treasurytoday
research | insight | analysis
March/April 2019

# Confronting digital disruption

Digital disruption of transaction banking is picking up pace and banks are under pressure to embrace its potential.

## The Corporate View

Ben Walters

Deputy Treasurer
Compass Group

## Trade

Supplier onboarding: how to streamline the process.

## Treasury Practice

Optimising debt investor relations

## Risk Management

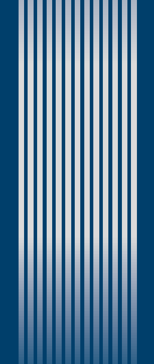
AI to the rescue in fraud detection?

## Treasury Talent

Leveraging coaching and mentoring for career success

## Back to Basics

Treasury technology through cloud



Schwabe, Ley & Greiner

May 22 to 24, 2019 | Mannheim, Germany

# 31ST FINANCE SYMPOSIUM

Treasury connects – the leading meet-up in the financial sector

**For you as a visitor:**
The Finance Symposium is an excellent opportunity to gain a market overview of banks, system providers and current treasury issues. The program offers a broad spectrum of technically challenging topics from finance and treasury management. The speakers are leading financial managers from major companies and prominent guests from politics and business.

**For you as an exhibitor:**
As the largest financial congress in the DACH region, the Finance Symposium is the best event to strengthen the existing customer relationship or to create an entry into the financial German-speaking market: Every year a quarter of all participating companies are first-time visitors; they come from upper medium-sized businesses and the DAX segment. 60% of corporate participants from around 20 countries are decision-makers.

**www.finanzsymposium.com/en**

---

## KEYNOTE SPEAKER 2019

**Christian Lindner**
Leader of the Free
Democratic Party of Germany

**Richard David Precht**
Philosopher, publicist and
bestselling author

treasurytoday

treasurytoday.com
Volume 21/Issue 2
March/April 2019



Publishers
Meg Coates & Sophie Jackson

Chief Financial Officer
John Nicholas

Editorial Manager
Kam Patel

Editorial
Tom Alford

Head of Production & Client Delivery
Samantha Collings

Global Head of Events
Lisa Bigley

Head of Circulation
Sarah Arter

Circulation Assistant
Sophie Friend

Digital Content Manager
Joanna Smith-Burchnell

Creative Designer
Robert Murray

Founder & Director
Angela Berry

Chair
Richard Parkinson



| | |
|---|---|
| Switchboard | +44 (0)13 0462 9000 |
| Publishing | +44 (0)13 0462 9017 |
| | +44 (0)79 3943 6343 |
| Memberships | +44 (0)13 0462 9013 |
| Advertising | +44 (0)13 0462 9018 |
| Editorial | +44 (0)13 0462 9003 |
| Production | +44 (0)13 0462 9019 |

Annual Membership Rate £197
memberservices@treasurytoday.com



© Treasury Today ISSN 1466-4224



Treasury Today is published bi-monthly
(6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK



The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication, Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed. Printed by: Gemini Print.



Treasury Today , ISSN 1466-4224 is published bi-monthly by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

The 2019 US annual subscription price is $588.00. Airfreight and mailing in the USA by agent named WN Shipping USA, 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.
US Postmaster: Send address changes to
Treasury Today, WN Shipping USA
156-15, 146th Avenue, 2nd Floor,
Jamaica, NY 11434, USA.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.


# The uncertainty principle

The whole Brexit experience for the business community has been characterised by an expanding series of unknowns (both known and unknown, as former US Secretary of Defense, Donald Rumsfeld would say), playing out at length. The uncertainty that this has foisted upon many sectors across the UK, Europe and beyond has been challenging, to say the least. It is one that many treasurers will have had to manage, despite the lack of hard facts.

With the exit date of 29th March falling after the deadline of this edition, by the time you read this it may well be all over bar the shouting. Or complete chaos. Or…well, who knows. We will of course be covering events as they unfold, examining how treasurers will be affected by the decisions taken.

