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November/December 2018

Surviving a black swan

Black swan events like the financial crisis are difficult if not impossible to predict but that doesn't mean treasurers cannot take steps to prepare for the wholly unexpected.

The Corporate View

Silver Zuskin

Finance Director and EMEA Treasurer

Dell

The Industry View

Christoph Dubies

Chief Strategy Officer

Serrala

Insight & Analysis
The payments revolution and treasurers

Technology
Are you making the most of big data?

Risk Management
Hedging in a volatile world

Back to Basics
KYC in the spotlight: ignore at your peril

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The five Ps of successful treasury

Was it by accident or design that this issue has more than a few articles geared to helping treasurers prepare for and overcome adverse situations? The world has been gearing up over the past year with some interesting challenges, so perhaps for the final publication of the year such an editorial schedule was inevitable, however it came about.

The escalation of trade tensions between Washington and Beijing; continued emerging market currency weakness; the increasing risk of yet another global recession; Brexit uncertainty; rising political risk: they're all hot topics for those who care to speculate on their outcome over coming months, and hotter still for treasurers charged with having to deal with them.

But look at almost any year with the benefit of hindsight and somewhere, something went contrary to planning. For treasurers then, it's all part of a day's work. That said, being a treasurer has the potential for a little too much excitement sometimes. That's why the old adage of 'proper preparation prevents poor performance' rings as true now as it ever did.

In corporate financial terms, successful adherence to the aforementioned 'five Ps' almost certainly means timely access to accurate and relevant data. In this issue's technology feature we consider ways of revealing and dealing with new patterns, trends and associations that exist in the vast resource that is big data.

We also contemplate specific actions treasurers can take when a black swan event ensues, considering some of the steps that can be taken to minimise the risk of these unexpected but significant occurrences. Continuing the risk theme, we ask a panel of experts to share their views on how to avoid common hedging mistakes. We follow up with a back to basics look at sanctions compliance, tackling the all-too-pertinent corporate concept of 'knowing your customers' customers' and the importance of understanding the beneficial ownership of the companies with which you deal.

We live in interesting times. Michelle Obama had it about right when she said: "Your experience facing and overcoming adversity is actually one of your biggest advantages". Well, that and a healthy amount of planning.

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Great expectations: making the most of payments innovation

The payments space has for some time been a hotbed of innovation. Much of what has been brought to market is consumer-driven so should treasurers watch and wait or act now?

It's hardly surprising that most of what is written and spoken about in terms of payments innovation eventually boils down to delivering the right 'customer experience'. And why shouldn't it? Giving customers the best possible user experience when it comes to meeting the fundamental need for every business – being paid – makes perfect sense. An effective payments experience may not be the main reason for using one business over another, but frustrate that process with poor technology and, rest assured, customers will go elsewhere.

Increasingly, there is a blurring of the distinction between the user experience expected by consumers, where most new technology is launched and proven (or killed off), and that of the corporate community. After all, every commercial user is at some point a consumer and will have a view on what is good and what is not. As consumer-style payments innovation reaches further into the corporate space, so expectations rise amongst companies and their customers of a similar experience.

Consumer and business needs "for a better experience, for simplicity and security" are commonly in the driving seat, with regulations such as PSD2, initiatives such as the UK's New Payments Architecture (NPA), and the roll-out of more real time gross settlement systems globally, propelling the market forwards. For Dino Nicolaides, MD, Head of Treasury Advisory UK&I, Redbridge Debt & Treasury Advisory, companies that keep pace with the right innovations will be dodging a bullet marked 'competition'.

The kind of innovation that is meeting this need is rarely a bolt from the blue. Instead, it is typically the result of evolution, notes Nicolaides. It is the adaptation of existing technology and knowledge "to provide something extra that serves or creates a need".

In practice, this usually means being able to offer corporate customers a tailored version of mobile, online and real-time payments services and, vitally, the user-friendly experience they have come to expect in the consumer space.

Mark of success

There is no shortage of new payments products vying for corporate attention. For Nicolaides, meeting the wants and needs of customers through these systems seems like a "no-brainer" given the competitive nature of most commercial sectors. If a solution "ticks all of the boxes" then its success is, or should be, inevitable.

However, he recognises that not all innovations tick all the boxes. Sometimes new solutions fall foul of over-complexity or lack end-user confidence, the latter despite the emergence of new 'RegTech' solutions to help businesses combat fraud and comply with KYC and AML requirements. But for corporates, he reports persistent concerns over how a new solution will be adapted and integrated into an existing infrastructure.

For vendors, it is a hard market to penetrate, and uptake of any innovation depends on many other factors, not least cost of ownership and the degree of need it is satisfying. Some solutions manage to create their own need but for most, the future is uncertain, notes Nicolaides. "If it is a nice-to-have, then it is competing with many others and may struggle. If it meets a real need that nobody has satisfied before, only then will it become a no-brainer."

The agile fintech community has a hard time getting innovation accepted, but banks are not immune. For Phil Beck, Head of Treasury Management at Capital One Commercial Bank, there are three main issues that can hold back progress, at least from a commercial banking standpoint. The first is the age of the underlying technology across many institutions. Legacy mainframe technology (which in most cases is over 20 years old) was not built for the demands of mobile channel provision and real-time data access, he says.

Secondly, the needs of corporate clients are vastly more complicated than for individual consumers. "When an individual logs into a banking platform, generally speaking, they have full authority to do everything they need to do. In the corporate environment, different people have different access rights and processes span across organisational boundaries. That complexity makes the development and adoption of innovation a challenge."

Thirdly, there is often an end-user change management challenge. Modernisation can sometimes be slower or less comprehensive than users expect, especially given the underlying technologies many institutions are working with and the relatively simple consumer experience most critics use as their reference point.

Fit for purpose

Of course, the threat of cybercrime is never underplayed in the corporate space and innovation in fraud prevention is developing in parallel with payments solutions. "Solution providers have to keep one step ahead of the fraudsters," says Marcus Hughes, Head of Strategic Business Development, Bottomline Technologies. "By using machine learning and artificial intelligence (AI), they are making sure both banks and corporates have the means of monitoring transactions and behaviours, looking for anomalies."

> Blockchain too has great potential but the agenda is so full there is almost project-overload, meaning delivery of some of the opportunities for treasurers are still years away.
>
> Marcus Hughes, Head of Strategic Business Development, Bottomline Technologies

In what appears to be a difficult set of circumstances for most commercial payment providers, Beck says services being delivered today are "adequate" and rarely of the quality a corporate might expect, given the raised expectations they have from their experience as consumers.

For Nicolaides, the notion of whether current tools are fit-for-purpose is not so clear cut. What may be unsuitable for one business, sector or even country, may be perfect for another. It may be that hard currency is the only appropriate payment type in countries where there is black economy and little trust in the banking system.

Mindful of the constraints on progress, treasurers still want their own payments experience to be as simple and as easy as possible. Having the fingerprint or face ID-type log-ons that make life easier in the consumer world are being used in the commercial space "but nowhere near as broadly as they could be", Beck notes.

Having the ability to log into one platform and see all account activity across an entire enterprise – versus the painful reality of using multiple tokens (50 or more is not uncommon in a large treasury) – is another 'emerging' corporate user experience. The relatively slow progress here suggests that current corporate solutions have some way to go, but Hughes rightly points out that the adoption of cloud technology "has brought major benefits" in terms of a quicker go-live, lower cost of entry and ownership, and indeed of future-proofing the organisation.

People-driven

When it comes to innovation, the starting point is finding a genuine need for end-users, notes Nicolaides. Most innovations then require those users to adapt to how they will be used. So, is technology driving the way people think about their payments experience? Or is the way people think about payments driving technology?

"There are definitely some solutions out there – mostly on the periphery – that are looking for problems," notes Hughes. The idea of using cryptocurrencies for cross-border payments being one example – one that he says already has regulators pondering the implications. "Blockchain too has great potential but the agenda is so full there is almost project-overload, meaning delivery of some of the opportunities for treasurers are still years away."

Beck shares this view of blockchain. "Look at the amount of publicity that it receives; it is a great example of how technology is trying to drive an agenda," he says.

In most cases (blockchain may be the exception), Beck feels this 'innovation-first' approach has limited success. "Despite a lot of hype, the impact is usually much more muted than what people might think is happening out there." On the other hand, he believes there is a "significant amount of business-led innovation" that is pulling technology into leveraging change in the customer experience.

Real time processing sits somewhere in the middle. Instant payments tools have been successful in the consumer space, but for corporates, "the jury is still out", says Hughes. Many treasurers are content with batch processing for most payments (and the three-day cycle in the UK will be ending over the next few years under NPA; other jurisdictions will surely follow just as they have with instant payments).

What treasurers really want, he notes, is real-time information. "It is more important to get the data showing what the payment relates to, and to know the payment is on its way or has been received by the beneficiary," he explains. SWIFT's gpi seems to answer the 'track and trace' need for certainty and visibility in single bank-to-bank transactions: its function in a multi-banking context is understood to be on the SWIFT agenda.

Expectations

If, within a new technology, its security is a given (and it should be), it offers a genuine and easily realisable benefit to the user, and there is a realistic cost of ownership, the other key requirement for corporates has to be ease of deployment, says Nicolaides. Any new system needs to integrate straightforwardly into existing business operations, not demand that its users undergo major technical surgery and process change. Indeed, Beck notes that "our customers want software to fit their needs now; they don't want to have to build new processes for where a solution falls short".

However, notes Hughes, it is possible that the deployment in the banking sector of certain technologies, notably APIs, will lead to the commoditisation of some processes. Standardisation will be great for corporate efficiency – especially when allied with AI and data aggregation tools to give vastly improved data sharing and analytics – but it does raise a question around service provider differentiation.

"If connectivity becomes commoditised, it will be the value-adding solutions that count," he suggests. "That means processes such as cash flow forecasting, netting, spend analysis, cash allocation and bank fee analysis will need to become easier and quicker for treasurers."

Of course, in reality, not all technologies are created equal and it is the adoption of the right technology that makes the difference, adds Beck. Backing the wrong horse is never good for business (Betamax anyone?). As such, it may seem

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>
> Phil Beck, Head of Treasury Management, Capital One Commercial Bank

counterintuitive, but competition and collaboration must become the norm.

The more payments systems and carrier channels are connected, the better the user experience. But as technology becomes more interdependent and complex, providers will have to accept that they cannot do everything, notes Nicolaides.

Amazon's Alexa can automate home lighting, heating or entertainments systems but Amazon does not make these systems; it leaves that to the experts in their fields. The positive outcome is one of necessary collaboration, because offering a better user-experience is only possible when specialists work together. "It is an analogy that applies to payments because to work well, payments need to integrate with ERPs and TMSs and be compatible with a host of other corporate systems, each built by specialists. That can only come from collaboration."

Disintermediation

That banks can differentiate through the adoption of the right technology is going to become more important. Regulatory change is paving the way for new payment providers to fundamentally transform the way this industry works and banks need to up the game.

Open banking, for example, is going to make multi-banking easier, especially for the midcap corporates, says Hughes. "Most of the news so far about open banking has been consumer-focused. There is a big opportunity for corporates here but more education is needed as not everyone is fully aware of the possibilities."

With the roll-out of the APIs that facilitate open banking making headway (many banks at least have some programme in place), the idea that banks would somehow be disintermediated by the onset of PSD2-fuelled non-bank payment service providers is perhaps misguided. In fact, for Hughes, the early hype that promised a new breed of fast-moving fintechs "so innovative that they would eat the lunch of the incumbent banks" has largely dissipated.

Banks do not have the agility to develop cutting-edge solutions but they remain largely well-trusted. Fintechs have that agility but are yet to earn the trust. Herein lies the basis of a perfect partnership (one often resulting in the bank's acquisition of the fintech). For Beck then, the future "will be nothing like how the market seemed to think it would be, with banks relegated to being relatively dumb back-end pipelines".

Most banks today also understand that any business that is marginalised to the point where it cannot directly engage with its customers, or collaborate with them to drive innovation, is in trouble. They know that disintermediation from their customers is bad for them, obviously, but also for their corporate customers.

Long-standing relationships would be weakened. In treasury, these relationships extend way beyond just the transaction banking components; think about the impact on credit facilities and access to liquidity in stressed times. Clearly there is cost-benefit analysis to be undertaken when considering service portability versus strength of relationship.

"In most sound business relationships, technology is only ever an enabler," states Beck. "It should be driving tighter collaboration. For treasurers, I see a future where innovation actually brings the parties closer together."

Early adopter

By implementing the right tools, corporates and their treasuries have an opportunity to become part of an ecosystem where the whole is greater than the sum of its parts.

Although some of the current crop of innovations could be transformative, potentially having an immediate broad appeal (blockchain, for instance, if it gets past the hype phase), most new ideas will initially find their place in a retail or consumer context before transferring to the B2B environment. Request-to-pay, for example, will likely evolve into an e-invoicing system for business, with essential add-ons such as multiple levels of approval and access to supply chain finance helping to automate the financial supply chain with the integration of payments and documents.

The 'consumer before corporate' pathway is no bad thing. Taking this route allows each innovation to organically take root and build scale before being migrated into the vastly more complicated and far less homogenous corporate environment. Business users, including treasurers, will know what works for them as consumers, and they can see new technologies rise to the top or fall by the wayside under this harsh real-world scrutiny.

The providers of these technologies – banks, fintechs and vendors – are naturally keeping close tabs on every outcome. Where a corporate use case can be found, the need for every provider to differentiate in this competitive market will ensure innovation continues to be delivered.

But 'innovation' status doesn't last forever. Treasurers need to stay alert to movements in the consumer payments space and know when the time is right to move. Customers have great expectations and stealing a march on the competition with the best payments experience is a good way to keep those paydays coming.

PSD2, WAVES OR RIPPLES?

European banks are pressing ahead with digitisation in the wake of the new payment services directive, but there are various ideas on what shape the bank of the future will take.

After the hoopla that preceded its launch back in January, is the revised Payment Services Directive – aka PSD2 – making waves in Europe's retail banking market?

The impact of PSD2 was one of the issues covered at Diebold Nixdorf's annual internal management seminar, held last week in Lisbon. The US multinational is the biggest provider of ATMs with a share of one third of the world market.

Diebold's chief executive Gerrard Schmid believes that PSD2 has encouraged European banks to become more agile and has also made them more "structurally sound" than their US peers.

- Chief Marketing Officer Devon Watson identified four main drivers that are shaping the sector's future. These are:
  - Rising competition as new entrants are encouraged to join the market.
  - Shifts in banks' cost base in providing various services.
- Consumer evolution, with some ongoing shifts in customer behaviour more evident than others.
- Unbundling, which in Europe is led by PSD2.

A shrinking network

As banks reassess their role, they do so against a backdrop of a steady decline in the number of traditional bricks-and-mortar branches in many countries and in some a standardisation of services.

The ATM pooling delegated to Bankomat seems likely to be a trend that will extend to other countries in time. The steady decline in Sweden of cash as a payment method, accelerated by the introduction in 2012 of the banks-supported Swish mobile payments system, has seen the number of ATM withdrawals also reduce. When Bankomat took over a total of 3,800 machines it promptly removed 1,000 of them from the network, while many of those remaining have been relocated from bank branches to shopping malls.

Limited impact

As the Lisbon conference demonstrated, those traditional branches that do survive are shifting their focus away from transactions, with self-service being ramped up, and are concentrating more on customer relationship management. "German banks now charge customers for using a teller if it's a transaction that could have been done via self-service," says Matt Phillips, Diebold's VP for banking sales in the UK and Ireland. "UK banks would like to do likewise, except no-one wants to be first to make the move."

He believes that PSD2 has yet to make the impact on the market that many anticipated. "There was a lot of nervousness from the traditional banks that they could lose market share to the likes of Monzo and Atom Bank, but there's not yet much evidence of them making significant gains."

App-based Monzo in particular has won a following among younger consumers and kudos for its ethical policy. The newcomers "offer a seamless banking experience, but people still want an established name when, for example, they are taking out a mortgage and even when they have suffered a bereavement and want to be helped through the process," suggests Phillips.

So despite the advent of open banking "the big banks still have a major advantage and also the most data, which enables them to offer customers something personalised. It's a massive advantage."

What form the bank of the future will take has still to be determined. Examples range from the coffee shop format pioneered by several Dutch banks to the tech-heavy branches now being rolled out across the Middle East by Emirates NBD, complete interactive tellers and the humanoid robot Pepper – already used by the hospitality industry – used to meet and greet customers.

Black swan: expecting the unexpected

It happened ten years ago, but memories of Lehman Brothers' collapse in September 2008 still strikes fear into the heart of corporate treasury. The paralysis in short-term liquidity markets and wider capital market dislocation made refinancing maturing corporate debt nigh on impossible. "Liquidity dried up across the whole financial market," recalls Stephen Hogan, Vice President Regional Treasury Asia Pacific at Deutsche Post DHL Group, based in Singapore for the past 14 years.

DHL has since set up a syndicated loan facility that guarantees access to credit in times of crisis, and the global logistics group spreads maturing debt across multiple years, ensuring refinancing never all comes at once. "If you were trying to refinance after Lehman's it didn't matter who you were, you couldn't. We now pay to have committed credit lines in place because that's what you need in a crisis," says Hogan.

High impact, low likelihood black swan events, often only explainable after they happen, are in fact surprisingly common. Lehman's collapse, 9/11, Japan's devasting 2011 earthquake and its impact on the Fukushima nuclear power plant, and Iceland's volcanic ash cloud are just a few. Black swans are destructive, particularly if they catch a corporate with thin margins and high gearings, or at a weak moment in its history. The Lockerbie bombing was struggling PanAm's

> Relationships built up over many years enabled us to mount the biggest corporate financial defence of all time.
>
> Dev Sanyal, Executive Vice President and Group Chief of Staff, BP

deathblow; BP called the Deepwater Horizon tragedy in the Gulf of Mexico the greatest challenge in its 100-year history and "threatened its very existence"."

