

The Changing Nature Of Managing FX Transactions

Both corporates and financial institutions are increasingly turning their attention to a once-neglected aspect of cash and liquidity management: low value, high volume cross-currency payments. Timothy Merrell, Deutsche Bank's head of FX4Cash, takes a look at how all parties can achieve greater efficiency in this area.

The financial crisis has had a dramatic impact on transaction banking, accelerating trends that had been in existence for a while and raising its importance as a discipline.

Due to the sudden problems with liquidity and counterparty risk experienced by banks and their clients during this period, both are now focused on managing these issues through the strategic goals of greater centralization, automation and rationalization. And for many banks, there is now also a drive to improve profitability by working with financial institution partners to open up new sources of revenue.

One area that has historically presented problems to all parties has been the management of foreign exchange transactions, especially large volumes of low-value payments. While lumpier payments are likely to receive special attention and individual treatment from corporate treasurers and banks, smaller payments often slip below the radar despite their cumulative value being extremely significant.

Payments of this type are, unsurprisingly, extremely common across a range of industry types and sectors. For example, corporate vendor/supplier receipts and payments, international payroll and other trade-related payments fall into this category while, from a more retail perspective, over-the-counter foreign exchange, worker remittances and private wealth disbursements could all be included. And governments also make huge numbers of such transactions, including international pension payments (also an issue for some corporates), tax collections and refunds, payments to overseas contractors and support to students studying abroad.

From a corporate and public sector perspective, there are three main issues:

- A lack of transparency surrounding the booking of

such small payments often means treasurers are unsure as to how competitive a rate they have received.

- The amount of manual inputting involved in such payments can make them relatively expensive to process.
- The limited currency breadth of some banking partners can make it difficult to effect payments to some destinations with “exotic” local currencies.

Financial institutions are also facing a different set of difficulties that are impacting profitability in this area. For example, harmonization initiatives such as the Single Euro Payments Area (SEPA) are putting strong downward pressure on the pricing of cross-border transactions within Europe, while the growing burden of regulatory compliance thanks to, for instance, more onerous anti-money laundering (AML) and know-your-client (KYC) rules, is driving up costs.

All of these issues—and others—were recently discussed in webinar jointly hosted by *Global Finance* magazine and Deutsche Bank, “Foreign Exchange: Challenges and Opportunities for 2011,” which is available at www.gfmag.com.

Responding to Client Needs

The issues involved with managing cross-currency payments have certainly not gone unnoticed by the wider banking and treasury management sector: several providers are bringing, or have brought, to market solutions. Indeed, the market for foreign exchange payments is highly fragmented with a broad range of solutions available, not all of which successfully address all of the problems facing corporates and providers. In response, Deutsche Bank has sought to take an innovative approach to addressing the needs of both corporates and financial institutions in this space.

In order to further address the needs of clients, the

bank launched a joint-venture between Global Markets and Global Transaction Banking—the divisions responsible for, among other things, foreign exchange clearing and cash management respectively. Combining resources in this way allowed Deutsche Bank to deliver an integrated and holistic solution, rather than merely focusing on either the foreign exchange or the payment aspects of such transactions.

The result was FX4Cash, a platform that bridges foreign exchange and cash management to deliver efficiencies and cost-saving to corporates, while opening up the possibility of new revenue streams for financial institutions. The key feature of the platform is the way that the foreign exchange and payment elements of the transaction are handled; instead of the former being treated as a post-payment factor—something that, in the past, has often been a reason behind the lack of transparency in this area—they are combined in a single process.

A key element of the value-adding aspects of the platform is the level of artificial intelligence deployed in order to maximize straight-through-processing (STP) levels and therefore reduce manual processing. From the perspective of our corporates clients, such functionality—combined with the broad range of access channels, currencies available and the potential for linking directly into ERP systems—reduces the costs of making such transactions and boosts transparency over flows. This, in turn, can aid efficiency within the context of centralizing, automating and rationalizing a broader cash and liquidity management program.

Financial Institutions

From the perspective of partner financial institutions, adoption of the platform offers several benefits. One difficulty currently faced by some banks is a lack of end-to-end transparency on their cross-currency payments. For example, the payment beneficiary's local bank will often perform the foreign exchange conversion before crediting the payment, something that represents a lack of visibility and control for the payment's initiator.

Smart Convert, a part of the platform launched in late-2009, seeks to remedy this problem by giving financial institutions the capability to control the rates provided to the final beneficiary, thus enabling a new



Timothy Merrell, head of FX4Cash

level of transparency and control for the initiator and owner of the payment. And as well such enhanced control, Smart Convert can also assist financial institutions in opening up new revenue streams.

As financial institutions using the platform benefit from accessing highly competitive rates, there is the potential for opening up new revenue streams from foreign exchange spreads when offering the service to their own client-base. Alongside this, financial institutions can also pass on the benefits of the system to their own corporate client base. And the range of currency pairs available—some 20 funding and over 125 local currencies—will represent a massive leap forward for some local banks that adopt the platform.

Managing Receivables

A final aspect of this suite of payments products that can benefit both corporates and financial institutions is the ability to manage cross-currency receivables. While corporates often have to maintain accounts in certain local currencies in order to receive payments, this functionality provides a centralized routing location for incoming receipts regardless of the currency in question. This can therefore give corporates the ability to secure the leading conversion rates offered through the FX4Cash platform, while also cutting down on costs by closing non-strategic accounts. And financial institution users of the platform can, of course, offer this extended functionality to their own corporate clients.

Indeed, given the fact that the scope of the platform has recently been extended to cover a range of new locations, including Turkey, Switzerland, Poland and the UAE, and that it will be rolled out across further key markets in Asia later this year, FX4Cash offers an ideal one-stop solution for corporates wishing to drive efficiencies from their cash management arrangement, as well as financial institutions coming under pressure from reduced margins and elevated costs.

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