

# Catalysts for change

As the economic and regulatory landscape across Europe continues to harmonise, business models must change to sustain competitive advantage. Evolving with the new environment has been a key catalyst in Citi's cash management strategy, MD Naveed Sultan tells The Banker's **Neil Tyler**

The EU's pursuit of economic harmonisation forms the cornerstone of its attempts to improve both the region's commercial strength and its competitiveness in the global market. Change is accelerating and brings with it far-reaching implications about how both corporates and financial service providers will operate in the future. These changes will affect payments infrastructures, the securities clearing and settlement infrastructure, capital adequacies, collective investment schemes and the regulatory environment.

Harmonisation will be a significant catalyst for change over the coming years. For banks to be successful, they will need to be forward thinking and embrace strategic opportunities. They will have to revisit their business models and relevant systems, such as payments channels and the back office, in an effort to exploit synergies, increase efficiency and achieve lower costs.

Think of cash management and treasury services, and you will probably think of just a handful of major players. But any list will have to include Citi. A traditional leader in cash management, it has a global network that is second to none and it probably banks more large corporates, financial institutions and governments around the world than most other banks.

## A different landscape

However, it is not a bank to rest on its laurels. It has appreciated that the globalisation of trade, the advent of new technologies, and an evolving market and regulatory environment, especially in western Europe, but indeed around the world, are completely changing the competitive landscape. Banks need to change fundamentally. That means not only adapting and changing their business models but even their mindset. Citi, for one, believes that the industry is facing a paradigm shift that will require banks to operate in a totally different way, where collaboration becomes essential, as they seek to tap into new opportunities or augment their existing services to their respective clients.

To expand on this paradigm shift, Naveed Sultan, managing director, head of cash management and treasury services for Europe, Middle East and Africa at Citi's Global Transaction Services group, says: "From our

perspective, global change is ongoing, whether it is driven by innovations in technology or the introduction of new market or regulatory-led initiatives. Irrespective of whether the change is global or a specific regional trend, there is a case to be made for market participants to take stock and reflect. They need to assess and think through how their current business and operating models work. They need to begin addressing the question: is it the best way of operating into the future?"

While accepting that the impact of these external forces will be significant, Mr Sultan warns that for banks it should not simply be seen as a compliance issue. "These changes need to be on the agenda of every CEO and CFO. Senior leaders need to rethink their key strategic drivers if they are to effectively address global trends and emerging opportunities and risks.

"These are trends that will provide an opportunity to rationalise commercial and treasury structures, to lay foundations for common standards, and where commercial and legal harmonisation will help to bring about real integration across both the financial and physical supply chains," he says.

## Impetus for change

Mr Sultan believes that the advent of the single European currency in 1999 provided the impetus for Citi to change its approach to markets in western Europe and that the introduction of the euro set in motion market, regulatory and technological changes that began to free the

treasury function from its traditional geographical boundaries.

Until then, Citi had played out a lead bank and cross-border cash management strategy. According to Mr Sultan: "Our primary objective, as a cash management bank, was to provide cross-border banking services for our customers, whether they were multi-national corporates or financial institutions or public sector entities. We didn't focus on a client's domestic business, which they typically awarded to a local domestic bank. Instead, we sought to integrate liquidity and financial flows in each market into a centralised structure to provide a consolidated view to our clients."

While the introduction of the euro may have enabled corporates to standardise treasury and commercial practices and generate savings as cash management processes were restructured, for banks like Citi there was an adverse impact on revenues as 11 separate currencies were merged into one.

"The infrastructure we had at the time was the outgrowth of our domestic market needs. Processing systems were unique to each country matching the requirements of each domestic market," says Mr Sultan.

"The single market resulted in the dilution of historic cross-border flows and their replacement with what in effect were essentially domestic flows. As a result, domestic flows became much bigger so our non-participation would mean our becoming a marginal player over a period of time in a key market. If you fail to play deep and do not service domestic flows, you cannot service your clients comprehensively," he says.

## Fundamental decisions

Faced with a transformed market, in which corporates and other customer segments are looking for a new level of service and efficiency, Citi had to make some fundamental decisions. The

decision was made to turn these changes into a catalyst to revisit its business model and reinvent its business across Europe.

"We had to accept that our existing business model was not going to be able to meet our customers' changing expectations of value, service and efficiency," says Mr Sultan. "We recognised the limitations of our fragmented infrastructure and made the bold decision to reinvent ourselves. While we were essentially responding to a regional requirement, we were, in fact, laying the foundation that would address the future global trends that we are witnessing today. By meeting a regional requirement, we were able to develop a business model that was very much global in nature."

