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Global Transaction Banking:  
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Executive Summary

- 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, such as the “manufacturer-distributor” model, has the potential to generate greater value for participating institutions, while remaining directly driven by 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 markets, and their local corporate clients, leveraging the global transaction processing capabilities and extensive geographical reach of specialist quasi-global “manufacturer” institutions.
- Online survey results, coupled with follow-up interviews with bankers and senior finance professionals in Europe and the Middle East (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 the 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. Our collaboration barometers show where we believe each country is at the current time, and its potential evolution/the level to which it could evolve.
- 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.



# I. Introduction

## **Focus of the 2010 White Paper**

The 2010 BNY Mellon Treasury Services White Paper, “Global Transaction Banking: Evolution Through Collaboration” co-authored with OPUS Advisory Services International, derives from research and market observations which show that properly designed financial sector partnership models can effectively serve the needs of commercial/corporate clients, as well as participating financial sector providers.

This research is founded on the premise that a more collaborative and value-based partnership model, such as the manufacturer-distributor model, has the potential to generate greater value for participating financial sector partners, while remaining driven by the evolving needs of commercial end-user clients across the globe.

Online survey results coupled with follow-up interviews with bankers and senior finance professionals indicate:

- Finance executives are seeking greater value from their banking relationships, and are doing so in an increasingly client-centric market
- Global reach and local touch are acknowledged by many as representing an ideal balance of capabilities, attainable by a relatively small number of financial services providers without the benefit of strategic partnership
- Financial sector relationship dynamics have also shifted. Proximity to the end-client is now understood to be critical, and there is greater balance between global providers and local/regional institutions.

The research conducted, and the first-hand insights gathered from leaders in banking and finance across key markets, highlights the potential for greater value-creation between financial sector partners through a collaborative partnership model, such as the manufacturer-distributor model.

While partnership between financial institutions is not a new concept, the manufacturer-distributor model and variations thereto is an evolution of the traditional partnership methods. This new approach has the advantage of responding effectively to the evolving needs of end-user clients, while also providing the basis for a more balanced, mutually-beneficial, union between financial sector providers.

This paper aims to explore how such a model responds to the needs of both end-user clients and financial sector organisations, as well as the increasingly-unforgiving demands of the global economic, commercial and financial marketplace.

## II. Global Context: Selected Highlights

### Global Crisis: Consequences Reverberate

The global financial and economic crisis has resulted in widespread financial instability, an increased burden of regulatory initiatives and intensified commercial and corporate client demands, and the financial sector continues to seek ways to respond (see Figure 1).

For corporates (specifically the financial functions within corporates), restricted access to bank-supplied credit lines combined with an expansion of duties and the pressure to operate as a strategic unit within the broader organisation, contributing directly to improve the bottom line; access to global-standard transaction banking solutions for international reach and enhanced transparency and processing capability is imperative.

By extension, it is vital for mid-tier banks operating on a regional basis, who wish to maintain and develop their corporate relationships, to be able to provide such capabilities. The resulting challenge for them is how to reconcile diminishing revenues and increasing compliance costs, with how to provide corporate clients with better service to generate more revenue; all without incurring too much expense.

**Figure 1: Crisis & Consequence**

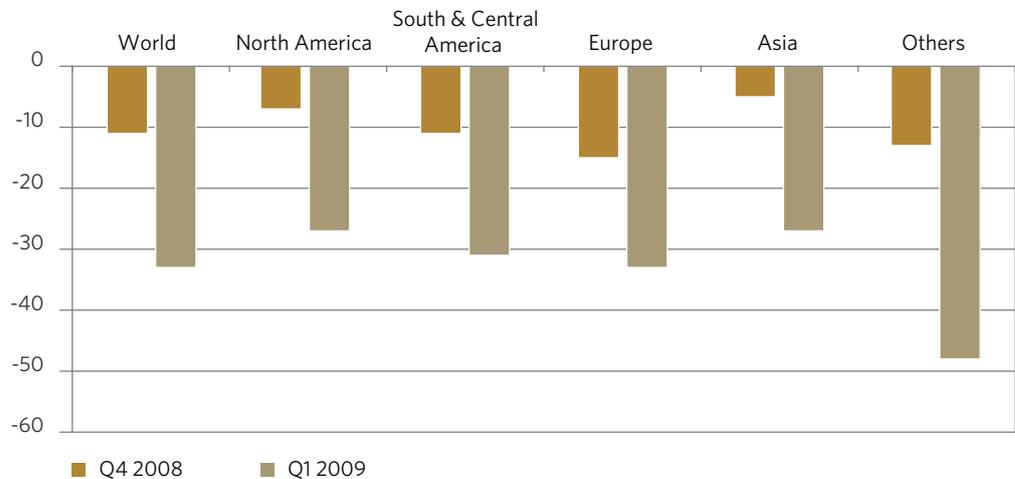


Source: BNY Mellon/OPUS Analysis 2010

Meanwhile, every leader in the G20 and beyond has recognised the critical role of international trade in supporting an eventual full recovery, and much discussion has centered on the need to avoid protectionist reactions and maintain cross-border trade. Results measured in the first quarter of 2009 by the World Trade Organisation (WTO) illustrate the negative impact of the crisis on international trade, and explain today's renewed focus on the importance of trade finance (see Figure 2).

**Figure 2: World Merchandise Exports**

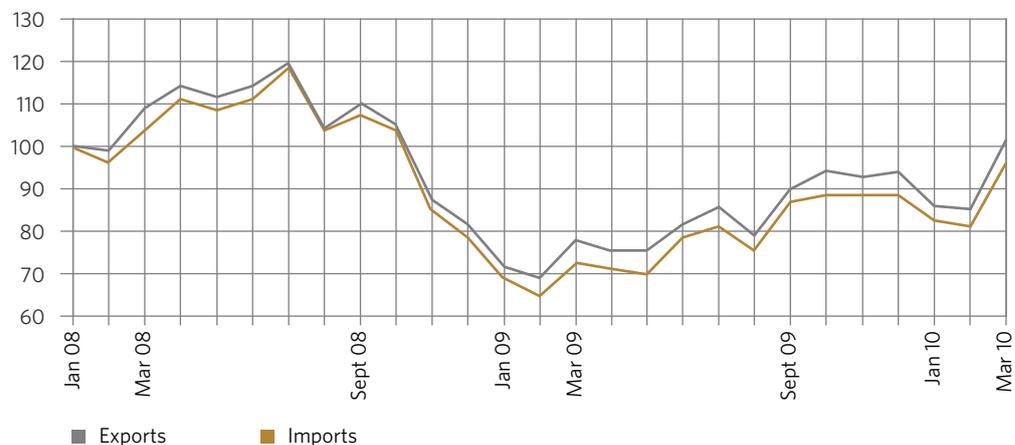
Quarterly percentage change in world merchandise exports by region



Source: adapted from WTO Trade Statistics 2009

Though global trade flows now begin to show signs of growth, increasing on average about 25% year-over-year between the first quarter of 2009 and the beginning of 2010 (see Figure 3), reduced liquidity persists. This continues to adversely affect both domestic and international commercial activity, and thereby remains a key concern for finance executives worldwide.

**Figure 3: Trade Flows**



Source: adapted from WTO June 2010

Certainly, the virtual evaporation of bank lending has directly contributed to the difficulties faced by treasury and finance executives in businesses ranging from small-medium enterprises (SME), to mid-market companies, to large corporates and, by extension, to the demands placed on financial institutions.

The Bank for International Settlements (BIS) estimates that bank lending globally contracted by about 11%, or about USD \$3.8 trillion, between September 2008 and the end of 2009. Therefore, it comes as little surprise that the availability of credit, on a timely and reasonably-priced basis, remains a key concern among businesses across the globe.

Yet one encouraging sign in the landscape of global banking is that, according to the BIS, lending by banks rose by \$645 billion in the January–March 2010 quarter, compared with a \$397 billion contraction in the previous quarter. Reuters reported that lending to both banks and the non-bank sector rose during the first quarter of the year, by \$376 billion and \$270 billion respectively.

Despite this, concerns over liquidity and lending practices remain. At the same time, there is still a clear and consistent desire among finance executives to find and leverage differentiated value – and a solution orientation – in transaction banking services. The following quote from the CFO of a billion-dollar Turkish manufacturer illustrates:

*I am seeing similar presentations [from bankers] all the time; it's like a commodity business and really difficult to differentiate. Now, the point that makes the difference: if they bring me a real solution, that's a winner. There is a very common trend here that everybody is commoditising: I'm hearing the same proposals again and again.'*

- Baris Oran, CFO, Kordsa Global

Some would argue that the tension between the ongoing consequences of a global crisis, and the somewhat tentative signs of recovery, is such that a way forward must be charted cautiously and incrementally for many businesses and financial institutions. Lessons learned from the crisis, combined with the challenges presented by the post-crisis market, continue to shape the environment in which financial sector providers must compete, survive and thrive. One of the options available to financial institutions, therefore, is to consider well-selected and crafted alliances within the industry and across industry sectors.

## Commercial & Business Realities

As corporate treasury departments increasingly evolve from reactive cost-centres to fully-integrated profit-centres with bottom-line performance targets, their activities have begun to link more closely to operational activities, such as procurement. As a result, efficient and effective cash flow management has never been more important.

The optimisation of working capital and cash flow management is now imperative for entrepreneurs, business leaders and executives of the largest multinationals. Effective cash flow and working capital management is more than sound stewardship; it is, increasingly, a source of competitive advantage across all industry sectors and in both domestic and international commercial activity.

This is more than a short-term survival initiative. Over the long-term, finance and treasury professionals are expected to influence company-wide mindsets – thus enabling what has been referred to as a “cash-mentality” in all functional and operational corners of an enterprise. As Deloitte states:

*“The consumer spending collapse, financial services meltdown, and credit crisis added to the cost of capital and the difficulty in obtaining it. Predictably, this resulted in finance organisations taking a greater focus on cash. Cash may be king again, but getting organisation-wide buy-in to its value, is difficult for companies historically focused on revenue and profit and loss. The old mindset was earnings per share (EPS). Traditional management systems were created to focus on EPS, and not cash flow. This has now changed, and finance needs to educate its business partners on a new cash mindset. Understanding the substantial breadth of cash productivity opportunities can help get everyone on board.”*

- Deloitte, *Globalising Finance*, 2010

Certainly, the clear signs of evolution in treasury, cash and working capital management have not gone unnoticed among the leading financial service providers. The shift from a product-centric to a client-centric, solutions-oriented focus, that arises from such developments, is transforming the competitive landscape for many financial institutions and is forcing a change in the established patterns of client-bank interaction.

While some institutions are retrenching and selecting core areas of focus, others are (even selectively) extending their reach and value proposition – whether across borders or across product and solution sets.

As a result of this expansion in scope, a fundamental question facing the financial sector is what opportunity may lie in carefully-selected and well-crafted alliance strategies, both within the industry and on a cross-sector basis, where the synergies are seen to lead to clear value and/or differentiation.

Financial service providers can no longer base partnership decisions on self-serving cost-control considerations or investment payback motives. The financial landscape dictates that client needs and requirements must underpin every major decision, from mergers and acquisitions, to product development, and to the formation of partnerships and alliances.

## **Regulation & Competition: The Landscape Changes**

Certain lines of business that are now managed under the umbrella of global transaction banking, such as trade finance and cross-border payments processing, have been challenged by rigorous regulatory requirements for more than a decade. With harmonisation initiatives, such as the Single European Payments Area (SEPA) and the Payment Services Directive (PSD), and the continually-updated Basel banking supervision accords, this shows no signs of abating. In fact, there is every expectation that regulatory demands and related challenges will increase significantly in the near-term.

The increase in regulation has, along with other factors, contributed to the rise of non-bank providers of trade finance solutions. Pre-crisis, banks providing trade finance products faced the serious threat of dis-intermediation as importers and exporters adopted modes of settlement and financing, which effectively eliminated the need for bank-provided trade finance. Almost concurrently, a variety of providers – from courier/logistics companies to emerging-market focused hedge funds, to specialist firms targeting the underserved SME market – emerged to present a multi-faceted threat to banks and their pre-eminence as providers of trade finance.

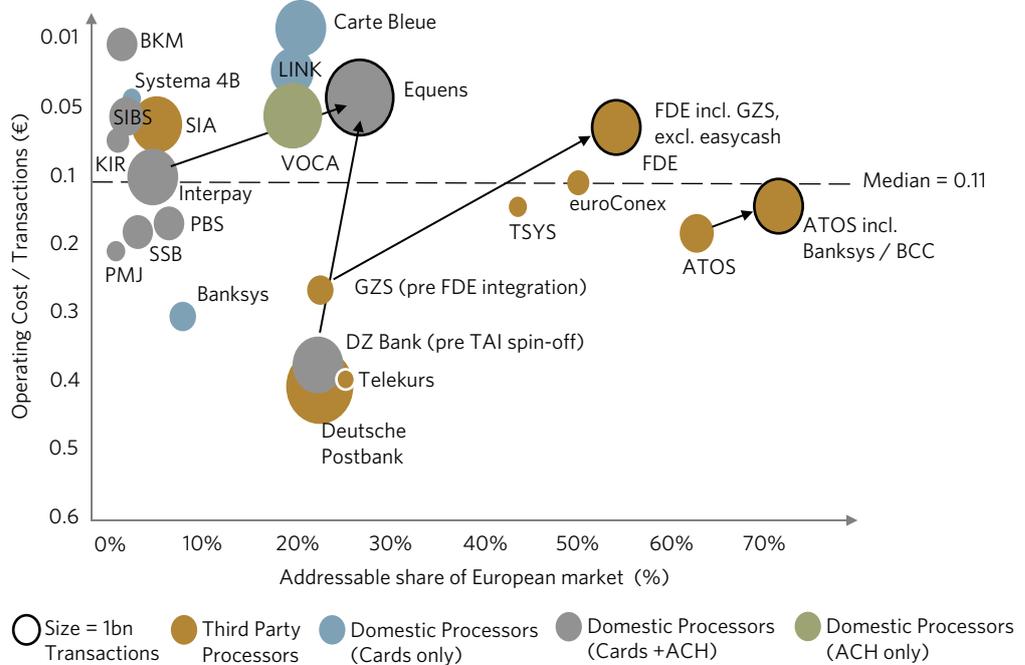
For a time, it appeared that banks were losing ground in the most profitable markets to such competitors that are unencumbered by regulatory capital/reserve requirements and the related expenditures. Global trade management entities seeking to develop and deliver business solutions to trade clients on an end-to-end basis, while removing the unpopular documentary requirements through dematerialisation, also appeared to present a serious competitive threat to trade banking.

It is not only trade finance that is under pressure, however. Banks, particularly those in Europe, continue to face challenges in the domestic and international payments space (an increasingly low-margin, factory-oriented and technology/channel based line of business), from a variety of sources, particularly US processors seeking expansion into continental Europe (see Figure 4). In addition, telecommunications providers are enabling mobile payment networks in numerous markets, at times with financial sector participation, and at times without. Online service providers such as PayPal, PayMate, and the China-based AliPay, are also emerging as both credible and popular providers of cross-border payment solutions for consumers and businesses alike.

