

# MANAGING ASIAN PAYMENTS

**While making EUR and USD payments to Asian beneficiaries can present unique challenges, a new approach from Deutsche Bank aims to mitigate many of the difficulties faced by financial institutions, says Catherine Syn, Head of Cash Management FI Strategy Asia-Pacific at Deutsche Bank**

For banks and other financial institutions based in Europe and the US, making payments to beneficiaries based in Asia can present a range of challenges, many of which have been exacerbated by the financial turbulence of the past 18 months. Aside from difficulties that can impact the timely transmission of funds—discrepancies in payment or beneficiary information, for example—the financial crisis of 2008 and subsequent economic downturn have highlighted the importance of maintaining adequate liquidity resources to banks that offer significant payment services.

Of course, any regional player making payments to beneficiaries outside of its home markets may encounter difficulties as a result of language, time-zones or a lack of in-country reach. However, the sheer range of different markets in Asia—especially in terms of their relative development and geographical scope—makes local expertise crucial to efficiently handling payments destined to the region. And a lack of on-the-ground coverage can also severely impair any efforts to investigate complaints from beneficiaries regarding erroneous or missing payments.

Unlike the EU and the US, from a transaction banking perspective, Asia remains an extremely fragmented region.

Indeed, with many individual markets at different stages of development and a fast changing regulatory landscape, Asia presents a unique and heterogeneous set of challenges for payments and cash management professionals. As a result, many institutions may find that they can derive significant

efficiency gains by addressing some aspects of their payments processing for Asian-based beneficiaries.

Aside from these issues of fragmentation between markets, the tightening in the credit markets seen in 2008 highlighted the importance of maintaining efficient intra-day liquidity management, especially when offering payment services to clients. And while no bank or financial institution would have fully escaped the effects of the financial crisis,

Deutsche Bank's sound financial standing allowed it to maintain ample liquidity to service its clients' business needs as well as its own.

## THE ASIA GATEWAY INITIATIVE

Deutsche Bank's Asia Gateway Initiative leverages a combination of different tools to manage EUR and USD payment flows to Asian beneficiaries. Aside from offering the benefits of our

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extensive geographic reach—which ensures on-the-ground coverage in key markets and a 24 hour follow-the-sun operating model which synchronizes with the Asian business day—the Gateway also delivers several value-added services.

With time-sensitive payment execution becoming an increasingly popular tool for efficiently managing liquidity, Deutsche Bank has developed a proprietary delivery service known as Very Early Processing (VEP). VEP begins the processing of transactions in the evening (Eastern Time) before value date, allowing MT103 payment advices to be released to overseas beneficiary banks in Asia whenever required during their business day regardless of any time-zone differences. Payments can also be made using a range of channels including CHIPS and Fedwire.

Working in conjunction with VEP, the Direct Customer Transfer (DCT) service eliminates cover payments, allowing clients to save on messaging and reconciliation costs. Upon receipt of a client instruction, Deutsche Bank immediately dispatches payment advice to the beneficiary bank. Thanks to our extensive USD and EUR account relationships, most payments can be credited to the beneficiary bank's account on our books. And due to our comprehensive correspondent banking network and database of SWIFT keys, payment orders can be sent directly to any beneficiary bank around the world.

A perfect compliment to both VEP and DCT is Future Advising, especially for clients that require the beneficiary bank to be pre-advised. With this service, Deutsche Bank will advise the payment's beneficiary up to two business days prior to value date and payments can then be made according to the client's release schedule.

### A LEADING PROVIDER

Deutsche Bank's leading position in EUR and USD clearing has been affirmed by strong payments traffic over recent years. 2008 saw Asian EUR and USD volumes increase by 44% and 51% respectively, with EUR market share currently standing at around 34%. Total year-on-year EUR growth also grew by 25.4%, easily outstripping overall market growth of 15.4% in 2008. Deutsche Bank also currently has the best CHIPS straight-through-processing (STP) rates in the industry.

Despite market conditions, Deutsche Bank remains com-

mitted to developing its technology and continuing product innovation to ensure that clients can make the best of the challenging economic environment. Indeed, 2008 saw the launch of a range of initiatives that will contribute to our integrated package of solutions for clients in Asia, and those wishing to access Asian markets.

Examples of these include FX4Cash—which allows clients to effect payments in over 120 currencies through a single account, thus creating efficiencies in terms of reconciliation, liquidity management and account maintenance—and Global Cash Concentration (GCC), which provides for comprehensive intra-day investment and sweeping options to maximize clients' interest revenue.

A key product currently under development is MT 202 COV, a new industry SWIFT payment format expected to be rolled out in Q4 2009. While often considered a solely US initiative, Deutsche Bank is approaching the new format from a wider perspective and has established a global project team to ensure full coverage on a world-wide basis. While the message format currently used for cover payments, the MT 202, omits some of the information carried in the underlying MT 103, the new MT 202 COV format will provide for replication of all information contained in key fields on the MT 103.

Considering the industry impact of the MT 202 COV, we have observed a shift in the behaviour of many

banks in favour of making serial payments, whereby one financial institution transmits the entire instruction—i.e. the MT 103—to the next institution in the payment chain and each member of the chain receives the same level of detail about the transaction.

Deutsche Bank is certainly sensitive to the drivers leading institutions to make such choices and is seeking to work with clients to fully understand the implications of the MT 202 COV and develop solutions to accommodate the new payment funding. However, we firmly believe that there are benefits to the traditional cover and pay settlement model for the underlying parties in a commercial transaction. And through using a partnership approach and leveraging services such as DCT and VEP, Deutsche Bank aims to support its financial institution clients' efforts to minimize investment outlay while maintaining the ability to offer market-leading payment services to their corporate and retail client base.



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