Hot topics

ANDY REID DISCUSSES WHAT CORPORATES REALLY NEED FROM THEIR CASH MANAGEMENT PARTNER IN 2011, AND LOOKS AT WHAT BANKS ARE DOING TO DELIVER IN THIS CHANGING MARKET.

LOOKING AHEAD TO 2011, WHAT SIGNIFICANT MACRO TRENDS ARE WE SEEING IN CASH MANAGEMENT AND WHAT IMPACT IS THIS HAVING ON CORPORATE CONSIDERATIONS ABOUT BANKING PARTNERS? Despite the 2008 financial crisis subsiding, there is nevertheless a powerful wake as banks and corporates look towards the future. With a less stable banking sector, pending regulatory changes affecting capital and liquidity planning for banks, and a renewed focus on European payment strategies driven by increased transparency around Single Euro Payments Area (SEPA) timelines, there will be significant complexity to navigate through.

The low interest rate environment that persists across large sectors of the global economy continues to influence corporate behaviour, as does the ongoing challenge of securing bank credit. Optimising liquidity and leveraging excess cash – at a global level where applicable and feasible – remain key priorities for many corporates. We expect to see a continuation of corporates reconsidering their cash management structures and partners, and in doing so we expect there to be more direct dialogue and linkage between the allocation of flow business and the allocation of credit.

In addition, we are seeing corporates taking a closer interest in the broader business models of their transaction banking providers in an effort to ensure that partners' strategies and growth models are aligned. In this respect, corporates are looking for sustainability and guarantees regarding future investment in infrastructure and products, as well as alignment in terms of geographic expansion and a shared focus on similar regions and markets. They are seeking providers that are well positioned to guide them through the challenging and changing regulatory landscape that is likely to prevail.

HOW ARE THESE DEVELOPMENTS AFFECTING THE TYPE OF SOLUTIONS THAT WE ARE SEEING BROUGHT TO MARKET? With integrated risk management and liquidity a priority, corporate treasurers need tools that allow them better visibility over all processes and flows. Close monitoring of cash positions and exposures has become more important than ever, and as a consequence the spotlight is on online platforms that offer a single window access point, through which flows can be monitored and managed in a user-defined, customisable way. Such platforms also offer the opportunity for treasurers to take a more joined-up approach to combining a range of strategic cash management and supply chain activities, including e-billing. Online banking platforms are giving the leading providers a new way of distinguishing themselves in the transaction banking sector, which in many ways is seeing increased commoditisation and standardisation.

For example, the growing popularity of corporate access to SWIFT continues to drive standardisation from a corporate-to-bank communication perspective. The increased appreciation by SWIFT of the needs of corporate businesses is driving a more focused investment approach and helping further commercialise the proposition to a wider corporate market (the current 3SKey security initiative being a good example of such an approach).

With the acceleration of new technologies affecting everything from managing bank account mandates – via the Electronic Bank Account Mandate (EBAM) initiative – through to providing clients with greater opportunities to selfservice their needs using more intuitive bank interfaces and platforms, the impact on customer interfacing cannot be underestimated. In addition, the rise in mobile applications to view accounts and initiate payments is already delivering flexibility to corporate treasury. Taking this one step further, we continue to see interest in the mobile payment arena, where integrated electronic invoice presentment and payment solutions can be interwoven to improve account payable and receivable solutions. Within this space, advancements in pre-paid card payment solutions, contactless cards and the development of mobile NFC (Near Field Communication) transaction solutions also present corporates with opportunities.

SO ARE WE SEEING CHANGES IN THE WAY THAT CORPORATES AND BANKS INTERACT? From corporates we are seeing much more scrutiny as they seek guarantees from banks regarding the sustainability of business models and future investment in infrastructure and systems. And from some banks there is a concerted effort to develop new ways of interacting and engaging with clients in order to have a positive impact on the development of products and solutions.

