Looking ahead in the Nordic region

Alexander Malaket moderates a roundtable discussion held in Stockholm and hosted by BNY Mellon Treasury Services (EMEA).

The session, focusing on trade finance in the Nordic region, was hosted by Colin Robertson, managing director, treasury services EMEA, and by Fiona McBride, vice president, market development at BNY Mellon, and was once again moderated by Alexander Malaket, president of OPUS Advisory Services International.

Roundtable participants included Carl Nyquist, vice president and senior advisor, trade finance at Swedbank, Patrik Zekkar, head of trade finance, Sweden at SEB, as well as Urs Kern, senior manager, EMEA, SWIFT, based in Frankfurt.

In the context of a broad discussion around current developments in trade, cash and transaction banking, the group explored numerous themes, in line with previous roundtables hosted by BNY Mellon, but with a decidedly Nordic focus – and with the broad additional perspective provided by Kern from SWIFT, which enabled the group to explore some global developments, and to review the state of the Trade Services Utility (TSU), as well as the value proposition behind SWIFT's new Bank Payment Obligation (BPO).

Sweden, and to some extent, the wider Scandinavian region, has been able to draw upon experiences related to a local/regional economic crisis in the early 1990's, to assist in managing through the present global crisis, but the scope of challenges under conditions now was acknowledged by all participants to be more serious and far more damaging, and more transformational.

Even as the financial sector works to respond to the crisis and to move beyond it, certain trends shaping the industry globally are apparent in Europe and the Nordic region as well.

Transaction banking in the Nordic region is, as in other markets, evolving to integrate numerous offerings including trade finance, cash management, foreign exchange and other related areas, into a cohesive value proposition. At the same time, senior bank executives in Scandinavia are actively looking for ways to innovate, and for opportunities to reshape their value to commercial and corporate clients.

Patrik Zekkar at SEB reflected the focus on innovation, noting: "From our perspective, we had already decided in 2006 that trade finance is a payment, and, a payment is a payment is a payment. We decided to set aside traditional boundaries, to see how we could do a 'cash management-isation' of trade finance, and then adding on the risk element." Zekkar continues: "The next step in my mind is to stop talking about products and start talking about clients' processes – to go from a product-centric approach to a client-centric view."

Transaction banking, particularly trade finance, has been undergoing evolution at an unprecedented pace over several years, and the global crisis has brought into focus, the importance – and commercial value – of fundamentals. Even as the industry refocuses on the basics in a number of areas, and even as commercial clients look with greater attention, to the fundamentals of effective treasury management, currents of innovation continue to flow.

Urs Kern, from his unique position at SWIFT, observes: "In our discussions with corporates, we are noticing the increasing focus on information – on reconciliation of data across a variety of transactions. Everything is about reconciliation, from payments and invoices to hedging transactions, from trade and cash management to working capital, domestically or internationally. Corporate executives are interested in solutions that offer a good view of data and information, across the global supply chain."

Zekkar at SEB concurrs, noting: "I read some-➤

➤thing recently that suggested that information is almost as valuable as money – and indeed, that is consistent with our view: information is the enabler that will allow us to balance operational excellence/standardisation with the need to be customer-oriented."

In addition to evolutions in the value proposition and changes in emphasis – such as the new focus on data and information, the roundtable highlighted significant focus on a change in approach to the bank/client relationship. Acknowledging the historical context – that banks have been product-oriented and often adopted a 'take it or leave it' approach with clients, participants explored a significant change in the commercial environment, at the level of the relationship.

Carl Nyquist at Swedbank notes: "If we look back 10 years ago, the banks came up with a solution for the companies and said, this is what we have, take it or leave it – that doesn't work today. Today, you work very, very closely with our corporate clients, to find solutions that solve their problems."

The notion of solving problems and being solution-oriented attracted significant focus over the course of the roundtable event. Zekkar adds a view from SEB, commenting: "Flexibility is not just tailoring and offering a customer what they want. It is, one, finding out the customer's real pain because they don't always know what the pain is, and then two, giving them the solution – and the solution can be standardised."

Remaining focused on the importance of client-orientation, the group considered operating models and delivery modes in financial services, which might be described as 'modular' in nature: standardised elements of an overall solution, that are combined in a manner which allows a financial services provider to tailor its solutions to clients across segments and across global markets.

Colin Robertson at BNY Mellon sums up, noting: "The challenge for the banks, is to have that expertise in being able to have that dialogue with the customers, that allows an understanding of their needs. It's a shift away from that operational element, to the relationship."

The industry, globally, has recognised the momentum of change and has seen the value of its offering in transaction banking reconfirmed through the global crisis. At the same time, the demands of internationally focused clients are increasing, as many financial institutions are facing requirements to retrench, reduce international exposure, and to 'do more with less' in terms of investments, product development and technology.

At SEB, one approach, described by Zekkar, has been to: "…take away the ownership of the product. We have the methodology to work with clients to find out the information and a benchmark which they can measure. We created a product management division which can do off-the-shelf products – so the sales teams focus on the corporates and on supply chain. The model is still evolving."

