

Press Release



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Corporations worldwide are increasingly calling for fully integrated treasury solutions according to a new study by BNY Mellon

*Study analyses global trends in trade patterns and status of integration in key countries;
Predicts a roadmap to 'collaborative treasury services' along the entire supply chain*

HONG KONG and LONDON, September 15, 2009 — The sophistication of treasury services of local banks fundamentally affects the level of integration of cash management and trade services for corporations around the world, according to a study published today by BNY Mellon.

The study, *Integrating Treasury Solutions in Asia and Europe: A roadmap for success*, surveyed select senior treasury managers at major exporting companies in six Asian and European countries: Spain, Italy, Germany, The People's Republic of China (China), India, and The Republic of Korea. The study was sponsored by BNY Mellon in conjunction with Celent, an independent research company and Moorgate, a specialist communications agency.

The study can be viewed in full at www.bnymellon.com/news/commentaries/treasuryservices.html

The study showed that the evolution of trade flows and changes in the role played by corporate treasury departments mean that maximum efficiency of liquidity and risk management cannot be achieved if cash management and trade are not fully integrated. Patterns of world trade are shifting and by 2030, 45% of world trade is expected to be in non-OECD countries, which are the least integrated in their treasury programmes, while OECD countries will see a 13% drop, to a 55% share. Non-OECD and South-South transactions are expected to make up the majority of the growth in trade.

The evolution of Open Account terms for trade, which make up 70% of all transactions, compared to just 15% for issued Letters of Credit and 7% for documentary collections has, alongside developments in information technology, also driven the need for integrated solutions.

Corporate treasury departments are increasingly expected to improve their bottom lines – as well as to identify solutions to daily cash management challenges, improve internal data control, meet increased compliance expectations, and reduce expenses. This expansion of roles and responsibilities is a key driver behind the corporate call for collaborative treasury services to enhance working capital management, which changes in international trade practices coupled with the recent economic turbulence, have made a crucial issue for many corporations.

The study also found that integration of treasury services within corporations in all but one of the six countries surveyed was dependent on the level of trade services sophistication from the local banks. Korea represented the exception, where integration has advanced within the major corporations through their mandating of non-Korean banks as treasury services providers. This is a fate potentially awaiting local banks in the other surveyed countries. Most smaller, non-OECD suppliers may have restricted access to these services, as they are dependent on their local banks, many of which have not – because of limited available resources - invested in fully integrated systems.

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Local banks, therefore, need to offer integrated treasury services to their corporate clients. To do so, the choice for those banks is between outsourcing to a global commercial bank that may be a competitor, or collaborating with a non-competing treasury services bank. The development of SWIFTNet's¹ Trade Services Utility (TSU) fundamentally shifts the balance of power towards the collaboration/partnership model and away from the outsourcing model.

Richard Brown, Head of Asia for BNY Mellon Treasury Services said, "The adoption of the non-compete collaboration model helps local banks break the barriers they face in developing fully-integrated treasury services for their corporate clients – enabling them to retain core competencies, generate cost efficiencies and deepen and widen their treasury services offerings."

Alan Verschoyle-King, Head of EMEA for BNY Mellon Treasury Services added, "Local banks gain access to a treasury services bank's sophisticated technology and worldwide correspondent banking network secure in the knowledge that their local business is safe and that the relationship is equal. The collaboration model is more than the integration of banks and platforms. It involves the integration of disciplines with the aim of sharing best practice solutions, and elevating local knowledge to the global level via sophisticated technology platforms."

Some of the key findings across geographies from the report were:

- **CHINA:** 85% of respondents in China agreed that "local banks are more committed to local trade" but the same percentage believed that local banks "must reassume their original role as assessors of risk." 58% agreed that "local banks lack the skills required to perform deep evaluations of prospective borrowers."
- **INDIA:** There is strong support for Indian local banks, with all respondents in India agreeing that "local banks must not allow themselves to be pushed out by the global players." However, they were clearly some distance from fulfilling their potential as fully-integrated treasury services solution providers, as almost half of corporations believe "local bank managers have lost touch with the needs of local businesses" and 60% of respondents said they believe local banks must "resume their original role as assessors of risk."
- **KOREA:** 92% of respondents revealed that "in times of economic difficulty local banks are more committed to trade" and that "local banks must not allow themselves to be pushed out by the global players," but the same percentage of respondents agreed that "local banks lack the skills required to perform deep evaluations of prospective borrowers" and 83% believed that "local bank managers have lost touch with the needs of the local businesses."
- **GERMANY:** 80% of companies interviewed in Germany utilise an automated platform or work closely with their local banks to manage their cash management needs. Germany was clearly the most sophisticated market in this survey. In trade finance, 20% of respondents stated that cash management and trade, "work closely together and are integrated via a bank/IT platform." In addition, some 40% stated that "the two functions work closely together internally."
- **ITALY:** The report found a high degree of technology (IT) usage in Italian treasury services, even if cash management is unlikely to be fully integrated with trade finance. 20% of corporate respondents agreed with the statement, "local banks do not have the necessary technology," for their banking needs. Regarding integration, 17% stated that "cash management and trade finance are totally separate," with some 17% stating the two functions "work closely together via a bank/IT platform." Many companies were critical of the local bank offerings, and one company stated: "Often, the separation of functions is due to a lack of clear strategy from banks."

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¹ SWIFTNet is a trademark of S.W.I.F.T. SCRL

- **SPAIN:** 50% of companies organise cash management internally using a variety of providers, although around 17% use just one provider. Regarding integration, 86% of survey respondents stated that cash and trade work closely together internally, with just 14% stating that the functions are entirely separate. Of the countries surveyed, Spain had the highest use of credit insurance applied to international trade, with over 30% of respondents stating that their trades are risk mitigated in this way., However one respondent said “local banks lack the technology and this has always limited our capacity to leverage important operations with local banks.”

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Notes to editors:

With locations in 34 countries on six continents and a network of more than 2,000 correspondent financial institutions, BNY Mellon's Treasury Services group delivers high-quality performance in cash management, global payments, trade services, capital markets, foreign exchange and derivatives. It helps clients optimize cash flow, manage liquidity and make payments more efficiently around the world in more than 100 currencies. Processing more than \$2.0 trillion in payments transactions on a daily basis, the company is a top-five participant in both the CHIPS and overall funds transfer markets, and is a recognized leader in the delivery of white-label treasury services solutions for banks and other large institutional clients.

In August 2009, BNY Mellon's Treasury Service group received top scores in the independent research firm **Warabak Research's 2009 Bank Leader Survey**, ranking no. 1 in nine of 14 categories, including client service, operating quality, product leadership/innovation and overall satisfaction. In the recent Trade and Forfaiting Review 2009 awards, BNY Mellon was voted * Best Trade Services Provider, 2009; * Best Bank for Supply Chain Finance, 2008 and 2009 ; * Best Trade Bank in Asia, 2009 ; * Most Innovative Trade Bank, 2009 .

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