

The future direction of treasury and finance

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Nappi: Optimistic that Asia can weather current market challenges

The ongoing challenges the markets have faced recently and their impact on Asia are profound. We continue to see the examples of the global credit problems, which have afflicted financial markets for the past 12 months. Inflation, due to soaring commodity and food prices are a large threat to the global economy. We are seeing a flight back to big capital stocks although the larger trend has been the movement of funds out of the region. From January to May 2008, some US\$18 billion in funds have moved outside of Asia.

We remain very optimistic that Asia will weather these current market challenges, because the long-term trends that have underpinned its growth remain strong. They include, among other things, increasing intra-Asia trade volumes, an expanding corporate sector, and healthy government finances.

Let us look at some of these trends in more detail and their implications to the treasury and finance arena.

First, investment flows in the region remain strong as intra-Asia trade is expanding. We are witnessing not only an expansion of intra-Asian trade flows, but also seeing investment flows within the region remain strong, irrespective of the credit crunch

fallout. Approximately 50% of Asia Pacific's total trade volumes are intra-region, and roughly forty intra-Asia trade agreements have either been concluded or are under negotiation in Asia, signifying the strategic focus of corporates in Asia Pacific remains on growth. This is resulting in more sophisticated transaction banking services and a need from treasurers for investment banking and other financing services to drive the bottom line.

Although Asia's resiliency compared to the recent downturns US and Europe does not represent a decoupling, we do believe that strong trade and investment flows both on an intra- and inter-region basis can mitigate the Asia Pacific region from future slowdowns.

Second, we see the emergence of Asian corporate champions as global leaders. Asian companies are making a significant impact on the global financial and economic landscape. Companies like Tata and Reliance in India, Lenovo and Huawei in China are taking world leadership positions in automobile manufacturing and computers. As of July 2008, China has over 20 companies and India six names in the Fortune 500 list, up significantly from just a few years ago.

There are common factors driving the outward expansion of these companies, such as the ambition to acquire or maintain leading technology, the thirst for resources, the recognition of the need to build and improve distribution and finished products by acquiring established brand names, while also moving up the value chain. Many of these Asian champions have been at the forefront in the growth of M&A activity in Asia Pacific and outbound, which has increased nearly 400% over the past five years.¹

As more Asian companies join the ranks of the world's leading corporates, they are increasingly demanding pan-regional and global solutions across the sphere of transactional and investment banking services.

¹Dealogic AP M&A volumes, 2002 to 2007

This new breed of Asian corporate champions is contributing to our **third trend, which is the creation of wealth** taking place not only in Asia Pacific, but in the Middle East, with oil prices above the US\$100 per barrel mark and no immediate prospects of the price dropping below the US\$100 mark. The rise of Sovereign Wealth Funds with US\$3.3 trillion in assets under management is expected to grow to nearly US\$13 trillion in the not so distant future.

In addition, FDI in the region continues to grow. During 2006-2007, over US\$70 billion came into China, over US\$20 billion into India, and nearly US\$13 billion into Vietnam. Foreign currency reserves in China and Japan have reached US\$1.5 trillion dollar and US\$1 trillion. China has moved into third position behind Japan as the largest economy in the world, surpassing Germany.

The fourth trend is on companies' heightened focus on creating shareholder value. Companies are looking at those activities that are accretive to shareholders and continue to move non-core, non-value adding activities to partners who can provide best-in-class outsourced transaction banking services.

Companies are outsourcing payables, receivables, export document preparation, third party FX, clearing and settlement services to banks as companies look to improve controls.

The growing influence of transaction banking services on shareholder value is also demonstrated through the ongoing shift to shared service centres, as companies look to improve controls, consolidate activities in centres of excellence, increase efficiencies and reduce costs.

This leads to the fifth trend: **the growing need of treasurers to obtain timely access to information.** Because information drives business, it is of paramount importance that clients have timely access to information such as liquidity positions at regional and global levels to help them maximize and control investment optimization decisions. CFOs and treasurers need information on the latest liquidity management techniques so as to take advantage of new opportunities in the market, as well as transparency into the financial supply chain to help them improve working capital and end-to-end treasury management. In a post Sarbanes-Oxley world where the CEO and CFO are personally liable for the integrity of their company's financial statements, having timely and accurate information is critical.

The real issue is how to consolidate, synthesize and present the data so that it is meaningful and actionable. Through TreasuryVision®, Citi's multi-bank data aggregation platform, and our next generation online banking

platform, we're giving our clients the tools to visualize, mobilize and optimize their financial supply chain.

Implications for treasurers

Many companies today continue to look at rationalizing their banking relationships and account structures. Companies are moving from decentralized to regional and global treasury centres, setting up shared service centres and payment factories, with the objective of gaining greater control and increased visibility across all aspects of their operations, investments and debt. The treasurer is able to mobilize excess liquidity and optimize it first by leveraging solutions such as cash concentration, notional or physical pooling, or sweeping techniques within the varied regulatory environment in the Asia Pacific countries and then by applying active investment management to maximize the returns.

Our clients are expecting to receive a more integrated set of services across not only transaction banking, but also linking transaction banking with investment banking, equities, fixed income as well as consumer banking products. At Citi, our objective is to bring together all the businesses into "One Citi" to seamlessly serve all our client segments.

Summary

As our clients' responsibilities grow in scope, markets expand, and transactions become increasingly global, our clients' expectations of transaction banking are evolving and accelerating at an ever-increasing pace. Our clients are looking for ideas, holistic advice, and strategic financing. They are looking to improve supply chain management, end-to-end treasury solutions, connectivity and best-in-class execution.

The growth opportunities in Asia Pacific that accompany the rapid rise and liberalization of regional economies are tremendous. We at Citi are certainly optimistic and continue to invest in the Global Transaction Services business so that we are able to serve our clients to the highest standards. Through our dialogue with clients, we are committed to bringing our clients new perspectives and innovative solutions enabling their success in today's dynamically changing environment.

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