

White Paper Summary

Global Transaction Banking:
Evolution Through Collaboration

- While partnership between financial sector services providers is not a new concept, this White Paper sets out to establish if a more collaborative, value-based partnership model, called **the “manufacturer-distributor” model, has the potential to generate greater value for participating institutions**, while remaining directly linked to the evolving needs of end-user clients worldwide.
- **This model is predicated on the concept of local financial institutions**, “distributors”, who have a sound knowledge and understanding of their domestic market, and their local corporate clients, leveraging the global transaction processing capabilities and extensive geographical reach of specialist global “manufacturer” institutions.
- **Online survey results**, coupled with follow-up interviews with bankers and senior finance professionals in Europe, Middle East and Africa (EMEA), Asia Pacific (APAC) and North America (NORAM): including Germany, Turkey, the United Arab Emirates, China, India, Japan, the United States, Canada and Mexico, indicate that increased value, a combination of local market knowledge and global reach and proximity to end-user clients are crucial.
- **When assessing partnership options with global institutions**, expertise and processing ability were the most important factors for over 43% of total survey respondents. At a regional level, these factors were the priority for 47% of respondents in APAC, 40% in EMEA and 55% in North America.
- **Going forward**, these are seen as attainable by very few without the benefit of strategic partnerships, particularly with a global provider.
- Ratings of the effectiveness of local transaction banking services providers indicate that **81% of respondents see local providers as being most effective in providing payments solutions**, and least effective in providing working capital management solutions (only 49% of respondents responded positively).
- In all surveyed countries and regions, **there is a strong receptiveness to, or acceptance of, financial institution partnership** between local and global providers, as a means of delivering value.
- **Such collaboration could provide the best of both worlds in the sense that smaller institutions could make use of a global provider’s capabilities**, in a way that is tailored to the evolving needs of end-user clients. This joint approach also goes a step further to combine local and global best practice solutions to overcome the ongoing consequences of the global economic crisis.



Introduction

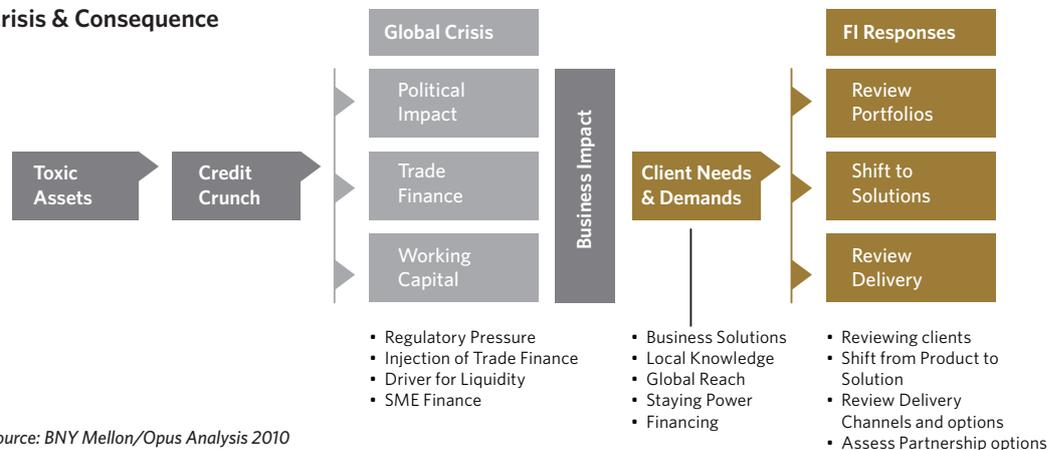
This is a brief summary of BNY Mellon's White Paper entitled *Global Transaction Banking: Evolution Through Collaboration*, co-authored with OPUS Advisory Services, and is based on online survey results and follow-up interviews undertaken with bankers and senior finance professionals in Europe, Middle East and Africa (EMEA), Asia Pacific (APAC) and North America: including Germany, Turkey, the United Arab Emirates, China, India, Japan, the United States, Canada and Mexico.

Drawing on this research, the paper aims to determine if a more collaborative, value-based partnership model, called the "manufacturer-distributor" model, has the potential to generate greater value for participating institutions, while remaining directly linked to the evolving needs of end-user clients worldwide. This new model is predicated on the concept of local financial institutions, "distributors" — who have a sound knowledge and understanding of their domestic market and local corporates — leveraging the transaction processing capabilities and extensive geographical reach of specialist global "manufacturer" institutions, to address market-specific concerns.

The global crisis: ongoing consequences

The global economic crisis has resulted in widespread financial instability, an increased burden of regulatory initiatives and intensified commercial and corporate client demands. The financial sector continues to seek ways to respond to these unrelenting changes and challenges.

Crisis & Consequence



Corporate treasuries currently face a combination of unprecedented pressures. Restricted access to bank-supplied credit lines, an expansion of duties and the increased pressure to function as a profit-centre, mean that access to global-standard transaction banking solutions for international reach and enhanced transparency and processing efficiency, is now imperative.

By extension, it is vital for regional banks who wish to maintain and develop their corporate relationships, to be able to provide such capabilities. Their challenge is, therefore, how to reconcile diminishing revenue streams and increasing compliance costs, with how to address the needs of corporate clients; all without incurring too much expense. Research indicates that, going forward, this is seen as attainable by very few, without the benefit of strategic partnerships; particularly with a global provider.

