

The resilient Asian economy

BNY Mellon Managing Director and Head of Treasury Services for the Indian Subcontinent, Aneish Kumar, discusses global changes in transaction banking and what's going on in Asia's other dragon – India

Asia's ability to withstand the economic downturn has been a major topic of conversation in recent months. How has demand for banking services in India and other Asian countries been affected by the downturn?

First, let us accept two facts: one, the current economic downturn has been more severe than any we have seen and it is a worldwide phenomenon; two, global economies are so interdependent that business decisions made in the West impact Asian countries. Over the last decade or so, the overall integration of Asian countries into the global economy has been remarkably rapid, but at varying rates country by country. Asian economies that have been most impacted tend to be those that export to Europe and America.

As for India, the crisis has dented the country's growth trajectory, as investments and exports slowed, but has not dented its ability to manage its balance of payments. However, the demand for bank credit has slackened, industrial production has shown negative growth and investment demand is decelerating. All these factors have impacted the demand for banking services. The crisis has been a time of painful adjustment but, once the global economy begins to recover, India's turn-around should be sharp and swift.

Last year the market saw a flight to quality and strength; what do you see as this trend's longer-term effects?

Things have changed since the meltdown, at least in developed markets. Clients and institutions have indeed focused more on the financial strength of banks and



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corporations in a flight to quality. But in developing markets, like India, there has been little evidence of a flight to quality.

In India, there has been a decline in the flow of business, but relationships have remained and flows have been diverted for only a short time. So the move to quality is likely short term; as the health of institutions improves, the shift back should be quick. But everyone is aware that issues of liquidity and insolvency will confront investors everywhere in the times ahead. They need strong partners in times of need.

Does India face any problems from the current crisis that are particular to the country?

From a financial perspective, the impact of

the crisis has been similar to that in most parts of Asia. Unique to India are its social implications, which, as we speak, are not fully comprehensible. India is a country with a large number of people living below the poverty line and with the highest number of non-skilled workers. These people are affected most during a full-blown crisis, as they have few if any buffers.

IT has played a huge role in India's economic growth. How do you see the sector impacting the development of global banking systems and platforms?

Developments in the IT sector have significantly changed the contours of many banking functions – liquidity management, asset transformations and risk monitoring. As the IT industry grows, the communication networking systems in banking will improve, which will in turn lead to business efficiencies.

Technology will be the key differentiator between banks in India and other countries in the future and a major competitive edge. With improvements in technology, India can catch up with the developed nations and become a major growth market for traditional banking, investment banking, insurance and securities products.

Speaking of IT, how will concerns about risk management impact the development of banking systems and platforms?

Banks must move away from silo-based risk management to a more integrated and interconnected model by building linkages across all risk types – internal, market, extraneous and new-business. Banks will

need new analytical tools to track market trends and risk exposures more quickly so they can respond with informed decisions. In addition, there will be increased pressure from regulators, shareholders and customers forcing banks to find better ways to identify and manage risk. Legacy systems will be discarded and solutions will emerge to provide improved information analysis for risk mitigation, efficiency, optimisation of operations and flexibility to adapt to ever-changing business environments.

How will the increasingly global scope of electronic payment platforms and systems affect the relationships between banks and their clients?

Tough question! I think technology will change the relationship between banks and clients. If banks work towards removing the obstacles that currently limit the relationships, clients will stay. For example, the nature of clients' payment needs will have to change from a highly impersonal, one-size-fits-all model to one where client service interactions are personalised for individual clients.

Do you see a tendency for global companies to integrate supply chain management and market trade finance practices?

The answer to this question is probably "yes," but the convergence will come only when the markets gain more confidence. When this happens, it will likely be aggressive in developed markets but slow in the emerging markets. While markets improve, banks must rethink the way trade finance is done. There is already movement away from traditional trade instruments to a supply chain model, but I only see large corporations operating in this space. Small businesses will continue to use simple spreadsheets for most of their effective decision making on trade finance.

I think the future of trade finance really depends on collaboration between buyers, sellers, logistic companies, insurance companies and financial institutions.

Do you see the current resurgence in letter of credit use giving way to a

resumption of growth in open account trade finance?

During the global crisis we saw two phenomena. First, banks around the world reduced lending to emerging markets and cut trade finance lines to importers and exporters. This slowed some US imports drastically and many US-dependent Asian countries faced intense pressure. Second, open account sales became less common because they substantially increased risk for the seller. Many banks, especially in Asia, reported an increase in demand for alternative instruments as their clients felt these instruments would reduce payment risks. With confidence re-emerging, the use of letters of credit has fallen, replaced by open account trade.

Workers' remittances are a multi-billion-dollar global business that banks have but a small role in. How might they gain a greater foothold in this market?

Money transfer agents have, so far, outperformed traditional correspondent banks in the retail – I mean workers' – remittance market, mainly because they are fast and convenient. They can provide transfer of funds instantaneously, sometimes within a few hours. For banks, the cross-border process is multi-layered and can take two to three days.

Where banks have an advantage is in cost per remittance and exchange rates. Transfer agents' cost per transfer is high, varying from \$15 to \$50, and their rate of exchange is far less than what banks can offer. Still, the only way banks can gain a better wallet share is by educating remitters on their strengths in managing cross-border regulations and compliance issues, and by stressing the improved technology and fraud mitigation techniques they employ, and the host of other related services they offer.

How do local banks fit into the overall future of treasury services?

Local banks will be key. They have both the reach and profound knowledge of their local clients' characteristics and intricate needs. This is true especially in China and India,

where the tentacles of their local branch networks are spread wide and deep throughout the system. Local banks can grow profitable more quickly than investors expect if they embrace the culture and technology of a foreign bank.

Ideally, local banks that intend to stay local, or even those that go global, will not spend significant time and resources in building their channel infrastructures. Instead, they will use correspondent banking infrastructures to provide the products and services necessary to gain a competitive advantage in the global market place.

What is your outlook for treasury services in Asia?

I am certainly optimistic that the treasury services business will grow in this region. The intra- and inter-region trade and investment flows in and into the region are expanding and will continue to do so in the future. They have been less impacted and some are already stimulating domestic consumption. Asian middle-market corporates, mostly from the key markets of China, India and Korea, are emerging strongly and harbour intentions of going global. Banks seeking to grow in this area need to educate their customers, provide innovative products and deliver new solutions through comprehensive relationships across product lines. ■

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