommendations by the Basel Committee, starting at the beginning of 2013," the spokesperson for the SBA says.

LEVEL PLAYING FIELD

There have been concerns among bankers that an earlier introduction of the rules puts banks at a disadvantage because it impacts their return on equity in the near term and also because it puts them at a disadvantage compared to their rivals in neighbouring countries. There is the argument that there is the potential for regulatory arbitrage between the countries that have been stricter with the implementation and those jurisdictions where the rules have yet to be implemented.

For example, the CEO of Credit Suisse, a bank that has undergone a major restructuring and is now Basel III-ready, has been reported as saying that the regulatory environment has created an "unfair playing field".

The systemically important Credit Suisse and UBS require capital adequacy ratios of up to 19% compared with the 9.5% required by Basel III. However, Ms Jackson at Ernst & Young says that the capital in the 'Swiss finish' requirements is not all equity capital and the regulator is accepting different bail in arrangements, and so it is not easy to compare this regime with that in other countries.

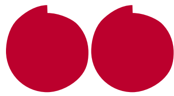
"The SBA sees a comfortable capitalisation as an advantage in the international context," the SBA spokesperson says. "The SBA warns, however, that Switzerland should closely follow international developments to maintain competitiveness for its banks. The discrepancy in regulatory requirements must not become inadequately large. Future regulation must keep a proper balance between promoting systemic stability on the one hand and limiting competitional disadvantages on the other."

There are also concerns that the cumulative effects of the various regulations, along with their associated cost burden, may be transferred to the real sector and affect banks' ability to lend and will have implications for the wider economy.

"Basel III rules are thought to be implemented all over the world, so negative effects on competitiveness should not be a problem if all financial centres are adopting these rules. Swiss banks are committed to comply with Basel III rules, and some banks will even have to follow stricter capital rules. We are currently observing that neither the US nor the EU have implemented Basel III so far. The comparison with other financial centres could give rise to serious issues of a missing level playing field," says the spokesperson for the SBA. »

BASEL III RULES ARE THOUGHT TO BE IMPLEMENTED ALL OVER THE WORLD, SO NEGATIVE EFFECTS ON COMPETITIVENESS SHOULD NOT BE A PROBLEM IF ALL FINANCIAL CENTRES ARE ADOPTING THESE RULES

Swiss Bankers Association



[LARGE BANKS] NEED TO HAVE PEOPLE IN THE DIFFERENT COUNTRIES WHO ARE PAYING ATTENTION TO THE REGULATORY ENVIRONMENT IN EVERY COUNTRY THEY DO BUSINESS IN ***Nancy Atkinson***

CROSS-BORDER COMPLICATIONS

For banks that are operating in numerous countries, the differences in the Basel III implementation are just one of the challenges they have to contend with. Added to this are market-specific regulations that seek to restrict and ring-fence various banking activities. These include Volcker in the US, Vickers in the UK and Liikanen in Europe. Operating in various jurisdictions with such complexities "can make it difficult to run a global business", says Mr Landy.

At the moment, it is still unclear exactly how these new regulations will take shape and impact the business models and structure of cross-border wholesale banks. "The issue that banks face is the uncertainty," says Ms Jackson.

Added to this, and making life even more complex for cross-border banks in the US, is another facet of the Dodd-Frank Act that seeks to bring the regulation of foreign banks in line with that of domestic institutions in the US.

Under proposals that were published in December 2012 and are currently under consultation, banks with total global assets of more than $50bn will be subject to additional requirements in the US. Any large foreign bank that has assets of more than $10bn in the US must bring all of its subsidiary companies under a single holding company. And any large international bank that has assets of more than $50bn in the US will be subject to more stringent Basel III rules.

BEEFING UP DEFENCES

Another issue with US regulation for cross-border banks is that the rules can be far-reaching and can apply even when the institution does not operate on US soil. This is this the case with the Foreign Account Tax Compliance Act, which requires foreign institutions to report the data held on US customers as well as bank customers who own US assets.

Such tax regulations are distinct from the other regulations that banks face in the current environment in the sense that they are not a response to the financial crisis with the intention of making the financial system safer. Nancy Atkinson, senior analyst and an expert in wholesale banking at Aite Group, says that wholesale banks are currently facing many types of regulations and it is not just because of the banking crisis.

"Overall, banks are certainly experiencing greater regulations and a strong regulatory environment as a result of the terrorist acts in 2001," she says.

Since then, the US authorities beefed up anti-money laundering regulations to clamp down on the financing of terrorism. In this time, many large international banks have fallen foul of the US regulatory authorities and have been fined for weaknesses in their systems. Ms Atkinson says that it is not just money laundering that is a concern but also fraud. Such prevention methods need to keep apace of technological developments and a longer-term trend that is seeing money becoming increasingly digital and cross-border payments systems more efficient.

A COMPLEX MAZE

Efforts to increase competition in the e-money space in Europe have come as part of the introduction of the Single Euro Payments Area (SEPA), another regulatory deadline – set for 2014 – that is fast approaching. Although SEPA is mostly focused on lower-value payments, there is still much work to be done by corporates to adapt their systems so that they are SEPA compliant.

