TREASURY SERVICES

# UPDATE

*An e-newsletter for treasury professionals*

FALL 2013

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## STRATEGICALLY FOCUSED ON YOUR SUCCESS

By David Cruikshank, BNY Mellon Treasury Services chief executive officer

At BNY Mellon Treasury Services, we have a central mission that is deeply engrained in our culture. That mission – to work as hard as we can to help you manage your liquid assets and help you realize successful new solutions – is more than just a lofty idea or distant goal. The BNY Mellon Treasury staff you encounter – and those working diligently behind the scenes – know that, in order to achieve this goal, we need to understand your perspective. Understanding your point of view is key to discovering innovative solutions that work and add exceptional value as you navigate the often bumpy path of today's economic and marketplace realities.  We do this in a few very important ways:

**Deep Expertise** – Our staff is highly trained to understand the needs of the marketplace and your needs as a vital business operating within that larger framework. This knowledge enables us to work with you to understand how our existing tools can address your specific needs, develop new and innovative answers to your problems, or if needed, team with BNY Mellon businesses to bring an expanded skill set to work on the issue at hand. Recent examples of these types of collaborations are recounted throughout this issue, including the launch of our Intraday Liquidity Analytics service,

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and how our work to solve a client's specific problem led to the development of this service (see "Global Liquidity Analysis – A Case Study in Risk and Expense Reduction").

**Client Focus** – Through a collaborative effort, we work closely with you to understand your particular challenges and respond with customized solutions (see the article in this issue under the Industry Update Section – Healthcare & Insurance, titled, "Flexible Payment Solution Automates Medical Claims Processing," on our new service for the Healthcare and Insurance industries as an example of this type of collaboration). And our focus on your needs goes well beyond solution development, encompassing the implementation phase and extending throughout the life of our relationship. According to our 2012 BNY Mellon Treasury Services Client Satisfaction Survey (conducted November 2012 – December 2012 by BNY Mellon) for example, 91 percent of respondents were very satisfied or satisfied that we respond quickly to their needs.

Today, these elements combine to create 100 percent of our focus. And this issue of *Treasury Services Update* reflects that focus in many of our recent efforts. Our experts showcase, once again, a level of thought leadership in the treasury space that is noteworthy in their fields, displaying the expertise and client focus that define who we are as a treasury management provider. Features include a tutorial on how cloud technology can work to transform the treasury space, key elements to consider when making cross-border payments, and the growing role of Mexico in international investment, among many others. Our service updates highlight what's new in our toolbox, and how we continue to collaborate with you, and each other, to shape our offerings to provide the best value.

Thank you for reading another issue of *Treasury Services Update*, and thank you for the opportunity to let our expertise shine.

*David Cruikshank*

UNDERSTANDING THE

# CHANGES TO EUROPEAN PAYMENTS

## DEADLINE LOOMS FOR A HARMONIZED EUROPEAN PAYMENTS MARKET – WILL THEY BE READY?

*On February 1, 2014 the new Single Euro Payments Area (SEPA) migration end-date regulation – which aims to harmonize the Eurozone's payments and collections landscape – takes effect. Launched in 2008, SEPA standardizes all next day, non-urgent euro payments through the use of a single, all-electronic straight-through processing system. As a result, the 17 existing national payment systems will be decommissioned, leaving a single European-wide ACH system for euro transfers.*

By Daniela Eder
BNY Mellon Treasury Services
Clearing Product Manager for Europe, Middle East and Africa

*This legislation has important implications for U.S. multinational corporations that use one or more of the existing localized ACH systems in the 17 euro countries. Today, many U.S. corporations think twice before making ACH-payments in Europe as they find the current system too complex. Those who do participate tend to manage multiple bank accounts with numerous banking relationships and payment formats, along with various cut-off periods. SEPA is designed to create easy access to a streamlined system that gives multinational corporations greater flexibility and market opportunities. It also allows corporations to consolidate banking relationships that may lead to lower costs, more payment processing efficiency and faster payment transfers when moving euros within the Eurozone.*

*As U.S. corporations assess whether their current technology can support the SEPA format and if their current banking partners are SEPA compliant, the following article provides further insight into how the European payments industry is preparing for the upcoming change.*

With the end-date for compliance to SEPA fast approaching, the European payments industry is at a crossroads. Europe's move to a harmonized payments environment has been a long time coming – and there is still some way to go – but it is important that we take stock of the current state of play in order to understand how greater payments

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integration will affect individuals, corporates and the market as a whole.

When considering European payments integration, it is clear that the Payment Services Directive (PSD), which had to be transposed into national law in all EU countries by November 2009, is the legal cornerstone for SEPA migration. Indeed, the PSD – a directive to formalize the responsibilities of all payment services providers and standardize commercial and technical frameworks – may be viewed as “step one”. This is because, in order to comply with the Directive’s demands for greater transparency over payment-related information and shorter execution times, many banks had to upgrade their existing technology systems. Meeting SEPA’s demands, however, requires much more than a system upgrade.

While the importance of technology in meeting SEPA requirements – and the requirements of the modern payments industry as a whole – are irrefutable, what is really needed is greater understanding of the initiative’s intricacies. And this is where BNY Mellon is making great efforts to help.