Black swans are difficult to predict and therefore plan for – thinking the unthinkable is after all an oxymoron. Yet an operational crisis can quickly develop into a financial crisis and treasury's role in preparing for the unexpected is both essential, and entirely possible.

First and foremost, treasury needs liquidity on hand. DHL measures how much liquidity it needs on standby in its syndicated facility by running stress testing scenarios. It's a trade-off between the cost of the facility and the damage wrought without it, says Hogan. "You need to balance the cost with the need, and the problems that may occur if you can't access it." Other strategies to meet sudden and unexpected calls on liquidity could include liquidating bonds, says Socrates Coudounaris, Chairman of the Institute of Risk Management. He points treasury teams to the World Economic Forum's annual Global Risks Report to identify which risks and consequences are most pertinent to the business.

For companies that find borrowing challenging or want to reduce the cost of drawing on credit facilities, alternative liquidity preparation could include mobilising cash from within the organisation. Treasury could transfer cash from a market that is generating excess cash to one that is short or look to supply chains to discount receivables and free up working capital that way. It requires a transparent view of cash levels and good data, says Victor Penna who heads Standard Chartered's Europe and Americas cash management team. "Every crisis has the same result – liquidity dries up. A really good treasury makes sure there are different routes for funding the business, so if treasury is caught out in one area it can utilise the other."

Strong bank relationships

There is nothing like a sudden liquidity call to test the mettle of banking relationships. High-touch, trusted banking partners who understand the business and the market it operates in are key to survival in a crisis. And banks which know the corporate best and have long provided the nuts and bolts of its day to day banking are most likely to answer urgent demands for credit.

Witness BP's 86-day, high-stake battle to stem the flow of oil gushing out of the Deepwater Horizon well. Political pressure and negative press, coupled with a downgrade in the company's credit rating, saw some banks fall away. Yet BP's long-term core lenders held steady, sure in the knowledge that the company's strong assets, credit profile and the contingencies in place, would prevent insolvency.

"Relationships built up over many years enabled us to mount the biggest corporate financial defence of all time," said BP's Dev Sanyal, Executive Vice President and Group Chief of Staff speaking in 2012.

Indeed, black swans galvanize and fortify treasury's banking relationships and can lead to opportunities for the banks that stay the course. A crisis can act as a catalyst for companies to have a fresh look at their capital structure or lead to decisions to sell off none-core assets, says Lance Kawaguchi, HSBC's Global Head – Corporates. "The relationship can grow closer because treasury is engaging with banks even more," he says.

Umbrellas

Hedging is another vital tool, allowing treasury to prepare ahead by transferring credit, interest rate or currency risk to market counterparties. But just like assessing liquidity needs, it's a question of judgement, bearing in mind interest rate, credit and currency markets start to price risk quickly as soon as the storm clouds appear.

Take Brexit as an example, says Andrew Lillywhite, Head of Treasury, Products and Distribution at Investec. He argues a 30-40% devaluation in sterling following a no-deal Brexit would qualify as a black swan today because it's not priced into the market. It means UK corporates with exposure to a fall in sterling should make choices today whether it's worth paying the price of transferring that risk to a bank, versus the potential cost to their business if the pound plunges. "The price of umbrellas is always highest when the storm is approaching," says Lillywhite. "Treasurers need to be engaged with trusted relationships who understand their business and have an appetite to take risk off their hands," he says.

Other strategies to offload risk could include diversifying suppliers or buying insurance so companies can pay for losses quickly, easing liquidity constraints and smoothing balance sheets. Insurance also protects against counterparty failures, but perhaps most importantly its purchase – or not – involves a thoughtful process which clarifies what the risk is, the scenarios where it could play out and the financial implications.

For treasurers who question if the right instrument exists to insure their specific risk, this process will flag the gaps, says Coudounaris. Brokers then advise companies what cover is available, and treasury can decide if it's worth it. It was exactly this thought process that led some airlines to buy insurance cover for volcanic ash-related claims and others not to bother – until Iceland's 2011 volcanic ash cloud proved its worth. "Once bitten twice shy; now they all do it," says Coudounaris.

Moreover, the cost of premiums allows treasury to draw on an external view of risk. Premiums reflect the market's view of

> Try and break your organisation; then work backwards to see what you need to do to ensure it doesn't break.
>
> Socrates Coudounaris, Chairman, Institute of Risk Management

the health of the company's balance sheet and its preparedness, just like home owners with burglar alarms pay smaller premiums. "A premium is a proxy for risk so if the premium is high, the question is: 'why is that premium high?' Think of it like a credit rating," says Peter Johnson, Senior Vice President at Marsh Risk Consulting.

Stress test

Organisations with well-built and practiced crisis management programmes are best placed to navigate black swans, and reverse stress testing is an important tool for informing these forward thinking, well-planned scenarios. "Try and break your organisation; then work backwards to see what you need to do to ensure it doesn't break," says Coudounaris.

This could involve stress testing supply chains, particularly for concentration risk, so companies can identify alternative sources and know ahead what it would cost. These are just the type of strategies that would have helped Japanese auto firms better navigate the impact of the Thai floods in 2012 which revealed the fragility of international manufacturers' supply chains. A deep dive into customer behaviour is also helpful for forecasting cash flows. "It reveals who pays on time and who pays late, from which treasury can deduce what proportion of revenue comes from late payers, and how many there are, all of which can have significant impacts on your forecasting," suggests Mark O'Toole, Head of Sales and Marketing at Cashforce, a fintech platform for treasurers. O'Toole also argues that the growing frequency of black swans means treasury should increasingly plan for the grey area between a white swan world of smooth corporate strategies, and the unpredictable devastation of a black swan event.

Yet unlike banks and insurance companies where regulation now forces stress tests, the average corporate doesn't have to comply with capital adequacy or solvency regulation. Although FTSE listed companies must meet governance codes in line with Financial Reporting Council, FRC, rules, filing corporate accounts and an audit from one of the 'big four' doesn't equate to stress testing. Nor is it something that can be easily done on an Excel spreadsheet, says Standard Chartered's Penna.

Stress testing tends to be confined to sophisticated companies which have learnt hard lessons from their exposure to global markets and seen first-hand how risk bleeds from a plunging currency to a hike in interest rates. "It is not easy to run scenarios; it needs good tools and the firms that are able to do it have invested in the risk management systems that can run the models," says Desiree Pires, Co-Head of UK Corporate Sales, Financial Markets at Standard Chartered. "That said, TMS tools and other software providers are making it more accessible. Perhaps the key part is winning over internal hearts and minds that it's necessary."

Board buy-in

Without regulation, successful crisis management needs to come from the board, which must also lead on instilling a risk management culture. Preparing for a cyber-attack is a good way to structure a whole company response to unpredictable risk, suggests Johnson. "Nowhere is the need for a multi-disciplinary response more apparent than in cyber risk," he says, evoking a battlefield to describe how companies should respond. In-house cyber-security teams are the frontline, supported by a central risk function that has identified the risk and set out a response. This is then backed by a board that asks the right questions and holds the risk function to account. Boards should also counsel outside opinions to ensure they aren't marking their own homework, advises Investec's Lillywhite. Risks diminish in our minds with stability and this allows us to ignore potential dangers: once they happen it is often too late to manage them, he says.

Companies with board buy-in can then relax. DHL doesn't discuss black swans in everyday risk management. Nor is it a topic regularly fed up through treasury to the board, says Hogan. "Our risk management discussions focus on our reaction to events that have a bit of a likelihood of happening. We rarely discuss the unthinkable; we don't really discuss black swans."

Work remotely

Treasury also needs robust IT networks that ensure the ability to work remotely. This was crucial for DHL's Japanese subsidiaries following the earthquake and tsunami, says Hogan. "We needed to be able to keep the business running locally, despite the impact on the country." Remote payments also enabled DHL to pay staff and colleagues struggling in the aftermath. In fact, technology is so crucial to companies' ability to survive the unexpected, treasury should only work with banks that are investing in new platforms and mobile, says HSBC's Kawaguchi who warns that "not all banks do". More cygnet than swan, but unexpected and damaging none the less, Kawaguchi recalls an M&A transaction were the buyer was unable to get into their office to transfer funds and couldn't send the money remotely either. "I remember sitting in a room with the client, waiting for funds to come in from another financial institution so we could finalise an acquisition. You need that transfer to run smoothly whatever happens," he says.

Companies that come through unprecedented crises emerge stronger, and many of the drivers of safety and risk management also drive value creation. For many companies it takes a sudden and unforeseen event for treasury to get its black swan fire drill in place. But it's much better to prepare for the unexpected and think the unthinkable than get wise after the event.

BNP PARIBAS

Open banking in a regulated world

The payment industry landscape is drastically evolving with new regulations coming into force (PSD2 and GDPR in Europe), fintechs stepping up in the payments value chain, and new API services enriching and challenging the existing e-banking solutions. A recent BNP Paribas webinar explored the key changes.

Steven Lenaerts

Head of Product Management Global Channels

BNP Paribas Cash Management

Stephanie Niemi

Deputy Head of Product Management Global Channels

BNP Paribas Cash Management

"Today, technology is evolving rapidly. The treasury landscape and, in particular, the payments landscape, is evolving rapidly. Regulation across the globe is pushing forward innovation – driven hard by an explosion of fintech activity – and the user experience is taking centre stage." So said Steven Lenaerts, Head of Product Management Global Channels at BNP Paribas, as he introduced a recent webinar looking at the place of open banking in a regulated world.

So, what is open banking? In formal terms, it can be defined as a collaborative model in which banking data is shared between unaffiliated parties to deliver enhanced capabilities to the marketplace.

In practice, noted Stephanie Niemi, Deputy Head of Product Management Global Channels at BNP Paribas, "it allows bank customers more choice in the use and sharing of their data with third-party applications in a secure, real-time and resilient fashion, while enabling a broader range of services".

Even regulators have responded to the opportunity that this can bring, enabling open banking to open up competition and foster innovation to the benefit of the end-user.

In January 2018, the Payment Services Directive 2 (PSD2) came into force in Europe, with the CMA in the UK providing for open banking. In APAC, Singapore and Hong Kong are leading the way towards open banking. Here, initiatives have been driven by the Monetary Authority of Singapore and the Hong Kong Monetary Authority respectively. The same shift is coming to the United States, again driven by market forces and consumer choice.

The chapters in PSD2 of particular interest – in addition to sections on payments processing rules and incident management reporting – are those covering secure customer communication (SCA) and open communication standards (OCS).

In response to this regulatory push, the industry has launched a number of initiatives tackling the challenges raised by open banking. In Europe, for example, initiatives include those organised by the Berlin Group, STET and Openbanking.org.uk on open communications standards, the FIDO Alliance, and CAPS on secure customer authentication.

Although PSD2 is an extension of PSD1 – especially in terms of processing rules and value dating of payments with at least one leg in the European Union – it also includes rules on strong customer authentication and open communication standards.

Through these rules, PSD2 enables third-party providers (TPPs) to act as an intermediary between the payment service user and the account holding bank. It defines minimum-security requirements, creating a level playing field between the different actors in the market – and the minimum services offered by such intermediaries that banks must support.

The current scope of PSD2 covers payment accounts and the minimum services cover, access to account information, and the possibility to initiate payments from these accounts. While the spirit of the regulation is very much aimed at retail banking and private individuals, corporates and corporate banking are covered by the regulation.

Implementation guidelines – defined in the regulatory technical standards (RTS) – have been issued. In March 2018, these were ratified by the relevant European regulatory bodies marking the start of the 18-month transition period, after which all actors in the market must comply.

Given the volume of discussion heard recently about APIs (application programming interfaces) Lenaerts explained that an API is "nothing more than an intelligent pipe enabling data exchange between systems". He added that BNP Paribas intends to publish its first cash management APIs in the fourth quarter of 2018.

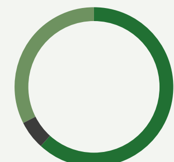
For Niemi, the whole concept of open banking is "merely a means to an end". It is, she noted, premised on value creation via an optimal user experience, delivered through progressive innovation. "As we have seen in the past, individual users consuming retail banking services will be the breeding ground for this idea but the corporate space will follow, considering its own particularities."

Do you feel open banking is beneficial to your business?

Yes – **61.8%**

No – **5.9%**

Not sure – **32.4%**



If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

WOMEN IN TREASURY LONDON FORUM 2018

On 13th September in London, record numbers of attendees from the worlds of corporate finance, technology and banking came together to celebrate women in treasury at the sixth annual Women in Treasury London Forum.

Plaisterers' Hall in the City of London was host to the gathering as we came together to discuss the latest results of the eagerly anticipated Women in Treasury Annual Global Study proudly supported by State Street Global Advisors and to discuss, in real terms, the experiences of women in the treasury profession.

Over the six years that the Treasury Today Group has been running the Women in Treasury initiative, it has been astonishing to see how conversations around diversity have evolved. In a relatively short time, gender equality, diversity and inclusion have shifted from fringe topics to terms that are at the heart of daily corporate life.

What is equally important is that the focus of these conversations has also shifted beyond the topic of gender diversity to focus on a much broader range of issues. These conversations are helping to create a more holistic view of what it means to have a diverse corporate culture.

There are many drivers behind this evolution, perhaps most crucial is the correlation between diversity and improved business performance. As if further evidence was required, a recent 2018 Boston Consulting Group Study cites diversity in corporations as driving innovation and, critically, financial performance.

Diversity in action

The journey to equality is not all about numbers and hitting targets. Diversity is the by-product of an inclusive workplace, diversity is what you have and inclusion is how you act.

An inclusive workplace is one that welcomes diversity by creating an environment where different kinds of people can thrive and succeed.

As conversations around diversity and inclusion in the workplace have evolved, so too has the Women in Treasury initiative itself. The ways in which companies can create an inclusive environment and the need for continued promotion of diversity in the workplace were just some of the topics discussed at the most recent Women in Treasury London Forum.

Now in its sixth year, our global initiative continues to gain momentum and is playing a pivotal role celebrating and promoting representation and inclusion in the corporate finance space. This was highlighted by the presence of over 180 senior financial professionals, both male and female, from across the UK and Europe, who came together to network and learn from each other's experiences.

From data to dialogue

The week of the Women in Treasury London Forum was the first week that the data from the Women in Treasury Annual Global Study 2018 had been analysed and evaluated and the lucky attendees on the day were the first globally to hear the highlights from the upcoming report.

The day began with a networking session before an introduction from Sophie Jackson and Meg Coates, Joint Publishers, as they presented the background to the Women in Treasury initiative and shared some of the key highlights

from the Women in Treasury Global Study 2018. The forum was the first time that the results had been publicly discussed, with the full report launching in October 2018. Here are some of the top-level highlights that were shared with the attendees:

- The 2018 study profiled 348 women in corporate treasury. Nearly 57% of respondents in 2018 completed the study for the first time, meaning that this year's responses reflect a new data-set with some eye-opening results.
- The majority of respondents were aged between 35 and 54 and have been working in treasury for more than ten years.
- Respondents are drawn from a vast array of industry sectors and are located across the world.
- 25% of respondents are earning over £150,000 per annum, excluding benefits.
- Just over half of respondents do not have dependent children and 47% do. 17.3% have other dependents.
- In a fantastic display of the power of interpretation, this year's respondents outlined for the first time what the term diversity means to them. Amongst them were 'different perspectives', 'equality' and 'acceptance of others, of different beliefs, religion, race, gender and political preference'. It means working together to enhance the workplace, to understand and learn from each other.
- 34% of respondents' organisations have changed their approach to flexible working in the last 12-18 months, demonstrating its ongoing and ever-increasing importance. 69% of respondents say that where such arrangements exist they are available to all, regardless of gender. However 35% note that there is not equal uptake amongst both genders.
- Regarding parental leave, encouragingly just over 29% of respondents notice significant numbers of men taking up their parental leave, however almost the same amount do not notice any men taking up the opportunity. 41% state that although some men take up the opportunity it is a minority of those who are eligible.
- Just under 80% describe their company's approach to diversity and inclusion as favourable or very favourable, which is fantastic as a first step towards attaining better representation and equality.
- Board representation unsurprisingly yields slightly less encouraging results. Only 17% of respondents are working for companies with a diverse board in terms of age, gender and ethnicity. 4.6% of companies have a female CEO and 24.6% have a female CFO.
- Diversity, inclusion and equal opportunities are recognised as key performance indicators (KPIs) at 24% of respondents' companies.

Respondents rated different criteria in order of importance for driving forward a diversity, inclusion and equal opportunity agenda. The top scored were as follows:

- Leadership engagement and training.
- Agenda is led by a C-suite executive.
- Leaders are held accountable for such agendas and KPIs.

- Transparency on remuneration.
- For the first time in the study's history, support for quotas for women on boards has dramatically overtaken opposition to their use, with 44% in favour, 32% against and 24% unsure. 28% support a quota for ethnic diversity on boards and 44% do not, with 28% unsure.
- 39% of respondents did not feel they were paid the same as their male colleagues at a similar level of seniority and 32% feel they are.
- 37% of respondents have felt excluded from networking events, with the main reasons for this cited as gender, events being targeted at men, and age.
- 79% believe that mentoring/sponsorship/coaching are key to a successful career and there are many interesting viewpoints on the various merits of the three.
- 38% of respondents have moved overseas with their job and 50% believe that has helped advance their career journey. 52% would be willing to move overseas to advance their careers.

Following the introductory speeches and presentation of the data highlights, our guests went through for lunch and were then treated to an all-star panel discussion featuring five leading industry speakers, all of whom are enjoying extraordinary careers.

