

The Integration of Cash and Trade Becomes a Reality

by Markus Wohlgeschaffen, Head of Global Trade Finance & Services,
Global Transaction Banking, UniCredit

One of the most frequently recurring themes in global transaction banking is the increasing integration of cash management and trade finance products. A recent case study from one of the largest transaction banks in Europe, UniCredit, and a big multinational corporate has now proved that this is not only possible, but also brings tangible benefits to both corporates and financial institutions.

A best practice example for the integration

A client, in this case one of the world's leading manufacturers in the pharma and health care sectors, approached the bank for help in rolling out a supply chain finance programme in Central and Eastern Europe. Despite the broad geographical scope of the project, the real challenge was not the required breadth of banking network, but rather the depth of internal integration that the client asked for.

The multinational client had already mandated UniCredit to manage its entire outbound payment flows in the large and heterogeneous region of Central and Eastern Europe. Thanks to the advanced cash management solutions of the bank, the giant pharma company was able to concentrate its numerous payment streams in one single, highly efficient payment factory in its central treasury, located in continental Europe. The centralised unit aggregates all payment instructions from the European subsidiaries,

validates them and sends them via a unique electronic interface to the bank. The financial institution then transferred the funds to hundreds of suppliers via the local clearing and settlement systems in their respective countries. Having reached a high degree of automation and maximum efficiency in the management of its payables, the corporate requested the bank to add a supply chain

finance functionality to the solution, without interfering with the straight-through process for normal payments.

To realise the customer's requirement the hurdle of achieving the convergence of cash and trade had to be overcome.

An irreversible corporate trend

Initially treated as separate universes by most banks, over time the two product areas had developed sophisticated solutions on parallel paths, without necessarily planning for integration. In the current market environment, however, cash and trade have started to converge under the influence of

In the current market environment, however, cash and trade have started to converge under the influence of both external and internal factors.

Looking at their own internal delivery models, banks have also come to realise that the combination of cash and trade would open up new business opportunities.

both external and internal factors.

Looking at their corporate clients, banks began to realise that modern companies have re-organised their functions, centralised competencies and become much more demanding when it comes to transaction visibility. The objective of this slow but steady company evolution was the optimisation of working capital, whose significance was fully grasped by corporates most recently during the liquidity crises in 2008/2009. Thanks to modern technologies, central treasuries are now able to bring together and digest data that were previously lodged in remote corners of the enterprise, especially those related to trade finance transactions (e.g., letters of credit, receivables discounts, forfaiting) and cash management (e.g., domestic or international payment orders on open account). Gathering all the information on one screen allows companies to monitor much more precisely the level of working capital needed to keep operations afloat during each time frame, thus enabling pro-active decisions on how to invest or request funds.

The trend is still ongoing and most of the enterprises have yet to achieve an adequate level of centralisation; however the process has reached a point of non-return. Nowadays it is not uncommon to look at the organisational charts of large corporations and spot new roles such as 'Working Capital Manager', who is responsible for all the processes and projects that have the aim of improving the firm's working capital position.

The banks' view

Looking at their own internal delivery models, banks have also come to realise that the combination of cash and trade would open up new business opportunities. Old manual and paper-intensive processes for payment

execution or documentary trade have been digitised and automated, making it a quite natural step to consolidate and integrate them in one-stop-shop electronic platforms. The recent changes in the Basel rules for capital requirements gave a significant boost to this process. All products that imply a certain consumption of risk-weighted assets have to face a much tougher capital treatment, and banks are only willing to offer them to clients who also award them a fair share of risk-free, fee-based business - for example cash

management services. This form of cross-selling, which has long been known as an astute sales technique by financial institutions, has recently mutated into a sheer necessity in order to keep client relationships profitable. This makes the convergence of cash and trade a priority for all institutions engaging seriously in the commercial banking arena.

Many layers of integration

As the two product families of 'cash' and 'trade' have been maintained in silos for decades before they started to get closer, their integration is a challenge that all big banks are facing. A sensible convergence strategy has to consider the effects of the integration on three different layers of the product organisations:

- technological layer: this consists of all the back- and front-end applications that banks have been developing for the delivery of their cash management or trade finance services.
- strategy and development layer: this includes the teams of specialists working on

UniCredit

UniCredit is a solid European commercial bank, with leadership positions in Italy, Germany, Austria and Poland and a strong presence in other high-growth CEE countries. We are one of the largest European networks with almost 10,000 branches and more than 35 million active customers.

