

## Foreign Exchange

### *Does Trade Finance originate FX business for banks?*

Foreign exchange (FX) has been a market “hot spot” over the past 12 months. Major banks have beefed up their FX teams, propositions and marketing campaigns while specialist providers, such as Custom House, OzForex and Currencies Direct target the SME and Micro Business segments in which Travelex has gained strong traction. The go to market approach of these boutique FX providers is based around speed, simplicity and competitive pricing, a proposition which resonates with the needs of smaller businesses typically engaging Spot FX and little else (uptake of FX derivatives is currently extremely low as few small businesses have implemented currency hedging strategies).

For the banks, on the other hand, FX is one product among a larger portfolio that needs to be deployed into their customer base as cost efficiently and effectively as possible. The fact that banks have large, leveragable customer bases to begin with should give them the upper hand when it comes to selling FX services – and indeed they do have the lion’s share of the market – but the consistently deteriorating wallet share, and gradual market share gains by monoline players in Spot FX in particular, illustrates the challenge they face to make these customers “stickier”. In doing so questions arise such as: Do smaller FX customers need to be relationship managed? To what extent can FX be bundled into a bank’s offering to a customer or successfully cross sold?

On the face of it, FX and Trade would appear to be natural bedfellows with FX transaction flow being originated from the Trade relationship. As a result, looking to cross sell FX services into Trade customers is a strategy that several players have ratcheted up recently. To gauge how successful this is proving – and to what extent customers even recognise the correlation between the two product groups – East & Partners took a look at the cross sell being achieved by banks, extracting data from our core Corporate, Commercial, SME and Micro Business research programs.

### **Smaller companies offer greater Trade-FX cross sell opportunity, but...**

The analysis shows that market wide, just 38 percent of Trade customers engage FX from a common provider. The level of cross sell increases as the customers become smaller with just 20 percent of

the Top 500 using the same provider for Trade and FX compared with 77 percent of Micro Business customers. This reflects the relative levels of sophistication of customers: a Top 500 company may have a dozen different providers and their FX is typically panel banked; whereas SMEs and Micro Businesses tend to have more holistic banking relationships (although this is starting to change as smaller businesses begin to cherry pick best of breed products, with FX being a good example of this).

We see an almost perfect graduation of this pattern across customer size segments; 37 percent of Commercial companies and 45 percent of SMEs use the same provider for Trade and FX. Essentially, the analysis shows the larger the company, the less chance a bank has of cross selling FX into Trade customers. But of course, the flip side of this is that very few smaller companies use Trade services in the first place. Only five percent of Micro Businesses and 26 percent of SMEs currently engage Trade Finance. Uptake of Spot FX is considerably higher in these segments with some 82 percent of SMEs and 65 percent of Micro Businesses using Spot FX.

So although the ability to cross sell is higher among smaller businesses, there is less opportunity to cross sell it in the first place given such modest proportions of these businesses have Trade needs at all. And with monoline FX providers taking market share in Spot FX, reflected by deteriorating wallet share across all FX products, the challenge for multi-service providers to retain FX customers and ensure they are profitable is apparent.

Indeed, there may be an argument for banks to take an almost monoline approach to deploying Spot FX in the Micro Business and SME segments and removing it from the relationship packaging most are currently tabling with customers and prospects.

Figure 1

#### *The Trade—Spot FX Cross Sell Nexus*

	% Using Trade	% Using Spot FX	% of Trade Customers with same FX Provider
Corporate	79	100	20
Commercial	65	83	37
SME	25	82	45
Micro	5	65	77
TOTAL	27	76	38