

Weathering the financial storm

Companies have long relied on their commercial banks for core banking services to help them manage their working capital. In today's difficult economic climate, the global transaction banks play a crucial role bringing commercial banks, corporations, public sector entities and their global supply chains together to weather the storm and help stimulate recovery, believes Citi's Francesco Vanni d'Archirafi. **WRITER** *Michael Imeson*



Francesco Vanni d'Archirafi, Global Head of Treasury & Trade Solutions at Citi

There is renewed vigour to the pursuit of operating efficiencies across the financial supply chain: accelerating centralisation, automation and outsourcing initiatives that will improve bottom line performance; implementing enterprise-wide analytical tools that will facilitate the tightening of risk management; committing to creative financing solutions that will help maintain financial stability across their physical supply chain; and embracing innovative solutions that help preserve business competitiveness.

One of the world's largest relationship-focused global banks is Citicorp, and its transaction services business continues to be a core business for the group with a track record of five consecutive years of revenue growth as of the end of 2008. Francesco Vanni d'Archirafi, who manages its industry-leading Treasury and Trade Solutions business across 104 countries, comments on the industry's resurgence as a pragmatic priority as storm clouds gather: "Transaction services banks that have the technology, scale, global network and proven experience are well placed to help their clients to shorten their cash conversion cycle, extract liquidity from their working capital, mitigate risks across their business network, inject liquidity into their global supply chain and drive productivity gains across their organisation. We have the means to help them harness the power within to drive bottom line performance."

FROM CASH MANAGEMENT TO CASH OPTIMISATION

Where banks were once focused on delivering effective liquidity management and providing their corporate clients with the information to monitor balances across multiple banks, currencies and geographies, the need today goes well beyond providing visibility of cash. "Corporations require tools to control exposures across

their financial supply chain – cash balances, receivables, suppliers, distributors, inventory, bank relationships and credit providers – and to free up liquidity trapped within the organisation's financial arteries to fund their activities, hence reducing their reliance on capital markets," says Mr Vanni d'Archirafi.

ENSURING GLOBAL SUPPLY CHAIN STABILITY

All large companies have intricate supply and distribution networks spanning the globe, which play a central role in their success. Yet these suppliers and distributors are often smaller-sized enterprises that are hit harder and faster by the credit crunch. Supply chain stability is becoming imperative for large companies as the failure of a key synapse in the chain would jeopardise their ability to operate effectively. "Our trade teams are working with clients to strike that balance between optimising their own working capital position and ensuring the health of their main counterparties," says Mr Vanni d'Archirafi. "We are also seeing greater bank collaboration on the trade front as we work together to establish supplier financing programmes for our clients."

ACCELERATING INNOVATION IN THE EYE OF THE STORM

Crisis can be a powerful catalyst for change, and today's economic and financial storm is no exception.

Mobile commerce and prepaid cards are two areas which marry the quest for operating efficiency with innovation, while extending transaction banks' participation across their clients' value chain. In Poland, Citi has launched a direct debit confirmation service via SMS text messaging to lift consumer acceptance of direct debit, the most efficient form of collections for companies. Citi's prepaid cards business is also growing exponentially as its clients use this

convenient payment instrument to replace cheques as the means to pay transient employees, deliver immediate incentives to a third-party sales force, and offer consumer incentives and loyalty rewards to their customers.

Citi is also committed to the seamless integration of its cash and trade solutions. It recently launched 'Procure To Pay' (P2P), an end-to-end supply chain management solution that combines supplier finance with online invoicing and payment capabilities.

At its core, online banking provides the conduit through which flows the lifeblood of a transaction bank. Citi's commitment to sustain its investment into this channel remains steadfast. A research, development and innovation centre was set up in Dublin last year, with assistance from an Irish Government grant of €35m (\$46.4m), to work with key clients and leading technology partners on a number of next-generation capabilities, which take secure, online transaction banking to the next level.

"Innovation in information, analytics, connectivity and technology will continue to drive our business growth and differentiate Citi from our competitors," says Mr Vanni d'Archirafi. "We are continuing to invest in new capabilities, such as electronic bank account management, which improve the security and efficiency of account opening, transaction authorisation, and enterprise-wide cash flow analytics that help our clients make timely decisions in managing the efficiency of their treasury."

Shared service centres may no longer be the preserve of the largest global companies. Smaller companies, which operate a geographically distributed organisation, will regard centralisation as both a challenge and a priority as operating efficiency becomes an imperative. The packaging and migration of processing functions to lower-cost locations or outsourcing to third-party

specialist providers are becoming attractive alternatives to reduce operating costs. "In an environment of diminishing discretionary investment, the key is to embrace initiatives that deliver immediate short-term gains for the organisation," says Mr Vanni d'Archirafi. "We have been involved in the establishment and support of payment factories and shared-service environments for many corporate and public sector clients around the world and our clients are looking to us for guidance in setting new benchmarks for success."

BANK COLLABORATION

Many banks have rediscovered the importance of their transaction banking business as an anchor of stability, contributing steady annuity revenue streams, generating core deposits from cash management, making relatively low use of scarce capital and delivering high return on equity. However, this is a business that requires sustained investment in technology and infrastructure, and a presence in the countries where their clients do business.


"WE HAVE THE MEANS TO HELP (OUR CLIENTS) HARNESS THE POWER WITHIN TO DRIVE BOTTOM LINE PERFORMANCE"

Infrastructure and product development costs are enormous, and this is driven by fierce competition, new and old, and by the obligation to keep pace with regulatory requirements and industry change.

As banks face great pressure on profitability in 2009, the decision to build, buy or borrow through collaboration will be a strategic consideration in transforming their operating model. Indeed, the collaborative route may be an increasingly attractive option, and a number of banks are already powered by Citi today. "A partnership model can provide real benefits for both parties," says Mr Vanni d'Archirafi. "The commercial bank entering into a partnership arrangement – with Citi in this instance – will gain access to market-ready infrastructure, product capabilities, a global network as well as technical and regulatory expertise that will transform it into a global service provider within a relatively short period of time. We would benefit from the additional flows and scale through an indirect participation in the small- to mid-market corporate customer base that we are not geared to access and service directly ourselves."

THE YEAR AHEAD

The quest for efficiency and optimisation will define the year ahead. Corporations need to find further working capital efficiencies and ensure the financial stability of their global supply chain. Embedded partnerships may be core to many banks' future development strategies as they concentrate their efforts on their core competencies.

"Our clients are facing challenging times, but it is my belief that the current crisis can be viewed positively as a catalyst for change," concludes Mr Vanni d'Archirafi. "We stand strong, well resourced and fully committed to helping our clients drive performance and enable their success as we weather the storm together. And when our clients win, we win." 

This is the first in a series of *Fresh Perspectives*, sharing forward thinking across global transaction services, published in collaboration with Citi.