**Figure 4: Consolidation in Payment Solutions**

Consolidation has been driven by US processors looking to expand into Continental Europe and the drive for scale in a post-SEPA Europe

European Processing Landscape  
Selected Processors only, 2009



Source: Dovetail Systems, MINT, Factiva, BIS, Annual reports, Deloitte estimates and analysis

In addition to numerous network and technology-based solutions to the delivery payment services, there are also non-bank, niche providers of specific services. One example of this is Canada's Northstar Trade Finance – a boutique, SME-focused provider of trade finance solutions, based in part on a series of carefully selected public and private sector partnerships in several markets across the globe.

Similarly, Jordan-based AL IMDAD, a newly-incorporated subsidiary of Investbank, seeks to provide financing solutions in a logistics context, and Spanish joint venture Hal Cash, a consortium of mid-tier financial institutions, is delivering retail payment solutions through a telecommunications infrastructure.

*"The model that we tried to set up at AL IMDAD is that there is a customer, and you have everybody servicing this one customer. While we have an outsourced arrangement with our bank, the customer relationship is with AL IMDAD; there is no gap between the people that sell and the people that effect transactions. Our client has one connection and this is what is important."*

- Mohamad Shabin, CEO, AL IMDAD, Jordan

It is clear, therefore, that the competitive landscape faced by traditional providers of transaction banking solutions is irreversibly changing, and the pace of change will only accelerate as market conditions continue to promote the development of enhanced solutions and delivery channels. An industry-wide response, combining innovation with unwavering focus on client requirements, is required to sustain the banks' role as core providers of working capital services.

### III. Research & Survey Findings

#### Survey Findings

The following highlights reflect the views and perceptions of finance executives, in the context of a survey designed around the core theme of financial sector strategic alliances.

*Respondents were asked to rank, in order of importance, the factors which shape treasury management today.*

**Figure 5: Factors Shaping Treasury Management Today**

	All Regions	APAC	EMEA	NORAM
Ongoing investment	3	4	3	3
Credit availability	1	1	1	2
Technology	2	2	5	1
Global reach	6	3	6	6
Regulatory pressures	5	5	4	5
Knowing your customer [KYC]	4	6	2	4

Source: BNY Mellon/Opus Analysis 2010

Credit availability continues, understandably, to be “top of mind” for finance and treasury executives and bankers across all regions. This includes access to new credit, but also more effective use and leverage of existing facilities and resources.

#### Credit Availability

The availability of credit, and the efficiency of credit management, remain key points of concern across all regions. For some respondents and interview participants, the concern relates to credit availability for commercial partners and counterparties in other regions. This presents an opportunity to create a competitive advantage by sourcing cost-effective and timely credit resources for such counterparties.

The implication in terms of financial sector partnership models, explicitly identified in discussions with several financial sector executives in the Middle East and parts of Europe, is the notion that a financial sector partner that can offer commercial, bank or sovereign credit lines, or can provide risk mitigation solutions which enable a more efficient/leveraged use of existing lines, will be at significant advantage.

Credit availability however, can be enhanced in the following ways:

- new or additional credit facilities
- more efficient risk mitigation, allowing enhanced leverage of existing facilities
- more efficient conduct of business and operations.

In the pre-crisis context of low-cost, easily-available credit, obtaining new facilities was often quick and cost-effective. Under current conditions, alternative means of “freeing up” financial resources must be considered.

The use of guarantee facilities and other mechanisms to enhance the leverage of existing credit, is a natural extension of the process of managing credit facilities. However, the notion that improved operational capabilities and management, including access to best practices and enabling platforms, can lead to an enhanced credit position, is perhaps less intuitive and represents an area where well selected partnerships can generate clear value.

- Credit remains an issue of concern
- Solution can include more efficient leverage of existing financial resources
- An FI partner can assist through credit enhancement/guarantee solutions
- Improved transaction, operational and business processes can free up credit

### Technology

Access to enhanced technology and delivery capabilities is identified as an important aspect of financial sector partnership, particularly in North America. Corporates seek to significantly enhance effectiveness in treasury and financial management, including both compliance and regulatory reporting, and the consolidation of cross-border positions.

While innovations related to elements of global transaction banking, such as trade finance and payment services, have originated in Europe and the Americas, these developed economies have also found themselves constrained by the presence of legacy technology and infrastructure. As a result, they frequently face the dilemma of the costly decommissioning of these existing systems, versus a total upgrade or the addition of updated components, designed to enhance overall technical capability. However, in the absence of such legacy-related costs and constraints, certain emerging economies have managed to forge ahead in terms of development, and rapidly advance to the latest technical capabilities.

*“We are looking for ways to ensure the best service for clients, using a global platform, with complementary capabilities. In assessing options now, we will look not only at the current capabilities of a technology or a provider, but also at the scalability of the solution – in terms of volumes, but also in terms of future functionality. In addition to client-facing capabilities, this is also critical in our efforts to understand and manage our global exposures.”*

*- Senior Banker, Netherlands*

Access to market-leading and scalable technology is valued by both corporates and financial institutions, with larger corporates indicating an increasing receptiveness to direct connectivity with their primary bankers, through enterprise resource planning (ERP) and similar systems. Such integration provides an opportunity for commercial clients to achieve visibility and transparency related to treasury and financial transactions, and links FI capabilities directly to client-centered value and solution delivery.

- Technology adds value for commercial clients
- Emerging competitors are likely to be less constrained by legacy technology

Respondents were asked to rank, in order of importance, the services or capabilities to be provided by a prospective financial sector partner.

**Figure 6: Key FI Partner Capabilities**

	All Regions	APAC	EMEA	NORAM
<b>Financing</b>	2	1	2	1
<b>Reporting and reconciliation</b>	3	4	3	2
<b>Risk management</b>	1	2	1	3
<b>Local presence</b>	4	3	4	4

Source: BNY Mellon/Opus Analysis 2010

Financing and risk management are identified as the key service offerings of FI partners; while the concerns around financing reflect immediate market conditions, the re-focus on risk management is more fundamental in nature, and consistent with a broad “return to basics” in finance and treasury management across the globe.

### **Risk Management**

Overall, survey respondents and commentators indicated that effective/enhanced credit and operational risk management is the major priority to consider in the context of financial sector service offerings.

The global crisis had the clear effect of bringing renewed attention and focus on risk management in the trade finance business, among other areas. Where trade was increasingly effected on open account terms in the days preceding the crisis, effective risk mitigation is now being re-introduced into the trade equation.

This is evident both at the product level, with the risk mitigation features of traditional instruments (such as letter of credit) gaining attention in the context of newer products such as supply chain and open account solutions. It is also apparent in the wide-ranging discussion and deliberations around capital adequacy and other, similarly strategic considerations for the industry.

*“When we consider the development of bank and financial services alliances, one critical issue is the question of risk transfer: who will own and ultimately be accountable for the risk in a particular relationship, transaction or portfolio? In addition to the business and operational complexities around this question, it must be noted that regulators are far less likely to be flexible on this point, considering the impacts of the global crisis.”*

*- Giles Thieffrey, TradeLaw Chambers Switzerland*

In addition to pure financial risk, there is focus also on related areas such as operational risk. Whether this is related to the ability to adequately track and report on transactions and financial flows, or to the ability to adequately mitigate risk through the expertise of operational staff, this dimension of risk is gaining profile, and is an area where a well-selected partner can add significant value.

- Risk Management has regained status as a core element of the value proposition in global transaction banking
- This dimension extends beyond financial risk to encompass operational and related risks

### **Availability of Financing**

In North America and Asia Pacific, respondents identified the availability of financing as a key factor in any financial sector relationship – this expectation is shared among banks, corporates and other institutions. This is consistent with economic conditions and with observations gleaned from survey responses, interviews, as well as thought leadership roundtables undertaken in North America, but somewhat at odds with local commentary in Asia Pacific, where numerous participants noted that China and India, for example, are flush with financial resources. The concern in APAC is, rather, availability of financing for foreign-based counterparties, which APAC-based (particularly China-based) companies are sourcing for their business partners.

On a global basis, particularly at the peak of the crisis, the role of various guarantee programs and of export credit agencies was acknowledged as being critical in re-enabling financial flows, especially in trade. This is noteworthy in that pre-crisis, there were serious questions about the value and contributions of export credit agencies, to international trade and trade finance. The crisis has now clearly demonstrated that value.

SMEs globally are widely identified as those most critically impacted by constricted flows of capital and limitations related to the availability of financing. Certainly the impact on SMEs is a common reality across markets, and a combined response involving financial institutions and public policy initiatives has been seen in a wide variety of markets, to address this gap.

In the context of financial sector alliances, value can be provided in enhancing visibility for partner banks – and corporate clients – around financial resources, transactions and requirements. Additionally, an opportunity exists to assist end-user clients in appreciating the linkages between financial resources and operational efficiency: the reality that efficient operations can “free up” significant financial resources.

- Commercially, the ability to facilitate access to financing is once again a competitive advantage
- In terms of FI partnerships, enhanced visibility or improved management of financial resources adds value
- Perceiving/identifying financial resources in operational efficiency is a compelling option in times of expensive or restricted credit

Respondents were asked to rank, in order of importance, the most important considerations in the context of a financial sector partnership.

**Figure 7: Key Partnership Considerations**

	All Regions	APAC	EMEA	NORAM
<b>Improved processing</b>	2	2	2	1
<b>Lower transaction cost</b>	1	1	1	2
<b>Better local market knowledge</b>	3	3	3	3
<b>Extended reach</b>	4	4	4	4

Source: BNY Mellon/Opus Analysis 2010

Processing efficiency – including reduced transaction costs – are the clear priorities relative to financial sector partnership. Neither geographic reach, nor the promise of leading-edge technology surpassed these fundamental, client-facing priorities.

### Lower Transaction Costs

A reduction in transaction costs is consistently identified as a major priority and source of perceived value in the context of financial sector partnerships. In light of current conditions and ongoing global market challenges, a bottom-line orientation and cost-consciousness is to be expected.

For some, including senior finance executives engaged in BNY Mellon Thought Leadership roundtables, the business of transaction banking is largely commoditised, with the effect that price can be the sole and sufficient determinant of whether a partnership will serve the interests of stakeholders.

- Lower cost remains “top of mind” among many survey respondents
- Notably, interview and roundtable participants frequently comment on cost issues, only to state that these are secondary to service and delivery enhancement

### Improved Processing

Several respondents identified enhanced/more efficient processing as a priority in the context of a financial sector partnership model – a factor that did not figure prominently in interviews undertaken over the course of the research underpinning this white paper.

There is no doubt however, that the ability of a business such as transaction banking, to appear financially attractive within the broader financial institution, is a critical factor at a moment when internal competition for bank capital is perhaps more intense than has historically been the case.

- The priority around enhanced processing is in line with the nature of transaction banking, and consistent with the “back to basics” perspective born of the global crisis

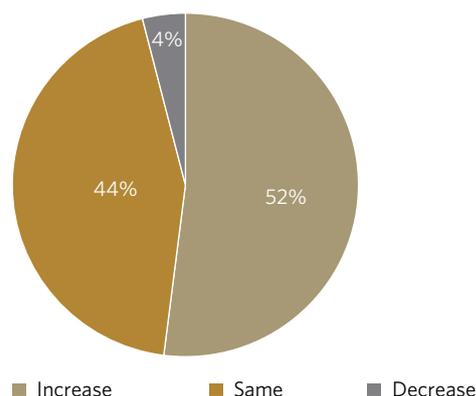
### Extended Reach/Local Knowledge

Considerations related to geographic reach or market knowledge were consistently ranked as second-tier priorities across all regions surveyed. Interviews with senior executives across the regions suggest that this may be a function of the fact that the practical potential of a geographic dimension to FI partnerships – i.e., one partner brings in the global reach and another, the local market knowledge, has yet to be fully internalised by the market.

- The value of combining local knowledge and global reach in financial sector partnerships was acknowledged by numerous interview participants
- An FI partnership model that can demonstrate this concept in practical application, will be well received in the market – by FIs and by end-user clients

*Considering the focus on lower transaction costs, respondents were asked to indicate the expected direction or technology-related investment within their organisation, over the next 12-18 months.*

**Figure 8: Investment in Technology, 12-18 Months**



Source: BNY Mellon/Opus Analysis 2010

Increased investment in technology is both a reflection of optimism and a response to increasing and increasingly urgent competitive threats. Individual institutions may not be able to afford the necessary upgrades to technology, but the industry cannot evolve without them.

Despite prevailing uncertainties in the global economy and in financial services in particular, 52% of survey respondents indicated an intention to increase investment in treasury services-related technology over the next 12 to 18 months. Only 4% of respondents indicated that investments would decrease over that same period – a positive sign and an indication that finance executives continue to appreciate the need for adequate supporting technology.

Respondents in APAC were particularly firm on this question, with 75% indicating that their plans included an increase in technology-related investment. Respondents in EMEA were somewhat more divided on this question, with about 44% indicating a planned increase in investment, and just over half noting that investments would stay flat over the period.

### Highlights:

- EMEA: 44% to increase IT investment; 52% indicate status quo
- APAC: 75% of respondents plan to increase IT Investment

Globally, the market has been focusing some attention on core banking systems and the state of financial sector capabilities, while at the same time wrestling with the technology/investment implications and options related to the development of new delivery platforms, such as mobile applications.

*“Our customers are cost-conscious, and very aware of operational efficiency and excellence. This links directly to a demand for leading-edge technology, which corporates here use extremely well. Likewise, the financial sector is strong in its use of technology solutions, and there is a high rate of adoption related to new products, solutions and technologies.”*

*- Pinar Erden, Vice President, Akbank*

As technology begins to gain increasing traction in markets such as the Middle East, and emerging economies work to adopt the latest in technical capabilities, technology remains a major component of the cost equation in global transaction banking. Trade finance provides a clear illustration of this, with concerns about ballooning technology and infrastructure costs traditionally being a major factor behind the formation of outsourcing agreements in this area of transaction banking.

*“Whether you look at trade finance or payments/cash management, both are highly reliant on technology. The cost considerations – both for initial development/implementation and for ongoing maintenance – are significant, but so too is the ‘time to market’ related to the deployment of solutions. Clients always have new requirements and expectations: a strong financial sector partner can assist in addressing these multiple challenges.”*

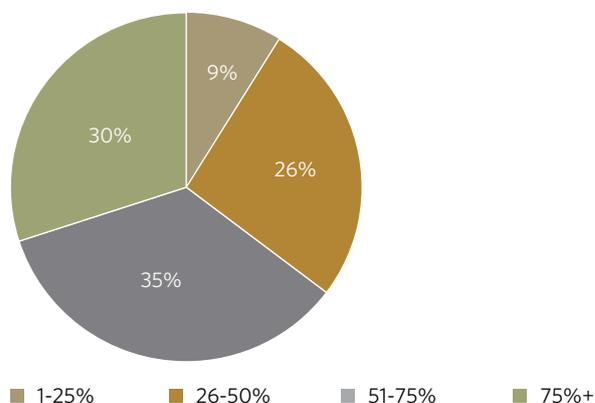
*- Madhavan Ramaswamy, Managing Director & Global Head of Product Management  
Standard Chartered Bank*

- APAC reflects significant intentions to invest in technology – consistent with the growth of business and banking in the region’s major markets
- A number of interview respondents have noted that intense internal competition for capital and resources has called growth and investment plans into question. An FI partnership model that presents technology as a cost-effective tool will be attractive under current conditions

Technology is also linked to banks’ abilities to respond to regulatory and compliance demands. An increase in requirements for transparency and enhanced reporting is certainly contributing to a general sense of urgency with regards to technology investments in finance and banking.

Respondents were asked to indicate the percentage of business which is concentrated with their top three providers of financial services.

