The cash management CONUNDRUM

There are only two truly global, fully fledged cash management banks today. But the digital arms race in transaction services gives far more banks the opportunity to be world class

By: Clive Horwood

The business of cash management is a conundrum. The new economy has broken down borders for companies. Few are constrained by their country of domicile as e-commerce grows.

If you make or sell a product, the chances are you can do one or both in multiple jurisdictions and therefore multiple currencies. Your cash management and supply-chain finance needs are complex and you require banking partners that can help you manage them. In some respects, therefore, transaction services have become the most global part of the banking industry.

And yet global cash management remains a business with very few global banks. And the fee pool remains steadfastly diluted. Whereas in areas such as capital markets and investment banking, or trading-based sectors such as FX or equities, market shares for the leading banks of 10% or more are commonplace, in cash management the share of global wallet for the biggest firms is less than 5%.

Make no mistake that cash management is a good business to be in. According to figures from industry benchmarker Coalition, cash management revenues from companies with a turnover of more than $1.5 billion a year at 10 leading global banks have risen from $9.8 billion in the first half of 2011 to $11.9 billion in the first half of 2018.

Yet the only two truly global cash management banks today are HSBC and Citi. It is no surprise then that they dominate as usual the overall rankings in **Euromoney's annual Cash management survey**, finishing first and second respectively. The global nature of the business is demonstrated by the fact that the rankings are based on the **responses of more than 25,000 companies and financial institutions**, who voted for the international cash managers they used the most.

CITI AND HSBC CAN MANAGE CASH and payments for more clients in more places than other banks. Their transaction services businesses are at the heart of their wholesale banking efforts. In scale and in profitability, they remain far ahead of their competitors.

BNP Paribas, which ranks fourth overall for corporate clients, has more of a global footprint than many give it credit for, including in cash management, but not the breadth or depth of customers of its bigger rivals. The same could have been said for Deutsche Bank, fifth overall for corporates and third overall for financial institutions, even before its recent woes at group level saw a retreat from some clients.

Bank of America Merrill Lynch's transaction services business is global in as much as it serves its predominantly US multinational clients across the world, but has limited local penetration outside North America and parts of western Europe. Cash management is one of the few areas in which JPMorgan does not claim global

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Naveed Sultan, Citi

leadership, and there are good reasons for its irregular reticence.

But the global cash management industry is at a fascinating inflexion point. Payments are the plumbing of finance, and that plumbing is becoming increasingly digital. Efficiency is the key to success – both internal efficiency and providing it to clients. Application programming interfaces (APIs) are the new battleground. Blockchain is both a threat and an opportunity. Data is king.

In this environment, new contenders have the chance to emerge – perhaps not to threaten the global hegemony of HSBC and Citi but at least to show they are world-class and leaders in the regions and clients they cover.

"We have focused heavily on dealing with the pain points of our customers: easing the process of funds transfer, providing payment-tracking facilities and improving security"

Diane Reyes, HSBC

IF THERE IS ONE BANK SHAKING up the world of cash management, it is Asian-based DBS. Under chief executive Piyush Gupta, the Singapore bank has not just **swallowed the digital banking bug**, it has let the benign virus take over its entire body. In cash management, that has had a dramatic effect.

This year, Euromoney has introduced 'best service' rankings across its cash management survey. These are based on customer-satisfaction ratings – the net score of clients who view a bank's cash-management services positively minus those that view them negatively. **In a survey sample of more than 25,000 voters, these results provide a unique insight into which banks are meeting their clients' needs best.**

And the overwhelming answer is DBS. It sweeps the board in the global overall services categories, from business functions to tech provision. This quality of service also allows DBS the remarkable achievement of ranking third globally in the overall corporate rankings, which are based on which international cash managers clients use most. This puts DBS behind HSBC and Citi but ahead of the likes of BNP Paribas and Deutsche, despite being focused almost exclusively on Asian business and Asian clients. Two years ago, DBS ranked 17th globally.

This is sweet news for John Laurens, DBS's global head of transaction services and a veteran of both Citi and HSBC.

"A central pillar of our transaction services business is to be respectful, easy to deal with and dependable – or RED – for our clients," Laurens says. "And to do that we have invested heavily in both technology and people."

Success, he says, is all about "putting yourself in the customers' shoes. We provide customer-journey training programmes – more than 300 over the past 12 months – and these have been core to our breakthrough in a number of important business relationships."

Often, these customer journeys are undertaken with existing and potential clients before the request for proposal stage.