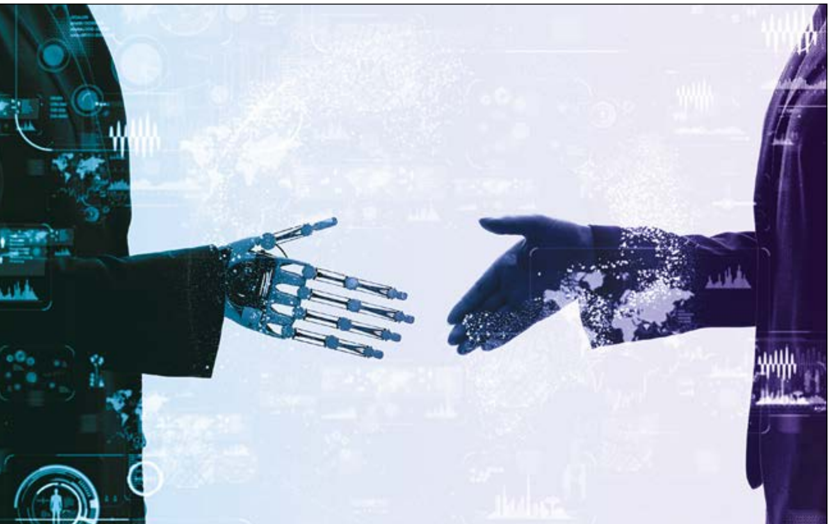
But there is more to life than Brexit (even if for anyone living in the UK it may not feel like it). Whatever happens come the day, treasurers can rest assured that they will continue to be challenged by a host of other ongoing scenarios. In this issue we ask the experts what role artificial intelligence might play in helping companies manage the darker sides of trade such as sanctions compliance and fraud detection. We also take an in-depth view of global transaction banking, questioning its relevance in a world of ever-changing threats and opportunities.

Funding comes under the microscope within these pages too, as we investigate its human side, learning how to manage debt investor relations in the presence of some well-accomplished treasurers. Personal skills, in the context of career progression, also come in for close scrutiny in our exploration of the role of coaching, mentoring and training in professional development.

With the addition of a back to basics take on the once-feared but now ubiquitous cloud technology, this issue acknowledges that life goes on and that treasurers have a vital job to do, come what may.

# IN THIS ISSUE

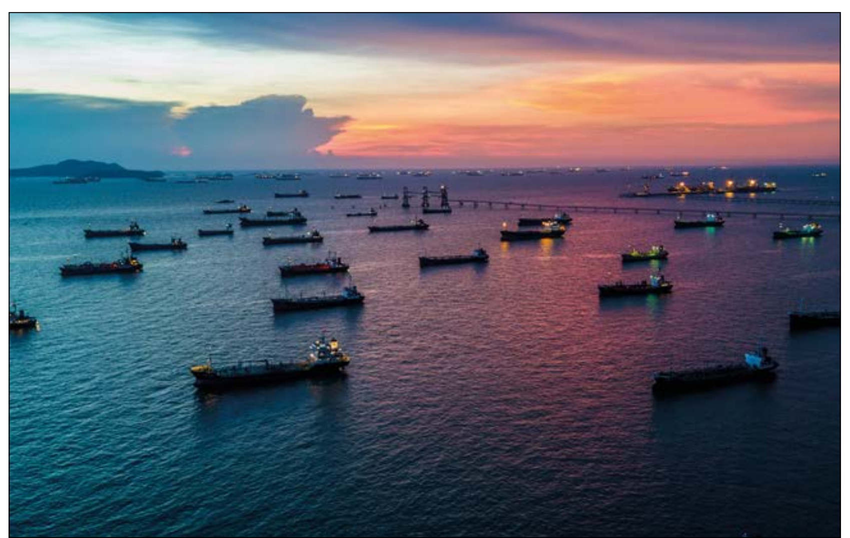
**INSIGHT & ANALYSIS** 4



## Embracing digital

The global transaction banking landscape of 2019 is awash with both obstacles and opportunities. While banks have many challenges to overcome, working effectively with fintechs may be key when it comes to positioning themselves for success.

**TRADE** 10



## All aboard?

Supply chain finance has become increasingly mainstream, but not all programmes are alike. Should companies aim to include a targeted segment of their suppliers in a programme, or adopt a more holistic approach? And how can they streamline the onboarding process?

**TREASURY PRACTICE** 16

## Meeting the money: the making of an effective debt investor relations function

Effective debt investor relations operations are essential for frequent issuers in the debt capital markets and CFOs and treasurers have a vital role to play in ensuring communication with investors is always consistent and accurate.

## TREASURY ESSENTIALS


Treasury Insights 7

Adam Smith Awards 2019 8

Question Answered 32

Market View 34


## RISK MANAGEMENT 20

### Computer says no: the role of AI in detecting financial crime

The AI revolution is gathering pace and fraud detection and regulatory compliance are among areas where the technology is destined to have a major impact.

