



# SWIFT Business Forums 2008

## China report

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### China contacts

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### Fast facts

#### Shanghai

18 June

Delegates: 111

#### Beijing

20 June

Delegates: 215

#### SWIFT partners:

- AT&T
- Automated Systems Limited
- BCS Information Systems
- BT Infonet
- City Networks
- Decillion
- NCSI
- SIDE International
- SmartStream

#### Traffic:

- 622,781,628 messages (YTD 2008)
- Average daily traffic: 15,006,786
- 22.20% growth YTD

**Live customers:** 8,385

## Harmonisation could strengthen China's role in the global financial system

Nowhere is the growing influence of Asia Pacific economies on the global financial system more evident than in China. China's volume of financial transactions has been dramatically increasing in tandem with its rapidly expanding industrial economy. This trend is most evident in the burgeoning securities market. Other contributing factors include the gradual easing of restrictions on trading of the yuan, along with the opening of China's capital markets through cross-border trading under the Qualified Domestic Institutional Investor (QDII) and Qualified Foreign Institutional Investor (QFII) schemes.

The increase in SWIFT financial messages mirrors the growth and development of China's financial system. China rose to 15th in the world for traffic received in Q1, 2008, and 26th in traffic sent, averaging over 15 million messages a day. That alone accounts for over 22 per cent year-on-year growth.

Payment and trade message traffic accounted for 87.5 per cent of total transaction messages. With the increasing importance of QDII, QFII and continued economic growth, transaction volumes look set to soar even further.

Against the backdrop of this dynamic environment, clouded by the recent volatility of global financial markets, a major issue confronting China's financial industry is how to sustain growth and boost competitiveness of its financial market and services to reflect its rising clout?

Could simple, standardised payment systems be implemented to overcome market infrastructure weaknesses and other potential obstacles to cross-border trading? How can financial institutions make the most of the opportunities presented by the QDII and QFII schemes? How can trade-financing and related information flows be modified not only to benefit China's financial sector, but its economy as well?

These were among the key issues at SWIFT Business Forums held in Shanghai on June 18 and Beijing on June 20, attracting more than 320 delegates. The central theme was "Asia-Pacific Market Harmonisation" and industry leaders analysed and discussed wide-ranging issues from market infrastructure and payments to cash management and opportunities for cross-border trade and investment, fund transactions and the development of supply chain financing.





Ian Johnston, Head of the Asia Pacific Region, SWIFT

## Supporting cross-border investment

Yang Shihua, Chief Operating Officer, Bank of China and National Member Group Chairperson, explained SWIFT's rapid development in China both complements and supports the growth of China's economy and financial industry. He also expressed a worthwhile objective: "I hope that one day soon, SWIFT will launch its localised version."

Esmond Lee, Executive Director, Financial Infrastructure Department of the Hong Kong Monetary Authority, outlined Hong Kong's multicurrency payment and settlement infrastructure, and the key role it plays in supporting China's capital needs. "While Hong Kong has benefited from mainland China's financial development, the benefits go both ways," he said.

Testifying to Hong Kong's pivotal role for fund raising by mainland companies, 53 mainland corporations are now dual-listed in both Hong Kong and Shanghai. Mainland-related companies further account for 52 per cent of Hong Kong's entire stock market capitalisation, he noted.

With the attention of both the domestic financial services sector and foreign institutions alike focused on QDII and QFII, the programmes were subjects of lively discussion.



Michael Cheung, Head of China, SWIFT

Evan Goldstein, Executive Director, Worldwide Securities Services, JPMorgan, provided some useful insights on the myriad challenges faced by financial institutions and to take advantage of the opportunities. Fanny Wong, Head of Custody from Bank of China in Hong Kong, explained that cross-border investment in China has some obstacles to overcome. While Asia Pacific markets vary greatly, she agreed that market harmonisation designed to minimise the differences is the key to more efficient transaction settlements.

Alvin Goh, China Sales Head, Securities and Funds Services, Citibank (China) summed-up the challenges of QDII investing as multi-party coordination, such as alignment of operational procedures across multiple parties and time-zones; complex documentation required when entering overseas markets; timely communications and accurate reporting between institutions with differing market practices; volatile markets; and RMB appreciation.

Lisa Robbins, JPMorgan's Managing Director, Treasury Services and Beijing Branch Manager Asia Pacific, predicted that China's rising financial clout could even make the country a key driver of market harmonisation in the region.



Yang Shihua, Chief Operating Officer, Bank of China and the National Member Group Chairperson of SWIFT in China

From HSBC Securities Services, Pamela Yuen, Head of Relationship Management, Asia Pacific, Institutional Fund Services, supported the view that market harmonisation and a unified electronic platform for information and messaging can "help overcome the hurdles to cross-border investment". Randolph Wu, Head of Technology and Operations, China International Fund Management contributed useful views from the back-office operations perspective on what is needed to ease cross-border investment.



Evan Goldstein, Executive Director of Worldwide Securities Services, JPMorgan

Gavin Chan, Senior Vice President of Greater China, Clearstream Hong Kong, cautioned that market volatility combined with regulatory compliance and political requirements are "exerting great pressures" on CSDs and ICSDs. Infrastructure providers have to redefine their positioning and reconsider how they can add value, he suggested. "In the future, ICSD and CSD success will be driven by four factors: 'networked economies' or interoperability; an open architecture approach to business; unique, sustainable, service differentiators, such as asset servicing and collateral management; and a flexible, client-centric culture."