This year's panel included:

Séverine Le Blévennec, Director of EMEA Treasury, Honeywell

Helen Hanby, ACMA, AMCT, Director, International Treasury, Biogen

Royston Da Costa, Assistant Group Treasurer, Ferguson Plc

Barbara Patow, Global Head of Correspondent Banking, Global Banking & Markets, HSBC

Yeng Butler, Senior Managing Director and Global Head of Cash Business, State Street Global Advisors

Sophie Jackson, facilitated the dynamic and lively debate, which was characterised by the open and honest views of the panel.

Journeys to the top

The panel session began with an exploration of the panellists' careers in corporate finance, the journeys they have each taken as well as the opportunities and challenges they have encountered along the way. Barbara Patow shared her journey to her current role as Global Head of Correspondent Banking from a background in risk and compliance, with some enlightening years spent working in anti-money laundering. Séverine Le Blévennec shared the gems of her decision to move to Honeywell after many loyal years working at General Motors, explaining, "it was a real opportunity for me and I have never regretted it. At Honeywell, I have been able to be proud of what I have achieved and what I have built."

Royston da Costa described his beginnings in banking which have led to an esteemed 28-year career in treasury and spoke of his motivations in becoming a male ambassador for inclusion in the industry. Yeng Butler of State Street Global Advisors shared her very unique professional path working in finance and going back to graduate school and then working in the NGO sector, with a stint in micro-financing female-led businesses in Samoa before coming to State Street Global Advisors and climbing the ranks to her current role. Overall, although each panellist had followed very different paths to their current roles, one thing bound them all: they had all made bold changes at some stage, be that changing role, industry, location or a combination of all three.

Defining moments

Our panelists highlighted the stand-out moments that accelerated their paths to the top, with Helen Hanby speaking of her location moves at different moments and how that had affected her career journey. Said Helen, "For me, the really pivotal moment was accepting the expat assignment to Germany. I was the first female manager the company had ever had. I think they wondered what on earth had walked in, but it turned out to be an amazing couple of years, and absolutely shaped the next 20 years of my career, and actually my life. For me, it's about seizing those opportunities."

Séverine then talked about her career defining and ongoing appetite to learn which had enabled her to get ahead in her industry. Stepping outside of our defined job descriptions and really focusing on feeding our intellectual curiosity and seeing what we can learn that can bring new value to our work.

External encouragement

What is interesting in our panellists' accounts is that these brave steps were not taken alone. Support from mentors, organisations, friends or spouses was crucial in helping them make their decisions.

Yeng explained her decision in one instance to make a big career move which was precipitated by a conversation with her mentor who asked her two questions, "Number one; are you fully challenged in the role that you have today? Two, do you feel like you are utilising everything you have learned in the various experiences that you've had? That was when I moved back to the north east to take the State Street role. If I think back to his impact and the questions that he asked, he didn't have the answers but he knew the questions to ask. That is something that I strive for with the mentees that I have today. Because it isn't about arriving at an answer per se, it's about the journey." Indeed, the role that mentoring, either official or unofficial, has played in our panellists' career development reflected the responses to our Women in Treasury Global Study 2018, with 79% of respondents stating that mentoring was key to professional development.

The next generation

Of the future of work and what we are aiming for, Helen said, "I think it's a really exciting time for people to be entering the workplace, and it's absolutely critical that we have a generationally diverse workforce in place. In a time of such flux and market disruption, I think that a generationally diverse workforce is absolutely best placed to deal with that."

And on his hopes for the future, Royston shared the following, "I want equality to be based not on gender, ethnicity or any other aspect of diversity and that nothing should be impossible for anyone in the workplace. Those opportunities should be available for everyone. As my 19-year old daughter said, 'a safer workplace in terms of being able to work, based on what you know and not who you are".

What is clear is that businesses will need to change. The whole panel agreed that millennials are bringing a new way of thinking into businesses and disrupting traditional ways of working. The need therefore to build an inclusive workplace that welcomes people from different backgrounds, with different skillsets and experiences, is now a must. The discussion moved to the future and to giving back. Women in Treasury is a community that encourages collaboration and support and so it was heartening to hear the work that our panellists are doing in this space. Barbara explained, "It's incumbent on me as a leader to educate the next generation to ensure that they can, and they know, they have the capability to do whatever they want to do." One way she has sought to do so is by going in to speak with high school girls about career development, as she puts it: "They are a very tough audience! On a regular basis I go into sixth form colleges and state schools generally to give them an education into what they can do, to explain my journey coming from a working-class background and doing the job that I'm doing today."

More to come

We would like to thank all those women and men who took part in, attended and supported our Women in Treasury London Forum and would like to invite all of you in the industry who are interested in our initiative to get involved!

There are numerous ways you can do this, including attending our global forums, taking part in the Women in Treasury Global Study 2019, nominating yourself or a team member in the Adam Smith Awards Woman of the Year category when we open for submissions in January 2019 or by joining our dedicated Women in Treasury network on LinkedIn.

For any general enquiries regarding the Women in Treasury initiative please contact our Head of Circulation, Sarah Arter, Treasury Today Group – **sarah.arter@treasurytoday.com**

Hubert J.P. Jolly

Global Head of Financing and Channels, Global Transaction Services, Bank of America Merrill Lynch

Hubert J.P. Jolly, Global Head of Financing and Channels, Global Transaction Services Bank of America Merrill Lynch, puts innovation in treasury under the microscope.

Tell me what innovation means to Bank of America Merrill Lynch and how you approach development.

Number one: we have to ensure innovation in transaction services remains relevant to our clients. They want us to make it easier for them to use our transaction services. That means working with all of our clients, not just learning and understanding what areas of innovation they want us to work on, but also where they see the pain points in their own ecosystems and how the treasury function can best evolve within that structure for the success of all.

We need to know where to provide new services, and how to enhance our existing services; that way we enable our clients to be both relevant to their corporation and successful from a transaction services standpoint.

Our innovation funnel gives every team member in transaction services an overview of each project that is under way. This means we get to think through every step of development from all angles.

To deliver, it is essential that innovation is driven by collaboration with clients, their third-party providers such as TMS and ERP vendors, and, increasingly, with the fintech community. In fact, if a fintech solution can resolve a pain point for our clients, we have the ability to onboard them as a supplier, and even invest in them with us as a development partner, integrating their solution within our own technical environment. This enables clients to comfortably procure highly innovative services through us, not through an unknown provider.

Ultimately, if our client experience is better, then we know that we remain relevant to them and that we are supporting their growth.

You use an 'innovation funnel'. What is it and how does it help your development work?

We manage innovation across all of our geographies and products. Our innovation funnel gives every team member in transaction services an overview of each project that is under way. This means we get to think through every step of development from all angles.

This essentially ensures that if we are collaborating with a set of clients, we can think through the development of the solution and deliver working prototypes that demonstrate to them how the solution would work within our ecosystem. They can then provide us with a response on its suitability.

By securing active client feedback, we can fail fast, learn from the experience and rework it. The funnel allows us to expose the solution to multiple viewpoints, right across the bank. By the time we are ready to commercialise it, not only will it meet the needs of the majority of clients but also, through their input, everyone from our sales teams to our service teams is equipped to help the clients get the most from it.

Tell us about your current points of focus on innovation and what your pipeline looks like.

From an innovation standpoint, the focus is always on the client experience. We want to make sure that our solutions are the easiest to use in the industry. There can be a gap between the complexity of our products and the ease of their use, especially as many clients expect something similar to the everyday experience they have in their consumer lives. We have to fill that gap.

Client delight is our primary goal so we measure every one of our transactions from that standpoint. Our clients are afforded a number of ways of letting us know whether they are pleased with their experience – and we always respond, often using innovation, to keep that score as high as it can be.

As part of our response to this need, we were the first bank to roll out a Siri- or Alexa-style assistant in the transaction services space. The launch of CashPro® Assistant on our online portal is all about rapid self-service, helping clients to carry out their everyday activities when they login to CashPro® online.

Because innovation is also about giving clients information more easily when they go into CashPro®, we were one of the first transaction banks to roll out APIs. We asked the enterprise platform and treasury work station providers to connect to us via APIs. By making these connections more seamless, we are enabling many more clients to transact for the first time in real-time rather than through batch processing. We have several clients who have been leveraging these APIs to enable them to initiate payments and receive the information on the reporting that they need on the back of those transactions.

Another key focus in terms of innovation at Bank of America Merrill Lynch is adding to the types or payments that we offer to our clients today.

A number of clients were curious about person-to-person payments that have been evolving around the world. We see them as an opportunity for corporates and in the US, for example, we now enable our clients to initiate payments via Zelle, a platform that allows US consumers to link their bank account to their cell phone number and email address. As I said, it's all about remaining relevant to our clients, giving them a choice of innovative payment tools.

All banks innovate. How does Bank of America Merrill Lynch differentiate itself from other institutions?

We look at innovation in terms of how we can improve upon the client experience. Client delight is our primary goal so we measure every one of our transactions from that standpoint. Our clients are afforded a number of ways of letting us know whether they are pleased with their experience – and we always respond, often using innovation, to keep that score as high as it can be.

Of course, we aim to make it as easy as possible for clients to transact with us. But we are also open to clients working with us, to let us know what they want, and how they want it. We encourage them to reflect on their experiences: how quickly they can open an account with Bank of America Merrill Lynch, whether it was a seamless process and if they were able to use electronic signatures, for example.

I would say that our differentiator is all the things that we are working on to make sure that every new client's first experience with us is going to give them the same high level of client delight that we see every day from our existing clients who transact with us across 34 countries.

We take great pride in delivering the right client experience and remaining relevant for them as they grow, from a business standpoint. The ongoing challenge for us of course is how we leverage innovation to sustain that high 'delight' score with our clients. As I said at the beginning, innovation must be driven by collaboration, and this is exactly how we keep delivering.

Matthew Davies
Head of Global Transaction Services EMEA,
Bank of America Merrill Lynch

Matthew Davies, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch, explores the implications of doing business internationally.

What are the main concerns for your clients at the moment?

One of the unavoidable challenges for many clients at the moment is Brexit. It is generating market uncertainty. Companies are worried about whether they have the right structure in place for a post-Brexit environment. They are concerned too about its impact on their banking relationships.

The frustrating thing is that there are no clear answers. No bank can say with any certainty to a corporate treasurer that they know exactly what Brexit is going to be and what they are going to need to do in order to be ready for it.

But we've been working closely with clients, explaining what we understand to date, and thinking through different scenarios and options and what the advice would be for each. It is about planning, responding as more information becomes available, and continuing to guide clients.

Cost and efficiency are additional key treasury themes. I don't think you will find a corporate treasury anywhere in the world that says that they have got all of the staff they need to be able to fully do everything that they would like to do. The day job gets done but that value-add that we all talk about is harder to achieve if you don't have the right resourcing.

Anything that can drive efficiency – whether that is through automation or new technologies such as robotics or artificial intelligence (AI) – can help make the treasury more efficient, freeing up resources to focus on value-adding activities.

Regulation is a constant challenge too. Some are seen as being purely for the banks, but the banks must ensure their clients understand what that regulation is and why it is happening because the effects vary, especially something like know your customer (KYC) and anti-money laundering (AML).

On this matter, open banking, particularly from a European perspective, is generating a lot of discussion. Traditionally, whichever institution held the bank accounts also provided the services linked to those bank accounts. PSD2 essentially enables that connection to be broken. Banks have to open up their infrastructure to third parties to be able to develop and provide services from those bank accounts.

Open banking has ostensibly been driven by consumer needs, offering them more services, more differentiation, more competition and more choice. It was not rolled out with corporates in mind. But what starts in the consumer space often leaches into the corporate space. Treasurers are very aware of that, so we spend time talking to them about the impacts of regulation such as PSD2.

We should not forget the power of data here. Think about how reconciliation is greatly aided by better data, and then consider the huge opportunity that arises as we move towards real-time clearing and get more information to accompany payments; this is leading to straight through reconciliations.

Corporates sit on a huge amount of data. If they can collect that in one place and use it in a more meaningful way, there is so much more that can be achieved in many different areas.

If, in the way a company runs its credit process against its key customers, it uses its own and third-party data to run a more efficient process, it has an opportunity to create more appropriate limits, potentially selling more product. There's a lot that corporates and their banks can do to help source that data.

> Innovating is about more than just spending money on building new solutions. It is about collaboration with partners to bring new capabilities to market but, perhaps as a differentiator, it is also about innovating with what we already have in-house.

Of course, any talk about data should consider the regulatory challenge that comes in the form of GDPR compliance. This has global implications. Regardless of where in the world they are, any organisation holding data on an EU citizen must comply or face stringent penalties.

How are these challenges affecting the day-to-day operations of treasury?

It is interesting to see how different corporate treasurers are responding. The core functions of treasury remain as they ever have. However, the capacity to add value and take a more prominent role in the organisation is as never before. But it takes diligence to carve out the time and resources to focus on what can be achieved from an efficiency perspective. Only through doing that can treasurers really free-up that capacity further down the line. The most effective treasurers make sure they can draw a line between BAU and adding value.

How are treasurers staying ahead of the curve?

These are interesting times. Within transaction banking, nothing much changed for about 30 years. We are now in a period where a number of elements are coming together at the same time in terms of pace of regulatory and technological change. Treasurers have got to stay ahead of the curve in this period of great change.

They have to have the right relationships with the right banks and consulting firms to ensure they are getting the right advice and information, especially on the international stage where needs will be diverse. Treasurers must also possess an intellectual curiosity to seek out new ways, and, I believe, it is incumbent upon all of us to be open to change.

How are these areas of treasury concern affecting relationships with banks?

Banks often touch a number of different areas within the client's organisation and so can be effective at offering a holistic view of the organisation, from a group, regional and domestic entity level. Banks are also taking on a more advisory role than they have in the past, where the ability to tackle local issues from a global perspective is key.

Where transaction banking used to be about selling bank accounts and payments and liquidity structures, it has become one where technology is offered to make our clients' financial lives easier, most notably at an international level where centralised operations can be removed from local activities.

We recently partnered with a fintech to bring 'intelligent receivables' to market, using AI to help clients automate their reconciliation processes, sometimes with automated match rates as high as 90%.

The impact of improved efficiency is felt throughout the organisation, allowing the redeployment of resources to more value-added functions. But quicker cash applications also help credit teams to free up capacity for the sales team to sell more to that client.

What drives your creative approach to meeting international client needs?

For us, innovating is about more than just spending money on building new solutions. It is about collaboration with partners to bring new capabilities to market but, perhaps as a differentiator, it is also about innovating with what we already have in-house.

We recently launched Liquidity Express, where we took our global liquidity platform and combined it with our virtual account management platform and our CashPro® front-end online banking application. From this combination, we are able to offer a more streamlined, easier to use liquidity management solution for a core segment of our client base.

In fact, at Bank of America Merrill Lynch, we have spent quite a lot of time thinking about our clients' needs, thinking about what we already have within the bank that we can put together in different ways to meet those client needs, whether it is driven by home or overseas market concerns about regulation, cost and efficiency optimisation or adding value.

Stephanie Wolf

Global Head of Financial Institutions & Public Sector Banking for Global Transaction Services, Bank of America Merrill Lynch

Stephanie Wolf, Global Head of Financial Institutions & Public Sector Banking for Global Transaction Services, Bank of America Merrill Lynch, takes a close look at how KYC and AML affect corporate treasuries.

How are know your customer (KYC) and anti-money laundering (AML) regulations affecting treasurers?

KYC, or client due diligence, is a process that may seem relatively new for treasurers, yet the process has been in existence for as long as people have been doing business: you have to know who your clients are.

From a regulatory perspective though, this undertaking has been elevated to such a level of importance over the years that documentary evidence related to this is comprehensive. It also varies by country, and sometimes even by type of client.

From a client's perspective, KYC is one drawn out process where the provider asks a lot of questions that are increasingly detailed and personal. But it can help in understanding what is required if we break KYC down into three stages.

First, there is onboarding where, for every new relationship, comprehensive due diligence is required. Next, that relationship has to be periodically assessed to ensure any changes are captured. This is called 'renewal'. The third stage is 'remediation' where, in between onboarding and renewal, regulatory changes may demand that more or new information is recorded.

Part of KYC and client due diligence is related to the increased risk of money laundering, terrorist-financing and other criminal activities. It therefore involves gathering information to make sure that money-laundering risk is managed; it is our regulatory duty as banking services providers to ensure that funds do not move to support criminal activity.

Often KYC and AML are wrapped into a single comprehensive set of questions that your service provider must ask. Treasurers should know that we are trying to protect the safety and soundness of the financial system and that we are helping the regulators around the world ensure that financial crime does not occur under our watch.

To what extent is the process being streamlined?

I would like to say that the entire globe has consistent regulatory objectives and consistent means of evidencing those objectives. Unfortunately, that is not the world that we live in. Different countries place a greater or lesser emphasis on aspects of KYC and AML and its fulfilment by banks. As such, the regulations and their execution are not the same everywhere.

That said, I often tell clients who say, "you all ask for different things" that we really aren't asking for different things because we are all following the same laws but may do so in a slightly different way.

From bank to bank, KYC is finding a high degree of consistency. The banking community has discussed what questions really need to be answered from a KYC/AML perspective and has tried to agree on one set of questions that we are going to hold ourselves to as the standard.

That has now been accomplished; I signed Bank of America Merrill Lynch's due diligence questionnaire recently. Now, when a client asks for our AML/KYC due diligence questionnaire, it will be my signature on the back!

Another aspect that Bank of America Merrill Lynch is very supportive of – and I would like the entire industry and all of our clients to be supportive of too – is using databases utilities to store the information.

The due diligence questionnaire responses that we have at Bank of America Merrill Lynch are stored in a shared utility administered by a third party. We do that because we want our other counterparties to have an easier time getting information from us.

I ask all of my clients "is there a database or a utility that you use to store your information?" If so, I will go there first, get that information, and then come back to fill in any gaps that might exist. It's all part of the industry effort to make it easier for clients.

