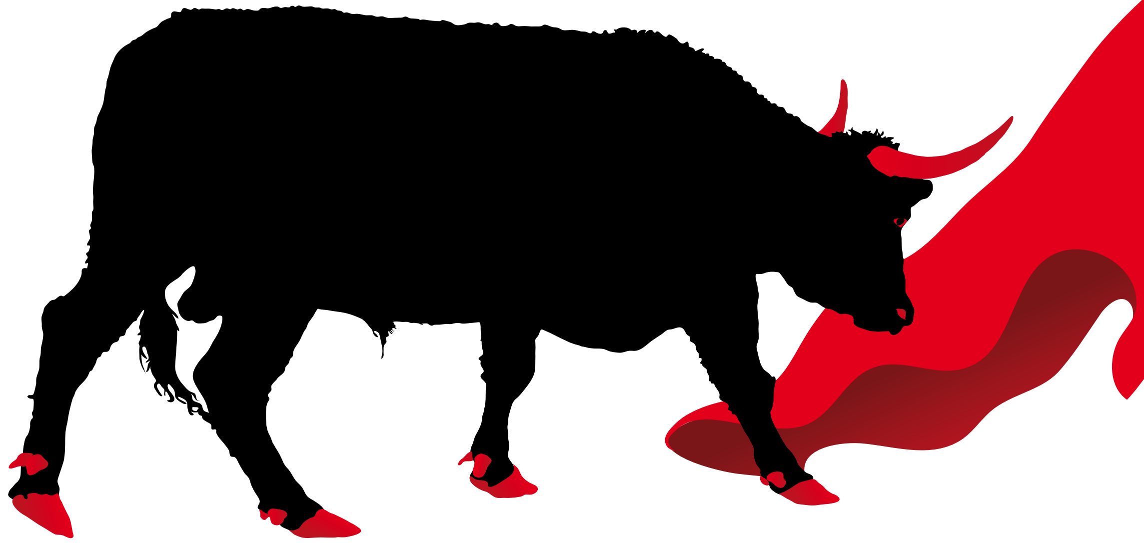
The need for increased innovation in transaction banking was the main talking point of BNY Mellon's roundtable meeting in Madrid.



Spanish innovation charges on

Roundtable Participants

Event hosted by:
Daniel Verbruggen, managing director, relationship & sales manager, Western & Southern Europe, BNY Mellon
Fiona McBride, vice-president, market development at BNY Mellon
Ana Sancho, relationship officer, treasury services Emea, BNY Mellon
Marta Serrano, relationship officer, treasury services, Emea, BNY Mellon

Moderator:
Alexander Malaket, president, Opus Advisory Services International

Participants:
Javier Sanz Cedron, head of banking & strategy, Repsol
Rafael Duarte, director and head, global financial institutions, Banco Popular
Juan Echanojauregui, deputy director general, international banking, Banco Popular
Natalia Mesa Esteve, head of export finance, La Caixa, Banca Transaccional
Jaime Gonzalez Lasso, managing director, institutional corporate banking, Caja Madrid
Joaquin Beltran Nunez, director, corporate development projects, head of banking relationships, and CEO, Hal Cash
Alvaro Jimenez Ortuzar, vice-president, global transaction banking – Financial Institutions, Santander
Carlos Alonso Perez, director, financial institutions, international corporate banking, Caja Madrid
Carlos Gutierrez Salan, managing director, global transaction banking, Santander

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Malaket: How do you see transaction banking as it is today, and how do you see it evolving in your respective institutions, both from a local perspective and with a more global view?

Jimenez: Within Santander, we have integrated those transactional services where scale makes the difference.

Gutierrez: Custody is not part of our global transaction banking unit as it is the case in other global financial institutions. Another significant difference is that basic lending, meaning working capital lines, is also part of our global transaction banking unit. All in, it includes cash management, trade and lending.

Sanz: If I may add something to give a flavour from the corporate point of view, which is my position today, we do not consider trade finance as part of the cash management transaction side of the business. Cash management means, how to treat transactional business – receivables and payables, and overnight positions.

Duarte: In our case in Banco Popular, bank-to-bank loans and syndications are also included in transaction banking.

Verbruggen: One of the things that has come out of our discussions since Sibos in Hong Kong, related to the BNY Mellon white paper, is the need to better understand the needs of corporate and commercial clients – including small and medium-sized enterprises – as they actively seek to replace bilateral lending with other forms of financing, to optimise the working capital environment.
People are looking at the end-to-end value chain, seeking solutions through forfaiting, discounting and other mechanisms. The name of the game today is working capital management, so that you can also fund your equity in a different way.

Malaket: One of the consistent themes I hear discussed is the importance of the local relationship. The indication is that, whether for the small and medium enterprises, mid-market clients or large corporates, there is a value to having local relationships.

Beltran: I think there is an opportunity for us to discuss the channels that users are using to make a transaction. Are they using the internet, are they using branches, are they using mobile phones to issue the transaction? How is the relationship between banks and the percentage of people with bank accounts, in the countries in which the rate of banking penetration is less than 20%?