**Figure 9: Business Concentration with Top Three Providers**



Source: BNY Mellon/Opus Analysis 2010

High concentration of business among top providers in global transaction banking is a reality; share of wallet is emerging as a key success metric in treasury services.

The vast majority - 96% - of respondents indicated that they maintain multiple relationships related to treasury services and transaction banking. Within that group, there was a clear and observable tendency to concentrate a significant amount of business among the top three service providers.

Nearly 30% of respondents indicated that they conduct 75% or more of their business with their top three service providers; over a third noted that 50-75% of their business is concentrated with their top providers (Figure 9). Degrees of concentration vary across regions, with 50% of respondents in North America indicating that they maintain 75% or more of their business with the top providers. In APAC, the largest percentage of respondents, nearly 42%, indicated that 51-75% of their business is conducted with the top three providers. EMEA showed a more even distribution, with (about) 30% of respondents falling in each of the ranges of concentration (26-50%, 51-75% and 75%+).

#### Highlights:

- **CORPORATES:** 60% of respondents indicate 75% or more of business conducted with top three providers
- **APAC & NORAM:** Higher rates of concentration among top providers than EMEA

Financial sector relationships in many parts of the world tend to be long-term in nature. There is also a clear trend among mid-tier and larger corporates, to seek greater integration of ERP and other systems with those of their bankers, to assist in enhanced management of working capital. This suggests that transaction banking relationships, including those focussed on cash and working capital management, or accounts payable/receivable, are likely to continue to persist over longer periods, perhaps even more than is the case today.

Indeed, the difficulties related to decoupling of relationships will favour the status quo. Just as some banks succeeded in integrating themselves tightly into clients' global supply chains, the high levels of concentration among treasury and transaction services providers suggests that such relationships, once established at the right level, are more likely to endure.

*“There is a lot of discussion in India at the moment, around ‘capturing the supply chain’ as a means of ensuring added value to corporate clients, and linking into the supply chains of our customers. While our activities in supply chain finance are not, on average, at the most advanced stages of development, we are working actively on solutions related to full accounts receivable and payable solutions, electronic invoicing and related areas. The more value we offer, the more successful we will be in capturing the supply chain and integrating with our clients.”*

*- Mishra Loknath, Head of Commercial Banking, ICICI*

In the context of financial sector alliances, this observation reinforces the value of owning the client relationship as a source of sustainable, long-term revenue, while suggesting that the right “provider partnership”, having earned a place as a favoured provider of treasury and transaction services, can secure a significant “share of wallet” across a portfolio of clients. About 60% of corporate respondents maintain 75% or more of their business with a core bank group.

- Concentration of business among top service providers is a clear trend across all markets and organisation types
- Financial institutions are focused on selective relationship development and increasing “share of wallet” in those target relationships
- Ownership of client relationships has increasing implications when considered in the context of global supply chains, and in terms of FI partnership models, including advanced versions such as “multi-lateral ecosystems”

*Respondents were asked to rate the effectiveness of providers in their local markets in delivering global transaction banking services.*

**Figure 10: Effectiveness of Local Service Providers**

	<b>Extremely Effective</b>	<b>Effective</b>	<b>Neutral</b>	<b>Slightly Ineffective</b>	<b>Not Effective at All</b>	<b>Not Available in My Market</b>
<b>Payments</b>	28.5%	52.9%	14.5%	1.7%	1.2%	1.2%
<b>Foreign Exchange</b>	18.0%	53.5%	22.1%	1.7%	2.9%	1.7%
<b>Cash Management</b>	16.3%	48.8%	25.6%	4.7%	2.3%	2.3%
<b>Trade Finance</b>	18.0%	41.9%	29.1%	4.7%	2.3%	4.1%
<b>Working Capital Management</b>	9.4%	39.2%	41.5%	2.3%	4.1%	3.5%

Source: BNY Mellon/Opus Analysis 2010

Ratings of effectiveness of local providers reflect significant opportunity for improvement in all areas, particularly for those seeking to exceed expectations and excel. Alliance models can drive significant improvement and differentiating capabilities across all areas of global transaction banking.

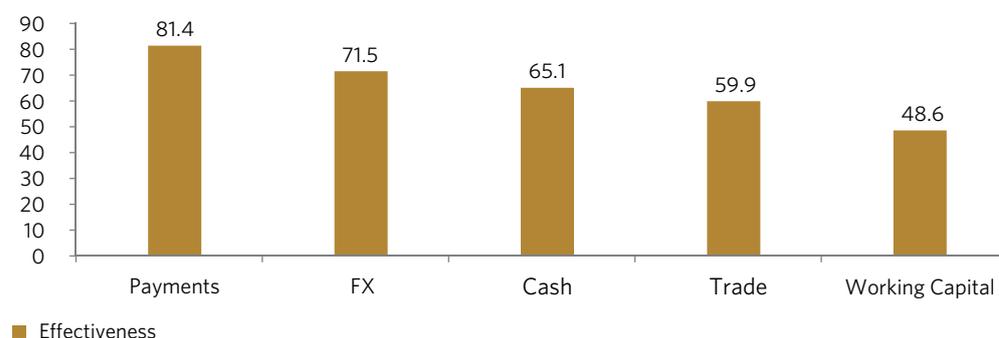
Ratings of the effectiveness of local treasury and transaction banking providers indicate that local providers are seen as being most effective in providing payments solutions (according to 81% of respondents), and least effective in providing solutions related to working capital management (as identified by 49% of respondents) (see Figure 11).

In North America, 90% of respondents felt that local providers are most effective in delivering cash management solutions, while local providers were rated least effective in trade finance by 45% of respondents.

Among corporate respondents, 50% of respondents rated their providers at “neutral” or worse in providing trade finance and foreign exchange. Among banks, about 50% indicated that their providers are “neutral” or worse in the provision of working capital management solutions, and nearly one third of respondents rated the provision of trade finance as “neutral” or worse.

Bank respondents rated their peers as “highly effective” or “effective” in the provision of payment services (about 80% of respondents), and foreign exchange (about 75% of respondents).

**Figure 11: Local Providers - Rated Extremely Effective or Effective**



Source: BNY Mellon/Opus Analysis 2010

**Highlights:**

- APAC: Local providers rated “Neutral” or worse in working capital solutions (40%)
- NORAM: Local providers rated most effective in cash management (90%), least in trade finance (45%)

Across all regions, nearly 5% of respondents indicated that trade finance services are not currently available in their local markets, and about 4% noted that working capital solutions are not currently available.

In APAC, over 40% of bank respondents indicated that their providers are rated “neutral” or worse in the provision of working capital solutions – an area also identified as relatively weak in EMEA, where over 50% of respondents indicated that providers rate as “neutral” or worse. Roughly a third of bank respondents in EMEA rated trade finance and cash management services at “neutral” or worse. In North America, 80% of respondents rated their providers as “neutral” in the provision of working capital solutions, and 80% indicated that their providers in the trade finance space were perceived as “neutral” to “slightly ineffective”.

Across all regions and groups of respondents, it is clear that there is significant room for improvement in the provision of solutions and services in all aspects of transaction banking. The highest ratings broadly relate to high-volume, transaction-focused processing, such as payment services, while it appears that areas such as foreign exchange and trade finance – areas with a clear international dimension – are perceived as weak by a significant percentage of respondents.

*“We are currently looking at our trade and transaction business on two broad dimensions – operational efficiency and client service, to ensure that we achieve the first and safeguard the second. It is a delicate balance, and one which requires the use of technology, the improvement of delivery capabilities and a focus on value, so that we do not end up competing purely on cost. A partner financial institution could help by providing the tools necessary for us to support our clients, while achieving our objectives around operational excellence.”*

*- Patrik Zekkar, Head of Trade & Supply Chain Finance, SEB*

The responses to this element of the survey – and supporting commentary from a variety of discussions with stakeholders – suggest that there is appetite across all regions to seek complementary capabilities and value-added partnerships.

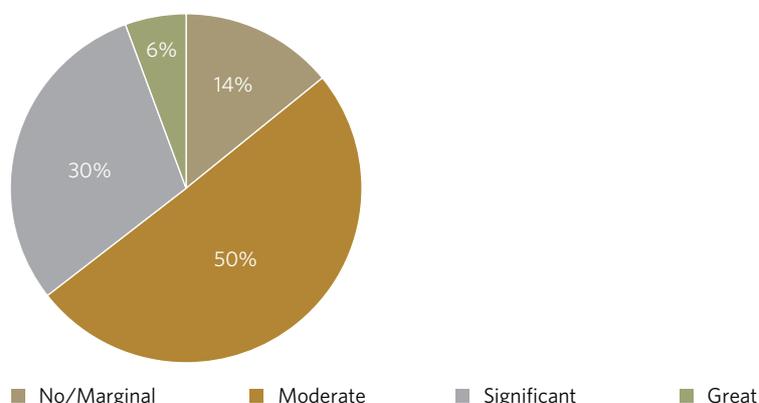
*“Corporates have started looking more and more towards their local banks for their financing needs, realising that innovative local banks have better understanding of their business requirements and able to add value. Over time, the local banks have proved to be stable and solid partners and consistent in their policies. The local banks have very long term relationships with their customers and always stood by their customers from one crisis to another. Having said that, international banks have their own significant role to play. There is no denying the fact that global banks bring to the table many strengths like global network, latest technology, product variation, long term vision and strategy. Over a period of time, they have proved to be excellent partners to the local banks. Therefore, I believe that ‘collaboration and partnership’ between banks are the key. I am seeing more and more local and foreign banks trying to collaborate with each other by sharing expertise, resources, technology and offer excellent value addition to the customers in the markets they operate.”*

*- Lakshman Sankaran, Head of Trade Sales & Services, Commercial Bank of Dubai*

- Ratings across all product types indicate significant room for improvement
- Working capital and trade finance are lowest rated, likely also provide greatest opportunity for high-value solutions
- Opportunity for advanced FI partnership model to leverage expertise, best practices and advisory capability in more complex aspects of transaction banking

*In order to analyse whether this is affecting competition, respondents were asked to rate the degrees to which global institutions are perceived as being competitors/increasing competition in local markets.*

**Figure 12: Competition from Global Providers in Local Markets**



Source: BNY Mellon/Opus Analysis 2010

Global or quasi-global institutions are clearly viewed as (potential or actual) competitors; a non-compete posture is highly valued – even required – in a prospective financial sector services partner.

Over one third of respondents across all regions note that global institutions are increasing levels of competition in local markets. Specifically, over 35% of respondents indicate that global institutions impact local competition “significantly” or “greatly”. This assessment is particularly strong in APAC, where over 50% of respondents indicate that global institutions are impacting the competitive environment in local markets.

Among banks, 36% indicate that global institutions are directly impacting the competitive landscape, and doing so to degrees that range from “significantly” to “greatly”. A further 50% identify the impact as “moderate”, with the result that about 86% of bank respondents perceive a material level of impact by global institutions on the competitive landscape in domestic markets (Figure 12).

In North America, 40% of respondents perceive a significant impact, while in EMEA, about one third of responding banks describe the impact of global institutions as “moderate” to “great”.

#### **Highlights:**

- **BANKS:** 87% see competition from global providers in local markets, ranging from moderate to great.
- **BANKS EMEA:** One third of respondents perceive competition from global banks as ranging from moderate to great.

Since the earliest attempts by banks and other financial institutions to establish effective partnership and alliance models, the (potential) competitive threat of a prospective partner and the probability of that partner interfering, directly or indirectly, with existing client relationships, has been the major obstacle to the consummation of such partnerships.

*“There is some interest in the Nordic region, in financial sector partnerships; however, there is concern about the competitive threat of potential service providers, if they are also active in corporate and relationship banking in the region. Those who wish to provide transaction banking services should perhaps concentrate on those areas, rather than wear too many hats at once.”*

*- Claus Stehr, EVP, Nordea*

The perceptions around global institution competitiveness among banks compare very closely to the views expressed by the broader respondent group, with moderate to significant competitive threat perceived by over 80% of bank respondents.

Collaborative payment and clearing programmes and joint ventures have been effected to some degree; perhaps more illustrative of this concern among banks, is the trajectory of trade operations outsourcing activity over the last two decades.

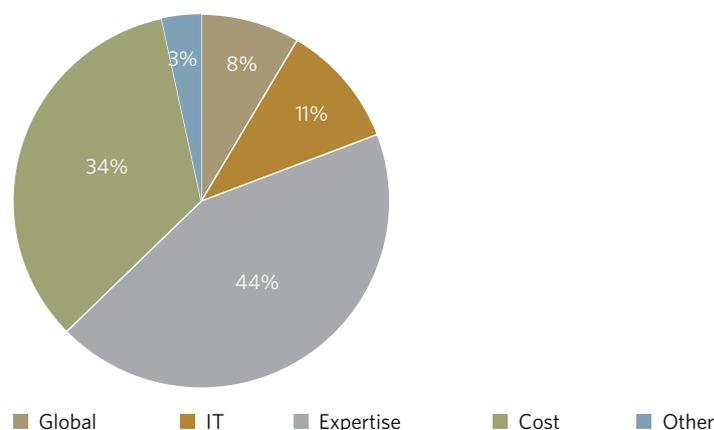
Smaller, local institutions no longer able to afford the necessary technology investment or unable to maintain the required global reach, in the context of a trade finance business, sought to explore opportunities to outsource to global providers and trade operations “factories”, but often did so in collaboration with a foreign-based provider, or one that was unlikely to target the client bank’s customers.

Discussions with stakeholders across all regions indicate that the competitive threat – and the risk of losing clients to a partner institution – remains a chief concern as local institutions consider partnership options and alliance models.

- Effective models of collaboration between local and global or quasi-global institutions will require high levels of trust, or a clear non-compete dynamic between the partners
- An alliance “ecosystem” will best evolve in the context of non-competitive engagement between members of the ecosystem

*Respondents were asked to select the single most important factor in evaluating possible collaboration with a market leader/global provider in treasury services and transaction banking.*

**Figure 13: FI Collaboration: Evaluation Factors**



Source: BNY Mellon/Opus Analysis 2010

Product expertise and processing capability are the primary drivers in evaluating potential partnerships with global providers.

44% of respondents across all regions identified expertise and processing capability as the most important factor in assessing financial sector partnership options with global institutions, with cost-effectiveness ranking a somewhat distant second at 34% of respondents, thus reflecting the shift from a cost-cutting to a solutions-driven mentality (Figure 13).

Perhaps surprisingly, global reach was identified as a priority by just over 8% of respondents, and the provision of a technology platform as a prime consideration, by just over 10%. These findings were reflected consistently at the regional level, with 47% of respondents across APAC, 40% across EMEA and 55% across North America, all indicating that expertise and processing capability were the top priority in assessing potential partnerships with global institutions (see Figure 14).

### Highlights:

- ALL: 44% identify expertise and processing capability as the most important factor in evaluating FI partnerships.
- ALL: 34% rank cost-effectiveness as the most important factor in assessing potential FI partnerships.

*“I need a partner to whom I can give my payments, in whatever currency, and be assured that the payment will be executed securely, accurately, promptly and in a cost-effective manner. The processing capability of a potential partner is very important for us, and we are looking at opportunities to extend that capability to include multi-currency accounts.”*

*- Uwe Pape, Senior Manager, Die Hamburger Sparkasse AG*

This priority was equally reflected in the responses provided by bank and corporate respondents. 80% of bank responses from North America identified expertise and processing capability coupled with cost effectiveness as the key priorities, while nearly 60% of responses from corporates identified the same dimensions as having highest priority in assessing potential partnerships with global institutions.