In terms of the regulations and the regulators, there are now industry organisations working to develop common standards. For example, BAFT, the Bankers' Association for Finance and Trade, represents financial institutions, providing feedback on proposed changes in rules and regulations that impact KYC and AML. Aligned with other similar bodies, its aim is to make it easier for the industry and customers to comply by providing information.

We have created a system that will search every document storage system that we have across the firm. It can look for a particular document, grab it and use it for the purposes of KYC. We are also increasingly using artificial intelligence (AI) to scan responses that clients give to questions, and then auto-populate a system so that there is less manual keying.

The more governments work together to create standards, the more utilities enable databases of answers to be created, and the more banks agree to a common set of standards, the easier it will become. Until then, it can be hard to keep up, for all of us.

How is technology helping with this journey?

The perfect solution for KYC/AML would be that the moment a regulation changes, it could be implemented from a single screen for all customers around the world instantly. Sadly, it doesn't work like that.

Where standards are constantly evolving, technology is always going to be behind. You cannot build it while it is changing. We are investing technology dollars as fast as we can and I know our clients are trying as much as they can to automate their processes. The only solution is for change to happen at a slower pace, just so we can all keep up.

If there was one utility where all KYC information was stored globally, then I could build one pipe in to get the information, populate my system and all would be good for another year or two until I had to refresh. But there isn't one utility; there are many. We can't build a pipe to every single utility, so we end up with lots of manual processes.

There needs to be a narrowing of the set of regulations into a common standard. That doesn't mean fewer questions, that doesn't mean less information. What it means is that with fewer standards, and fewer places for those standards to be maintained, technology will not only be able to catch up, it will finally leapfrog the flow of rules.

In the meantime, at Bank of America Merrill Lynch we have created a system that will search every document storage system that we have across the firm. It can look for a particular document, grab it and use it for the purposes of KYC. We are also increasingly using artificial intelligence (AI) to scan responses that clients give to questions, and then auto-populate a system so that there is less manual keying.

Do you foresee change for the better?

I do but it will happen by evolution, not revolution. I am optimistic that within five years we will not consider KYC the burden, from a client perspective, that it is today.

All of the work that we are doing now around KYC/AML – thinking about the questions that we ask, where the information is stored, how it is used, how we comply with regulations – we are doing to make our clients' lives easier and make it easier for them to do business with Bank of America Merrill Lynch. Easier, simpler KYC/AML is in our future. Getting there allows us more time to focus on what our clients consider more value-added and that is helping them run their businesses more efficiently.

Agent of change

Silver Zuskin
Finance Director and EMEA Treasurer

Silver Zuskin is Finance Director and EMEA Treasurer for Dell. With Chartered Global Management Accountant (CGMA) and Certified Treasury Professional (CTP) qualifications under his belt, he has accumulated global experience across multiple functions including treasury, accounting, business process and trade finance. This has prepared him well for a life of change within one of the world's best-known tech multinationals.

Dell is a US-headquartered multinational computer technology company. It develops, sells, repairs and supports computers and related products and services. It was founded in 1984 by student, Michael Dell. The company grossed more than US$73m in its first year. In 2016, it reported revenues of US$54.9bn and employed around 102,000 globally. In July 2018, Dell announced intentions to become a publicly-traded company once more.

For Silver Zuskin, Finance Director and EMEA Treasurer at Dell, managing change on the international stage is all par for the course. He's been through some significant events in his career to date, affording him bragging rights that few can match.

Today, with responsibilities that extend across one of Dell's core regions, Zuskin is part of a regionalised team of eight based in Bratislava, Slovakia and Cork, Ireland. Along with his peer regional treasurers, he reports to a global head of treasury operations, allowing for the synchronisation of global activity through a central treasury reporting committee.

Zuskin's current remit is to handle cash and liquidity management and forecasting, trade finance, regional bank

relationship management and a host of business-support activities and interactions that keep Dell financially strong – and treasury a key part of the team.

Building experience

His financial career started in 1997 in the Slovakian office of a multinational telecoms business. "No one had the notion of treasury at the time so I started building out the function from scratch," he recalls. Adding more activities such as payments and collections, credit risk, FX and bank relationship management, soon expanded the role into a recognisable treasury function.

Stepping back and admiring his creation, he could see treasury as "a very real activity", where it is "easy to see what is being achieved in the moment". This compared favourably with, for example, the backwards-looking role of accountancy. "Cash is a great real-time indicator of how things are," he notes. "You either have it or you don't. I like that aspect of the job."

Later, with the same firm, Zuskin spent some time in Germany in a regional treasury, before returning to its Slovakian entity where he took on a small team. But the need to "find more room to expand" saw him turn his back on treasury, taking on an international corporate role in France. Here, he would look at the definition, creation and deployment of a SAP-based solution for small and mid-sized entities within the group, at a global level.

In creating a 'template company' in the SAP environment – and defining its business processes from a general ledger perspective – and going live with it in a number of countries, exposed Zuskin to "a very deep inside view" of those business processes internationally. "I feel this was perhaps the game-changer for me," he reflects. "I now think it is very important to put on a different set of lenses from time to time. Looking at treasury only from one angle might restrict your perspective and not allow you to understand the views of other finance groups and other territories." Taking a wider view, he feels, "enables you to increase your own level of competence as a treasurer".

Global stage

His varied experiences to date equipped him for his introduction to Dell, which came in 2006, having taken on an EMEA reporting role. This involved running a team of around 60, investigating revenue streams. The move to treasury came soon after, with Zuskin first taking on the full-time position of consultant at the end of 2007 and progressing to EMEA Treasurer in 2010. The role has evolved considerably in this time, he says, notably with the building out of Dell's cash management Centre of Excellence (CoE). In truth, this point of arrival represents quite a journey for Zuskin and Dell.

CoE progress was mostly focused on how Dell would centralise its finance activities in the region, with many treasury functions ultimately moving into Bratislava. The project was part of Dell's global treasury operations transformation that standardised and automated processes and moved treasury from multiple platforms to a single TMS, covering 700+ bank accounts over 100+ countries. The effort, which Zuskin says included streamlining bank connectivity via SWIFT, provided Dell with real-time visibility into cash, liquidity and risk. He played a key role here, helping the company treasurer at that time to win the award of Corporate Treasurer of the Year for 2012.

In 2013, Dell went private, ending a 25-year run as a publicly traded company. The US$24bn leveraged buyout, led by Michael Dell and private equity firm Silver Lake Partners, allowed the business to step back from the public gaze and reorganise. Then in September 2016, Dell acquired enterprise software and storage company, EMC Corporation and its controlling stake (around 80%) in its software unit, VMWare.

This US$67bn deal, one of the highest-valued tech acquisitions in history, signalled more change for Dell's treasury. Previous reorganisation had afforded Zuskin the responsibility for the separate division of American international cash (versus US-only cash), and that of some countries in the Asia Pacific Japan (APJ) region, including Australia, New Zealand, Hong Kong and Singapore.

By 2017, the integration of EMC saw Zuskin relinquish some of his extra-regional cash responsibilities to the respective teams in the US and APJ in exchange for taking on all legacy EMC treasury activities in EMEA.

New challenges

Perhaps the most significant change to arise from the EMC deal was that treasury was no longer part of a cash-rich company but instead part of a leveraged organisation. "We had to take a whole new view of how we treat cash and how efficient we could become with it," notes Zuskin. Indeed, with some EMEA debt to manage, paying down "in the most accelerated manner" was the plan, forcing a new set of priorities for cash.

The change of direction saw the team putting together a more imaginative and effective cash infrastructure from scratch. It analysed its working capital flows to understand how it could release maximum cash from the process. It considered every source of internal cash, identifying pockets where it was being under-utilised. As part of treasury's EMEA liquidity optimisation programme, it also assessed the benefits of physical and notional pooling, with an overlay structure, as a means of optimising intercompany flows and ensuring cash was never trapped in the intercompany settlement mechanism.

Partners

In his tireless quest to optimise treasury, although he had the guidance of skilled colleagues in corporate treasury to call upon, Zuskin says he remained an active player in a peer-group network of European treasurers. This, he reports, remains a most useful resource in terms of exchanging knowledge on current trends and challenges.

Furthermore, he says close relationships with his banking partners, diligently cultivated over the years, have also proven to be extremely beneficial as a source of wider industry knowledge and experience. With EMC having a similar panel of banking partners, the continuity and familiarity helped ease the process considerably, especially when gaining access to accumulated financial data for both organisations.

With the structure of the expanded business having been formatted and executed, there are certain activities that, whilst not dominating proceedings, now consume a lot of Zuskin's time. Of particular note here is KYC clearance. This was ramped up by the EMC integration efforts, where the need to manage signatories was challenging. Again, he reports that Dell's EMEA banking partners have "proven their worth".

In practice, Dell has tried to centralise the process as much as possible, giving it a unified approach so that its banks have the opportunity to efficiently share the relevant KYC information they already have. "It means we don't waste time providing the same documents repeatedly," explains Zuskin, adding that Dell is now seeking to expand this compliance model to every bank it deals with. "We are efficiency-focused and we expect the same from our banking partners too."

Strategic intent

The idea that treasurers are becoming a more strategic partner to the business is one that Zuskin wholly recognises. Since he joined Dell it has become a highly acquisitive business and has naturally worked to extract value from each new combination. Treasury has played a vital role in enabling this. The same level of importance, of course, applied to Dell's move to become a private business, where the shift from cash-rich to leveraged, described above, saw treasury manage both the funding of the transaction and the subsequent financial reorganisation.

Treasury has been pushed into the limelight to an extent with the coming of such transitional events. To this effect, Zuskin believes it has been vital for him, and his team, to be more business-oriented, where sound communication skills have been essential. "Often it comes down to actively listening to what the business needs to be able to carry out its strategic intentions, and then for treasury to find the best solutions," he says.

As part of a truly global team, an international outlook is essential. In co-operating with people "from all corners of the planet", Zuskin is aware of the need to be sensitive to cultural differences when seeking to fulfil the goals of the business. It's not always easy to grasp the nuances of human interaction and so Dell has created a learning and development programme to which treasury has ready access, online and in person. It covers aspects such as communication and setting an appropriate work/life balance.

Diversity and inclusivity

One of the softer elements that Zuskin says is dear to his heart is the MARC (Men Advocating Real Change) initiative. MARC is a community for men committed to achieving gender equality and diversity in the workplace. It has been established by Catalyst, a global non-profit organisation that since 1962 has been expanding opportunities for women in business, working with some of the world's most powerful CEOs and leading companies 'to build workplaces that work for women'.

MARC has global support within Dell. "At Dell we have made it a cornerstone of our strategy around diversity, making it a strength of the company – although we have broadened it out, renaming it as 'Many Advocating Real Change'," says Zuskin.

At a regional level, and within the Bratislava team, he explains that the approach to diversity is incorporated as "part of the necessary education and development" of all staff. Of course, most of the technical learning comes from on-the-job training and practical engagement with the day-to-day processes and challenges the team face. However, formal education within treasury also plays a key role in Dell's progress.

Lifelong learning

With CGMA and CTP qualifications under his belt, Zuskin advocates a similar engagement with classroom learning. He supports his team in their undertakings which, with Dell's full backing, also includes certifications from the likes of the Association of Chartered Certified Accountants (ACCA) and the Chartered Institute of Management Accountants (CIMA).

Zuskin is also an advocate of informal learning. He believes attendance at major networking events such as EuroFinance delivers many opportunities to seek out additional information and industry views from treasury peers. The kind of advice that can be secured from such events is, he suggests, invaluable for the skilled professional and the novice alike.

From his own broad experience of treasury to date, Zuskin further urges junior treasurers, and those seeking to move into the profession, to gain as diverse an experience of business as possible at an early stage. He recommends taking on roles in other countries wherever possible or seeking out a role with a global organisation. This, he says, will help form a truly international perspective. "Then you need to really nurture your business skills and understanding so you can actively provide solutions and engage with the whole organisation. It is essential to keep learning."

Finding balance

Treasury can be a full-on occupation, even for the seasoned professional. It is essential to find ways to strike a balance between work and home life. Away from the demands of running a key regional operation for a global business, Zuskin is very much the family man. "We like to travel a lot together, getting to know different countries, different continents even. It is important to me to raise my children to see beyond their home country, where people do things differently," he comments.

Aside from the cultural exchange, Zuskin is also of the view that sporting and outdoors activities help individuals keep a balanced mindset. "It helps me switch off properly," he explains. In fact, he encourages his team to do the same. Indeed, they can often be seen taking part in sporting activities together, including charity races.

Next big thing

With his own preference for hiking, cycling and all types of skiing, he is well-placed to take advantage of Bratislava's rugged mountain setting. It is perhaps his readiness for the challenge of the great outdoors, allied with his broad base of business and treasury experience, that will prepare Zuskin for the next big thing in Dell.

In July 2018, the company announced plans to return to public trading. There will be no initial public offering per se as it will just exchange one kind of stock for another. Indeed, Dell aims to buy out owners of the remaining stock (about 20%) of publicly traded VMware, using cash and a newly issued "C" class of stock in Dell itself.

With the new stock to be traded on the New York Stock Exchange, the company will be back in the public sphere once more. Of course, treasury will be ready because managing change on the international stage is all par for the course.

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Why it's time to sign up to the FX Global Code of Conduct

Launched in 2017, the FX Global Code of Conduct is a voluntary set of principles designed to promote fairness, transparency, liquidity and openness across the global FX market. Vincenzo Dimase, Market Development Manager, FX – Europe at Refinitiv (the financial and risk business of Thomson Reuters is now Refinitiv) explains what the Code means for corporate treasurers and their counterparties and why treasurers should sign up.

Vincenzo Dimase
Market Development Manager, FX – Europe

Recent years have seen many regulatory changes in the world of FX. But while robust regulation is important, following the letter of the law can have its limits. Market participants around the world have increasingly felt that a code of conduct is needed to maintain fair and effective markets, while avoiding any repeat of the scandals of the past.

As a result, market participants worked together for two years to build a global code of conduct which would focus on voluntary principles rather than rules, and which would promote considered reflection rather than simply checkbox compliance. The result of this exercise was the FX Global Code. Published in 2017, the Code consists of 55 principles intended to promote transparency, fairness and integrity within the wholesale FX market. The Code is designed for a diverse range of buy-side and sell-side market participants, including banks, central banks, asset managers, non-bank liquidity providers, brokers, e-trading platforms and corporate treasuries.

Refinitiv has played an active role in developing the Code through our membership of the Market Participants Group (MPG), as well as several regional committees. We wanted to make sure that our platform would embed the rules, concepts and principles of the Code. We formally signed a statement of commitment in November 2017.

About the Code

The Code was written with a number of objectives in mind. The overriding goal was to create a document that would be as useful and usable as possible. Unlike financial regulation – MiFID II runs to 7,000 pages by one count – the FX Global Code of Conduct is a digestible 78 pages and is written in plain English. Much effort has been made to ensure the code is both user friendly and relevant, and that it includes concrete examples demonstrating how the principles can be employed in practice.

Another key characteristic of the Code is that of proportionality. This means that market participants can adopt the Code according to the complexity of their operations and their level of engagement in the FX market. So a small bank will not be expected to achieve the same type of implementation as a large bank. Likewise, the steps involved in adopting the code will look different for corporates than for banks. The Code is also designed to evolve in line with technological developments in the market.

Gaining momentum

Banks have been proactive in signing up: to date over 300 market participants have agreed to adhere to the Code. But the picture is somewhat different for buy-side participants. At the time of writing, corporates represented only 2-3% of the parties who have signed up, with early corporate participants including Shell, Airbus and Siemens.

This is likely to change as awareness grows. Corporates may have seen the Code as a matter for banks. But in practice, the global FX ecosystem is very diverse, incorporating a wide range of market participants. In order to be as relevant as possible, the Code needs to be adopted across the entire ecosystem.

Fortunately, interest in this topic is growing. During a recent webinar by Refinitiv and Treasury Today, a poll found that two thirds of attendees felt it was important that the corporate treasury community publicly support the Code. An important step in achieving this was the recent launch of a register of corporates adhering to the code by the European Association of Corporate Treasurers (EACT), alongside existing registers.

What should you be doing now?

Signing up to the Code is straightforward. Treasurers wishing to adopt the code should:

- Read the Code and try to isolate the areas which are most relevant to their businesses. This might prompt the company to assess its liquidity providers, or request prices from more than one counterparty, or begin using an electronic platform instead of the phone.
- Inform the relevant people. This may involve working with external parties – associations such as the EACT are offering learning courses which can provide a learning path for the relevant people.
- Fill out the statement of adherence – a straightforward document – and send it to the public register.

The company will then be listed as adhering to the Code and will appear on the public register. Being part of that list – and particularly one of the early adopters – tells the market something about the company's values and how the company approaches FX.

Why sign up?

For corporates, the Code has much to offer. Companies which sign up to the Code are sending a clear message to the market: they are aware of the key principles of the Code; they may have adjusted their internal processes; they understand the transparency and fairness that banks need to adopt when dealing with counterparties. The following are some of the areas where benefits can be seen:

- **Market colour.** The Code provides clear guidelines about how participants can provide 'market colour' – in other words, how they should respond when clients ask for insights into how markets are performing. In such cases, the Code stipulates that communications "should be restricted to information that is effectively aggregated and anonymised". If corporates have a clear understanding of how counterparties are required to reply to these types of questions under the Code, they may well ask different types of questions – so the Code can play a role in reducing the risks for both parties.
- **Execution.** Where execution is concerned, the Code also stipulates that market participants acting as clients should exercise a good level of scrutiny when evaluating the types of service offered by their liquidity providers. This may mean putting in place suitable analysis tools and being aware of providers' responsibilities. The Code likewise encourages a high level of STP and may prompt participants to move from manual to electronic methods.
- **Transparency.** We believe that greater awareness among all market participants will raise transparency on both sides of the market. Supporting higher levels of visibility, Refinitiv has recently launched Trade Performance Analytics for FXall users, which enables FX traders to evaluate the quality of their trade execution and understand how their liquidity providers are performing.