Local-global partnerships

In order to validate the manufacturer-distributor model hypothesis, the respondents were asked a variety of questions relating to local-global partnerships. These ranged from factors shaping treasury management today, including those considered to be most important in the context of financial sector partnership, to ratings of the effectiveness of providers of transaction banking solutions in the respondents' local markets.

The research findings indicate that there is significant room for improvement in all areas of transaction banking, especially for those seeking to excel. They showed that 81% of respondents see local providers as being effective in providing payments solutions, but only 49% of respondents see them as being effective in providing working capital management solutions. Across all surveyed regions, over 35% of respondents indicated that global institutions are increasing levels of competition in local markets.

As a result, there is an appetite across all surveyed markets for local-global partnerships that can add value for end-user clients. With regards to partnership options with global institutions, expertise and processing ability were identified as the most important factors for over 43% of total survey respondents. At the regional level, these factors were the priority for 47% of respondents in APAC, 40% in EMEA and 55% in North America. This reflects the findings that the availability of credit, and more specifically the efficiency of credit management and access to enhanced technology, were key individual factors shaping treasury management today.

However, the enthusiasm for partnership is not without some reservations, most notably competitor concerns, as 86% of banks rated competition from global providers in local markets between “moderate” and “great”. Therefore any local-global partnership, in addition to offering global-standard processing capabilities and international reach to add demonstrable value for end-user clients, will require high levels of trust, or a non-compete dynamic, between the partners.

Manufacturer-distributor collaboration

The research conducted provides compelling evidence of the global interest in, and value of, advanced alliance and partnership models in financial services.

Certainly, the traditional approaches, such as process outsourcing, are no longer in vogue, as they fail to reflect the fact that local banks have a key role to play in the modern working capital cycle. Aside from the inherent competitor risk within the classic outsourcing model, the lack of flexibility of most outsourcing offerings is cause for concern. Many such offerings are frequently based on little more than poorly disguised “one-size-fits-all” systems, that are designed for the global marketplace, and therefore fail to cater for the specific needs of individual markets. As a result, smaller banks that implement these systems are able to keep pace with, but not compete with, global providers operating in their domestic markets.

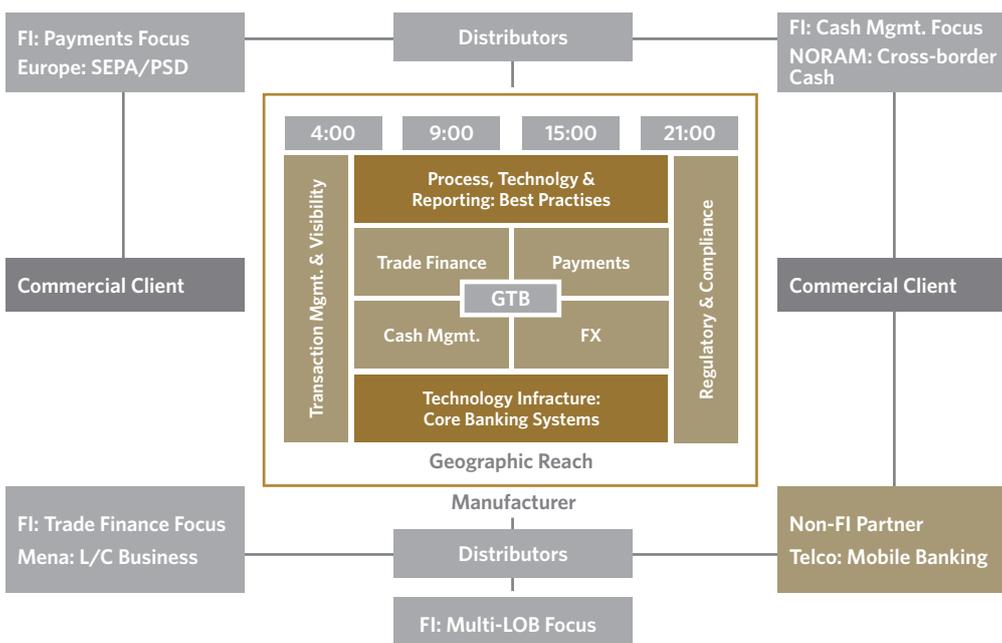
This has sparked both a global demand and capacity for more collaborative financial sector alliance models, such as the manufacturer-distributor model, to generate value and address end-user client concerns in a continually-evolving financial environment.

The aim of such collaboration goes beyond local institution and specialist global providers merely working together. Indeed, the ultimate aim is to combine local and international best-practice solutions, to address client centric concerns, such as the ongoing lack of liquidity suffered by local banks, which

stem from the evolution of today’s global business environment. In addition, the resulting enhanced local service provision, combined with local understanding and commitment, will give corporates a much wider base from which to access much needed working capital and treasury solutions; as well as a smooth entry to new markets.

Some concrete steps have already been taken in the market to design and develop such advanced partnership models. Over time, the versions currently in deployment will evolve to a full-scale, collaborative ecosystem of partners and clients, including members from outside the traditional financial sector to deliver outstanding value to all stakeholders involved; right through to end-

The Manufacturer-Distributor Ecosystem



Source: BNY Mellon/Opus Analysis 2010

user clients across the globe. For full survey results and analysis please refer to: bnymellon.com/treasury

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