HOW REGULATION IS CONSTRAINING ASIA'S BANK PERFORMANCE: SURVEY

The challenge of managing regulatory and compliance costs is taking attention away from front-office objectives such as serving corporate treasury clients with highly tailored and efficient solutions, according to a recent CT/Broadridge Financial Solutions survey.

An acute awareness of Asia-based financial institutions' inability to cope with the escalating tide of regulation – combined with a potent mix of reduced resources and increasingly complex client demands – was in evidence in an exclusive survey asking the region's top transaction bankers about their biggest technology concerns.

The exponential growth of regulation many financial firms face in today's markets globally and the constant challenge of managing change and ensuring compliance are a primary source of anxiety, further complicated at the cross-border level, where regulatory playing fields are rarely symmetrical.

The implications of this situation were clear in a survey jointly conducted by *CorporateTreasurer* and Broadridge Financial Solutions, a $9 billion market cap global fintech company that delivers communications, technology, data and analytics solutions: if banks can't adapt to change in Asia they will lose business.

We asked senior cash and payment banking executives located across Asia-Pacific what the biggest challenge facing their operations within the region is. A surprising 63% provided a response related to regulation and compliance.

Concerns highlighted include:

- *[Complying with] heavy checks from the regulatory authorities will cost the bank a lot.*
- *Fulfilling clients' requirements and being compliant at the same time, while keeping cost as low as possible.*
- *Regulatory concerns limit us in providing flexibility to address client pain points.*
- *Differentiated solutions addressing the change to the business and operating models of the client while maintaining regulatory agility.*

Although not seen as a "front office" issue, it's clear that being fully compliant with regulations in the jurisdiction a company operates in has a tangible effect on the front line services that can be offered to clients. As corporate clients demand more sophisticated treasury solutions, any operational drag on performance and service will hit a financial institution's bottom line as clients move their business elsewhere.

And although regulatory and compliance considerations may seem less important than managing cash and liquidity to a typical cash management banker, the burden of related reporting has the potential to severely complicate core banking practices such as handling cash management and payments. If technology is available to mitigate these conflicting issues, then it's worth exploring what alternative technology is available in the market to solve them. And this is clear in the results of the survey, which focused on Asia-based operational activity. Respondents were asked how easy it is to manage client cash and payments in relation to five core areas with emphasis on their technical capacity and skillset.

The areas comprise:
- *Cash forecasting*
- *Cash matching*
- *Balance and liquidity*

TOP CHALLENGES FACING BANKS IN ORDER OF IMPORTANCE (RANK 1 = BIGGEST)

Rank 1: Balance/Liquidity Management

Rank 2: Cash Forecasting

Rank 3: Cash Flow Matching

Rank 4: Cash Matching

Rank 5: Payment Control

Rank 6: Reporting

management
- *Payment controls*
- *Reporting*

We present some of the key findings in each of these core areas and share personal insights from Chris Davis, vice president of FX & liquidity solutions at Broadridge, on the main results.

THE TOP CHALLENGES

Asked to rank the major challenges banks face when handling the five core banking areas, the most pressing was balance and liquidity management, with one third of respondents ranking it number one in terms of its importance and the scope of the challenge. Cash forecasting was also ranked as a serious issue, with approximately 43% considering it either number one or two in terms of related challenges. Lower down the pecking order, but still important, were handling payment controls and reporting. This makes sense. As regulators focus their attention on a financial institution's balance sheet and capital adequacy, having exact insight to where cash is being held and how much is needed in any given scenario is paramount. If the technology is not there to support this vital need, then additional human resources get pulled in to compensate. This is not an effective use of capital, especially as financial institutions themselves are at risk of being disrupted by leaner, more nimble upstart service providers.

CASH FORECASTING

Just under 40% of respondents said their banks are required to forecast their balances on a daily basis in certain jurisdictions; 6.5% are required to do so on an intraday basis.

More troubling is that one third of bankers admitted they were rarely able to achieve forecast accuracy. Only 18.2% were confident of their accuracy all the time.

