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# COLLABORATE & CO-OPERATE

## THE IMPORTANCE OF WORKING TOGETHER IN AN INCREASINGLY GLOBAL MARKETPLACE

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The Banker

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**Editor-in-Chief:** Stephen Timewell **tel:** +44 (0)20 7775 6359, **e-mail:** stephen.timewell@ft.com **Editor:** Brian Caplen +44 (0)20 7775 6364, brian.caplen@ft.com **Production Editor:** Richard Gardham +44 (0)20 7775 6367, richard.gardham@ft.com **Technology Editor:** Alan Duerden +44 (0)20 7775 6363, alan.duerden@ft.com **Head of Production:** Denise Macklin +44 (0)20 7775 6557, denise.macklin@ft.com **Art Editor:** Paramjit Virdee +44 (0)20 7775 6535, paramjit.virdee@ft.com **International Sales Manager:** Simon Blackmore +44 (0)20 7775 6332, simon.blackmore@ft.com **Publishing Director:** Angus Cushley +44 (0)20 7775 6354, angus.cushley@ft.com **Marketing Manager:** Tamsin Purchase +44 (0)20 7775 6343, tamsin.purchase@ft.com **Head of Circulation:** Kevin Phillips +44 (0)20 7775 6551, kevin.phillips@ft.com

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# The power of partnerships

**Strategic partnerships with indirect competitors will be a powerful differentiator for those banks that choose to embrace this concept**

Paul Galant

Five core forces – technology, regulation, markets, competition and client needs – are at play in today's global economy, each exerting a profound influence on how businesses across all industries grow. The combination of these forces has created a vast economic environment in which even small, local companies are increasingly looking to do business on a global scale.

As companies face a multitude of changes while adapting to these forces, banks are also challenged by the convergence of these forces as they prepare for their own futures and provide the financial services required by their clients.

Questions arise in the banking industry around the ability to survive in this new environment. How will banks change and adapt to the increasing demands of the marketplace? While global banks have the scale and capital base to develop in line with the market, are they doing so quickly enough and reaching enough customers with their solutions?

## Meeting the challenge

How will local and regional banks change and adapt to the increasing demands arising from regional and global regulation? How will they provide the global services their clients need and are asking of them? Will they be acquired in this age of consolidation? How will they compete by differentiating themselves?

Increasingly, banks of all sizes are turning to strategic partnerships as a way to ensure their offerings remain competitive and so they can provide the best-in-class solutions their clients require. There are many ways to achieve success through partnerships, including strategic acquisitions to enhance capabilities and penetration into targeted lines of business.

## Joint ventures

In addition to acquisitions, three core areas of partnerships that have been particularly productive for Citi are those with technology companies, with clients and with other banks.

Technology is an area in which partnerships are being forged to create superior solutions that can be introduced to the market quickly. In partnerships between banks and technology companies, each partner manages its own core competency, lending credibility, efficiency and expertise to the offering.

As the result of a partnership between Citi and Microsoft, for example, TreasuryVision® was developed to offer clients multi-bank

# "Banks of all sizes are turning to strategic partnerships"

information aggregation, enterprise-wide visibility of global financial information and analytic capabilities.

The partnership approach works between banks and their corporate clients as well. One of the best ways to develop innovative solutions occurs when a client has a specific need the bank can help solve. This ensures that the bank is developing a capability or product that is completely client-needs focused, and it sometimes even opens up new lines of distribution for the bank.

## Global transfers

In the mobile banking space, for example, Citi is partnering within the telecommunications sector to provide global remittances and other banking services via mobile phones. In this case, a co-branded offering works well for all participants.

The telecommunications company leverages the bank's banking and payments infrastructure while the bank leverages the mobile phone capabilities of the telecommunications company. Both expand their core capabilities into new markets, providing a new service.

Partnerships between one financial institution and another – a concept I call "partnertition" because it blends the notions of partnership with competition – is a key strategic decision to expand the business of both partners. Banks can capitalise on the platforms and capabilities of their indirect competitors without having to invest heavily in infrastructure.

At Citi, we sell our platform and capabilities to other banks with which we do not directly compete for clients. This is often seen in markets where we do not have a local presence for middle market and small business and we "white label" our platform and network to another bank to deliver those kinds of capabilities to their customers.