## TREASURY TALENT 23

### Investing in yourself

The ever-expanding skillset required of treasurers means it has never been more important for them to seize coaching and mentoring opportunities.

## WIT ROUNDTABLE 26

### Women in treasury: equity and equality

Treasury Today Group, State Street Global Advisors and a host of treasurers gathered in New York to consider the findings from the Women in Treasury Global Study 2018.

STATE STREET GLOBAL ADVISORS

## 13 The Corporate View

### Ben Walters
### Deputy Treasurer

Natural curiosity and a sharp mind have played a big role in the career of Ben Walters, Deputy Treasurer at FTSE 30 constituent Compass Group but it is his deep fascination for and genuine love of his subject and work that arguably give him the real edge.

## DIGITAL DISRUPTION 19

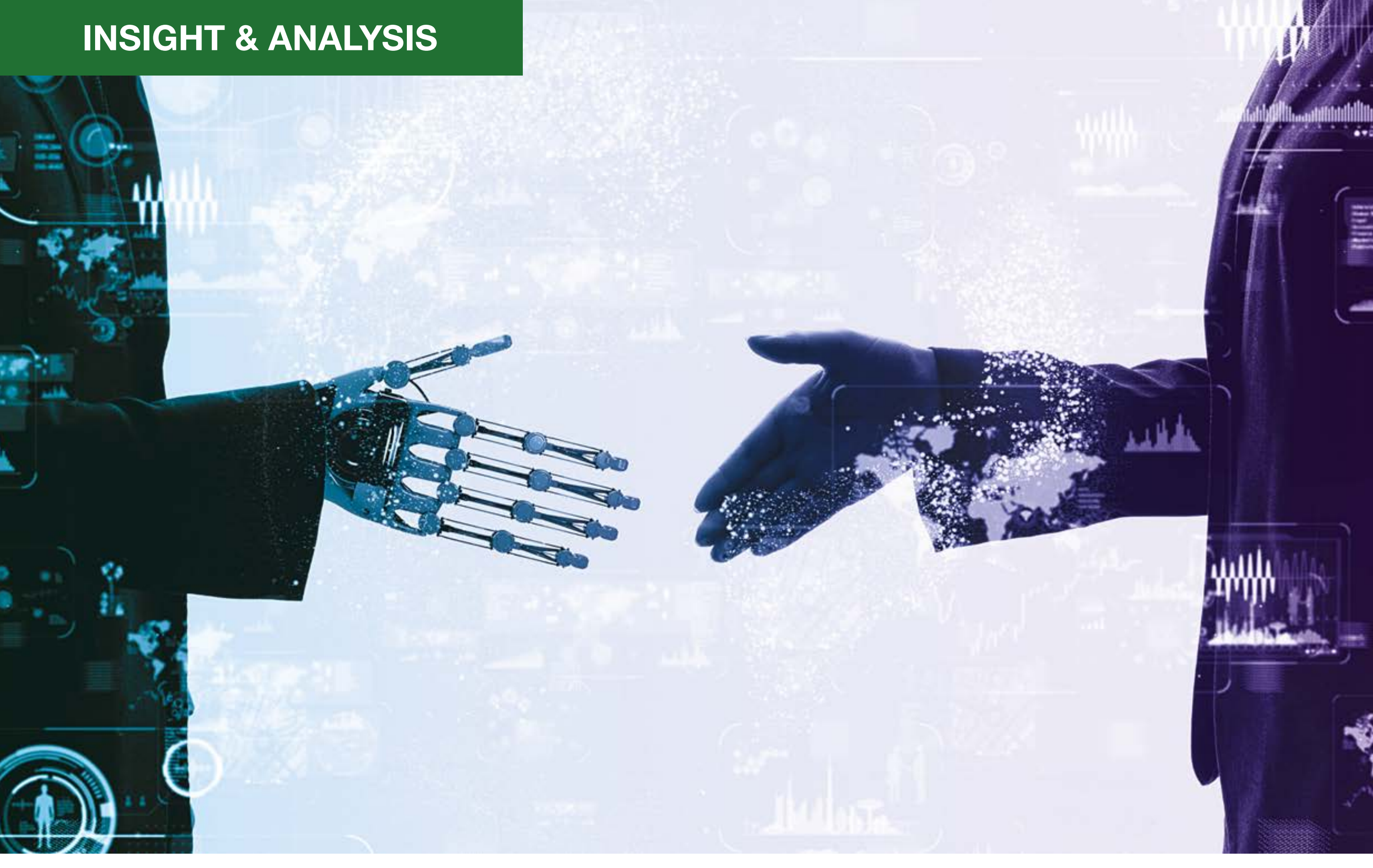
### Digital disruption: advantage treasury!

