

Sibos 2009

Globalization Experience Innovation Opportunity Technology Partnership



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Payments Innovation

Revamping the Value Proposition

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Agenda

- Analysis of long-term trends
- Review of market dynamics
- Strategies for growth
- Conclusions

Four Longer Term Trends...One Short Term Crisis...

Globalization



Regulation



Capital

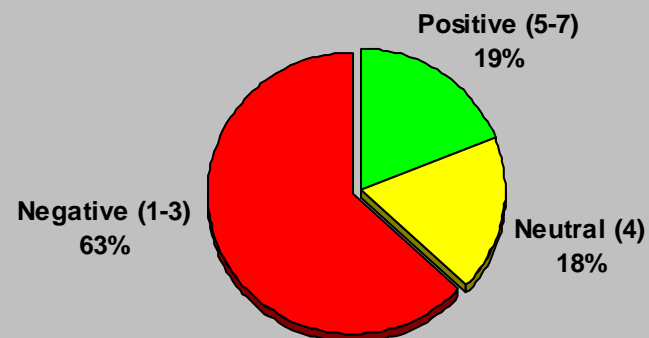


Consolidation



- Globalization of Economies & Client Complexity
- Increasing Regulatory Requirements & Infrastructure Changes
- Heightened Risk Awareness & Constraints on Capital & Liquidity
- Change & Consolidation

How would you rate the current general business environment?



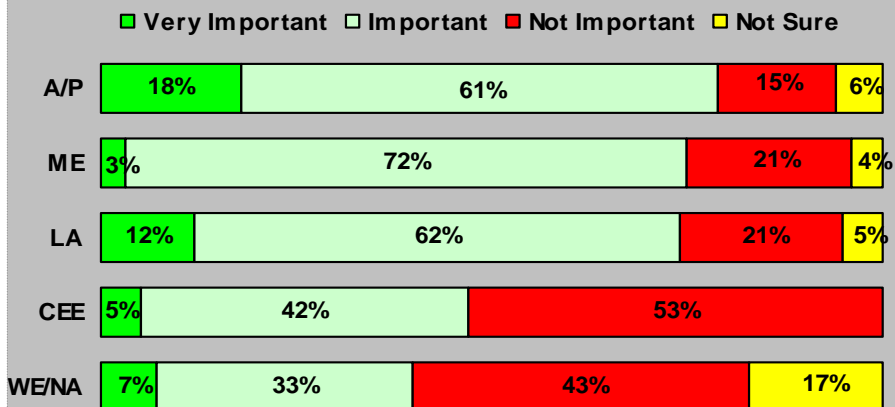
Source: FIMetrix

Survive Now to Thrive Later

Globalization of Economies & Client Complexity

- Client demographics are changing: their needs are growing more sophisticated in response to competitive pressures
- They are increasingly looking outside their traditional market for growth
- Banks must develop competitive products and/or establish operations in new international markets
 - or risk losing clients to the competition who can service their needs
- Development of new products requires expertise and spend of scarce technology funds
- Operating in new and unfamiliar markets is risky
 - Cost of non-compliance with local regulations is severe
 - Lack of scale is an issue

Importance of Being a Multiple Currency Provider

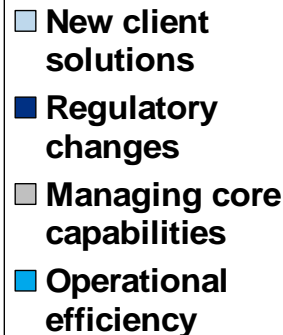
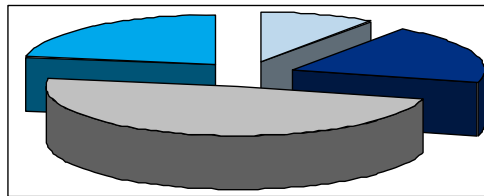


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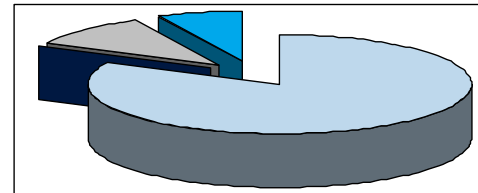
Increasing Regulatory & Infrastructure Requirements

