

A background image of a modern office interior with glass walls and a blurred person walking in the foreground. A dark blue horizontal band is overlaid on the image, containing the title text.

Winning Cash Management Business in Asia-Pacific: Considerations for Banks

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In today's challenging economic environment, corporations conducting business in the Asia-Pacific region, regardless of size or domicile, are being forced to address the same urgent questions as their counterparts in other regions:

- How to best manage liquidity and maximise yield in a world where credit is a precious commodity and low-risk investments are a vanishing breed?
- How to manage foreign currency accounts and cross-border payments given extreme exchange rate volatility?
- How to obtain real-time actionable information on money movements and positions?
- How, in short, to most efficiently manage cash?

Although the playing field may have changed in the past year, the rules of the game have not. The 'secret' to establishing a winning cash management business in Asia-Pacific, as in the rest of the world, is for banks to become true consultative partners to their clients, rather than providers of commoditised transaction services. In order to do so, banks must do three things:

1. Develop deep knowledge of the individual rules and regulations of each country.
2. Understand the unique needs of corporations in the region.
3. Provide products and services tailored to satisfy these needs and guide their clients' treasury decision-making process in a local context, while enhancing the clients' ability to achieve global economies of scale.

Market Characteristics

Banks devising market expansion strategies in Europe can reasonably consider the EU a unified entity. The same cannot be said of Asia-Pacific, which boasts more than 20 countries ranging in status from G8 members to emerging economies. While harmonisation programmes such as the single euro payments area (SEPA) and Target2 have garnered significant attention in the EU payments space, no such initiatives are on the immediate horizon in Asia-Pacific, and the region abounds with long-established payment or financing instruments, which may seem exotic from an outside perspective. Post-dated cheques (PDCs) are one example. In Indonesia, PDCs are a common form of collateral, which means that banks wishing to attract and retain Indonesian corporations as clients must understand the usage and workflow of PDCs, and provide PDC monitoring and warehousing services to stay competitive.

Despite the recent loosening of restrictions on the activities of foreign banks in many Asian countries, careful protectionism is still the norm, ensuring that barriers to entry remain high. Banks and financial institutions have to be conscious of the multitude of regulations and mandates that exist at the national level. In China, for example, foreign banks cannot process retail payments such as tax or utility payments; a local partner must handle these payments. In Japan, banks must register as a participant in order to clear through the local Zengin clearing system, or work with a partner who is already registered as a participant; registration is not a straightforward matter. Such mandates clearly favour local providers, and/or foreign providers who have already established a presence in country.

Ideally, banks that are serious about operating in the region need to establish a local presence, provide local support, and offer locally relevant products - a one-size-fits-all approach is doomed to failure.

Understand What's in the Box, But Think Outside of It

Sometimes, an offering that is of little value in a bank's home market may be viewed as a strategic differentiator in a new market. In India, the cheque still reigns supreme as the most common payment vehicle, while in Australia the vast majority of business and consumer payments are electronic. This implies a clear differentiation in the types of cheque products a bank may wish to offer in those countries. A country with large cheque volumes is an ideal candidate for the introduction of services such as cheque outsourcing, Positive Pay, cheque fraud avoidance, cheque scanning and data capture solutions, etc, while a country with low cheque volumes may be best served by simply providing click-through access to cheque voucher images directly off balance and transaction reports.

Another clear area of differentiation is in the area of cross-border payments. In the US, a corporation can be in the Fortune 500 and still not originate any significant number of cross-border payments. This is patently not the case in Asia, where even small and medium enterprises (SMEs), due to their international trading relationships, regularly deal in cross-border payments and hold accounts in different currencies in multiple local and foreign banks. The traditional a la carte approach to cross-border payments and foreign exchange (FX) essentially leaves the customer to their own devices in managing FX exposures and cash flow. However, in Asia, a bank that offers competitively priced cross-border payments services, with a high degree of straight-through processing (STP), and an integrated approach to payments and FX, can serve as a true strategic partner to its customers, and thus help them manage the impact of cross-border payment volumes and exchange rate volatility.

In Asia, 'information reporting' needs to go well beyond traditional balance and transaction reporting. Vietnam provides an illuminating test case. With a significant percentage of transactions still being done in cash, which can be deposited and withdrawn at any time during the day, there is an urgent need for reliable intra-day transaction detail reporting, coupled with robust receivables matching, across multiple currencies. Banks that can provide this type of integrated service in real-time, in a form that is easily consumed and auctioned by the corporate client, will easily separate their organisation from competitors.

