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aspects

Insights into Trends in Business & Commercial Banking

Perspectives on:

» Using a global bank to expand internationally
» Making payments to developing nations
» Reducing expenses by outsourcing online
» Finding opportunities in a challenging environment

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Introducing **Citibank® Aspects**, a new publication from Citibank® Business & Commercial Banking, focusing on topics that concern today's middle market businesses.

Dear Valued Client,

We are proud to share with you the first edition of Citibank® Aspects, a new publication from Citibank that contains articles on subjects of interest to middle market businesses.

Why Aspects? One definition is: "Any of the possible ways in which a thing may be viewed or regarded; interpretation; view." And that is our goal for this publication–to examine and interpret aspects of today's business and banking environment, particularly as they affect the market we in Citibank Business & Commercial Banking serve.

Seasonally, Citibank® Aspects will provide the perspective of Citibank experts on the state of domestic and global markets, trends in banking, and new product developments. We will also showcase the opinions of our business partners from the marketplace who have expertise in supporting mid-sized firms.

In this edition articles cover topics such as: Trends in doing business overseas by our Trade Finance, International Sector and Payments experts; the advantages of working with firms that link services to enrich client benefits from SurePayroll, Inc. and our Treasury Product managers; and how businesses with fiduciary responsibilities have adapted to recent changes in their regulatory environment.

Future issues will contain profiles of business practices in regions around the world, highlight individual industries and challenges they face in the current economic environment, as well as identify trends in bank products and services.

We are emerging from a time of profound economic upheaval and are facing a future that will require thoughtful and well-informed decisions. We hope that by accessing the expertise of our global professionals through Citibank® Aspects, you acquire some information that will put you closer to your business' goals.

Thank you for your business; we are honored to support your firm's growth.

Best Regards,

Sunil Garg
Executive Vice President
Citibank Business & Commercial Banking

Growing Internationally?

Profit from the Worldwide Expanse & Expertise of a Global Bank

By Prakash M. Chonkar

Recent advances in communications, travel and technology, as well as shifts in the economy, have combined to lead medium-sized U.S. companies to expand their business' reach beyond the domestic market—they have begun to buy and sell products and services in markets around the world. Large multinational companies have long understood the potential offered by globalization, but now more mid-sized organizations are beginning to concentrate on new growth opportunities worldwide.

While international expansion has become an increasingly attractive growth strategy, middle market companies face unique challenges when it comes to doing business overseas. Larger companies often have sophisticated Treasury departments that are well versed in the nuances of international transactions and related treasury functions, but mid-sized companies may not have such expertise.

Companies entering the international arena often do not anticipate the complexities of doing simple tasks such as opening and maintaining foreign currency bank accounts required to make and receive payments in overseas markets. For example, when a small U.S. company started selling to buyers in Japan who preferred making payments in Japanese Yen, opening a Yen account became critical. Establishing such an account in Japan proved to be a logistical challenge that encompassed time zone considerations, language barriers, and Japanese banking practices—made even more difficult because the company had no local presence.

The importance of building a strong global banking relationship

One of the key components of successful expansion into international markets is a strong partnership with a global bank. A local or regional domestic bank relationship may be sufficient when the operations are limited to the U.S. markets; however, when those operations expand internationally, the need for foreign currency accounts, global cash management, trade finance support and credit lines in foreign markets to finance assets outside the U.S., makes it vital to have a strong partnership with a truly global bank to support domestic and international activity.

One option is to retain U.S. domestic banking relationships and choose additional banking partners region-by-region around the world. That means dealing with multiple bankers, maintaining multiple credit agreements, and taking time to respond to multiple requests for information. The other, more effective option is to choose a single partner with a global footprint who offers a full spectrum of banking services domestically and in key international markets. With this option the company can take advantage of the global bank's resources in respective markets, as well as the bank's deep knowledge of the international marketplace at large. In addition, a single global partner can offer consistency and continuity as the business expands into additional foreign markets.

A global bank can provide valuable insights into issues the company will likely face doing business in a particular region, such as local regulatory requirements. The consistency and focus made possible by working with a single, global banking partner also pays tremendous dividends in terms of time and energy saved as compared to maintaining multiple banking relationships across different regions.

Assessing opportunities region by region

Just as U.S. companies are expanding operations overseas, many countries and international businesses have made it a key strategy to do more business with U.S. firms. This presents real opportunities for mid-sized businesses in the U.S. For instance, U.S. businesses can take advantage of favorable trade policies with Mexico, such as the North American Free Trade Agreement (NAFTA) and the Government-owned IMMEX Program (formerly known as the Maquiladora Program) which offers preferential tax and duty treatment for companies that process or assemble components imported into Mexico for later export. According to the U.S. Federal Register, October 28, 2010, nearly 50% of all Mexican imports come from the U.S.

Two Latin American countries that exemplify only some of the potential in that region are Brazil and Columbia. Brazil presents real growth opportunities for mid-sized U.S. companies. The Brazilian economy is particularly robust at present, and its rapidly expanding affluent sector is creating a strong demand for goods and services. Columbia is another Latin American country with solid economic growth and good ties with the U.S., which presents critical opportunities for U.S. companies interested in doing business in the region.

In the Asia-Pacific region, India and Greater China offer potential for growth for mid-sized businesses. A groundbreaking trade agreement between Taiwan and China allows Taiwan to export goods to China with reduced tariffs. Taiwan, in turn, will lower tariffs on certain goods from China. This agreement makes it particularly favorable for U.S. companies to do business with China through Taiwan.

