

Mapping the Market Trends for Banks across Asia

A view of the latest trends impacting financial institutions and what they mean for banks in Asia

In a financial environment where the passage of seconds can determine the difference between profit and loss, the spotlight in Asia is on the capabilities of its financial institutions – and rightly so.

In the face of increased competition and narrowing margins, the strategic focus for banks in Asia and worldwide is on optimizing process management and maximizing profitability. Local and regional banks in Asia are challenged to offer competitive services, to remain profitable and have enhanced risk management practices – all of which require significant investments in technology, business practices, and resources.

In addition, the ongoing and frequent changes in regulations and payments infrastructure that characterize the Asian economy are driving a pace of change so constant, that for many banks across Asia, continuing to invest in non-core businesses has become unsustainable.

Trends across Asia

Let's look at the most significant trends driving change in the banking industry across Asia.

1. Enhanced regulatory focus

It comes as no surprise that regulators in Asia and worldwide are putting increased pressure on banks to improve their risk management practices and policies, particularly in the areas of payment, credit and operational risks. The growing problems of money laundering and other types of financial fraud must be met with intensified and sophisticated prevention programs. This however comes with an impressive price tag. According to a recent global survey¹, "the cost of anti-money laundering (AML) compliance is increasing sharply with the average reported increase about 61%. Most envisage a continuing increase in expenditure over the coming years, at a lower, but still substantial rate."

According to a recent report by a well-known industry consulting group², "The proportion of total IT resources required to respond to regulatory initiatives has increased by 50%, and now amounts to some 30% of total IT spending."

2. Applying new standards - SWIFTNet

With the emergence of SWIFTNet, the financial industry has adopted an XML-based messaging standard for inter-bank communication. The ability to use XML and Internet-based technologies will enable banks in Asia to provide a new set of solutions to their corporate customers. Implementing these new standards will achieve a much higher level of flexibility while continuing to maintain security and mitigate risk.

A group of valuable new services is now available under the SWIFTNet umbrella, including SWIFTNet Browse, MA-CUG, Interact and FileAct. These services are designed to increase visibility and better

manage liquidity, resulting in improved operational efficiencies and better management of risk. The new SWIFTNet capabilities will also enable banks to provide their customers with new products and services, such as real-time cash reporting and file transfer solutions.

At Citigroup we have re-built our infrastructure to ensure that SWIFTNet is a key component of our product development and strategy for our bank clients in Asia. For instance, we currently provide two services through SWIFTNet Browse – CLS Settlement Services and our newest U.S. payments prioritization service called U.S. Dollar Payment Flow Manager.



Dianne Challenor

3. Need for real-time information

"Cash you don't know about is cash you don't have," reiterates the lack of visibility by banks on their cash balances. This is a common issue where cash is held in nostro accounts and the position is really only known at either intra-day and end-of-day intervals, meaning banks probably are not fully using or supporting the enterprise liquidity needs as effectively as they could be.

In order to better manage this challenge, banks need access to real-time information. The benefits include improved liquidity management for optimization of intra-day and end-of day balances, as well as more accurate measurement of settlement exposure and associated risk.

The key to meeting this new trend is the ability for the bank's technology platform to be flexible to be able to communicate in a real-time nature. This requires investments in middleware to support the XML messages needed to utilize Internet protocol. By partnering with a global player who has already made this investment in technology, local and regional banks cannot only provide for their customers today, but also stay current with future advances.

For banks that require solutions to the provision of real-time information Citigroup offers two solutions, SWIFTNet Real Time Cash Reporting services and Cable & Wireless Real Time Nostro Service.

4. Focus on financial results

With the increased emphasis on profitability, banks have basically two alternatives – increase revenues while holding the line on expenses, or decrease expenses while delivering leading edge products. We look at this challenge to increase profitability from three perspectives:

Products: Every financial institution has product gaps. In the past these have typically been filled by building their own product, frequently based on one or another vendor offering. And time and again, banks have discovered that this solution is a direct route to a bloated fixed-cost base.

¹ Boston Consulting Group, Global Payments Report, 2004
² 2004 KPMG Global Anti-Money Laundering Survey

The better solution for banks in Asia is to scan the market for the best product provider in the field and negotiate for a white label service offering, a far more cost effective way to combine their product with your brand recognition.