And there are other consumer payment regulations that affect the wholesale banks, such as Section 1073 of the Dodd-Frank Act. This regulation refers to consumer-initiated cross-border payments, but Ms Atkinson argues that it is not retail banks but the wholesale banks that provide the systems behind such payments and that will have to make the changes.

Some of the changes, for example, will include providing a breakdown of the detailed charges for making cross-border remittances, and meeting the requirement to hold the payment for 30 minutes so that the consumer has a window during which time they can change their mind. "It is the wholesale bank that has to deal with the systemic changes and procedures," says Ms Atkinson.

Ms Atkinson explains that there has been a delay in implementing Section 1073 because the banking industry has made a concerted effort to explain to the regulators of the unintended consequences of the rules, which could result in smaller banks not offering the remittance service altogether because the regulations are too onerous to comply with.

And for large cross-border institutions, the regulations in the various jurisdictions are a complex maze for banks to navigate. Ms Atkinson says that because the large banks have a presence in most countries, to do business "they need to have people in the different countries who are paying attention to the regulatory environment in every country they do business in". TB

FINDING A GTB NICHE
Global transaction banking

A focus on individual key strengths, both in terms of products and geographical footprint, is the driving force behind big banks' global transaction banking business strategies as they search for a unique selling point in an increasingly competitive market. Duygu Tavan reports.

It is not surprising that transaction services, as well as particular businesses within the sector such as cash management, are a hot business. Relationships are based on annuities, so unless the client decides to switch banks, the global transaction services (GTS) business can be one of the most predictable areas for revenues. Growth in one product leads to growth in another. "But margins vary from year to year in the business everywhere," says Standard Chartered's group head of transaction banking, Karen Fawcett. Five years ago, margins on cash were twice what they are today, she says. Returns continue to be repressed, but there is valuable liquidity in the market.

"The liquidity you get from global transaction banking [GTB] is sticky. It is on the operational account, rather than the excess cash, which tends to go into fixed or structured deposits. We deal with operational accounts – it is more about the daily activity of clients. So as long as clients operate, we get business from them. This is the reason GTS is now in vogue in the industry – revenues are assured," says Ms Fawcett.

FINDING A SPECIALISM

The predictability in revenues from GTS encourages banks not only to look for the best possible products and services – creating a portfolio of services based on in-house and third-party solutions – but also to look for more cross-selling opportunities to deepen client relationships and acquire new clients. Investments are also needed to keep apace with all regulatory and compliance changes.

Changes to the securities market, particularly the Single Euro Payments Area and Basel III, are putting pressure on the overall GTB market, says Enrique Jiménez-Herrera, head of the GTB unit at Spanish lender BBVA. But compliance-related investment also provides an opportunity to capture new business, he adds.

Balancing the costs incurred from investing in regulatory compliance is thus weighted against structuring products to offer the best possible returns for clients. This makes liquidity management crucial for both banks and corporates, as both pile up cash but also have limited investment opportunities.

SEB FOLLOWS ITS MARKET

A focus on available and established strengths, rather than trying to gain global mass with a large footprint or a wide range of products, has thus become a common strategy among major banks. It therefore makes sense that banks are looking to spend their remaining investment capacities, after complying with regulations, "to bring value to customers," as Lars Millberg, head of transaction banking at Sweden's SEB Merchant Banking, describes it.

He says the Nordic industry has traditionally had large corporates that go outside of the domestic markets as growth within the area is limited, and so SEB follows corporates into the regions in which they operate. For the first 140 years of SEB's existence, the bank focused on Swedish corporates. For the past 20 years, it has been growing its client base outside of Sweden. In the 1990s, for instance, SEB bought a retail bank, BFG, in Germany. Last year it sold the retail division to Santander.

SEB's focus is now on clients with a base in the Nordics and Germany, or clients with significant business in the Nordics for whom the bank caters on a global scale. It has branches in 17 countries, including Hong Kong, London, Singapore and the US, and the merchant banking division's total income is increasingly being generated outside of Sweden.

COMMERZBANK'S RELATIONS

Germany's Commerzbank has no regional or autonomous subsidiaries. Instead, it has 7000 correspondent banking relationships that enable it to cover risk areas that other banks are unable to meet, according to Klaus Windheuser, the bank's head of cash management and international business.

"Our connectivity strategy for corporate banking is bilateral – we follow our German and Polish clients into the countries they expand in. Those are countries where we build commercial branches. Then we also follow clients from those countries into Europe and other markets, if they are active in Germany and Poland," he says.

Part of Commerzbank's expertise network is Africa, although it also has a focus on Latin America and Asia. "We never left Africa, not even during the 1980s when the debt crisis swept through the continent," says Florian Witt, the managing director and head of Commerzbank Africa's financial institutions business. "Many foreign banks then exited the market and we too readjusted our risk management, but we stayed there."

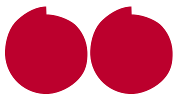
With its 143-year history in trade finance and 61-year long presence in Africa, Mr Witt says Commerzbank understands the potential of trade finance in and for the continent, something he believes the bank's competitors lack.

"Big players, such as Commerzbank, in growing markets such as Africa will continue to be able to compete. Smaller players, those currently in 10 to 12 out of big 15 markets, will probably exit the business because they cannot analyse the risks properly and end up with standard approaches – as individual approaches are expensive," adds Mr Witt.