Eastern European countries, such Poland and the Czech Republic have excellent ties with the U.S. and strong regional growth makes them ideal targets for U.S. companies hoping to establish a foothold internationally.

Mid-sized companies taking advantage of business opportunities abroad, frequently require guidance on how to navigate the complexities of doing business country by country. By working with a banking partner experienced at supporting business operations around the world, a company venturing into the global market is planning for an efficient and effective international business experience. ■

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Global Trade TODAY

Finding Opportunities in a Challenging Environment

The global economic slowdown and subsequent tightening of credit globally have combined to reduce the demand for U.S. goods at home and around the world, resulting in a negative impact on trade. High unemployment and a weak real estate market in this country influence consumers' buying behavior. Consumer spending habits remain tepid; U.S. import volume also remains soft.

With few signs that strong consumer spending will return soon, the U.S. government is encouraging exports hoping to spur economic and job growth. And some U.S. companies are finding significant export opportunities in regions that have begun to exhibit solid growth, such as China, India and Brazil.

William B. Stanton, Executive Vice President, Product Sales, Rajiv P. Goswami, Senior Vice President, Trade Services and John M. McArthur, Vice President, Trade Finance Sales, Citibank Business & Commercial Banking, share their perspective on the latest trends in the marketplace and how global banks are helping businesses capitalize on emerging opportunities.

Q. What impact has the current economic environment had on trade for U.S. companies?

A. The current economic landscape has negatively impacted trade, particularly in the U.S. We are seeing several contributing factors; one is that businesses are reluctant to borrow. Many companies are keeping more cash on hand due to economic uncertainty. Although banks have increased their lending efforts in recent months, mid-sized companies are still unwilling to assume debt, not certain that the economy will improve and sales will subsequently increase. At the same time consumers, who have been the prime drivers of the U.S. economy and who are impacted by historically high unemployment levels, have kept spending low causing inventories to build up. This weakened consumer demand has had an impact on imports to the U.S.

A second factor impacting trade is foreign exchange. As the value of the U.S. dollar fluctuates there will be associated changes to the volume of both imports and exports on a global basis. A weak dollar makes exported goods cheaper abroad, at the same time making imports more expensive at home. This in turn has diminished the buying power of the U.S. consumer, further slowing demand for imported goods.

Cross-border trade during the first quarter of 2011 promises to be something of a litmus test for signs of improvement for the remainder of the year. Already several overseas economies such as China, India and Brazil, are showing robust growth, which is creating opportunities for increased U.S. exports. To help meet demand for rapidly growing infrastructure and communications projects across Asia and Latin America, savvy U.S. companies are developing products for certain market niches and promoting their existing goods and services in those newly robust markets. For example, as China and Vietnam initiate highway, tunnel, bridge and port building construction projects, U.S. companies are supplying vital goods to meet those expanding needs. Case in point, a U.S. company that provides gas station parts, such as pumps, signs, and piping equipment, is experiencing a booming export business to China. China's enormous infrastructure requirements have outstripped local supply, providing a real opportunity for such niche U.S. exporters.

Other enterprising U.S.-based companies are also turning to the global marketplace to overcome weak domestic growth. In the case of one dairy manufacturer, selling products such as frozen mozzarella cheese internationally has resulted in vibrant growth. Where once they exclusively sold cheese in the U.S., they now export to 23 countries around the world, dramatically eclipsing previous domestic sales figures.

Q. What do you see as the long-term prospects for U.S. exports?

A. The long-term prospects for the U.S. as a net exporter are mixed. The U.S. is increasingly becoming a net importer and we anticipate that trend continuing for the foreseeable future. While the enormous populations of India and China are fueling rapid growth in consumption, much of the products made for these countries are coming from neighboring regions. Over the years, the core manufacturing competencies of U.S.-based companies have shifted overseas in line with that trend. Everything from consumer electronics and household appliances to clothing is now chiefly made in countries where labor, real estate, and utility costs are significantly lower. Plus, the cost of delivering goods from China to India is considerably less than the same products shipped from the U.S.

We may be importing more and more goods from around the world, but at the same time, U.S. companies are seeing strong growth in earnings as a result of business done outside the country. General Electric, which has a robust business manufacturing motors in Mexico for export to Brazil, has revised one aspect of its business model to take advantage of its offshore manufacturing capabilities, significantly bolstering its overall earnings.

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Q. When it comes to trade, how important is it for companies to have a global banking partner?

A. Having a banking partner with a worldwide footprint and extensive local knowledge can make all the difference when competing in the global marketplace. And having a banking partner that has expertise in cross-border transactions enables a company to confidently and conveniently conduct business in a multitude of countries and currencies.

As one of just a few truly global banks, Citibank provides clients with a depth of in-country expertise that is needed to navigate the complexities of international trade. Citibank currently does business in over 160 countries, having opened its first offices in Europe and Asia over 100 years ago. When clients are shipping to or buying from an obscure locale, there's a strong likelihood Citibank has a presence in that market. Because we understand the unique business challenges in each country, we are able to offer advice on how to structure a transaction based on the current state of the local economy, local laws and regulations, as well as risks associated with trade to that country.

Q. What advice would you offer a company that is looking to import or export for the first time?

A. For a business that is considering shipping or buying overseas for the first time, planning the timing of those shipments is important. It is even more critical to plan for shipping well in advance of the time goods are required, particularly given the current practices in the worldwide shipping industry. Over the past several years, cargo companies have taken many vessels out of production due to the global economic slowdown. By reducing capacity, they have reduced the number of trips and effectively driven up shipping costs. Given this limited availability of ships, businesses are compelled to plan for earlier shipments to ensure that goods are delivered on time.