**Overcoming Complexity**

The fact that SEPA standardizes two types of payment instruments – the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD), with the latter divided into “Core” and “B2B” payments – is well known. But the precise challenges these schemes entail (for the SDD in particular) are less understood. With the imminent deadline of February 1, 2014, this requires urgent attention from those using the payment system, including banks, software suppliers, wholesale and retail businesses.

Meeting SEPA’s demands means being able to process files in XML – the designated format for SEPA transactions, and convert existing data into International Bank Account Number (IBAN) and Bank Identifier Codes (BIC), the only permissible account identifiers under SEPA. These are complicated processes, given that several versions of XML exist and each country has its own method of capturing IBAN and BIC information.

New data components, such as a creditor ID and a direct debit mandate number are contributing to the complexity of the SDD. Add to this the fact that mandates under SEPA must be stored (physically or electronically), and it is clear that compliance with the SDD presents companies with a significant technical challenge. SDD migration is further complicated by new features designed to increase consumer rights that demand enhanced functionality. These include the ability to block certain debtors, control the frequency and timing of direct debits and revised refund and exchange rights.

Under the core scheme, direct debits can be returned by the debtor for up to eight weeks after the debit, while direct debits under the B2B scheme are non-refundable by the debtor. This affects not only system upgrades but future cash management, and is, therefore, something that companies must come to grips with sooner rather than later.

With this in mind, the significant section of the market that has fallen behind the compliance curve *must* channel the urgency created by the looming deadline into measurable progress – either by ramping up proprietary efforts or enlisting the services of a specialist provider. And the urgency is greater than many may think. The European Payments Council (EPC) strongly recommends that all organizations migrate to SEPA by late October this year in order to avoid obstacles, such as the inevitable year-end technology freezes, and to ensure that adequate testing has been successfully completed in time to meet the February 1, 2014 deadline.

**Focusing on Future Benefits**

When considering the challenges, cost and complexity of SEPA compliance – not to mention the loudly ticking clock as the countdown begins in earnest – it is easy to take a negative view of the initiative. But the reality is that SEPA is a legal requirement and the EPC as well as EU authorities have stressed that delaying migration is not an option. In short, there is only a Plan A.

And it is happening for good reason. SEPA should be viewed as a long-term strategic exercise with a comprehensive scope bringing benefits to consumers, businesses and indeed the market as a whole. Individuals will enjoy a more secure and user-friendly payments service in which hidden national charges are consigned to the past and a single account addresses domestic and cross-border needs. Businesses are set to benefit from cost and efficiency gains. The provision of cross-border direct debits, which did not exist prior to SEPA, is a major advantage in this respect. It is hoped that this service will not only serve to foster intra-Eurozone commerce, but will also help companies further streamline account reconciliation, centralize cash management, consolidate payments systems and standardize infrastructures – all of which will potentially speed up settlement times, thereby enhancing company cash flows and lowering costs.

In the longer term, it is hoped that the market as a whole will benefit from a level playing field and the innovation that this sparks. To help bring this to fruition, we at BNY Mellon are committed to keeping our partners abreast of the upcoming developments, as well as what they may mean for their businesses and those of their clients. This is our goal as the end date for this initial phase of SEPA approaches, and will remain one of our core activities as we move past this first round of compliance challenges to realize the true benefits SEPA will bring.

# FLEXIBLE PAYMENT SOLUTION AUTOMATES MEDICAL CLAIMS PROCESSING

## SERVICES DESIGNED TO HELP HEALTH AND PROPERTY AND CASUALTY INSURANCE COMPANIES COMPLY WITH REGULATION

Businesses today across multiple industries are looking for ways to retrofit current payment processes to accommodate changes mandated by several upcoming regulations. Specifically, public and private Healthcare Payer organizations are working to standardize and streamline their administrative processes to accommodate operating rules mandated by the Affordable Care Act (ACA) for Electronic Funds Transfers (EFTs) and Electronic Remittance Advices (ERAs) by the January 1, 2014 compliance deadline. And Property and Casualty Insurance companies face rapidly expanding requirements to include electronic payment solutions for workers' compensation claims and other types of healthcare payments, such as those for hospitals, physicians and therapists.

To help businesses accommodate these important changes and potentially benefit from cost reductions related to transforming paper processes to electronics, BNY Mellon Treasury Services has developed a set of services that fully automates organizations' medical claims remittance payment processes via one flexible solution. By connecting clients in these industries to a network of 890,000+ medical providers who have elected to receive ACH payments and ERAs (including hospitals, physicians, dentists, chiropractors and physical therapists) across all 50 states, the solution is designed to reduce costs while increasing efficiency in our clients' back-office operations. The service also enhances clients' control over cash flows, and helps them take advantage of economies of scale through our provider network, improve provider relations, and meet new healthcare rules and regulations.

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### Industry-focused Solutions

For Healthcare organizations needing to upgrade key technologies to meet the ACA deadline and drive provider adoption of electronic payments and remittances, the **BNY Mellon Healthcare iRx Solutions® Claim Remittance and Payment Automation service** meets CORE®/CAQH® and ACA requirements for EFTs and ERAs, while enabling extensive cost reduction and improved process benefits.

