



## Payment Solutions for Indian Multinationals: The Role of Indian Banks

Faced with the double-barreled dilemma of investing in new technology at a time of pinched profits, limited capital expenditure budgets and increased client demand, many Indian banks are considering outsourced solutions from large global banks that have the networks and the capability to process multicurrency and multi-location payments with ease and efficiency.

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When India's economy began to globalise in the 1990s, there was a fear that Indian corporates would be taken over by foreign multinationals and, even today, there is a perception of India as a nation whose workforce is largely in-country and in service globally to foreign multinationals. This perception is inaccurate. Indian outward investment has exceeded foreign investment within India since 2007.

Indian companies have helped save thousands of jobs in the US through acquisitions of local firms there during the past five years, according to a survey by industry body The Chartered Institute of Insurance (CII). The study revealed that, since 2005, nearly two-thirds of Indian companies have added jobs to their US operations and more than 80% of workers at these companies were hired locally.

Relatively recent merger and acquisition (M&A) activity among Indian firms includes:

- Tata Chemicals acquiring a 25.1% stake in the ammonia-urea fertiliser complex at Gabon in Africa for US\$290m.
- Fortis Malar Hospitals taking over operations and management of cardiac centre at 170-bed Oasis Hospitals in Sri Lanka.
- Manipal Group's home fragrance company Primacy Industries acquiring US-based Midwest-CBK.
- Infosys Technologies developing IT services in the African continent.
- Wind turbine maker Suzlon Energy acquiring a residual stake in German company REpower, giving it 100% control.
- Dr Reddy's Laboratories opening its newly expanded Chirotech Technology Centre at the Cambridge Science Park, UK.
- Flexible packaging firm Uflex investing some US\$180m to develop a green-field plant in Kentucky.

There are many aspects of this global trend within India that are worthy of discussion. This piece will focus rather narrowly on a particular aspect, which is the orderly and economical management of intra-company payments and money transfers.

### Recurrent Payment Demands for Indian Multinationals

When a corporation globalises, it creates for itself a complex set of logistical cross-border problems in meeting the demands of payroll, pension, benefits, and other periodic and recurring payments to employees who are working abroad, sometimes for extended periods of time, sometimes permanently. The manual processing of payments through the banking system creates high levels of labor-intensive activity and associated costs, processes both expensive and cumbersome.

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Of particular seriousness is a lack of transparency and consistency. It can be exceedingly difficult to ensure that staff in foreign countries - even staff within the same foreign country - will receive equal compensation. Compensation amounts can vary unpredictably according to rates applied by local foreign banks. Fees for payments may differ also according to the instrument used (wire or cheque), variables of which the payer may be unaware, or have little or no control over. Funds availability is another troublesome issue. A beneficiary may wait weeks to receive funds, resulting in frustration and complaints to the payer, necessitating the payer to spend a disproportionate amount of time, resource, and effort in trying to make the process more efficient.

These problems are only exacerbated when global expansion comes through M&A, since it is often necessary, at least in the short term, to keep existing payment platforms and procedures in place, e.g. different branches of the same company work from systems that are not entirely compatible. Ideally, global corporations would move funds internationally using a single file to disburse different types of transactions across multiple locations. They are looking to banks to meet these needs – to allow them to make recurring payments of lesser value into international markets using the currencies and payment methods they prefer.

While some Indian banks have been considering restructuring their payment systems toward a single integrated solution that could process all payment types, including multicurrency, the expense involved is considerable, and some banks have doubts about the feasibility of a single solution when payments are cross-border and to multiple locations. Also, Indian banks have traditionally been conservative and loath to tamper with systems that have functioned reliably for decades and that are critical to their existence. Finally, many simply lack the necessary global reach, and Indian corporates are wary of relying on banks that are not well known globally or that lack actual experience with, and knowledge of, the operational, compliance, and pricing issues involved.