Alongside these benefits, it is likely that corporates will increasingly pay attention to whether their counterparties have signed up to the Code, and may ultimately begin selecting liquidity providers on this basis. A bank which has adhered to the Code has signalled that they are actively working to adopt these principles and avoid reputational risks. The steps they have taken will include educating their people about the principles and adjusting their back office procedures to reduce operational errors.

Getting started

For corporates, it's important to understand that signing up to the Code is not expected to involve significant changes. The main focus is on having the tools and awareness needed to adopt the principles, rather than reinventing procedures or transforming infrastructures.

What could this mean in practice? Corporates signing up to the Code may wish to consider moving from manual to electronic trading methods, or moving from a bilateral to a more competitive multilateral approach. They may also wish to review some of the technology in place, albeit to a lesser extent than banks.

As part of this process, treasurers may wish to purchase a system that allows them to judge the quality of the service they are receiving – which is good practice in any case. Above all, the goal is to digest the principles, provide the relevant knowledge to people in the treasury department, inform counterparties that they are aware of the Code – and raise the bar when it comes to best execution.

Conclusion

The Code offers a welcome opportunity to promote good conduct in the global FX market. It is worth noting that this is not an isolated development: last year also saw the launch of the Global Precious Metals Code and the UK Money Markets Code. Going forward, it is likely that the world of FX – and the wider banking landscape – will continue to place greater importance on conduct.

In conclusion, we believe that the Code has an important role to play in driving a fairer market. While rules can quickly be superseded, principles are less likely to become obsolete or be circumvented. By having a common understanding of good practices, we can build a more transparent industry which can benefit everyone.

Thinking big

Big data has much to offer corporate treasurers – but at this early stage, most of the possible benefits have yet to be realised. Treasury Today reviews the current state of affairs, the possible applications of this technology, and the pitfalls that treasurers should be aware of.

How big is big data? The short answer: not as big as it's going to be. A report published by big data consultancy WHISHWORKS found that while only 18% of UK companies have fully adopted big data, 47% have tentatively started initiatives and 29% are actively investigating the opportunities. Meanwhile, Wikibon predicts the worldwide big data market will reach US$103bn by 2027, up from about US$40bn currently.

As far as treasurers are concerned, big data has plenty to offer. Research by the Economist Intelligence Unit on behalf of Deutsche Bank found that over half (56%) of treasurers believe big data analytics systems will be beneficial to their organisation in the future, ahead of AI/ML systems, instant payments, RPA and blockchain solutions.

Where specific areas of interest are concerned, a 2017 survey by Euromoney and J.P. Morgan asked which areas of treasury big data would impact the most. In first place was customer behaviour insights, cited by 30% of respondents, while 27% opted for cash forecasting. Other areas of interest included real-time visibility/tracking of payments (18%) and reporting (14%).

The story so far

In practice, though, most of the potential benefits are yet to be realised. "'Big data' is certainly a real buzz word," comments Andrew Marshall, Managing Partner at Covarius. "But treasurers aren't really aware how it can be utilised and how it can benefit their organisation."

There is certainly plenty of talk around this topic. "I really think we are just scratching the surface in terms of what could be done with data in the treasury space," notes Peter Fox, head of Data and Insights for GTS at Bank of America Merrill Lynch. "We have been involved in hundreds of conversations with treasury team members – this topic tends to come up in strategic reviews with customers and is a very common topic at our advisory boards."

Where practical applications are concerned, progress is happening, albeit more gradually. "Where progress has been made so far by treasurers is in automating certain processes," says Magdalena Mielcarz, EMEA Head Channel and Enterprise Services, Treasury and Trade Solutions at Citi.

> It's about using artificial intelligence and machine learning to deliver insights, predict the future or detect certain future risks.
>
> Magdalena Mielcarz, EMEA Head Channel and Enterprise Services, Treasury and Trade Solutions, Citi

"So I've been hearing a lot from the clients about deploying robotic process automation (RPA) into processes. But when we think about big data, what we are talking about is taking this to the next level."

Mielcarz explains this is not just a question of robotising repetitive steps that are already being carried out by a human – "it's about using artificial intelligence and machine learning to deliver insights, predict the future or detect certain future risks".

"We think the low hanging fruit lies in the area of operational efficiency," adds Fox. "In our interactions with customers, we have been able to see first-hand the power of sitting down with a broad set of individuals within a client's organisation, aggregating their data into one dashboard and benchmarking against similar companies. The conversations that can lead to, and the immediate actions that customers are able to take, are frankly astounding."

The next frontier, Fox adds, will be to look at activities that are characterised by underlying patterns. "So when you think about cash forecasting, understanding the underlying pattern of when you get money and when you pay it out is an area that is very ripe for data analysis. Fraud detection and error recognition are other areas that data analysis is very well suited to solve."

Practical applications

Where practical applications are concerned, Mielcarz cites the example of Citi Payment Outlier Detection (CPOD), which uses AI to detect transactions that are outliers compared to clients' historical flows, so that clients can confirm whether or not a transaction is legitimate.

"We also deploy big data analytics into our current processes at Citi," she says. "For example, we use certain biometric-related features that can indicate suspicious activity." This could include analysing different users' typing patterns and judging whether the person currently using a computer is the same person who has been enabled on the system.

In addition, Mielcarz says the bank draws upon big data to generate client relationship insights and thereby help clients optimise their treasury operations. "For example, we can analyse clients' existing cash management structures with Citi alongside external or public sources," she says. "This enables us to advise the customer that in the context of Brexit, for example, we would make certain recommendations for an efficient structure in the future, based on the company's account structure, currencies and flows."

She explains that these insights could be based on different topics such as accounts structure, liquidity structure, working capital analytics or transaction flow optimisation. Benchmarking can also be deployed to provide further recommendations. "While we can't include every type of data in light of the current regulatory framework – especially GDPR – we can still provide some benchmarking and peer analytics, comparing certain structures, flows or corridors to those of the customer's peer group," she comments.

Too much data?

Embracing the power of big data can bring many benefits, but treasurers also need to understand the risks. Fox notes there is a real risk of spreading a particular team's focus too thinly across too many objectives. He adds, "There is a lot you can do with data that can be a double-edged sword – so it makes sense to find the problems you really want to focus on and resolve these."

Treasurers should also consider some other possible pitfalls:

- **Losing focus on business problems.** For example, Fox says that while there is a lot of attention on data infrastructure development and the use of data lakes to collect data, this should not come at the expense of focusing on new processes and new data products.
- **Losing sight of the human element.** In addition, Fox says it can be easy to lose sight of the human element of big data. "In many cases, your new dashboard, product or analysis will change how other people do their jobs," he says. "So it's important to recognise that these developments bring changes, and address this via good management processes and excellent storytelling."
- **Poor quality data.** Data quality is another consideration. The data that companies use is of little value unless it is complete and accurate – which can be a challenge in some cases. "You have to make every effort to improve the quality of the data you are using in order to get the right outputs in the future," notes Mielcarz. "That's a challenge that everybody faces, which can be tackled by identifying the lower quality elements and improving quality over time."

Meanwhile, Enrico Camerinelli, Senior Analyst at Aite Group, highlights another possible barrier to adoption: "Ironically, the companies that could benefit the most from this are the ones that may not have the budget needed to afford the necessary investments."

Where to start?

Given the potential benefits, what should treasurers be doing now to take advantage of big data?

1. Focus on a specific business problem

Fox notes the importance of focusing on a specific business problem in the first instance. "Pick out a moderately sized

Plunging into data lakes

One challenge where big data is concerned is for treasurers to be able to access data in a way that is genuinely useful. Data lakes may provide an opportunity to achieve this.

Simply put, a data lake is a repository of raw data which can provide more flexibility than a more traditional data warehouse. Andrew Marshall, Managing Partner at Covarius, observes that the "big data dream" is typically driven by IT, and that it tends to involve creating large, accessible data lakes which treasurers can use to extract data – in contrast to ERP data sources, which are typically locked down.

"This may give the treasurer visibility across historic and future data (such as invoices) running to millions of transactions, which in theory can be used in all manner of ways to provide forecasts and predictive analytics," comments Marshall. "However, the role of IT usually stops at the data lake/reporting level. This puts serious limitations on the value of the data to the treasurer."

More recently, Marshall says that bigger players in the TMS space are beginning to invest in bringing data across from the data lake and into their reporting and analytics tools. "This will enable some seriously impressive and powerful output, from which the treasurer can make complex decisions," he adds.

However, one obstacle around the data lake model is that static models may mean that changes to the underlying data in the ERP system will not flow quickly across the data lake, meaning the treasurer may be using out-of-date information. Such changes could include corrections for inputting errors, updates based on trading performance and changes to credit terms.

"To combat this, TMS vendors are looking to build real-time connectivity – for example, via APIs – between the ERP, data lake and TMS such that changes to underlying data are instantly updated in the TMS, with status codes updated via messaging services to reflect the changes," explains Marshall. "This gives the treasurer that level of confidence that the data is good to work with and never out of date."

pain point and start to use different data visualisation tools and different data science tools within your own organisation to chip away at that problem," he suggests. "I think people will be surprised at how quickly you can get momentum if you bring the tools and the people together around the common problem to try and solve it."

2. Translate initiatives into actionable data

Likewise, treasurers should ensure that any big data initiatives result in actionable data. "For example, a company may always have problems with specific suppliers when they send invoices, resulting in delays in accounts payable," says Camerinelli. "You can carry out an intelligent analysis to find out which suppliers are the best and worst performance – but then you have to translate this into actionable items that someone else has to follow through on."

3. Appoint a data champion

Mielcarz, meanwhile, emphasises the importance of having the right people available to test new opportunities. "At Citi, we have data scientists in our labs – and we also identify data champions across our current teams to ideate and feedback from discussions with clients about what types of insights clients are interested in seeing."

She recommends that corporate treasurers should likewise appoint data champions within their organisations in order to provide insights from a data perspective.

4. Engage with partners and the treasury community

In addition, treasurers can engage with technology and banking partners to discuss the problems they are trying to solve and learn more about the relevant opportunities. There is also much to be gained by engaging with the treasury community and finding out how different groups are currently using data to tackle similar challenges.

Future developments

Looking forward, it will be important to monitor the impact of the evolving regulatory climate and the expectations regarding privacy and data security. While GDPR is a European regulation, other jurisdictions are beginning to follow a similar approach – California, for example, has adopted a similar law covering data privacy. "We need to be mindful of the fact that we need to keep embedding an infrastructure that makes it easy for us to comply with all those regulations, existing and upcoming," Mielcarz notes.

Where future opportunities are concerned, another notable area of opportunity is the way in which different data sets can be combined. "From having conversations with clients and studying the industry more broadly, some of the more interesting developments in the data space have come from unique combinations of data sets that are related but distinct," says Fox. "So that might include GPS data in the logistics space, or weather data in the farming space. It's one thing to mine your own data, but being able to combine your data with related third-party data could lead to tremendous insights."

Fox says that marrying bank data with a company's internal accounts receivable data, for example – and potentially layering in external data – could lead to greater efficiencies and automation within customers' systems. This could also result in a situation where treasurers increasingly adopt different workflows and 'manage by exception'.

"In the future, we think that leveraging data could help automate a significant number of repeated activities – freeing up the treasury team to focus on exceptions and contribute more to the broader strategic objectives of the organisation," he concludes.

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1 MCSI study, 2015; Study shows companies with strong female leadership generated a return on equity of 10.1 percent per year versus 7.4 percent for those without a critical mass of women at the top. McKinsey Global Institute
2 As of June 30, 2018
3 State Street Global Advisors Asset Stewardship Team

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Smooth operators: hedging in a volatile world

When it comes to currencies and commodities, the markets are unusually volatile. In attempting to smooth the ride, hedging can be a useful tool for treasurers. But what are the common mistakes and what constitutes best practice when using this risk management strategy?

In today's volatile currency and commodities markets, treasurers crave certainty from both a cash flow and a P&L perspective (even if with full certainty the job would cease to exist). To hedge or not should never be a foregone conclusion, especially under the current circumstances, so now is a good time to review strategy and policy.

Doing so should ensure the approach taken is fit for purpose, not least in light of the hedge accounting changes implemented under IFRS 9 that became effective for annual periods beginning on or after 1st January 2018 at least for those corporates that have elected to adopt it.

But there is an even more pressing reason for treasurers to rethink hedging. Although the profession typically errs towards the vanilla end of the hedging spectrum, doing it badly still risks destroying more value than was originally at risk.

Alignment

"When we help companies review hedging strategies, it is not uncommon to find that decisions are not aligned with the company's claimed hedging objectives," notes Ian Farrar, Partner, Corporate Treasury Leader at PwC China & HK. "Equally, a closer look at these strategies may reveal that they are only optimal at certain points in the range of commodity or currency rates."

An example of this would be where the use of certain instruments might be a sound strategy when oil prices are low, but not further up the curve. "We often find there is also an element of commodity basis risk," continues Farrar. "Corporates often do not hedge their entire exposure – frequently on the grounds of availability of suitable instruments, a lack of clarity where they might uplift bunkers, or because the cost of a matching instrument is prohibitive."

For hedging strategies in currency markets, the practice can generally be split into two main areas: FX exposures arising from trading, and exposures arising due to foreign currency debt. "Historically, many Asian companies have not hedged, or, for those that have hedged, under-hedged their FX exposure from trading activities," notes Farrar.

In some cases, this was because these companies were actively taking a position on future currency movements. In others it was due to inadequate forecasting capabilities. Indeed, if a corporate cannot reliably estimate the extent of their currency exposure in any period, it is often prudent to scale back hedging activities.

Treasurers that have hedged tend to use simple instruments – swaps and forwards. But in the past few years more are now considering options-based products; in Asia this is particularly the case for those dealing with RMB, says Farrar.

A new view

When first engaging with hedging, the tendency is to judge the success of efforts based on whether or not a better rate was achieved, notes Farrar. Instead, he says, "treasurers need to measure their hedging strategy based on whether it achieved their objectives, regardless of whether a hedge 'won' or 'lost'." A 'win' in this respect therefore might mean the company managed to fix its cash flows successfully, giving it certainty.

"There is a lot that can be done to manage ongoing volatility," comments Farrar. "It's largely a question of making sure decisions made in the name of risk management are being made for the right reasons."

Underlying effects

Joseph Braunhofer, Deputy Group Treasurer at Smith & Nephew, notes that often the transactional exposures hedged do not appropriately represent the full risk a company is exposed to. However, when seeking to establish the most effective hedging approach, he sees the basic structure of the organisation and the contracts it has entered into as having the defining role.

For Smith & Nephew, FX risk is for the most part concentrated in hubs, effectively centralising it and making it easier to manage. "If you are managing it on an individual basis across lots of decentralised entities you may be winning on one side but losing on another," he warns.

Ideally, before implementing any FX hedging strategy, Braunhofer advises examining the fundamental economic risks within the company. "When you are analysing the economic risks underlying a business, sometimes it is not always immediately apparent what the FX risk is," he notes.

"Contracting and procurement may have negotiated a contract in GBP, however this could be linked to an underlying USD market price. This could create an underlying FX risk within that contract that you don't know about – or you may be transferring FX risk to one of your suppliers which you will ultimately pay for," he explains.

To overcome this situation, he says it is vital to get into the detail in the first instance, "in order to fully understand what's

happening all the way through the chain". For this to be possible, he adds that finance and other teams need to support treasury in getting the best available data.

From here it will be useful to assess and compare those risks versus industry peers, making a judgement on what certain FX movements will do to the company's overall competitiveness in its market. Braunhofer accepts that it can be difficult to get competitor information of this nature and urges treasurers to be "a little bit more creative" here, exploiting other sources where possible.

Having created a view of the underlying risks, and benchmarked them, another useful step is to build in a view of the prevailing business environment. "In a business where margins are typically over 20%, Braunhofer believes that the treasurer might feel that doing less FX hedging may be entirely acceptable "because the worst possible outcome of all currencies moving against the business might only knock 1% off the overall margin".

In any given year, this will still dent profitability. But for the high-margin player, it is unlikely to tip the business over the edge in terms of complying with any bank covenants, for example. However, for low margin businesses, the potential for losses and risks related to covenant compliance alone may dictate the decision to hedge or not.

Accurate forecasting

As a hedging programme is implemented, it is important to looking at the accuracy of cash forecasts and underlying flows for it to be effective. "Typically, companies are hedging 12 or 24 months out so it is vital to know they are not doing so on the basis of flawed data and then having to unravel that as the maturity date approaches," comments Braunhofer.

The starting point of accuracy here is a matter of attending to the cash forecasting basics. "Most corporate treasurers recognise that this can be very difficult but if you are not doing some form of variance analysis on your cash forecasting, then it's probably not going to get any better and you'll never know how accurate you are."

There are various systems and processes that can be used to improve cash forecasting, depending on whether it is for operational, tactical or strategic purposes (short, medium or long term). These include the receipts and disbursements method, distribution modelling, exponential smoothing and regression analysis.

Modelling

It is useful for treasurers to develop an approach to modelling risk in the context of hedging. In recent times, Braunhofer notes that the portfolio value at risk (VaR) approach has become the leading edge in hedging practice.

VaR calculations come in many forms (and complexities) and can be estimated by multiplying 'market value' by 'price volatility'. Portfolio VaR essentially enables risk to be equated across products and for the aggregation of that risk on a portfolio basis.

A VaR model might, for example, measure the confidence (as a percentage) of the worst-case loss, under normal market conditions, across the base currency, over a given period due to adverse price moves. This calculation can be used to calculate VaR of individual positions and, subsequently, portfolio VaR.

Risk modelling can quickly become a complex proposition and adopting the more arcane techniques is not for everyone. "I would prefer to keep things as simple as possible," states Braunhofer. Some market-data tools available to treasurers have modelling functionality built into them, allowing "anyone with a good handle on their exposures" to overlay concepts such as portfolio VaR with "relative ease".

