

US banks

Talent follows the cash into transaction banking

Managing company money has quietly become a major driver of revenue



Financial institutions are increasingly relying on revenues from cash management and trade finance worldwide

YESTERDAY by: **Laura Noonan**

Often obscured by the more glamorous cut and thrust of M&A advisory and equity trading, transaction banking has become the place where investment and corporate banks are increasingly pinning their hopes for the future.

The business of managing cash for companies and providing trade finance has been the biggest driver of revenues for global banks since 2011, when it overtook banks' equities and fixed income divisions, according to data compiled for the FT by Coalition, the industry monitor.

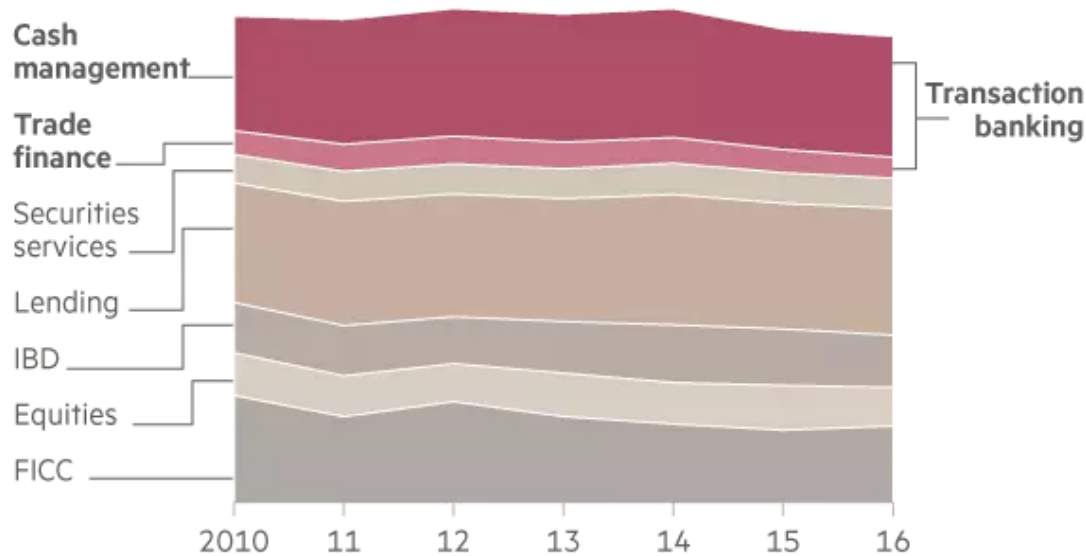
In 2016, banks made \$209bn from transaction banking, compared with the \$172bn made by their trading arms, according to the data, which cover global, regional and local banks. This is almost three times the \$77bn that banks made from advising clients on M&A and helping them raise finance. Transaction services also eclipsed lending revenues for every year since 2011.

“There’s no question, it is becoming more relevant to the future of Citi, as well as in my view for the [future of the] industry,” says Naveed Sultan, global head of treasury and trade solutions at

the US bank, whose business boasts revenues of more than \$8bn a year across almost 100 countries.

Transaction banking is growing in importance

Global corporate & investment banking revenues (\$bn)



Source: Coalition

FT

Investment in transaction services is at odds with [cutbacks](https://www.ft.com/topics/themes/Financial_job_losses) in markets and investment banking. Even at [Deutsche Bank](http://markets.ft.com/data/equities/tearsheet/summary?s=de:DBK), where billions of euros of costs and 9,000 jobs are being cut, €1bn has been earmarked for investment in its global transaction banking division.

“At JPMorgan we are number one in investment banking, we are number one in FICC (fixed income, currencies and commodities), we are number two or three in equities,” says Takis Georgakopoulos, the bank’s global head of treasury services. “The place where we see a lot more upside is the treasury services business.”

Talent is following the money. “I’ve been in transaction banking about 15 years and I’d say we’re at a peak when I get a lot of pretty senior investment banking people who are saying they want to move in,” says Ather Williams, head of global transaction services at [Bank of America Merrill Lynch](http://markets.ft.com/data/equities/tearsheet/summary?s=us:BAC).