Our **Automated Medical Claim Payment solution** offers the flexibility property and casualty insurance companies need to accommodate growing e-payment requirements for workers' compensation and other Healthcare payments. The solution allows insurers to convert provider payments from paper checks to electronic ACH payments, permitting a single payment stream for hastening – and maximizing – the payments cycle.

And our **Inbound Medical Claim Automation solution** converts inbound standard paper claims into EDI data files to help insurers streamline and automate their claims processing operations.

These integrated services offer both Healthcare and Insurance companies the ability to:

- reduce the number of disbursements issued via a specialized payment aggregation process, thereby lowering transaction volume and paper, print and postage costs;
- streamline provider self-enrollment options;
- give providers quick online access to remittance/EOB and reassociated payment information for improved customer service and call center support efficiencies;
- enable the delivery of check payments with EOBs to non-enrolled providers;
- address industry regulations, including the Health Insurance Portability and Accountability Act (HIPAA) and ACH Healthcare requirements;
- increase electronic adoption and further automate disbursement workflows via BNY Mellon-coordinated enrollment marketing campaigns; and
- efficiently reconcile ACH and check payments via a standardized, efficient process.

### Built-in Efficiencies

The automation service allows for the streamlined processing of provider payments via the following features:

- **Automatic file validations**, including functions designed to help address specific regulatory requirements (e.g., HIPAA).
- **Single payment file submissions** from clients allow us to prepare the appropriate payment methods and originate either ACH credits to enrolled providers or to print and mail checks with remittance details to non-enrolled providers.
- **Fraud mitigation** tools, including Account Reconciliation and Positive Pay/Payee, automatically applied to check payments as part of the services.
- **Transaction consolidation** for both ACH and check payments to the same provider, reducing the overall number – and the costs to cover – payments being sent.
- **Payment reconciliation** by allowing providers receiving ACH payments to access the online service portal to view the remittance data associated with the payment. Current and historical information is available 24/7.

*For more information on our flexible, automated payment services, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.*

BNY MELLON RECOGNIZED AS

# DISTINGUISHED PROVIDER OF GLOBAL TRANSACTION BANKING SERVICES

## INDUSTRY SURVEY MARKS DISTINCTION

BNY Mellon has been designated as a Distinguished Provider of global transaction banking services. The designation, created by the market research firm FImetrix in conjunction with its highly regarded annual customer satisfaction survey of global banks, is being awarded for the first time this year to service providers with a Global Satisfaction Score that exceeds the market standard. BNY Mellon received the designation in recognition of its USD and EUR clearing services.

"Designation as a Distinguished Provider is an important validation of our standing as a global leader in the delivery of global transaction banking services," said David Cruikshank, executive vice president and chief executive officer of BNY Mellon's Treasury Services group. "We're building on our strengths as a financially and technologically trusted provider of services for USD payments. As we broaden and deepen our capabilities to include additional currencies and even more robust product and service offerings, we are committed to maintaining BNY Mellon's trademark levels of operational quality and reliability and client service excellence."

The FImetrix survey is based on interviews with senior level executives at 647 banks in 97 countries. It asks participants to rank service providers on more than 20 attributes related to operational efficiency, customer service technology, product range and the skill sets of service provider employees. The survey identifies which attributes have the greatest influence as overall satisfaction predictors, and weights those attributes in determining a Global Satisfaction Score.

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DRIVING SUCCESSFUL

# SOLUTIONS FROM CONCEPT TO REALITY

## BNY MELLON TREASURY SERVICES' PRODUCT DEVELOPMENT PROCESS

By Peter Hazou
BNY Mellon Treasury Services
Head of Market Development for Europe, Middle East & Africa

At BNY Mellon, we believe that ongoing improvement is vital – not just with respect to the solutions we provide for our clients, but in the way these solutions are conceived, developed and delivered. Such constant self improvement is even more important in today's continually evolving financial environment in which rising challenges and complexity are the new normal.

With this in mind, BNY Mellon Treasury Services' product development process is designed to help ensure that innovation, communication and exceptional levels of client service – factors that form the core of our offerings – are upheld and enhanced throughout the entirety of our product and service lifecycles. We understand that holistic solutions that "connect the dots" are key to meeting the global market's heightened demand for risk management, efficiency, transparency and the meeting of compliance requirements. It is, therefore, crucial that the same approach be used in the design and development of our solutions.

**Behind the Scenes: Step One**

Listening to clients, understanding their needs and formulating ideas on how those needs can be addressed is step one in our product development process. As a learning organization, this requires team engagement with all client touch points encouraged to participate. This includes client and relationship management, sales, client service officers and, of course, our product management area. As an organization, we have embedded innovation and a solutions approach to client needs at the core of our culture that encourages all employees to participate and be heard. It is a process which recognizes that from small acorns big trees grow, and that everyone plays a role.

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Once potential ideas are agreed upon, a rigorous vetting and validation process begins in which ideas are incubated and validated – a “greenhouse” for innovation in which new solutions are vetted, tested and nurtured. This environment is achieved through leveraging our broad expertise across the various lines of business within BNY Mellon to shape and reshape a concept until we are sure it fully addresses client needs. Both here and in the next stages of the process, bilateral communication with clients is as important as our internal dialogue. For this reason, we have built feedback loops into the process in which both staff and clients give their impressions of a concept and how it can best be developed. These feedback loops are used throughout every stage of our development process, from conception to post-launch review.

