The Role of Network Management

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Discussion Outline

- Why have a network management team?
- Scope of the challenge
- Network management value proposition
- JPMorgan Network Management: our clients
- JPMorgan Network Management: key strengths
- The buying team model
- Key network business activities
- JPMorgan Network Management organization

- Provider selection overview
- Provider selection — the process
- Risk management
- Ongoing management of the cash network
- Case study
Why Have a Network Management Team?

CHANGING regulatory structures

CHANGING expense of participation in clearing systems

CHANGING business volumes and values

CHANGING client needs

CHANGING world economic and political conditions

Require global standards for:
- Operational capability
- Cash management
- Risk management
- Industry communication
- New business extension
- Leveraged buying

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Why Have a Network Management Team?

Require global standards for:
- Operational capability
- Cash management
- Risk management
- Industry communication
- New business extension
- Leveraged buying
Scope of the Challenge

- 289 branches or subsidiaries
- Complete product set: cash mgmt, trade, trust, custody, securities, credit
- 454 agent and partner bank relationships covering 98 countries and 91 currencies
- Over 8,000 foreign currency accounts
Network Management - Value Proposition

- Provide a global focus for consolidating requirements and leveraging buying power
- Provide information on products, costs and buy-side relationships to internal users, enabling the firm to make better decisions
- Manage complex projects involving international banking relationships
- Manage risk associated with agent bank activities through consistent global standards to ensure service quality
- Work with internal partners to optimize our service costs
- Assist Product Management in designing and implementing structures
<table>
<thead>
<tr>
<th>JPMorgan Network Management — Our Clients</th>
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</thead>
<tbody>
<tr>
<td><strong>Treasury Services</strong></td>
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<tr>
<td>Cash and related value added services for all entities and lines of business within JPMorgan Chase &amp; Co. including: Treasury Services, Worldwide Securities Services, Investment Bank, Asset &amp; Wealth Management and Retail Financial Services</td>
</tr>
<tr>
<td><strong>Investment Bank</strong></td>
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<tr>
<td>Institutional Equities Group (including Cash Equities, Equity Derivatives, Securitized Derivatives, Securities Borrowing and Lending, Convertibles, Program Trading, Proprietary Trading, Syndicate Desk, etc.)</td>
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<tr>
<td>Credit and Rates Group (including Government Bonds, Repo, etc.)</td>
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<tr>
<td><strong>Worldwide Securities Services — Investor Services</strong></td>
</tr>
<tr>
<td>Central Banks, Corporate Plan Sponsors, Endowments &amp; Foundations, Asset Managers, Investment Managers, Public Fund Managers, and Regional Banks</td>
</tr>
<tr>
<td><strong>Worldwide Securities Services — Institutional Trust Services</strong></td>
</tr>
<tr>
<td>Broker dealers, hedge funds, banks, and investment banks</td>
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# JPMorgan Network Management — Key Strengths

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<th>Global Presence</th>
<th>Market Expertise</th>
<th>Consulting</th>
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<tr>
<td>Network Managers for cash and securities are located around the world to be close to markets in all regions.</td>
<td>JPMorgan has extensive knowledge of markets. Clients rely on the depth of our analysis to understand and mitigate risk.</td>
<td>Network Managers work one-on-one with clients to handle difficult market entry issues or special transactions. They also consult re local markets.</td>
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<th>Agent Management</th>
<th>Technology</th>
<th>Network Training</th>
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<td>JPMorgan has a dedicated group focused solely on establishing and maintaining efficient agent interfaces and monitoring the service delivery performance of our agent network.</td>
<td>Network Management has embarked on a project to use cutting-edge technology to store market information, deliver data to clients and interface with agent banks.</td>
<td>The Network Management Team trains clients and staff through both client forums and classroom settings.</td>
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Key Network Business Activities

**RISK MANAGEMENT**
- Risk self-assessments
- Nostro cycle changes
- Nostro network rationalization
- Credit balance monitoring
- SSMPA\textsuperscript{SM}, DSA\textsuperscript{SM}
- Agent bank agreements
- Risk mitigation efforts
- Analysis of questionnaires
- Financial review

**AGENT MANAGEMENT**
- Performance Measurement
- On-Site Visits
- Alternative Vendor Reviews
- Credit Reviews
- Product Development

**NETWORK EXPANSION**
- Identify a need
- Perform market research
- Select an agent
- Perform due diligence
- Manage risk

**MARKET MANAGEMENT**
- Active involvement with local market participants
  - SWIFT, regulators, stock exchanges, depositories
- White papers and presentations
- In-country visits
- Industry initiatives: SWIFT, G30, European consolidation

**CLIENT CONSULTING AND NETWORK PRODUCT SUPPORT**
- Commercial Cards
- In-country Treasury Services
- Outsourced/white label service provider solutions
  - Approvals for new foreign currency accounts
- Market Information
  - MIS reporting
Historically, separate network management groups supported the firm’s securities and cash networks. In January 2005, these were combined into a single group.

The firm-wide Network Management team has a global view with respect to the scope of relationships with local providers.

The JPMorgan Network Management organization is comprised of staff located in:

- New York
- London
- Bournemouth
- Hong Kong
- Singapore
Network management staff is specialized to face either externally (primary focus on interacting with the providers and others outside the firm) or internally (primary focus on interacting with JPMorgan colleagues).

