"Simply being reactive when offering renminbi products to clients is not enough"

Agnes Vargas, regional head, Greater China & ASEAN, Commerzbank explains how formulating a Rmb strategy is critical for banks trying to capitalise on the currency's burgeoning popularity.

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Transformation of the renminbi in recent years has rendered the Chinese currency almost unrecognisable since its internationalisation in 2009. Having now advanced to eighth place in the world's most traded currencies (climbing from 20th, 17th and 11th places in 2007, 2010 and 2012 respectively), it seems likely that the renminbi will become a top three trading currency as early as 2015.

Despite this evolution, the Chinese government continues to restrict how the currency is used – an omnipresence that arrests its progress as a truly global currency. While its future as a world currency (along with the US dollar and the Euro) seems certain, its role as a reserve currency will be postponed until the Chinese state releases its grip on the use, exchange and transferability of the renminbi.

In this respect, the early signs are positive. Already, the renminbi has become convertible under the current account – making it a trading currency. The borders of mainland China have become more porous with regards to cross-border capital account transactions.

Indeed, there seems little doubt that the renminbi is set to impact global transactions on a major scale meaning that it is vital that financial institutions (FIs) position themselves, not just for the end result, but to leverage on each development as it is announced. With new regulations and updates being introduced in rapid succession, having a renminbi strategy is crucial for optimising the potential benefits of this rapidly evolving market. What is more, such a strategy will need to incorporate all aspects of the currency – including trade settlement, supply chain management and advisory services.

A trading currency in progress

Information will be a critical part of developing such a strategy, with focus on both where we are today and where we are going in the future. Recent daily renminbi trading surged to $120 billion from $34 billion in 2010, according to the Bank for International Settlements. This growth has even resulted in Hong Kong – the main hub for renminbi transactions – seeing daily settlement of its own currency, the Hong Kong dollar, eclipsed by those of the renminbi. Expansion of the currency is evident elsewhere, with recent SWIFT figures showing renminbi transactions in Europe increasing by 163% in the past year.

This shift offers new opportunities in the Chinese market. For corporates with supply chains involving Chinese counterparties, many are already exploring the use of renminbi and benefitting from an increased customer base, as well as lower transaction costs and supplier discounts of typically 2 to 3% (due to Chinese businesses factoring the omission of hedging costs into the price). To capitalise on this, players in the Chinese market will, of course, look to their banking partner.

The banking partner chosen must be positioned with a complete suite of renminbi products and services to cater to expanding corporate needs, especially with regards to documentary foreign transactions in renminbi – including the opening and settlement of letters of credit (LCs), the settlement of collection and the issuance of bank guarantees.

Increasing liquidity; increasing capabilities

Recent developments have also helped increase renminbi liquidity; fuelling its appeal and stimulating further use. Such developments include extension of the simplified renminbi cross-border payment scheme (SRCP) throughout China, which reduces the extensive documentary requirements for cross-border payments, resulting in enhanced efficiency and reduced costs. Nationalisation of the cross-border inter-company loan pilot programme, which allows corporates in mainland China to transfer funds cross-border to their affiliates elsewhere – offering a temporary fix for those encumbered with trapped cash – has also helped drive popularity of the currency.

With further reforms in the pipeline, FIs must be prepared to act. Banks that lack the proactivity to monitor and react to reforms are not positioned to capitalise on such changes. This will also leave them underprepared in terms of the increasingly sophisticated electronic capabilities required to support corporates in their renminbi business. As it stands, the currency is still developing – and as it does, FIs are required to grow and develop alongside it, adapting products to ensure corporates have a source of expertise that can cater to their expanding liquidity and increasingly complex supply chain requirements. Indeed, Commerzbank is not exempt from this – despite having had an on-the-ground presence in China for over 30 years, we also continue to evolve with the changing landscape.

Recipe for success

Certainly, it is imperative that FIs are renminbi ready. Simply being reactive when offering renminbi products to clients is not enough; banks must have a strategy centred on vigilance and flexibility. Indeed, with updates occurring on a regular basis, it is crucial that FIs maintain a close relationship with regulators – obtaining the very latest information and acting to ensure updated, first-rate facilities and services are on hand for corporates to grasp the new opportunities from the outset. It is this combination of staying ahead of the game, along with developing cutting- edge solutions and expertise that will reassure clients that their banking partners are positioned to provide the support that enables them to realise their renminbi transaction potential.

Of course, due to the frequency – and often complexity – of emerging regulations, having a banking partner with a presence in mainland China and a strong handle of the renminbi's progress is equally important.

The renminbi's progress is irreversible. For FIs, this is the time to step up and equip their clients with access to every opportunity available in their use of this new global currency.

**This article is co-authored by Marcus Lenz, product manager cash, Commerzbank*

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