Desmon Lewis and Hans Oostenbrink from Treasury and Trade Solutions, Citi, consider the challenges and opportunities digital transformation presents for treasurers in the Pharma and FMCG sectors.

## BACK TO BASICS 28

### Treasurers urged to head to the cloud

Cloud computing has been making inroads into finance departments in recent years and its increasing integration with new technologies like AI and big data is likely to make it an even more compelling proposition for treasuries.



# Embracing digital

*As the global transaction banking landscape continues to evolve, where are the opportunities, how should banks be positioning themselves for success – and how can they work effectively with fintechs to leverage new developments?*

From the rise of APIs to the arrival of real-time payments around the world, a variety of catalysts and developments are continuing to drive the global transaction banking landscape forward. At the same time, innovative fintechs are developing new technologies and services which are placing pressure on banks either to compete effectively with these new initiatives, or to join forces with fintechs. How can banks position themselves for success in this rapidly evolving market?

## Challenges on the horizon

A report published last year by McKinsey, Global payments 2018: A dynamic industry continues to break new ground, identified six main challenges facing the transaction banking industry in the short to medium term. These included:

- Determining who will be the next competitor "in a fast-moving and crowded global digital business".
- Harnessing the next digital innovation and "striking a balance between the scarcity of capital and development resources and proliferation of technologies and initiatives".
- Leveraging digital platforms "to meet clients' expectations for a seamless end-to-end experience".
- Digitising to improve operational efficiencies.
- Developing digital services to create new revenue streams.
- Managing change and attracting new talent.

The report warns that with the pace of digital disruption accelerating across the GTB value chain: "If they fail to pursue these disruptive technologies, banks could become laggards servicing less lucrative portions of the value chain as digital attackers address the friction points." In order to avoid this fate, the report states that banks need to embrace digitised transaction banking.

## Resistance is futile

The importance of embracing digitisation in transaction banking is widely recognised – but for banks, achieving this may involve stepping outside the comfort zone.

"The question is, how much can banks embrace the enrichment of data round transactions using open APIs, and how much will they resist it?" says author and commentator Chris Skinner, whose roles include chairing the Financial Services Club. "Because at the moment I see a lot of resistance – I don't see so much embracement."

Skinner says that while a small number of banks "see digital as part of their DNA and are trying to transform their organisations from the ground upwards", these are few and far between. He adds that most banks "still see digital as a project, and are resisting embracing what it can actually do for their organisations and their businesses".

While Skinner says this applies to all banks, he sees transaction banking as the "low hanging fruit", because nearly everything happening in the fintech world focuses on transactions as the starting point. "So if a bank is resisting enriching data in transactions by using open partnerships, then they are actually missing a trick."

## From overlay services to falling fees

There are certainly plenty of opportunities to embrace digitisation in the current landscape. Jerry Norton, Head of Strategy UK financial services at CGI, cites the rapidly maturing instant payments market, and the improving global interconnectivity between correspondent banks and payment providers, as the most interesting developments this year.

"Not only will this lead to further infrastructure provision and the refresh of commercial banking business and technology, but more importantly to new 'overlay' services for customers and participant banks alike," he says, noting that this, in turn, will lead to better customer propositions and journeys while facilitating innovation and lower costs. "For example, SWIFT gpi will allow customers of banks to track their payments and credits internationally."

But alongside the opportunities brought by innovation, banks will also have significant challenges to overcome. Norton notes that individual fees for payments are likely to reduce as a result of competition and regulation. "Banks should plan for direct payment revenues to fall to next to nothing," he says. "Therefore banks will have to seek volume and/or use value added services to compensate for potential overall revenue reductions." Consequently, transaction banks "will have to find new ways of charging, rewarding loyalty and developing new services".

## Embracing innovation

Key to this is embracing innovation and understanding how new developments can best be harnessed.

"A key balancing act to be faced is how to capitalise on the innovation whilst supporting the barrage of regulation being imposed, and how to carefully balance efficiency in the face of these rapid changes," comments Hasan Khan, Head, Transactional Products & Services for Standard Bank Group. He adds: "There is no denying that businesses underpinned by digital capabilities are better placed than those struggling with legacy infrastructure."