Commerzbank has a team of 50 people in its risk management unit, six bureaus and 500 correspondent banks in Africa, "something you can only keep up if you have strong compliance checks and processes", says Mr Witt. "For other banks, focusing on so many individual banks as partners may not be worthwhile in the trade finance business."

BARCLAYS' WIDE REACH

Africa is also a big market for UK bank Barclays, although it does not have a dis- »



THE LIQUIDITY YOU GET FROM GLOBAL TRANSACTION BANKING IS STICKY. IT IS ON THE OPERATIONAL ACCOUNT, RATHER THAN THE EXCESS CASH, WHICH TENDS TO GO INTO FIXED OR STRUCTURED DEPOSITS ***Karen Fawcett***

tinct GTB business unit. Instead, it is organised as a corporate bank with product lines of business, such as cash management, trade and debt. In 2012, Barclays extended the responsibility for corporate banking to include its South African subsidiary Absa, meaning it now has a cash management team for the corporate banking division covering the whole continent and transaction banking and liquidity management services, and the bank's full range of channels.

In terms of cash management, Barclays' major markets are the UK and South Africa and its total network covers the rest of Europe, Middle East and Africa (EMEA) plus North America, giving it a presence in 23 countries, as well as a further 17 countries covered by its strategic partner bank agreements.

In EMEA, the bank's focus is on cash management and trade services, with a link to its US operations, "so that we can provide local support to US multinationals buying transaction services across EMEA", says Richard Martin, head of transactions product management, global cash management, at Barclays.

While it continues to develop its business in Africa, Barclays' trade team is expanding across Asia as the bank looks to facilitate trade flows between Asia and Africa. It is also making use of new technologies in the retail banking space. Recently, it converted its mobile payments app Pingit, which is available for retail customers in the UK, into a collections service for corporates, and is looking to extend this service to include disbursements, although Mr Martin says it is unclear when exactly this will be available.

As well as its substantial branch network in Africa, which Barclays is looking to expand further across the region through strategic partner banking relationships, the bank also has partnerships in Scandinavia and in 12 countries in central and eastern Europe.

EXTENDING BAML

Bank of America-Merrill Lynch (BAML) also follows clients into new markets and it has, over the past four years, invested approximately $1bn outside of the US in new product releases, infrastructure and technology. Significant investments have been made in foreign exchange, trade, custody and cards, both in the US and abroad. At BAML, GTS is made up of cash management, liquidity, payments, receivables, trade, custody and cards, a business that has been growing impressively over the past few years, according to Paul Simpson, BAML's head of GTS.

BAML's GTS unit works closely with its corporate and investment banking teams. In 2011 and 2012, it employed about 200 people in Asia alone, solely dedicated to the technology and operations platform, Mr Simpson says.

Investments were not just made for regulatory compliance reasons but "to be ahead of the market in serving and advising our clients about doing business within the new regulatory framework," says Mr Simpson. One heavy investment was in foreign exchange capabilities across the entire client base.

Mr Simpson says that the bank provides clients with both on- and off-balance-sheet opportunities to deploy their cash. "Large corporate clients tend to deposit large volumes of cash with us. We offer these clients off-balance-sheet products, such as corporate bonds and investments in money market funds or in our own propriety funds. Both the middle market and large corporate clients are all starting to avail themselves of these opportunities," he says.

In terms of geographical focus, Mr Simpson cites Brazil as a key market. Over the past few years, BAML has employed 60 to 70 new GTS and corporate bankers in the country and recently introduced a liquidity investment product that gives clients a real-time valuation of their deposits in local currencies.

Last year, BAML also joined up with the Hong Kong Monetary Authority to promote the Hong Kong's offshore renminbi financial platform to Brazilian corporates and financial institutions. "The Latin America-China corridor is bilateral and we are looking to capture growth in both directions," says Mr Simpson.

SETTLED STRATEGY

Two banks that have established their own particular niches are Standard Chartered and BBVA. Standard Chartered has always focused on what is now known as the emerging economies, while BBVA has always been present in Latin America.

At Standard Chartered, where GTB makes up between 30% to 35% of wholesale client banking revenues, the GTB strategy has not changed, says Ms Fawcett. "We still serve corporate and institutional clients for and in Asia, Africa and the Middle East. We haven't really added new products to our offering, but we did get better at what we do," she says.

This means that the bank first chooses a client and then works out suitable services and products from its four main product lines: cash management, financial markets, securities and trade finance. Besides its Asia, African and Middle Eastern footprint, the bank also has teams serving clients from the

US, Australia, Europe and Japan that are coming into its key regions.

At BBVA, GTB is part of the corporate investment banking unit, which also includes global markets, corporate finance business, structured lending and syndicated lending. Within GTB, the bank focuses on working capital-related products and services, such as trade finance, liquidity management and the deposit business. Clients include small and medium-sized enterprises (SMEs) as well as large corporates. For SMEs, the bank offers specific product management services and trade finance.