**Next Steps – Real World Considerations**

The second stage of the process requires a focus that is more practical versus creative. It begins with a road map designed to help us save time and increase future efficiencies. An integral part of the process, the road map is a comprehensive set of instructions that outlines each stage in the operation, determines the launch date, and identifies stakeholders and responsibilities along with the associated timelines and inter-dependences involved, right up until the launch date.

Once the road map is in place, the potential impacts of varying regulatory, compliance, risk and legal requirements are assessed to ensure the product under development can be put to optimal use across borders. As a global provider, being able to extend our expertise and drive innovation worldwide is vital to our relevance as a financial services provider, necessitating that the full spectrum of local regulatory requirements must be understood and considered. This is necessary not just to achieve compliance, but also to help break down barriers to cross-border efficiency.

During the third stage – the design, development and detailing of functional requirements – the circle of stakeholders expands to include colleagues from IT and other product experts who could help bring ideas and insights to the development process. Throughout this period, ongoing client “diagnostics” are imperative to ensure that client needs are well understood rather than just assumed. Needs and opportunities often change over time and these feedback loops and understandings are essential for a successful launch.

With the development process at a point where detailed features and functionality are being put in place, it becomes more important than ever to perform careful diagnostics to help ensure that a soon-to-be-ready solution accurately reflects market needs and is finely tuned to meet varying client preferences. Such understanding of both global and local factors is, again, garnered through our conversations with clients and BNY Mellon regional market managers.

### Breaking down Silos

Our in-house expertise comes not just from geographical sectors (BNY Mellon has on-the-ground teams in 35 countries and a presence in more than 100 markets), but also from a variety of internal business lines, further displaying our understanding of the importance of a holistic approach. By removing internal business line "silos" and soliciting feedback from core geographical and market segments from across our knowledgeable organization – in addition to teams from Treasury Services sales, product implementations and client service – our goal is to innovate in a way that complements our existing portfolio of solutions.

### Just the Beginning

Of course, the product lifecycle does not finish with the completion of the design and development stage. While greater planning in the initial stages aids efficiency throughout the entire development process, true operational excellence becomes a reality when the solution is put in process. This means that prior to the roll out, all BNY Mellon staff is fully trained to offer the best service possible to clients subsequent to the launch. The training not only covers the technicality of how the new product works, but in the context of what the client is trying to achieve in using our solution. While complex technology and advanced electronic platforms are vital in today's globalized industry, such solutions are only as effective as the people involved in their use. For this reason, we remain committed to investing in internal expertise and to fully preparing our staff for the post-launch phase.

### The Post-launch Review

Following the launch, which occurs on a regional basis in order to cater to local market specifications, we continue to closely manage and optimize the process. This final stage – again, with structured feedback loops throughout to encourage dialogue – culminates in a formal post-launch review. While we may have been working behind the scenes for some time on a new product, the review process is important for facilitating ongoing communication to understand enhancement requirements that will enable continual improvement and adaptation needed to keep the solution on par with evolving market needs.

In addition, this post-launch review looks not just at the solution itself and its continued relevance to clients, but at the entirety of the product development and launch process. As a learning organization, we recognize the need to review the development of each solution in order to continually improve and optimize its performance.

We realize that the changing nature of our industry calls for an increasingly adaptable portfolio of solutions, from innovative global platforms with technological clout to intricately structured solutions that cater to specific, local needs. We believe this adaptability can be achieved with the right client-focused development process. By increasing efficiency without cutting corners, and establishing multiple feedback loops without diluting the original concept, we can continue to improve both our solutions and our own organization – connecting the dots toward a truly client-focused strategy for success.

OPTIONS TO CONSIDER WHEN

# MANAGING CROSS-BORDER PAYMENTS

By Wendy Miller
BNY Mellon Global Markets
Product Manager, FX Initiatives

## A DAUNTING ARRAY OF OPTIONS

Managing cross-border payments can prove to be a difficult feat of navigation. In a changing global marketplace and evolving payments landscape, understanding how to work in a global payments environment is crucial to any organization's strategy.

A newly appointed cash manager of a company with global operations, for example, is usually tasked with evaluating international payment options, with the goal of establishing an efficient, secure and low cost process. The evaluation is complicated by the fact that there are multiple service providers, including banks, non-bank providers, technology firms and credit card companies.

Another complicating factor in this equation is the many payment types to be considered, such as:

- corporate capital transactions; capitalizing a foreign subsidiary or collecting inter-company dividends;
- international vendor payables, denominated in local currency; and
- small-value payroll, pension disbursements, expense reimbursement.

There are also a variety of options for beneficiaries to receive their payments. These can include wire transfers, utilizing the Real-Time Gross Settlement Systems (RTGS); electronic deposits through low-value clearing, such as ACH or BACS, and local currency drafts.