The response to this query illustrates that a partnership with global institutions must translate to demonstrable improvements in the capabilities and delivery of local/regional institutions. Simply offering greater geographic reach or scope alone is insufficient as a basis for partnership, as extended reach in itself does not lead to identifiable value for end-user clients.

**Figure 14: Collaboration Priorities by Region**

REGIONAL	Global Reach	Technology Platform	Expertise & Processing Capability	Cost-Effectiveness	Other
Total-APAC	5.6%	13.9%	47.2%	27.8%	5.6%
Total-EMEA	9.9%	11.6%	40.5%	35.5%	2.50%
Total-NORAM	5.0%	0%	55.0%	35.0%	5.00%

Source: BNY Mellon/Opus Analysis 2010

While the level of priority assigned to technology platforms may also seem counter-intuitively low, the ratings are consistent when viewed through the lense of a local institution looking at partnership as a way to deliver clear value to corporate and commercial clients: global reach and technology platforms are means to an end, whereas processing capability and enhanced expertise are both desired end-states that create direct value for the corporate/commercial client.

- Expectations around FI alliance models revolve heavily around fundamentals: competency and efficiency
- Geographic reach and the provision of technology platforms are distant, second-tier priorities in assessing potential collaboration models and partners

## Qualitative & Interview Findings

The research process undertaken in developing the 2010 White Paper has yielded a combination of quantitative and qualitative data and insight, together with extensive commentary and candid observations from survey respondents and interview participants. Additionally, the Thought Leadership Roundtables completed in April of 2009 have been a rich complementary source of qualitative insight into each market where the discussions took place.

In addition to selected regional highlights covering EMEA, Asia Pacific and North America, the following sections include country-specific observations on Germany, the United Arab Emirates, Turkey, China, India, Japan, the United States, Canada and Mexico.

One dimension of those observations is a notional “rating” of the current state of financial sector collaboration in each country, coupled with a rating of the short-term potential (6-12 month timeframe) for further development of such collaboration models.

These ratings are based upon a combination of macro-level factors, such as the national regulatory and policy context as it might support or hinder collaboration models, together with industry-specific factors such as the nature of the competitive environment, or the degree of receptiveness to new partnership options.

In some markets, such as China for example, the need to enhance global reach, processing and operational capabilities and delivery options (in direct response to client demand), was assessed as being so significant that it suggests a very high short-term potential to explore and evolve new alliance models. In other jurisdictions, such as Canada, the state of the financial sector – from the stability of the banks and the robustness of the regulatory and policy environment, to the relative satisfaction of end-user clients with delivery capabilities – suggested a short to medium-term tendency to remain at status quo.

### The Collaboration Barometer

The ratings are presented graphically in the form of barometers (see Figure 15), however, it must be noted that there is no implication that one end of the barometer is “better” than the other, whether at the country level, the industry sector level or the level of individual financial institutions. One end of the barometer may be optimal in a given market under current conditions, while the extreme opposite end of the barometer might be best suited to a neighbouring market, given its own unique circumstances and requirements.

**Figure 15: The Collaboration Barometer**



Gradual recognition of the opportunity in and value of international collaboration appetite evolving.

Source: BNY Mellon/Opus Analysis 2010

The collaboration barometer includes an indication of current and potential level of collaboration in each market, as represented by the gray and black arrows respectively.

The assessment of potential relates to the ability and likelihood of a given market to shift from its current level on the collaboration barometer, to a next level within the short term. A selected observation is highlighted, with a view to supporting the ratings assigned to each market.

The collaboration barometer does not imply a value judgment relative to the various models reflected on the barometer: in some markets, and/or for some financial institutions, it may be optimal to operate as a single provider given prevailing conditions and objectives. In another market, or even another financial institution within the same market, highly collaborative models such as manufacturer-distributor, or collaborative ecosystem, may be best suited.

The collaboration barometer is best thought of as a continuum, with the following ratings reflected:

Barometer Level (Models)	Definition
Single Provider	The market is characterised primarily by financial institutions operating individually in the development, provision and delivery of services to end-user clients.
Partial Outsourcing	The market exhibits some level of outsourcing activity, for example, partial outsourcing of operational processes, or outsourcing of technology platforms.
Full Outsourcing	There is evidence in the market, of full outsourcing of selected lines of activity – from technology management to client-facing interaction, whether on a transparent or “white label” basis.
Collaboration	The market includes fairly advanced and comprehensive models of collaboration between financial services providers – examples might include payment services or clearing processes developed on a joint venture basis, with high levels of partnership and collaboration involved.
Manufacturer-Distributor	Collaboration model combining the geographic reach, infrastructure and full suite of capabilities brought by a global financial institution, with the local market knowledge and client proximity contributed by a local institution.
Collaborative Ecosystem	Network model of collaboration and partnership where members of the ecosystem collaborate with several or all other members on multiple levels. This model explicitly envisions the participation of non-bank organisations in the ecosystem.

Source: BNY Mellon/Opus Analysis 2010

## Regional Observations: Europe, Middle East & Africa (EMEA)

- Consequences of the global crisis continue to play out
- Some thrive, others fight to survive, and the future of the Euro is questioned, at least temporarily
- Evolution continues in treasury and finance management, payments and trade finance
- Middle East evolving commercially and across the financial sector, conscious of global integration
- Africa thriving on commodities and regional integration

While the Middle East and Africa are widely believed to represent significant opportunities for business and growth – broadly as well as specifically to global transaction banking – and Europe is expected to remain relatively “flat” in terms of growth (with the possible exception of Germany and parts of CEE), there is a common, unifying observation across these markets.

In response to the global crisis, some financial firms were forced to consolidate client relationships and, in many markets, make difficult (and perhaps irreversible) decisions about which clients to support and which relationships to exit. At the same time, top-tier clients – who were in a position to do so – have also been consolidating banking relationships in a “flight to quality”, seeking financial institutions that are the healthiest and in solid financial standing.

A direct outcome of this is the need to develop additional business, at least in part on the basis of a capture of greater share of wallet – a key concern and metric of success for the region’s bankers – across all client segments. Interestingly, the (long under-served) SME segment, is now attracting attention from corporate bankers and financiers, as well as top-tier corporates in Europe and beyond.

The importance of SME clients has been highlighted by numerous specialists across each market in EMEA. Coupled with realisations around the importance and competitive value of proximity to clients, the sense appears to be that advanced FI collaboration models will, if one of their aims is to add value to SME and mid-market clients, gain maximum traction and acceptance in the market.

*“The revenues today in global transaction banking are not necessarily to be found among large corporates, but more likely to be discovered in relationships with SME customers. Just as markets in the south-east axis have, so far, avoided the ‘commoditisation trap’ relative to certain lines of business, so SMEs can be served on the basis of value as opposed to price.”*

*- Senior Executive, UK*

In addition to adjustments at the product or solution level, there is some evidence of a change in management style in some quarters. Certain financial institutions in Europe have consciously shifted away from measuring staff performance and organisational success on a quarterly basis, determining that this approach poorly meets the needs of clients and financial institutions under current conditions.

*“We are taking a “back to basics” approach to banking in many respects, and this extends beyond our product focus, to the ways in which we manage our business. We are looking internally as well - paying much closer attention to the views of our people – and looking at value-creation as a fundamental requirement, and taking a view over three years, as opposed to just to the next financial quarter.”*

*- Michele Gentile, Head of Foreign Banks, UniCredit*

The key area of focus for Europe, for bankers, non-bank financial institutions and corporates is the increase in regulatory and compliance requirements and the associated costs. Government intervention and bailout of major financial sector firms have all but guaranteed a level of focus on regulatory and compliance issues, to a level that is commensurate with the severity of the global crisis, but also responds - some suggest severely - to the unwelcome need for intervention in the global financial sector.

Some respondents and interview participants have noted that the whole area of compliance - from specific requirements such as sanctions checks, to OFAC (Office of Foreign Assets Control) screening and beyond - represents an area of significant duplication across the industry. The implication is that this increasingly critical dimension of financial services may present a compelling opportunity for collaboration among financial institutions. The issue of accountability and liability is fundamental to such a modular collaboration, as is agreement on a uniform level of compliance screening, if the screening process is explored as one dimension of compliance-related collaboration.

Corporate clients also indicate an increased necessary focus on compliance and regulatory activities, and export-focused businesses in Sweden, for example, perceive some of the compliance-related inquiries by banks to be intrusive. One response has been to engage more closely with clients in compliance and due diligence, turning a necessary but unpopular process into a combination of education and service offering, a technique employed by some financial institutions in the GCC region and broader Middle East, where compliance has been an area of focus for some time.

While the crisis was less severely felt in the Middle East than in Europe, regulatory and compliance issues are still important. This is partly for obvious and legitimate reasons, and partly, for reasons defined more by (inaccurate) perception than objective reality.

In any dimension of a potential collaboration, there is broad consensus among those whose insights enrich this analysis, that the partnership dynamic must be balanced and must generate value for all participants – certainly on a bilateral basis, and in the context of an ecosystem, on a collaborative basis.

## Illustrative Observations by Country

### Germany

Figure 16: Germany



Local relationships key to German market. Opportunity and capacity for advanced alliance models.

Source: BNY Mellon/Opus Analysis 2010

The German banking market has been drastically reshaped by the global crisis, with one large financial institution remaining as the primary global or near-global institution, and the Landesbanken facing challenges across the country in numerous client segments.

The activities of small and medium-sized enterprises and mid-market clients are deemed critical to ongoing recovery, and corporates continue to work to advance the sophistication of their finance and treasury management functions. German companies are strong advocates of maintaining relationships with local financial sector providers, valuing proximity and relationship to a degree that rivals any region.

*“Smart financiers have always understood that the smaller German Mittelstand is the backbone of the German industry.”*

*- Markus Wohlgeschaffen, Head of Global Trade Finance, UniCredit*

At the same time, German businesses face an environment where the ability to link product offerings with attractive financing solutions is again a competitive advantage; so the ability to support supplier or buyer relationships through collaborative interaction between bankers is seen as valuable by finance specialists in Germany.

*“Supplier finance has again come to the forefront in international trade: the ability to combine attractive financing with a competitive product is once again a commercial advantage; in effect, an integrated approach to product and financing is very appropriate under current market conditions.”*

*- Herbert Broens, Head of Export Finance, Bayer AG*

While the strength and robustness of “house bank” relationships might have made it difficult to champion an advanced financial sector alliance model, recent changes in-market, and an interest among both corporates and financial sector organisations, in exploring alternative engagement models, may open the door to alliance options that clearly add value, while sustaining the core, local financial relationships.

**Germany** exhibits significant levels of collaboration in the financial sector, and the business and financial environment would be both receptive and conducive to the development of more comprehensive collaboration models, somewhere beyond a manufacturer-distributor model, tending toward all encompassing models such as a collaborative ecosystem. This assessment is based upon the relatively concentrated nature of the German financial market, particularly in terms of global or quasi-global providers, combined with the notion that German businesses is highly export-focused, value international reach and capabilities.

### United Arab Emirates (UAE)

**Figure 17: The United Arab Emirates**



Broad evolution in finance, technology, non-oil sectors and trade; increasing international outlook will require banks to follow.

Source: BNY Mellon/Opus Analysis 2010

The UAE has been adversely impacted by the global crisis on two primary levels: one, related to a local real estate “bubble”, which burst in the context of the crisis, and a second level related to ineffective communication and expectations-management relative to a large local financial obligation, which called the financial health of Dubai into question.

Even as technology gains greater profile and credibility in the region, and technology-driven financial sector delivery mechanisms attract interest among business executives, the Middle East continues to demonstrate an atypical affinity to traditional instruments and mechanisms, particularly in the financing of international trade, where documentary credits remain a well-utilised instrument of commerce.

In parallel, the region is adapting to the realities of increasing global integration of financial services, gradually promoting notions of credible and verifiable financial reporting, financial transparency and, among other developments, shifting gradually away from long-time practices around “name lending” (financing granted on the basis of networks and personal relationships – see quote below), in favour of more arm’s-length and ostensibly more rigorous customer adjudication practices.

*‘I was trying to formalise a credit policy for suppliers in my company, and in doing so, would call on suppliers, asking to see financial statements and to better understand their business. In one case, I was offered three (very different) sets of financials, and invited to choose the one that best met my requirements. Such practices are less common now than once was the case.’*

- Credit Director, Middle East

Though the root causes of the global crisis were not a factor in the region, largely as a result of a staunch regional faith in the merits of traditional banking methods, requirements of Shari'a law and the tenets of Islamic finance, the exit of several international banks from regional markets, as a result of the crisis, has contributed to an accelerated reshaping of the region's financial sector; partly reinforcing the preference of local businesses of dealing with local financial institutions.

Like other parts of the Middle East, the UAE has been working to respond to demands for increased financial and commercial transparency, and the application of credit and risk assessment disciplines. While the fundamentals of the region – largely supported by a still healthy petroleum sector – remain strong, local financial institutions are confronted with margin compression, cost pressures and imperatives to increase revenues, while remaining aligned with the relatively conservative banking practices of the region.

*“Local regulators are working to safeguard economic stability while also supporting the banks and financial institutions. At the customer level, we value proximity and knowledge of our client's business – as do the regulators and authorities – and we are open to business models which may assist us in enhancing operational capabilities and service delivery.”*

*- Venkatesh Balasubramaniam, Senior Vice President, Mashreq Bank*

Trade will continue to be a core activity in the UAE – both in terms of the Emirates' own plans to continue to evolve as a regional trade and logistics hub, and in conjunction with expanding trade activity in the region, but also with rising economic powers such as India and China. Trade flows of this nature and scope will require robust capabilities in all aspects of trade finance and transaction banking, and well-timed alliances in the financial sector will assist in ensuring that those capabilities are available and well-deployed.

Financial sector alliance models – even “old style” outsourcing activities – are relatively unknown in the UAE; the influence of foreign-based financial firms has been and remains disproportionately large, as does the local competitive threat from those institutions. Despite this, local banks and financial institutions are exhibiting a receptiveness to explore innovative alliance arrangements; but doing so with an eye to the creation of value for end-user clients.

*“Local/regional banks are informed and intelligent, and will not blindly rush in without analysing the benefits. There has to be some contribution from the global bank and a matching contribution from the local bank – partnership on equal footing, together with a customer view, that will benefit all.”*

*- Senior Banker, UAE*

**The United Arab Emirates** are currently in the range between a market characterised primarily by Single Provider models and some degree of partial outsourcing. Outsourcing is relatively new to the UAE, and yet the short to medium term potential for movement along the collaboration barometer ranges beyond manufacturer-distributor, potentially reaching into some form of collaborative ecosystem. The UAE continues to make significant investment, and undertake significant effort, to diversify its commercial activities both sectorally, and geographically. This, coupled with ongoing investments in infrastructure and capital projects, requires the support of financial institutions, to a degree that cannot be provided by local institutions independently. In effect, end-client requirements, and the recognition of local institutions that they do not possess the capacity to respond fully to those requirements, will motivate a shift to financial sector collaboration.

## Turkey

Figure 18: Turkey



Corporates focus on international markets, and banks' desire to support, will drive evolution of FI alliances in Turkey.