With approximately 9,500 professionals in nearly 50 countries, Corporate & Investment Banking serves corporate and institutional clients through the largest group of network banks in Western, Central and Eastern Europe. Committed to long-term partnerships with clients across all sectors, our relationship managers and product specialists create tailor-made solutions in a strategic dialogue with our clients and according to the three pillars of our Mission:

- corporate banking and transaction services
- capital markets, structured finance and investment products
- access to Western, Central and Eastern Europe.

Global Transaction Banking

Global Transaction Banking at UniCredit combines the local expertise of over 2,000 professionals with the knowledge and experience of a truly sophisticated global transaction bank. Its diverse and proven set of core competencies in the fields of Cash Management and eBanking, Trade Finance, Supply Chain Finance, Structured Trade & Export Finance and Global Securities Services has won widespread recognition as shown by the many international awards it regularly receives.

the continuous improvement, innovation and marketing of bank products. Here cash and trade have typically relied on dedicated pools of experts, who over time developed an impressive know-how in the respective areas of competence: however interaction with their adjacent product departments was still a long way off.

- commercialisation layer: this refers to the sales force that has been trained with the objective of winning client mandates in the cash management or trade finance areas. Most global banks set up separate sales teams, specialising respectively in trade-related products, e.g. the issuance of L/Cs and guarantees, or in cash-related products, e.g., clearing and cash pooling.

From theory to practice

The majority of banks have work in progress in each of the product layers mentioned above.

In the case study mentioned at the beginning of this article, UniCredit and its client devoted most of their initial efforts to the technological layer. An IT project team was set up to enhance the bank's pan-European payment solution and also enable it to collect the data that were relevant for the supply chain finance business. These data had then to be automatically sorted out of the normal payment workflow and routed to the supply chain finance banking application. After adjusting data formats and fine tuning connections, the client was able to use the existing interface between its payment factory and the bank as one single electronic pipe for the real-time execution of both cash and trade transactions. Payment instructions were generated and sent by the client's ERP system to the bank only once. Based on pre-defined rules, they were then used to trigger plain-vanilla settlement payments or to offer convenient receivables discounting to the suppliers.

The strategy and development layer of the bank was also adapted and moved towards a balanced form of collaboration. Cash and trade product experts today maintain their different specialisations but have learnt how to reach out to each other and co-ordinate major client projects. Budget decisions are now often taken jointly and a common road map is defined to ensure that the product propositions eventually converge into a coherent offering.

The commercialisation layer is the one

where all big financial institutions are still experimenting the most. A few global players like UniCredit have taken the decision to merge their cash and trade sales teams, at least at the leadership level. Individual sales people are still assigned to a specific product area, but the organisational integration pushes them towards drawing consistent sales plans across cash and trade and makes them look more strategically at the overall working capital needs of their clients. This proved a competitive advantage when designing the solution for the multinational pharma client.

Conclusion

The effects of the convergence of cash and trade in the banking world are already visible. Corporate clients are reacting positively to the banks' new holistic approach, encouraging them to continue down the challenging but necessary path of integration. On the other side, financial institutions are already collecting the fruits of their efforts, thanks to the cross-selling opportunities arising from an all-round service proposition. ■

A few global players like UniCredit have taken the decision to merge their cash and trade sales teams, at least at the leadership level.



Markus Wohlgeschaffen
Head of Global Trade Finance & Services,
Global Transaction Banking, UniCredit

Markus Wohlgeschaffen is Head of Global Trade Finance & Services in Global Transaction Banking at UniCredit. He is responsible for the bank's commercial trade finance & services and supply chain finance business.

His area of responsibility comprises the management, innovation, development and implementation of all the traditional commercial trade finance and service products (letters of credit, letters of guarantee, documentary collections, forfaiting) offered by UniCredit worldwide.

The product portfolio includes the most modern e-banking systems for the efficient administration of traditional commercial trade finance products as well as the newest generation of supply chain finance platforms, which currently constitutes the major focus area of growth. In addition, he leads the team that structures and implements trade and supply chain finance transactions/programmes. Finally, he is responsible for the facilitation and structuring of trade-related liquidity and trade service products for financial institutions and corporate customers. This is achieved by the active management of commercial trade assets and of existing credit lines by trade risk selection and transfer via secondary market placements and recourse to other risk takers (e.g., private risk insurers, multilateral development banks, etc.).

Markus represents the UniCredit Group on the Global Trade Industry Council (GTIC) of BAFT-IFSA. He has a diploma in business administration and has been working in the trade finance sector for more than 27 years; previously he was in charge of the trade & payment products of UniCredit Bank AG (formerly HVB) as well as the trade finance activities (commercial as well as mid- and long-term trade finance products) in Japan and Italy of that bank and its predecessor banks.