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**Rule of Thumb**

When making cross-border payments, the rule of thumb is that the currency of the home country never leaves the country. Rather, these types of payments require correspondent banking relationships connected to each country's clearing system to make the payment. Typically, the correspondent bank performs the foreign exchange transaction.

Third-party payment providers ultimately depend on the global payment infrastructure of large banks which continue to maintain the dominant franchise in the payments business. Other non-bank providers do not possess the global network of payment hubs, correspondent relationships and interbank credit arrangements necessary to support payments in the world's currencies.

The key for making cross-border payments is to align the appropriate payments service with the type of payment being originated. For corporates, transactions are typically for:

- generally large value payments / trades;
- negotiated, shopped FX rates;
- repetitive payments or those planned in advance; and
- hedging purposes – using forward trades.

On the other hand, Accounts Payable departments, which typically handle vendor payable transactions, have somewhat different needs and require:

- centralized control, often with a need for decentralized entry of payment details;
- aggregation of multiple payables in the same currency to achieve more competitive pricing;
- ability to accept or reject the FX rate via a "Request for Quote" process;
- cash management features with repetitive, non-repetitive, entry of payment details; and
- small-value, high-volume payments with the ability to upload a file.

Corporations need a centralized mechanism for streamlining their global payments process, with the option of decentralized access. Companies are looking for options to centralize their liquidity and payments needs to improve processes for making cross-border payments to take advantage of efficiencies.

**Cross-border Payments Options**

Mid-sized banks typically outsource this type of activity to their upstream, correspondent bank with a global payments footprint. As global payment needs are often more complex than local needs, a global institution can leverage correspondent or local relationships to meet the needs of this growing, cross-border space for financial institutions and corporate clients.

*For more information on BNY Mellon's cross-border payment capabilities, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.*

This article originally appeared in the June 2013 issue of *Global Finance.*

TREASURY SERVICES AND
# CLOUD TECHNOLOGY

## MAKING THE CONNECTION

Featuring Saket Sharma
BNY Mellon Treasury Services
Chief Information Officer

Technology lies at the heart of today's treasury services, which explains why it is the subject of constant investment and innovation. But as the market looks to develop its behind-the-scenes capabilities further, one stream of technology is receiving the greatest attention: the cloud.

Cloud computing – or working "in the cloud" – is a much-discussed term, yet one without a concrete definition. Unlike many technological advancements, the cloud is intangible – there is very little realization of what it actually encompasses, what benefits it may bring, and how it affects providers and clients in the treasury services space. Indeed, very few – if any – providers have developed full cloud capabilities. So why all the fuss?

To find out more, *Treasury Services Update* (TSU) recently spoke with Saket Sharma, BNY Mellon's chief information officer for Treasury Services about the cloud and its potential uses in the marketplace.

**TSU**: What is cloud technology and how is this trend taking shape in treasury services?

**SS**: Cloud technology is all about IT architecture; transforming and opening up the very framework that supports technology systems rather than continually adapting – and building on top of – existing infrastructure.

There are three main phases to cloud computing, developed along a continuum: Infrastructure as a Service (IAAS); Platform as a Service (PAAS) and Software as a Service (SAAS). The majority of firms shifting to cloud computing are currently between the stages of IAAS and PAAS, where they've already implemented or are implementing infrastructure in the cloud, and are looking towards developing a cloud-based platform. Although achieving PAAS capabilities is no easy task, the completion of this phase will

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be followed by a relatively simple shift to the next stage: the provision of software in the cloud.

**TSU**: Technology is key for treasury services, but in the current economic climate – where market pressures continue to hinder widespread investment in innovation – why are some providers developing cloud capabilities?

**SS**: Cloud technology is an infrastructural change – it is a transformation of the very framework that modern technology solutions rely on. And in consideration of universal budgetary constraints, cloud computing brings one overriding benefit: the more effective utilization of a company's existing resources.

Certainly, in the complexity and inefficiencies of current multi-layer frameworks, where treasury solutions are provided as plug-in applications for integration with users' existing structures, there is the danger that IT resources may only be working at a small percentage of their actual potential. Finding a way to better leverage these resources is vital.

Furthermore, cloud technology can open the door to the more seamless integration of new technologies and applications in the future. By switching from using in-house IT frameworks to leveraging the infrastructure, platforms and software of providers, firms working in the cloud can eliminate the gap between provider and user systems. This enables users to deploy the latest treasury solutions and products without having to continually ensure their own technology resources are sufficiently up-to-date – a considerable and ongoing cost savings.

**TSU**: What does this mean for legacy technology capabilities?

**SS**: The overriding theme of cloud computing is its ability to make better use of existing resources, and this allows for the continued use of legacy systems. By upgrading existing capabilities to instill cloud characteristics, legacy technology can be used to its full strength and in harmony with new working systems.

**TSU**: How do these developments affect the end-user?

**SS**: Cloud technology is largely a behind-the-scenes initiative. Although end-users may benefit from improved run time, the cloud's importance will not be immediately apparent to the end user. In fact, only if there were to be some sort of failing in the infrastructure would today's users be aware of how vital these frameworks are. And with cloud computing – where a systemic and self-protecting redundancy system is inherent to the architecture – the likelihood of this occurring is lower than ever.