Source: BNY Mellon/Opus Analysis 2010

The Turkish banking environment is dominated by local institutions, by some assessments who, are somewhat reticent to follow their clients abroad. Turkish companies, long-accustomed to financial disciplines related to working capital and cashflow management, are looking for effective, solution-oriented support from bankers, locally and globally: noting that innovation and a clear desire to add value are highly prized qualities in a provider of financial services.

Turkish businesses – and banks – tend to adapt technology across various contexts, from web-based to mobile delivery capabilities, and there is some movement towards the integration of client/bank systems through ERP solutions. While the local retail and commercial banking sector is characterised as highly competitive, foreign-based banks enjoy an advantage in servicing cross-border business, such as trade finance.

*“The Turkish banking sector is quite strong overall, particularly in the domestic context (foreign banks do have an advantage when dealing internationally), and are effective adopters of leading-edge technology. There is significant focus on product development, although the available products are fairly similar across banks, yet there are efforts to develop highly tailored solutions in response to client demand.”*

*- Korhan Kolakli, Assistant Manager, IS Bank*

While there are suggestions that Turkey has shifted its focus “east”, there is a view that the country is still in need of externally-sourced financing, and that Europe and the United States remain important as (actual and potential) sources of such funding. As a result there is an ongoing interest among Turkish businesses and financial institutions, to remain engaged with both traditional markets, and with markets that are enjoying new-found prominence with Turkey.

Turkish businesses are pursuing opportunities in regions ranging from the Middle East and North Africa, to Central and Eastern Europe, whether in short-term trade, or in longer-term capital projects and joint venture activity. Turkish financial institutions, though occasionally hesitant during the early stages of a client's international activities, have followed their customers to markets as varied as Kenya, Kazakhstan and Iraq.

This trend is likely to continue over the foreseeable future, as Turkish businesses and entrepreneurs continue to look for opportunities beyond local and regional markets.

Given the client-centric focus of the manufacturer-distributor model, and the acknowledged growth-orientation of Turkish businesses – including growth in terms of international operations – the hesitancy of local financial institutions to engage in foreign markets will, for a time, motivate serious consideration of the advantages of collaborative alliance models.

Indeed, even the geography of Turkey lends itself to collaborative partnership. Its strategic position at the juncture of Asia and Europe, and its equally strategic position of influence in the Middle East, suggests an almost inevitable pre-disposition toward creative, effective alliance and partnership models.

**Turkey** is a market in growth and expansion mode, with businesses actively seeking to engage in a variety of new markets. The Turkish financial sector is strong, particularly in the domestic environment; however, responding to the increasingly international requirements of corporate clients, is proving challenging for some local banks. The Turkish financial sector exhibits some degree of outsourcing activity, between partial outsourcing and full outsourcing. Given the evolving needs of commercial clients and the (acknowledged) limitations among some Turkish financial institutions, the sector is likely to shift to some variation of the manufacturer-distributor model.

## Regional Observations: Asia Pacific (APAC)

- Growth and power of the “Asian Titans” – China & India
- Cash-rich but actively seeking engagement of international banks
- RMB: Rise of a third global currency
- Asia as the global engine of growth and recovery
- Intra-regional trade and commerce – concentration and consolidation of power and leverage

The APAC region presents a varied collection of circumstances, challenges and opportunities, from the acknowledged powers that are China and India, to the continuing evolution of Singapore as a regional centre, to the fast-emerging economies such as Vietnam, where a strong desire for financial sector expertise reflects a growing commercial orientation and a conscious effort to develop export trade opportunities, as a niche manufacturer and a supplier of certain natural resources.

Japan has wrestled serious financial and economic crisis over a period of years, and as a consequence, exhibits a degree of conservatism in financial matters, including regulatory dimensions. Outsourcing and alliance models with foreign institutions have not yet gained significant traction; however, regional institutions have begun to explore various forms of partnership. Japanese businesses have been expanding activities in China, Southeast Asia and Africa, among other markets.

Regional commerce and trade is a core dynamic which shapes Asia, as the world continues to wrestle with the consequences of the crisis. Traditional historical ties are no longer sufficient to create and sustain growth and value, and in some respects, the motivation to seek engagement in some of those traditional markets is no longer as paramount as might have once been the case.

One of the significant developments in the region is the growing acceptance and influence of the Renminbi (RMB) as a currency of regional and cross-border commerce – the result of policy initiatives of the Chinese government – in combination with the pure commercial leverage of Chinese businesses, which is increasingly in a position to dictate transaction terms, and increasingly prepared to exercise that leverage in requiring that transactions be denominated in the RMB.

The policy and process infrastructure, including clearing capabilities, and the engagement of local and selected international banks in offering RMB-denominated financial solutions, come together at a well-chosen moment in the evolution of the global financial sector. However gradual or cautious, the rise of the RMB is both expected and inevitable, and will, like the rise of China and Asia more broadly, contribute to the reshaping of the global economic and business environment.

## Illustrative Observations by Country

### China

Figure 19: China



Cash-rich Chinese businesses in active search for wide variety of international opportunities, banks will seek international alliances.

Source: BNY Mellon/Opus Analysis 2010

In China, the overall theme of growth and development is evident in both the financial sector and the increasingly sophisticated requirements of commercial and corporate clients. Chinese companies are actively engaged in exploring business opportunities – from transactional opportunities to more complex joint ventures and outright mergers and acquisitions – across the globe, and their banking requirements have been extended accordingly.

*“In response to the evolving demands of corporate clients, particularly related to international markets, financial services organisations must keep up with global market developments and design products with relatively simple structures and high return. At the same time, banks must actively develop business alliances with overseas industry peers to compensate for our lack of offshore branches.”*

- Executive Manager, China

Though most commentators describe significant levels of liquidity in the Chinese economy and among Chinese bankers, there is recognition that few Chinese banks possess the scope of operations internationally, to meet clients’ global transaction banking requirements.

*“Businesses in Hong Kong and China are engaged in a wide variety of commercial ventures across the globe, and are looking for the support of international banks and institutions, as they grow their business overseas. There is significant, low-cost liquidity in search of investments and acquisitions all over the globe, in addition to ongoing searches for suppliers of much-needed natural resources. This is an excellent time to develop innovative partnerships with Chinese banks.”*

- Dennis Yau, Director General, Federation of Hong Kong Industries

Development of and investment in technology, is identified as a major driver in the evolution of the financial sector and concurrently, the broadening of definitions from “bank” to “financial services provider”, is described as an important trend in shaping the Chinese financial sector.

The ability of financial services providers in China to evolve practices in alignment with the requirements and expectations of the global financial markets will be critical over the long term and the inevitable increase in influence wielded by Chinese financial firms, in shaping that global

environment, will be increasingly, a reality of that global environment. The level of focus on RMB-denominated cross-border transactions is one early-stage illustration of that shift.

*“The international banking business should be forward-looking. Financial products should be designed based on the future development trends of the financial industry in order to satisfy customers’ future needs, thereby attracting both existing and potential customers.”*

*- Senior Executive, China*

Even as the growth and influence of Chinese business and financial sector providers evolves, commentators in both Hong Kong and mainland China express a significant receptiveness to financial sector partnerships and alliances, motivated primarily by the desire among Chinese banks to extend their capabilities internationally, and to leverage the capabilities of global institutions.

Collaborators are expected by some Chinese institutions to become closely engaged in the delivery of value to end-user clients – a view that is consistent with leading-edge thinking in the financial services business.

*“...service providers need to further understand the service demanders’ research and development process engaged in providing solutions to end customers so that their products or services could form part of these solutions if at all possible. Pricing may be an important factor sometimes, but the service providers’ understanding and participation in the above process is a key factor in most cases.”*

*- Senior Banker, China*

Indeed, the receptiveness of Chinese bankers and financial executives to opportunities around financial provider partnerships – particularly with foreign financial institutions – is for some, so fundamental and necessary, that it is characterised as “inevitable”. In such cases, the potential value of alliance models is seen to extend from access to market knowledge and understanding for the Chinese financial institution, to product-level solutions for the end-client, to the provision of effective risk mitigation options in conjunction with various global transaction banking products and services.

The potential for sustainable financial sector alliances and partnerships is widely acknowledged; in addition to the more strategic considerations around compatibility between financial institutions, one provider in China noted that very specific factors down to the attitudes and modes of interaction of staff between the prospective partners, can make or break a partnership over the longer term.

With regards to elements that may influence prospective financial partnerships, technology is identified as important – both as an asset to enable efficiencies in the local partner institution, and more importantly as a capability that adds value for end-user clients; particularly in the context of the pursuit of international opportunities. Certainly, enhanced capabilities and clear ability to improve service delivery to end-user clients in international activities is the primary driver for Chinese financial institutions.

Pricing is also a chief consideration, but respondents consistently indicated that it is not the primary factor in any final decision linked to financial sector alliances.

Regulatory considerations are, however, felt to be almost incidental, with commentators indicating that Chinese regulators have taken firm positions on financial sector regulation, established timelines for implementation of Basel-related requirements, and generally been effective in managing the oversight of the Chinese financial sector.

**China** is in growth mode, with the global crisis referred to by one commentator as a “mere speed bump” on the country’s road to prosperity. The financial sector is developing scale, international reach and enhanced capabilities at various rates, to meet the ever-increasing needs and expectations of Chinese businesses. While the financial sector is largely at the level of the single provider, the scope of activity of Chinese businesses in international markets will drive rapid movement toward advanced collaboration models, such as the manufacturer-distributor, and beyond, to full-scale collaborative ecosystem models.

## India

**Figure 20: India**



Indian banks in active search to enhance delivery capabilities and channels. Mature BPO market, open to advanced models.

Source: BNY Mellon/Opus Analysis 2010

Indian bankers note that end-user clients are advancing in the evolution of treasury and finance functions, and are seeking greater value-added service from their service providers – including broader and more effective global reach. A challenge identified by several Indian banks is the use of an increasing number of currencies by corporate end-user clients, leading directly to requirements that prospective financial sector partners have the ability to provide services and transaction processing across a wider range of international currencies.

*“Indian financial institutions are doing well in terms of managing clients’ international activities; this is partly due to enablement through financial sector alliances, and partly due to a strategic effort by Indian banks increase presence abroad. In terms of relationships, it must be noted that established, enduring relationships are highly valued. It is not the norm, in India, to switch partnerships without careful consideration, and in any case, this is not done on the basis of one or two factors alone.”*

*- Mr. P. Mukherjee, Head of Treasury, Axis Bank*

In addition to enhanced cross-currency liquidity management, corporates increasingly require highly granular information about buyers, suppliers and the state of individual transactions in a supply chain, which are fuelling the demand for enhanced technology capabilities, such as processing platforms, data mining and reporting, among Indian financial institutions and thereby shaping the parameters of prospective financial sector partnerships.

Indeed, the profit-centre evolution of finance and treasury functions within Indian corporates is cited as a major driver in the demand for enhanced technology: transparency related to business transactions and status on an international basis, and as close to real-time as feasible, is the ultimate objective of corporate executives and, therefore, becomes a demand of Indian financial institutions with respect to potential alliance partners.

Though India has historically operated as a cheque-based clearing system, significant advances have been made in developing automated solutions such as the Real Time Gross Settlement System, as well as in developing and enabling high levels of client connectivity through ERP systems. Increased efficiency in settlement has all but eliminated float-base revenue in India, with the effect that financial institutions are seeking opportunities to make up the shortfall in business revenues. Corporates are seeking comprehensive accounts receivable and accounts payable solutions, and significant efforts are being invested in the development and deployment of e-invoicing platforms and solutions.

*“We are observing that processes and systems related to treasury and financial management are getting increasingly integrated. On the international front, there is room for improvement among domestic institutions; international banks are leading the way, which supports a position in favour of financial sector alliances, provided the partnership generates clear value.”*

*- Mr. R. Maheswaran, General Manager, Union Bank of India*

As a result of these growing demands for advanced technology, Indian banks are keen to explore the opportunity presented by well-selected financial sector provider partnerships to extend capabilities and international reach. However, this desire is expressed with the almost universal caveat that any global player in the partnership ecosystem operate on a non-competitive basis in the home market of the client financial institution.

In terms of what is valued in a global partner, responsiveness and creativity are seen as important means of responding to end-user clients needs, by Indian financial institutions. One executive specifically identified local, in-market empowerment within the partner institution as an important element in assuring timely response and prompt decision making.

*“Tie-ups and strategic alliances with Indian banks will develop, if at all, as a direct consequence of the (current) limitations of Indian financial institutions. Partnerships must be about enhanced service delivery or new product/solution development. Client impact is the primary motivator: simply enhancing processing capability to reduce cost will not be attractive to Indian banks.”*

*- Mishra Loknath, Head of Commercial Banking, ICICI*

In addition, Indian financial institutions consistently identify pricing as a key element in decision making relative to prospective partnerships. As in other markets, respondents have indicated that price is not a determining factor; however, it appears that price is a higher-priority consideration in India than in some other markets. This observation suggests that some level of commoditisation is already present in transaction banking in India and that any desire among banks to avoid extreme levels of commoditisation, will require mitigating action.

Indeed, pricing concerns are reflected in comments from senior finance executives in India that express a tendency to view financial sector alliances with reference to well-known correspondent banking models, based upon selective partnerships and underpinned by reciprocity and revenue-sharing models. The view was expressed, that a “way forward” for financial institutions in India is to target the development of fixed-cost models of processing and delivery, to optimise business – a basic tenet of traditional outsourcing programs.

*“We are seeing increased focus on operational efficiency and optimization, and noting greater focus on cost-related aspects of the financial sector. While some local institutions will insist on maintaining processing capabilities “in-house”, innovative alliance models which allow local institutions to run selected operations on a fixed cost basis, are welcome and timely.”*

*- Lalit Jadhav, Regional Head, ICICI*

Certain executives express the view that risk appetite among Western financial institutions has been reduced significantly over the course of the crisis, and that mid-tier, Asia-based institutions are likely to enjoy greater traction than large, quasi-global institutions based in Europe and the Americas. Perhaps more importantly, there is a perception that Western institutions will be less inclined to innovate or undertake new activities, suggesting that progress on this level is likely to originate in Asia for some time. Whether this is correct or not, is less important than the fact that the perception exists and reflects empowering expectations in institutions where such a view is present. At the same time, however, the value of partnering with a global institution is readily acknowledged.

*“Alliances will boost the confidence in financial service providers and add the strength of a global brand behind the local brand.”*

*- Aditya Kashyap, Head of Correspondent Banking, Indusind Bank*

**India** has shifted its recovery strategy from being consumption-driven to export-driven. Indian financial institutions are very familiar with various forms of outsourcing, however, there is a preference for maintaining operational capabilities in-house, and there are significant efforts to invest in and leverage technology to enhance service delivery. While there is receptiveness to certain modes and levels of partnership, there is also a desire to limit the scope of such alliances. India is currently at full outsourcing on the collaboration barometer, and indications are that the financial sector may be receptive to a shift to manufacturer-distributor.

## Japan

**Figure 21: Japan**



Gradual recognition of the opportunity in and value of international collaboration: appetite evolving.

Source: BNY Mellon/Opus Analysis 2010

The Japanese financial sector currently counts three “mega-banks”, and numerous regional financial institutions, with the latter group in particular, seeking ways to extend capabilities and reach in response to evolving client requirements. These regional institutions have been open to exploring alliances with domestically-based mega-banks and/or with global institutions primarily in the United States and Europe.