Citi went about its transformation in a few ways. First, it proceeded to replace all its existing legacy systems with global platforms. Over the subsequent years, new systems that included its web-based online banking platform, core accounting and ledger system and global funds transfer platform were rolled out. This investment marked a recognition that the market had changed and that there were global trends in the making that were accelerating. This new infrastructure formed the basis of the company's new operating model, and enabled the bank to deliver cost and service efficiencies and the flexibility to meet new levels of expectation from customers.

## The partnership path

Second, Citi turned its attention to strategic partnerships with financial institutions that enable both parties to tap into new distribution, product and processing opportunities. It sought to collaborate with local banks, allowing Citi to expand its distribution in-country while providing the domestic bank with global capabilities. It also began conversations with banks that may benefit from white-labelling Citi's products, such as CitiDirect.

"We look to extend our market access and to penetrate deeper into our existing customer base. For Citi it is a 'win-win' partnership, where we are able to leverage the domestic strengths of leading financial institutions, while they are able to differentiate themselves by plugging into our unparalleled international network," says Mr Sultan.

Third, Citi took a fresh look at its payment model and began tapping into significant flows generated by key customer segments, whether that is financial institutions, corporates, the public sector or individuals. Examples include white-labelling its global remittance platform to VOCA, the automated clearing house operator in the UK, and providing international payment capabilities to services providers such as Jardine Lloyd Thompson and Paymaster.

"Finally, we invested in domestic capabilities and then integrated those into our regional

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and global platforms. We are also investing significantly into Sepa [Single Euro Payment Area]-related schemes and solutions," says Mr Sultan.

## A model reinvented

Within a few years, Citi had reinvented its core cross-border business model, repositioning the franchise to compete in domestic markets and participate in and service domestic flows. According to Mr Sultan: "Our objective was to provide a consistent global experience for our clients across all our key geographies. We accomplished this by strengthening the competence of our cross-border model and becoming a domestic market competitor in the eurozone. Our goal was to play deeper in those markets and we have achieved significant success in this regard."

These strategic initiatives, conceived and set in motion at the turn of the century, have helped to reinforce Citi's position as a leading pan-European player with a breadth of participation across the transaction services space. The bank's long-term market commitment and its commitment to technological innovation will enable it to grow and compete in the global marketplace as the new paradigm becomes a reality.

## The regulatory environment

For European banks, the investment and effort that they will need to show if they are to comply with the new market and regulatory environment – which is imminent – will be substantial. The introduction of new rules will affect the technical infrastructure as well as

large parts of the cash management product suite, from access channels to account information products, from liquidity and investment services, even to investigation tools.

Although it is somewhat difficult to predict how the market will unfold, there can be no doubt that the implementation of Sepa, the Markets in Financial Instruments Directive and the like will have far-reaching implications. The pressures from these initiatives may well leave many banks with few options. Some will look to reduce their costs by forming strategic partnerships or outsourcing, but many others will have to focus on leveraging economies of scale and rationalising their technical infrastructures if they are to retain their profitability in the new environment.

## Long-term strategy

Both domestically and internationally, banks are having to make strategic long-term decisions. The traditional banking models are unbundling. There is not enough money for banks to own and maintain their own infrastructure, while developing new products or maintaining a branch network.

As Mr Sultan explains: "Investment pressures are significant. Customer-facing projects, regulatory compliance, infrastructure investment – the list is endless and there are never enough dollars to invest in each and to sustain that investment, while remaining competitive. Banks will want to invest in client-facing projects and strengthen customer relationships, as well as meet compliance. At Citi, we have invested heavily in our products and infrastructure and, because of that historic strength, we can offer these services to other financial providers under a host of different arrangements.

"We talk at Citi about a need to change mindsets and business models. In cash management, you have a defined set of customers who each have different needs that are constantly evolving. Cash management to the corporate customer means an integrated service across geography and products, but to a bank it is a bundle of diverse products across different regions. It is a buyers' market and competitive pressures are intense so you need to be able to meet all of these needs all of the time," says Mr Sultan.

"To be responsive to the new environment, the market needs to change. It needs to open itself up to embrace globalisation, new technologies and take a fresh look at alliances and partnerships. The time for that to happen is now."

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Naveed Sultan



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