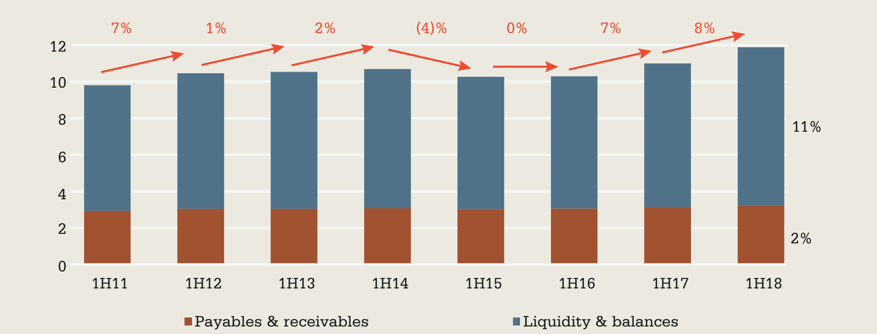
Their power can be seen in two ways, says Laurens: on the digital wall on which client testimonials are posted for the team to see and be motivated by; and in the number of occasions DBS has won the type of large, complex corporate business that it might not have competed for three years ago.

A notable area of business gain has been in the insurance sector.

"We have launched a number of market-leading APIs in the Asian insurance space," says Laurens. "These have gained real momentum across the insurance industry, which was not a traditional strong point of our business. The APIs got us in the door

Revenues on the rise

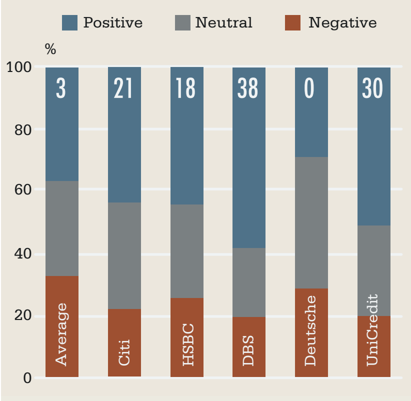
Coalition index cash management revenues



Source: Coalition

Global Net Promoter Scores

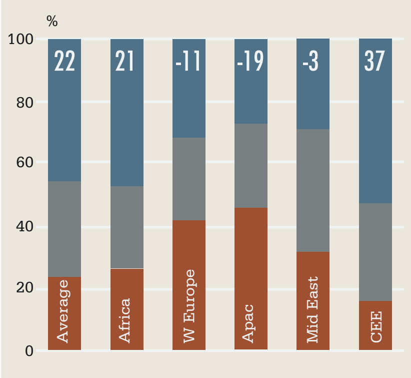
NPS competitor



Source: Euromoney Data

NPS by region – Citi

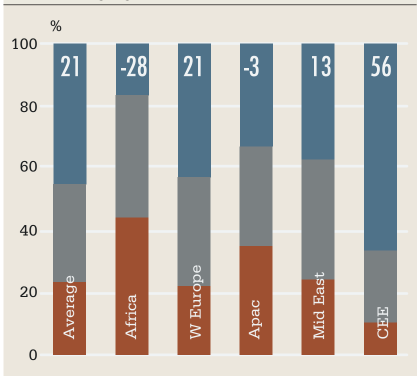
NPS across geographies



Source: Euromoney Data

NPS by region – HSBC

NPS across geographies



Source: Euromoney Data

with people we did not have a relationship with. Now we have just about every large insurer in the region signed up."

The proof of DBS's momentum can be seen not just in the Euromoney rankings but in its numbers as well. The global transaction services division at DBS now accounts for 35% of the bank's institutional banking business income and grew 17% year on year in 2017. Cash management was the engine room, delivering 32% year-on-year income growth in a record year for the business.

PROVIDING MARKET-LEADING technology is also at the heart of the strategy of the two global leaders and it is informative to hear how the respective global heads of the business at HSBC and Citi talk about the digital challenge in transaction services.

"For any client – corporate or financial institution – getting the digital offering right is a competitive imperative. It is one's licence to operate successfully," says Naveed Sultan, global head of treasury and trade solutions (TTS) at Citi.

To get that licence, he says, you have to get four key things right.

"The user experience has to improve. For example, we've brought in two-day client on-boarding in North America and we are now rolling that out globally. You must have scalability, to invest as much as you need to in technology. You must have agility in your operating model, which is provided by a responsive digital infrastructure. And you need a mindset of continuous innovation. The traditional cycle of innovation was over three to four years. Now, you cannot stop innovating."

One such initiative at Citi is an innovation portal that all members of Citi's global TTS team globally can see as a landing page on their screens. The aim is to show all of the division's innovations, which team members can learn about and contribute to.

Sultan says the portal "should be addictive, it should be the first thing you look at when you come to work in the morning."

This, Sultan says, creates a multiplier effect within his group.

"Innovation cannot have an impact if it happens in isolation," he says. "It has to be demystified, otherwise it's invention. Innovation means creating something that benefits your clients."

THIS IS BLUE-SKY THINKING AND, while the overall sentiments are shared by Diane Reyes, global head of liquidity and cash management at HSBC, her natural focus is a little bit closer to earth.

"There's a lot of talk about innovation and digital, and sometimes it can feel like you have solutions looking for a problem to solve," she says. "So over the past 12 months, we have focused heavily on dealing with the pain points of our customers: easing the process of funds transfer, providing payment-tracking facilities and improving security on our customer accounts through biometrics."

In the latter case, 6,000 CFOs and treasurers are now using facial recognition to access their accounts from their mobile phones in 38 countries.