This is a win-win for both banks and the end-customers – we leverage our network and capacity for the benefit of customers we would not be able to reach directly.

Banks constantly have to assess what the market wants and how they can deliver a superior capability in a time frame that is meaningful to their clients. More and more, as technology, regulation, markets, competition and client needs evolve, the best strategic decision is for banks to find partners that can help fulfil their clients' increasing needs. Partnerships will be a powerful differentiator for the banks that choose to embrace this concept. ■

*Paul Galant is chief executive officer of Global Transaction Services at Citi*

# A winning combination

New Zealand's Kiwibank has collaborated with Citi's Global Transaction Services to create winning synergies and prove that the whole really can be greater than the sum of the parts

Michael Imeson

Customers usually assume that the banking services and products they use are entirely developed and provided by their bank. They are, of course, often wrong in this assumption. It is becoming increasingly common for banks to source specialised services and products from another bank and then label and offer them as their own.

Citi's Global Transaction Services (GTS) is a major provider of such white labelled products to other banks – so-called because they are provided unlabelled for other banks to attach their own brand names and logos. GTS provides cash management, trade finance and securities services (clearing, settlement, custody and fund administration) to financial institutions, corporations and governments around the world, in many cases under a white label arrangement.

One such customer is Kiwibank, a wholly-owned subsidiary of New Zealand Post that provides banking services through post offices, ATMs and other outlets. Set up in 2002, it has the biggest bank branch network in New Zealand. It has met its profits targets and now has more than 500,000 customers.

The rationale behind setting up Kiwibank was to create diversified revenue streams to compensate for declining postal revenues, which were being hit by the growth in telephone and internet communications. New Zealand Post's core business – mail collection and delivery – provides an ideal 'bricks and

"When Citi asks why a payment has been delayed, other banks take notice – that in its own right allows us to deliver a better service to our customers" mortar' network to deliver financial services.

However, a problem that all new entrants face is that developing all the necessary systems, platforms and services from scratch can be difficult and expensive.

Although Kiwibank has developed a range of banking services in-house, it chose to align with Citi to provide a number of corporate banking services. It signed an agreement in September 2006 to source international payment and trade finance services from Citi and provide them as its own.

The result is that Kiwibank's customers enjoy a broad range of services including international money transfers (also known as telegraphic transfers), trade finance, foreign currency accounts and forward foreign currency contracts.

The two key elements of the Citi offering are Cross-Border Payment Solutions for Banks, which allows banks to use Citi's processing and infrastructure network; and CitiDirect Online Banking, a web-based electronic banking platform that enables banks to initiate international and domestic payments, view real-time balances and reports and automate accounts reconciliation. Taken together, these two elements are valuable tools for managing cash flows, reducing costs and achieving better use of working capital.

## Beauty parade

Sam Knowles, Kiwibank's chief executive officer, says that time, money and proven operational reliability and efficiency were the reasons for sourcing the services from outside rather than in-house.


**Sam Knowles, Kiwibank**

"Speed to market was a key driver for us, especially delivering the complex foreign currency accounts and trade suite of products," says Mr Knowles.

"There is also real value for a small, independent bank at the bottom of the world in having a large, well-regarded international associate to allow it to box above its weight on the international stage. When Citi asks why a payment has been delayed, other banks take notice – that in its own right allows us to deliver a better service to our customers."

Kiwibank held a beauty parade of five financial providers, and looked at two in depth, including Citi. "Citi was successful because it delivered a broad range of services with a well-specified user interface, CitiDirect," he says.

"It also focused on service level agreements and quality assurance for our main operational calls and has a structured approach to ensure this is delivered. We also reviewed its ability to provide system access to its FX rate engines, which we saw as a critical factor to delivering an improved customer experience," says Mr Knowles.

Implementation was not without its difficulties, but these were easily overcome. "The Citi New Zealand and Asian regional teams have been fantastic advocates for the Kiwibank cause, working across cultures and time-zones to deliver the information and technical assistance required," says Mr Knowles. "When Citi puts its collective global experience to work, it delivers good outcomes."