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In terms of cash visibility, the majority of banks in Asia-Pacific struggle to see and capture client cash flows/ transactions from all asset classes, regions, and entities – 39% said they were unable to do this, while one third said it was possible but manual consolidation was necessary.

When it came to their own cash flows, banks have achieved a little more success: 42.4% achieve aggregate transparency and 39% manage partial transparency.

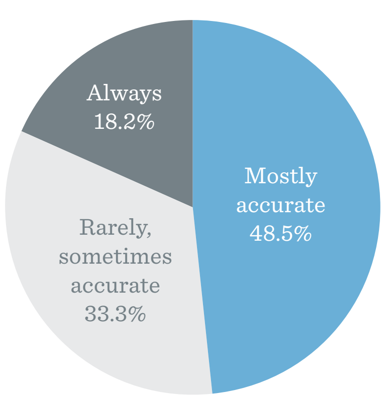
Under half of respondents (42.4%) are running software that can compare expected/ projected versus actual cash flows. The remainder were either unable or simply unsure whether it was possible.

This inability to forecast accurately generally leads to cash hoarding – a natural response to not knowing how much liquidity is required to accommodate for the cost of your operations. As banks desperately seek to invest in making themselves more valuable to their demanding client base, any spare cash left on the table is a missed business opportunity.

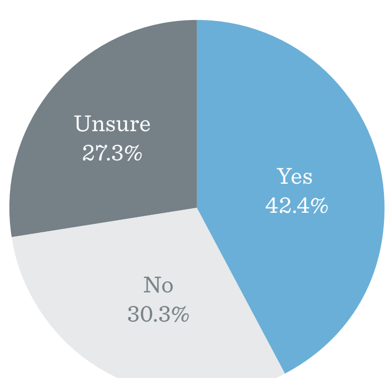
CHRIS DAVIS SAYS:

The banks have the data, they just don't have the technology or the solution to see it in real-time. They are completing the transactions; they need to be settled, they are processing securities, money markets, FX, derivatives, commodities, all different products. The systems know, but there isn't a centralised place that receives the data and

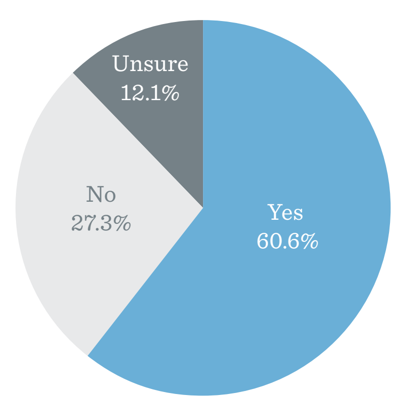
CAN YOU ACHIEVE FORECAST ACCURACY?



CAN YOU COMPARE EXPECTED/ PROJECTED CASHFLOWS?



DO YOU WORK OFF MORE THAN ONE SYSTEM?



provides a big-picture view to the organisation. If they were SWIFT participants, for example, they could take a feed from their bank in real time and know what their actual balances are and their projected future balance.

CASH MATCHING

Real-time bank connectivity and cash matching among banks is commonplace – no one said they were not capable of this. However, achieving this level of connectivity at the global level is more difficult; only 27.3% said they could manage it. Two thirds are able to get real-time connectivity at a regional and local level.

The majority (60%) of bankers said their organisations work with more than one system that produces cash flows. Of that number, only one third said the level of integration was such that they were able to automatically obtain a true picture of the flows of money working through the bank. Half said that manual intermediation was needed. Of course, where manual intervention is required mistakes can occur, not to mention the loss of valuable time, and potentially money, in the act of conducting it.

Only 36% of respondents said their cash management solutions were able to propose the best ways to fund their accounts. A handful more said that their systems offer this service partially.

CHRIS DAVIS SAYS:

The technology is out there. You can take the intraday feed from SWIFT statements, parse it into the individual debits and credits and have a tool that matches actuals from a transaction processing system. So, if the subsystems are feeding it, SWIFT is feeding it and they have the tech to pull it together, you should get a true picture of whether your cash is matched. So instead of having 12 people in your reconciliation team, if you licence the technology and leverage the tool you can reduce that down to two or three people. You won't need Excel either.