GTB is BBVA's main business and a priority in the corporate banking unit, according to Mr Jiménez-Herrera. He says the bank has a physical advantage thanks to its existing presence in different regions, including Asia, in both retail and corporate banking. The way he sees it, GTS is still a global business, but BBVA gives it a Latin American twist. Its business in the US, Compass, also helps with BBVA's ambitions in trade finance as the bank can leverage the US network and its Latin American expertise.

"We have been investing a lot in trade finance in the past five years. We have been active in trade finance for many years and are increasing our efforts to foster this business, not only for big corporates but also for SMEs," says Mr Jiménez-Herrera.

He also notes that in the past five years bigger corporates have started asking for several solutions that can be used across their footprint worldwide rather than just the one. "These corporates would prefer to have no more than three banks that can operate on an integrated platform that has a high level of common IT structure," says Mr Jiménez-Herrera.

Such a demand, of course, incites banks to carve out a unique selling point to retain and acquire clients. And it also spurs on innovation, something high on the agenda at all banks.

THINKING OUTSIDE THE BOX

One bank that stands out in particular when it comes to the provisions of solutions is SEB, which has gone as far as setting up a transaction banking innovation structure where it crosses product disciplines to find hybrid solutions. "You take an e-invoicing [expert] and put them with a person from receivables to solve a client demand and see what comes up," says Mr Millberg of the new structure.

The idea is to encourage bankers to spend time focusing on things that have not been on their agenda before. If someone has an idea, they gather colleagues into a lab. After the discussion, if an idea develops, they write a short memo of what the goal is and what it would achieve, and then submit it to a portal. People can then like or dislike it.

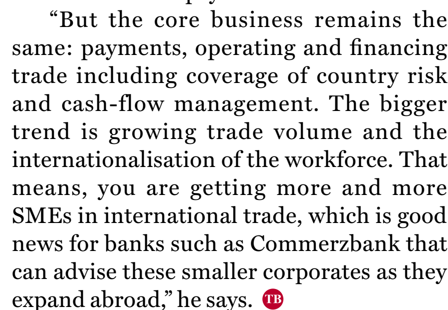
After the idea is screened to see if it fits the strategy of the bank, it is then sent to a committee, which will consist of six or seven people that get together twice a quarter to listen to the ideas. If the idea receives approval, the developers of the idea get the go-ahead. "We see an increased number of ideas coming through. Since January 2012, we have had approximately 80 ideas presented to the committee," says Mr Millberg, who chairs the committee, which is made up of senior employees from different areas of SEB.

"This is our way of trying to find the next generation of products by allowing the entire organisation to think of new products. One of the tools that has emerged from the innovation lab is an app that allows the monitoring of liquidity forecasts," says Mr Millberg.

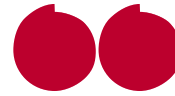
BAML has a similar approach. Its global banking platform, CashPro Online, which has more than 40,000 clients and nearly 400,000 users, is integrated with the custody, foreign exchange and corporate banking businesses. In 2004, the bank established the CashPro Advisory Board, which compromises 25 large corporate and middle-market clients from different industries. BAML also created the Global Client Advisory Board "to spearhead leading-edge thinking on treasury issues, while facilitating idea sharing, debate and innovation," says Mr Simpson. Members of the board include corporate treasurers and chief financial officers from around the world and Mr Simpson says the board helps ensure that any product innovation is commercially viable from day one.

BACK TO BASICS

But although regulatory compliance and innovation are crucial, getting the basics right is paramount. Mr Windheuser says Commerzbank finished a strategic project last year and concluded that GTB may eventually include new technologies such as the cloud and mobile payments.



"But the core business remains the same: payments, operating and financing trade including coverage of country risk and cash-flow management. The bigger trend is growing trade volume and the internationalisation of the workforce. That means, you are getting more and more SMEs in international trade, which is good news for banks such as Commerzbank that can advise these smaller corporates as they expand abroad," he says. TB



THE CORE BUSINESS REMAINS THE SAME: PAYMENTS, OPERATING AND FINANCING TRADE INCLUDING COVERAGE OF COUNTRY RISK AND CASH-FLOW MANAGEMENT

Klaus Windheuser

EMERGING MARKETS TAKE HOLD IN THE DEVELOPING WORLD
Supra-regional banks

As the big Western banks retreat from Asia-Pacific, Africa and Latin America, a new breed of 'local' lenders are taking their place. The Banker *speaks to the heads of some of the regional banks that have been the most active in these locations.* Jane Cooper *reports.*

The competitive landscape of the global banking industry is shifting as the repercussions of the financial crisis take shape against a backdrop of a broader trend that is seeing the increasing dominance of emerging markets in the world economy.

Where once international banking was about global banks 'being all things to all men', attempting to offer all products in all countries, now there is a trend emerging of a patchwork of regional banks across the globe, and the competition to the US and Europe-based global banks is coming from indigenous emerging market banks that are building franchises in their respective regions.

Not only have these emerging regional players made acquisitions from the US and European banks that are selling off non-core assets in their regions, they have also grown through following their customers overseas as they expand along with the changing patterns in trade flows.

ANZ'S EXPANSION

In Asia, regional franchises are emerging. For example, Australia's ANZ has picked up some of the pieces from UK-based Royal Bank of Scotland's retreat from Asia. In 2009, the Australian bank picked up the RBS acquisitions in the Philippines and Vietnam, and then in 2010 it acquired the retail wealth, private banking and commercial businesses in Indonesia, Singapore and Hong Kong. In 2010, ANZ also began operating in China and a year later it began banking operations in India.

