

Centralising trade

Will Citi's regional processing centre in Penang revolutionise trade finance?

BY Andrew Peck

International trade is a strange beast for most to comprehend at the best of times- and very few truly do. It is one of the most conspicuous yet least understood mechanisms of the global economy. To fully understand the complexity of international trade one needs to consider what happens behind the scenes, much of which is reliant on the global trade finance industry pioneered by international banks. Regardless of their location, banks involved in the international trade arena provide the oil that keeps the wheels in motion, ensuring that complex financing and delivery of goods go off without a hitch, a process which they are centralising more with every day. And it is ideas like the regional processing centre (RPC) that move this process effectively.

The individual trade divisions at a country level remain of paramount importance to any regional trade finance franchise, but the core is changing. In the space of a few years, banks in the region have begun to move further up the trade finance value chain through centralising operations. In the process they have begun to create efficiencies once thought impossible to accomplish under one roof.

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Sure, technology has played a role, helping cut down processing defects and errors on letters of credit (LC) and making previously tedious jobs like document checking more effective and accurate, but it is through the centralisation of processes that the real difference has come.

Starting at the bottom of the chain, from the low level data entry work and evolving to the stage of end-to-end delivery between vendors and suppliers, trade processing hubs are changing the way banks engage in the trade finance business. This is nowhere truer than at Citigroup's regional processing centre (RPC) in Penang, Malaysia, where nothing appears impossible in the trade finance sphere.

“The RPC has reached the level where it can process virtually anything type of transaction under the trade finance banner and then some,” says Sanjay Khanna, the Singapore-based regional head of cash and trade operations for Citi in Asia-Pacific. “This is now a centre that defines how trade finance operations should be

structured and drives how our other branches interface with us in terms of delivery.”

Citi's global transaction services (GTS) is one of the main players driving the idea of a processing centre in Asia, where virtually every step, be it LC issuance, LC advisory or document checking, is handled for a multitude of countries by one site. For two days the Penang RPC opened its doors to FinanceAsia and unveiled the remarkable benefits of centralising trade finance processing.

“Over a period of time, the expertise and knowledge have been institutionalized into a centre like this,” says Sanjeev Behl, regional trade processing head for Asia at Citi in Penang. “We are accountable for the entire process and view the branches as clients.”

Unlike many involved in the space, it did not select India as the location of its Asian regional processing centre, which makes this site even more unique. Going against convention, the bank chose the picturesque Malaysian island of Penang to be its primary hub for processing any link in the trade finance mechanism for the region, as well as increasingly a global client base.

“For Citi, India is an interesting and critical opportunity across multiple global businesses and we do support our trade processing business for the sub-continent, Eastern Europe and increasingly, Africa, but this location gives us more,” says Khanna.

Upon entering the facility, the philosophy of Citi's Penang centre, promising employees and visitors “a centre of excellence,” is firmly established.

However, at the same time one is constantly questioning what constitutes excellence in regional trade processing, which Citi has mastered by employing several distinct but interlinked strategies in Penang. Looking at this site, these appear to be the drivers not only for Citi, but for the regional trade processing segment overall.

SELECTING A LOCATION AND BECOMING PART OF THE COMMUNITY

Although the idea of a regional processing hub for trade finance, cash management and a number of other industries unrelated to finance



Malaysia's West Coast supplies English, Mandarin, Cantonese, Malaysian and even Korean and Japanese speakers

has become a hot and contentious topic in recent years, Citi's Penang facility is not in its infancy.

The bank established this centre in Georgetown, on one of Malaysia's northernmost islands in 1993 as a domestic branch of its trade services business, run out of Hong Kong. One year later, the centre located in the island's commercial hub, was locally incorporated to an operational headquarter (OHQ) and renamed Citigroup Trade Services Malaysia, a name which survives today, and is now the firm's biggest trade processing centre globally.

Fast forward 12 and a half years and the Penang centre is an industry model for centralising the trade finance process for the region and virtually unrecognisable from its initial conception. From an initial base of roughly 50 employees in the early days, the site will host close to 600 trade processing experts by year's end, a slew of stand-alone and interlinked gadgetry and an overwhelming can-do attitude.

The location was chosen for a number of reasons. Firstly, the political stability was a key factor in this decision, as were income drivers like the relatively low cost of setting up shop and the island's strong infrastructure.