BALANCE/LIQUIDITY MANAGEMENT

Real-time or intraday regional aggregate cash balance reporting is easily achievable for more than half of the respondents. It gets trickier when attempting to achieve this globally – only one in four said they could manage this at both levels. More than one third (35.5%) said they were unable to do it at all.

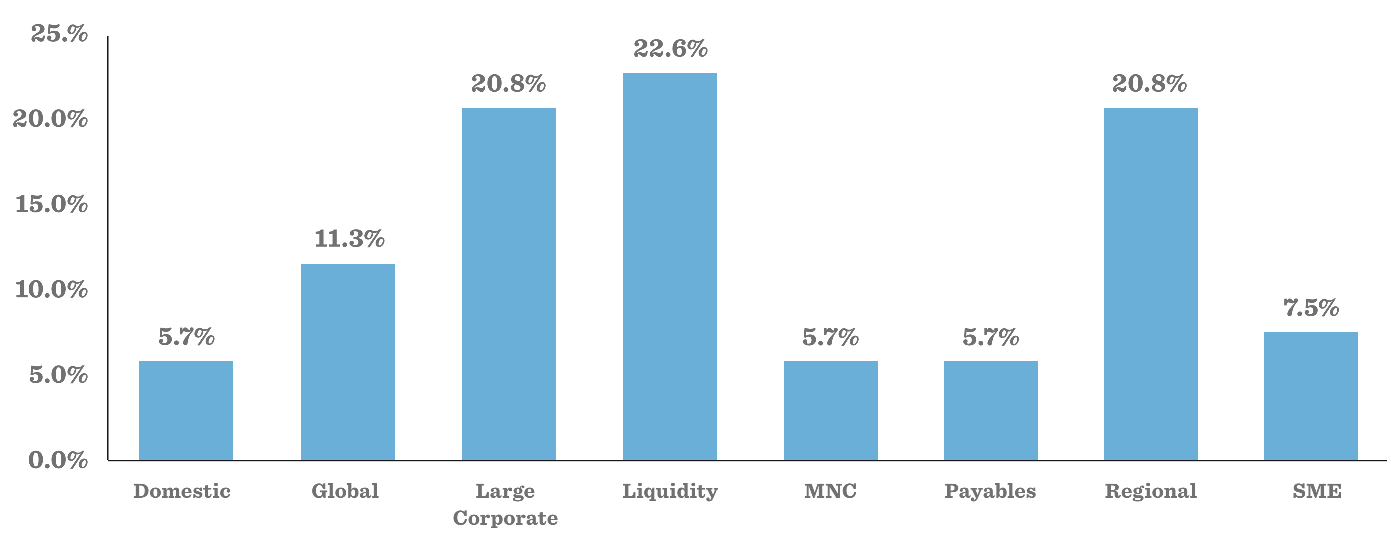
And despite all the bluster from financial institutions about the risks of treasurers operating their liquidity books on Excel, 84% of banking respondents said the majority of their work – or at least part of it – is dependent on Excel. Only 6.5% say that Excel does not feature in their daily cash liquidity activities.

When it comes to managing internal liquidity, there are also challenges. Just under half of respondents (45%) said it was possible to pool and sweep cash balances into a master nostro account with their existing liquidity software; 41% said it was not possible, with the remainder unsure. This lack of sophistication in liquidity management makes it harder for banks, especially in Asia-Pacific, to provide efficient cross-border operations and services to customers or, indeed, internally.

CHRIS DAVIS SAYS:

On the topic of Excel, in a less regulated organisation it can be a very efficient tool. Both Excel and Microsoft Access are inexpensive and easy to maintain. Super users who can build macros can get great value out of it. However, it is not a tool larger companies or banking institutions should be reliant on. A major downside is that files can get corrupted, they can get deleted, there is no audit trail, there's no true underlying database. If someone makes an error with a formula there's no

SURVEY RESPONDENTS COVERAGE AND FOCUS



testing capability to establish it. This is risky.