Although it is an Australian bank, ANZ is carving itself a reputation as an Asian player and has been dubbed by its CEO Mike Smith as a "regional bank with strong Australian ties".

The markets of Singapore and Malaysia have also been a springboard for regional expansion. Singaporean banks DBS, OCBC and United Overseas Bank have been expanding throughout the Asia-Pacific region alongside Malaysia's Maybank and CIMB.

The project for economic integration of the Association of South East Asian Nations (Asean), which is expected to be completed in 2015, is providing opportunities for banks to operate seamlessly across national borders and build a regional franchise.

CIMB'S MULTI-LOCAL MODEL

CIMB has also acquired assets left by the retreat of RBS. In 2012, it purchased a large chunk of the Asia-Pacific cash equities and associated investment banking business from RBS, and also agreed to buy a majority stake in the Philippines Bank of Commerce. Such acquisitions set the bank up to pursue its vision of being a leading indigenous Asian universal bank.

"Our core strategy has been to evolve a 'multi-local model'," says Nazir Razak, CIMB Group's managing director and CEO. "Our leaders in each market are predominantly locals who have a deep knowledge and understanding of the markets they operate in. At the same time, we have created a strong sense of ownership and alignment to the whole group's agenda."

He adds that the biggest challenge with expanding the bank's footprint is with balancing between established company practices and the unique needs of different markets.

MAYBANK'S LOCAL FOCUS

Likewise, Maybank is also pursuing expansion in the Asean region and has embedded itself in local markets while competing with the domestic players. "Given the varying operating conditions in different markets, Maybank's approach has always been to grow responsibly and sustainably within Asean and also its trading partner nations. This is always complemented with a strategy of being prudent and using controlled aggression," says Maybank's president and CEO, Abdul Wahid Omar.

"Our international network enables us to expand our services to clients in different markets as well as diversify our income streams and tap into high-growth markets. This helps us to add value to our stakeholders. However, we differentiate ourselves by ensuring we grow in line with our corporate mission of humanising financial services," he adds. "We want to be bankers with a heart."

On what makes Maybank stand out, Mr Omar says: "Another differentiator is our ability to tap on group synergies to build our regional network. Maybank already has a wide network within Asean as well as a presence in our main trading partner nations. With our intention of growing our presence in Greater China, the Middle East and, eventually, India, we are positioning ourselves as the banking group to support cross-border transactions and investments between Asean and China, Asean and the Middle East and Asean and India."

The challenges of such an expansion strategy, he explains, include the availability of skilled resources that can be deployed across the region. Another challenge is the amount of capital required to enter a market and whether the returns will be commensurate with the investment. Regulatory requirements and constraints of the various markets are also a challenge as certain markets limit the type of products and services that can be offered. Also, says Mr Omar, the ability to scale operations effectively and integrate the new infrastructure within the group is a challenge.

DBS THINKING ONLY OF ASIA

Another regional bank that is expanding across Asia is Singapore-based DBS. "Unlike the global banks, we are focused on growing within Asia, where we believe we have a competitive advantage. Outside of Asia, we use our non-Asian locations to serve as network points to assist Asian-centric business," says Piyush Gupta, CEO of DBS Group. The bank has focused its growth on Greater China, south-east Asia and south Asia. "This is unlike our regional competitors who tend to focus on one sub-region," adds Mr Gupta.

Like other regional banks, DBS faces the challenges of regulatory requirements in each of the markets where it chooses to

operate. "In markets such as China and India, there are limitations on the pace at which foreign banks can establish branches. For example, in China, the pace of our branch expansion is largely dependent upon the pace at which all the requisite regulatory approvals can obtained. In India, the maximum number of branches allowed under the Comprehensive Economic Cooperation Agreement between India and Singapore is 16," says Mr Gupta.

"While we have a universal banking franchise in Singapore, in most of our other markets, where our network is more limited, we are focused first and foremost on institutional banking and the affluent segment."

The prospects for the Asean region are looking brighter with the opening up of Myanmar, and many regional banks are looking to establish operations in the country. For banks such as Standard Chartered, the opening up of Myanmar would connect its franchise in south-east Asia. And as an international bank that focuses on emerging markets in Asia, Middle East and Africa, the bank is well positioned to capture the growth in the emerging markets. With networks across these regions, Standard Chartered is able to capture both sides of the banking business to support the increasing trade flows between emerging market economies.

Asian ambition: Singapore-based DBS (pictured) has focused its growth on Greater China, south-east Asia and south Asia

ECOBANK'S WIDE REACH

Africa has also witnessed a growth in indigenous banks expanding across the continent. For example, Morocco's Attijariwafa has become Africa's biggest lender by assets outside of South Africa, and Nigeria's United Bank for Africa operates in 19 African countries. Togo-based Ecobank is also building a regional franchise and has operations in 32 countries, making it Africa's biggest lender in terms of geographical reach. The bank is ambitious and seeks to grow along with Africa's economic growth.

