

## Asia, a far from harmonious payments market

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Looking east, an international sales director might picture the land of milk and honey, while a treasury executive will see a promising, yet complex patchwork. While the two will marvel at growth drawing near, the cash expert will soon endure the strains of a heterogeneous market. This article explores the multiple challenges of payments in Asia.

Because of Asia's outstanding growth and potential, corporates are eager to adapt to local requirements. To do this, they must know what is expected of them. Yet this is far from simple, as there is no such thing as a homogeneous payment market in Asia.

Instead, what we find is a mix of regulated and restricted countries, in addition to a select few countries operating much like in the west. As a result, a French treasurer setting out to conquer Asia faces a serious challenge. While the sales or operations managers can foresee a consistent development of their activity across the continent, he or she is confronted with a veritable patchwork, with almost as many currencies and rules as languages.

To make things more complex, regulations may change rapidly in Asia, with some countries facing political instability. Remaining alert is essential ? take China, for instance, where key developments to come will change the local clearing system (CNAPS2).

### **Non-convertible currencies: Go local!**

Let us first focus on countries with non-convertible currencies, such as Vietnam or South Korea. Sending funds and changing them into local currency is feasible if the local requirements are respected. In practice, most businesses will rely on a well-established bank to transfer their funds to closed markets. But then again, if the customer experience is *relatively simple*, processing the transfers is more complex. It is likely that the bank will use a strong currency like the Euro or the US dollar to make a payment from Germany to a local Vietnamese or South Korean bank.

As a next step, the local bank sends the payment in a local currency to the beneficiary's bank. Solid expertise is required to manage the foreign exchange risk, but it also requires a holistic operational approach to comply with the local rules and monitor the entire payment chain. This can be time-consuming, as it takes up to five to seven days for the funds to reach the beneficiary. In the case of recurring operations, however, corporates can plan ahead and optimise the time spent.

### **Semi-regulated countries: Simpler, but not simple**

The second challenge treasurers face is transferring funds in a local currency to semi-regulated countries, such as India, China, or Thailand (typically, the larger countries). Although strict conditions apply, these markets offer a more liquid access to currency. Although the Indian rupee is partially convertible, (it can be exchanged under strict conditions), making a payment in India remains complex. Transfers to India are subject to

challenging procedures, and failure to comply can lead to payments being stopped or returned.

In India, a payment order must specify if the settlement is made as a down payment or for the total amount of a given transaction. Some banks require the telephone numbers of the beneficiary for any transfer, so European businesses have no choice but adapt their procedures to meet Indian requirements.

### **Limited options to repatriate funds**

The third challenge corporates face is repatriating funds. Businesses operating locally may find their options are a bit limited. For example, in Vietnam, it is difficult to repatriate funds to Italy in Euros or dollars, and it is impossible to do it in local currency since it's non-convertible. Solutions do exist, but while some only bring a few restrictions, others lead to many.

In moderately regulated markets, such as Thailand, domestic pooling is allowed, while cross-border activities are restricted due to the convertibility of the currency. In more heavily regulated markets, however, local solutions are the only available option and corporates must comply with very strict requirements.

### **Connecting the dots**

It might seem obvious, but it is best to rely on a well-established local bank. It is a challenge to balance the local regulatory and administrative requirements while ensuring the correct payment formats in the back office.

BNP Paribas recently helped a corporate close an acquisition deal in China. The company needed special authorisations to conduct the operation, as it is under the responsibility of the Foreign Direct Investment (documentation from the Ministry of Commerce of the People's Republic of China, or MOFCOM). Additionally, the payment was very sensitive because it required three transfers in Renminbi (RMB) to three different business owners. Such transactions are usually not authorised by the People's Bank of China and the SAFE (State Administration of Foreign Exchange). BNP Paribas had to set up very specific procedures to align the entire transaction process, from validation to clearing. The pressure was incredibly high, since the funds had to be available precisely when the agreement was to be signed.

### **Looking like Europe**

Deregulated countries, such as Japan, Australia, New Zealand, Singapore, and Hong Kong are much less of a challenge. Their payment systems are very similar to what we have in Europe, with free currencies and simple rules. In these countries, corporates usually manage their foreign exchange risk directly and centrally, as it can be quite substantial.

But even if the whole payment process is skilfully managed, Asia is not Europe. Transfers in Yen or Singaporean dollars to Europe are not subject to European rules, nor are they protected by Europe's Payment Services Directive (PSD), as the regulation only covers operations carried out in European currencies within the European Economic Area. Additionally, the time required to complete an operation is not regulated, which means corporates might have to support extra costs as a result of extended value dates. Relying on a banking partner that closely monitors its correspondent banks is an asset.

To be frank, we are still a long way from the single Asian payment market that international

treasurers dream of. Despite the Hong Kong-based US dollar clearing system, the dollar is not king in Asia. Many would rather have the RMB as Asia's reference currency, but the RMB is not quite there yet.

## Playing by the rules

If managing currencies in semi-regulated markets is easier than in restricted countries, businesses must ensure that they apply the highest operational standards to handle documentation and payment instructions. All the necessary data must have been provided and treasurers must follow the procedures throughout the whole payment process. For those who fail to comply, not only will their payment be blocked, but they will probably find that it is even more complicated to make another payment in the future.

## Only in Asia: Three famous frustrations

**The time difference.** As a German treasurer starts his day, most Asian offices are about to close up. It is too late to complete a payment on the same day, so unless there is some specific arrangement, most payments in Asia will be processed on the following day.

**The alphabet.** Processing Kanji and other Asian scripts is tricky. Even the Cyrillic alphabet is a piece of cake compared to Chinese ideograms. Also, if a Chinese character can only be written in one phonetic way in Latin letters, one given Latin syllable can be written using a range of Chinese characters.

**Homonyms.** Ensuring that a payment is made to the correct beneficiary can be especially challenging in Asia, simply because homonyms are very common.

## Good to know

- In highly regulated markets, it takes up to seven days for funds to reach their beneficiary.
- In semi-regulated countries, corporates tend to settle commercial transactions in local currency or structurally finance their activities *in situ* (locally).
- There is only one way to translate a Chinese character into Latin, but many ways to translate a Latin character into Chinese.

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