A marriage of convenience

Banks that work together can serve their customers better, which would benefit corporates. Carole Berndt explains

The time has come for global banking partner alliances – and they should be welcomed by corporates and government agencies across the Middle East.

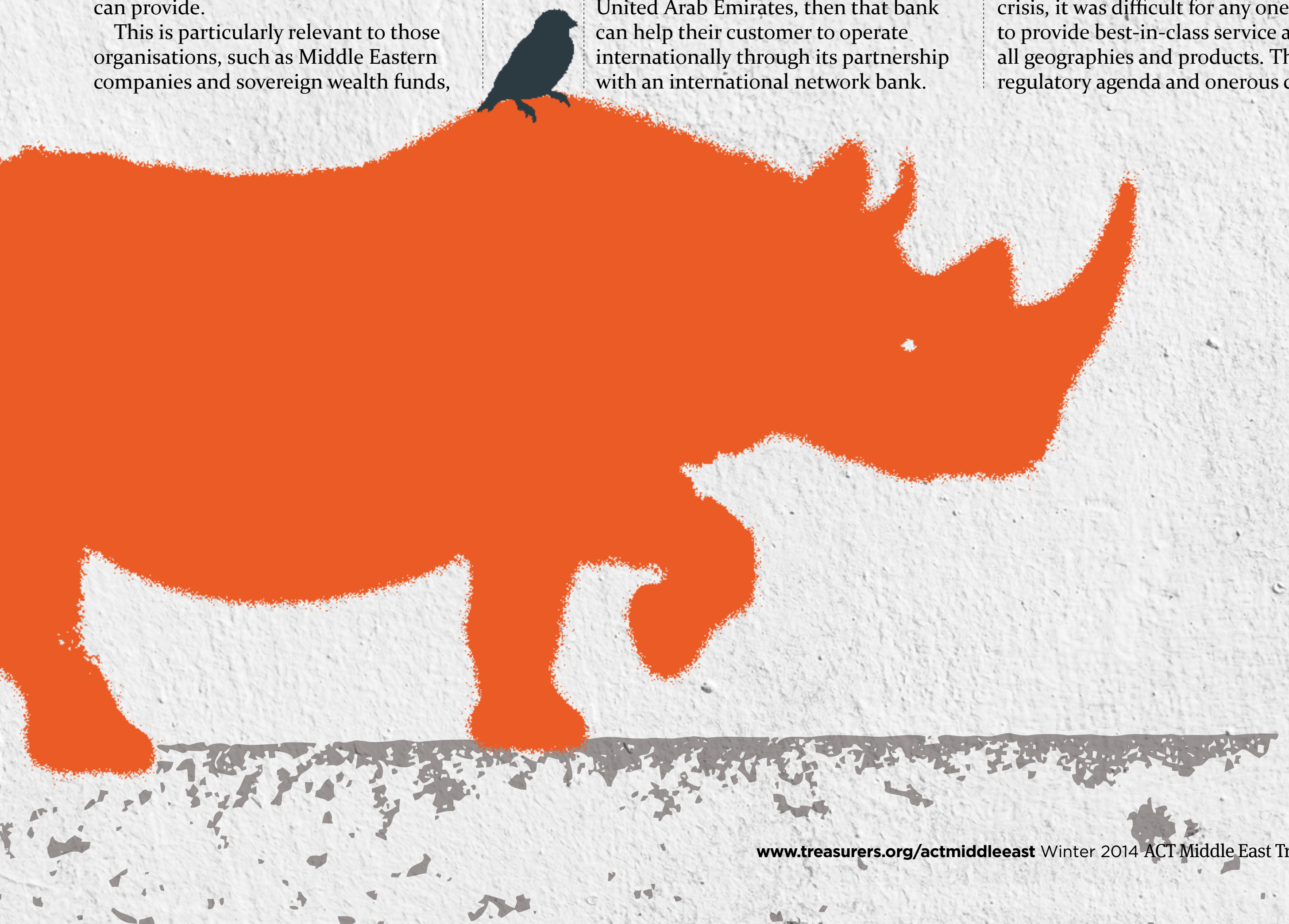
By working in partnership with each other, banks can operate more efficiently while significantly expanding their global reach, the services they can offer, and the depth of local knowledge they can provide.

This is particularly relevant to those organisations, such as Middle Eastern companies and sovereign wealth funds, which are looking to grow and expand both regionally and internationally. This may be into developed markets such as the UK or Western Europe, or into those that are still developing, such as Africa, Asia, Central and Eastern Europe and the Middle East.