"We approach the task of building our footprint based on our fundamental understanding and on-the-ground knowledge of local trade flows between the many African countries in which we operate," says Thierry Tanoh, Ecobank's group CEO.

"While many of our competitors focus solely on having a presence in the key African capital cities, we position ourselves not just in major conurbations but also in border towns and smaller cities, where trade caravans and large informal markets have developed over many years of intra-African trade. We are building commercial bridges to enable greater trade and capital mobility within the African landscape."

"In Africa, where you have more than 50 countries and four official business languages, there cannot be a one-size-fits-all approach to market entry. We tailor our product offerings to suit the varying needs of our customers, for example, dual-language ATMs and recruiting from the local business community to fill customer-facing roles. We feel that this approach offers us the best opportunity to quickly capture market share.

"However, Africa's recognised deficit in strategic infrastructure remains one of our biggest challenges in growing our network. As a result, we have focused on investing in our own robust IT and telecoms platform, which is now the largest corporate network in middle Africa."

STANDARD BANK ADVANCES

While Ecobank has a geographical reach across the continent, South Africa's Standard Bank is the largest African bank by assets and earnings. "Standard Bank Group's expansion into sub-Saharan Africa differs from many of our local peers in that we are at an advanced stage of building on-the-ground banking franchises. We have a number of mature banking franchises in sub-Saharan Africa, where we have strong markets shares across the full spectrum of personal, small business, corporate and investment banking," says Jacko Maree, Standard Bank Group's chief executive.

"We can therefore offer our clients a unique proposition of being their local bank in country, their sub-Saharan African »

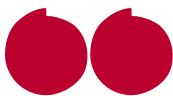
[CIMB's] CORE STRATEGY HAS BEEN TO EVOLVE A 'MULTI-LOCAL MODEL'. OUR LEADERS IN EACH MARKET ARE PREDOMINANTLY LOCALS WHO HAVE A DEEP KNOWLEDGE AND UNDERSTANDING OF THE MARKETS THEY OPERATE IN

Nazir Razak

Opening doors: South Africa's Standard Bank has expanded into sub-Saharan Africa and has strong markets shares across the full spectrum of personal, small business, corporate and investment banking

bank for clients operating across the region, as well as their international bank for cross-border trade and investment business.

"The biggest challenge when entering a new market is that building a full-service domestic bank from scratch takes a long time and is very expensive. It is usually preferable to acquire an existing bank than build one. However, there are currently very few quality acquisition opportunities to consider that are reasonably priced, given the intensely competitive environment. We have built a bank from scratch before and been successful, and we are currently doing it in Angola – but it is tough."



Besides providing services to ICBC's existing clients, ICBC Brazil will pursue a more positive local presence. ICBC Brazil's vision is to facilitate Sino-Brazil economic and trade relations *Zhao Guicai*

CHINA'S INFLUENCE

Such African banks are not just taking advantage of the economic growth on the continent, but also increasing trade flows with other emerging markets. China's rise to global economic dominance has seen it form trading relationships with emerging markets across the world. While many observers have commented on the economic shift from West to East, there has also been an emerging trend of increasing 'South-South' trade flows between emerging markets.

According to HSBC's Global Connections trade report, world trade growth is forecast to rise to approximately 5% in 2013 and pick up to about 6% to 7% between 2014 and 2016. Trade flows, the report notes, will be driven by the emerging markets, led by Asia and driven by the influence of China and India.

China's banks are following these trade patterns and establishing an international footprint. For example, the state-owned Chinese bank, ICBC, bought a 20% stake in Standard Bank in 2007. Since then, ICBC has expanded in other key emerging markets.

For example, in December 2012, ICBC gained a banking licence for a branch in Brazil, which was set up to facilitate bilateral trades and investments between China and Brazil. According to ICBC, the trade value of imports and exports between China and Brazil is expected to have totalled $95bn in 2012. According to China customs, the growth in China-Brazil trade volumes since 2009 has been 40%. The addition of this Brazil branch means that ICBC now has a global network of nearly 400 overseas branches with full banking licences.

"Besides providing services to ICBC's existing clients, ICBC Brazil will pursue a more positive local presence. ICBC Brazil's vision is to facilitate Sino-Brazil economic and trade relations," says Zhao Guicai, head of ICBC's Brazil business. "There are a lot of big differences in many aspects between Brazil and China. To many foreign-invested companies in Brazil, one of the biggest challenges in running their business is the high cost in Brazil."

Aside from the expansion of Chinese banks such as ICBC in Latin America, the region has also seen the growth of indigenous regional banks. Local lenders are becoming more ambitious in their expansion and have also been able to take advantage of the retreat of European banks from the region. For example, Spain-based Santander Group sold its operations in Colombia to Chile's CorpBanca, and HSBC sold its central American assets in Costa Rica, El Salvador and Honduras to Colombia's Banco Davivienda.

Brazil's Itaú Unibanco has been on a path to regional expansion since it was created by the merger of Banco Itaú and Uniao de Bancos Brasileiros in 2008. And BTG Pactual, an investment bank which coordinated approximately 50% of the total initial public offerings in Brazil between 2004 and 2011, is set to expand further into the region. In February 2012, it announced its merger with Chilean asset manager Celfin, which has the potential to create a leading investment banking group in the region.