Local and regional Japanese banks operate at the level of the prefecture, and perceive that their local markets are well-shielded from competition by the other regional banks and Japanese mega-banks, and certainly well protected from any potential threat represented by foreign-headquartered institutions. In effect, this sub-national market focus serves to assure non-competition between local institutions and either the domestic mega-banks or the international institutions with which alliance programs might be contemplated.

Regional banks, through industry associations are working actively to enhance delivery capabilities by, sharing information and best practices; more importantly, certain regional institutions are in the mode of sharing technology and back office/operational capabilities – reassured by non-competition – to enhance overall value proposition offered to their local clients. Such arrangements are meant to assist in cost-reduction, as well as product and channel development activities among regional institutions.

As a result, even otherwise long-established outsourcing models remain relatively unfamiliar in Japan. One core factor is the perspective of Japanese regulators on financial sector alliances and outsourcing programs.

*“The prevailing view among senior regulators in Japan is that an institution can, in principle, outsource operations and transaction processing, but cannot be permitted to “outsource” accountability related to its various compliance requirements. Some Japanese banks have begun to consider and assess opportunities – and value – related to various forms of partnership and alliances.”*

*- Haruhiko Saito, CEO of Tokyo International Consulting*

However, Japanese banks are exploring alliance models both within the financial sector, and with providers in the telecommunications sector, as a means of providing advanced mobile banking and Internet-based banking solutions.

As with other markets across the globe, Japan is responding and adapting to developments in commercial and trade flows between Japanese and Chinese businesses, to the extent that Japanese mega-banks are assessing the potential of offering significant services – including deposit accounts and settlement options – denominated in RMB. This is one illustration of the efforts of Japanese financial institutions, in enhancing and expanding their internationally-oriented transaction banking services. Japanese businesses have also been actively shifting production and distribution operations into China, to secure direct access to an important commercial market, with the effect that Japanese banks are required to respond with appropriate and timely service and product offerings.

Some respondents indicate that Japanese businesses – particularly those with global operations or aspirations – have sought to secure a combination of market coverage and effective advisory support in matters related to transaction structures, tax optimisation and regulatory developments. In this context, the selection of a service provider is based upon factors which extend significantly beyond the question of pricing.

**Japan** is characterised by a financial sector that operates primarily at the single provider level of the collaboration barometer. Due to demands from Japanese businesses, and gradual receptiveness among Japanese banks, the probability is that Japan will shift along the barometer, perhaps to the level of manufacturer-distributor.

## Regional Observations: North America (NORAM)

- US continues to struggle for recovery and maintenance of global influence
- Search for alternate markets
- Illustrates the impact of appreciation of currencies on trade & commerce
- Continent-wide search for new equilibrium
- Canada gains, Mexico looks South and East

As the United States works to regain credibility in a world of increasingly multilateral leanings, and adjusts to the changing realities of global economic and political power, its two NAFTA (North American Free Trade Agreement) partners (Canada and Mexico) have been driven to seek opportunities in international markets, due to the ongoing woes of the world's largest consumer.

The US financial sector has been irrevocably reshaped by bankruptcies and effective nationalisations, and the regulatory/political implications continue to evolve. The country continues to wrestle with the implications of its ballooning deficit, and the realities of a shift in power and influence, away from the US and Europe and toward emerging powers in Asia and South America and beyond. Yet it remains a formidable economic power. The United States has been working actively to re-engage internationally on a multilateral basis in every sphere of activity, including trade and commerce, although crisis-motivated "Buy American" provisions have generated some tension with trading partners.

Canada, the second of the three NAFTA partners, has done relatively well in responding to the crisis, despite very close connections – even dependence – on the United States as a trading partner. The Canadian financial sector is dominated by large financial institutions (relative to the size of the national economy), and effectively regulated by a well-established framework of compliance. In many respects, while the crisis certainly impacted the Canadian economy for a period of time, the country's recovery has been evolving more quickly than expected.

In Mexico, the current crisis was reminiscent of the Tequila Crisis of 1994, and bankers and financial sector executives have commented widely that lessons from the last crisis assisted economies in Latin America – including Mexico – to respond immediately and decisively with the necessary measures of public policy, to dampen the effects of the current crisis.

While sectors of the economy – notably tourism – suffered serious impact, the country as a whole was less adversely impacted than might have been expected, again in part because of the influence of the United States as a trading partner. Mexico engages in thriving trade with the US in particular, including a significant level of re-export business concentrated in the border states, where Mexican companies source inputs in the United States and re-export finished product in several sectors. Mexico is an entry point into the US for a significant volume of goods produced in Asia, most notably China. Estimates suggest that about 90% of goods imported into Mexico from China are eventually routed to the United States, with roughly 10% remaining for local use and consumption.

Intra-company trade is an important and material element of business flows in North America and, accordingly, working capital and cash management solutions are fundamental to the value proposition of transaction banking on the continent. This reality also underpins the pre-crisis focus on open account trade, and a view among some bankers (paralleling Europe) that "a payment is a payment", whether or not it happens to cross a border.

## Illustrative Observations by Country

### United States

Figure 22: The United States



Significant reshaping of the US financial sector in a market accustomed to various modes of alliances.

Source: BNY Mellon/Opus Analysis 2010

US financial institutions have experienced the full spectrum of consequences related to the crisis – from bankruptcy to bailout, or domestic retrenchment to expansion and growth. Financial giants with undoubted standing were forced – due to a crisis of confidence – to seek guarantees and other mitigating measures, to reassure domestic and global markets about the viability of their undertakings. Others were effectively taken over in unwanted but unavoidable mergers, while the industry as a whole took measures to restructure balance sheets as well as client portfolios.

American banks engaged in trade finance sought confirmation of their Letters of Credit by Canadian and other financial institutions, and failed to honour credit and financial commitments to clients over the course of the crisis. Niche service providers were able to make inroads in certain areas of activity by responding to the needs of already underserved SMEs, in some cases simply by demonstrating an interest in assessing business opportunities after larger institutions effectively withdrew from certain markets.

US corporate and commercial executives describe efforts by American institutions to rationalise client portfolios, and describe degradation in levels of service, which have left a damaging impression of the commitment of certain financial firms with respect to their clients. More recently however, contrasting approaches have emerged, where a financial institution in search of new and viable business will take very broad approach to developing client relationships.

*“We have been approached by several banks recently, talking about ‘everything’ they could possibly do for us. This is not necessarily a realistic or credible approach, but it is in contrast to earlier days during the crisis when banks literally hung up the telephone on our staff, or deemed that a resolution passed by our Board was ‘not good enough’ to meet the bank’s requirements.”*

*- Delanie Moler, Associate Treasurer, Rutgers University*

As a result, US-based finance executives have undertaken unprecedented measures to assess the viability and long-term health of their financial service providers, terminating relationships where the financial services organisation was deemed to be in an untenable situation, or where the risk profile of the entity was deemed sufficiently negative; often with adverse impacts on the conduct of business by the end-user client.

Despite some backlash against US financial institutions in international markets – largely based upon the perception that irresponsible practices by US financial sector executives were at the root of the global crisis – the power and influence of the US financial sector and of its top names in finance is apparent, in the degree to which international businesses, banks and other entities continue to seek their engagement.

**The United States** continues to wrestle with significant impact arising out of the global crisis, including a material re-shaping of its financial sector. Several financial institutions have faced unplanned mergers or retrenchment to domestic markets and the sector as a whole faces the prospect of increased regulatory oversight. Various models of collaboration are well-known in the US, positioning it at the level just before manufacturer-distributor on the collaboration barometer, and suggesting a level of readiness to develop models in the range of collaborative ecosystems.

### Canada

Canadian trade, both import and export, has historically been highly concentrated in its focus on the US market. The current crisis and the directly related appreciation of the Canadian Dollar relative to the US currency, has effectively forced Canadian businesses to engage more broadly in international markets.

The regulatory and compliance regime around the Canadian financial sector remains largely unchanged, at least in terms of a response to the global crisis. Compliance requirements related to cross-border business and capital adequacy have impacted Canadian institutions in requiring significant effort to analysis and implementation; but the broad context of business and financial services remains relatively stable, without the severe damage and consequences endured in many other parts of the world.

**Figure 23: Canada**



Effectively regulated, robust financial market likely to tend to status quo for the foreseeable future.

Source: BNY Mellon/Opus Analysis 2010

Finance and treasury activities among Canadian businesses are continuing to evolve largely unchecked by the global crisis, with the largest global corporates (relatively few in number, with several now foreign-owned) having recourse to large international institutions to meet their financial services requirements, particularly in markets where the Canadian banks have been relatively inactive. As a result, Canadian financial institutions are well-placed to respond to the domestic and international requirements of their clients and are likely, on balance, to be in search of acquisitions or expansion opportunities in selected international markets.

**Canada** evidences some advanced models of financial sector collaboration in payments processing and clearing activities, overall rating at a level of partial outsourcing. This assessment is partly a function of the political/policy climate in Canada which tends to frown on bank merger or other forms of significant alliances, given the size of the market and the market power of the banks. These factors, in combination, suggest that the Canadian market may be prepared to shift to further collaborative models, perhaps as one approach to enhancing the international presence and capabilities of the leading financial institutions, given the increased focus of Canadian businesses on non-US markets.

### Mexico

**Figure 24: Mexico**



Disproportionate influence of foreign-based banks, search for new markets may motivate new alliances.

Source: BNY Mellon/Opus Analysis 2010

The Mexican financial sector is dominated by financial institutions owned by or affiliated to foreign entities, and the global crisis demonstrated, clearly, which institutions remained active in Mexico and which – at times due to difficulties with the parent institution and resulting directives to retrench domestically – were likely to exit the market.

Mexican businesses, like those in Canada, have been forced to seek new markets and to develop relationships beyond the United States. Even so, much remains invested in border states to enable the flow of commerce between the US and Mexico, with Mexico often serving as a US entry-point for exports from markets such as China. As a result, Mexican businesses are looking further south for opportunity, while continuing to develop import and export opportunities in the United States, and continuing to facilitate export flows from China to the US.

Pre-crisis, Mexico had been an early and enthusiastic adopter of open account and supply chain finance mechanisms, and indications are that these activities will continue to shape the Mexican financial landscape and the requirements of Mexican finance executives. Recent initiatives include a new offering funded by Bancomext (Mexico's national bank of foreign trade) to make supply chain finance solutions available to Mexican exporters targeting opportunities in North America and Europe.

Like its northern neighbours, Mexico seeks to re-establish equilibrium on the continent, in part by identifying ways to better leverage the NAFTA agreement; this despite protectionist pressures arising from some directions in the political and business context across North America.

**Mexico**, despite its close connection to foreign institutions, currently tends toward the Single-Provider level of the Collaboration Barometer, however, local circumstances plus a push to diversify trade markets, will drive the financial sector to seek new or greater levels of collaboration, in response to evolving needs of Mexican business. Over the short to medium-term, Mexico may reach a level of collaboration in the range between full outsourcing and collaboration.

## IV. Financial Institution Alliance Models

- Traditional outsourcing models are ineffective
- Evolving models must and do demonstrate practical value
- Commercial clients are demanding a combination of local knowledge and global reach
- The global/local institution partnership dynamic is evolving into a more balanced model
- Technology and global reach remain key; best practices processing capability and capacity, as well as managing response to regulatory demands, are increasingly important

### Manufacturer-Distributor: Evolution in FI Alliances

As the financial sector seeks ways to respond to the ongoing consequences of the global crisis, one of the options under consideration is an emerging model of bank-to-bank alliances, referred to as the “manufacturer-distributor” model.

This model envisages a partnership between financial institutions, where a “hub” entity with global reach, significant technology infrastructure and a suite of related processing capabilities (and expertise) serves as a “manufacturer”, enabling local or regional partners to take on the role of “distributor” of selected financial sector products and solutions, leveraging the infrastructure provided by the manufacturer.

This differs from established partnership models, such as outsourcing, because it is collaboration-oriented and not driven by objectives which might be characterised as “defensive” in nature, such as cost-cutting or investment recovery. Furthermore, the traditional models typically involve the global institution in a dominant position, and the local/regional institution facing the possibility of a direct competitive threat to its client base (see Figure 25).

**Figure 25: FI Partnerships: Beyond Outsourcing**

Outsourcing		Manufacturer-Distributor	
Global Institution	Local/Regional	Global Institution	Local/Regional
Lower processing cost	Resource limitations	FI service focus	Geographic reach
Technology payback	Savings on IT	Technology leverage	IT, Best Practices
Factory model	Maintain LOB	Customer-orientation	Service enhancement
Greater leverage	Less leverage	Partnership approach	Balanced partnership

Source: BNY Mellon/Opus Analysis 2010

One of the reasons behind this shift from cost-driven to solutions-driven partnership approaches is technology. Indeed, technology has evolved in a way that allows FI-to-FI partnerships to be built on the basis of ensuring that the local/regional bank retains control of their end-client relationships. The issue of local-institution control also ties in with an industry-wide refocus on the importance of proximity, market and client knowledge with regards to sound risk management and credit adjudication.

Current circumstances demand a fundamental focus on enhancing client service and delivery: the value provided by the global FI must now extend beyond the regional/local institution, and connect directly to the requirements of the end-user client, while assuring and supporting the protection of the existing bank-client relationship. As a result, providing lower-cost processing, and eliminating the need for smaller institutions to maintain expensive technology infrastructure, is no longer sufficient to build and sustain a business model: these elements are now the price of entry as a credible partner.

## Manufacturer-Distributor: Value & Solutions

The ongoing crisis has brought into sharper focus the escalating cost of maintaining sufficient local presence (infrastructure, market knowledge and expertise), to effectively compete for and cultivate commercial/corporate relationships across the globe. Just as technology costs money, the development and successful maintenance of a client franchise is expensive. Yet transaction banking remains an attractive business for those willing to invest:

*“Global Transaction Banking, as a business, is extremely influential and increasingly attractive as financial institutions refocus on the basics; banks that decide to get serious about this business will need to invest, and will need to look strategically, realising that success over the long-term will be linked directly to proximity to commercial customers. At the same time, the most attractive returns at the moment are in the south-east axis of the globe, where the business has not been commoditised.”*

- Senior Executive, UK

Investment, for the majority, must go hand-in-hand with the addition of value and the ability to deliver effective solutions led by client needs. As a result, partnership is considered by many to be the key to remaining competitive in global transaction banking.

The manufacturer-distributor model presents an option to address market needs and requirements. This model, as designed, generates value for all three levels of the relationship: commercial client, local/regional financial institution and global entity (see Figure 26). Perhaps more importantly, the logic of the model and its components of value flow directly from commercial/corporate client needs and from key changes in the financial marketplace; particularly those in the regulatory sphere.

**Figure 26: Manufacturer-Distributor: A Solution View**

Outsourcing		Manufacturer-Distributor	
Global Institution	Local/Regional	Global Institution	Local/Regional
WC & Payments			
Trade & Cash	Enhanced Delivery Capability	Volume/Scale of Business	Manufacturer Capabilities (Technology, Processing)
Accounts Receivable and Payable			
Local Contact	Client Retention	FI Retention	Non-compete
Global Reach	Global Reach	Local knowledge	Local/Global Partnership
Credit/Financing	Capital		Best Practices
Compliance	Regulatory & Compliance, Global		Global FI Expertise

Source: BNY Mellon/Opus Analysis 2010

Under the manufacturer-distributor model, a well-equipped global institution can provide both enhanced technical capabilities and extended cross-border reach to local financial institutions that are typically falling behind in these areas. Whether this is manifested in increased processing efficiency and turnaround times, the use of offshore processing to take advantage of time differences, or through near-complete automation in certain types of transactions, the value-add at the transactional level is clear.

