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Expert Q&A

Transaction Banking Business Flourishes Despite Global Economic Difficulties

Everyone in business is grappling with the fallout from the global economic crisis, but none more so than financial services professionals and the corporate and institutional financial managers they serve. To find out how the crisis is impacting transaction banking for Deutsche Bank and its clients, *TreasuryPulse* interviewed Werner Steinmueller, Managing Director and Head of Global Transaction Banking (GTB). The following is a summary of that discussion:

To what extent have the economic events of 2007 and 2008 caused you to re-evaluate your transaction banking portfolio of products and services?

Steinmueller: Although 2008 was challenging for many aspects of banking, transaction banking has proven to be particularly resilient. While organic growth is a priority, acquisitions, where and when appropriate, are being considered as part of our strategy in GTB.

We expect many of the trends already present — such as an emphasis on efficiencies in the financial supply chain and increased centralisation and automation of the treasury function — to persist. These trends have been prominent for quite a while and the current global economic situation is causing them to accelerate as corporates seek to generate cost savings and efficiencies wherever possible.

Which areas of the business do you feel provide the greatest untapped value to corporate and institutional clients?

Steinmueller: Looking ahead, we expect the emphasis on transaction banking to continue as other sources of liquidity come under pressure and clients focus on actively managing their liquidity and working capital position. Clients need to work with their key banking partners to ensure that maximum cost savings and efficiencies can be achieved from all areas.

Traditional sources of corporate liquidity may remain under duress for some time to come, and this will mean techniques such as supplier finance — which can leverage competitive advantage to yield savings for a corporate and its trading partners — will really begin to come into their own.

Do corporate and institutional customers have a clear idea of what they want in a crisis/post-crisis environment?

Steinmueller: Corporates and financial institutions are requiring services that optimise the entire value chain. Risk and liquidity issues have dominated, and clients have increasingly turned to transaction banking solutions in areas that define our business — relationships, efficiency, transparency, tailored structured solutions and risk management. Additionally, clients are becoming more concerned about the financial integrity of their banking partners and counterparties. As a result, certain banks such as Deutsche Bank can expect to benefit from an ongoing flight to quality.

What are the key lessons that you have drawn from recent events that are directly applicable to Deutsche Bank Global Transaction Banking?

Steinmueller: While many investment banks will certainly emerge from the crisis tainted by their involvements in subprime securities, transaction banking practitioners have remained largely above criticism. Transaction banking is currently benefiting from a resurgence, producing relatively stable and low-risk revenue streams for many banks. Resilient and advanced technology is helping to weather challenging market situations like we had in the second half of 2008.

Despite the market downturn, Deutsche Bank's Global Transaction Banking saw continued strong growth in 2008. We would encourage corporate treasurers to raise the visibility of all their transactions — possibly through centralising and standardising processes — in order to monitor their exposures more closely. This recommendation pertains to all periods, not just times of economic uncertainty. Corporate as well as institutional clients will also need to carefully select their group of banking partners.

How will the credit crunch impact your investment in technology?

Steinmueller: Providers such as Deutsche Bank that made adequate internal investments in products and systems before the crisis struck will benefit. For example, looking at the Single Euro Payments Area (SEPA) initiative, ramp-up with regard to SEPA credit transfers is not complete. We are seeing in the market that many banks are trying to avoid huge investments and are using conversion services to move from legacy formats to the new SEPA formats. This will not be possible for SEPA direct debits, and the investment required will increase the need for many financial institutions to look to a scale provider whose platforms and services can be leveraged.

Deutsche Bank continues targeted investment in partner bank solutions on the financial institutions side. Few banks can match our scale, network reach and technological capabilities. As a result, many clients are selecting Deutsche Bank as their consolidator of choice.

Technology remains one of the key success factors for cash management in the transaction banking sector, and this is where Deutsche Bank differentiates itself. Over the past year, we've increased our investment in technology and innovative products on a global level while continuing to focus on ongoing enhancements of local client services. At the same time, many competitors in the market have been cutting back on investment.