“I [recently] had three senior investment bankers come and say to me ‘what can I do in your world?’”

Bankers are also attracted by the stability of transaction banking, which gives some respite from the volatility of earnings in investment banking and trading.

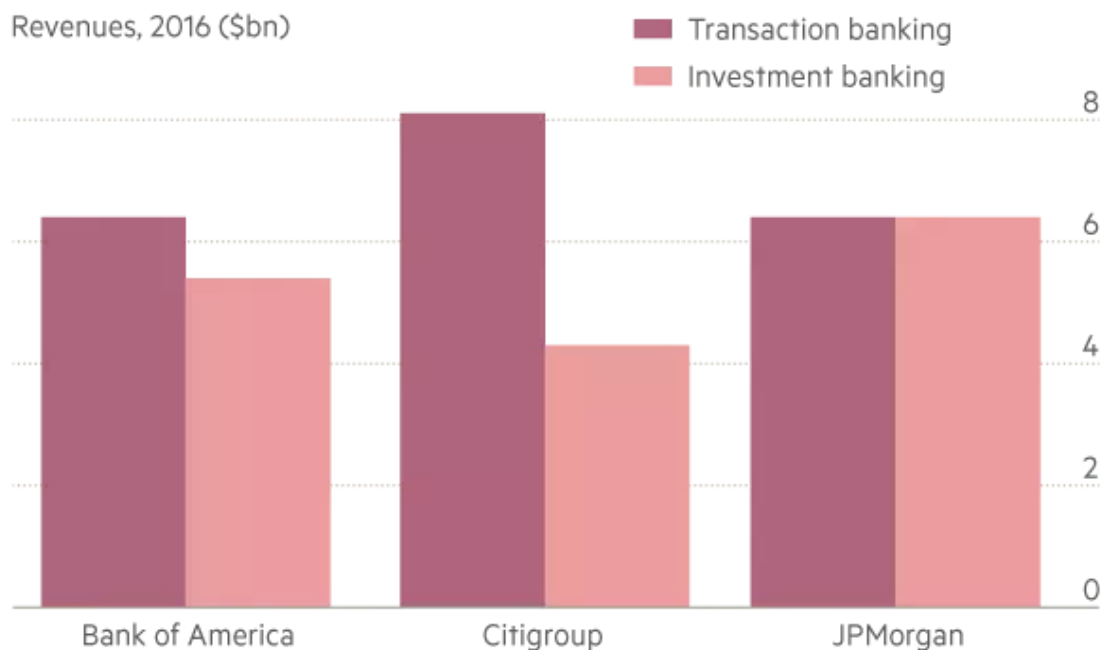
Coalition data show that the revenue difference between the worst and best years for transaction banking was 11 per cent. For fixed income and equities, the worst year was 23 per cent below its peak. Investment banking's worst year was 19 per cent below its high.

At Citi, Mr Sultan says his division has just recorded its 12th consecutive quarter of revenue and profit growth, even though low interest rates have made parts of the business more challenging.

It is not just traders turning to the sector. Banks are also recruiting from tech groups such as Google, attracted by the opportunity to solve the complex problem of safely moving trillions around the world. Mr Sultan even goes as far as to describe his division as a “fintech within Citi”.

Transaction banking units are bigger than investment banking divisions at some banks

Revenues, 2016 (\$bn)



Citigroup figures use its Treasury & Trade Solutions while JPMorgan's numbers are Treasury Services plus commercial bank treasury service. Trade finance is not included. Goldman Sachs and Morgan Stanley do not disclose their figures

Source: companies

FT

Providing transaction services is not without its issues, however. A [report \(https://www.bcgperspectives.com/content/articles/financial-institutions-technology-digital-wholesale-transaction-banking-leveraging-fin-tech/\)](https://www.bcgperspectives.com/content/articles/financial-institutions-technology-digital-wholesale-transaction-banking-leveraging-fin-tech/) by Boston Consulting Group lists a litany of challenges, not least competition from actual fintech companies that enable corporate clients to be more “bank agnostic” and shop around for some services.

