Asian Bank Relationships

An extensive survey provides insight into what top corporates and their banks are thinking and doing in the region.

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There are several external forces at work, shaping the future of relationships between corporations and their banks worldwide, and these apply equally in the Asia/Pacific region. Principal among these are the apparently indefinitely heightened state of global economic volatility, and the onrush of technology involving cash, risk and treasury management.

The findings and opinions expressed in this article are based on the most recent biennial "International Asian Trade Study" sponsored by ***Brendan Wood International***, Toronto, and developed and managed by our firm. Conducted last autumn, this comprehended more than 642 interviews with large corporations in all sectors based in East Asia, Japan and ASEAN.

Exporter Exposures

Exporters face a number of financial and commercial risks, particularly with regard to emerging markets shipments, but these can be distilled into five basic categories, as described in the accompanying *Exhibit 1*. The exhibit also indicates that solutions for each of these risks can be implemented, either in-house or from external providers:

Survey respondents indicated that financing and liquidity needs were foremost in current circumstances. These were endemic, and clearly need-driven, with a substantial gap between supply and demand in the area of export financing, which most respondents indicated they were bridging with the use of operating credit lines.

A high demand also exists for instruments to mitigate performance risk, such as standby letters of credit and performance guarantees by highly-rated insurers or other third parties. Demand in this area has been enhanced by inability to get cash in advance for shipments carrying high risks.

There was a consensus that currency risk can be adequately covered, but the survey group indicated a desire to further diversify the methods being used for that purpose.

Effects on Relationships

Exporters are adopting both operational and financial strategies to deal the short supply of export finance and other risks. Operationally, multinational corporations are shifting export trade patterns, in terms of both products and suppliers, to contain performance and currency risks.

In the financial arena, loyalty can now be bought, as exporters chase available credit and other needed trade services. Some 25 to 30 percent of respondents indicated they have shifted, or are contemplating shifting, business among banks, which is more than double the figure from the previous survey.

The importance of a knowledgeable and attentive account manager to the relationship has also increased, a sign of increased complexity and implied volatility involved in doing business across borders. Risk advisory skills and regular contact are winning qualities in the opinion of the survey group.

Effects of Technology

An appropriate sub-title for this section might be "tools, toys and threats."

Exhibit 1

Exporters' Basic Exposures and Solutions

Risk Category	Problem	Solution
Funding	Ability to secure funding to underwrite production and shipment of the goods or services for export.	Bank pre-export financing provides the funding for manufacture and shipment;
Performance	Performance of the terms and conditions of sale by the exporter and its counterparty.	Export insurance and/or bank guarantees secure performance of the counterparties.
Currency	Exposure to cross-currency losses for the exporter or its customer, depending upon the currency of billing for the shipment.	Hedging via foreign exchange contracts and similar financial instruments secure margins by locking in exchange rates for the transaction.
Liquidity	The exporter's ability to secure sufficient funds for its operations as it awaits payments for goods.	Receivables management, including credit and collection, maximizes probability that the customer will have the means to pay when payment is due.
Payment	Risk of receiving payment, which, in addition to liquidity, comprehends imposition of payment inhibitions by the customer's host country (i.e., sovereign risk).	Letters of credit or documentary collections mitigate or eliminate the absolute risk of non-payment.

Business-to-business (B2B) Internet use has grown rapidly—faster, in fact, than was contemplated by the last survey. In 1999, only about one in five used the Internet and about half expected to be using it by 2001. In reality, three-quarters of survey respondents are now actively using the Internet in their business and financial operations, although Asia/Pacific somewhat lags other regions in this regard.

Its role in international trade is becoming more intrinsic with the passage of time, spurred by the need to remain competitive in terms of speed, efficiency and customer service. From e-mail exchanges, which are now commonplace, a majority of respondents indicated they either use the Web to get orders, or intend to use it for that purpose in the foreseeable future. Substantial minorities—about 40 percent in each case—indicated that they have similar operations or plans involving cross-border electronic bill presentment and payments systems.