If a company is planning to import or export products by ship, they should allow for additional months for transit in order to meet any delivery deadlines. Failure to do so might necessitate waiting months for shipment, which can have a devastating impact on inventory, sales, payroll and ultimately the bottom line. Or it could compel the business to ship goods by air, which might more than triple shipping costs.

For a U.S. firm that is looking for an international trading partner, such as a manufacturer in China, contacting the local consulate can prove invaluable. Consulate personnel can provide a list of manufacturers in the region, making it far easier to identify potential partners. Another avenue is to attend local trade shows. China, for example holds many different trade shows in Hong Kong throughout the year. These offer an excellent opportunity to find buying or selling partners.

Q. What role does the Export-Import Bank play for U.S. businesses looking to trade internationally?

A. The Export-Import Bank (Ex-Im Bank) is the official export credit agency of the U.S. government, and assists in financing the export of U.S. goods and services to international markets. The Ex-Im Bank was created to promote trade and help businesses in the U.S. compete in the global marketplace. It provides working capital guarantees (pre-export financing); export credit insurance; and loan guarantees and direct loans (buyer financing). The Ex-Im Bank also supports U.S. exporters by helping finance their foreign buyers of large ticket items under the medium-term and long-term guarantee programs.

As a designated lender for the Ex-Im Bank under the Working Capital Guarantee Program, Citibank can help clients gain access to this vital resource. Under the program, a U.S. business shipping products that consist of at least 50% U.S.-made components is eligible for a borrowing line. A standard credit line does not take foreign receivables into consideration, unless it is insured, which, for a small business can prove onerous. However, in the case of the Working Capital Guarantee Program, the Ex-Im Bank lends 90% against foreign receivables and 75% against inventory on a borrowing basis.

The Ex-Im Bank program is a good way for businesses to expand their credit lines and gain additional working capital in cases where that might otherwise not be possible.

In spite of the economic uncertainty evidenced in the past few years, and changes in business practices to accommodate that upheaval, the resulting paradigm shifts bring new opportunities for businesses that understand the markets in which they trade, particularly with the guidance of an experienced global banking partner. ■

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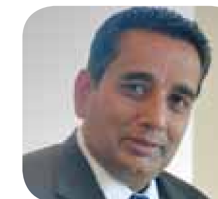

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Challenging, Yes; Impossible, No:

Making Payments to Developing Nations

For cross-border payments, no hurdle should be too high

By Diane S. Reyes

Making cross-border payments to beneficiaries in developing countries can present unique challenges. Although many emerging nations are expanding and improving their financial infrastructures, payment processing capabilities vary greatly from country to country. In addition, exchange regulations deter many emerging market currencies from trading freely and political uncertainty, economic weakness and natural disasters create yet other payment hurdles. However, working with a banking partner that is experienced in disbursing funds in developing nations makes it easy to overcome these obstacles.

Smaller world, growing payments volume

As technology and economic activity shrink our world, disbursements to payees in developing nations continue to grow. More and more companies, governments, non-governmental organizations, educational institutions and individuals alike are making payments in these markets to support their interests and obligations.

Keeping supply chain relationships healthy means making payments on time and with minimal or no deductions by correspondent banks.
Moreover, many companies, in their search for greater efficiency, are also centralizing global payment and payroll processes.

In addition, the immigrant labor force has never been larger or more important to so many economies. These workers are sending money home in volumes that are expected to total nearly a half trillion U.S. dollars by 2013.

Developing nations in Africa, Asia, Eastern Europe, Central and Latin America, among others, also are important destinations for humanitarian aid and fieldwork by non-governmental organizations and universities. Regardless of where they are posted, personnel for these institutions must be paid safely, securely, and on a timely basis.

Plus, a growing number of retirees from North America and Western Europe are spending their retirement years in exotic but remote locations. In response, pension providers seek efficient and reliable ways to deliver benefits payments in places where global transactions are often difficult and costly to execute. Ensuring the consistency of their payments, eliminating lifting fees, and minimizing foreign exchange-related costs are all ways they can do this.

Why Finding the Right Partner Matters

As companies operating in emerging markets know, choosing the right banking partner mitigates the uncertainties and risks associated with payments and remittances of all types.

Citibank processes nearly one trillion dollars in cross-border payments each year for leading corporations, financial institutions and public sector organizations. Few institutions can match our in-country knowledge, clearing capabilities, or familiarity with cross border and exotic currency transactions and the rules, regulations, and requirements that often govern them.

Plus, we're continually expanding our presence, relationships and, expertise in developing countries with currencies that are rarely traded on a large scale but are vital to the interests of our clients and their beneficiaries alike.

Today, Citibank supports payments in an ever-expanding number of difficult but important markets such as Venezuela, Korea, and South Africa, as well as in numerous exotic currencies. In all of these markets, we can help navigate infrastructure, liquidity, and regulatory issues and provide efficient negotiation of local rules, foreign exchange rates, and lifting fees.

Moving Money Internationally, Made Easy

No matter where in the world you need to send payments, no hurdle should be too high. A global provider with proven solutions can:

- Facilitate payments to developing and developed markets with the same level of security and ease
- Ensure the most efficient delivery of your payments—electronic, paper-based and cash alike
- Streamline, automate and integrate your payment processes
- Provide daily and on-demand online transaction reconciliation reports
- Reduce the need to re-issue payments, by minimizing returns and rejections
- Simplify approval and reporting processes to ensure compliance and reduce risk

Bottom Line

Choosing a financial partner who understands your cross-border payment challenges, and has the global infrastructure and network to meet them, can cut your operating costs and simplify your payment processes.