## Citi keeps its promise

Nigel Dobson, head of cash management for GTS Asia at Citi, agrees that the alliance has saved Kiwibank much time and money and has enabled it to offer more reliable and efficient services to customers than if it had tried to develop its own.

"The alternative for Kiwibank was to build an entire international payments platform through a traditional correspondent banking structure, which would have taken up valuable time and resources," says Mr Dobson.

**Nigel Dobson, Citi Global Transaction Services**

The collaboration between Citi and Kiwibank is ongoing with new services constantly being added. Kiwibank now offers real-time payments through its internet site, using live FX rates. This allows it to offer both retail and business customers the ability to send wires, cheques and automated clearing house payments through its website with real-time FX rates.

"We are working towards offering multi-currency payments online by early next year," says Mr Dobson. "These enhancements put Kiwibank ahead of any other bank in Australasia."

Citi provides similar services to a number of other banks around the world, and this particular agreement is a good example of both parties leading with their strengths. There is a synergy between Kiwibank's broad customer base and distribution strength in New Zealand and Citi's extensive network covering more than 100 countries, international product capabilities and delivery channels. ■

# Infrastructure synergy

**Citi's Global Transaction Services is working closely with pan-European clearing and settlement providers, payments processors as well as payments networks**

Heather McKenzie

Infrastructures such as US central securities depository the Depository Trust & Clearing Corporation (DTCC), European payment processors VocaLINK and Equens as well as payments networks such as Eurogiro are increasingly harnessing the expertise of their bank clients to develop more innovative products and services to meet their clients' needs.

In April this year, DTCC's European subsidiary, EuroCCP, was selected to provide a clearance and settlement solution for Turquoise – the Markets in Financial Instruments Directive (MiFID)-inspired consortium of seven financial institutions formed to develop a new pan-European trading platform.

**Richard R Macek, EuroCCP**

## Settlement agent

Recognising the extensive pan-European securities network operated by Citi's Global Transaction Services, DTCC opted for Citi to serve as EuroCCP's settlement agent. With this combination, EuroCCP is able to provide all clearing, settlement and risk management services to Turquoise.

"As EuroCCP's settlement agent, Citi offers extensive securities operations capabilities across the European markets and beyond," says Richard R Macek, interim CEO at EuroCCP. "Citi's settlement capabilities cover more than 80 markets globally, including all the European markets covered by Turquoise. Citi's established relationships with the European central securities depositories will also ensure local settlement efficiency."

The collaboration with Citi, says Mr Macek, is aimed at providing a competitive and low-cost clearing and settlement option for pan-European trading platforms such as Turquoise.

In working with leading global

financial organisations such as Citi, EuroCCP is able to establish its presence in the European marketplace in a more timely and cost-efficient manner, adds Mr Macek. "By leveraging Citi's capabilities in multi-currency settlement with our expertise in clearing and settlement of securities transactions, EuroCCP is able to deliver a comprehensive post-trade services platform that meets and anticipates the future needs of market participants across Europe."

Establishing a presence in new markets was also a driver for the alliances between Citi and transaction specialist VocaLink. In July this year, Citi became one of the initial 10 banks to work with VocaLink to create a new pan-European euro clearing and settlement system (€CSM). The service provides banks and their clients with Single Euro Payments Area (Sepa) services and taps into the infrastructure of member banks.

## Additional services

In addition to core transaction processing services, the VocaLink €CSM will also offer corporate access services, direct debit mandate management, payment exceptions management, anti-money laundering and US Office of Foreign Assets Control (OFAC) compliance as well as non-Sepa payment processing.

**Marion King, VocaLink**

"The VocaLink €CSM provides a platform to deliver credit transfers and direct debits across the Sepa. What differentiates it in the market is that it also provides the basis for a broad range of innovative payment services," says Marion King, chief executive of VocaLink. "By collaborating with banks such as Citi, we can leverage their extensive network in different geographies and identify opportunities to extend our product offering.

"Sepa requires financial institutions to be able to reach all the euro economies and our banking partners have been carefully selected through their capabilities, reach and knowledge within these markets."

