ENHANCING TRANSACTION BANKING BUSINESS IN A TRANSFORMATIVE ERA

*Written by **Amr El Haddad**, Advisor of ITFA Middle East Regional Committee (MERC) and Head of Transaction Banking at National Bank of Kuwait*

“I recall the day when we established a Transaction Banking division at my first employer. It was a sound response to a rising market demand for special product expertise and customized solutions. The payments business was experiencing a new wave of globalization, and banking technology was improving leaps and pounds helping different corporates streamline their flow of cash. At a larger scale, several Middle Eastern countries were reaping the benefits of surges in oil returns and were utilizing their proceeds into modernizing the way they do their business. It was a green field in which building and innovation was unfolding at every turn. Looking at the Middle East market now, I'm impressed by how it has embraced the future, and how it continues to show a strong appetite for further innovation”.

In an era marked by geopolitical turbulence, economic uncertainty, and fierce competition within the banking sector, transaction banking faces a unique set of challenges and consequently opportunities. To thrive, banks must embrace innovative strategies that not only address current issues but also lay the groundwork for long-term growth and resilience. In this article, I will try to suggest few ways to grow transaction banking business.

Visualize a circle!
Both Cash Management and Trade Finance product sets have become overly industrialized, sometimes leading to confusion within the corporate sector. It may be time to remember that Treasurers are primarily concerned with cash flow — they think in terms of the Balance Sheet, payables, and receivables, and strategize on managing cash resources to meet specific targets, not necessarily aligning with how banks organize their departments.

Perhaps it’s time to visualize a circle every time a transaction banker engages with their customer, basically a cash conversion cycle, delving into how products and tailored solutions can help achieve the client's financial goals. It’s not just about the narrative or the packaging of the products, integrating cash management and trade finance products offers substantial value to both corporates and banks. This integration means more streamlined operations, simplifying the complexities of managing liquidity, payments, and trade finance transactions through a unified banking solution ideally on a single platform. Such integration not only boosts operational efficiency but also improves visibility and control over financial flows, which are vital for making informed strategic decisions. For banks, providing an integrated suite of services strengthens client relationships, as corporates often seek a single, reliable contact person - financial partner, if you like - who understands their language and challenges. Moreover, it opens up cross-selling opportunities, enhancing their revenue potential, while offering greater value to corporate clients

Be techie: It's not a pound of silver any longer!
"I want to see my cash flows illustrated and moving on a glass wall like those AI generated videos."

I heard that from a CFO friend who was fascinated about what technology can do to make his life easier. No doubt that demand for advanced payment technologies is at an all-time high, driven by the need for transparency, speed, and reliability in transactions. Banks should, and they surely do, focus on enhancing their payment infrastructures with technologies like Artificial Intelligence, API Connectivity and open Banking, Cloud Computing, Blockchain, and Real-Time Payments ("RTP") which we will expand on here. RTP offers 24/7 real-time processing capabilities, ensuring immediate fund transfers and confirmations utilizing API and Blockchain technologies potentially alongside smart contracts that automatically execute, verify, and enforce the terms of a commercial agreements, reducing the risk of disputes and errors. Isn't that the future - or maybe the present - of liquidity management that you should prioritize?

This technology has been adopted by various companies across industries, leading to a substantial impact on their balance sheets and overall financial health. For example, Retail giants such as Walmart and Amazon have leveraged RTP to streamline supplier payments and manage inventory more efficiently. By reducing the time lag between payment processing and receipt, these companies can better manage their working capital, leading to a more efficient cash conversion cycle (remember to visualize a circle!), and a stronger balance sheet position.

In the banking sector, US giant JPMorgan Chase have introduced real-time payment solutions back in 2021, allowing businesses and consumers to send and receive payments instantly. This has improved the already strong value proposition for corporate clients, who benefit from improved liquidity management and reduced counterparty risk.

Never walk alone!
"You actually may if you felt you have no competition!"

Working with Fintechs, Financial Advisors, Digital Payment Companies, or in short Partnerships, is not very common yet as an institutionalized approach albeit it plays a pivotal role in the transaction banking ecosystem, serving as a key source of revenue and strategic growth. By collaborating with fintech firms, technology providers, and other financial institutions, banks can access innovative technologies and platforms, expanding their service offerings without the need for extensive in-house development, and more importantly can create new revenue streams for both the banks and their partners. These partnerships enable banks to offer cutting-edge solutions in Transaction Banking meeting the evolving needs of corporate clients. Moreover, partnerships often lead to the exploration of new markets and client segments, diversifying revenue streams as previously alluded to. They also foster a culture of innovation within the bank, keeping it at the forefront of the rapidly changing financial services landscape. Ultimately, strategic partnerships not only enhance the bank's value proposition but also drive revenue growth by delivering more comprehensive and competitive transaction banking services. So…never…walk…alone!

And be techie again - We're out of the barter system!
"I once stood on a stage in an event and asked the audience, 'What is the difference between a B/L displayed on a computer screen and the same document after being printed on a paper, adorned with beautiful calligraphy we call signatures, and marked with a single-colour stain we refer to as a stamp? Yet, I still haven't received an answer!"

The debate between digital documents and hard copies has decisively tipped in favor of the digital format, thanks to the Model Law on Electronic Transferable Records ("MLETR") by United Nations Commission on International Trade Law ("UNCITRAL") and the following UK's legal endorsement of digital trade documents. This was a big step which has, and will, profoundly impact international trade finance, particularly for Gulf Cooperation Council ("GCC") countries whose laws are largely derived from the English law, and those along their main trade corridors. These legislative advancements have facilitated a more efficient, secure, and environmentally friendly method for managing trade documents. It has unlocked billions of dollars in economic value by narrowing trade finance gaps and enhancing access to finance, especially for SMEs. The World Economic Forum, for example, has projected that digitization could boost SME financing by $1.1 trillion by next year. Major exporters, importers, and multinational corporations such as Samsung and Apple, as well as various commodity traders involved in international trade operations, stand to gain from more streamlined trade finance processes. The utilization of digital documents, including drafts, could improve their supply chain efficiency and shorten transaction times. Similarly, shipping and logistics companies like Maersk may enjoy enhanced efficiency and reduced paperwork due to the digitization of bills of lading and other trade documents, thereby accelerating their operations and lowering costs related to document management and storage. Large banks, including HSBC and Standard Chartered, have invested in developing digital platforms and forge new partnerships with fintechs possessing the requisite technologies to meet the evolving demands of corporate customers transitioning to digital Trade Finance instruments. The industry dynamics are undergoing a substantial shift, presenting ample opportunities for early adopters among corporates and banks ready to embrace the change.

Conclusion

The journey of transaction banking from its traditional roots to a digitally-driven future underscores the sector's adaptability and forward-thinking approach. By embracing digital documents, real-time payments and other digital payments solutions, and strategic partnerships, transaction banks are not only responding to current market demands but are also positioning themselves for long-term success in an increasingly digital world.