Flexibility and framework

With more extreme market movements than would otherwise have been anticipated, companies that are increasingly global in reach and connection, and the positive effects of having easier access to more accurate, relevant and timely data, companies are better able to understand the underlying elements.

Best effort now needs to be, and can be, better. As such, says Desiree Pires, Co-Head Corporate Sales, UK Financial Markets at Standard Chartered, "it is no longer prudent to have a one-size-fits all treasury hedging policy, and nor is it sensible to continue using a policy that was written a decade ago".

The current trading environment and market volatilities are dictating the need for a more flexible hedging approach. Indeed, rigidity in today's environment can create exposure to additional risk or cost.

With EUR and GBP forward points close to record highs, for EUR or GBP sellers it may be worth extending tenor of hedges to lock in the attractive forward points. For commodity purchasers, hedging for example base metal or energy in EUR rather than USD terms may mitigate the impact of higher commodity prices, says Pires.

"The record lows we have had in interest rates over the last few years encouraged many treasuries to fix their debt costs for longer term. Brexit GBP-related weakness may also bring opportunities for UK companies with foreign earnings or foreign companies with UK costs to lock these in for a longer period." Being able to lock-in that cost gives the predictability that companies and stakeholders crave. This only comes from policy flexibility.

There may be certain accounting or finance considerations around the timing of a hedge, but Pires says treasurers should generally be striving to create market awareness across the organisation, up to board level, to try to reshape outmoded policy in the most appropriate manner.

Indeed, there must be an understanding of the nuances that exist, for example, between certain currency pairs, or at certain times in the market cycle, in order that the right degree of flexibility is sanctioned. And it needs to be sanctioned because shifting back and forth on tenor, for example, might, as Braunhofer notes, "look a little like speculation".

Allowing treasury to do something different where necessary, possibly even look at FX options, as PwC China & HK's Farrar suggests above some Asian businesses exposed to RMB are now doing, is clearly foresighted.

However, policy flexibility to the point of allowing ad hoc decisions is effectively no policy at all, cautions Pires. "When hedging, there will always be a need for a framework and

guidelines," she declares. "These typically warn against speculation but also provide certain tolerances within which treasury can operate."

With more data available to build a better picture of the business and its risks, setting and fine-tuning limits, and understanding where the pain-points are, is now entirely possible.

Practical measures

In beginning to mitigate exposure risks, it should be apparent that treasurers should start by examining market conditions before taking the plunge. However, warns Pires, "spend too long studying the markets, or wait too long for it to reach a good level, and it might run away from you". Setting time guidelines can avoid 'paralysis by analysis'.

The cost of hedging should be a consideration too. It needs to be balanced by the benefits and the value of the underlying business; certain (usually emerging market) currencies, for example, may not be worth hedging because they are simply too expensive.

When adopting a hedging methodology, a 'rolling layered approach' is often advised as a practical means of reducing cash flow volatility. With a two or three-year horizon, for example, the treasurer would hedge a larger percentage of FX for the first six months (policy suggesting perhaps between 50% and 80%), reducing the percentage progressively to perhaps a tail hedge towards maturity.

The liquidity of the market will often dictate tenor; commodities tend not to be overly liquid beyond 18-months to two years, making a longer tenor unlikely. That said, an airline might take a different stance to a food manufacturer, so policy might dictate a very different approach.

But perhaps hedging can be approached in a different way altogether. As Farrar says, it may now be time for treasurers to look closer at options. Indeed, in certain cases, especially where there is uncertainty around the underlying, Pires says the 'insurance' of a simple option (as opposed to more complex derivatives, which are unlikely to gain acceptance amongst treasurers) "can outperform a rolling forward hedging programme", giving lower volatility on the balance sheet.

It is worth noting too that where at an individual entity level, hedging may seem like the right thing to do, across a group, there may be natural – and therefore more cost effective – offsets that can be used instead, notes Jacqui Drew, Director, ION Treasury and Chairperson of ION's Hedge Accounting Technical Taskforce.

Information is key here, she says. It is imperative that a company can identify all inflows and outflows across a company and across the asset classes including FX and commodities. The company can then identify any natural offsets in the first instance which would significantly reduce the volume of hedging and therefore the hedging costs.

Looking at exposures in siloes, where commodities and FX trades are treated entirely separately, is inefficient. "A more advanced treasury will be able to look at these exposures across the portfolio and gain an understanding of the correlation and potential offset of the different risks," she notes. "We have worked with companies who have noted a 40-50% reduction in risk when considering the correlations across asset classes by using advanced risk functionality like Cash Flow at Risk. Cash Flow at Risk is relevant to corporates who are not looking to trade out of their hedging positions immediately and are looking to manage cash flows rather than balance sheet value."

Technology, subject matter experts and banking partners will be a valuable source of input and of data in this respect, especially when seeking correlations and performing calculations and analysis. But where information can be shared internally, then it should be. Aside from the adoption of technologies that can facilitate sharing across the organisation – and here cloud solutions can prove beneficial – the different functions harbouring relevant data using independent market data can be helpful in treasurers adding value to the organisation.

It is here that treasurers can explain that helping to discover the different exposures being faced by the business will help level volatility and increase certainty through a better-executed hedging strategy. Ultimately though, it means driving growth and increasing profitability. Few could argue with that.

Hedging best practice: Jacqui Drew, Director, ION Treasury, offers her guidance

- Build a formal hedging strategy and policy, with appropriate controls, and align your actions with it across the organisation and to the risk appetite of the organisation.
- Allow your policy to have a degree of flexibility and ability to deal with unexpected changes in the economy.
- View policy as a work in progress: review and revise as necessary and back test.
- Stay abreast of the underlying business risks and regulatory changes.
- Know what exposures you are trying to protect and be able to accurately identify them and keep them updated.
- Hedge in good time: don't wait for the market to turn.
- Share information internally and look out for natural hedges across the organisation.
- Hedging for treasurers is a means of risk mitigation not a source of revenue.
- Invest in technology to support global and accurate capture of your exposures across your asset classes with risk management functionality to comply with your risk management policies.
- Ask a trusted expert for advice on hedging strategies or risk management techniques.

CASH FLOW FORECASTING

A WORK IN PROGRESS

Fintech has brought efficiencies and cost savings across many treasury operations but many believe that cash flow forecasting has lagged in sharing the benefits. Is that situation about to change?

BNP Paribas is the latest to partner with a fintech with the aim of improving cash flow forecasting by digitising the process. The bank recently announced a collaboration with Cashforce and said that the partnership to offer digital forecasting services will "allow a cross-integration of corporate treasurers' existing accounts and functions for a more holistic, streamlined view of cash positions".

"Forming agile partnerships with innovative fintechs, which leverage new technologies such as artificial intelligence (AI), helps us to significantly accelerate the digitalisation of our customer journey in the area of transaction banking," said Jacques Levet, BNP Paribas' Head of EMEA Transaction Banking.

Accurate and efficient cash flow analytics and cash forecasting solutions also offered corporates and their treasury departments the opportunity to expand internationally, added Cashforce's CEO, Nicolas Christiaen.

Among those optimistic that cash flow forecasting is about to make a major advance is Mike Zack, Pre-Sales Manager for GTreasury, who believes that fintech will pave the way for greater progress over the next five years than has been achieved over the previous two decades.

"We're living in interesting times as many fintech start-ups come to market and people become more comfortable with using the new technologies," says Zack. "Convincing people to adapt to change is an important and necessary task – if you're able to do it, life becomes much easier."

Rise of the CDO

"The proliferation of data means that a growing number of organisations are hiring a chief data officer (CDO). "Understanding data is more of an art than a science and you need to understand the data in your business before applying any API tools or robotics as otherwise it's meaningless," says Zack. "There has also been a growing tendency for people to spend more of their time attempting to validate data rather than actually analysing it."

Digitising cash flow forecasting means that the fintech is primarily focused on the collection of data and making it easier to bring data together. It can then be leveraged by other tools such as AI, to explain the data. "Another benefit from tech is that it allows you to test your hypotheses and use the lessons learned," Zack suggests. "You can afford to fail multiple times and learn from your mistakes."

"The problem with AI is that it's not simply a case of pressing a button to provide an instant answer – you still need individuals providing high quality input. Some companies have purchased AI and robotic tools and summarily dismissed them as a wasted investment, simply because they haven't allowed time for them to evolve and learn. AI is a powerful tool, but only as good as the individuals using it."

Businesses are constantly shifting and changing, particularly those engaged in M&A activity. As data changes so do forecasts – and businesses need time to adapt to and learn from the changes.

This also creates a need within organisations for a central unit to bring the activities of all its various departments together. Treasury can't afford to work in a silo separate from all the other departments: in a siloed organisation, each department only understands its own data.

"The danger of silos was demonstrated a decade ago by the financial crisis, but the walls have yet to be fully broken down," says Zack. "That's why a CDO should be at the top of all these various activities and the data produced by each department – he/she will be one of the most important individuals within the organisations of the future."

In pursuit of automation: leveraging technology to support business growth

Christoph Dubies
Chief Strategy Officer

As CFOs, finance leaders and corporate treasurers set their sights on process automation, how can they achieve their goals – and what challenges will they need to overcome along the way? Christoph Dubies, Chief Strategy Officer at Serrala, sets out the role technology can play in supporting growth, the progress achieved so far and the developments worth watching.

What challenges are CFOs, treasurers and other finance professionals facing in the coming year?

I would note three challenges that CFOs are currently facing. The first is digitisation. CFOs are re-evaluating existing structures, processes and tools and are exploring how digital solutions can be leveraged to make their processes better and more secure. They are also working to achieve more transparency over what is happening within their organisations.

The second topic, which goes a little further, is about process automation. Finance leaders are looking to make processes as automated as possible, while removing manual tasks and the need for manual intervention. Rather than simply fixing specific issues, CFOs are proactively addressing topics such as fraud and increasing transparency over cash flow.

The third challenge, particularly for CFOs that are working for growing companies, is to determine how they can enable their organisations as they expand, and what technology they can put in place to support their growth.

To what extent can the technology used in treasury and finance overcome these challenges while supporting company growth?

Technology is on a lot of people's radar. But the majority of companies are relying on a large variety and volume of legacy systems – so even though they may be aware of the challenge

Cloud brings huge benefits. It addresses not only scalability, but also ERP independence: rather than bringing everybody onto the same ERP, companies can interconnect multiple ERPs via API.

and the need to introduce new technology, only a few have been able to take effective action.

What levers can they pull to achieve this? Investing in technology can bring considerable opportunities. This might mean looking at whether there are any sub-processes that are still handled manually, such as cash application, and considering the alternatives. There are scalable options out there, particularly cloud solutions that can support inorganic growth by quickly integrating new companies. The challenge is how best to combine the old on-premise technology world with the new cloud world. Hybrid cloud solutions that have a deep connection with the core ERP system, while still offering full flexibility of scale, will be a major lever going forward.

In many cases, I've seen CFOs adjust their mind-set as they begin looking more closely into the opportunities brought by a more integrated process. Instead of considering a variety of different vendors and solutions, which may be both specialised and siloed, CFOs are increasingly looking at the big picture and how to get more out of technology with an integrated approach. Take, for example, the order to cash (O2C) cycle. If you just automate and optimise, say, the credit management part of the O2C cycle, you can certainly make that part more efficient, but you still face the risk of losing efficiency in the following process steps such as cash application or collection management – so by optimising all the steps of that cycle, you can actually achieve world-class processes. That's where a one-stop shop (like Serrala) can help CFOs implement the solutions they need to overcome these challenges.

So how do you feel treasury functions can harvest developments in technology in order to grow?

It is advisable to carry out a thorough analysis of the status quo and evaluate things that have 'always been done like that'. Certain parts of processes may still be done via Excel or manual interference, and this can impede the company's ability to scale up and efficiently avoid fraud. Whenever there is manual interaction, or an Excel-based process, the CFO loses control over what is really happening. From a technology point of view, there have been a lot of developments in recent years, and scalable tools that can help companies operate more effectively.

In terms of the technologies that have been developed over the last few years, which do you see as having the most potential for the treasury community?

Cloud brings huge benefits. It addresses not only scalability, but also ERP independence: rather than bringing everybody onto the same ERP, companies can interconnect multiple ERPs via API. They can even have the comfort of choosing whether to work from the ERP or a cloud solution, so they can rapidly improve processes without significant retraining, which is why the opportunities brought by hybrid solutions are so compelling.

The other technology development that is making inroads in treasury is what I would call intelligent automation. There is a lot of discussion around robotic process automation (RPA), but using robots to do the same tasks doesn't bring true flexibility, because once you change something on the underlying layer you have to retrain the robot. Intelligent automation goes beyond that: it means that you identify ways for continuously enhancing processes to achieve end-to-end automation. With intelligent automation you can go beyond RPA and take away the need for a robot that imitates a single manual task, because you have automated the entire process itself.

Take outbound payments, for example: your invoices can be automatically posted within seconds of capture based on auto-posting criteria. If an invoice doesn't meet these criteria, it will be automatically routed for exception handling to the appropriate user. Intelligent automation saves you a lot of time and makes the processes more secure, accurate and transparent at the same time.

Where we see even more use cases is in machine learning – in other words, the machine can learn how to improve processes over time, using historical data to become better at predicting the future. It's important to be careful about where this really applies. For example, there is a good use case in cash management, where you can leverage historical data to get a more solid forecast on your cash and liquidity. But there are other areas where it is more difficult to apply this, such as in fraud detection.

Ideally a company won't have enough historical fraud cases to be able to learn based on those events, so the approach here needs to be slightly different. Rather, you can leverage the cloud and APIs in order to access additional data points and derive fraud-detection rules based on a far higher portfolio of information, potentially even from a larger set of companies. It's always better for companies to leverage the knowledge and experience of a technology vendor, rather than trying to reinvent the wheel in-house. Only a technology company has enough data points to come up with the intelligent logic needed to monitor this and enable proactive fraud prevention.

Given the rise of instant payments, how can treasurers avoid exposing their companies to the associated risks?

The reality is that manual management is simply not possible when it comes to instant payments and higher processing speeds. Companies have to be able to proactively analyse big data volumes and detect payments that seem to have a risk of fraud. A real-time solution is therefore needed to track and trace any fraud attempts instantly. Possible solutions

> We are looking into all the different technology fields that are out there, including cloud, machine learning, artificial intelligence and blockchain.

include blockchain, as well as the use of payment management technology that identifies certain patterns.

Each company must also understand to what extent instant payments create additional value for them or for their customers. There are some very clear use cases: retailers, for example, can gain immediate certainty that a customer's payment has cleared, potentially meaning that orders can be fulfilled sooner. In other areas, the benefits of instant payments may be less clear cut.

When it comes to adopting new technologies, are there any particular barriers from the point of view of clients?

I think, generally, people are rather hesitant when it comes to change. As we all know, implementing new technology involves the business – but it also involves IT. So there are multiple stakeholders, and managing all these stakeholders can be a challenge.

Another consideration is that when new technology is introduced, training may be needed to bring everybody onto the same page and tell the story of why this change is positive. Keeping the organisation up to date with technology can take a lot of effort and may require internal resources. Again, a hybrid cloud solution can provide a balance by enabling change without changing everything.

In a hybrid cloud situation, if companies reach a point where the new technology is overwhelmingly positive and beneficial, can they then get rid of their legacy technology?

Exactly. Typically new innovation would be focused in the cloud part of the hybrid cloud model. The more functionality there is in the cloud part of the hybrid cloud model, the more people will get used to it – and the more you will have a natural movement towards really leveraging cloud tools.

And how would you respond to those that really do persist in hanging onto legacy technology?

At Serrala, we only pursue innovation which creates real benefits for our users, whether that means managing risk more effectively or reducing process costs. These benefits can be considerable: by managing processes in a standardised way, companies can ensure there is no opportunity for an employee to take money out of the business, for example. The longer you wait to implement changes, the more difficult it will be to achieve best practice in these critical areas.

How does Serrala's offering tap into the latest technologies and how are you pushing the envelope in terms of what's available now?

We are looking into all the different technology fields that are out there, including cloud, machine learning, artificial intelligence (AI) and blockchain.

On the topic of cloud, we have recently launched our new solution group called Alevate, which is a whole set of cloud solutions which effectively form a B2B portal. With this cloud portal, our customers can manage their inbound and outbound payment processes through one central cloud solution. We also have a hybrid cloud model which connects the SAP world with the cloud, providing full transparency over the transactions that are happening in both worlds.

When it comes to machine learning, our solutions in areas such as inbound payments have historically been rule-based. We have been analysing whether we could replace the rule-based approach with AI for the matching of incoming payments. However, if you adopt a purely machine learning/AI-based approach, you may not understand why matching has taken place. And if you do not achieve 100% accuracy, you will have trouble explaining that to your auditor. We are therefore exploring how to achieve best results by combining a rule-based approach with rules derived from machine learning. In this model, the machine looks at historical matching data and comes up with a new rule, which is then approved by the user.

Regarding blockchain, there was quite some hype in the last months and now people have realised that a lot of investment is needed. It is therefore important to make sure that any solution developed using blockchain technology creates real business value. For us, our portal presents a natural use case, in that you can execute supply chain finance transactions that are derived from a vendor B2B portal and then execute these payments by leveraging blockchain technology. This can provide faster processing speed and lower transaction costs. We see real applicability for corporates that may be able to carry out supply chain finance or dynamic discounting by leveraging blockchain.

A second use case is that you can leverage blockchain over time to create a super secure audit trail of all the different transactions taking place. We are working on evaluating this more deeply, but it will take time for large organisations to adapt and implement these types of solutions on a large scale.

These are our expectations. Our mission statement says that we want to empower and protect our customers in order to avoid any risks that are out there, whether that's the risk of fraud or the risk of insufficient liquidity. So, companies that embrace process automation will be better prepared to be above-benchmark, reduce their operational costs, and have positive customer relations on both sides of the payments process, such as when sending out invoices or collecting money.