Gutierrez: My role within global transaction banking is focused on the corporate side, while the telco-based payments are more retail-oriented; nevertheless, our experience in Latin America, where there is still a limited degree of banking penetration in many countries, is that our main added value comes from our huge branch network. This means providing the services they demand for their employees, for their suppliers and for their customers.
This is particularly critical on the collections side, particularly in markets such as Brazil and Mexico. Some institutions try to solve this by closing outsourcing agreements with other financial institutions. In our case we rely exclusively on our own franchise in the region.

Beltran: What does it cost to acquire one customer? For banks, a client may become profitable at transaction costs of US$50, whereas with telecom companies, the profitability threshold is perhaps achieved at US$15. We need to have very low-cost transactions to acquire clients.
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Malaket: There has been a shift from traditional terms and instruments in trade to open account, and during this process banks were nearly disintermediated. Now, there is a similar scenario, with banks potentially being usurped by telecom companies. To compete there must be a need for more innovation?
Beltran: When some of the banks from other countries come to Spain, most of them are very impressed. We use a lot of channels to offer services and products to our clients; we have a very strong CRM – we have a lot of data about our clients. We have innovation departments in the banks, thinking about what will happen, looking ahead two or three years. Foreign banks feel like they are five, or even seven, years behind the Spanish banks. Our in-house technology platforms, our use of SMS for transaction channel using mobile phones… so they think we are at the top of technology in banking.
Gutierrez: Spanish banks, in general, tend to develop technology in-house. Thinking again about the question of the value that can be brought by a global partner, such institutions need to re-invent the transaction banking services they are providing. The fact is that transaction banking for financial institutions looks very much like a plain vanilla sort of service, a commodity if you want. The only way I see to differentiate it, is to re-invent and to add further value on top of the basic services, otherwise it becomes a fight for price. We are eager to get some added value to help us to differentiate ourselves with our own clients.
Sanz: Perhaps something from the corporate point of view on this issue. We have the opportunity to be in many countries as an oil company, and there are different kinds and degrees of bank penetration in each country, but in the end, when judging which banks to work with, it's not always about the degree to which they are able to deliver services, including collections, but it is also about confidence -credit confidence- and the way the bank manages facilities. We need to rely on the banks, so technology is a relevant point, but credit and confidence is the very first point to our positioning.

Malaket: In which markets do you see the strongest potential for collaboration with local banks? Perhaps Eastern and Central Europe?
Gutierrez: Companies in our core markets such as Spain, Portugal or Latin American are not focused on those countries and therefore their demand for transactional services there is marginal. In the markets where we have been exploring this like, Central and Eastern Europe, the size of the opportunity seems to be limited, both for us and for the international bank providing the service. We have not seen the critical mass necessary to make this viable.
Mesa: At La Caixa we have some employees based outside of Spain; but our international presence is limited. We are working in order to grow our presence in other markets, to provide better financial solutions to our customers, and to develop additional business.
At La Caixa, we created a transaction banking department just over two years ago, which includes export and trade finance, treasury services, and an innovations group. Our mandate is to provide solutions and services to our customers through our colleagues across Spain. We have a small portfolio of foreign customers, and are working to expand our activities.
Jimenez: Same as we have seen in the custody business, we envision a concentration process happening also in correspondent banking services particularly on the payments side within the coming years. As a result of the Payment Services Directive (PSD), we have seen significant pressure on pricing; costs are becoming more and more relevant, and being able to get significant volumes of payments from outside the European Union will be the key element to grow.

Verbruggen: I think we will see two types of leagues – on the one hand, the ones that are already in the market, and are going for the economies of scale, and can attract even more market share. On the other, you have the medium-sized or smaller banks, who will have to decide whether you can support that service. At one point, you will have to make a decision either to increase your price, perhaps out of the market if others do not follow, or you will have to find a partner to work with that has the economies of scale. I oversimplify, but I think you will have two types of leagues, whether it's in Europe, in Asia or in Latin America.
Duarte: I will introduce a variable in the concentration issue, which is everything related to anti-money laundering. Shall we take an approach related to our correspondent relationships, which continues in the direction of concentration, or shall we move away from this? My personal opinion is that in such a discussion, we must distinguish between trade and payments. On the payment side, it will be easier to move towards concentration and outsourcing, whereas on the trade side, concentration will remain a sensitive issue.

Malaket: In that case, is trade finance a business primarily for global banks?
Sanz: In my view, I don't think it's a business for only global banks. This business depends not only on the size of the institution to provide comfort, but on the quality of service first, and second, the spread of relationships this bank could provide.
Sancho: What we heard from the banks here, is that they seek to offer that local service, globally. That's an important message.

Malaket: In terms of this notion of re-inventing the value proposition around transaction banking, what should providers and potential partners be thinking about?
Jimenez: They need to work on innovative solutions that add value to our customers. We need to change the corresponding banking space by sharing foreign exchange fees, increasing flexibility on processing platforms, and trying to provide features that are not standard in the market. Supply chain finance is another key area for differentiation where we are having an important focus.
Duarte: For us, it's very, very important to develop new channels, either for information or for transactions. We want to offer our customers additional options, and in terms of mobile banking, we are designing our solutions specifically for the device – the cell phone – on which they will be used. We estimate that about 5% of our payment transactions volumes are now flowing through mobile phones, and the demographic is, perhaps surprisingly, middle class, people in the 30-45 age range.

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