

Asia-Pacific: A World-Class Center of Excellence for Business Services

Anderson XW Liew | GLCM

Malaysia, a major player in the ASEAN economy has witnessed steady and sustainable year-on-year growth since 2015 as documented by the Ministry of Finance and Bank Negara Malaysia (Central Bank of Malaysia). The economic growth is principally being driven by the service sector, and the growth in the service sector is enabled by the collective infrastructure of a skilled workforce and support from government agencies: MDEC and InvestKL amongst others. These quantifiable measures are reflected in Malaysia's strong and healthy GDP evidenced by the incremental growth illustrated in Figure 1. The data presented demonstrates the proven capabilities of Malaysia with its well-equipped workforce: highly-skilled, well-educated^{1,2}, multilingual and cost-efficient. Providing a distinct advantage over many developed economies, it has helped Malaysia earn its reputation as one of the world's top 3 locations for shared-services and outsourcing businesses (SSON, 2015).

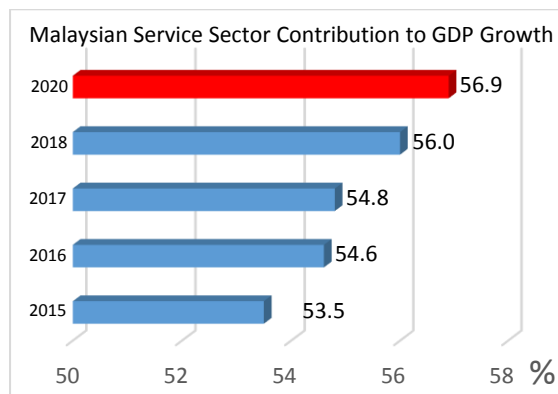


Figure 1: Malaysian Service Sector Contribution to GDP Growth
Sources: Self-analysis of Bank Negara Malaysia- and Ministry of Finance, Malaysia- data

Malaysia has capitalized on its Multimedia Super Corridor (MSC) initiative: an ambition for a home-grown Silicon Valley located in Cyberjaya, a city 30 kilometers south of Kuala Lumpur. The continuous promotional efforts by government agencies have encouraged 73 Multinational Corporations (MNCs) from over 40 countries to join the cohort between 2011 and 2017 (InvestKL, 2016 and 2017). This has contributed significantly to a highly-skilled workforce and generated 160,000 high-income positions. Malaysians filled 87% of these roles (InvestKL, 2016). The MSC initiative has since expanded to over 44 locations across the country, a further indicator of the expected sustained growth.

The Economic Transformation Programme (ETP) as documented by PEMANDU (2010) identified the business service sector as one of 12 National Key Economic Areas (NKEAs) with the objective of propelling Malaysia to being a high-income nation. Efforts in realizing these ambitions are accompanied by the active and continuous support of MNCs establishing regional offices in Malaysia as opposed to more traditional regional business powerhouses of Hong Kong and Singapore (ATIC, 2016).

The ASEAN-centric location, stable economic- and political- climate in Malaysia are factors driving these decisions for the establishment of Global Shared Service Centers (GSSCs) by MNCs. As a consequence to these initiatives, MNCs require a streamlined solution for the management of global cash flows; considering the parameters of transactional volumes and frequency, geographical time zones, and the fluctuation in foreign exchange rates.

Intent on being the leading international bank, HSBC's global footprint spanning all 6 inhabited continents³, healthy balance sheet and deep rooted presence in Asia are compelling factors to allow for the delivery of seamless cross-border payment solutions through a sole financial institution. This is both a favoured solution for multinational business services with offshore GSSCs and a differentiator versus many competing offerings in the financial services market.

In summary, these HSBC hallmarks are an excellent platform with fit-for-purpose cash and liquidity management solutions. The host-to-host connectivity (HSBC Connect), a flagship service-oriented product, one widely implemented for payments processing and reporting is the primary product of choice for MNCs and large corporates with far-reaching intercontinental operations. Building upon these core solutions, as companies seek to further digitalise, real-time payment solutions and the opportunities they present to streamline reconciliation with the engagement of customers and suppliers differently are among the most up-to-date FinTech products the cash management suite is equipped to offer.

¹ Quantified by UNDP's (2017) published data for Malaysia indicating a very high HDI of 0.802, above the world average of 0.728; of which the Education Index (EI) is a component.

² Quantified by UNESCO IFS (2017) data, documenting a 90 – 100% literacy rate for Malaysia, above the world percentage bracket of 80 – 89%.

³ With reference to National Geographic's definition of continent.