# MEXICO'S MOMENT TO SHINE

## OPPORTUNITIES, CHALLENGES AND A GROWING ROLE IN INTERNATIONAL INVESTMENT

Latin America is a region of growing prominence. Brazil has been the star in recent years, but a number of other strengthening economies also fared better than the developed western economies during the 2008-09 financial crisis and beyond. Chief among these is Mexico, a country which has long been considered one to watch and is now beginning to realize its full potential.

By Dino Sani
BNY Mellon head of Treasury Services Sales and Client Management, Latin America

Indeed, as Brazil's economic success story has recently been tempered by declining confidence and structural impediments, Mexico's economy has expanded at an increasing pace. The country's gross domestic product (GDP) growth reached 5.5 percent in 2010 – the highest rate in a decade – and a relatively swift recovery from the global financial crisis has been followed by a resistance to the market difficulties that continue to hinder growth elsewhere.

The root cause of this growth has been Mexico's huge surge in exports. With volumes reaching an all-time high of nearly US$350bn in 2011, Mexico's rising export levels have been aided by the country's free trade agreements with more than 50 countries. This pick-up in exports has been so significant that a shift can be seen in Mexico's economy, with new players consisting of local banks and non-bank financial institutions now entering, or expanding their presence in, the trade services sector. The rise of the country is something that treasurers should already be familiar with and, increasingly, trade and foreign exchange mechanisms for dealing with Mexico will become essential for large multinational corporations.

The spike in both intra-regional and international trade provides an attractive opportunity for forward-thinking organizations. Fuelled by a domestic manufacturing

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sector that has become increasingly competitive over the past decade, Mexico's swelling export industry has been facilitated by closer ties with other emerging markets, as well as a western downturn that has accelerated the rise of so-called 'south-south' trade. With well-capitalized banks and, along with Brazil, the most developed NBFI sector in Latin America, Mexico's financial institutions (FIs) and adventurous corporate investors are well placed to realize this opportunity.

These players may require the assistance of global partners in developing full back-office investment and oversight capabilities and leveraging a truly global network but, with such support, they can more ably take advantage of Mexico's growing trade sector. In doing so, they will, in turn, help consolidate recent and rapid trade sector growth into sustained development for the wider economy.

**Short-term Challenges: Aztec Tiger to Roar?**

Numerous hurdles must be overcome if Mexico is to truly earn the title of 'Aztec Tiger' and roar fully. First and foremost is the country's continued reliance on its immediate neighbor to the north, the US, as its primary export market. While Mexico's increased trade has supported the economy's recent development, a significant percentage of the country's exports are in response to North American demand. As the US economy addresses its own challenges, including sluggish growth, Mexico's trade sector can quickly be affected. In fact, such close ties with the US economy and its ongoing difficulties have already had an impact on Mexico's economy, with full-year growth in 2012 at 3.9% of GDP; although healthy and stable, that is significantly lower than the 2010 peak of 5.5%.

There are, of course, other factors: the sovereign debt crisis in the Eurozone is also accountable for the recent slowing of the previously rapid rate of growth. But Mexico's close trade ties with the US may keep its future development closely aligned with the economic health of its larger neighbor to the north and may continue to act as a brake on Mexico's growth in the short term.

**Long-term Potential**

In the long term, however, other factors indicate that Mexico should continue to benefit from the close relationship with the US. Although US GDP fell at a .1% annual rate in the fourth quarter of 2012, the current strength of consumer spending and business investment suggest that the American economy's recovery will continue, returning to slow but steady growth later this year. Furthermore, the US's pursuit of energy independence is likely to change the country's fortunes and, in turn, increase its demand for Mexico's manufacturing exports.

Even with the current US-related challenges, Mexico's economy has remained relatively healthy. Although the country's rate of growth has not kept up with its regional neighbor, Peru – which experienced 6.3% growth in 2012 – Mexico, bolstered by strong domestic demand, is far better positioned than the flagging economies of Brazil and Argentina. Indeed, Mexico's economy is tipped to outpace that of Brazil by 2022. A US$57bn influx of foreign investment was directed into Mexican stocks and bonds during the first nine months of 2012 – a sign of rising confidence in the country's future.

Moreover, Mexico is looking further afield and working to expand and strengthen its non-US trade connections. Domestic exporters have widened their sphere of interest to include other markets, in particular those in Latin America, Africa and Asia, as well as in some European countries. Indeed, the signing in June 2012 of the Pacific Alliance, a regional initiative formed along with Chile, Columbia and Peru to encourage greater trade with Asia, signifies the country's ambition to build on its already-strong trade ties and encourage south-south trade.

**Looking to the Future**

The opportunity for Mexico is clear. But, to realize its potential, efforts such as diversifying and deepening the country's trade flows must continue; not just through intra-regional trade pacts, but also by encouraging domestic FIs to develop the back-office capabilities necessary to support and facilitate international trade.

Likewise, structural reforms will be critical to the continued development of the country's economy and to growing its role on the international stage. A more structured, transparent and sophisticated economic environment will further encourage foreign direct investment into the economy.

While Mexico still has some distance to go before it can claim and consolidate its place on the international stage, its healthy economy holds strong potential. It should continue to prosper on the back of rising levels of international trade, and appears set for a bright future as Latin America's economic powerhouse.