- Regulators want banks to control illegal activity and manage risk [Patriot Act, FATF SR 7, OFAC]
- Regulators are insisting on more stringent COB standards [Resiliency Guidelines]
- There are increased requirements for transparency and corporate governance [Sarbanes Oxley, SAS70]
 - Europe: Single Euro Payments Area (SEPA), Target 2, BIC & IBAN
 - CLS expansion to include new currencies and markets
 - MIFID, Cross-border ACH
- Increased investment in new technology to monitor flows
- Investment in management practices for payment risk, credit risk, operational risk to ensure regulatory compliance
- New market infrastructures have changed the competitive landscape, especially in Europe
- Banks need scale and upgraded technology platforms in order to be a participant

Spend Priorities 2010



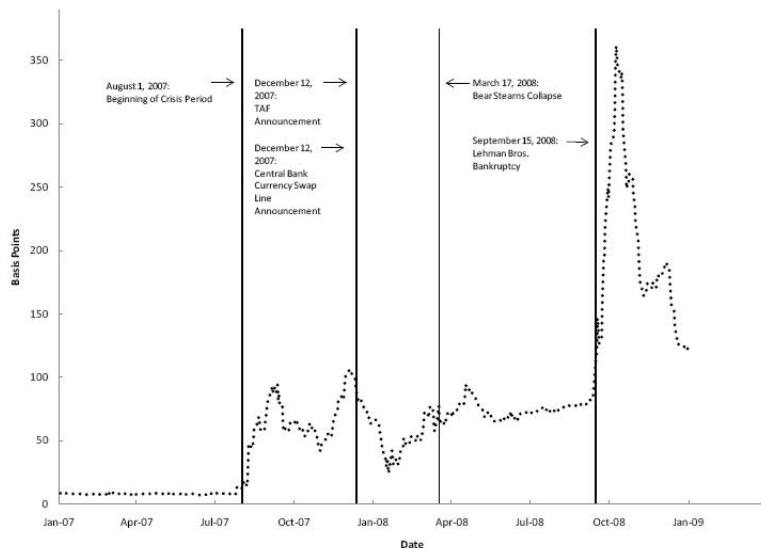
Ideal Spend Priorities 2010



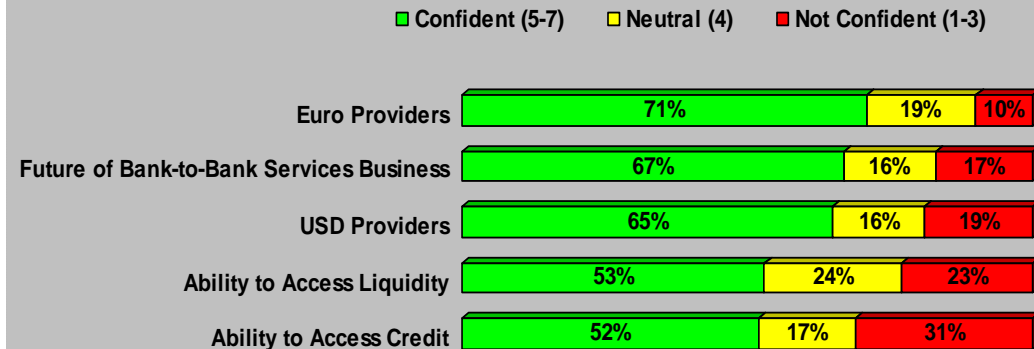
Raising the Bar on Capital & Liquidity

- Libor-OIS spreads demonstrate that Crisis is driven by Liquidity crunch and then by Credit Risk
- Government intervention helped reduce liquidity premiums, but ongoing credit concerns produced re-pricing and re-evaluation of counterparty risk
- Failure of Debt ratings as predictor of safety
- Counterparty Risk evaluation must include assessment of their “Systemic Importance”
- “Fed programs were aimed toward improving both aggregate liquidity, and also the distribution of liquidity”
-- Staff Report no.389, September 2009
- Correspondent Bankers adjusting to new realities around the cost of capital and the multiple demands placed on it
- Good rebates are not enough!
- Must manage liquidity to ensure correct balance between risk and return
- Must maintain adequate and reliable funding sources