Where transaction banking is concerned, there's no shortage of technology innovation poised to transform services and processes, from AI and RPA to APIs and blockchain. But it's also important to keep a clear focus on the real challenges faced by corporate treasurers, and the developments which have the potential to address these.

"Every year, we ask what clients are looking for in terms of innovation and what we could do better from a transaction banking standpoint," says Hubert J.P. Jolly, Global head of Financing and Channels for GTS at Bank of America Merrill Lynch. "And when we survey them about innovation, we don't see terms like blockchain, API or cloud come up recurrently. If there's one area that is always raised up as a major challenge for our clients, it's know your customer (KYC) and on-boarding."

## Real-time payment networks

Among the most significant developments in the transaction banking world is the rise of real-time payment networks. The launch of the UK's Faster Payments Service in 2008 has been followed by numerous other initiatives, such as Singapore's FAST platform, Australia's New Payments Platform (NPP) and Europe's RT1 instant payment system. Other schemes are currently in the pipeline. Replacing older clearing systems, these services bring people and businesses the ability to send payments instantly – and while the focus of development so far has been on domestic initiatives, cross-border real-time payments initiatives could follow in the future.

Ad van der Poel, head of Product Management for GTS EMEA, Bank of America Merrill Lynch, explains that of particular interest for treasurers is the impact that real-time payments have on liquidity management. Historically, treasurers have had daily or weekly payment runs, which requires them to ensure there is enough liquidity in the relevant accounts at the time when the payment file goes out. "But if you talk about 24/7 real-time payments, in order to do a payment you need money in that account all the time," says van der Poel. "So implementing real-time payments is not just about the payment part – it's about how you manage liquidity as well."

Van der Poel points out that in the B2C arena, real-time payments also have implications for customer expectations. "If a business accepts real-time payments from their clients, then their clients will expect that the service or goods they are paying for will be available in real-time as well," he says. "So businesses also need to look into the broader service they offer their clients when they are thinking about real-time payments."

As companies increasingly need holistic intraday liquidity management, fintech capabilities are beginning to appear in this space, says André Casterman, CMO at transaction data management technology provider INTIX and NED at Tradeteq, an investment platform for bank-originated trade assets. "The challenge for banks is to pull data from different back offices in order to have a continuous, consolidated liquidity view," he notes. "That's where fintechs can help as add-ons to internal systems for capturing the data and giving a consolidated view of the liquidity position."

Alongside the many benefits of real-time payments, these systems also have implications where fraud is concerned. A white paper published in 2018 by data analytics company FICO notes that while new payments infrastructures bring efficiency and convenience to consumers and businesses, "those same payments infrastructures also offer those benefits to criminals". The paper adds, "the speed at which money is now transferred via a real-time payments environment puts an immense amount of strain on legacy technology and manual anti-money laundering processes."

Van der Poel says that while real-time payments mean payments are completed immediately, "that just means that you have to execute the controls you have in place very well. It's more about educating our clients about how they prep their payments, which is key to all of this."

## Innovation in trade finance

Meanwhile, trade finance is another area where innovation could bring major changes. Casterman says that fintechs have a role to play in digitising the trade distribution space. "Fintech platforms can act as a bridge enabling the exchange of assets from transaction banks to capital market investors," he explains. "They can help banks originate trade flows – whether that's loans, letters of credit, receivables or supply chain finance – and distribute them as quickly as possible to liquidity providers, such as pension funds and hedge funds." He adds that these developments can help banks overcome the balance sheet challenges arising from Basel III.

Within the area of trade finance, Casterman cites the rise of new platforms and ecosystems within both the corporate-to-bank and bank-to-investor space which make it possible for multiple parties to engage in transactions. "Banks will increasingly join these platforms in order to operate their transactions with their counterparties, rather than having all the intelligence in their back office and just using the messaging platform to communicate," he predicts. "So the bridges banks will be using are not just messaging bridges, but more workflow related platforms."

Casterman also says that banks are facing new competition in the area of receivables financing. "Some banks might tell you it's not competition because these platforms are financing clients that the banks don't want to finance," he says. "But one day, these platforms may be attractive to the corporates that the banks do want to finance, so the banks should certainly be watching these developments."

## Fintechs: competition or collaboration?

Indeed, the spectre of competition from fintechs is a regular feature of discussions about the future of transaction banking. In recent years, banks have been assessing whether the arrival of innovative fintechs within the transaction banking space should be regarded as a threat or an opportunity. On the one hand, innovative startups, characterised by a level of agility which is difficult for banks to achieve, have been able to take advantage of technology to offer a variety of services in areas ranging from payments to investments. But fintechs also lack the scale and established customer base associated with transaction banks.

