



# Banking on better cash management services

Thailand's banking sector has risen to the challenge of providing sophisticated cash management services for global businesses, says Lance Robinson of Bangkok Bank.

Thailand is one of the key economies of Southeast Asia. It has a population of 62 million in an area roughly the size of France or California. Export performance is high, averaging more than \$6bn in the second half of 2000, with a growth of 20%. Automobiles, electronics and electrical appliances lead exports. It also has a growing consumer and service sector showing stable growth following the recession of 1997-1998. As a result, Thailand is a key market for international corporations from many countries and industries, all requiring sophisticated cash management services.

## Banking sector

Thailand's banking sector has changed substantially as a result of deregulation starting in 1991 and the economic crisis beginning in 1997. Currently, there are 13 locally incorporated Thai banks and 31 foreign bank branches. Four of the local banks are now majority owned by foreign banks, having been acquired since the 1997 crisis. The 13 local banks have a total of 3,436 branches; foreign bank branches are limited to a single branch location in Bangkok only. Therefore, many foreign banks have entered into partnership agreements with local banks to provide cash management services for corporate clients.

## Cash management requirements

There is a wide range of company treasury structures in Thailand, varying from simple cash and funding operations for smaller Thai companies to advanced treasury operations of larger Thai corporations, to a handful of sophisticated regional treasury centres (RTC) or shared service centres (SSC) of multi-national corporations (MNCs). Many companies, local and international, have adopted enterprise resource planning (ERP) systems, although the level of successful utilisation of these systems varies.

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The Thai banks are well geared to offer comprehensive cash management solutions for all these clients through their own networks as well as through strategic alliances with the big global cash management banks. These solutions have moved from manual processing early in the 1990s, to partial automation and fully electronic banking and are now moving towards adoption of e-commerce models. They include disbursements, collections, liquidity management and information products.

## Disbursements

Most companies in Thailand make payments using a combination of cheques and electronic transfers. Cheques are popular for business-to-business (B2B)



Lance Robinson

transactions, whereas cash is preferred in the retail sector. The reason for the popularity of cheques is the desire of counterparts to link the physical payment with the exchange of the official tax receipts. Counterparts with long established relationships are often willing to exchange these separately. But inaccurate receipts or receipts lost in the mail can increase the administrative work for the firm's back office.

Most banks offer a cheque payment outsourcing and receipt exchange service. The payor transmits a file of cheques and related information to the bank. The bank prints the cheques, related payment advice, and withholding tax receipts. The bank will then hold the documents at a designated branch to be collected by the beneficiary's messenger. The bank collects and verifies the related receipts and sends them back to the payor. This service was originated in Bangkok. But greater demand for this service at branches in provincial areas is growing. The foreign banks can offer it outside Bangkok through the network of a local partner bank.

The other popular payment mechanism is the electronic 'direct credit' book transfer product offered by all of the big local Thai banks. This allows the payor to send instructions electronically to debit the payer's account and credit the accounts of suppliers held on the books of the bank, usually on a real-time basis. This system does not allow for interbank payments, but most suppliers hold accounts with the largest local banks or are willing to open an account to accommodate a key customer. Maintaining disbursement accounts with two or three larger Thai banks should provide full coverage of even the most complex supplier networks.

During the past several years, the Bank of Thailand has launched two electronic interbank payment systems to encourage the move away from paper-

based payments. The BAHTNET system is a real time gross settlement (RTGS) system geared towards low volume and high value payments. The Media Clearing system is batch-based and oriented towards high volume and low value payments such as corporate dividend and payroll.

The BAHTNET system is used primarily for settling interbank treasury transactions and cross border commercial payments. Its use for domestic Thai baht (THB) cash management is limited due to the high transaction costs. The media clearing system has been growing in popularity due to its use by the foreign bank branches, because these banks lack the extensive network of branches and corporate accounts that the local banks can access for the more efficient 'direct credit' service. However, current weaknesses of the system include limited reference information and unclear procedures for amending, stopping or recalling payments made in error. As a result, several foreign bank branches have worked closely with their local bank partners to access the 'direct credit' systems on behalf of their MNC clients.