- **Region managers** and **network managers** face externally, providing:
  - **Market and product expertise:**
    - Identify potential providers to meet clients’ requirements
    - Participate in industry and local market initiatives
  - **Focal point for buy-side relationships with providers:**
    - Manage the negotiation and selection of agent banks according to established standards
    - Present and negotiate RFPs/RFIs, contracts and SLAs
    - Manage service reviews and provider performance to meet the firm’s risk standards

- **Relationship contact:**
  - Communicate regularly with Treasury & Securities Services and Investment Bank Relationship Managers on provider relationships; may call jointly on providers

- **Implementation support:**
  - Work with Implementation team to facilitate issue resolution with providers
Network Support Manager/Global Team Members Face Internally, providing:

- **Business Interface with internal partners:**
  - Manage business requirements and support service reviews

- **Transitions and sourcing:**
  - Support entry into new markets and initiation of new business
  - Prepare RFPs/RFIs
  - Manage conversion projects
  - Conduct in-country agent visits

- **Agent fee processing:**
  - Receive, validate and pay agent invoices

- **MIS/Data analysis:**
  - Provide financial forecasts and analysis; measure agent performance

- **Information control:**
  - Manage documents and templates, prepare for internal and external audits

- **Technology management and business re-engineering:**
  - Support firm-wide strategic projects in technology and credit; manage contingency plans
Provider Selection – Overview

Treasury and Securities Services and Investment Bank product companies provide strategic input for network management implementation

- New product or service launch drives new local market solution
  - Agent bank appointment
  - Develop in-house local solution

- Product strategy requires reassessment of local provider capability – key drivers:
  - MarginSCALE of existing service offering
  - Competition
  - Growth outlook
  - Balance of trade

Ongoing Provider Assessment within Network Management may also trigger selection process

- Performance measurement
- Value for service
- Balance of trade
- Risk assessment

► Firm-wide network management team has a global view across the organization with respect to the scope of our relationships with local providers
Provider Selection — The Process

- The drivers behind the selection of a provider vary by product.
- Overview of RFP/RFI process for cash correspondents and custodians
  - **Project Start** — RFP is issued
    - Input regarding provider list is taken from key stakeholders provider to issuance.
    - Initial due diligence, including credit approvals, is completed.
  - **Phase 1** — Review of RFP responses
    - Regional network management reviews responses
    - Initial recommendation by Network Manager
  - **Phase 2** — Senior network management review and external vetting of initial recommendation
    - Review of Phase 1 analysis with regional network manager and network management executive
    - Finalization of recommendation
  - **Phase 3** — Communication of provider selection
    - Communication of decision on selected provider to impacted LOBs and other interested parties, internal and external
    - Completion of selection process, including documentation
    - Execution of decision
Risk Management

**Internal policies (including Credit)**

- Fed Audit Compliance
- Market crisis management
- Contingency
- Nostro cycle change process (management of Nostro account moves and SSI changes)
Risk Management, cont.

NOSTRO OVERSIGHT:

- **Number of accounts**
  - Do we have the right number of accounts, in the right currencies, to support our business?
  - Can business units share one account rather than maintaining separate accounts in a currency? This can also help achieve efficiencies in funding.

- **Dormant accounts**
  - Are we monitoring activities across accounts to identify dormant accounts?
  - Are we looking to close accounts that are likely to have little or no future activity?

- **“Leftover” accounts from past mergers**
  - Have we closed unneeded accounts of banks we have merged with over the years?

- **External vs. in-house accounts**
  - Are we using an external agent to support business that we also process internally?
  - Is there an opportunity to bring the business in-house?
Ongoing Management of the Cash Network

- 2 way performance reviews
- On-Site due diligence
- Point of escalation
- Administration of SLAs
- Firm-wide Issues Log
- Market changes (Newsflash)
- “Atlas” of cash accounts

“Ensuring that our network of agent banks continue to provide the high quality service demanded by JPMC in order to service the ever growing and changing demands of our internal customers and their clients”
### Selection criteria example case study: Comparison of two banks

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<th>BANK 1</th>
<th>BANK 2</th>
<th>BUSINESS IMPACT</th>
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<td><strong>Product and Service Capabilities</strong></td>
<td>Well established and tested. Ability to leverage global or regional infrastructure and expertise.</td>
<td>No track record in that local market. Limited technology and product capability. No global infrastructure.</td>
<td>Financial/Reputational - Lack of capability will result in additional manual intervention by JPMorgan.</td>
</tr>
<tr>
<td><strong>International Standing</strong></td>
<td>Recognized in numerous industry publications as top provider in that local market</td>
<td>Does not feature for that local market in any international provider profile or survey that we have identified or acknowledged. These surveys act as a benchmark for subcustodians.</td>
<td>Reputational – Given the structure of the market, a move would require our clients to write a request to the regulator to transfer accounts. This would be a difficult request given that the move would be from a top rated provider to an unknown provider.</td>
</tr>
<tr>
<td><strong>Capitalization</strong></td>
<td>Entity is well capitalized and JPM relies on parent guarantees where needed.</td>
<td>Market capitalization is significantly less than that of top providers.</td>
<td>Financial – Insufficient capital could result in bankruptcy.</td>
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<td><strong>Consultancy</strong></td>
<td>Historically, seasoned in understanding nuances of non-domestic clients and providing appropriate solutions in that local market. Increasing dominance, however, of market share may have led to more commoditized, less bespoke, service.</td>
<td>No experience with foreign clients in that local market. Committed, however, to offering bespoke solutions to meet client needs.</td>
<td>Reputational — JPMorgan adds significant value to our clients through our ability to create solutions for clients.</td>
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<td><strong>Fees</strong></td>
<td>JPMorgan enjoys volume discounts through relationships across several markets.</td>
<td>Fee structure may be favorable on a local market basis, but bank would likely incur additional operational costs to insulate clients from product and service gaps.</td>
<td>Financial — benefit in using Bank 2 may be offset by increased internal operating cost.</td>
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Questions?