Citibank is that partner. Each day, we process more than three trillion dollars globally for individuals, corporations, governments and other financial institutions, in major markets and remote corners of the world. ■

Diane S. Reyes,
Managing Director, Global Payments, Citibank Global Transaction Services

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Beast of Burden

As cross-border payments become more complex, banks take on more of the heavy lifting

By Sayantan Chakraborty

There's nothing like a global economic downturn for creating a tectonic shift in the business environment—prompting companies to take a good hard look in the mirror. Around the world, in nearly every industry sector, organizations are assessing their internal operations with two overriding objectives in mind: increasing efficiency and reducing costs.

Many CFOs and corporate treasurers have identified cross-border payments and payments processing as an area that is ripe for improvement. No financial professional needs to be told that the realm of global payments has undergone a dramatic evolution. Just a few years ago, the typical scenario would be a U.S. buyer making a payment to an Asian supplier via a wire, simple bank draft, or check drawn in U.S. dollars. In addition, that payment would likely apply to a single invoice, making for an easy match of payment advice and information.

That was then. In the last several years, however, things have gotten a bit more complex. For one thing, global commerce isn't nearly as U.S.-centric; buyers and vendors are spread across the globe. Payments in non-U.S. dollars are common. In addition, to reduce expenses, several invoices are now being combined into one payment, producing potential confusion on such matters as tax reporting, and generally creating a payments morass.
Add the emergence of shared service centers in such wide-ranging locales as Mexico, Puerto Rico and India, and it's easy to see that this is not your father's payments environment.

To mitigate the growing complexity and help close the payment/information loop, businesses are beginning to turn to a trusted partner: their bank. (Who else would have a better understanding of the fundamental trends occurring in the payments universe—trends that can color corporate decision-making?)

CFOs and treasurers are asking their banks to do more for them to keep the cross-border payments process running smoothly. At Citibank, we are seeing three major trends in how senior financial professionals want their banks to process payments in 2010 and beyond:

1. Choices

To paraphrase a quote from an old World War I song, "How you gonna keep 'em down on the farm once they've seen automation?" As electronic payments methods continue to supplant traditional paper invoicing, corporate finance professionals want their bank to offer better processes, more accountability and expanded choices in cross-border payment options.

Banks are in a unique position to understand the fundamental trends occurring in the payments universe that color corporate decision-making.

They want cross-border remittance information packaged together with the remittance itself, and to eliminate the current confusion that results from multiple-invoices, one-payment transactions.

They want their bank to exhibit the flexibility to configure multiple payments formats to suit their unique commerce needs whether it's via traditional paper invoicing, electronic methods such as ACH transfers, or direct transmissions from their ERP systems or custom files and mapping that still conform to basic standards.

Citibank understands what businesses demand in cross-border payments– to increase efficiency and reduce costs by optimizing processes.

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> “Banks are in a unique position to understand the fundamental trends occurring in the payments universe that color corporate decision-making.

Citibank understands what businesses demand in cross-border payments – to increase efficiency and reduce costs by optimizing processes.

And they want a channel-agnostic solution. Whether doing business via an online banking platform or a file-based application, all companies want the same set of payments tools, the same flexibility of format ... and the same positive results.

2. Straight-through payments

In many corporate payments platforms, the constructs and formats that were once relatively easy to understand in yesterday's "domestic payments only" systems are not equipped to handle today's more sophisticated global payments processes.

Increasingly, cross-border payments sent to banks are not complete or formatted for straight-through processing, partly because of changing country rules. Those predicaments yield a high incidence of invalid payments and rejects that, in turn, delay payment. Depending on the bank, this can result in charges for exception investigations.

Overall, this kind of breakdown can create exposure to risk of unfavorable exchange rates and/or outsized tax payments. As a result, enterprises are demanding that their bank create a seamless link between corporate systems and the bank's straight-through processing platform–complete with front-end rules and validation criteria to ensure that information is accurate and quickly processed.

Many banks blanch at such a request; others have ample knowledge and expertise to structure corporate payments in a way that facilitates a smooth, painless transition to straight-through payments.

> "In the burgeoning virtual economy, social networking members are purchasing goods, services, subscriptions and on-demand content online using a plethora of payment types.

3. New payment types

According to Piper Jaffray, an international middle market investment bank and institutional securities firm, total U.S. revenues from virtual goods will surpass the billion-dollar mark in 2010. In analyzing U.S. internet activity from June 2009 to June 2010, The Nielsen Company reported a 43% increase from the prior period in the time Americans spend using social networks. They indicate that "Americans spend a third of their online time (36%) communicating and networking across social networks, blogs, personal and email and instant messaging."

Clearly, this is not a trend to be ignored by the business universe. In the burgeoning virtual economy, social networking members are purchasing goods, services, subscriptions and on-demand content online. Similarly, corporations pay these members in real or virtual currency for filling out surveys and other services. And it's all happening using a plethora of payment types:

- Credit and debit cards for virtual goods and services, such as monthly video game subscriptions
- Account-funded formats for secure, direct-debit payments from bank accounts
- Mobile payments in which users tap their smartphone screens to pay utility bills
- Virtual currency that enables members to pay each other or to purchase real or virtual goods online

The company that isn't keeping pace with these emerging payment types is the company that is mired in 20th Century commerce. As a result, they are collaborating with their banks to interact with consumers in myriad ways, and facilitating multiple forms of payment in multiple countries around the globe.

The need that banks fill

As companies continue to adapt to a rapidly changing cross-border payments paradigm, their banks need to step up to the plate and be smart about helping to achieve client objectives.