Markets: Far too frequently, financial institutions pull out of markets when they discover their built up cost base isn't justified by the business they're generating. The traditional market entry strategy of building branches from scratch is a strategic decision that is often undermined by assumptions about the amount of infrastructure that will be required on the ground – as well as by prior market exit experiences. Nevertheless, the bank needs to grow its franchise.

A better solution for banks in Asia is to find a financial institution already operating successfully in the desired market, and leverage their existing infrastructure.

Infrastructure: While the previous two perspectives are focused on new revenue generating possibilities, Infrastructure looks at costs. The solution for banks in Asia is a partnering relationship with a global financial institution to take advantage of technology and delivery infrastructures.

5. Payments Monitoring

As one of the largest clearing banks for U.S. Dollars, we are seeing more banks in Asia who have large US Dollar flows wanting more transparency and control of their payments. Banks need detailed real-time status of U.S. Dollar payments and balance information. Increasingly, they are also looking to prioritize payments – dictating which payments should be processed first, especially important as banks manage end-of-day balances and funding.

To meet this need, Citigroup offers U.S. Dollar Payment Flow Manager, the first offering its kind in Asia. Payment Flow Manager allows banks to monitor real-time status of transactions as they flow through our funds transfers system, allowing banks to prioritize their payments.

The potential of strategic partnering

Partnering offers greater economies of scale – across all lines of business – by leveraging delivery infrastructures, establishing global reach without the cost of maintaining foreign branches, and enabling product extension through the use of white labeling.

Partnering with a global bank such as Citigroup offers real benefits to local and regional bank clients in Asia:

Product leadership and innovation

As a recognized leader in global payments, Citigroup offers a first class global payment platform across all currencies with real-time information. Our flexible technology supported by artificial intelligence capabilities automates processing for seamless cross-border transactions. We also provide outsourcing opportunities for detailed-intensive processes, such as trade documentation and payment and payroll processing.

Dedicated customer service

Citigroup's product leadership is underpinned by market leading customer service teams. In Asia Pacific, a dedicated Financial Institutions CitiService Team provides a single window for all service requirements of our bank clients. Our goal is to provide bank clients with superior service through accuracy, responsiveness, timeliness and availability. A state-of-the-art

Case Study: Focus on Profitability

The ongoing changes in the FX marketplace make it difficult for smaller banks to provide clients with comprehensive FX service at reasonable cost. With CitiFX White Label these banks can offer their clients Internet FX with 24-hour access to Citigroup FX prices and currency pairs – with no need to invest in technology.

A bank for instance may want to offer services to its customers in other countries where it doesn't have a presence. By using Citigroup's integrated back office processing structure, banks can offer a private label CitiDirect Online Banking front-end that will enable the underlying customers to initiate transactions and receive reporting on transaction status throughout the day.

To help our bank clients in Asia increase profitability, Citigroup provides white label solutions that enable them to benefit from our ongoing investments in product and services – from domestic payments solutions and multicurrency account services to our award winning Internet banking platform, CitiDirect™ Online Banking.

tracking system maintains and monitors client inquiry records end-to-end. Our use of technology extends to provide multiple access points for clients to contact us – via telephone, fax, CitiDirect Online Banking and SWIFTNet.

A commitment to learning and innovation

We believe that learning and innovation must be integrated into all aspects of our service, and we constantly strive to improve our operating performance and that of our clients. For instance, to encourage broader adoption of Internet banking, we run "EB Universities" in all countries in Asia Pacific, where we host user training sessions on our electronic banking platforms and new product information sessions. We also host forums and workshops to promote best practices, share market trends and share new ideas in many locations including within Asia, United States and Europe to enable our customers in Asia gain access to the practices in other markets.

Summary

The dynamically changing landscape across the banking environment is forcing banks across Asia to seek broad-based solutions providers. Traditionally, banks had to maintain multiple correspondent bank relationships for services such as payments and trade processing. Today, these traditional relationships have begun to evolve into business partnerships where the inter-reliance of both parties is profoundly altering the foundations of the bank-to-bank relationship.

Make Citigroup your strategic partner in Asia.

For more information, please contact your local Citigroup Global Transaction Services representative or

Dianne Challenor
 Regional Financial Institutions Product Manager
 Citigroup Global Transaction Services
 Email: dianne.challenor@citigroup.com
 Tel: 852-2868 6624