This article first appeared in the 25 February, 2013 issue of *gtnews* (gtnews.com).

EXPANDING

# ELECTRONIC GLOBAL PAYMENT OPTIONS

## INTERNATIONAL ACH AND EXPANDED FILE FORMATS AVAILABLE

BNY Mellon Electronic Data Interchange (EDI) comprehensive payables solution is expanding to include access to our Global Mass Payments (GMP) service. The upgrade will allow clients using the BNY Mellon EDI service – which permits trading partners to submit payments in multiple formats, including checks and EDI-capable or Web-enabled transactions via a single electronic file – to exchange International ACH (IACH) payments via one convenient service.

In addition, BNY Mellon is currently planning to expand its GMP service to offer organizations access to multiple input formats, currently available through the EDI service, to provide clients with a more flexible and convenient process for sending international payments.

**IACH via EDI**

With the ability to make payments worldwide using IACH, the expanded BNY Mellon EDI service is anticipated to provide clients with a faster and more reliable method for making payments to global beneficiaries via one funding account. With the service, BNY Mellon can convert payments into local currencies via foreign exchange transactions and provide customers with a confirmation report for the rate and payout amount. The IACH component combines the elements of classic correspondent banking with domestic ACH processing by using a network of banks that have direct links into the local clearing networks. The IACH payments are forwarded to the correspondent bank(s) and reformatted to consider the operating rules of the local ACH clearing systems, which differ among countries in requirements for file formats, remittance details, clearing cycles, returns and file processing.

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**Expanded File Formats for GMP**

The BNY Mellon GMP service enhancement is designed to increase file formatting options to clients by translating a single standards-based file into multiple transaction formats that vendors may request, including Wires, (FX and USD), USD ACH, IACH, checks and drafts. Vendors are paid via the service and given remittance details according to a client's instructions. By increasing the number of payment file types handled via the system, the expanded options are designed to offer clients additional opportunities to further streamline payments processes for reduced expense via:

- accessing a single, data stream for comprehensive transaction authorization, initiation and tracking;
- minimizing time spent tracking errors and booking general ledger entries;
- enhancing the ability to forecast cash and accurately post receivables;
- securing transactions via the service's digital-signature technology that provides total nonrepudiation of file origin and receipt; and
- providing lower-cost processing options for low-value payment clearing systems, such as ACH.

*For more information on enhancements to our EDI and GMP services, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.*

SERVICE HELPS CLIENTS

# ADDRESS NEW LIQUIDITY REQUIREMENTS

## INTRADAY LIQUIDITY ANALYTICS

BNY Mellon Treasury Services has launched its Intraday Liquidity Analytics service that is designed to help clients address liquidity transparency and intraday overdraft coverage requirements under BASEL III. With the service, available via the TreasuryEdge℠ electronic banking platform, clients are able to better manage costs associated with intraday liquidity, reduce intraday overdrafts and manage payment flows more easily and efficiently.

The service offers clients improved access to real-time and historical intraday cash and liquidity information across multiple accounts, presenting data in both graphical and detailed transaction formats. Its flexible and interactive tools enable users to drill down into problem timeframes and transactions that are creating negative liquidity. The offering also facilitates STP payment processing, and frees business resources by automating key functions.

An important feature of the service, available in the fourth quarter of 2013, will allow clients with multicurrency accounts to determine current-day cash positions using one common currency. By allowing users to quickly view balances in the currency of their choosing, the feature is designed to further assist organizations with accurate cash forecasting and general cash management.

“Helping clients deal with the new liquidity requirements under Basel III is another example of how providing insights and understanding, as well as data and information, has become indispensable to the delivery of effective liquidity and cash management services,” said David Cruikshank, chief executive officer for BNY Mellon Treasury Services. “Intraday Liquidity Analytics represents an important new dimension of service, and providing it on our TreasuryEdge platform makes it an integral part of our support for BNY Mellon clients.”

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# GLOBAL LIQUIDITY ANALYSIS: A CASE STUDY

## FOCUSING ON RISK AND EXPENSE REDUCTION

Changing regulatory requirements have many industries reassessing how their systems and processes are going to keep up. In response to BASEL III's new global liquidity standards and the Federal Reserve's efforts to address weaknesses in the infrastructure of the tri-party repo market, for example, many financial institutions are considering how they can best prepare for potential impacts on their account structures, intraday liquidity flows and daylight overdraft limits.

An international financial services group – and BNY Mellon Treasury Services client – with numerous international accounts had these very concerns. Evaluating their intraday liquidity flows was increasingly difficult, and ongoing concerns about managing daylight overdraft limits and minimizing intraday exposure with its partners convinced them it was time to address the potential for associated risks.

**A Unique Solution – A Global View**

In assessing the problem, BNY Mellon Treasury Services realized the institution required a solution that allowed for a quick, comprehensive view of accounts and daily liquidity data that revealed ways to reduce intraday exposure while saving money and administrative effort. The solution required a global liquidity review.