Figure 4: LIBOR-OIS Spread, January 2007 –March 2009



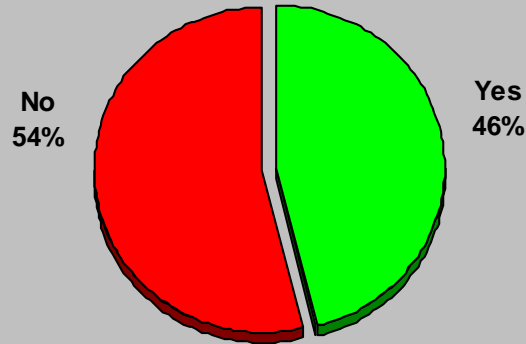
As you start 2009, how would you rate your level of confidence in the items below?



Source: FIMetrix

Market Change and Consolidation

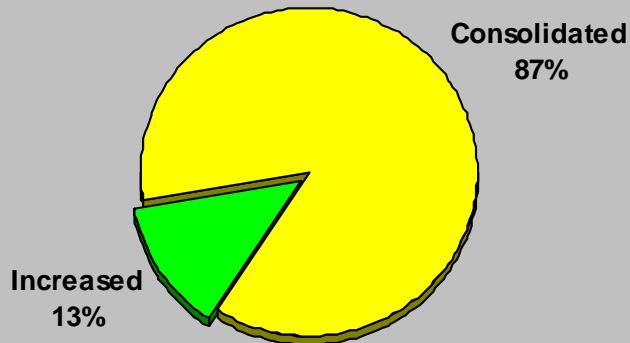
Has your network of correspondent banks changed as a result of the current market?



Source: FIMetrix

- New reality: multiple nostro accounts across multiple currencies are difficult to manage and increase both cost and risk
- Must rationalize down to core group of trusted partners who are positioned for long term
- Commercial Payments products especially under threat
- Correspondent providers must offer a broader, deeper position

How has your network of correspondent banks been affected?



Source: FIMetrix

Products Banks Intend to Add or Replace a Provider

	<u>Average</u>	<u>WE/NA</u>	<u>CEE</u>	<u>ME</u>	<u>LA</u>	<u>A/P</u>
Commercial Payments	81%	80%	70%	81%	79%	96%
Treasury Clearing	49%	41%	66%	40%	44%	55%
Cash Letter	28%	47%	8%	15%	24%	46%
Letter of Credit Reimbursements	22%	13%	4%	49%	23%	21%
Letter of Credit	-	-	23%	-	50%	22%

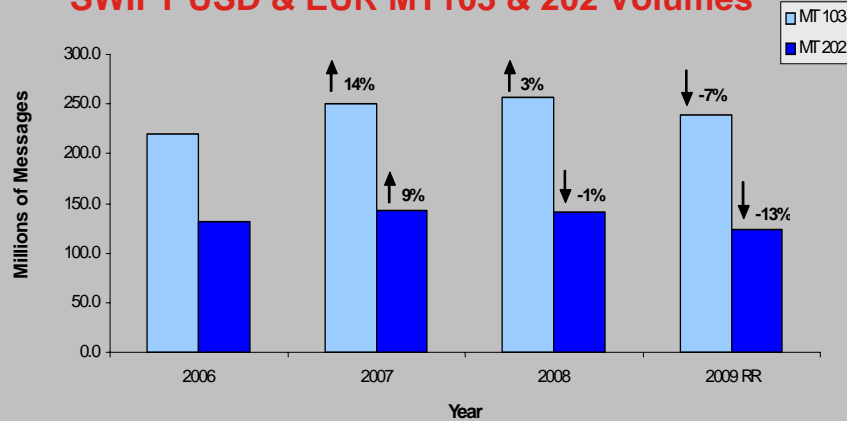
Source: FIMetrix

- Not asked.