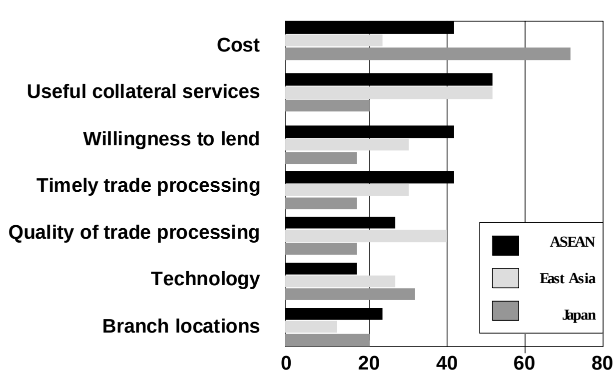
Asian banks have not rushed to embrace the technology of paperless trade. In fact, about 70 percent of trade transactions still move through the traditional, relatively cumbersome "paper-fax-phone" process. The balance is handled electronically, divided about equally between the bank's own e-business platform and the Internet.

The slow pace of change is somewhat explained by the fact that not many of the regional trade finance managers are familiar with *Bolero, Identrus* and *TradeCard*, the major initiatives for paperless trade. Almost 80 percent of respondents had little or no knowledge of these products and their attributes. Even among those who know about them, few indicate readiness to introduce them into their own trade transactions.

Exhibit 2

Reasons for Changing Bank Relationships

Among the 25 to 30 percent of the survey group that changed bank relationships during the period 1999-2001, following were the most frequently offered reasons (segregated by region).



The respondents' consensus imparts an understanding that delaying B2B Internet initiatives constitutes a serious threat to competitiveness. As far as implementation, services that one person or department can implement are the most quickly adopted. Only a relatively few believe that complex, multidisciplinary initiatives are worth pursuing.

Relationship Perspectives: Banks

Respondents who changed trade bank relationships during the last two years provided a number of reasons for their decision, as shown in the accompanying *Exhibit 2*. The majority of these are related to the availability of trade credit, cost efficiency and quality of transaction processing.

As has been noted, the stated willingness of respondents to change has grown substantially since the 1999 survey.

In a number of cases, it is the banks themselves that precipitate relationship changes. Mergers engender change, in terms of both the assigned officer and the perspective of the surviving entity. Changes in banking strategy can leave a customer stranded.

More specifically, merger-initiated changes, or those provoked by banks' increased emphasis on adding shareholder value, have induced these changes:

- increased focus on country risk, possibly resulting in lower credit lines being made available for specific transactions;
- exercise of greater selectivity regarding clients to which credit may be extended;
- a shift in focus from transaction-oriented to global client profitability via cross-selling in such areas as cash and risk management; and
- an increase in efforts to lower labor costs associated with supporting international trade.

Relationship Perspectives: Corporates

Corporates are also seeking a new balance of power in terms of bank relationships. The pervasive move toward regional or global centralization of treasury management is a trend that favors multinational banks over their local counterparts.

The demand to create added shareholder value, as addressed in the preceding section, applies to both corporates and banks. It has created a tough economic environment in which loyalty has become a less highly regarded attribute. From the perspective of the bank's corporate customers, bank relationship evaluation has become a function of the following pair of theorems:

- if credit doesn't move, then cost must; and
- if credit and cost don't move, then the relationship must.

Despite the increased emphasis on technology, survey respondents indicated increasing interest in a regular "contact and counsel" program with the bank's advisory staff. Such programs cement bonds of loyalty between the parties, and permit "usage prospecting" by the bank, to increase the breadth and depth of services provided.

The bottom line among respondents seems to be that "loyalty begets loyalty." By maximizing their value to the bank, these financial managers expect that the bank's value to their business will be similarly enhanced.

In order to maximize bank loyalty, specifically in terms of providing timely credit services, corporates would be well advised to concentrate transaction processing with the chosen institution and to seek opportunities for such collateral business as foreign exchange and cash management.

A Look at the Future

Based on responses, our views of the future direction of banking relationships indicate shifts in usage among bank products:

- letters of credit and documentary collections will decline in popularity, being substituted by other forms of performance support;
- receivables-based financing, i.e., via factoring, forfeiting and securitization of trade receivables, will become a more important factor in the total working capital/trade finance picture; and
- there will be more integration between trade transactions and classical cash management functions.

In the field of technology, the survey suggests that the flight to the Internet for B2B transactions will massively increase, but more complex paperless trade systems like Bolero will grow slowly. There is a solid consensus that "if you snooze, you lose," and those who are late arriving at Web-based solutions will see the result in a shrunken bottom line.

Relationships between corporates and their banks will continue to increase in complexity and competitiveness. Business diversification by their clients will pose a continual challenge to banks' efficiency and service standards.

Banks that are left standing in the post-merger and acquisition wave will be more selective about their clientele, and more eager to provide a full range of services (including) credit to their targeted clients. Advisory staffs will incorporate greater expertise in the area of international trade, including specific industries and foreign markets.

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