Another way to think 'outside the box' is by focusing on capabilities to accommodate some of the unique aspects of conducting business in the region. Asian corporations often have complex internal structures, which manifest themselves most clearly in the area of payments workflow. It's not uncommon for high-value payments to require a number of different combinations of approvers and authorisation thresholds, in effect constituting a panel approval scheme. These approvers could range from accounts payable (AP) clerks and department heads to C-level executives. More often than not, the panels are the result of external mandates, which the bank is required to monitor on behalf of the corporation.

Banks, therefore, should be willing to get more involved in the internal workflow processes of their customers than they typically might in other markets, and provide solutions that enable clients to map cash management processes to their existing business processes.

Remittance processing is an often-neglected area. While not a mainstay of cash management, it is worth noting that in some parts of Asia income from expatriate remittances is a significant portion of gross domestic product (GDP) - 10% in the case of Vietnam, 20% in the Philippines. Could a bank find a way to integrate a small business cash management offering with remittance processing capability? In economies where up to 90% of the population may not even have a bank account, and even business-to-business (B2B) transactions are conducted in cash, could a bank find a way to tap into the informal transaction flows?

The above questions and ideas are only the tip of the iceberg. The bank with the most 'creative' answers to these questions will ultimately gain the greatest market share.

One Web Platform To Rule Them All?

A flexible, full-featured and easy-to-use web-based cash management platform should be a cornerstone of any strategy to win corporate business in Asia-Pacific, as it is elsewhere in the world. However a platform that works well in the EU or US may not generate the same results in Asia-Pacific. Banks should consider a number of region-specific factors:

Security

Government mandates are diverse. South Korea, for instance, requires corporate users to have a special digital certificate installed on their PCs in order to execute a web-based payment. Malaysia stipulates that servers for a bank's online offering must be situated in-country. Singapore has stringent guidelines for the protection of personal data, and for the storage of detailed audit trail information for anti-money laundering (AML) compliance. Any cash management solution deployed in the region will need to be flexible enough to accommodate all such variations, without requiring 'one off' build-outs for each country.

Connectivity

The availability and usage of broadband Internet services varies greatly in Asia-Pacific. South Korea and Japan, for example, boast the highest number of broadband connections per capita in the world, whereas in Indonesia 56K dialup is still the norm for many corporate users. Banks must be cognizant of the limitations of local bandwidth when offering web-based solutions, and should ensure their Internet delivery technology supports adequate performance on low bandwidth connections.

Language and time zones

Asia-Pacific has the greatest diversity of language and culture of any region in the world. Even within a single country there may be a mix of national and regional languages. A monolingual cash management platform will therefore not suffice. To compete, banks must offer solutions that can be personalised to meet the needs of users in multiple languages, including complex double-byte character sets such as Japanese Katakana and Traditional Chinese. Disparate time zones should also be handled smoothly, as the region spans seven different time zones, to say nothing of daylight saving time (DST) regimes.

Consider, for example, an accounts payable clerk working for a Sydney-based company yet physically located in Jakarta. The clerk may routinely make an electronic payment in Japanese yen to a supplier in Japan from an Indonesian rupiah debit account held with a local branch of an Australian bank. In order to perform the transaction, this person requires a system with all screen labels and instructions in Bahasa Indonesian, the ability to enter remittance or other payment-related information in Japanese, and display of transaction timestamps in local Jakarta time.

But that's not all. The company's CFO is based in Perth and prefers to view audit information in Australian Western Standard Time with English labels, while the bank administrator or help desk operator in Melbourne - where the payment is processed - requires the payment information to be presented in Australian Eastern Standard Time. Although a complex example, this is scenario is a far from being an extreme case. The ability to support this type of flexibility - one system, many views - is fundamental to the success of a web-based cash management platform in Asia-Pacific.

Common Trends

While it is true that the Asia-Pacific region presents unique challenges, it is also true that many recent global cash management trends can be applied equally well to this market, particularly where multi-national corporations are concerned. These trends include: the convergence of cash and trade, which is driven by the need for corporations to unify the entire financial supply chain; the marriage of payments and foreign exchange trading to maximise the efficiency of working capital management; and the transition away from traditional transaction banking in favour of new forms of value-added services based on the delivery of real-time actionable data to the end user. Any bank that is already reorganising itself to capitalise on these trends will be well-positioned for Asia.

Conclusion

Despite the many challenges and potential obstacles associated with establishing a tangible presence in the region, Asia-Pacific remains an enticing opportunity for banks seeking transformational growth outside their traditional geographic strongholds. Achieving success, however, will be determined by a number of factors, most importantly how effectively a bank can serve as a consultative partner to its corporate clients. Those banks leveraging their knowledge with distinctive offerings that simplify the region's complexities will place themselves in the best position for long-term success.