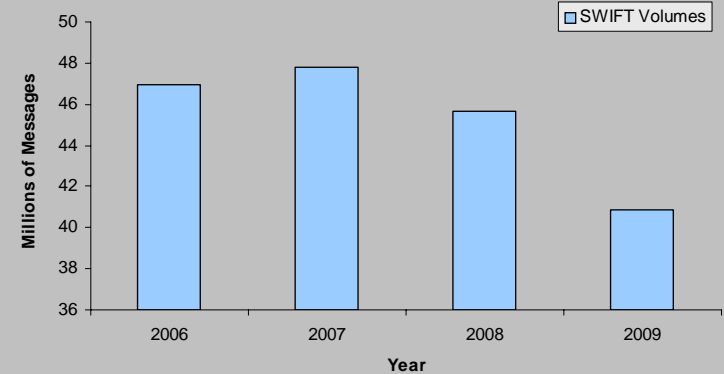
(Percent listed is among banks that intend to add/replace a provider and is a net of USD/Euro.)

Key Drivers of Revenue are Under Siege...

SWIFT USD & EUR MT103 & 202 Volumes



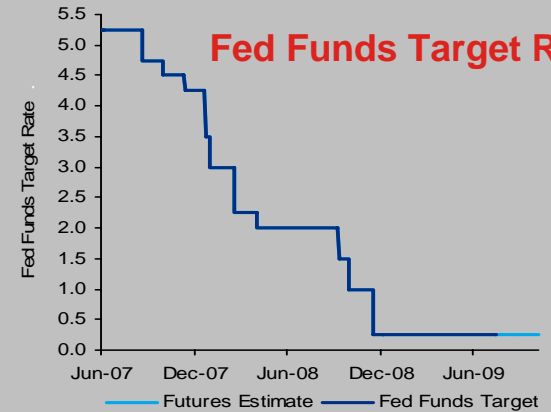
SWIFT Trade Volumes



3 Month LIBOR Rate



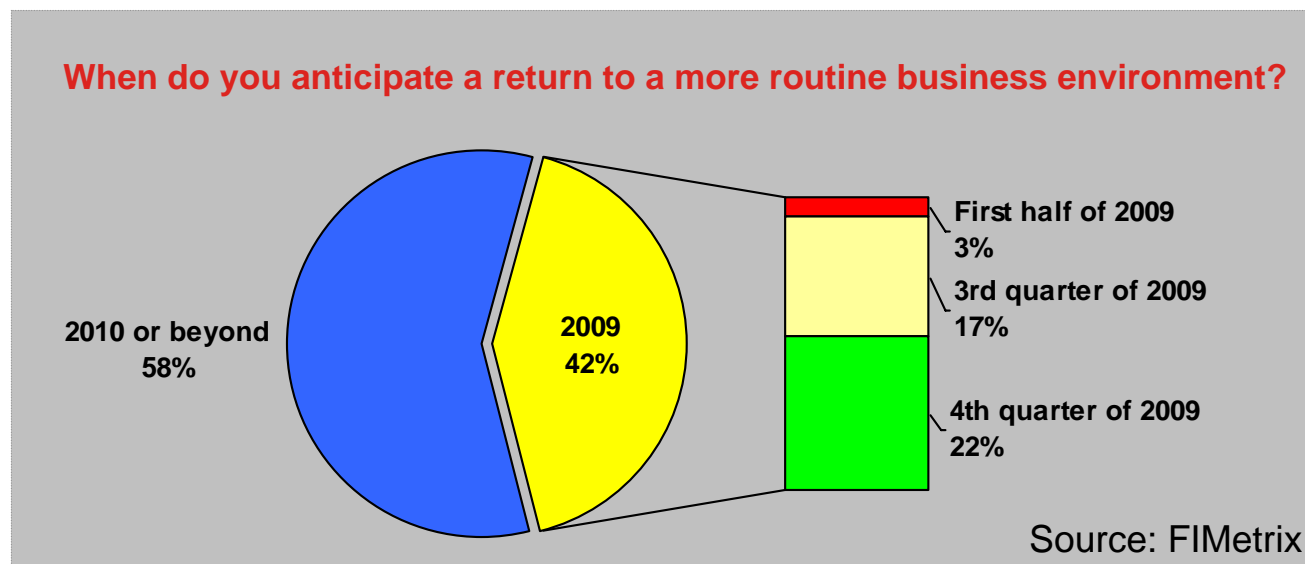
Fed Funds Target Rate



- Short-term is L-shaped
- Build market share now to position for market recovery
- Risk margins are normalizing, but risk appetite remains suppressed