Penang also proved an attractive ground for establishing a regional trade processing hub due to the quality of people, on the basis of education and language ability. As opposed to similar centres found

in a handful of Indian cities, Penang provided Citi the opportunity to service a wider amount of clients speaking a broader range of languages than would be found in cities like Mumbai or Chennai.

"Penang gives us English, Mandarin, Cantonese and if push comes to shove, we can find Korean and Japanese speakers," says Khanna. "We can attract people who speak different languages to Penang easily."

As the largest non-Malaysian financial services employer on the island, Citi virtually has its pick of the talent, competing mainly with technology firms like Dell and Intel for staff. However, the success of the centre is tied directly to the quality of its staff, which the bank cherry pick early on in their careers. The majority of the Malaysian staff at the Penang centre are recruited by Citi either directly from university or through workshops held by the bank, in which the community as a whole is directly taught the business of trade finance.

Within the three floors that the centre now occupies, every aspect of the trade process is now covered – from when the order is placed to the supplier to when the delivery is made to the vendor. Each stage is processed by a highly-trained trade finance professional, with no formal trade experience prior to working for Citi.

Typically, this process begins with the LC issuance team, which processes over 350 import LCs per day. From here, the LC advisory is then ready to map the information from import LCs to export LCs,



Georgetown is good source of skilled labour

and vice versa, before moving the transaction onto other teams such as the document checkers and so on.

Seeing this in action, it not surprising that the centre now has 24-hour processing capabilities, but the fact that the majority of staff come from the Penang area is even more astounding. The centre employs over 500 trained personnel – 50% of who are women – a jump from 350 two years back. Of this total, 80% are from the

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surrounding areas. It also serves over 25 countries from the region and from as far a field as South Africa, Finland and the Americas.

As the centre evolves, many of the Penang hires Citi has made have moved up the chain and have begun to take on new roles in the organisation, known as trade service professionals. Piloted in Penang, trade service professionals deal with large trade clients, which require a specialist to ensure that are receiving the best possible service.

“Our trade service professionals are experienced staff who know the operations and know the transaction cycle. All of them worked their way up from the hands-on area of the centre,” says Khanna. “These are the people taking the complex calls, talking about issues like what clauses clients can use to protect their interests and answering questions about counterparties. It is a concept that we have piloted in Penang and going on our success rate here, we’ll roll it out to other countries in the region. The customers who have trade service professionals coverage are doing more business through us.”

DEFINING THE MODEL AND CONTINUALLY EXPANDING IT

Nowadays, calling Citi’s Penang trade facility a business process outsourcing (BPO) centre is a taboo statement that goes against the very conception of the site. The BPO model typically entails customers sending jobs or processes to a given centre and then telling them what to do, which is exactly the opposite of what happens at successful RPCs like Citi’s Penang site.

“As a business, we are really looking to grow our portfolio of products and services,” says Behl. “With every year, there is nothing stopping us from saying to clients that we can take on new businesses.”

From the onset, the model has always centred around the idea of expanding what the RPC can do and growing its role in Citi’s overall trade finance business from back office to business driver. Starting from tasks like document matching and data entry, Citi has consistently expanded the remit of the Penang site, which has comprised taking the processes from individual countries and replicating it, and then moving to end-to-end delivery.

“As a RPC, you need to own the entire trade process and drive quality and efficiency across the entire processing chain,” says Khanna. “At the end of the day, the countries have a huge amount of local country knowledge and the RPC works jointly with them on defining the process.”

In addition to providing services like import LCs, export LCs, transfer LCs and document checking and preparation, the Penang RPC has moved with the demands and sophistication of its client, introducing a slew of complex solutions and products. Standby LCs are now a staple of the centre, as are more complex instruments such as import bills financing, export bills negotiation and direct collections. Additionally, the Penang site, like any other trader processing centre in Asia, has also tackled the growing use of open account dealings between supplier and vendor with an array of products and services done in-house.

Additionally, it is also at the stage where it is implementing processes for new concepts such as trade finance for financial institutions and creating the processes around securitization of trade receivables. The Penang RPC has big plans for its financial institutions business. “We’ll act as an individual agent and take on the risk at a country level,” says Khanna. “The way a transaction is handled in Japan is different to the way a transaction is handled in Europe or elsewhere. By servicing financial institutions from Penang, clients don’t have to recreate these processes and essentially they buy the knowledge from us.”