Businesses are looking to their banks for advice and guidance to make intelligent choices regarding consumer payment behaviors, as well they should. After all, payments processing expertise is not in the typical corporate DNA; but it is in banks'. And banks need to offer products and services that solve problems and create opportunities for new payment behaviors.

In selecting a bank to provide expertise and offerings that promote success in the new global payments environment, companies are generally looking for four key traits:

- Proven track record of evolving, adapting and innovating to keep pace with, or ahead of, the market curve
- The global scale to handle even the most wide-reaching customer base
- "Skin in the game," making a continual investment in building smart solutions to help customers succeed and become more efficient
- A demonstrated history of on-the-ground knowledge of local markets around the world.

Over the horizon

As dramatically as the cross-border payments market has evolved in recent years, one can rest assured that the changes have only begun. The way companies look at payments will continue to be driven by consumer behavior that simply does not stop evolving.

To remain current with today's changes as well as the ones to come, and to stay sufficiently connected around the world, companies require a solid banking partner that knows the landscape.

Citibank understands what businesses demand in cross-border payments–to increase efficiency and reduce costs by optimizing payment processes. Citibank is a trusted, long-term partner to hundreds of today's most success-focused corporations.

How will global payments evolve in the future? No one knows for sure. But it's an excellent bet that businesses can trust Citibank to recognize the next wave first–and to help them make the transition. ■

Sayantan Chakraborty,
Director, North America Payments, Citibank Global Transaction Services

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The Fiduciary Role in Uncertain Times:

Adapting to Change by Businesses that Manage 'Other People's Money'

By Joseph D. Curran

Citibank's Financial Intermediaries Division specializes in supporting title insurance firms, qualified intermediaries, investment money managers, real estate firms and insurance companies.

At its last meeting of 2010 in November, the Federal Reserve Open Market Committee confirmed that economic recovery is continuing, but not at a rate that will bring down unemployment in the near term.

According to the Federal Reserve, *"Household spending is increasing at a moderate pace, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. The housing sector continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have continued to trend downward… Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow."* *

(At this writing, prior to the next Federal Reserve meeting, we believe that there will be little change in the Fed's message–that we are moving toward recovery, but slowly–and that there will be no change to the short term borrowing rate at this stage.)

Common challenges facing five key industry segments

Two segments under the 'Financial Intermediaries' umbrella – Title Insurance firms and Qualified Intermediaries-- have recently been affected in different ways by the state of the economy. Title Insurance companies have been forced to either increase or decrease staff as demand for mortgage closings rose and fell to maintain profitability in the turbulent real estate market. Qualified Intermediaries must function under 2011 changes to the tax code that have been designed to spur economic growth, but that will directly impact their business model.

Title insurance companies have been forced to tighten their operations and pull the slack out of their already efficient money movement processes to further speed cash flow as well as keep costs in check. Because they facilitate the movement of "other peoples' money," they are not only expected to efficiently manage cash, they must be experts in federal and state-by-state legislation and regulations regarding escrow deposits.

Title firms perform many tasks involved in real estate transactions including issuing title insurance, conducting lien searches and orchestrating closings for both commercial and residential sales. (Residential sales include new home sales, existing home sales and refinancing of existing mortgages.) They also disburse funds associated with the transactions, holding them in escrow until the transaction is complete. This obligation for pinpoint timing and accuracy in money movement is one overarching responsibility of a title insurance company.

Qualified Intermediaries (also known as Exchange Accommodators) hold in escrow funds from dispositions of certain assets until the taxpayer acquires another qualifying replacement asset. Again the fiduciary responsibility of holding, reporting on and moving other people's money comes in to play.

Due to their fiduciary roles, firms in these industry segments have been forced to alter their operations and in some cases revise components of their business models to adjust to recent economic conditions. The $600 billion Federal Reserve bond buy-back as well as the $850 billion tax cut extension signed into law last December, for example, are two recent events that have significantly impacted the way these firms do business.

Diversification to smooth out revenue dips

Title companies' revenues are directly linked to interest rate fluctuations combined with the volume of mortgage closings. They have been forced to expand operations at times and contract them in others to maintain profitability in the turbulent real estate market. During the record low interest rate environment, firms have increased staffing to accommodate the volume of mortgage refinancings. By contrast, during the severe downturn of 2008-2009 when new home sales numbers plummeted 48% to 309,000 in January 2009 from 597,000 in January 2008 alone,** many were forced to reduce staff. Others tried to offset revenue troughs by diversifying, such as purchasing unrelated businesses as investments and selling them for a profit. Some outsourced core services such as title searches, however, those remedies were not enough to smooth the severe revenue fluctuations endured by those firms.

One example of the link between rates, consumer confidence and the impact on title companies is evidenced in the types of business choices title companies had to make in response to the short-lived 100 basis point increase in long-term rates last December, which some believe was directly caused by the Fed bond buy back. Should they reduce staff in anticipation of fewer mortgage refinancings, or increase staff to deal with potential growth in home purchases in anticipation of an interest rate increase?

Good and better tax alternative for businesses in 2011

The 2010 Tax Relief Act has a direct impact on the Like-Kind Exchange industry segment and the businesses that take advantage of it. In a Like-Kind Exchange, an asset such as equipment used in a

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business operation is relinquished, and the proceeds are used to acquire a qualifying replacement asset. When these transactions are properly structured as "exchanges," rather than sales followed by purchases, recognition of capital gains is deferred as provided by section 1031 of the U.S. Internal Revenue Code.