## Broad reach

The €CSM venture has been a further extension of an already established alliance through the development of a low-cost international remittance platform for banks in the UK, Payport. "The sheer breadth of the Citi distribution network means it is an ideal platform on which to build a solution that harnesses opportunities for both parties," says Ms King. "Both parties are able to leverage their core capabilities to the benefit of their customers."

Ms King describes the overall relationship with Citi as an evolution, with the two companies defining opportunities they can harness together. "Our relationship with Citi continues to grow and evolve as we work together to define customer solutions.

"The undoubted scale of Citi, combined with our deep understanding of the payments market, ensures we deliver practical products in a timely way."

**Michael Steinbach, Equens**

Citi has also aligned with another payment processor, Equens. With an annual processing volume of seven billion payments and two billion point-of-sale and ATM transactions, Equens is one of the largest processors in Europe for legacy and Sepa payments.

## Equens tie-up

Citi's branch in Frankfurt, Germany, has outsourced its back-office legacy and Sepa payments processing to Equens. Michael Steinbach, chairman of Equens' board of directors, describes the arrangement as a "win-win".

He adds: "It is important for Equens to work with banks with international capabilities such as Citi because it shows we have a market proposition to provide state-of-the-art services for cards and payments processing."

For Citi's part, it gains increased scale and a wider breath of services by leveraging Equens' processing engine in the German market. Citi is continuing to extend its capabilities by working with Equens, making similar decisions covering payments services in the Netherlands and Belgium.

"Citi's global corporate clients, such as telecoms and insurance companies, have increasingly local needs and aligning with us is an excellent way for Citi to extend its range of services to include broader local capabilities."

Rajesh Mehta, head of payments, Europe, Middle East and Africa at Citi Global Transaction Services, agrees: "By working with VocaLink and Equens, Citi can provide a greater breadth of service for our clients while sharing our international leadership with these networks to improve access and influence the shape of the evolving payments landscape."

## Network consolidation

Beyond payment processors, payment networks are also joining forces with banks to leverage each other's distribution capabilities. An example is Citi's alliance with Eurogiro, a low-value payments network of postal organisations and financial institutions. By working together, Citi and Eurogiro can take their already vast distribution networks to even greater heights.

The agreement brings together Eurogiro's 61 connections in 50 countries across the globe with Citi's existing payment network encompassing over 100 countries and will enable Eurogiro's members to benefit from Citi's distribution capacity and payment offerings, while Citi and its customers will gain access to Eurogiro's unique distribution network and products.

Henrik Parl, managing director of Eurogiro, says: "We are thrilled to be collaborating with Citi. Citi provides Eurogiro with the leading international payments capabilities and cross-border expertise we were looking for in a banking relationship so we can continue to grow our network while providing clients with the greatest choice of solutions at the best price." ■

# New adventures in symbiosis

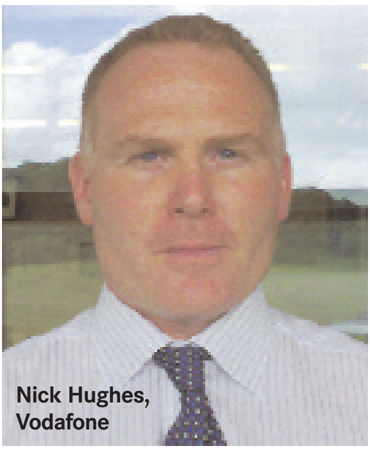
Its ambitions in the mobile remittances space have led Vodafone to partner with Citi to extend the service beyond Kenya to provide international person-to-person mobile payments

Heather McKenzie

Migrant remittance is one of the most important sources of income for many developing countries – the World Bank estimated that the annual worldwide value of remittances in 2006 totalled $268bn. But sending and receiving such payments can be costly and not particularly secure. Enabling money to be transferred internationally from person to person using mobile technology could greatly assist the flow of funds from migrant workers to their families in developing countries.

International mobile telecoms group Vodafone is one of the first mobile telco operators to tap into this potential. In October 2005, it established a pilot project, M-PESA, in Kenya through its local affiliate Safaricom. In February this year, the pilot phase ended and M-PESA was launched as a mobile payment solution aimed at mobile customers who do not have a bank account. Users can put money into their Safaricom account by depositing cash at a local agent, send money to other mobile phone users by SMS even if they are not Safaricom subscribers, withdraw cash at a local agent and buy Safaricom airtime for themselves or other subscribers.