PAYMENT CONTROLS

On a more positive note, it appears many banks operate to a good standard of control when handling payments. Four fifths of bank respondents said they adopt four-eye control (the principle where two people approve the same action before it can be taken). Less than 10% said they are not able to do this.

Likewise, when monitoring payment exceptions just under 40% said they were able to receive real-time updates when an exception occurs, while another 32% said they are able to do this on all payments over a certain size. Less than a quarter (22%) said this was not yet achievable. Although this shouldn't raise major alarm bells, any process that introduces unnecessary delay and/or manual intervention can distract from placing emphasis on front-office duties and services.

In terms of controlling the flow and management of payment schedules, it seems there is a reasonable level of discipline in the marketplace – 84% said they were able to prioritise payments when they needed to.

Things get a little trickier when attempting to hold payments and release them depending on cash flows or instructions – just under 60% said this was possible, while one third said it was not.

CHRIS DAVIS SAYS:

Controlling large volumes of payments is difficult. With multiple sets of individuals reviewing and approving them, it's very easy for them to make errors and just release them. By using technology you can improve upon the four-eye model and ensure payments that are inputted are approved. It's also more flexible; rules are defined based on how the application works.

REPORTING

When asked about their existing cash management solution, only 22.6% of respondents were able to say their software could automatically update when new compliance and regulatory changes came into force. The majority (55%) said their systems were flexible enough to adapt to change, but the process to implement changes was manual.

FEAR OF DISRUPTION

Some further remarks from those surveyed also indicate banks are concerned about their abilities to deliver services that are tailored for their corporate clients. Alongside this anxiety is a sense that banks are being disrupted at every corner by tech startups providing banking services. They are worried about how they can adapt in a timely and cost-effective way.

This is what our survey respondents had to say:

- *The largest challenge facing the industry is FinTech [financial technology].*
- *Too many banks just offer standardised solutions, instead of putting in the effort to customise.*

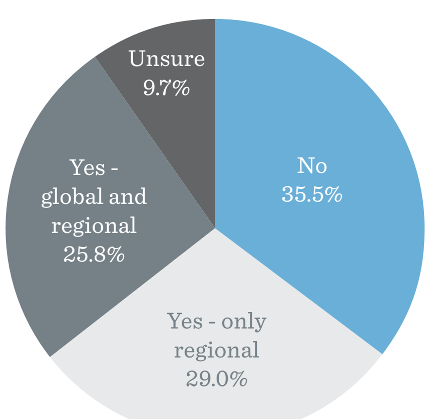
BUT THERE IS HELP OUT THERE...

Rather than bankers staring off into the distance fretting about how their industry will be disrupted by upstart financial technology companies, they should consider established solutions in the market that can solve many of the issues they have raised in this survey.

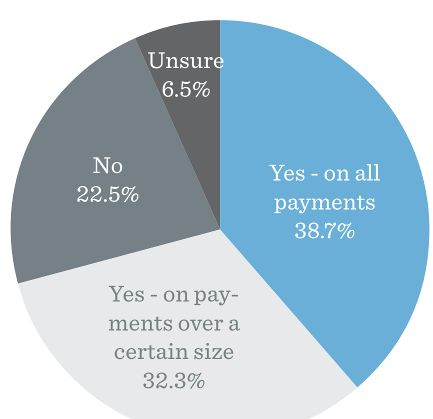
And rather than viewing it as a threat, financial technology can help make processes more efficient and transparent, and address the key challenges identified in this survey while mutualising costs. This in turn will allow cash management professionals to focus on what they are good at – managing cash and payments effectively.

This has never been more the case than today. As regulatory compliance absorbs ever more time and intellectual effort, it is increasingly important to know how to ensure that the "front end" of the business is performing optimally.

CAN YOU AGGREGATE YOUR CASH BALANCES?



CAN YOU ACHIEVE REAL-TIME UPDATES ON PAYMENT EXCEPTIONS?



RESPONDENTS' PROFILES

CorporateTreasurer *obtained 53 eligible individual responses from executives with responsibility for handling cash, payments, and liquidity. Of those 53, 40 worked explicitly for financial institutions in Asia-Pacific.*