Banking in the Wake of the Crisis: A Summary of Challenges

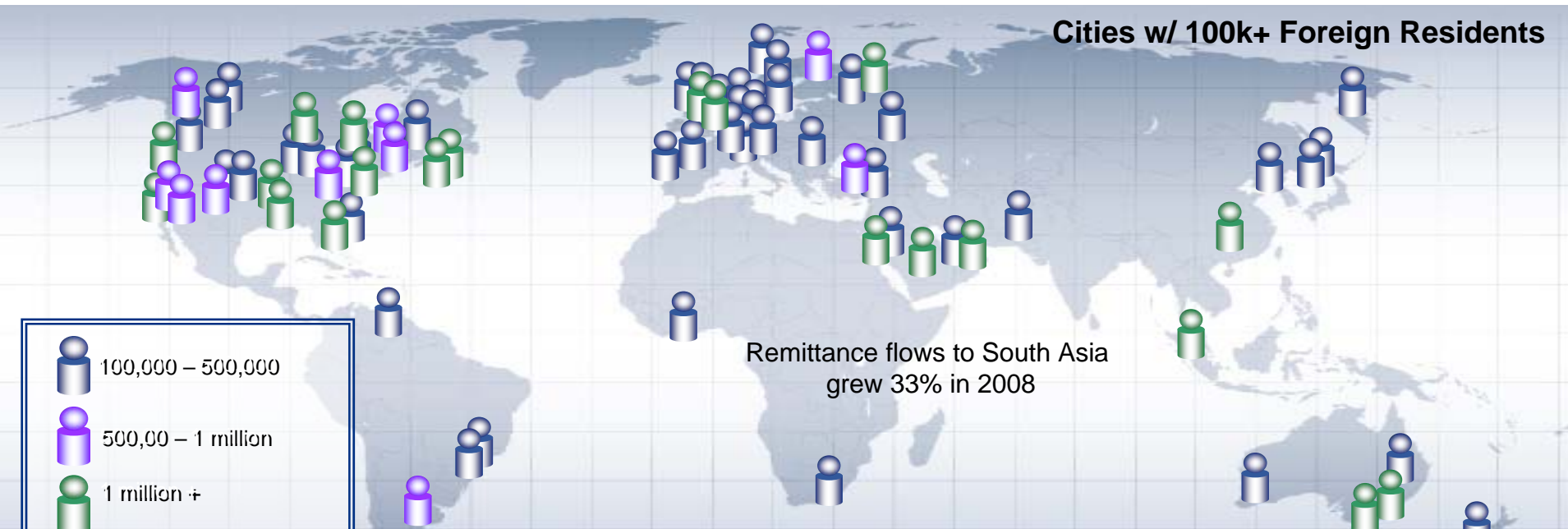
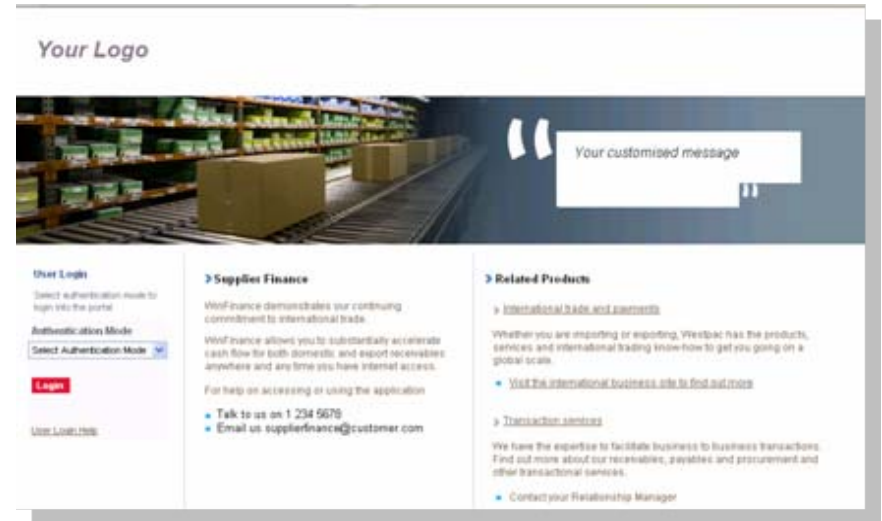
- Globalization is driving convergence of cash & trade business to meet clients' growing needs
- Heightened mandatory regulatory spend crowding out budget available for upgrades to technology and platforms
- Increasing cost of capital and credit, with multiple demands on a scarce resource
- Fluid risk picture, and need to consider level of 'Systemic Importance'
- Consolidation and the changing face of correspondent relationships