As emerging markets account for an increasing portion of global economic growth, it remains to be seen which of these regional players will develop into becoming the big global players of the future. TB

INTERNATIONAL BANKING PLATFORMS: THE NEW IMPERATIVES

Changing demands

The economic changes that have taken place over the past few years have forced banks to fine-tune their business and expansion strategies, not just to stay competitive – or regain their competitive advantage – but to also keep abreast with new technologies and changing demands from clients, says Chris Curtis, vice-president of Oracle Financial Services Global Business Unit.

THERE IS A PERCEPTIBLE SHIFT IN THE GLOBAL BANKING AXIS. Firstly, banks that have traditionally held sway on a global scale are rethinking their expansion strategies, withdrawing to their local markets for consolidation. This is opening the field to highly ambitious newer players with the stamina and drive to go the distance. Secondly, with the opening up of their economies, emerging markets across the world are fertile ground for two-way trade and business expansion. This is allowing successful banks in these regions to progressively expand their footprints across borders, following in the footsteps of their corporate clients.

Banks on the expansion path address these opportunities in several ways. In our experience, we see four kinds of operating models in vogue: the international branch network, the super-regional bank, the international wholesale bank, and the global transaction bank. Depending on the economic profile of the base country, its geo-political position and history, and their own growth strategy, among other factors, banks tend to adopt one or the other model. Some banks move progressively from one model to the next as a strategy for growth.

UNDER CONSTANT REVIEW

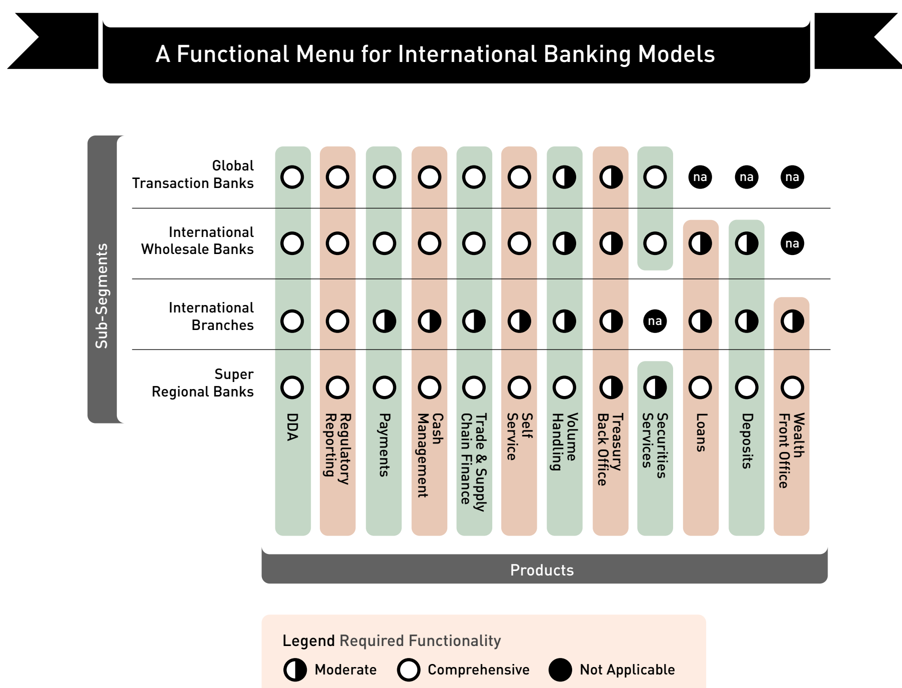
In order to equip themselves for the future, banks need to constantly review the technology that supports their business. Are their respective technology platforms merely stable, or are they truly scalable? And what are the business challenges that they are likely to face in newer business environments that their technology ought to address?

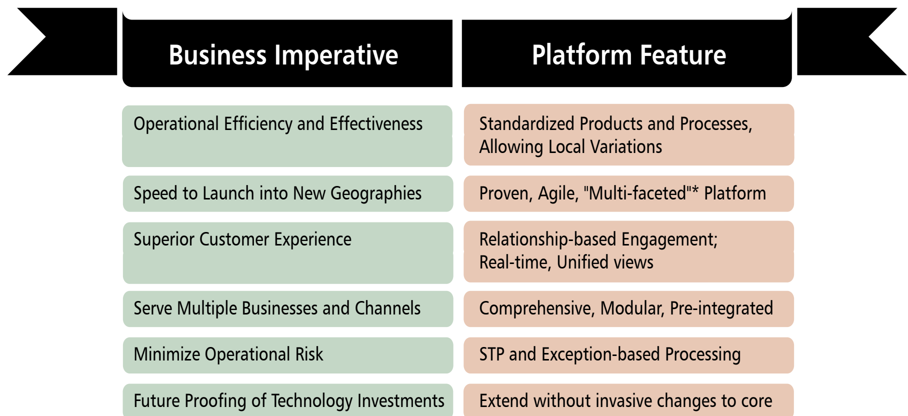
Common to all the operating models for international systems are the following challenges: complying with a multitude of regulations and regulatory authorities, adhering to seamless and time-bound payment frameworks, providing a real-time management information system (MIS), tracking exposure centrally, offering single-customer views, and delivering differentiated yet consistent products and services on the go across markets.