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Corporate profile

Our Client, a constituent of the FTSE 100 Index plays a pivotal role in the risk and reward management of commercial- and financial- organizations in critical decision-making processes through analytics and marketing expertise. This is executed through a comprehensive methodology in understanding clients and organizations to better develop and manage their customer relationships; translating to business profitability.

As a FTSE 100 constituent, our Client promotes greater financial health and consumer opportunity by helping its clients understand, manage and protect their personal information. Their services provides millions of individuals with secure, online access to their credit history and score, empowering them to manage and improve their financial status, and to protect themselves against fraud and identity theft.

The setting-up of our client's Global Shared Services Centre (GSSC) in Cyberjaya is detailed in this study.

Our Client established a Global Shared Services Centre (GSSC) in Malaysia in 2011. The GSSC is now managing end-to-end transactional processes of banking activities, supporting its Asia-Pacific and EMEA regions but has pipeline plans to support its Latin American-based operations.

The selection of Malaysia as our Client's location to centralise its operations is attributed to its ability to support both a sustainable and low-cost structure (see Asia-Pacific article above). The multifactorial decision was made on the foundations of encouraging advisory by the Malaysia Digital Economy Corporation (MDEC) – Malaysia's lead digital economy driver. In addition, critical factors included: our Client's established Kuala Lumpur-based development centres, and a readily available skilled workforce which elevated the confidence of our Client in realizing its GSSC ambitions in Malaysia. This initiative, a tangible extension to our Client's expanding ASEAN footprint, was a continuation of the build-out and consolidation of its GSSC infrastructure. The combination of factors including the need for operational standardization and room for scalability addressed our Client's concerns. In addition, Malaysia, a specialist centre for the know-how of the setup of GSSCs with well-equipped technology and infrastructure, met our Client's needs. These collective elements culminated in the strategic establishment of its GSSC in Cyberjaya – Malaysia's Multimedia Super Corridor, the nation's aspiring Silicon Valley.

Besides being at the heart of the MSC, other considerations when selecting Cyberjaya included the relatively economical floor space to real estate price ratio when compared with the central business district of Kuala Lumpur.

Our Client's objectives:

1. Establish itself as a centralised Centre of Excellence (CoE) in support of its global processing activities, achieving a high-level of efficiency.
2. Increase governance and control via a streamlined Standard Operating Procedure (SOP).
3. Retain growing talent by maximizing the use of

available resources with the scalability of the business.

- The implementation of the host-to-host connectivity, an automated system will result in cost savings on human capital enabling the stretching of resources for business expansion; enhancing its efficiency.
4. To leverage on industrial expertise.
 - An opportunity for the harnessing of subject matter experts in the management of GSSC operations.
 - This supports our Client's ambitions for global expansion, supplementary to the increase of global management capacity across our Client's global footprint.
 - Our Client's ultimate vision is for Malaysia to be a market leader for the management of its global operations.
 5. Promote scalability and flexibility in an effort to maximise its efficiency as a function of time and cost.

The Challenge

Our Client's primary concern was the streamlining of its payments process. Their far-reaching operations meant it required a financial services provider matching its global footprint. Consequently, our Client consulted its longstanding UK-based financial services provider – HSBC. The Global Liquidity and Cash Management Team at HSBC was quick in addressing the needs of our Client with the proposal of a centralized payments process across its extensive global network in a single location – Malaysia. As its core bank, it was a privilege for HSBC to tailor and execute a fit-for-purpose solution. The direct connectivity will lead to the efficient and streamlined payments process through a core financial institution.

Our Client's challenges:

1. The implementation of a colossal multi-country host-to-host connectivity presented various complexities. These included:
 - a. Differing payment policies due to country-specific regulatory requirements.
 - b. Development of various file formats.
 - c. Language barriers.

2. Ensure the confidence of business-as-usual (BAU) activities of no operational blackout periods during the migration process, ensuring continuity of its GSSC operations.

HSBC's challenges:

1. Malaysia was presented with a new and unique scenario given the shared bi-regional host-to-host connectivity.
2. The marrying of intercontinental products require specific configurations. HSBC Connect in the UK and Asia-Pacific have distinct configuration systems. These required the configuration for multichannel connectivity between HSBC Connect in the UK, Asia-Pacific and HSBCnet in Singapore with Malaysia, the GSSC location.
3. The one-of-a-kind case was approached iteratively as the challenge was a large and complex mandate with the involvement of a dozen countries and products with a plethora of regulatory constraints.

The Solution

A direct link between our Client's ERP and HSBC's back-end system was initiated through the host-to-host connectivity for straight-through processing of payment instructions, feeding back the electronic bank statement¹ and file² status activity report.