Reyes says leading companies are experimenting alongside their core cash management partners on how they can better use technology; and one key area for this is in managing their liquidity. This is a crucial part of the treasurer's business, as well as for their banking partners. According to the Coalition transaction banking index, while payments and receivables generated revenues of $3.2 billion for the 10 banks it covers in the first half of 2018, liquidity and balances brought in nearly three times as much, at $8.7 billion.

"In a world of low or even negative rates, a lot of banks did not want to take certain deposits," says Reyes. "But if sweeping your cash into different accounts can yield a few basis points, whether you are a corporate or financial institution client, that can make a big difference in today's interest-rate environment. We rolled out our Liquidity Investment Solutions product a year ago and it is meeting a real need for our clients."

HSBC has also spent a lot of time educating relationship managers across its global banking and global commercial banking divisions on how to engage clients in discussions around liquidity management.

At Citi, Sultan also says the role of relationship managers is changing. They now have to use data and digital services to provide cutting-edge advice to clients in areas such as managing working capital. So is cash management transforming from a business of selling products to one of partnership with clients?

"The nature of the business of cash management is that we and our clients are a natural extension of one another," he says. "That is the definition of partnership. And every day it is becoming more cemented."

THE DIGITAL BATTLE FOR CASH-management business is relatively advanced in global banking terms, but there will be a long wait before we see how it plays out.

Most cash-management bankers now expect to see clients starting to consolidate their cash-management relationships a decade after the global financial crisis caused them to diversify. The consolidators are likely to be the ones providing the best customer service – and the key to that will lie in technology.

So who will the consolidators be? A deeper look at the Euromoney cash management survey data tells an interesting story – that it might be regional players, rather than globals, that make the next phase of incremental gains.

DBS is not the only bank with a core focus on one region to beat HSBC and Citi in the overall market service rankings. So too does Europe-centric UniCredit. Could it be that banks with a narrower focus, or those that are newer to the business such as DBS, can naturally provide better services to clients than those who have to cater to broader geographical needs?

After all, it is easier to build state-of-the-art systems with a clear focus on a defined set of clients than deal with sprawling legacy systems that the older, more global banks have to both manage and reinvent.

Euromoney also asked clients during the survey if they would recommend their cash management partners to their peers. These answers lead to a series of Net Promoter Scores (NPS) – a standard term for how clients rate the quality of service from their suppliers across industries, not just in finance.

The results show that while Citi and HSBC do well, they struggle to match the customer-service quality of their more focused, regional competitors. DBS has a global NPS of 38%, while UniCredit's is 30%. HSBC and Citi are

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John Laurens, DBS

at 21% and 18% respectively.

Delve deeper and one of the explanations for this performance is that HSBC and Citi's clients are simply more demanding. We asked clients to rate the importance of 10 areas of service, from payments and collections to security procedures. In each of the 10 areas, Citi and HSBC's clients rated the importance of that service above the global average of clients. In nine of the 10 areas, DBS's clients rated the service priorities lower than the global average. Perhaps DBS simply has a group of clients that are easier to please?

That analysis may be too simplistic. Both HSBC and Citi will be worried that they have negative NPSs in their core Asian markets, in Citi's case a worryingly low -19% in Asia Pacific and -11% in western Europe.

Is being everywhere hampering Citi and HSBC's ability to be the best as well as the biggest?

"We are in 100 markets and all the regions of the world, and these are at different stages of development," says Sultan. "We would love to be able to roll out exactly the same services and products to all our clients, but there are certain parts of the world where two-day client on-boarding is still not possible. But wherever we can, we will simplify: by October, we will have standardized our global documentation, reducing it by 80% from what it was previously."

Reyes echoes Sultan's viewpoint.

"The regulatory environment in different jurisdictions can hinder us in applying innovations quickly and consistently because regulators don't see things in the exact same way," she says. And this is not just about emerging markets. "In the US, for example, we still have to offer clients the option to use paper payments."

Back at DBS, Laurens is not about to use its world-leading service quality proposition to rip up the bank's playbook. Besides, he clearly admires the ability of both HSBC and Citi to provide global solutions to clients and is happy to sit alongside them in core relationships with his own client base.

"Asia is becoming an increasingly core market for many global companies, and we like how our Asia pure-play strategy provides clarity to clients," he says. "We're not in 80 countries, but we are leading the charge in 10 to 15 of them here in Asia with our cloud-based architecture and ability to roll out market-changing APIs."

Not that Laurens will get complacent. And nor should he. Financial firepower is the key to staying ahead in the technology game – just look at the continued dominance of Apple, Google, Facebook and Amazon for evidence.

The likes of HSBC and Citi – and, if they choose to get into the game, JPMorgan and Bank of America – are the banks with the real firepower globally.

Sultan is confident he can make that pay.

"Within the next few years, we will have similar or better customer-satisfaction ratings than our competitors who operate largely in one market," he says. "And we will be able to do that because we have invested in the best technology."

Can Sultan back that up? He thinks evidence from his client roster can.

"We have by a margin the largest share of wallet among global technology companies," he says.

The digital battle in cash management, it seems, is just beginning to warm up. EM

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