The envisioned solution for banks in India would be a web-based, multicurrency, cross-border fund transfer mechanism that would allow these banks to provide real-time, foreign currency money transfer and settlement services to their clients and their clients' employees working abroad. Indian banks believe, correctly, that this would increase the efficiency of cross-border multi-currency payments and reduce settlement risks.

Key benefits would include:

- Reduced cost: banks that are strong on exotic and other currencies can reduce the fee and offer an aggressive exchange rate, typically saving the corporate a half-percent or more.
- Less time: banks with large correspondent networks can compress the actual payment cycle, allowing beneficiaries to receive settlement proceeds generally within three to four days.
- Fewer relationships: by dealing with one strong bank, the process is simplified, and the complexity and cost of multiple vendor relationships are eliminated. Additionally, higher volumes with one provider can result in more competitive transaction fees.
- Fewer instructions: instead of creating multiple instructions for each transfer, banks would provide a single file upload.
- Minimum reconciliation issues: detailed status reports allow for less time spent tracking payments.

### **The Opportunity for Banks**

Banks, then, have a strong business opportunity in providing their corporate clients with such a solution, but banks themselves need to be in position to respond. In India, currently, this is often not the case. Indian banks need a single, transparent solution that eliminates the difficulty and inconsistency endemic to the process, one that minimises the cost, risk, and complexity for corporates requiring an expanded number of currencies and relationships. These benefits can be delivered only with an investment of time and money for research and development prohibitive for many banks, and at a time when banks are finding it increasingly difficult to turn profits in the payments business. And the very corporate clients that banks would serve with a payments solution are increasing market pressure on banks.

Banks want a solution, but they also want:

- Lower prices: corporates want banks to automate as much as possible so that costs are driven out of the system and excess capacity is created, compelling banks and their international partner banks to lower prices.
- A shifting payments mix: corporates want to move from high-cost payment methods, like checks, to low-cost electronic payment methods like ACH.





- Assistance with regulations and compliance: compliance with new regulations on financial controls and money laundering has created new expenses for banks without creating new revenue opportunities, but corporates do not want to bear any additional burden of cost.
- New products and channels: corporates, especially multinationals with a global span of payments, are looking to banks to deliver new payments products, such as stored multicurrency value cards, account-to-account transfers, and cross-border remittances.

These represent important growth areas for Indian banks, but an inflexible payments infrastructure makes it more costly and slow to add support for these products. As a result, many banks are simply missing out on these opportunities.

### Can Indian Banks Seize the Opportunity?

Faced with this double-barreled dilemma of investing in new technology at a time of pinched profits, limited capital expenditure budgets and increased client demand, many Indian banks are considering outsourced solutions from large global banks that have the networks and the capability to process multicurrency and multi-location payments with ease and efficiency. But outsourcing is not an entirely satisfactory solution. Large-scale outsourced solutions are often not customisable and don't allow the local bank to provide the personalised service their clientele has come to expect. Outsourced solutions, unless white-labeled, also do not allow for local branding, something many Indian banks believe increases the trust factor for local corporates and enhances their loyalty.

Many Indian banks worry over questions of security and privacy when a large global provider competes for the same business, as is often the case. As an alternative to such outsourced solutions, banks might look for an offering from a non-competing provider.

But whatever a bank's resources, the provision to such payment solutions is a great opportunity, a growing and potentially profitable business for Indian banks to pursue.

#### BNY Mellon's Global Mass Payments

Global Mass Payments (GMP) is a payments solution that meets the requirements and addresses the issues for a bank seeking to provide recurring payment services to Indian multinationals. It is fully scalable and customisable, and it can enable Indian financial institutions to initiate payments for their corporate clients electronically on a worldwide basis. GMP can originate recurring cross-border payments using lower cost, batch-oriented payment systems and it is specifically designed for in-house corporate payments including dividend, interest, salary, consultant fees, and other payment types.

GMP was specifically designed for consistent, and transparent delivery of recurring same-value payments for Indian banks that cannot afford to develop a system in house to provide such payment services to the fast-growing client base of Indian multinationals.



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