Indeed, our own research into the future of finance asked about finance leaders' priorities for the coming five years, and 98% of respondents referenced the importance of increasing automation. On the other hand, only 9% said their processes are already fully automated. So it seems clear that while finance professionals have identified this as an important topic, there is still mileage to be gained by organisations.

No let up for corporates on the KYC and sanctions front

Regulators globally have shown financial institutions that violate tough post-crisis compliance rules no mercy and are now, increasingly, showing a determination to also punish corporates that don't toe the line when it comes to know your customer, anti-money laundering and sanctions.

A decade on from the collapse of Lehman Brothers, regulators across the United States, Europe, Asia Pacific and the Middle East have levied an eye-watering US$26bn in monetary penalties against institutions for KYC, AML and sanctions violations, according to one of the most comprehensive studies of its kind since the financial crisis.

The research by US-based Fenergo, a provider of regulatory and compliance solution to banks and corporates, says inadequate customer due diligence procedures and the lack of cohesive, global KYC and AML compliance programmes were the most common charges levelled at penalised institutions. On the sanctions front, penalties were mostly handed out for screening processes that intentionally ignored the status of sanctioned entities.

Published in October, the Fenergo study draws on analyses of ten years of AML and KYC fines and found that at the regional level, the US accounted for over 90% or US$23.5bn of all global AML, KYC and sanctions-related fines between 2008 and 2018.

Europe followed with US$1.7bn issued in fines over the ten-year period. The current year however has already become a record year for AML fines across the region, with a total of US$903m levied, including the highest European AML fine of the past decade, totalling US$900m and levied by Dutch authorities.

Across APAC, AML-related fines totalling US$609m have been issued in the last ten years. As with Europe, fines across the region this year already amount to a new ten-year record,

US$540m in penalties issued over the first eight months of the year. "There is a notably intensified appetite from Singapore and Hong Kong financial regulators to safeguard their respective financial systems by bolstering AML, KYC efforts," says the report.

In the Middle East, meanwhile, regulators are starting to find their regulatory bite in an attempt to fix a global perception of a 'light touch' regulatory regime within the region. The Dubai Financial Services Authority (DFSA) has been the most active regulator in the area, levying five fines totalling US$9.5m for AML contraventions.

As for sanctions violations, they accounted for 20% of the US$26bn issued in enforcement penalties globally on financial firms.

With the implementation of new regulations, including EU's MiFID II and GDPR; and US Treasury's FinCEN Final Rule relating to customer due diligence (CDD) over the past year alone, the expectation across the financial industry is that regulators will continue to flex their enforcement muscles. Accenture's 2018 Compliance Risk Study found that nearly 90% of 150 compliance officers surveyed across banking, capital markets and insurance are anticipating their organisations will boost investment in compliance over the next two years.

Warning for corporates

While both the Fenergo and Accenture studies are focused very much on financial institutions, their findings are a powerful signal to corporates that as clients of financial services firms they too will, inevitably, come under greater scrutiny under KYC, AML and sanctions rules.

The sanctions space has been especially lively this year thanks to US President Trump's willingness to slap new rules on not just countries like Iran, Syria, Russia and North Korea but organisations and individuals as well. Data gathered by US law firm Gibson Dunn earlier this year shows that across the full range of US sanctions programmes, nearly new 1,000 entities and individuals were blacklisted during 2017. That represented a near 30% increase over the number added during President Obama's last year in office, and a nearly three-fold increase over the number added during Obama's first year in office.

A notable recent instance of a corporate being snared by US sanctions is Chinese telecom equipment maker ZTE, which was charged with "egregious" violations of rules on Iran and North Korea. In May the company was allowed to resume operating in the US but only after paying a US$1.3bn fine. It also had to change its management and board, hire American compliance officers and provide "high-level security guarantees".

With sanctions rules there is no room for ignorance. Last year PayPal was fined over US$7m for breaking the US Weapons of Mass Destruction Proliferators Sanctions Regulations after unwittingly processing payments for a sanctioned individual. Elsewhere, US medical company Alcon Labs has been fined more than US$7m for selling medical equipment to customers in Iran and Sudan, and the PanAmerican Seed Company had to cough up US$4.3m for selling flower seeds to Iranian distributors.

Parth Desai, founder and CEO of payment compliance platform Pelican, says that, increasingly, personal executives are being held to account and individually fined by regulators following corporate non-compliance. The negative impact on business reputations of being shamed can be even more significant than the direct financial penalties imposed, he says.

"Despite these risks, there is still a reluctance among some companies to onboard proper sanctions screening processes, with many erroneously believing it is enough for their banks to do all screening," says Desai. "As many companies have learnt the hard way, there is no excuse the regulators will accept for a failure to put in place adequate systems and processes to ensure all relevant sanctions obligations are adhered to."

Desai says that while many companies around the world are either planning, implementing or already using sanctions screening and fraud prevention solutions, others are facing either compliance disaster or fraud exposure.

How companies handle their data is no longer simply about compliance – it is a competitive differentiator. Firms that fail to have a cohesive strategy and programme in place will struggle to succeed at best, or create a ticking time bomb at worst, Desai warns, adding: "Action is better than inaction – and complacency can lead to disaster."

The KYC challenge

Corporates face many challenges on the KYC front too. A Thomson Reuters global survey of 1,122 decision makers, including treasurers and finance directors in non-financial corporations, found that banks are looking to alleviate some of the regulatory pressure on them by increasing the volume of KYC information they require from companies. An indication of the much tougher regulatory climate for banks is that, according to Fenergo, between 2009 and 2012 alone, more than 50,000 regulations were published across the G20 group of countries, with almost 50,000 regulatory updates rolled out over 2015. Not surprisingly, major financial institutions are spending between US$900m and US$1.3bn a year on financial crime compliance.

The Thomson Reuters study, which surveyed firms in countries including Singapore, Hong Kong, USA, UK, France and Germany, also found that the KYC burden on companies is being magnified by their high number of banking relationships. On average, each corporate surveyed had ten global banking relationships, with bigger organisations having more banking relationships, as many as 14 in some cases. Such multiple banking relationships make managing the provision of KYC documentation to financial counterparties significantly more time-consuming and complex for corporates.

The research furthermore reveals that banks were taking longer to onboard corporate clients who in turn were not passing on a significant proportion of material changes needed for KYC processing. As a result, senior managers within corporates were spending valuable time responding to multiple requests for compliance-related information.

One of the biggest bugbears for corporates is financial institutions' lack of common KYC standards. As a result, document requests vary by bank and geography, making it difficult for corporates to predict exactly what will be required. Institutions and regulators have shown they are committed to

As many companies have learnt the hard way, there is no excuse the regulators will accept for a failure to put in place adequate systems and processes to ensure all relevant sanctions obligations are adhered to.

Parth Desai, founder and CEO, Pelican

moving towards standardised KYC requirements but there is still an awful long way to go.

Not surprisingly, third-party providers have spotted an opportunity to provide KYC solutions that address the needs of all parties. SWIFT was one of the first to spot the opening. Its KYC Registry provides banks with information on their correspondent and downstream relationships in a shared platform that manages and exchanges standardised KYC data. Other managed service providers offer more than a repository, tailoring in-depth due diligence for banks, investment managers and corporates.

Yet the Holy Grail of standardised, automated KYC, is still some way off. One reason is that banks still have their own on-boarding methods. David Fleet, Managing Director, Client On-boarding and Management at Standard Chartered Bank in Singapore explains: "There are still requirements for additional data over and above what the utility collects."

And banks cling to their own practices because ultimate KYC responsibility remains with them. "The danger is that if the provider gets it wrong, the bank remains on the hook. Banks can't outsource their responsibility," says Tom Devlin, Partner at law firm Stephen Platt & Associates. Competition amongst banks is also a factor impeding collaboration. Similarly, the proliferation of competitive KYC services chasing the same segment reduces the chance of industry-wide standards.

Some experts believe that only when regulators deliberately specify clear KYC parameters and requirements, will shared platforms or 'one-stop-shops' really work. "Regulators refuse to tell banks what constitutes adequate KYC and banks continue to dream up more and more ridiculous KYC criteria for their clients," says David Blair, Managing Director of Singapore-based Acarate Consulting.

Blockchain to the rescue?

With little sign of a resolution any time soon to the conflicting demands and priorities of financial institutions and corporates when it comes to KYC, interest is growing in blockchain technology as a potential solution. As an immutable shared digital ledger of transactions maintained by a network of computers rather than a centralised authority, blockchain could be used to safely store and share validated data such as KYC documentation amongst banks. Such a facility could help remove the need for duplication of information and enable updates to client details on the KYC ledger to be made available to all banks in close to real time. The ledger could also provide a historical record of all documents shared and compliance activities undertaken for each client, addressing the needs of the regulator.

Efforts to explore the application of blockchain to KYC have intensified over the last two years. And while any commercial exploitation of the technology for KYC remains some way off, there have been some notable advances. Last year, for instance, the R3 blockchain consortium reported that more than three dozen of its members – including BNP Paribas, China Merchants Bank and Deutsche Bank – had carried out a global trial of a KYC application built on a blockchain platform.

The four-day trial saw 39 firms carry out over 300 transactions in 19 countries across eight time zones. Banks were able to request access to customer KYC test data, whilst customers could approve requests and revoke access. Customers were also able to update their test data which was then automatically updated for all banks with permission to access it.

R3 says the system reduces duplication and costs by eliminating the need for each institution to individually attest and update KYC records. And, because only those with a need to see data have access to it, there are no data privacy and security issues.

Elsewhere, KPMG in Singapore has worked with a consortium of three banks in Singapore – HSBC, OCBC, and Mitsubishi UFJ Financial Group – as well as the Singaporean regulator Info-communications Media Development Authority to develop a proof-of-concept KYC utility on a blockchain platform. The prototype successfully passed the Monetary Authority of Singapore's test scenarios. In addition to stability, efficiency and security, the platform could, says KPMG, result in estimated cost savings of 25%-50% by reducing duplication and providing a clear audit trail.

IT giant IBM meanwhile has been working with banks around the world on early stage shared KYC projects based on blockchain. Earlier this year it announced successful completion of a proof of concept KYC blockchain platform in collaboration with Deutsche Bank and HSBC.

Although the cost of KYC is a huge part of the motivation for sharing KYC information across banks securely, for IBM the customer experience is an even bigger factor: "Banking clients are constantly asked to provide the same information, over and over again. For corporations, this can be very tedious, given the amount of certified information and documents they need to provide. By sharing KYC information across banks, the burden can be reduced, translating to faster onboarding and less work for customers."

IBM believes one of the key aspects of blockchain that fits well with these objectives is its ability to allow the customer – individual or corporate – to dictate with whom they want to share information and for what purpose, without needing the banks to be involved in the middle. Those types of capabilities are very difficult to achieve without using blockchain technology, it says.

Have Trump's tax reforms caused you to rethink your US dollar repatriation strategy?

US tax policy shifts are having a significant influence on how multi-national corporations are allocating capital. What does this mean for your business?

Dan Burns
Financial Markets Editor
Thomson Reuters

With potential for the repatriation of US$2trn of overseas investment, Dan Burns took the opportunity at a recent Treasury Today webinar to explain the main changes to US tax. Here are his key takeaways:

Corporate alternative minimum tax

Repeals the 20% corporate alternative minimum tax, set up to ensure profitable corporations pay at least some tax.

Territorial system

Exempts US corporations from US taxes on most future foreign profits, ending the present worldwide system of taxing profits of all US-based corporations, no matter where they are earned. This would align the US tax code with most other industrialised nations, undercut many offshore tax-dodging strategies and deliver to multinationals a goal they have pursued for years.

Repatriation

Sets a one-time mandatory tax of 8% on illiquid assets and 15.5% on cash and cash equivalents for about US$2.6trn in US business profits now held overseas. This foreign cash pile was created by a rule making foreign profits tax-deferred if they are not brought into the United States, or repatriated. That rule would be rendered obsolete by the territorial system.

Base erosion and anti-abuse tax (BEAT)

Prevents companies from shifting profits out of the United States to lower-tax jurisdictions abroad. Sets an alternative minimum tax on payments between US corporations and foreign affiliates, and limits on shifting corporate income through transfers of intangible property, including patents. In combination, these measures with the repatriation and territorial system provisions, represent a dramatic overhaul of the US tax system for multinationals.

Here is how BEAT is designed to work: If a company generates more than US$500m in annual revenue in the US, and its American units make above a specified level of tax-deductible payments to related companies overseas, those units must pay a minimum tax on their US profit after adding back in certain types of deductions. The minimum rate is 5% in 2018 but rises to 10% in 2019 and 12.5% in 2026.

Capital expensing

Allows businesses to immediately write off, or expense, the full value of investments in new plant and equipment for five years, then gradually eliminates this 100% expensing over five years beginning in year six. Also makes changes to permit for more expensing by small businesses.

Interest deduction limit

Caps business deductions for debt interest payments at 30% of taxable income, regardless of deductions for depreciation, amortisation or depletion.

Clean energy

Preserves tax credits for producing electricity from wind, biomass, geothermal, solar, municipal waste and hydropower.

Carried interest

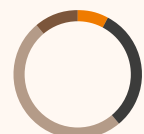
Leaves in place 'carried interest' loophole for private equity fund managers and some hedge fund managers, despite pledges by Republicans including President Donald Trump to close it. These financiers can now claim a lower capital gains tax rate on much of their income from investments held more than a year. A new rule would extend that holding period to three years, putting the loophole out of reach for some fund managers but preserving its availability for many.

Companies are benefitting when gains in profits attributable to reductions in effective tax rates are shown to the tune of US$56.4bn in the case of the big technology companies.

The current situation is also having a major impact on exchange rates against the greenback with only the currencies of Mexico (although this is probably a correction of earlier weakening following President Trump's policy on Mexico), Ukraine, Colombia, Kenya, Japan and Nigeria showing gains.

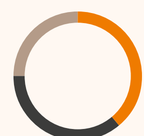
How informed are you about the new US Tax Reforms?

Uninformed – **8%**
Somewhat informed – **31%**
Well-informed – **50%**
Extremely well-informed – **11%**



Has the dollar's strength this year made your currency hedging programmes more challenging than before?

Yes – **39%**
No – **36%**
Somewhat – **25%**



If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

Real-time payments

"Are real-time payments processes really of interest to treasurers?"

Jon Williams
Principal Consultant
Mk2 Consulting

The world is moving to real-time payments whether treasurers like it or not and there are some benefits and some pitfalls. Being able to make immediate payments may help you manage cash and liquidity but most of the benefits are to other business processes.

In 2008, the main corporate use case in UK for Faster Payments was believed to be as a backstop if BACS, the domestic ACH system, failed. I argued that there were far more areas where business processes would change, including forecasting the growth of immediate loans and compensation.

Firstly, the cost of an immediate payment is significantly less than a corresponding RTGS payment and so may be attractive for some types of payment, especially with the UK leading the way by proposing to increase the payment limit to £10m from £250,000. Treasurers could reduce some bank costs by taking advantage of multiple, regional or national immediate schemes.

With immediate payments, reimbursement of expenses and payroll of weekly staff can be made as soon as approved, and supplier payments can be delayed until the date due. While this more dynamic operating practice is far more reactive, it can cause difficulties such as monitoring liquidity more closely, since many immediate payment schemes require pre-funding. Payment on delivery also becomes much more efficient, not only for the customer but also the supplier. Where immediate payments can support your business is limited only by your company's imagination, and one business uses the references embedded in immediate payments to confirm ownership of the account and, thereby, identity.

Whether or not your business makes immediate payments, consumers will expect your business to receive them efficiently. They expect you to know immediately when they have been paid and to see that reflected on their statements, so efficient cash application procedures and systems are important. Many businesses still work on daily cycles but the always-on, connected nature of commerce does not lend itself to end of day statements and reconciliation. For this reason, open banking or access to accounts via APIs will go hand-in-hand with the new instant payment schemes to bring the instant corporation to life.

Should treasurers be concerned about faster payments? Since immediate payments are generally irrevocable this means you and the A/P team should be on the lookout for errors and fraud, such as CEO or invoice scams where criminals persuade you to make payments to accounts in their control. This has also led to real-time, money-mule networks whereby proceeds of crime, once obtained, are difficult to track and recover. This in itself may be a key reason for a treasurer to think about faster payments.

In short, whether or not we want to make them, real-time payments challenge our businesses to become more real-time immediate themselves and treasury, with its view over the banking relationships, is at the heart of the business transformation.

Fabrizio Masinelli
Group Treasurer –
Accounting Department
Panini S.p.A.

I believe that real-time payments are not too much of interest to treasurers, or at least not in general.

They may give an advantage to 'cash out' when it comes to retail outlets though. If, for example, a company works with small outlets, and from which it must get 'cash on delivery', then there will definitely be an upside to real-time. If, on the other hand, we are talking about B2B operations that are linked to medium and large companies, then immediate payments, in my opinion, will not give any real added value.

In any case, many companies have processes of internal authorisation that can cancel out the advantages of paying immediately. But, above all, most are now using systems that easily allow the execution of payments, regardless of whether they are immediate or not. If we are talking about payments made intra-day, then without a doubt they can be useful. But, for me, the idea of 'instant payment' is not yet something I consider to be particularly useful for most businesses.

That said, although real-time payments have a certain utility, and perhaps even an important advantage, if used by companies to cash out from small and disparate outlets, I believe that real-time payments could create new problems around cyber fraud. As such, surely treasurers will have to change the way they work if they want to use these systems?

Indeed, treasury policies are part of the future of the financial management of companies. Each and every change to policy

must therefore be taken into consideration. For companies that do decide to use the real-time method of payment, there will necessarily be a lot of policy changes to implement. Those who choose not to adopt this model will obviously not have to completely rewrite policy, but may have to take it into consideration when using this new method for one-off or particular payments – even though I suspect this would only be on very rare occasions.