This designed structure lends creativity³ to our Client's solutions, product innovation, and flexibility; enabling the tapping of established infrastructure between our Client's operations in the UK and HSBC. The unique complexities provided HSBC Malaysia the opportunity to collaborate in a global and regional capacity, capitalising on collective expertise⁴ with a sustainable precision-led focus for an innovative solution to meet our Client's needs. This coverage extends to its Asia-Pacific and EMEA operations. Streamlining is required for the complexities of infrastructure, setup and cross-border operations between its Center of Excellence (CoE) team, HSBCnet profile, and host-to-host connectivity with its operations in Malaysia, Singapore and the UK.

The Transformation

HSBC's astute solution along with creative product

innovation translated into tangible time and cost savings, supplementing the augmented governance in the implementation of a single host-to-host connectivity, linking HSBC and our Client's global operations.

The extensive migration process involved various global systems. HSBC's proven implementation methodology⁵ effectively managed the seamless transition meeting the needs of our Client.

Project Execution

The execution of the 8-month end-to-end implementation was approached stage-wise, being broken down into three phases:

- Phase 1 – AU, MY, SG
- Phase 2 – HK, ID, NZ, TH
- Phase 3 – CN, IN, JP

A phased approach was chosen due to the number of countries and accounts falling beyond the standard scope. These include, amongst other reasons, the consideration of key countries, and the volume and frequency of payments received at the GSSC operations.

Countries such as China and Japan had a high number of requirements. This resulted in a high degree of complexity, with the decision being made that implementation would be deprioritised until phase 3. Besides, the file development for each country was handled by a single contact point in Malaysia to facilitate collaboration with our Client. Additionally, the appointment of a dedicated regional Client implementation manager in managing the end-to-end implementation process ensured the accountability and ownership of the process.

The 12-country host-to-host connectivity⁶ project resulted in 27 accounts across our Client's footprint, being centrally controlled by Malaysia's GSSC. The only exclusions were Taiwan and Vietnam, for whom documentation was collected and host-to-host connectivity set-up,⁷ but it was decided that control remain with the local teams due to system requirements and the volume of payments.⁸

¹ The electronic statement is channeled via a feedback loop. Moreover, this provides an audit trail for each file submission activity – file status activity report.

² The file refers to version 3 of the XML format; the industry standard supported by all countries, substantiated with its optimum format.

³ This exemplifies HSBC's prudent capabilities in the application of its intercontinental products. The premise rides on the existing infrastructure by assimilating cross-border products; extending the coverage with a mapped client footprint. This case study, showcased HSBC Connect in the UK and HSBCnet in Singapore.

⁴ Intercontinental and cross-product expertise in HSBC's markets in the UK, Singapore and Malaysia.

⁵ HSBC employs a project governance methodology in its client engagements. Specific to this unique case, a dedicated team was assigned with the cooperation between our client and the Bank, enabling the joint cohesive execution. The structured project governance included the implementation manager, scheduled client meetings ensuring checks and balances were on par with lead times, and the addressing of concerns and challenges. Four critical areas of governance include: documentation, discussions on file format and development, testing and live simulation. Finally, an in-built transition management phase was integrated providing our client the confidence of use of the newly implemented system.

⁶ Host-to-host connectivity is an optimal solution for high payment volumes.

⁷ The implementation project required the documentation of all countries involved irrespective of its utilization. Hence, the documentation for Vietnam and Taiwan.

⁸ Vietnamese and Taiwanese payment accounts are managed in the Malaysian GSSC owing to low payment volumes.

As an in-situ control during the implementation process, an implementation dashboard tracker was shared amongst all parties to detail and track the real-time progress of transactions. The pieces of information tracked were available to all stakeholders, ensuring all parties were in sync.

The challenges encountered:

1. Differing continental payment methods and file-naming conventions. The dichotomy between that of EU vs ASP, for example.
2. Non-receipt of acknowledgment files post-payment file submission via host-to-host connectivity during the testing phase.
3. Additional documentation lead time was required as our Client was in the process of updating country-signatories.
4. Differing country-specific regulatory requirements⁹ leading to an extended duration for the building of the systemic logic.

The implementation commenced June 2017 with completion in February 2018. This included a post-implementation review¹⁰ and a handover to the Client Services Team.

Mitigating shortfalls were essential in the implementation. Hence, scheduled calls were made to monitor the checks and balances on issues ensuring these were resolved in situ throughout the developmental phase. Moreover, our Client received continuous and conscientious support from regional client services managers throughout the project execution phase.¹¹

The Results

HSBC satisfactorily delivered all our Client objectives: the centralization of our Client's global operations resulted in significant cost reduction, increased efficiency and improved governance.