A technology platform that claims to address these challenges must be 'multi-everything': multi-lingual, multi-currency, multi-entity and multi-cultural (for instance, banks must ensure that their core system is capable of offering Islamic banking services for the long haul on the same platform). The processing engine must be sufficiently flexible to slice and dice data for the purposes of region or country-specific reporting and MIS.

It must also be built on a modern technology platform is a modular yet integrated architecture: modularity allows banks to choose the scale of deployment based on their size or focus, thus reducing their cost of ownership; and, it is an integrated system that can offer the customers of a bank a seamless, consistent experience across channels. In fact, an optimally sized, fixed kernel, wrapped by layers of extensible functionality, helps banks reduce vendor dependency and customisation costs.

In order to even remain relevant to – if not proactively servicing – the banking needs of their corporate customers embarked on business ventures in newer geographies, banks need to constantly reinvent their product »





spread. The ability to design, define and launch standardised products with a local flavour is a key feature that technology platforms must support. These are the standard requirements. The specifics of the platform that a bank chooses would hinge considerably on its business strategy.

INTERNATIONAL BRANCH BANKING

A core system that is cost-effective, and which has a considerable breadth and depth of functionality, would ideally support international branch banking. A bank with an international network of branches that serves its non-resident customers would, primarily, need to conform to local regulations and currency restrictions. Therefore, apart from supporting the bank's reporting requirement, the technology backbone must be a highly streamlined payments and transfers gateway. Further, in order retain and attract small and medium-sized enterprises (SME), the trade finance modules must be functionally rich, as this would form a huge chunk of the bank's fee-based business.

In terms of scale, a platform developed on a service-oriented architecture, which allows a bank to standardise data, interfaces and applications across its operations, would be a pre-requisite. Such an architecture would provide deployment options to the bank, such as: clustered, centralised, independent or semi-dependent.

SUPER-REGIONAL BANKS

Super-regional banks (SRB) are those that offer a standard array of products and services to their retail, SME and corporate clientele in a geo-politic region. SRBs tend to flourish in emerging economic regions, such as Africa, parts of Asia, Latin America and eastern Europe, as a result of their opening up to global capital flows. The opportunities for growth both in terms of interest and non-interest based incomes is particularly attractive in these regions.

The technology platform for banks with a universal banking focus, aspiring to leverage their brand equity across a region, must primarily support a high volume of transactions and real-time exposure tracking across jurisdictions. Its products and services capability must extend to high-end self service, wealth management, loans and deposits, and cash and supply chain management. Since SRBs would be competing with local banks for market share, a nifty and modular architecture should be a prime consideration. In Oracle's experience of working with banks that have adopted this growth strategy, we found a centralised hub an ideal deployment strategy.

WHOLESALE BANKING

Banks focusing their international operations on wholesale banking would, self-evidently, require a core engine that offers evolved cash and liquidity management facilities, and commercial loan and deposit, treasury, capital market and trade finance functionality, including loans syndication facilities. Moreover, since banks would need to distinguish themselves in the market with extraordinary value-added services such as dedicated portals for corporates, they would need a system that is business-process driven, so that they are able to define, modify and operationalise workflows at will.

Integrating the entire supply chain through an enterprise resource planing system, for instance, would help improve data mapping and operational efficiency, which, in turn, would considerably reduce risk. Finally, an international wholesale bank would find a system that enables data warehousing – for data cleansing and analytics – a business enabler. Not only would this feature considerably augment business responsiveness, it would also improve insights into client behaviour, thus bettering the client experience.

TRANSACTION BANKING

With a global regime of tighter capital adequacy norms, banks have begun to focus on fee-based incomes. Global transaction banks (GTBs) exemplify this trend. These banks, with a large presence in several countries and an unstinting focus on transaction banking and fee-based revenues, focus heavily on their corporate customers by offering them innovative products. Their business typically spans areas such as domestic and cross-border payments, professional risk mitigation for international trade, and trust, agency, depositary, custodial and related services. A typical product and services suite for a GTB would include demand deposits, liquidity management, trade services, payments and securities services (transfer agency).

The technology platform that supports this business model, evidently, must be equally sophisticated in terms of functionality and deployment scale. In our view, the platform must be open and extendable, and deployed on a hub and spoke model. Possessing templates for greenfield rollouts reduces cost. Also, to accommodate divergent regional requirements, banks must specifically look for a system that offers configurable, business-process-driven workflows. Not only does this obviate expensive region-specific customisations of the system, it also provides for evolving regulatory requirements. A bank looking to roll out a single technology platform for its operations is without doubt embarked on the most complex technology programme in banking.

An investment of such magnitude, in terms of resources, time and material, is best justified over a multi-country rollout of the platform. In fact, such a rollout not only optimises costs while improving operational efficiency, it offers banks the true flavour of benefits over a longer term, and indeed well into the future.

No matter what their path to internationalisation, the ability of banks to identify a technology platform that is modern in design and construction, and which will serve them over the long haul with little customisation and maintenance, is critical to their success. We believe flexibility, scalability and reduced vendor dependency are the hallmarks of such a platform. TB

Chris Curtis is the vice-president of Oracle Financial Services Global Business Unit.

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