A global alternative

Banking clubs are an efficient, cost-effective method for foreign cash management.

By Michel Cardinal

YOUR COMPANY HAS DECIDED TO SET UP OR EXPAND OPERATIONS in a foreign country. Now you're facing an important question: How to handle your organization's cash management abroad?

The answer used to be relatively straightforward: Simply outsource your company's foreign cash management to a global network bank that provides service in the country where your company will be trading.

But there's another option: Use the services of an international banking club to deal directly with a local foreign bank.

International banking clubs are affiliated banks in different countries that provide agreed-upon services to each other and to each other's clients. Depending on the agreement between affiliates, banking clubs can streamline and cut the costs of your international cash management and dispense with the need for intermediary or overlay banking services in your home country.

Banking clubs are becoming important players in the world financial arena. As globalization continues apace and trade barriers continue to fall, international financial barriers are also being lifted. Many large national banks, wary of the growing influence of the global banks, are banding together to protect their home markets.

At the same time, competition among banks for corporate international cash management accounts is heating up, fuelled by the steady rise in cross-border trade. This is good news for companies expanding abroad because it means there is more choice and more banks vying for their business. Where once they were obliged to deal with a handful of global network service providers, now companies have a reasonable alternative – international banking clubs.

Not all banking clubs are alike, however. They can vary in the type and standard of services offered. The simplest clubs are limited to the cross-border provision of payment services. For example, a Canadian bank will have an agreement with various local banks in foreign countries to receive and process its payments abroad. But this type of arrangement is rarely sufficient to satisfy the banking needs of a company doing business internationally.

Of far greater interest are reciprocal banking clubs. They provide a much broader range of core services and can establish full banking relationships for a company in the countries where it does business. Two of the leading reciprocal banking clubs are Connector, set up in 1996, and IBOS, established in 1991, and among the world's largest, with 15 member banks including Scotiabank in Canada.

The suite of services that reciprocal club members agree to exchange can include arranging for bank introductions and account openings; handling queries, credit approvals and processing times; and developing customized value-added services.

One of the key advantages of these alliances is that they give you direct access to the services of a local bank and its branch network. For example, Scotiabank clients doing business in Italy can use the bank's Italian affiliate and fellow IBOS member, Sanpaolo IMI and its nearly 1,300 branches, to transfer funds, pay suppliers, manage payroll and more.

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Not only does this type of ready-made banking infrastructure give a company more control over its foreign cash and liquidity, it also makes it possible to set up operations in a variety of locations and makes regional expansion easier. The company enjoys the best of all worlds – access to a nearby local branch, for its day-to-day banking needs and the convenience of its employees, and widespread branch coverage, for more far-reaching business activities.

Not surprisingly, banking clubs are becoming popular alternatives to large global banks that cannot always offer the same flexibility and scope of service. Instead of providing direct access to foreign banking infrastructures as banking clubs do, many global banks provide what is known as overlay services. They serve as intermediaries, procuring cash management structures from foreign banks on behalf of clients. Their clients, meanwhile, have no direct contact with the foreign bank. Instead, they deal exclusively with the global bank's branch office abroad. One of the major drawbacks with this arrangement is that another layer is added to the cash management process, which can reduce efficiency and drive up banking costs.

"Banking clubs provide a company with a solid international cash management structure from the ground up which can easily be expanded and modified to meet the company's changing needs," says Gerry McCardle, Director of Marketing and Product Development for IBOS. "In contrast, with overlay services no real structure is put in place. It's like building a house and starting on the roof before you've completed the foundation."

As part of their service agreements, banking clubs generally set strict standards for their members. Connector, for example, has developed detailed service standards for virtually all of its cash management procedures including account opening, interest rate conditions, payment processing, account and transaction reporting, customer support, etc.

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IBOS requires its affiliates to meet guaranteed service levels in three key areas: commercial arrangements, such as account openings, credit support and cash pooling; transactional processes such as balance reporting, the crediting of funds and payment deadlines; and customer support. To ensure compliance, each IBOS member has a Dedicated Business Service Unit (DBSU) that acts as a single point of contact with other IBOS banks. IBOS also has a central association office to oversee its network and help maintain standards.

Measures such as these provide two important benefits to companies that deal with banking clubs. First, they are assured of the highest level of service, no matter which member bank they use. Second, they enjoy the convenience of being able to obtain services at all the affiliates via a single gateway. For example, Scotiabank's clients can set up foreign accounts at any of the 15 IBOS member banks through Scotiabank's Global Banking Unit.

When banking clubs first began, one of the major challenges they faced was increasing their membership to provide adequate international coverage. But with the on-going globalization of the world economy this is becoming less of an obstacle; a growing number of new members are coming into the fold. Now, the more immediate challenge the clubs face is to deliver uniform pricing structures and performance levels across all member banks. In this area, too, impressive gains are being made.

Increasingly, banking clubs are proving to be reliable and cost-effective providers of international cash management solutions. If present trends continue, they are certain to give the global banks a run for their money.

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