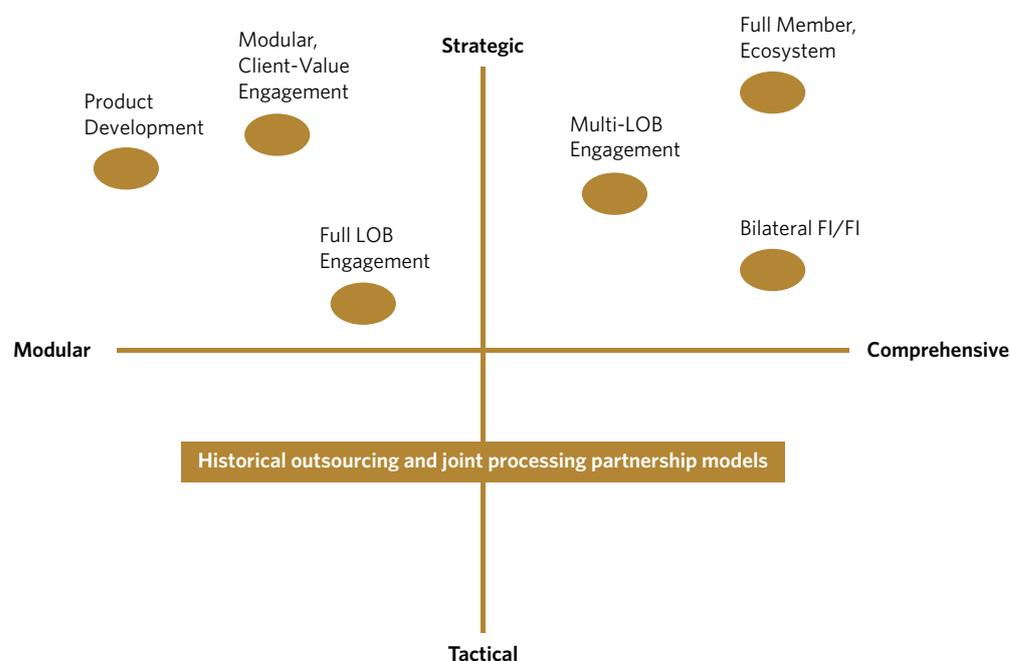
The benefits of a well-developed manufacturer-distributor partnership model extends well beyond the transactional sphere, to cover areas such as compliance and regulatory requirements, which a relatively small number of financial institutions understand, even at the regional level. Additionally, it brings with it an opportunity for collaborating institutions to identify, enable and implement best practices within both the local institution and the global organisation.

Corporate clients also stand to gain from such local-global bank collaboration. Enhanced local bank service provision, combined with local understanding and commitment, will give customers a much wider base from which to access transaction banking solutions, as well as a smooth entry to new markets.

## Theory to Practice: Manufacturer-Distributor in the Marketplace

The research that underpins this analysis has revealed the potential across all regions for financial institution partnerships. Proponents of advanced partnership models, such as the manufacturer-distributor ecosystem envisioned in this White Paper, express a view that partnership is not only viable but, in many ways, the clear way forward for the industry, and alliance models within the industry (see figure 27).

**Figure 27: Partnership Models**



Source: BNY Mellon/Opus Analysis 2010

For such proponents, the traditional correspondent banking model is unwieldy, expensive and operationally difficult to maintain, especially as a means of assuring some degree of global coverage. One core element of differentiation for proponents is that the alliance model is end-user client driven; a second key asset of the model is that it aims, explicitly, to deliver value to both partners and in the end, to an ecosystem of partners and clients.

At the most optimistic end of the spectrum of this debate, lies a view which suggests that the bank/financial institution partners ought to collaboratively engage, intimately, with end-user clients, understanding both strategic objectives, and transactional and financial detail, to the point of becoming, in effect, an element of the client's operating model. This includes understanding revenue and cost models in addition to other aspects of the end-client's business.

The manufacturer-distributor model and its variants are inherently strategic in nature, given their client-centered approach and objectives and the type and (potential) extent of partnership envisioned among participating institutions, particularly in the context of a fully evolved ecosystem of alliances. While old-style outsourcing models also evolved various "flavours", from modular type to those more comprehensive in scope, their nature is generally operational and tactical by comparison.

Parts of the Middle East, for example, have experienced significant margin compression in financial services, including transaction banking, and yet, each dimension of transaction banking is critically important to meet the needs of businesses and economies in regions, such as the UAE, as well as the GCC and beyond.

Local and regional institutions face pressure to reduce costs and increase revenue, just as businesses are looking to increase their engagement in the global business environment, particularly in intra-regional commerce. With burgeoning partnerships in Asia – traditional ones with India that are simply expanding, and new ones with China that are quickly growing. End-user clients in the region are facing demands, arising directly from the crisis, for greater commercial and financial transparency. They are also expected to adapt to more disciplined and stringent financial and risk assessment practices – thereby facing additional demands on their treasury and finance functions.

This confluence of events and pressures, together with a broad regional imperative to diversify from petroleum-based business intent, creates a series of circumstances which have effectively proven the demand for new models in financial sector partnership – in each case, initiated by the local/regional institution, and in each case, driven demonstrably by a desire to meet end-client needs.

### **Scenario 1: Comprehensive Partnership: Trade Services**

A leading financial institution in the Middle East seeks to enhance its delivery capabilities in trade finance, while concurrently attempting to reduce overall operating costs in that line of business.

This institution, like many, faces intense internal competition for bank capital, and is in a position where trade business is amply available, but cannot be fully developed due to internal constraints – with the effect that executives must make trade finance more attractive to internal stakeholders, while maintaining effective external focus on opportunities in the region.

The financial institution undertook an extensive and formal internal assessment, including detailed transaction costing, in preparation for discussions with a prospective partner and was well-prepared to articulate clear operational, financial and client-facing requirements, when discussions had advanced sufficiently, to merit the sharing of such details.

The local institution is motivated to reduce costs; however, the basis of partnership is equally built upon immediate access to effective technology platforms, and industry best practices. This translates directly into benefits for end-user clients. Non-core areas, such as OFAC screening, are expected to be carried out much more efficiently and cost-effectively in the context of the partnership.

Speed to market and agility are important elements of the value proposition provided by global partners to local/regional institutions: the ability to respond quickly and decisively to changing market conditions, or to planned changes in strategy, is an important driver for advanced FI alliance models such as the manufacturer-distributor model.

This first illustration of an active, “live” partnership model, is differentiated from old-style outsourcing in several respects: first, the local institution has placed client value-creation at the top of the list of priorities and success metrics relative to the alliance. Secondly, executives of the local institution are very aware of the leverage they enjoy in terms of the end-user client relationships. Particularly given the number of international, or foreign-headquartered financial institutions that have exited the region over the course of the global crisis. This partnership is very much one built in the spirit of mutual benefit, based on balanced leverage between partners.

This example reflects the ability of a manufacturer-distributor model to on-board entire businesses, balancing the needs of partner FIs with those of local end-user clients, and to do so with comprehensive, structured and formal upfront analysis, as was completed by the local partner. Detailed transaction process flows, comprehensive cost and pricing analysis, best practice requirements and service enhancement objectives: all were addressed by the local client, to present a clear vision and an operating-level mapping of the needs of the local institution.

### **Scenario 2: Modular Processing Solution: Trade Services**

A leading financial institution based in the GCC, facing cost pressures and margin compression, has opted to centralise its trade finance operations at the bank’s head offices. While the exercise is generating cost savings as expected, transaction turnaround was adversely affected by the centralisation effort – directly impacting end-user clients. The local institution was unable to overcome the added processing time required due to the centralisation of operations.

It was realised that forging a partnership with a global institution would allow the local institution to leverage an advanced technology platform and workflow control/routing capability through time-zone differences and significantly reduced processing time, thereby enhancing overall delivery to the end-user client.

This scenario is perhaps most similar to one flavour of old-style outsourcing, with the key differentiator being at the core of the evolving FI alliance models: mutual value-creation and demonstrable positive impact for end-user clients.

### **Scenario 3: New Product Deployment: Trade Services**

An institution with a unique, global trade support and development mandate observed developments in the market, and identified a potential source of revenue, which would require an extension of its mandate and its delivery capabilities.

The institution determined that it must be able to issue its own trade finance instruments (specifically documentary credits) rather than simply engage in supporting activities, while allowing the revenue-generating activity to be undertaken by other institutions engaging with end-user clients in the trade transactions. In addition to the revenue-generation motive, this institution would have been enticed by the added flexibility and responsiveness to clients, in being able to provide trade finance operations solutions to the end-user clients.

A unique feature of this scenario is its effective focus on product development for a client organisation, at a moment when that organisation had only the vaguest notion of what its ultimate requirement was, in terms of a perceived gap in its capabilities.

The nature of the dialogue which fostered this form of partnership is clearly consistent with the characteristics related to the manufacturer-distributor model: end-user client solution-orientation, leading directly to value-creation, and a partnership based upon equal leverage, non-competition for ownership of the end-client, and the creation of value for both FI partners.

## V. Conclusions

### Research Conclusions

A list of “Ten Questions for CFOs” published by McKinsey in 2009 includes question five:

*“Should you restart conversations with potential alliance partners? Last year, many companies put discussions about strategic alliances and joint ventures on hold. This year, if the underlying logic of those deals remains sound, many potential partners are finding themselves under greater pressure to close them. Moreover, businesses that may emerge from the recession at a competitive disadvantage could find a quick and effective solution in joint ventures with companies in a similar predicament.”*

*- McKinsey “Ten Questions for CFOs”, 2009*

The question, particularly relative to the post-crisis value and the advantages of well-structured strategic partnerships, could well be asked – and with the same urgency and sense of priority – in the context of banking and financial services.

The multi-pronged and broadly-based research that underpins this White Paper, indicates that there is a strong desire among financial sector executives – and their clients – across EMEA, APAC and North America, to seriously consider options linked to strategic partnerships and alliances.

Models shown to be viable and that have been proven in the market are of particular interest; especially when such models provide mutual value and benefit to participating partners, as well as creating demonstrable and differentiated value for commercial/corporate end-user clients.

A client-driven, mutually beneficial partnership approach, evolving into a globally-reaching ecosystem of capabilities and value is a model well-suited to the circumstances of the global business environment – and even better suited to the post-crisis realities as they are taking shape today.

### A Way Forward

The foregoing research, based upon extensive discussions and consultations, provides compelling evidence of the global interest in, and value of, advanced alliance and partnership models in financial services. Corporate executives, bankers and non-bank financial sector specialists all acknowledge, with varying degrees of conviction, that the time is right to evolve beyond current models of financial sector alliances.

The established partnership approaches, such as conventional outsourcing, are no longer viable and fail to reflect that local banks have a key role to play in the modern working capital cycle. In addition, many smaller and mid-tier banks are understandably wary of the inherent competitor risk within the outsourcing model; as well as the lack of flexibility of most outsourcing offerings. This is because many are often based on generic systems that are designed for the global marketplace, and therefore typically 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.

As a result, the ideal solution for smaller financial institutions is a more collaborative partnership, based on an advanced alliance model, such as the manufacturer-distributor model. This is because a critical point of differentiation between this type of collaboration and the conventional approach, is that such advanced collaborative partnerships are primarily driven by client-centric objectives. Each step thereafter builds from that fundamental premise (see Figure 28).

**Figure 28: Beginning with Client-Centric Objectives**



Source: BNY Mellon/Opus Analysis 2010

Having undertaken the due diligence and relationship work necessary to fully understand the needs of commercial and corporate end-user clients, a financial institution considering some form of alliance strategy would be very well served to benchmark current capabilities against target/objectives and industry “best of breed”. This is in order to ensure there is clarity in terms of the value to be gained through a new partnership or alliance model.

Based upon enhanced understanding of client needs and internal (plus alliance-based) capabilities, an institution may then wish to select or shape its core value proposition(s) in order to create a position of strength in the market – assuming there is agreement that a broad-brush approach to serving all client needs is impractical and unsustainable. These inputs will inform the selection of a prospective global or multi-regional financial sector partner. Once a prospective partner is identified on the basis of these objective dimensions of capability, resources and business value to the client institution and to commercial/corporate end-user clients, it will be critical to undertake an assessment of the intangibles, such as cultural alignment of the organisations, and the fundamental question of trust, including assurances related to non-competition.

The importance of a thoughtful and structured assessment relative to all dimensions of the development of a financial sector alliance approach cannot be overstated. Whether this assessment is guided by a set of high-level considerations as listed above, or a more detailed and comprehensive process – perhaps akin to a formal “onboarding” process for new service relationships, it is critical to ensure that the decision to embark on an alliance-based model, be subject to careful scrutiny. Even more importantly, the prospective partner/service provider must be subjected to a parallel, comprehensive assessment.

Lessons learnt from the implementation of the manufacturer-distributor model as described in Section IV above, illustrate the fundamental value of “getting it right, up front”.

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### Figure 29: "Getting It Right Up Front"

- ✓ Start with the end-client in mind: identify and demonstrate an ability to create value for the end-user client.
  - ✓ A non-compete posture provides significant comfort to local/regional institutions, and provides a basis upon which to develop sustainable trust.
  - ✓ Engage the right people in both the partner organisations and, where appropriate, in end-user client organisations, to properly structure and define the parameters of the partnership.
  - ✓ Ensure that those charged with identifying partnership opportunities are able to think creatively and unconventionally, and can identify opportunity in ambiguity.
  - ✓ Partnerships of this type require solid financial standing and healthy balance sheets: banks and financial firms are, generally, better positioned to anchor such partnerships than non-bank providers.
  - ✓ Be flexible in structuring your offering – end-to-end, line of business level, or modular, transaction level: fit the solution to the client need, ensure a flexible menu of available options.
  - ✓ Assess and determine pricing in a collaborative manner: the numbers must make good sense for both partners, in order for the model to be sustainable.
- 

The final step in the decision making process is to validate all of the analysis and conclusions, by circling back to validate the decision against the client needs identified and articulated at the start of the analysis.

A decision checklist related to financial sector alliance options, in particular, the manufacturer-distributor option, might look something like the following:

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### Figure 30: Manufacturer-Distributor Decision Checklist

- ✓ Know your end-user client's needs and expectations, intimately. This level of knowledge will determine your approach, and lead to success or failure in creating differentiated value.
  - ✓ Benchmark your internal capabilities against the capabilities required to meet your customer's needs and expectations. The "Delta" between your capabilities and the needs of your clients will form the basis of your partnership model.
  - ✓ Select your core value proposition(s). This choice determines areas in which an alliance will be beneficial, and will pay dividends in terms of value-creation. Exiting certain activities is a legitimate outcome of this process.
  - ✓ Identify a prospective partner or partner ecosystem. Review numerous options and identify/select a partner, ensuring appropriate due diligence has been completed.
  - ✓ Assess your trust of the partnership; consider cultural and other intangibles "fit", in addition to reviewing organisational and operational compatibility.
  - ✓ Validate your analysis by reviewing the client needs and expectations you are seeking to meet: ensure that a clear and demonstrable connection is apparent early. Review the process by which your prospective partner(s) plan to bring you into the alliance: this process sets the tone for your new partnership.
  - ✓ Assess and determine pricing in a collaborative manner: the numbers must make good sense for both partners, in order for the model to be sustainable.
-

The end-result of this research is a compelling and robust conclusion.