Dino Nicolaides

Managing Director, Head of Treasury Advisory UK & Ireland
Redbridge Debt & Treasury Advisory

Alexandre Bousquenaud

Senior Director, Head of Treasury Advisory Continental Europe
Redbridge Debt & Treasury Advisory

Manon Balette-pape

Associate Director, Global Payment Card Product Head
Redbridge Debt & Treasury Advisory

"Real-time" or "instant" payments (RTPS), unlike other traditional payment methods, guarantee immediate availability of funds to the beneficiary of the transaction. Treasurers need to assess the impact of this form of payment on their treasury function and utilise RTPS, where beneficial, while ensuring that they address the accompanying challenges.

Firstly, from the strategic perspective, RTPS can have a significant impact on treasury risks:

- Organisations can receive incoming flows in real time, enabling them to have their funds sooner, plan outgoing payments based on incoming flows more accurately and hence reduce the liquidity management buffer required to ensure the adequacy of funds for day-to-day obligations. This could result in finance cost savings as well as reduced counterparty and refinancing risks.
- Instant receipts and payments can facilitate more accurate cash flow forecasting, better cash visibility across countries and faster cash concentration through real-time intra-day sweeps. This enables organisations to put idle cash to use faster, reducing cash management risk and finance costs.
- RTPS in foreign currency enable the use of spot FX deals rather than risking a rate change in a few days' time when payments would otherwise be made, reducing the FX rate uncertainty.

RTPS can also have an operational impact on treasury functions:

- The concept of cut off times and the need to build clearing time into payment schedules is no longer necessary. This also reduces the need for extensive reconciliation processes (eg payment "instruction to execution" reconciliations) and provides the opportunity for greater standardisation and automation, allowing treasurers to streamline processes, improve control and save costs.
- Even if RTPS are not widely used within an organisation, they can still act as a last resort solution to facilitate overlooked last-minute payments, in order to avoid missed payments that can lead to penalties and reputational loss.

However, treasurers should adequately address the challenges of RTPS in line with the risk appetite of their organisations:

- Given the instant nature of these transfers, RTPS can be an attractive target to fraudsters. Treasurers should ensure that the control environment is robust not only from external intruders but also from internal staff.
- Treasurers should adequately mitigate the risk of giving an erroneous payment instruction, as there is little scope to reverse this prior to execution, compared to more traditional forms of payment such as BACS.
- The value of RTPS will be limited unless foreign exchange exposures are managed using real-time currency conversion.
- RTPS are yet another type of payment added to the long list of payment options open to a corporate that can further complicate the daily cash management activities. Treasury functions may thus require a regular review and amendment in processes and controls. This will help mitigate new risks and maintain efficiency.
- Group companies that are net payers may experience an increase in their working capital needs and may require additional external financing and intra group funding or guarantees.

Nevertheless, real-time incoming payments can help improve the client experience as they may enable the faster delivery of products and services to customers, providing the treasurer with the opportunity to play a more commercial and strategic role in the organisation.

Next question:

"To what extent will today's treasury look like the treasury of ten years' time?"

Please send your comments and responses to **qa@treasurytoday.com**

What does flat US yield curve signal?

The US yield curve has been flattening for a long period of time. The difference between interest rates on two-year and ten-year US government bonds was only 20 basis points in late September and had risen to 30 basis points by mid-October. This is generally considered to be a logical development, as the market has been assuming US economic growth will decline next year as the effect of fiscal stimulus fades and higher interest rates start to bite against a backdrop of soaring debts and a strengthening of the dollar exchange rate. Given this outlook, inflation will come under downward pressure next year, forcing the Fed to stop hiking rates or to start cutting them.

However, it is also possible to have a different view. Robust US economic data has emerged lately, alongside very strong wage growth, and the outlook on both these fronts remains positive. In addition, oil prices have risen and higher import tariffs will drive up prices of imported goods. This could easily lead to higher inflation data before long. This could give rise to higher wage demands, higher consumption growth and surprisingly strong economic growth.

All that begs the question: does the flattening yield curve reflect bond buyer sentiment that they do not see interest rates rising to much higher levels in the future? Or is the flattening caused by foreign capital that was attracted by higher interest rates, by central banks purchasing massive amounts of long-term bonds, and by pension funds and insurers receiving fiscal incentives to purchase bonds on a large scale?

At the moment, the recent upward outbreak in terms of interest rates seems to have been caused by a combination of factors: improved US economic data; rapidly deteriorating supply/demand ratios due to much higher US government deficits; and a shift from QE to QT by the biggest central banks since October.

Source: Thomson Reuters Datastream/ECR Research

However, the recent bout of surprisingly strong economic growth data could easily be a temporary phenomenon. In addition, higher interest rates would impact the emerging markets, with Europe being affected indirectly. They could also end up undermining themselves because credit spreads would (ultimately) rise rapidly and lead to share prices falling. That would likely decelerate the US economy. In addition, investors would purchase US government bonds as a safe haven.

In other words, interest rates could rise for a short period of time, but the tide would turn fairly soon afterwards. The direction and strength of US wage increases and inflation going forwards is therefore of crucial importance. The more wages and inflation rise, the more powerful the upward pressure on US interest rates will be.

More specifically, we anticipate the following scenarios for rates and market prices going forwards.

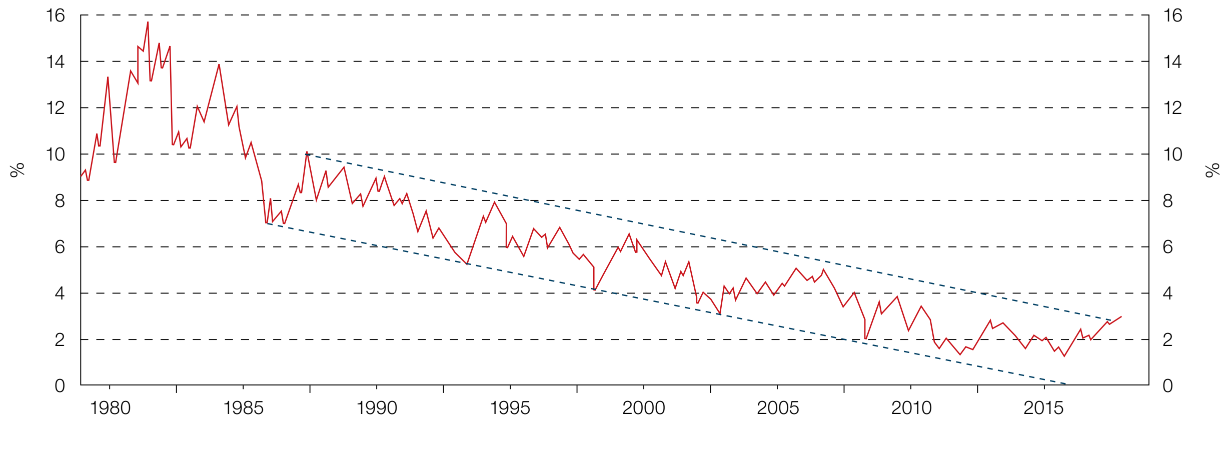
US interest rates

We believe that, for the time being, the US economy will continue to grow at a higher pace than potential growth. This will soon lead to additional wage increases and higher inflation. Higher import tariffs will also contribute towards inflationary pressure.

On that basis, we believe upward pressure on US interest rates will, on balance, intensify considerably over the next couple of months and that the Fed will raise its short-term interest rates in December, however we do not believe interest rates will climb in a straight line. We expect the dollar to strengthen before long, resulting in mounting problems for the emerging markets. In such an environment, US credit spreads would rise and share prices would decline.

The S&P 500 index could fairly easily slide down to approximately 2,500 (at the time of writing the S&P 500 traded around 2,760). This would probably be enough for the Fed to

ecr research



Source: Thomson Reuters Datastream/ECR Research

pause the process of rate hikes. Long-term interest rates would then probably decline considerably for a brief period of time. Lower interest rates would subsequently boost asset prices and drive up economic growth.

We see the Fed pursuing a monetary policy that will allow growth to remain high enough for inflation to rise. That suggests to us that, following the hike in short-term interest rates in December, the Fed will wait for about two quarters before resuming its hikes and that short-term interest rates will ultimately be at around 4.5% by 2020.

Under this scenario, we believe interest rates on ten-year US government bonds will continue to rise to 3.35-3.5%, after which they will fall back to 2.75-3%. In the ensuing period, the long-term uptrend will continue. As a result, we expect ten-year interest rates to be at approximately 5% by 2020.

European interest rates

When we consider Europe we see rising tensions within the EMU as a result of the Italian government budget as perhaps the most important element impacting the outlook for the region. Rome assumes its budget deficit will be 2.4% of GDP in 2019; with the deficit expected to slowly decline on the expectation of higher economic growth in Italy. Many economists, however, doubt Italy will be able to achieve such an outcome. That lack of confidence in the near-term outlook for Italy suggests to us that, for the time being, a flight to German and Dutch bonds will become increasingly evident.

Yet German and Dutch government bond yields will also be influenced by interest rate developments in the US. Moreover, the above-mentioned negative developments will be partially offset by a weaker euro and the associated improved outlook for exports.

Under such a scenario, we believe interest rates on ten-year German government bonds will continue to rise to approximately 0.65%, after which they will decline to approximately 0.35% before the long-term uptrend continues. As a result, we expect ten-year interest rates to be above 1% in the course of 2019, and just below 2% by 2020. The ECB will initially hike its short-term interest rates by 0.25 percentage points every two quarters, after which it will hike its rates by 0.25 percentage points every quarter.

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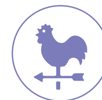
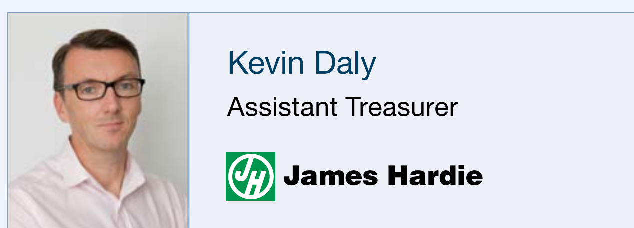


MORNING BRIEFINGS

The clever research solution for time-pressed decision makers

James Hardie: playing the long game with its funding strategy

Fibre cement maker James Hardie is a growth-focused international company which has evolved its funding strategy in recent years. Its Assistant Treasurer, Kevin Daly explains to Treasury Today how the team managed the change and why it was needed.



No company can last over 100 years, as fibre cement maker James Hardie has, without being innovative and flexible through the ages, not least in how it goes about meeting its funding needs.

The financial crisis of 2007-2008 certainly demanded a response on that front at the Australia-listed group and James Hardie International Finance (JHIF) Designated Activity Company, the treasury subsidiary tasked with handling all of the group's treasury related activities played a key role.

For Kevin Daly, Assistant Treasurer of the five-strong Dublin-based treasury team, the funding challenge posed by the crisis for the group, which employs 4,800 globally and generated sales of US$2.1bn in fiscal 2018, was clear: "We were on a growth path before the crisis. Being so exposed to the building industry meant we were very vulnerable to the eventual fallout, especially in the US which accounts for a majority of our business. But we were confident things would turn eventually and that investment would be needed going forward."

At the same time, treasury understood that, in the dramatically changed post-crisis environment, it had to evolve its banking and funding structure. "We knew, for instance, that we would need high capex spend coming out of the crisis and larger facilities over a number of years so we began to look into debt capital markets as well. Diversification became a key objective."

Making the change

In 2014 JHIF decided to evolve from bi-lateral USD facilities to a USD syndicated facility and also get a credit rating so that it would be able to access the bond markets. It engaged with the main agencies to secure ratings, allow time to build up relationships and knowledge with the agencies and ultimately to enable it to access the debt markets.

But actioning that strategy wasn't a case of starting from scratch. The company had built up "very strong" long-term relationships with the six banks it borrowed from on a bilateral basis and it didn't want to lose those alliances. The solution was to syndicate the existing banks: "It meant we gained the best of both worlds: the close one-to-one relationship with each one as well as the syndicate."

There have been marked cost and economic benefits from the changeover, says Daly: "With the bilateral arrangement we had a number of different facilities maturing at different times so you were frequently into the refinancing of one facility or another. Syndication enables terms and conditions to be aligned and administration to be simplified. This funding structure also allowed James Hardie to finance the acquisition of the German-based business Fermacell in April 2018 with a 364 day term loan. This loan was refinanced in October 2018 with an inaugural EUR bond issuance, following multiple USD bond issuances over the last few years."

Lessons learnt

Overall Daly believes JHIF's strategy has evolved very well in recent years. Important lessons have been learnt: "A clear strategy is key. Have you got the right banks? Will you need more banks in the future? It's about aligning funding with the business, so look carefully at what will be needed in a few years' time and put a funding strategy in place now because it takes time to anticipate the optimal funding requirements and build the right relationships."

He also urges colleagues evolving their own regime to understand what the banks are looking for bearing in mind that, the pressure is on them to remunerate their capital: "Banks generally need business over and above the lending facilities. It's also important to make sure they are comfortable with their position within the structure – there's no point in having a stressed bank as it reduces flexibility when you most need it."

Daly is keen on treasurers sharing experiences and best practice and as a member of the Irish Association of Corporate Treasurers (IACT), he believes the body is playing a vital role in connecting them. "It's particularly important for small departments of just one or two people. They often don't have individuals around them to bounce ideas off and the IACT facilitates that through seminars and various gatherings, encouraging interaction. There are opportunities to critique and understand what's going on in treasury and build strong relationships with other treasurers." The IACT's annual conference takes place on Wednesday 14th November 2018 in Croke Park Stadium, Dublin.

COMING NEXT ISSUE

INSIGHT & ANALYSIS

Real-time treasury: do treasurers need it?

There is much talk of real-time treasury operations. Is this an essential part of future-proofing the organisation or is it the next big technical headache treasurers could do without? We look at what real-time means for treasurers, explore some of the implementation issues and uncover the reality of working in the here and now.

BANKING

APIs and open banking: friend or foe?

APIs have been around for some time. If they are nothing new why is there a big fuss being made about them? We consider why and how they are now being pushed by the regulators, their value or otherwise to treasurers, and what the current lack of standardisation – and other issues – means in terms of progress.

FUNDING

Green finance and sustainability: the future of finance?

Is the pursuance of green finance and sustainability a 'nice-to-do' niche proposition for treasurers or is this a movement that can make a real difference? In the company of experts, we unpick the realities of funding with an eye on the future, asking 'is this really the future of finance'?

We always speak to a number of industry figures for background research on our articles. Among them this issue:

Silver Zuskin, Finance Director and EMEA Treasurer, Dell; Christoph Dubies, Chief Strategy Officer, Serrala; Dino Nicolaides, MD, Head of Treasury Advisory UK&I, Redbridge Debt & Treasury Advisory; Phil Beck, Head of Treasury Management, Capital One Commercial Bank; Marcus Hughes, Head of Strategic Business Development, Bottomline Technologies; Stephen Hogan, Vice President Regional Treasury Asia Pacific, Deutsche Post DHL Group, Singapore; Socrates Coudounaris, Chairman, Institute of Risk Management; Lance Kawaguchi, Global Head – Corporates, HSBC; Victor Penna, Head of Europe and Americas Cash Management Team, Standard Chartered; Andrew Lillywhite, Head of Treasury, Products and Distribution, Investec; Dev Sanyal, Executive Vice President and Group Chief of Staff, BP; Desiree Pires, Co-Head of UK Corporate Sales, Financial Markets, Standard Chartered; Peter Johnson, Senior Vice President, Marsh Risk Consulting; Mark O'Toole, Head of Sales and Marketing, Cashforce; Dan Burns, Financial Markets Editor, Thomson Reuters; Vincenzo Dimase, Market Development Manager, FX – Europe, Refinitiv; Hubert J.P. Jolly, Global Head of Financing and Channels, Global Transaction Services, Bank of America Merrill Lynch; Matthew Davies, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch; Stephanie Wolf, Global Head of Financial Institutions & Public Sector Banking for Global Transaction Services, Bank of America Merrill Lynch; Andrew Marshall, Managing Partner, Covarius; Peter Fox, head of Data and Insights for GTS, Bank of America Merrill Lynch; Magdalena Mielcarz, EMEA Head Channel and Enterprise Services, Treasury and Trade Solutions, Citi; Enrico Camerinelli, Senior Analyst, Aite Group; Ian Farrar, Partner, Corporate Treasury Leader, PwC China & HK; Joseph Braunhofer, Deputy Group Treasurer, Smith & Nephew; Desiree Pires, Co-Head Corporate Sales, UK Financial Markets, Standard Chartered; Jacqui Drew, Director, ION Treasury; Jacques Levet, Head of EMEA Transaction Banking, BNP Paribas; Mike Zack, Pre-Sales Manager, GTreasury; Nicolas Christiaen, CEO Cashforce; Parth Desai, founder and CEO, Pelican; David Fleet, Managing Director, Client On-Boarding and Management, Standard Chartered Bank in Singapore; Steven Lenaerts, Head of Product Management Global Channels, BNP Paribas Cash Management; Stephanie Niemi, Deputy Head of Product Management, Global Channels, BNP Paribas Cash Management; Jon Williams, Principal Consultant, Mk2 Consulting; Fabrizio Masinelli, Group Treasurer – Accounting Department, Panini S.p.A.; Dino Nicolaides, Managing Director, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory; Alexandre Bousquenaud, Senior Director, Head of Treasury Advisory Continental Europe, Redbridge Debt & Treasury Advisory; Manon Balette-pape, Associate Director, Global Payment Card Product Head, Redbridge Debt & Treasury Advisory; Maarten Spek, Senior Financial Markets Analyst, ECR Research; Kevin Daly, Assistant Treasurer, James Hardie.

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