At Deutsche Bank, for example, we recently launched a social media campaign that lets clients participate in the product development process via information sharing, voting and discussion with other clients and bank staff. Initiatives such as this will transform the way in which the bank communicates with clients and ensure that new products and solutions are closely attuned to corporate needs.

In addition, corporates are looking for support with regard to evolving regulatory developments, particularly in respect to SEPA. For example, it is now clear that the European Commission is looking to confirm the schedule for full migration. This will unquestionably accelerate corporates' preparations to adhere to and benefit from the scheme, especially with the resulting decommissioning of local clearing systems. Following a slow period of take-up and adoption since the launch of the SEPA Credit Transfer in 2008, the revised aggressive timelines now under consideration may surprise some.

ON A MORE TACTICAL LEVEL, HOW ARE CORPORATE ACCOUNT STRUCTURES EVOLVING? Where we once saw the management of payables and receivables taking place at a relatively local level, the emphasis is now very much on putting together regional and global structures wherever possible. In Europe, this trend has received additional impetus from SEPA's harmonisation of payments standards, yet it is something that is also taking place across Asia-Pacific, the Middle East and the Americas.

This more integrated approach to managing transactions across a broader geography is being matched by a willingness to integrate different aspects of cash management into a single solution. For example, regional card acquiring and the proactive management of cross-currency payments are two areas that are increasingly being considered as part of overall cash management arrangements.

More fundamentally, we expect clients to continue focusing on rationalisation strategies, specifically eliminating all non-essential current accounts in an effort to reduce costs, as well as simplify funding and liquidity management structures. In doing so, corporates have the opportunity to standardise their operating models while cutting overheads. In this respect, the proliferation of in-house bank solutions and/or virtual account solutions remains a hot topic.

HOW ARE THESE DEVELOPMENTS AFFECTING THE WAY TRANSACTION BANKING PROVIDERS DO BUSINESS?
Nowadays there is a much greater awareness among banks of how the alignment of product areas affects the development and delivery of solutions to clients. Indeed, the breaking down of trade finance and cash management internal silos is in direct response to the changing needs and ambitions of corporate treasury departments, which now look at flows and solutions more holistically.

Taking this one step further, one example within Deutsche Bank of how such cross-business initiatives can benefit clients is the FX4Cash product. FX4Cash is a successful collaboration between the bank's Global Transaction Banking (GTB) and Global Markets (GM) divisions that provides significant efficiency gains in the management of cross-currency payments on both a payable and receivable basis. Looking into 2011, within Deutsche Bank we will see more projects like this as further synergies within the bank are realised.

HOW ELSE ARE PROVIDERS DISTINGUISHING THEMSELVES IN THIS MARKET? At Deutsche Bank a major area of focus is client management and servicing. This is something we have worked hard at and will be placing huge emphasis on going forward. We recently overhauled all global documentation relating to corporate cash management products and services, introducing a modular system that is saving time and making life easier for many clients, both during onboarding and throughout the entire lifecycle of a relationship. This was part of a broader project to look at and improve all aspects of bank/client interaction and empower clients.

LOOKING STRATEGICALLY, PERHAPS BEYOND 2011, HOW DO YOU SEE CORPORATES LOOKING AT CASH MANAGEMENT AND BANKING STRATEGIES? The focus will remain on seeking greater levels of efficiency through automation and consolidation as clients continue to take a more regional and global view of cash management. The financial supply chain will stay at the top of the agenda for many corporates and their banking partners as a result of the growth of business taking place on an open account basis. Ensuring business continuity by taking an active interest in the liquidity position and general financial health of key trading partners is also something that will continue as memories remain fresh of the difficulties that were faced by some corporates at the height of the financial crisis.

In terms of the providers themselves, transaction banking remains an extremely competitive sector with high barriers to entry and a premium on size and scale. In this respect, we are likely to see an increasing proliferation of partnerships between global providers such as Deutsche Bank and smaller regional and local players in order to deliver the latest products and solutions to as many corporates as possible.

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