This same provision also applies to higher volume transactions involving multiple assets over many years. For example, an auto leasing company can purchase cars, lease them out for several years, and depreciate the value of the vehicle as a normal course of accounting in the business. At the end of the leases, the cars are retired out of the fleet. When those cars are sold, the difference between the depreciated value and the sale price would normally be subject to capital gains. In a so-called "Program Exchange," the capital gains are deferred until vehicles are sold outside of the program.

Businesses can continue such cycles of exchanging like-kind assets virtually indefinitely. When the firm no longer acquires like-kind assets to replace relinquished assets, capital gains from the entire chain of transactions is taxable. Firms take advantage of this beneficial provision to defer the capital gains tax burden on an ongoing operation.

Under the 2010 Tax Relief Act, certain assets, such as those required for a business' operation, that are purchased in 2011 can be fully depreciated in 2011, with a similar provision permitting 50% depreciation on assets acquired in 2012. This so-called "bonus depreciation" means that businesses considering implementing program exchanges will now want to consider delaying the implementation, while those with existing program exchanges will likely continue their use. (Such decisions should always be made after consultation with tax and legal counsel.)

Businesses may also choose to include a Qualified Intermediary in the discussion with their tax advisor to contribute specific industry expertise on the program. Experts at Citibank have broad experience in all aspects of the 1031 exchange process, and are able to contribute that knowledge to a firm's decision process.

The slow move toward economic recovery has particularly affected–positively and negatively–certain industry segments, namely those with fiduciary responsibilities. As interest rates rise and fall or changes to the tax code are implemented, many have managed to adjust their business practices to accommodate the changes and stay flexible enough to survive and even thrive in the changing environment. ■

The slow move toward economic recovery has particularly affected –positively and negatively–certain industry segments, namely those with fiduciary responsibilities.

Joseph D. Curran,
Executive Vice President, Citibank Financial Intermediaries Division, Citibank Business & Commercial Banking

* Federal Reserve Press Release, 12/14/10.
** U.S. Census Bureau and U.S. Department of Housing and Urban Development, February 26, 2009 press release on new residential sales.

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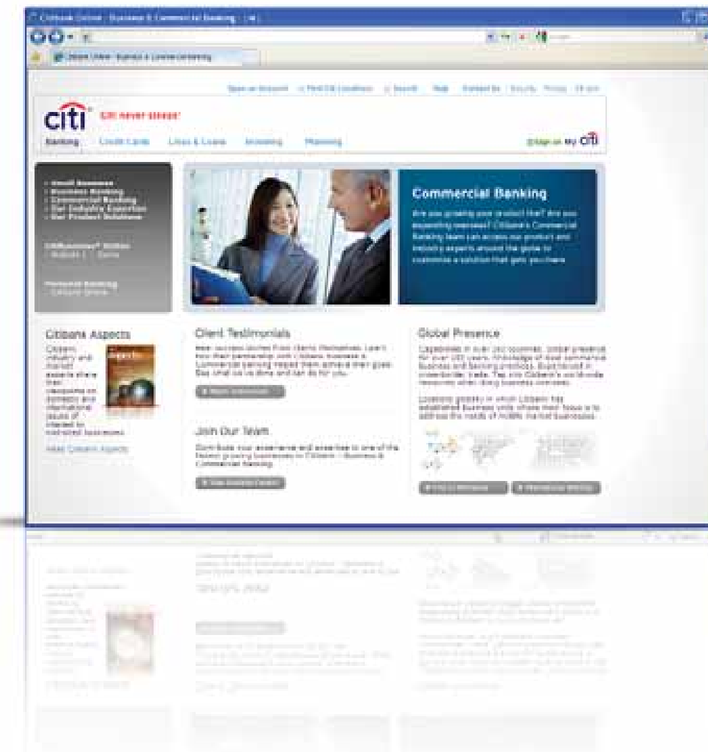

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Businesses Garner Savings Online

Businesses that switch to online services can save thousands a year, while gaining time, convenience and control.

By Michael Alter

All the economic data indicate America remains at the trough of an L-shaped recession. This prolonged period of underperformance is no longer a passing phase. Underperformance is the new reality. Businesses looking to grow–or even remain afloat–must find ways to get more done for less.

Outsourcing remains the most viable option for businesses to complete more work for, on average, less than the cost of building in-house solutions or departments. Using an online service to outsource business functions offers two advantages unique to this delivery method: lower costs due to technology handling the majority of the work and continual improvement as technology evolves.

Yet a majority of businesses have not considered the time and cost savings that online services provide. While many rely on online customer relationship management (CRM) software and hosted email solutions, most have not dedicated the time and resources to determining how to run all aspects of business online – or at least the ones that will result in significant time and cost savings. In reality, most businesses are unaware these options exist.

Online services range across many business needs. To reduce paper costs, a system like PerfectForms allows for online creation and management of a variety of types of business forms. Certain online solutions can completely eliminate costs, such as FreshBooks' ability to help businesses track time and invoice clients online without mailing paper forms. Communications services like Skype or GoToMeeting.com minimize phone and travel bills, respectively.

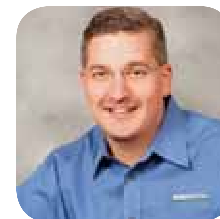
Beyond cost savings, online services present IT departments with significant time savings. Unlike installed software, online services free the IT staff from updating and maintaining traditional software and hardware. For small businesses whose owners often function in an IT capacity, this freedom allows for more time visiting prospects and clients.

Before enrolling with an online service, businesses must commit to performing their due diligence. Although most services offer instant online price quotes, features vary among providers. If businesses can find "one-stop shops" that perform multiple functions in one online location, such as online banking combined with payroll, they can complete tasks in less time and have fewer vendors to manage.