Low interest rates are a continued drain on European groups because transaction banks are saddled with low-yielding client deposits. Know Your Customer regulations and other compliance initiatives are loading costs on banks.

“In the cash management piece the cost/income ratio is absolutely not good,” says Stefan Dab, head of BCG’s transaction banking practice, referring to an industry measure of profitability. “A lot of the players, especially the Europeans, are subscale.”

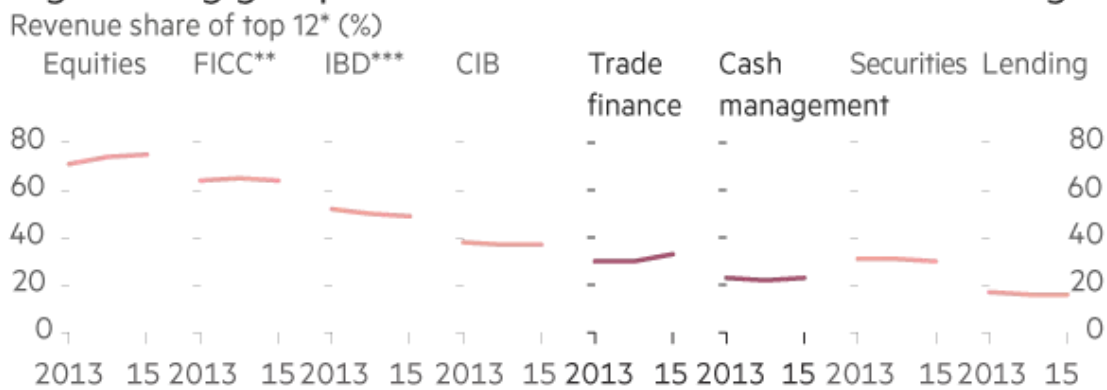
Cash management accounted for about 85 per cent of transaction banking revenues in 2016, according to Coalition.

Mr Dab says banks stay in cash management because “you can’t really afford to rely on someone else to do it” as it’s “so core to the (client) relationship”.

“It’s also something which is capital light . . . at some point interest rates will rise again,” he adds.

In the US, interest rates have [begun to increase \(http://next.ft.com/content/7fd79838-77a4-3749-af3c-6e13bdcabdo2\)](http://next.ft.com/content/7fd79838-77a4-3749-af3c-6e13bdcabdo2) — and the effects have been immediate. “We are already starting to see that flowing through P&L,” says Citi’s Mr Sultan, who has been preparing the business to take “maximum benefit” from rate rises.

Big banking groups hold their share in transaction banking



*Includes Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan, Morgan Stanley, Société Générale and UBS
 ** Fixed-income, currency and commodities
 *** Investment banking division

Source: Coalition



Analysts share some of the enthusiasm. Brian Foran, partner at Autonomous, an equity research firm, says conversations with clients about transaction banking by US institutions have been “positive” given the rise in rates.

“Market share is shifting as global competitors such as [Standard Chartered \(http://markets.ft.com/data/equities/tearsheet/summary?s=uk:STAN\)](http://markets.ft.com/data/equities/tearsheet/summary?s=uk:STAN), Deutsche and RBS pull back,” he says, although adds that there was some caution around trade finance given the new US administration’s protectionist comments.

JPMorgan’s Mr Georgakopoulos says global trade flows will increase in the longer term regardless of how US politics plays out. He cites higher trade flows, and rising interest rates, as two reasons for future growth in the business. The third is “our market share with our target clients outside the US remains low, we see that as a very big opportunity for growth”.

Mr Georgakopoulos hopes to benefit from providing services to US multinationals growing in Asia as well as to “Chinese [companies] as they expand all over the world”.

Asia’s expected emergence as the biggest transaction banking market is one of the reasons BCG’s Mr Dab expects continued growth.

But few industry stalwarts are predicting fireworks — and that would be out of character anyway for a sector where stability has been part of the attraction.

BofA’s Mr Williams says the market will grow by a few percentage points more than economic growth. Transaction services has taken the crown from trading and investment banking in terms of size but, for some of the industry’s more risk-loving bankers at least, it has a way to go on the excitement front.

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