Another area where the model of owning the trade processing is in full effect is the training it supplies to other branches of Citi’s trade operations. Typically, when new processing staff are hired at a country level in say, China or Vietnam, the Penang RPC will host them for an extended period of time to ensure that they are fully trained in their defined role and up-to-date with the latest



Smooth sailing in Penang

innovations. Once completed, they return to their country branches and bring the latest ideas and efficiencies with them, thus creating a stronger overall model not only in Penang but with the domestic divisions that interface with the RPC daily.

IDENTIFYING THE CHALLENGES

Regardless of the successes generated by the RPC in Penang, Behl is right to point out that it is never entirely smooth sailing. In particular, he recognises that keeping employees both motivated and performing to and beyond potential is an ongoing process that requires both consistent involvement of the management and special techniques.

One of the particular drivers for Behl, like any other leader of a trade processing centre in Asia or around the world, is the minimisation of errors and defects on documents. Although a recent surge in trade volumes would seemingly excuse more staff-related errors, Behl looks more at the actual numbers rather than the percentage of defects in the Penang centre.

“Regardless of the volumes, I want defects to go down and even though the volumes we are processing are consistently going up, I see these errors as absolute number,” he says. “When there is a defect, we go through it item by item and discover what are the root causes and the plans of action going forward. We call this a control meeting,

where we dedicate an hour to talk to individual staff to ensure that we’re getting through to issues. I really believe that this really works for the staff, and although we will always have defects in LCs, they understand what went wrong after these control meetings and the defect numbers drop.”

One of the more innovative methods employed by Behl and his departmental managers to control errors in the processing lifecycle is setting a defect ceiling that drops with every quarter. For example, in one quarter Behl will set a defect ceiling of 150 for the entire centre and regardless of whether this absolute number is crossed or beaten, he will drop it the next quarter, keeping staff on their toes.

“Basically, we play this game every quarter where I set the staff targets on defects,” says Behl. “I split it by department, giving individual ceilings to departments like the document checkers and I update the staff every week of where they are at. That does create a bit of healthy competition but our defect rates keep dropping as a result.”

Outside of defects, one of the main challenges for Khanna and Behl is staff retention and satisfaction. The annual turnover of staff is accepted by Khanna and Behl as a natural part of life, but one that they can counter effectively.

“Our turnover in Penang was below the industry average last year,”



Citi's RPC is feeding off thriving Asian trade

says Khanna. "We have accepted that turnover will happen and we have to find creative ways of ensuring that staff retention is a challenge we can handle."

A technique employed by both Khanna and Behl is shifting staff to different departments both within its Penang centre and offshore to ensure both a building of skill sets and so that they see the bigger picture.

"Maintaining a high quality workforce will always remain one of our priorities," says Behl. "To counter attrition, we like to let the staff see the bigger picture of the organisation. Rather than lose these guys to competition, we often move them into other areas, which encourages other potential leavers to stay on."

Part of this is training staff in new products and improvements to the existing mechanisms at the site. This has the added benefit that staff have a greater input on how value-add services can be properly employed.

"The big processing centres around the world have an advantage wherein if there is a new business we can develop we don't have to hire down the line, as we have the right person and can grow that person," says Behl. "Today, one of the positive challenges we have is to produce experts from the team that are versed in new products and we fortunately never have to look far."

To keep morale high, Behl also encourages active dialogue between all participants on the floor and reward performance and innovation with compensation and individual awards.

SETTING REALISTIC GROWTH GOALS:

Unlike cash management or securities services processing centres, trade finance processing centres work on a longer transaction times and greater manual intervention from staff. There are constant conversations between the bank, its clients and counterparties, thus creating an environment where there is no typical trade transaction. With this in mind, more staff will always be required to process the ongoing surge of Asia and global trade volumes, but there are risks in putting all your eggs in one basket.

"My sense is that we could expand to between 700 and 800 staff in the coming years as clients want us to do more and as our trade volumes grow," says Behl. "Customers will always demand quality and cost efficiencies, but like us they also worry about creating too much of a concentration here. We have already built complementary centres in Shanghai and Kuala Lumpur, and will increasingly leverage these for our future growth capacity."

Having said that, the current staff size is more than able to handle the influx of volumes. Last year, the Penang RPC saw its processing volumes grow by 12% year-on-year and believes that it can easily handle the projected growth of 14%-15% in 2007.

Although every major bank with a trade presence in Asia has an effective approach to processing trade transactions, seeing a trade transaction from its birth to adulthood is a fascinating process. It is through adherence to these defined strategies that has made the bank's Malaysia trade services centre one of the hallmarks of the industry. ■