One approach to doing due diligence is to quantify and compare the value of time required to perform the function with and without the online service. Assuming a business owner's time is worth $50 an hour and processing payroll manually, for example, requires two hours per pay period (The Small Business Administration estimates that manual payroll processing requires between two to four hours per pay period to process manually), it costs a business owner $5,200 a year to process payroll manually. This number should then be compared to the fees and time associated with processing payroll using an online service and keeping up with changing tax and labor laws. The savings, if any, will determine the level of efficiencies generated by going online.

Citibank Business & Commercial Banking and SurePayroll offer such a one-stop shopping experience through CitiBusiness® Online. Customers can go to CitiBusiness Online and manage accounting functions, including pay bills, transfer funds and process payroll through CitiBusiness Payroll Manager, which is powered by SurePayroll. An entire day's worth of payroll-related accounting functions can take just minutes online. This completely online service eliminates driving to the bank, storing and searching for paper banking statements, deciphering complicated payroll tax rules and regulations or filing payroll returns with the government, and logging in to multiple accounts.

As businesses adapt to the new economy, finding savings that reduce costs and curb unnecessary employee growth is inevitable for survival. One approach for generating efficiencies and savings is to use online services wherever appropriate. ■



Michael Alter,

Executive VP, President and CEO of SurePayroll, Inc., a Paychex company that powers CitiBusiness Payroll Manager. A nationally recognized spokesman on small business issues, Michael regularly appears on Bloomberg TV and other national business programs. He received an MBA from Harvard Business School and holds a bachelor's degree in economics from Northwestern University.

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Expanding Options for a Treasury Product Portfolio:

Linking with Complementary Expertise to Increase Client Choices

Members of the Business & Commercial Banking product management team who established the relationship with SurePayroll, Inc. discuss how their solutions-based approach to product development led them to take a non-traditional path to broadening the portfolio of services offered to the marketplace.

In 2010 Citibank Business & Commercial Banking Group entered into a relationship with SurePayroll, an online payroll processing company, to enable their client base to access SurePayroll's full-service application during a CitiBusiness® Online session. SurePayroll is an independent service provider; Citibank clients contract for the service directly. But, once they are set up, they can access SurePayroll functionality from a CitiBusiness Online banking session.

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Janice E. Garvey and Thomas P. Lopes, Citibank Business & Commercial Banking, Treasury Products Group, discuss the approach to broadening product offerings by building links to firms that offer complementary products.

Q. How do you think marketing alliances relate to traditional treasury product development?

A. We have always looked at ways we can develop products and services to support our clients' business processes as a whole rather than provide services that do one task at a time. For example, remote check deposit is a great tool to help clients deposit checks from their offices, but it's only one of a group of services which, when used together, help clients do more. When combined, the right receivables, payments and information services work together to enable clients to have the cash to buy inventory, make payroll or cover the rent. Ultimately they maximize their working capital to efficiently run their businesses. That's how we have always looked at our products–components of a tool kit to help client businesses succeed.

So when we started thinking about building marketing alliances to effectively broaden the range of services available to our clients, it seemed like a natural extension of our philosophy. Offer the client a portfolio of services that ultimately helps them sustain and grow their business. Some of those services just happen to be produced by a third party.

Q. What are the benefits of such 'marketing alliances' for mid-sized businesses and the alliance participants?

A. Overall we believe that any organization's customers can only benefit when they are given access to services that create efficiencies. Whether those services are developed in-house or made available through a marketing alliance, it still adds value for the business.

It is as if the client has been presented with a new service provider from 'the inside' rather than the market at large. In the process of working with an existing service, they may be introduced to a product that they had not thought of using before.

Mid-sized businesses may also be more open to considering a service that comes recommended by the entity they know, in our case, their banker. If the banker raises the topic of a third party, the client may be less apprehensive about buying a new service or trying to choose from an array of competitors. New clients brought in by one or the other alliance entities may also benefit from preferential fees negotiated by the participants. Clients' choices increase from the moment the alliance is set up.

For the partners in the B2B alliance, they can expand their reach in the marketplace and have access to one another's customer bases simply by making the products available. And by joining forces they each have a virtual product extension without developing a new service or in some cases, even linking the services together. These arrangements are often quick to come to market, a cost, revenue, and time advantage on both sides that are passed along to the customer.

Q. Why wouldn't a firm simply build the complementary service?

A. There is so much expertise and so many firms that offer specialized services in the marketplace, it makes sense in some cases to take advantage of those capabilities wherever it is practical and fits within both firms' strategies, rather than build internally. Alliance participants may offer services that complement their core offerings, but that are not part of that core set of services. For example, we do not do payroll processing internally, but it certainly is one of the key ways that businesses use the accounts they maintain with us. They are a logical combination. In the end, the customer has a more efficient and cost-effective process run by experts in that field.

Janice E. Garvey,
Senior Vice President,
Treasury Products Group,
Citibank Business
& Commercial Banking

Q. What is the future of bringing services together under one 'roof' in the B2B marketplace?

A. This approach to internet marketing is not new. Over 11 years ago, Amazon and Dell put links on one another's sites to streamline purchasing for consumers and reach more prospects in the marketplace. Today there are business school classes and professional seminars on strategies for establishing such marketing arrangements. As long as firms choose relationships carefully, make sure they are a fit with the core business and the needs of the client base, they will be successful. When a service creates a genuine efficiency, it can only succeed. ■

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Regulatory Reform: Opportunity & Uncertainty

As the U.S. moves beyond recent financial and economic crises, and after months of debate, the implications of regulatory reform intended to prevent future problems are finally coming into focus. Companies doing business in the U.S. should carefully consider the consequences of these changes and the challenges and opportunities they bring.