Cash management for securities players also attracted interest. Grace Guo, Deputy Manager, Strategy and Research Department, SSE Infonet presented a strategy to enhance this area, addressing the need for accurate data using SWIFTNet from listed companies more efficiently, reducing report filing time and cost while enabling better reports to address both regulatory and compliance requirements.



Lisa Robins, Managing Director, Treasury Services and Beijing Branch Manager Asia Pacific, JPMorgan

### Building an infrastructure

Harmonisation and standardisation of payment clearing and settlement systems enjoyed elsewhere has not advanced to the same extent in Asia. An added critical need for China is to create an infrastructure to maximise opportunities to fulfil the country's aspirations to invest in external markets, as well as to more effectively support overseas investment into China.

Zha Zhongmin, Senior Vice President and Head of Financial Institutions, Global Product Solutions, at Bank of America outlined three major changes in payment infrastructure and trade finance globally: migration from paper to electronic payments, shift from letters of credit to open accounts, and moving away from proprietary to utility systems.



Wang Guanrong, Deputy Director General, Payment and Settlement Department, The People's Bank of China

Jade Hu, Vice President, Cash Sales Manager, Global Transaction Services at Citigroup, outlined the challenges presented by new forms of payment: "Changing market trends and new payment modes such as mobile and internet payment, and stored value cards, are forcing banks to adapt their payments and trade strategies while anticipating corporate needs. These changes require banks to better integrate services and in turn change their relationships with infrastructure providers. SWIFT also has a new payments service for multinational companies that is gaining popularity as it enables more flexible communication with banks."

In his presentation, Wang Guanrong, Deputy Director General, Payment and Settlement Department from The People's Bank of China provided valuable insights on the development of the payment and clearing system in China, noting that the enhanced "next generation" payment system is under development and scheduled to be operational in 2010.



Full attendance at the business forum

Haster Tang, Head of Payment Systems Operation Division at the Hong Kong Monetary Authority, then shared her view on advancing the regional settlement infrastructure to successfully cope with heavy financial traffic, using as an example Hong Kong's experience in liquidity and risk management under the Real Time Gross Settlement system.

Chen Minghua, Senior Manager, from China Construction Bank presented China's perspective of harmonisation, introducing the bank's foreign exchange clearing system and products.

Participants noted that global standards of automated messaging and transactions are beginning to migrate to XML through ISO 20022, due to more robust features enabling higher productivity. SWIFT was recognised to be a key enabler, especially with the anticipated expansion of trade volumes, and particularly in fund transactions.

Robert J Blair, Executive Director of Core Cash Management at JPMorgan, aptly summarised the case for ISO 20022. "Harmonisation and demand for stronger market infrastructure are driving global standards towards ISO 20022 XML to support funds automation, Exceptions and Investigations and Trade Services Utility."



Our plenary speakers

Elaborating on the subject of Exceptions and Investigations, Mabel Lu, Regional Manager, SWIFT, introduced Exceptions and Investigations, which not only promises to improve operational efficiency, but also reduce business risk and revenue runoff. She noted, for example, that the Agricultural Bank of China is finding Exceptions and Investigations to be an innovation enabling much greater efficiency in processing common payment cases and clearing inquiries.

### High growth in trade and supply chain financing

By volume and value, China is the world's largest exporter, with exports accounting for more than a third of the country's economic growth. Nearly 80 per cent of all trading transactions are now conducted through more convenient and less costly open account trade financing. Banks in China, and indeed around the world, face the challenge of developing new trade finance products for open account transactions as they replace letters of credit and collection as a payment method.

To help banks address this challenge, SWIFT Trade Services Utility was introduced to the China market in April 2007.



Engaging discussions with partners

In examining current developments in trade financing in China, James Jiang, Head of Factoring, Global Trade Services, from Bank of China, believes that by combining Trade Services Utility with existing factoring services, banks can exploit the open account market opportunity, by providing more flexible offerings and value-added services to support domestic trade. He mentioned that Bank of China has already executed transactions through its own implementation of Trade Services Utility. Sebastian Er, Director of Transaction Banking, Standard Chartered, concurred; citing SWIFT Trade Services Utility's added advantage as a centralised matching and workflow engine.

## SWIFT links

- [SWIFT Solutions](#)
- [SWIFT Partners](#)
- [Sibos 2008](#)

Presently, nine Chinese banks including Bank of China, have adopted SWIFT's Trade Services Utility.

### Corporates demanding better service

Corporates are demanding standardised services and channels to advance automation and reduce risk to meet their requirements for cash position information, while striving to advance liquidity management and efficiency of payments and treasury processing. A straight-through processing approach was advocated as a way to address these needs.

Zeng Qi, Deputy General Manager, Payment and Cash Management Department of Industrial and Commercial Bank of China, talked about the development of the cash management function. He noted four factors presently impacting cash management for corporates: cash management among multiple banks supporting transactions; supply chain financing; expediting cash management globally; and the increasing requirement for standardisation of information.

Through corporate access to SWIFT, corporates can more easily interact with multiple banks, enabling more efficient global cash management and collection of up-to-date account information. At the same time, corporates can enjoy better services from banks, while improving audit capability to facilitate regulatory compliance.

Peter Sun, Head of Transaction Banking, Standard Chartered Bank China, added: "By providing a single window with straight-through processing and multi-bank financial messaging services, corporate access to SWIFT can save corporates integration costs and dedicated head count, while providing higher operational efficiency and faster turn-around, delivering tangible returns."

### Upcoming SWIFT business forums in the region

- Mumbai – 18-19 November 2008

More information at the [Events](#) page on [www.swift.com](http://www.swift.com)

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