Alliances can work in a number of ways. If a corporate enjoys a primary relationship with a local bank in the United Arab Emirates, then that bank can help their customer to operate internationally through its partnership with an international network bank.

The same is true in reverse. By partnering with domestic, regional or global banks, an international bank can serve customers in countries where it has no direct presence, but with the major advantage that the domestic or regional partner will have a much greater understanding of local conditions.

Even in the heyday of global, universal banks in the run-up to the financial crisis, it was difficult for any one bank to provide best-in-class service across all geographies and products. The heavy regulatory agenda and onerous capital



requirements make it an even harder task today.

Yet, there is still a need for banks with significant international networks. They provide the vital plumbing and services needed for corporates and governments to move money around the world. And they will not be mutually exclusive. Global and international banks would have to team up with each other as well as with domestic and regional partners.

What this means for corporate treasurers

Banking partner alliances would mirror those seen in the airline industry where global giants partner with each other and regional and local players to provide a complete one-stop service. Airline customers have a single point of contact, and can travel nearly anywhere in the world on a single ticket.

In banking, the ideal solution would be to provide one account, opened through a single on-boarding process that enables money to be moved seamlessly around the world through a number of partner banks.

So corporates should be able to enjoy completely transparent reporting and reconciliation, while being able to move money around the world at the click of a button. This would make it easier for treasurers to manage cash and liquidity, and optimise working capital. A single point of contact with a bank would allow banks to build good relationships with clients, creating greater trust, understanding and loyalty.

Partnership banks could share expertise, allowing them to provide clients with a much richer set of products and services. Networks would match those of their multinational clients much more closely.

What are the benefits over existing models of banking?

Partnerships offer two key advantages over the pre-crisis global universal banks. The most important benefit stems from the financial crisis itself: no corporate or any other client wants to be exposed to a single banking counterparty.

International networks consisting of one or two major banks focused on core markets, while complemented by local and regional partners, mean treasurers do not have to put all their eggs in one basket. This reduces the risk they face from financial implosion.

Global banks, while they can offer services across a number of different areas and geographies, cannot always offer best-in-class to all.

Technology is central to making this happen. Greater collaboration in technology would help banks to innovate and to develop new products and services more effectively and cheaply. Members of an alliance would be able to bear costs jointly and ensure that systems are open and properly aligned. They would also be open to new ideas and flexible and responsive to change.

A willingness to embrace new innovations should mean that international partner banks are up to the idea of working with clients to ensure that systems can be integrated between banks, central banks and clients. Greater transparency should lead to more innovation and banks relying less on their legacy systems. The result should be technology that is more robust and better able to meet client needs.

Such moves would build on existing trends towards standardisation, which allow banks to move and manage money more efficiently, and give them greater flexibility to choose their own systems.

It is likely that partnership networks would evolve. One of the main reasons that banks will eventually want to work together in this way is that it is expensive and time-consuming to create international banking networks.

The time is coming for banks to work in partnership. There is value for both the banks and our customers by doing so. By working together, banks will add more value to our customers by providing seamless payment, reporting and integrated channels. Customers will have best-in-class services in all of the markets in which they operate. Treasurers will have immediate access to funds at their fingertips, know exactly what their global cash position is, and have the ability to easily move funds where they need to go.

The expected end result is to have better banking at lower risk to corporate treasurers.

BARRIERS TO PROGRESS

A number of barriers need to be overcome before alliances can come to pass:

◆ Banks will need to invest in their channels to ensure that they are flexible enough to work properly with those of partner banks and clients. The idea of monolithic bespoke payment systems is now out-dated. Cloud computing and open-source technologies might have an increasingly important role to play in future.

◆ There are a number of regulatory issues that arise with alliances, including know-your-customer requirements. But these can offer a competitive advantage to banks over alternative payment providers. Clients like regulations because they provide, for example, guarantees that payments will be made in a secure environment.

◆ The competition authorities will also take a close look at proposed networks.

◆ Furthermore, there are a number of legal issues to resolve. The legal frameworks need to be as simple as possible. Fundamental principles need to be identified and laid down.

◆ Banks will need to choose their partners carefully. Standards and services will have to be maintained and can be undermined through a poor choice of collaborator.

◆ Opposition from clients is an issue. Corporates with operations all over the world may be reluctant to centralise partnerships controlled by regional executives, while others may not want to cede too much control to a single bank.

Perhaps the most important issue to resolve with clients is trust. Banks need to show that networks can deliver robust, reliable and fast global liquidity that will help them to do business all over the world. As an industry, banking needs to be aligned to show we can provide that.

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