By Michael Berkowitz

A key regulatory initiative, the Dodd–Frank Wall Street Reform and Consumer Protection Act, was signed into law on July 21, 2010. It covers myriad areas of the financial system, including hedge fund and private equity regulation, consumer protection measures and the Volcker Rule, concerning bank proprietary trading.

The legislation includes several changes that impact transaction banking accounts. For one, the FDIC maximum insurance amount of $250,000 per depositor per bank, set to expire in 2013, has been made permanent. For most large corporations the impact should be limited given the average size of their accounts. The greatest impact will likely be felt by small businesses.

Under the new rules, the FDIC also will provide unlimited insurance protection on non-interest-bearing transaction accounts from December 31, 2010 through December 31, 2012. This measure effectively extends the Transaction Account Guarantee (TAG) Program, established in October 2008 and originally due to expire at the end of 2009 but which had since been extended twice. While the TAG programs provided an opt-out alternative for banks, the Dodd-Frank bill applies uniformly to all U.S. insured depository institutions. The Dodd-Frank bill also does not extend unlimited insurance on Negotiable Order of Withdrawal (NOW) accounts.

Another major repercussion of the Dodd–Frank Act is the repeal of what is commonly known as Regulation Q. This change will take effect July 21, 2011. First introduced during the Depression of the 1930s, Regulation Q prohibited banks from paying interest on checking accounts. The original rationale for the prohibition was to prevent banks from competing for funds by paying high interest rates on these accounts. Over the intervening decades, however, various options have eroded the regulation's significance. Offshore sweeps, for example, enable interest to be paid on funds moved offshore on a daily basis but still accessible from U.S. accounts. In addition, the aforementioned NOW accounts, Money Market Deposit Accounts (MMDAs) and Money Market Funds allowed for the payment of interest, albeit with certain restrictions.

The impact of the Dodd–Frank changes

The impact of the FDIC insurance measures on corporations, for the most part, is positive. It's true that companies employ different investment strategies and use different investment and banking products. However, over the past three years, companies of all sizes and with varying investment philosophies have shifted to more conservative investment policies. For companies across this investment landscape that have allocated a large portion of their portfolios to low-yielding government instruments, unlimited FDIC insurance provides welcome additional flexibility.

At first glance, non-interest bearing transaction accounts—even with full FDIC insurance—might not seem like an appealing option. However, under federal regulations, banks have been permitted to offset banking fees in lieu of paying interest, commonly known as providing Earnings Credit Rates (ECR). , though they will now enjoy the comfort of deposits that are fully backed by the U.S. government.

Companies with less restrictive investment policies will generally find the impact of the FDIC insurance change to be more limited. Nevertheless, the scale of fee offsets could be sufficient enticement to use non interest-bearing accounts given the low returns available elsewhere. Short-term Treasuries, for example, currently yield ten to 15 basis points. Often, companies, depending on their banking relationship, will be able to earn a higher net ECR from a non-interest-bearing account, along with the added benefit of full daily liquidity and transactional flexibility.

The repeal of Regulation Q also will have a limited impact on large corporations, given alternatives such as time deposits, money market funds and offshore sweeps. Nevertheless, it will provide added flexibility for companies, particularly those that work with banks that do not offer all of these alternative investment options and those that

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cannot sweep funds offshore for regulatory or investment policy reasons.

Some have speculated that the repeal may drive up market rates slightly as competition increases among U.S. banks and also between banks and money market funds. However, this is likely to be tempered by recent, more restrictive amendments to Rule 2a-7 on U.S. Money market funds, as well as some of the costs imposed on banks by Dodd-Frank.

More options but some uncertainty

Overall, the Dodd-Frank Act widens the range of investment choices open to corporations. FDIC insurance has been extended, while previous options such as offshore sweeps and time deposits remain. However, corporate investors also need to consider a number of ambiguities in the legislation.

The most obvious of these is the lack of clarity around the costs of the FDIC's new programs, especially the full guarantee requirement. While the Dodd-Frank Act outlined a number of regulatory changes, it left much of the rule-making to be defined by individual agencies. Most rules are expected to be in place within six to 18 months, even though the agencies have up to three years to define them. During the rule-making period, uncertainty will prevail.

With greater competition between money market funds and U.S. local banks, fund managers also could be forced to take smaller spreads to remain competitive. We may also see a continuation of the trend begun in 2008 of companies shifting fund flows toward bank deposits. In 2008, according to an AFP liquidity survey, 25% of corporate short-term investment portfolios were directed to bank deposits. By 2010, the amount had risen to 41.5%.

Similarly among companies with annual revenues over $1 billion, the average investment in bank deposits rose from 16.4% to 31.5% over the same period. At the same time, their investments in money market funds declined from 46.3% to 34.3% of their portfolio, while their investment in Treasuries remained steady at around 9%. The investment shift reflects the fall in money market fund yields, increase in bank deposit yields and increased FDIC protection.

As banks respond to the Dodd–Frank changes, companies will continue to be able to reduce transaction banking expenses.

Bottom line: the changes brought about by the Dodd–Frank Act are important and warrant close consideration. Companies should talk to their banking service and investment providers about the implications of the new regulations as well as other regulatory reforms that are in the works. Basel II and the implementation of Basel III, for example, will have consequences for bank capital and liquidity and therefore will also impact companies' investment options.

With additional regulatory changes in the winds, there are challenges ahead. However, there are also opportunities and corporate cash managers should ensure they are well positioned to take advantage of them. ■

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