There are several models developing, in response to current dynamics in the market. Kern from SWIFT notes: "I know a bank that built two different solutions for two different types of customers – one for clients which are not yet so advanced, and require a product solution, and one for corporate customers who are

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more advanced, where the approach is less product focused and more solution focused – less about letters of credit and more about financing and supply chain."

In addition to observing that the implications differ for global banks versus mid-tier or smaller local institutions, the roundtable participants considered a core element of the BNY Mellon white paper, (*Integrating treasury solutions in Asia and Europe: A roadmap for success*, published September 2009) namely the notion of collaboration and the types of models that might be effective under the prevalent market conditions and in the medium-term.

Nyquist observes: "Swedbank is a very local bank, with presence in the Scandinavian countries and Baltic areas. We do have a branch in Shanghai, but that branch is mainly for our import clients, and the bank's relationships with important customers and banks. We have a very good and long relationship with BNY Mellon – we work together in various fields, and that works perfectly well. We don't have to invent the wheel as BNY Mellon already have it, so from time to time, we use the wheels of BNY Mellon." Zekkar adds: "There is a lot of dimension in this global and local approach. I think you need to have one global offer as a bank, even as you work to balance operational excellence with customer service. I don't believe in fragmented offers."

The partnership model appears to have worked well in Sweden and perhaps more broadly in Scandinavia over the last several years, given that some executives discuss openly and with pride, their receptiveness to outsourcing arrangements, and others point to the logic and value of leveraging the capabilities of partner institutions. Perhaps one indication of the success of such models is an apparent receptiveness in the market to look ahead to leading edge-developments in the business of transaction banking, to assess – challenging traditional models and service offerings – how to best position for the future.

Zekkar at SEB notes: "Senior stakeholders have been very supportive, …we have a fragmented IT structure which we are now updating, and we are getting support in terms of making the investment because we can show significant efficiency gains and cost savings through investment."

The Nordic region, as is the case in many regions across the world of transaction banking, is being impacted by entry of non-bank providers in the payments space as well as in other aspects of transaction banking. Bankers here are certainly observing trends in terms of online payment providers, or the entry and the increasing re-engagement of hedge funds in emerging markets trade finance. The familiar tension between proven and trusted instruments, and the imperative to innovate, characterized certain aspects of the discussion.

Kern at SWIFT observes: "Online payments and technology-driven solutions are certainly the future. I'm personally always a defender of traditional instruments: my thesis is that the letter of credit will remain in the future also in the market; it will be an important instrument, but nevertheless we will have some new payment instruments on the internet, and it is certainly a challenge for all of us – banks, corporates and SWIFT – to decide how to respond."

Robertson at BNY Mellon perhaps captured one dimension of the tension between existing solutions and emerging models. Robertson notes: "There is always a danger – and we've seen numerous examples of this – solutions looking for a problem; it's coming back to knowing what the needs are, and to the relationship, and then finding a solution. Sometimes it's the basics that can really improve the end-to-end solution." Fiona McBride of BNY Mellon, agrees: "One example is what we were exploring about payments. The customer doesn't really care as long as it's safe, secure and straight-through. It's a payment – it doesn't matter what currency it is or where it's going."

Shifting focus to the local and regional markets, as was done throughout the roundtable, participants heard from Nyquist that the Swedish banking environment is fairly advanced in terms of payments. States Nyquist: "When it comes to normal, clean payments, I would say that today's banking is way ahead when it comes to that kind of payment. Our clients, from individuals to large corporates, make straight-through payments on the internet, affordably. When it comes to trade finance however, we are out on very thin ice, as the demand for new financial help will put pressure on the banks to develop more efficient solutions, both on the IT side, and of a more hands-on nature. Supply chain financing and a simple form of factoring without recourse, are two examples."

For Zekkar at SEB, an important element – perhaps even a constraint – on forward-momentum in some areas relates to the legal framework around certain types of transactions. Noted Zekkar, "I think we can do a lot – the imagination is the only limit we have, except for the legal framework. I always run into issues related to the legal framework. Letters of credit is an excellent environment to work under. If we can find more environments like that, it will be much easier to innovate and evolve." Kern at SWIFT also noted the importance of context and framework, observing: "We are back to market practices. What has been achieved with the letter of credit, with collections, with guarantees, is that we have very strong market practices which are accepted worldwide.

We are working at the moment in this area of market practice in relation to the TSU Bank Payment Obligation (BPO) – an instrument similar to the letter of credit, but driven by data rather than documents – which our member banks asked us to develop."

Innovation in the Nordic region?

The Swedish tax authority – renowned for its tax-collecting ability – adapted quickly, when a Swedish taxpayer telephoned recently to report a (new and precedent-setting) taxable profit on the sale of virtual property on an Internet-based virtual community. In that same way, the business of transaction banking faces an imperative to adapt and respond to the changing – increasingly sophisticated – requirements of corporate clients.

Partnership. Innovation. Evolution. The Nordic region is looking forward. ■