Opening up new revenue streams

FX4Cash, the new cross-currency payment solution from Deutsche Bank, addresses some of the problems faced by financial institutions making regular lower-value cross-currency payments for their clients. Tim Merrell and Rita Saverino of Deutsche Bank's global transaction banking and global markets divisions, respectively, discuss the new product

Tim Merrell

Rita Saverino

"We have invested in building a new payments and messaging infrastructure from the bottom up"

"Corporates are now demanding better tools to manage their working capital and liquidity"

Q What is the thinking behind the new product?

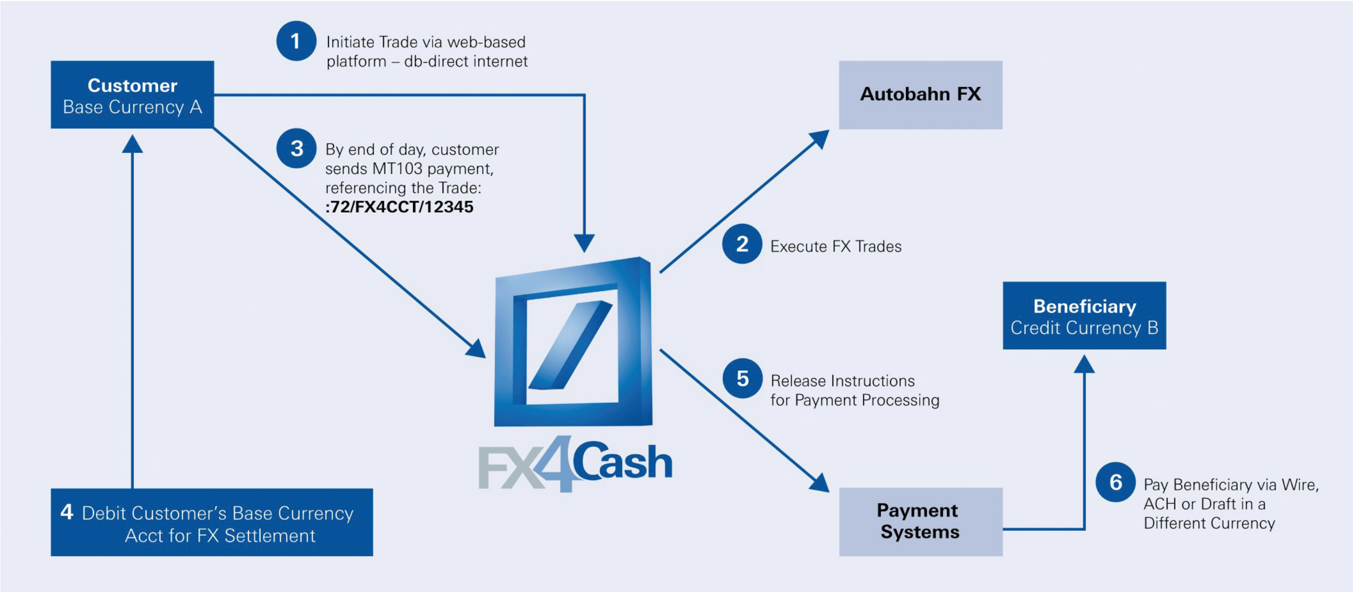
Tim Merrell: FX4Cash was designed to address the problems that many institutions face in making lower-value cross-currency payments for their clients. These issues include rate transparency, processing costs, currency reach and opportunity loss. As these types of transactions traditionally have both a payment and a foreign exchange element, we formed a joint venture between Global Transaction Banking (GTB) – my own area – and Global Markets (GM) with the goal of developing world class FX payment solutions for our clients.

Rita Saverino: Indeed, the practice of handling the payment and foreign exchange elements of these types of transactions separately is one of the reasons why they can cause such a headache for corporates and the financial institutions working on their behalf. By bringing together expertise from both GM and GTB, we have developed an end-to-end solution that should not only save time and money for many, but could also open up new revenue streams for some banks.

Q So what is each division of the bank bringing to the table with this new product?

RS: At Global Markets we maintain Deutsche Bank's proprietary foreign exchange trading platform, autobahnFX. It allows us to seek the best rates from 18 funding currencies into over 75 local currencies and we have leveraged this ability to be able to offer the same market-leading rates to our clients making cross-currency transactions.

How does FX4Cash work?



TM: Aside from the wealth of operational experience at Global Transaction Banking, we have invested considerably over recent years in building a new payments and messaging infrastructure from the bottom up. This allowed us to more easily link our state-of-the-art platform for FX4Cash to our leading capabilities in payments processing.

Q You mentioned difficulties currently faced by institutions making generally lower-value cross-currency transactions. Could you expand on these?

RS: I think there are several types of difficulties. A lot of the problems come as a result of the foreign exchange element of the transaction being treated separately, ie: as a post-payment factor. For example, following much current practice, a payment will be processed and then foreign exchange information provided in order for the client to make the necessary reconciliations.

This can lead to a lack of transparency and the feeling – on the part of the instructing body – that the rate being applied is somewhat arbitrary.

Corporates and other institutions are now demanding better tools to manage their working capital and liquidity, and – with respect to their cross currency payments – FX4Cash gives them just that.

Clients are provided with information regarding foreign exchange rates at the start of a business day or during the day at the points at which the rates are being applied. In this respect, our approach could also mitigate any potential reputational issues that could arise from a perceived lack of transparency.

TM: By giving corporate clients equal access to these two elements of the transaction, we are reducing the number of bank interactions they have to make, potentially reducing the fees they incur. And from the point of view of financial institutions, partnering with Deutsche Bank for FX4Cash allows them to mitigate some of the difficulties they may be facing with ageing payments infrastructure. Much of this infrastructure is based on technology that is several decades old and many of these ageing systems were not designed to accommodate the volumes or regulatory challenges they now face.

I view the potential for these legacy systems failing as a significant operational risk for the banks involved. This will leave many institutions with some difficult choices, especially given that the current climate is likely to be even more restrictive around internal investments. Certainly, partnering with Deutsche Bank to offer services such as these provides a solution to institutions facing these types of problems.

Q And what about the potential for opening up new revenue streams?

TM: Most banks are seeking to offset the combined impact of ageing legacy infrastructure, a challenging regulatory environment, costly nostro account relationships and compressing payment margins. When we think of the three revenue streams from payments – fees, float, FX spread – it's likely that spreads get the least attention.

By partnering with Deutsche Bank and FX4Cash, banks have more choice and more ways to realise new revenue opportunities from the foreign exchange spreads on their cross-currency payments.

This is the second in a series of two articles sponsored by Deutsche Bank