



# The Treasury Landscape in Asia – What's Next?

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**T**he treasury landscape in Asia has evolved significantly in the last 10 years and continues to evolve at a frenetic pace. Banks are constantly introducing new products and services to meet client demands, while regulators are changing the rulebooks, albeit with different objectives. All this complicates the operating environment for the business enterprises looking to tap into the Asia growth story.

A decade ago 'name' and collateralised lending were common practice, banks were providing standard products (requiring clients tailor their demands and processes to meet the solution); and the traditional profit drivers were spreads from providing credit and leveraging opportunities from value dating of funds.

Today's cash management products hardly existed, due to cheap and plentiful liquidity, and management focused on the explosive top-line, with liquidity and risk deemed a side issue.

In 1997 the Asian currency crisis meant that many participants in the treasury arena, governments, financial institutions and particularly business enterprises, got burnt. Since then, easy liquidity has dried up, and credit risks and exposures are evaluated more rigorously. This makes it difficult to find a solution addressing the needs of all participants.

Governments are amending regulations to encourage foreign investment and knowledge transfer while limiting the rate or scale of change to placate the protectionists. Banks are introducing new products and revenue streams to offset declining traditional sources of income, and businesses are looking to tap on globalisation trends to enhance shareholder value.

Banks in Asia face a multitude of challenges. The traditional credit, foreign exchange, money market and trade finance business, which used to be relationship driven, is facing competition as treasurers become more sophisticated and products become commoditised. Pricing an extra 5 basis points for relationship may be acceptable (but getting less so) but 20 basis points is not.

Credit, a traditional primary product and bargaining chip from which banks cross-sell other products, has become an add-on necessity to market fee-based capital neutral liquidity management products. After all, what

bank would not want all the liquidity management business and none of the credit exposure?

The lock-in business from relationship clients and proprietary banking platforms is also under attack from third-party service providers who have identified niches in helping clients identify best prices for homogeneous banking products (e.g. FX and money markets) at minimal cost. If the market prices, trade execution and settlement become transparent to clients irrespective of bank provider, another avenue for relationship driven product profits would be eliminated.

What are the likely developments? Some key trends stand out. Global MNCs have started to award Asia regional cash management mandates to a single bank. Previously such mandates were loosely drafted with opportunities for exceptions by countries due to 'local' considerations. Going forward the mandates will be more formal with few, if any, exceptions and the lead bank (not the local operating entity) will own the relationship with sub-contracted local banks.

The trend towards increasing foreign direct investment, particularly where joint ventures are required as a precondition to market entry, and where local regulations impose non-optimal capital structures, will require innovative solutions involving lawyers, investment bankers and commercial banks to manage the investment cash flows and operating risk. These structures will be constantly tested as the regulations evolve.

Banks will continue to change business models and product offerings under pressures from shareholders, international regulatory requirements (BIS), shrinking traditional income streams, clients with increasing demands and governments with evolving regulations.

The treasury landscape *per se* is not the focal point for change by Asian governments. It forms part of the environment in which trade and investment operates. If inefficiencies or barriers exist, the cost and risk of doing business increases. Will this deter trade and investment in Asia? Very unlikely, given the slower rates of economic growth elsewhere in the world. Change will occur at the same rapid rate while banks and clients continue to adjust their *modus operandi* to the environment, and also work in tandem (and sometimes in competition) to maximise value for their shareholders. □