### **Collections**

Collecting money from a distribution network or customer base in Thailand is a challenging task. Commercial customers prefer to pay bills by cheque, whereas retail customers more often prefer cash. In both cases, customers place high value on a receipt issued at point of payment. This has led to the development of several collection methods by the Thai banks using their extensive branch network infrastructure and offering accelerated collection of funds, as well as valuable accounts receivable information.

Most bills are paid over bank branch counters using 'bill payment' or 'bill collector' services. Special pay-in slips accompany bills or invoices sent to customers. The customer then takes the pay-in slip to the nearest branch of the biller's bank. The bank captures the associated reference numbers, which are then passed back to the biller electronically. In addition to paying over the counter the service allows the customer to pay in via telephone banking, telefax, ATM, and shortly internet. The more sophisticated Thai banks offer these services from all branches nationwide on a real time basis. Additional features include the handling of post-dated cheques, accelerated availability of cleared funds and

## **Significant investments in the past have brought the local banks to competitive service levels for local cash management products**

extensive accounts receivable information to allow tracking of collections to the customer, invoice, and sales agent level.

The development of these collection products owes much of its inspiration to a complex cheque clearing system as well as a slow and not always reliable postal service. Thailand has 88 cheque clearing zones, one of which is metropolitan Bangkok. Clearing cheques within a zone is relatively fast and easy, usually never more than two days. Clearing cheques 'cross-zone' can take longer, although the BOT has recently mandated that the maximum can be no more than six days.

In addition, there are cross-zone clearing charges imposed by the banks. Therefore, most companies will look to the local banks to provide solutions to avoid the time and expense of mailing cheques back to the accounts receivable department in Bangkok, only to be sent back out to the provinces for clearing. For some of the same reasons, attempts by some banks to promote lockbox products have met with only limited success.

Most of the Thai banks also offer direct debit services, which are popular with billers such as credit card companies and department stores. However, the premium that commercial customers usually place on hard copy receipts for payments as well as a reluctance to give a debit authority for commercial reasons tends to limit the application of direct debit to the retail sector.

Currently, the direct debit product is based on book transfers, with both biller and customer having their accounts within the same bank. The BOT operated media clearing system does not yet have a debit component, although it is currently under discussion.

### **Liquidity management and investment**

Options for managing and investing

excess liquidity are limited. Current accounts are not allowed to pay interest. The big Thai banks offer automatic account sweeping, pooling and overdraft protection. But regulations require the physical as opposed to notional movement of funds between accounts. Aside from savings or fixed-term deposits the options for short-term investment of excess funds are limited. Most bank dealing rooms can arrange for the purchase of bills of exchange or local bonds, but these often fail to carry the credit ratings required by many corporate treasuries. The frustration is increased by the very low interest rates (less than 1%) payable on short-term deposits by banks due to excess THB liquidity in the banking system currently.

To support daily treasury management activities the key Thai banks offer a range of electronic banking solutions such as balance reporting, file upload and download, as well as SWIFT 940 and email delivery of account statements and transaction information. During 2001 these capabilities will move onto internet platforms with enhanced functionality and efficiency.

### **Cash management solutions**

MNC's operating in Thailand can access both the capabilities of their global cash management 'house banks' as well as the local expertise and capabilities of the large Thai banks. Significant investments over the past several years have brought the local banks to competitive service levels for local cash management products. Often, the most effective solutions involve overlaying the broad-based services of the local bank with the regional/global capabilities of the international bank. This requires the local and international banks to work together closely on the client's behalf. Fortunately, this is the current trend, with clear service and delivery agreements, systems integration, and even joint marketing and product development between strategic cash management partners.

Understanding the depth of these network relationships can be one key to success as the corporate treasurer searches for the best cash management solution in Thailand. ■

*Lance Robinson is Executive Consultant at Bangkok Bank.*  
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