But Vodafone's ambition in the mobile remittances space does not stop at



Nick Hughes, Vodafone

"International remittances could be a real value add to our service"

Kenya. “It became obvious to us that there was a business case for not only person-to-person mobile payments in a single currency, but also for international payments,” says Nick Hughes, head of international mobile payments solutions at Vodafone. “However, once you step outside a single currency, you need a different set of core competencies, specifically around foreign exchange and the compliance issues relating to international fund transfers.”

Citi had been “interested observers” of the Kenya project, says Mr Hughes, and a brainstorming session with the bank made it clear that both parties could provide complementary skills to work on international remittance.

Therefore, at the same time that the M-PESA service went live, Vodafone and Citi’s Global Transaction Services announced a worldwide mobile financial remittance venture. Under the venture, the parties are piloting a Vodafone-branded, mobile-based international money transfer service that will target the global remittance market worldwide.

## Remittance venture

The product will allow the remitter and the beneficiary to choose how money is sent and received from a range of options. The sender can initiate the transfer using either a mobile phone or a secure internet website to give instructions on where to send the funds. The funds will be able to be received in a bank or through the receiver’s mobile phone in the form of a voucher and secure PIN that will enable the receiver to redeem the cash at a wide range of outlets, typically the airtime distribution points operated by the in-country mobile network service provider. For these latter services, the beneficiary of funds does not need to have a bank account, will have a wide range of locations from which to collect the funds and only has to be in possession of a mobile phone that can receive an SMS on any mobile network.

The initiative combines Vodafone’s global reach, brand recognition and operational mobile money transfer service with Citi’s worldwide network, international payments capabilities and existing global remittance solution.

Naveed Sultan, head of Global Transaction Services in Europe, Middle East and Africa at Citi, says it was important to start the venture with a project based on the two organisations’ mutual strengths. “While UK to Kenya may not be the largest remittance corridor, Vodafone is strong in Kenya and Citi has a proven outbound remittance strategy in the UK, which made starting with the UK to Kenya channel a strategic decision. The pilot in Kenya will help us to learn more about remittance behaviour and thus streamline the proposition to take to more markets, such as the higher volume channels that run between the UK and eastern European and Asian markets, such as Poland and India.”

## Channel testing

Mr Hughes agrees that it is important to focus on one channel initially. “We have ring fenced the UK to Kenya channel to test various aspects of the service, such as compliance and the user experience, so we can better understand the business case and gather responses from both the sender and receiver side of the service,” he says. “Once we have learned the lessons from this pilot, we can move on to other remittance channels.”

One of the factors in deciding to collaborate with Citi, says Mr Hughes, is Citi’s ability to reach into many markets very quickly. “Citi is very good at moving funds across the globe and can reach into multiple markets. It can take us into many different territories globally.”

As a mobile network operator, Vodafone is unique in that it has coverage in mature markets and increasingly in emerging markets, says Mr Hughes. The emerging markets in India, Turkey and Africa are important to Vodafone and can

**Naveed Sultan, Citi Global Transaction Services**

# "The pilot in Kenya will help us to learn more about remittance behaviour and streamline the proposition to take to more markets"

be linked with the operator's mature markets in a way that very few other mobile operators can offer, he says.

What Vodafone cannot achieve, however, is the necessary FX and compliance elements of the business. Citi's expertise in these areas enables the solution to be truly global. Moreover, the service requires Vodafone to work with local banks for cash handling solutions, something that "does not faze Citi" and in fact plays to one of Citi's strengths: its existing relationships with financial institutions around the globe.

Mr Sultan says that Citi aims to play a dominant role in the remittance business and has a multiple channel strategy that involves working with banks, employers, money service providers and mobile players. "Vodafone was a provider of choice because they are a truly global mobile operator that has already demonstrated leadership in mobile payments. They have the same ambitions and we speak the same language, making them an ideal ally for us."

For Mr Hughes, international remittances are one of the very few mobile payments products that have global applications. "For us, international remittances could be a real value-add to our service. The alliance with Citi will let us test an innovative product and assess business opportunities in this space," he says. ■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