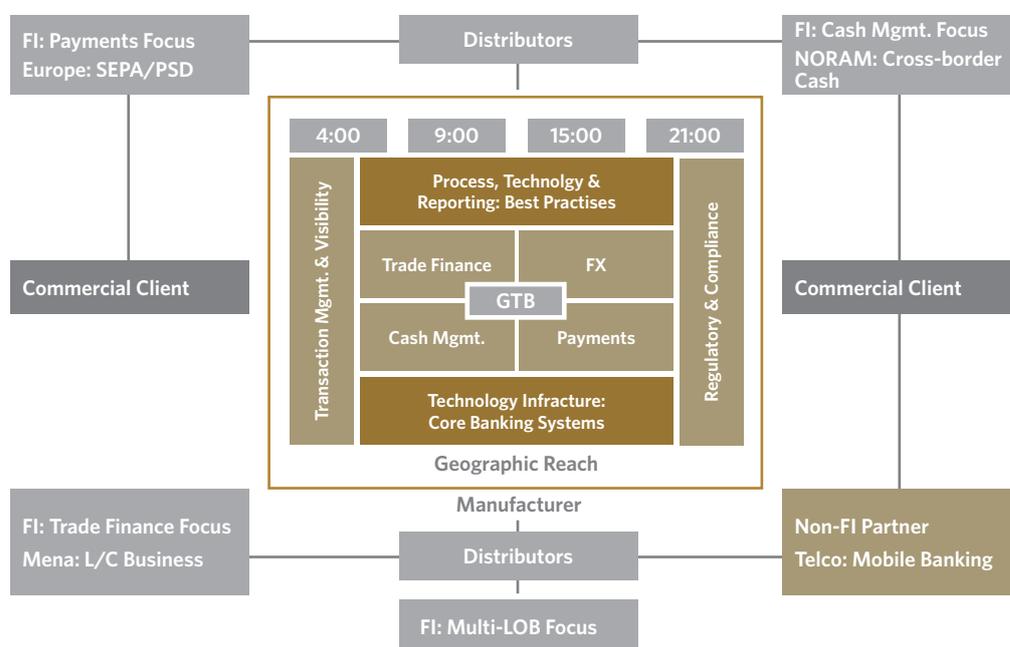
The conventional partnership models no longer work as effectively, and there is now both a global demand and capacity for more collaborative financial sector alliance models, to generate value and address end-client concerns in a continually-evolving financial environment.

The aim of such collaboration goes beyond local institution and specialist global providers merely working together. The ultimate aim is to combine local and international best-practice solutions to address hyphenate 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 supply chain and working capital management solutions, as well as a smooth entry to new trade markets.

Concrete steps have 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, multi-lateral ecosystem of partners and clients, including members from outside the traditional financial sector (see figure 31).

Global transaction banking is at the forefront of the development of sophisticated partnership ecosystems and the unique characteristics of that line of business, including its solid emergence from the financial crisis, will assure that its merits will combine with the most powerful features of a new alliance model, to deliver outstanding value to all stakeholders involved – right through to end-user clients across the globe.

**Figure 31: The Manufacturer-Distributor Ecosystem**



Source: BNY Mellon/OPUS Analysis 2010

## Appendix A: Insights & Highlights

Statement	Strongly Agree	Agree	Neutral or Indifferent	Disagree
<b>BANKS:</b> Compliance requirements in payments and trade have increased significantly.	46.9%	47.5%		
<b>BANKS:</b> Our clients value a local banking relationship.	39.4%	50%		
<b>BANKS:</b> Competition in transaction banking is focused on products and pricing.	23.1%	50.1%		
<b>BANKS:</b> Global reach is an important element of our approach to transaction banking & treasury management.	21.9%	55.6%		
<b>BANKS:</b> Treasury management functions, including working capital management are increasingly centralised	13.8%	58.8%		
<b>BANKS:</b> Partnership models between banks are accepted in our home market.	11.9%	59.4%		
<b>BANKS:</b> The distinction between domestic and international banking remains important to us in transaction banking, and we deliver accordingly.	15%	55.6%		
<b>BANKS:</b> We are open to alliance models provided the client relationship remains in our control.	16.9%	48.1%	31.3%	
<b>BANKS:</b> Alternate providers of treasury and transaction banking products/solutions are a competitive threat.	11.9%	44.4%	31.9%	
<b>BANKS:</b> Our customers object to alliances and partnerships; we must remain independent and add value as a local service provider.	12.5%	31.9%	28.1%	23.8%
<b>NON-BANK FIs:</b> Payments, whether they are domestic or cross-border, can and should be processed the same way, through a common platform.	20%	60%	20%	
<b>NON-BANK FIs:</b> Online and other providers are too small to assist with our needs and will not be viable in the medium-term.	20%	40%	20%	20%
<b>NON-BANK FIs:</b> Our treasury and working capital - domestic or international - is managed together. Our banks should take a similar approach.		60%	20%	20%
<b>NON-BANK FIs:</b> We prefer our financial providers to retain capabilities in-house as opposed to complementing with the capabilities of a partner.	20%	20%	40%	20%
<b>NON-BANK FIs:</b> We are receptive to non-bank providers of treasury solutions - the key is that the solution works.		20%	60%	20%
<b>NON-BANK FIs:</b> We agree that a bank can seek alliances to improve its technology or delivery capability.	16.7%	75%		
<b>CORPORATES:</b> Cash management is increasingly technology-driven and becoming increasingly automated.	66.7%	25%		
<b>CORPORATES:</b> Payables and receivables management is increasingly centralised as an element of the treasury function.	33%	58.3%		
<b>CORPORATES:</b> Payments, whether they are domestic or cross-border, can and should be processed the same way, through a common platform.	41.7%	50%		

Statement	Strongly Agree	Agree	Neutral or Indifferent	Disagree
<b>CORPORATES:</b> Our bankers do well in creating solutions to help us optimise working capital.	8.3%	75%		
<b>CORPORATES:</b> Treasury management functions, including working capital management are increasingly centralised	16.7%	58.3%	25%	
<b>CORPORATES:</b> Banks will always remain our primary providers in the treasury and working capital space.	25%	41.7%	33.3%	
<b>CORPORATES:</b> We are in agreement with local banks that seek to extend their footprint through alliance with global providers.		58.3%	33.3%	
<b>CORPORATES:</b> Compliance requirements in international trade and payments have increased significantly.	16.7%	41.7%	41.7%	
<b>CORPORATES:</b> It is important to us, to maintain a local banking relationship.	8.3%	41.7%	41.7%	
<b>CORPORATES:</b> All banks offer the same set of products and solutions: we choose on price and/or on the availability of credit.	33.3%	25%	33.3%	

- Views reflect a strong receptiveness or acceptance of financial sector partnership as a means of delivering value
- Banks acknowledge a significant increase in compliance and regulatory requirements
- A significant majority of banks see competition in transaction banking to be focused on products and pricing
- Majority of banks see alternative providers of treasury and transaction banking as a competitive threat, however, a significant number of respondents, nearly a third, are neutral or indifferent
- A majority of non-bank respondents indicate that their treasury and working capital activities – whether domestic or international – are managed together
- Corporates indicate a strong predisposition to maintain transaction business with banks
- Banks see continued relevance in the distinction between domestic and international operations; other respondents look at commonalities across transaction types: a payment is the same, whether domestic or cross-border
- A majority of corporate respondents express support for local or regional banks seeking to extend their geographic reach through strategic alliances

## Appendix B: The Research Process

The data and analysis which supports this Paper were gathered from a variety of sources, including:

- Three concurrent online surveys, targeted respectively at banks, non-bank financial institutions and commercial/corporate executives in three regions: Europe, Middle East & Africa (EMEA), Asia Pacific (APAC) and North America (NORAM). The surveys were conducted from early June through mid-July 2010
- Interviews with a group of senior bankers and executives across selected markets
- Insights and observations gathered over the course of six Thought Leadership Roundtables and one webinar, chaired by OPUS Advisory or Moorgate Group and hosted by BNY Mellon from December 2009 through April 2010.

In addition, the candid observations and insights of over forty senior bankers and executives, gathered over the course of the Thought Leadership Roundtables, provide further context and reference material in the development of the 2010 White Paper, “Global Transaction Banking: Evolution through Collaboration”.

The 2010 White Paper is the result of a combination of primary and secondary research, as well as insight based upon ongoing engagement in all aspects of global transaction banking, by key stakeholders involved in the development of the paper.

The intent has been to derive practical observations and findings based upon research conducted with academic-style rigour, together with a necessary commercial orientation, to arrive at credible, practical and compelling findings. In all, views and insights gathered through nearly three hundred interactions with finance and banking specialists, have contributed to the development of this paper.

Thought leadership, leading to practical solutions: the ultimate objective of a rigorous process of research and analysis, meant to recognise current realities, while looking ahead to emerging developments and solutions.

## Appendix C: Acknowledgements

The insights and contributions of the following individuals and organisations are gratefully acknowledged by BNY Mellon and OPUS Advisory Services. Whether our clients, colleagues and associates have contributed through the online survey, participation in Thought Leadership Roundtables, or personal interviews, the quality and value of this White Paper is enhanced by their respective contributions.

In some cases, the views expressed and/or quoted may be those of the individuals involved and may not reflect the view or policy of the organisation with which they are affiliated.

Any errors or omissions remain the responsibility of the authors.

The following list is not exhaustive, and to those who contributed, but preferred to remain anonymous, we also extend our appreciation and gratitude.

Contributor		Company
Saleh	Abubaker	Habib Bank AG Zurich
Mekuannent	Addis Kelemu	Development Bank of Ethiopia
Betul	Akdil Esim	Garanti Bank
Nabil	Al Mudaee	Yemen Kuwait Bank
Senol	Aloglu	Credit Europe Bank N.V.
Salah	Al-Sanabani	Central Bank of Yemen
Huda	Al-Shemmari	Burgan Bank
Nawal	Ammor	Noor Islamic Bank
Johnny	Azis Shahyohan	Bank Negara Indonesia
Venkatesh	Balasubramaniam	Mashreq Bank
Devrim	Baykent	Finansbank
Taras	Boyko	Ukrsotsbank
Joan	Brancato	Vornado Realty Trust
Herbert	Broens	Bayer AG
Fatih	Bulac	Turkiye Finans
Claes	Calemack	Nordea
Alexander	Covalschi	Mobias Banca
Siham	Dada	Mashreq Bank
Galina	Danilova	TransCreditBank
Malcolm	D'Souza	Akbank N.V.
Carina	Duerr	Landesbank Baden-Württemberg
Pinar	Erden	Akbank
Atle	Fjereide	DnB NOR
Michele	Gentile	UniCredit
Charbel	Gharios	Societe Generale de Banque au Liban
Sofia	Gomes da Silva	Banco Comercial Português
Daria	Goncharova	Nomos Bank
Mahmoud	Habbob	Yemen Commercial Bank
Tamar	Hadidian	Byblos Bank SAL
Peter	Hazou	UniCredit

Contributor		Company
Magnus	Hedenberg	Skandinaviska Enskilda Banken
Lalit	Jadhav	ICICI Bank
Yasin	Jalilov	International Bank of Azerbaijan
Henri	Joubert	FirstRand Ltd
Fawcett	Karen	Standard Chartered Bank
Aditya	Kashyap	Indusind Bank
Badih	Khatib	Arab Finance House
Ayman	Khattab	National Bank for Development
Kathy	King-Griswold	University of Rochester
Maksim	Kirichenko	Prominvest
Korhan	Kolakli	IS Bank
Márta	Koren	OTP Bank Plc
Evgeniy	Kutsurin	Far Eastern Bank Ltd
Alain	Laplaine	BNP Paribas
Cynthia	Lavalle	European Investment Bank
Niklas	Lemberg	Aktia Savings Bank Plc
Igor	Livojevic	Zagrebačka banka
Mishra	Loknath	ICICI Bank
R	Maheswaran	Union Bank of India
Valeria	Makarenko	Bank Sankt-Peterburg OAO
Gail	Makenete	Central Bank of Lesotho
Andrea	Marchi	Unipol Banca S.P.A
Terence	Marner	Close Brothers
Renato	Matteini	Banca di Romagna S.P.A
Tom	McDonnell	Frost Bank
Olga	Menschikova	Chelindbank
Delanie	Moler	Rutgers, The State University of New Jersey
Teresa	Montes	Caixa Geral de Depósitos
P	Mukherjee	Axis Bank
Mohsen	Naamani	Bank of Kuwait & The Arab World S.A.L.
Aleksandra	Nemec	Banka Koper DD
Axel	Nikolaus Bommersheim	Commerzbank AG
Baris	Oran	Kordsa Global
Uwe	Pape	Die Hamburger Sparkasse AG
Giovanna	Pasi	Banca Popolare di Milano
Elena	Pokhabova	Termirbank
Maria	Popkova	Reconversion & Development Bank JSB
Elena	Pozzoli	Banca Popolare di Sondrio
Paul	Prodan	Credit Europe Bank N.V.
Joseph	Raffoul	Banque BEMO SAL
Madhavan	Ramaswamy	Standard Chartered Bank
Sangameswar	Rao	AI Masraf
Ian	Ratcliffe	Nordea

Contributor		Company
Corey	Rudzinski	Deutsche Bank AG
Haruhiko	Saito	Tokyo International Consulting K.K
Gun-Marie	Sandell	Bank of Aland Plc
Lakshmanan	Sankaran	Commercial Bank of Dubai
Andreas	Schneider	BHF Bank
Perry	Scott	National Bank of Kuwait
Rainer	Seitz	Landesbank Baden-Württemberg
Vijay	Shah	Ahli Bank
Mohammad	Shahin	AL IMDAD
Ghassan	Shamsan	Tadhamon International Islamic Bank
Ihsan	Shaushaa	Bank of Palestine Plc
Alexandra	Sotirchou-Slater	EFG Eurobank Ergasias
Claus	Stehr	Nordea
Chan	Su Sin	Hong Leong Bank
Cem	Surmen	Garanti Bank
Fung	Switzer	Dah Sing Bank Ltd
Giles	Thieffrey	TradeLaw Chambers
Nihan	Turgay	Garanti Bank
Guy	Van Der Eecken	Dexia SA
Bill	Wang	First Commercial Bank
Markus	Wohlgeschaffen	UniCredit
Paul	Wong	Shanghai Commercial Bank
Mounir	Yassin	Commercial International Bank
Dennis	Yau	Federation of Hong Kong Industries
Linda	Zang	UPMC Health System
Patrik	Zekkar	Skandinaviska Enskilda Banken

Notes:



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Thought Leadership Project coordinated by Aniko DeLaney, Managing Director and Carly Hull, Marketing Associate

### Asia

A Richard Brown, Managing Director +852 2840 6637  
Aneish Kumar, Managing Director +91 223 028 2301  
Frederick DiCocco, Managing Director +852 2840 9722

### Europe, Middle East & Africa

Alan Verschoyle-King, Managing Director +44 20 7964 4034  
Dominic Broom, Managing Director +44 20 7964 7083

### Latin America

Dino Sani, Managing Director +1 212 635 8522

### North America

Financial Institutions:  
Jeff Horowitz, Managing Director +1 212 815 5739

Corporates & Public Sector:  
Ben Phillips, Managing Director +1 412 234 2017

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**Alexander R. Malaket, CITP, President** +1 647 680 6787



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**Robert Kelsey, CEO** +44 207 377 4993



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