Next Steps

As our client plans to extend coverage to its operations in Latin America, the anticipated challenges are language and payment cut-off times owing to the widely-different time zones. Hypothetically, these items will be addressed with existing infrastructure established by the GSSC. Besides which, other items being considered are:

⁹ Distinct country-specific payment policies resulted in the complexity of the management of file formats. These involved domestic and international payments, including electronic reconciliation bank statements performed by our client.

¹⁰ Our client provided a positive account of their experience qualified by HSBC's accessible single point of contact and the well-executed implementation; respectively meeting and achieving our client's requirements and objectives.

¹¹ One of the stages of the implementation process will involve an implementation manager conducting a full-service review once the system is live. This creates awareness of the systemic operation and offers our client the continuity by means of management support.

1. The plausibility of maintaining a full-time in-country employee or hiring locally in Latin America are likely options, following the logic of established GSSC operations employed across countries in Asia-Pacific and EMEA regions.
2. Our Client's intent is for the Malaysian GSSC to receive payments from its Latin American operations once expertise is established.
3. The plausibility is for payment cut-off times to remain status quo as country cut-off times, enabling same-day processing shall remain.
4. The newly implemented host-to-host connectivity with Oracle approved payment instructions are automatically channelled for onward payment transmission.¹² This follows the configuration of our Client's setup by channelling payment files into HSBC Connect as practised in Malaysia.

"The implementation of H2H for the APAC region has brought a lot of benefits to the team and the general AP operations. Apart from the time savings, there's the additional level of security we have from a Controls and Compliance point of view. With the file transmitting directly from Oracle to HSBC, risk of mishaps at this stage of the process is removed and the need for approvers to log into the bank to review and approve the payments is no longer necessary as well. Looking at the future, with H2H in place, we can now transition to a more end to end automated (and reliable) payments process."

– Global AP Manager –

"From a user point of view, we see the effectiveness in terms of time spent by the team to perform the payment from start until payment approval. Host to host connectivity has eliminated manual intervention through payment file upload into HSBC.Net payment platform. Additionally, the time taken to prepare each payment has gotten shorter, more effective and straightforward. The time we saved has been put to good use in other areas (control and compliance, process improvement...)."

– AP APAC Team Lead –

Quantifiable Benefits

Reduction in time¹³ is one of the major advantages from the host-to-host connectivity implementation.

The 4 hours saved per end-to-end payment process had been channelled towards other business priorities, the exchange of knowledge, enabling employees the opportunity to up skill – an important element in any organization.

¹² PINO (Payment In Name Of) model used for the debiting of respective payment accounts.

¹³ A quantifiable 4 hours have been saved from HSBCnet's manual file extraction. The new mechanism systemically automates the upload of files for backend processing.

The significant savings in resources meant the additional capacity for the management of project improvement processes.

The reduction and mitigation from a risk perspective were notably tangible outcomes of this solution. Given the absence of human intervention, this eliminates the risk associated with confidentiality; enhancing the controls and risks present prior to the introduction of GLCM's solution.

The migration of outward telegraphic transfers from a process requiring a manually initiated online input to an Oracle integrated feed, directly into HSBC Connect has eliminated the element of risk associated with human error.

Other notable benefits include:

1. An enhanced Standard Operating Procedure (SOP), giving rise to a centralized workflow for the management of payments within the Asia-Pacific and EMEA regions.
2. The scalability of HSBC Connect in supporting payment volumes with the growth of the business.

HSBC Connect has transformed the operations for the payment processing to one of a higher degree of efficiency along with its scalability in support of higher payment volumes with the growth of the business. As a steadfast pillar of strength forming the foundations of the business units of our Client, these are continuous efforts on behalf of the GSSC in enhancing its operational efficiency.

Conventionally, in the processing of outward telegraphic transfers, GSSC captures the payment instructions manually via HSBCnet for all Asia-Pacific countries; post-HSBC Connect's implementation, the archaic processing method was demised and an automated payment with Oracle was directly sent to HSBC for processing. The time economised was allocated to core business activities and enabling the flexibility for the decrease in the GSSC's capacity in performing reviews.

The shift in governance with HSBC Connect can be viewed through a three-pronged approach.

1. The Finance team benefits from the elimination of the manual upload process as Oracle channels this systemically to HSBC Connect.
2. The approvals process eliminates the HSBCnet access stage. This translates to time savings in the management of the security device considering the authorisers are frequent travellers.

3. Embedded features enhancing security and control enables the straight-through processing of payment files sans manual intervention attributed to the automated Oracle file with HSBC's systemic 12-nation direct connectivity.

The final element – the monitoring process eliminates tracking of the HSBCnet authorisation flow of payments.

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