

Challenging the major players on Forex

TAKING banks head-on, Canada-based Custom House is now one of the world's largest non-bank foreign exchange businesses . . .

SYDNEY – In 14 years, a small foreign exchange business, set up primarily to convert US dollars into Canadian currency, has grown into a global business which handles around US\$15 billion annually.

Custom House, named after its first premises, is now one of the largest non-bank foreign exchange businesses in the world, with a focus on corporate business. Peter Gustavson, an entrepreneurial chartered accountant, founded the business in response to demands from American tourists visiting Victoria, the US/Canada border city in British Columbia.

Fraser Jeffries, Custom House Vice President Asia Pacific, says that, over time, Canadian businesses approached Custom House to facilitate international transfer of funds. Today, retail outlets are still located in Canada, but elsewhere, Custom House handles only corporate clients. Owned by a group of private investors, including founder Gustavson, Custom House operates in six countries outside Canada. It has offices in the US, UK, Australia, New Zealand, Italy and Singapore.

Following an injection of capital from a Boston-based private equity fund, Custom House is poised for expansion into new markets in Asia, and to launch new products for existing clients. It competes with banks for customers, with Jeffries saying that, in Australia, his team, which has grown from four people to 50 in four

years, has been signing up five new accounts each day. Between 2,000 and 3,000 Australian businesses, including professional firms, use Custom House rather than banks for their foreign exchange needs.



**Fraser Jeffries –
Soft launch of new
products.**

Clients range from universities to law firms and trading companies. The number of transactions may range from a single payment from a subsidiary to its head office overseas each month, to multiples of up to 1,000 payments a month by a travel wholesaler.

With prompt settlement, Custom House undertakes to transfer funds from one account to another in a day. The company moves around US\$4 billion through a network of bank accounts across time zones every day to fulfill its obligations.

Half of all transactions are now generated online, and Custom House can customise its software to suit individual industry needs. As it does not have to pay fees to correspondent banks overseas, Custom House is able to charge just \$10 per transaction, compared to \$25 charged by banks for foreign transfers.

Jeffries told *ATI* Custom House has done a

“ Custom House is exploring opportunities for JVs in China, Indonesia, Thailand and India ”

“soft launch” of two new products in Australia – a forward contract and an options contract. These products allow company treasurers to hedge their exposure from a modest amount of AUD100,000 upwards. They will progressively be rolled out to other markets where Customs House holds a securities licence, he says.

The firm's Asia-Pacific operations, including Singapore (which was set up in May) contribute a quarter of Custom House's annual profits, says Jeffries. The firm plans to develop its Singapore operations into a regional hub for Southeast Asia.

It is exploring opportunities to form joint ventures in China, Indonesia, Thailand and potentially India. Jeffries says Custom House is in advanced negotiations with a Thai bank to establish in Thailand. If it succeeds, the Thai business alone has the potential to double its total business in Asia-Pacific. Similarly, it is forming relationships in the banking sector in China, paving the way for a time when it is able to enter the market.

Jeffries says expansion into new markets is constrained by regulations in those markets. As countries deregulate their financial services sector, Jeffries says there will be more opportunities for non-bank players, such as Custom House.

Since 9/11, when terrorists bombed New York's World Trade Centre, Jeffries says the non-bank money service businesses has been cleaned up to weed out money laundering and terrorist money. “We have systems in place to pick up money laundering. We identify all our clients and have filters in place to ensure that the beneficiaries are who they say they are,” he says. **a**

Banks targetting India

N HARIHARAN
ATI Correspondent

MUMBAI – Several multinational banks are set to enter the Indian market. Foreign banks have targetted India, impressed by the pace of reform, bullishness of the stock market, interest from foreign institutional investors, and a brightening of the country's image.

Australia-based Macquarie Bank and Union Bank Of Switzerland are reported to be planning expansion in India. However, several foreign banks are unhappy with the Reserve Bank Of India's roadmap for liberalisation of entry norms for foreign banks, proposed in February last year. Pricewaterhouse Coopers (PWC) says 25 applications from foreign banks for expansion are pending with the RBI.

Foreign banks feel the RBI is too cautious. A British bank official says: “The reserve requirements are archaic, the restrictions on non-

performing loans are rather harsh, and mandatory lending is irksome.” A European bank says the RBI is still focussed on a past era of social lending, and that the Indian reform process is too slow. Relaxation of regulations is sought by bankers in areas such as priority sector lending, risk management products, derivatives, ownership rules, liquidity requirements and single borrower limits. The roadmap gives scope for foreign banks to set up wholly-owned subsidiaries, or to convert existing branches into wholly-owned-subidiaries. Changes are expected in the norms for evaluating investments.

IPO for DST maker

HONG KONG – Sandmartin International, a digital satellite television equipment maker planning a listing on the main board,

aims to raise HK\$150 million in its initial public offering. The Taiwan company, which claims it will be the only China-based digital reception product maker listed in Hong Kong, has largely ignored the Mainland's digital trend in its overall business expansion plan.

Of its original design manufacturing sales of HK\$1.2 billion in the year to June (up from HK\$600 million previously), 71 per cent came from Europe and the Middle East's satellite-television markets. Sandmartin designs and manufactures digital satellite set-top boxes and control switches for other brands. Last year, it made 1.8 million set-top boxes.

The President of Sandmartin International, Eric Hung, said: “China is a potential market but the digitalisation of its cable network is slow, and the content is unattractive.” The company is not selling its products in China.

Sandmartin plans to sell telecommunications infrastructure products, such as wireless fidelity devices, this year. About 400 of its 4,800 global staff are engaged in engineering and research and development. **a**

– James Yapp