To begin, the BNY Mellon team gathered a detailed listing of the client's EU-denominated accounts and BNY Mellon-held USD Nostro accounts. By using the data to develop a dashboard comparing the client's key account factors, including hourly account balances, account trends, as well as account peaks and valleys over a period of several days in a single view, the BNY Mellon team was able to recommend opportunities for re-engineering systems, improving controls, reprioritizing payments, boosting straight-through processing and, ultimately, consolidating accounts for the organization.

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A few simple changes to the client's process, account structures and even the timing of their incoming payments based on what this "snapshot" revealed yielded measurable outcomes. The solution allowed us to help them reduce or eliminate daylight overdraft limits, consolidate their account structure and diminish intraday exposure with each of their partners. The project generated more than $13 million in savings for every $1 billion reduction in the client's use of daylight overdraft limits.

Based on the project's success, the organization also decided to consolidate all of its USD Nostro accounts with BNY Mellon and is currently discussing several other opportunities for collaboration.

Additionally, the successful solution led to the development of BNY Mellon's recently-launched Intraday Liquidity Analytics service (see the article in this issue titled "Service Helps Clients Address New Liquidity Requirements"), extending to all clients the opportunity to access an easy-to-use online tool for liquidity analysis, helping their efforts to reduce risk and expenses.

*For more information on a global liquidity review and implementing the Intraday Liquidity service for your organization, please contact us at 1 800 424 3004 (option 2) or treasury@bnymellon.com.*

IMPROVING

# ELECTRONIC BANKING VIA EVENT NOTIFICATION

## AUTOMATED ALERTS HELP USERS CONTROL CASH

An important requirement for effectively managing your working capital is the ability to pinpoint the status of your cash at all times. Knowing if and when funds move and having access to the right report data when you need it is essential for making accurate cash flow decisions to keep your treasury operation liquid.

A key feature of BNY Mellon TreasuryEdge[SM] – our advanced electronic banking platform – supports this critical need for quick notice of important funding changes and fast access to detailed, real-time report data. The system's Event Manager capability offers many ways for organizations to expedite and enhance their day-to-day electronic banking processes.

### Proactive Event Notification

Through a simple set up procedure, the Event Manager system can deliver triggered alerts to users once a designated event (defined by the business) occurs. This capability is designed to reduce costs associated with missed or delayed transactions by notifying users about key items that need immediate attention and when a specified situation occurs or is ready to occur. Examples include setting up alerts to issue when payments have been received or are pending funding or pending release, helping users reduce the chances of missed transactions or transactions left to stagnate in a queue. And the system's Positive Pay alerts for suspect items, suspect items pending decisions and suspect items pending release are designed to help mitigate risk while maximizing the full use of available liquidity at all times.

### Report Sharing

Reports can be generated via Event Manager based on a business's individual scheduling needs. The capability's data sharing features allow for fast e-mail

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distribution of reports and regularly scheduled balance updates (including providing new updates since issuing a previous report). These features are designed to reduce billing fees and the manual processes associated with physically pulling and sharing reports while promoting the fast exchange of real-time information.

Set to users' individual receipt preferences, the Event Manager service offers customized output formats to suit individualized business needs. And the instantly collapsible/expandable reports – with a single mouse-click – allow for quick data navigation.

*For more information on how the Event Manager service can inject more efficiency into your electronic banking practices, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.*

# CLEARTRAN
# SERVICES RENAMED

## COMMITMENT CONTINUES UNDER ELECTRONIC RECEIVABLE PAYMENT SERVICES UMBRELLA

To streamline the way we communicate about how our products and services can help solve your business challenges, we are changing the long-time brand names of a few of our key offerings to more clearly define the value those services provide. As part of that effort, BNY Mellon ClearTran services are being renamed as the suite of solutions offered as BNY Mellon Electronic Receivable Payment services.

As we retire the ClearTran name, we remain committed to continually growing our electronic receivable payments solutions, including continuing to focus on our new receivables payment portal, IVR/VRU system, mobile solutions, call center payment acceptance and Electronic Invoice Presentment and Payment services that are designed to consistently offer cost savings and streamlined efficiencies.

We are working to reflect the name change in all of our materials. Please note that the old name may continue to appear until the changeover has been completed.

As BNY Mellon continues to put clients at the center of everything we do, you can view our newly refreshed brand at bnymellon.com and learn how our services – delivered by the collaborative and collective efforts of more than 48,000 people around the world – are positioned to outpace the many challenges you face in today's evolving global marketplace.

*For more information on our Electronic Receivable Payment services, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.*

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THOUGHT LEADERSHIP

# EVENTS

## NOVEMBER

**13-15** **Caribbean Association of Banks (CAB)**

Castries, St. Lucia

**16-19** **FELEBAN Annual Assembly**

Miami, FL

## DECEMBER

**4** **Webinar: "Trends in Transaction Processing: How Marketplace Changes are Impacting Industry Opportunities."** Featured speakers Mike Amodio, Assistant Treasurer for Henry Schein, Inc. – a leading global distributor and Fortune 500 company – and Jeffrey Horowitz, BNY Mellon Treasury Services Head of North American Sales and Relationship Management, will combine their respective corporate and bank perspectives as they discuss how extensive financial industry regulations and impacts to U.S. and international transaction processing are poised to dramatically change the way you do business and what steps you may consider to bolster long term success. **Register here.**



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