Growing the Pie

- **Service New Cross-border Flows**
 - Integrate/link your Trade business
 - Multi-currency payment offerings
- **New Customer Segments**
 - Mobile Payments
 - Remittances
 - Consumer Flows
- **Build Market Share**
 - Value-added services that differentiate you from competitors



Earning More From Each Slice

- **Revenue Maximization**

- Optimizing charging structures like Charge Bene and Full Value Transfer
- Introducing tier or location-based deductions

- **Achieving STP**

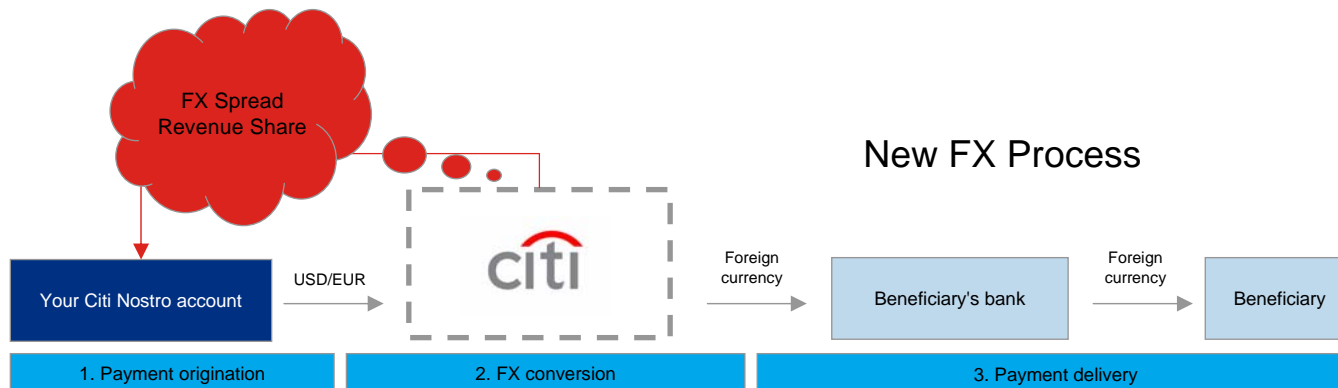
- SWIFTNet Solutions like Cash Reporting & FileAct
- Transparency & control tools
- Access to payment systems and flow management

- **Identify New Profit Pools**

- FX revenue opportunities throughout payment cycle
- Liquidity tools for better return

Client Analysis: Revenue Optimization Sample

	Current Practice		Peer Group				
			Revenue		Optimization Benefit		Total
	Fee	FX	Charge	FX	Charge	FX	
Total USD	\$59,249	\$0	\$186,965	\$251,186	\$137,749	\$251,186	\$388,934
Total Euro	\$81,171	\$0	\$324,346	\$313,644	\$261,531	\$313,644	\$575,175
USD + Euro	\$140,421	\$0	\$511,310	\$564,830	\$399,280	\$564,830	\$964,110



Food for Thought

- Headwinds will continue but our industry will survive
- Drive your business forward by actively sourcing more flows
- Strategic partnering and white labelling add a critical dimension
- Extract more value from the chain
 - Capture FX component
- Utilize latest management tools for:
 - Liquidity position
 - Payment status & efficiencies
 - Risk mitigation
- Learn more...come see us at 1G07!



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