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J.P.Morgan

Asian banks planning regional expansion along international standards

Banks in the region seeking to become more than just domestic financial institutions are developing strategic partnerships with global banks for cash management, liquidity and trade finance solutions

Raof Abdul Latif
Asia-Pacific financial institutions segment head, J.P. Morgan

The past decade has brought unparalleled growth and opportunity to corporates in Asia, and top Asian banks have increased their regional branch networks over 27% from 2005 to the beginning of 2010. These financial institutions are setting in place ambitious plans to expand their transaction banking footprints, build better relationships with existing clients, and attract new customers by leveraging global best practices.

"Japanese banks have been forerunners in the region in terms of setting up their international franchises for their clients," explains Raof Abdul Latiff, Asia-Pacific financial institutions segment head at J.P. Morgan. "Their original client base comprised Japanese companies, which they followed into new geographies, and then they expanded beyond this because of counterparty involvement in Japan. Today we are seeing this trend revving up, in Southeast Asia and India for instance."

For some banks, establishing branch networks is the first step forward; but for others, creating presence in a new market is first about servicing clients who transact business there. Achieving the end goal can come via strategic partnership with a global bank that can facilitate this expansion and deliver a new level of value to their clients.

When identifying the right partner, financial institutions are selective and specific about their needs. They want a real commitment to their business plans, industry insight, and immediate access to solutions that address the business challenges of today. "Speed-to-market compels many to turn to global banks like J.P. Morgan that have the presence, product and delivery infrastructure and technology, plus depth of expertise to help them quickly implement a best-in-class end-to-end client experience," says Latiff.

A strategic partnership to overcome hurdles

Ronald Rapanot, Asia-Pacific clearing and FX head at J.P. Morgan added, "New regulations on capital requirements for banks are leading many domestic banks to rethink their expansion plans and question whether establishing branches in each location is fiscally wise, or if it is better to do it with a partner."

One Singaporean bank's desire to help clients consolidate cash management processes, streamline payments and receivables transactions led it to partner with J.P. Morgan. With inter-Asia trade flows rising quarter-by-quarter, this Singaporean bank's clients increasingly needed to make and receive payments to and from neighboring countries. If the bank had undergone the process alone, it would have meant establishing new relationships with local banks in each country, learning new file formats, dealing with multiple points of contact and potentially contending with varying levels of service.

Ronald Rapanot
Asia-Pacific clearing and FX head, J.P. Morgan

Instead, by leveraging the local presence, regional knowledge and international standards of J.P. Morgan, the bank can potentially benefit from a single, streamlined process and one way of communicating for all payments, irrespective of the destination country. “The client can use a single account to perform foreign exchange conversion and execute intra-Asia low value payments in multiple currencies,” says Rapanot. “For the bank, this would mean exponential efficiency enhancements for their retail flows.”

The bank’s clients would receive solutions and services delivered on a global platform at international standards, and have all of their cash management and trade finance needs met by their local banking partner.

Taking up the FX challenge

This case highlights one of the most prominent challenges that many corporates—and, in turn, their providers—face: foreign currency transactions. With some currencies freely traded and converted, and others like RMB, KRW and TWD less fungible, establishing a way to clear multiple currencies within the same business day and enhancing visibility over all cash positions is an important step for banks seeking regional capabilities and offerings.

“Engineering greater efficiencies and mitigating risk are some of the critical responses to the business challenges of today,” says Rapanot. “We have built a global, standardized platform in multiple areas of cash management and trade and have significant experience in countries throughout the region with cash payments and collections, with liquidity management services, and clearing and FX solutions that do just that for clients.”

J.P. Morgan’s leadership in the US dollar clearing space, for instance, has made it the largest provider of such solutions. The bank’s work in Malaysia and Indonesia with payment-versus-payment (PvP) is a case in point. The PvP infrastructure set a new clearing standard between the Indonesian rupiah and US dollar. Established by Bank Indonesia and the Hong Kong Monetary Authority, it links both economies’ real time gross settlement systems for simultaneous delivery of these two currencies within the Asia business day. J.P. Morgan was a key participant in the working group of commercial banks brought together by Bank Indonesia to identify the solution to mitigate settlement risk for foreign exchange transactions between Indonesian rupiahs and US dollars and to increase efficiency in the inter-bank market for both currencies.

J.P. Morgan’s USD Clearing solution, Asia Direct, is another innovation geared towards enhancing payment efficiency and liquidity. It enables financial institution clients to offer differentiated and revenue-enhancing payment services to their customers. Asia Direct expedites payments, enabling same-day settlement of US dollar payments within the Asia time zone. Without Asia Direct, USD clearing in Asia takes a minimum of two days to reach the beneficiary, costing businesses valuable opportunities to maximize liquidity.

“Through a consultative approach, we offer domestic banks unique, tailor-made approaches to proven platforms, technology and solutions,” says Latiff. “Local financial institutions looking for a clear alignment of interests want strategic partners that can add value for the long term. As they expand their regional footprint, these relationships will leverage best-in-class services and solutions to help them meet their corporate clients’ cash management and trade financing requirements.”

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