Standard Bank's Khan notes that fintechs have the ability to target specific customer pain points and address them in an innovative way. "Consequently, collaboration has definitely become more important – as has knowing when to co-operate and when to compete."

While the potential competitive threat presented by fintechs are certainly a concern for banks, CGI's Norton argues that there are "bigger threats from within the industry itself". He says that while fintechs have helped show transaction banks the potential of new services, and how this potential can be realised, "it is much more likely that the transaction banks will make those changes themselves, or team up with fintechs in order to do so. It is less likely that fintechs will be able to take business from transaction banks on their own."

Bank of America Merill Lynch's (BofAML's) Jolly says that there are two different types of fintechs. "The first are public software enterprises that our clients use to drive efficiency in their treasuries, such as ERP and treasury workstation providers," he says. "The second are the smaller fintechs that are looking to potentially disrupt the transaction banking space."

Where the first type of fintech is concerned, Jolly emphasises the need for banks to engage with vendors to understand how their offerings could impact clients' treasury functions. "The second bucket is more of an opportunity than a competitive threat," he continues, explaining that BofAML has the ability to on-board fintechs as vendors and market their products as part of BofAML's offering.

"Our view is that it's an opportunity – but you need to have a platform to be able to work with these fintechs quickly, embed them with your services and be able to resell their services," he says, noting that this approach is "best for the fintech, and best for our clients".

Of course, not all banks willingly embrace collaboration with fintechs. Skinner says resistance can arise from concern about damage to customer base retention. "If you open up to partners, the feeling is that you are opening up to choice, and therefore the customer may switch or go away – rather than saying, 'If we don't give the customer the choice, they're going to switch and go away anyway'."

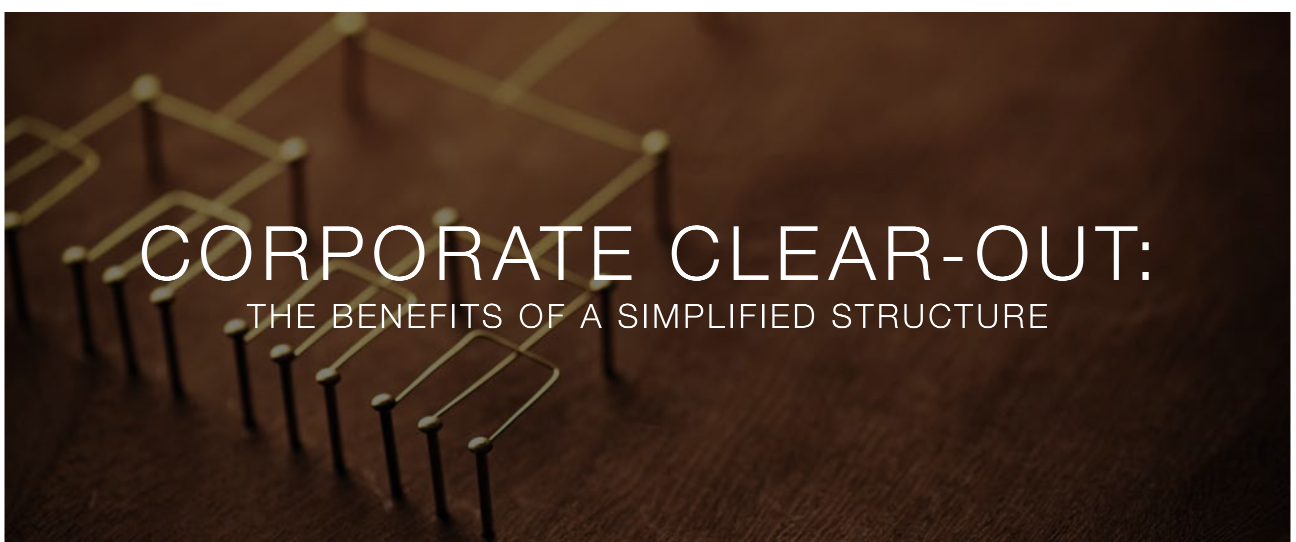
"Transaction banks have realised that there is no option but to leverage disruptive tech in solving real world problems," says Vinod Madhavan, Head, Trade for Standard Bank Group. "And towards that, working with fintechs is a no-brainer." But like Skinner, he differentiates between banks which have fully embraced this, and those which are still in 'watch and wait' mode. "Standard Bank Group is in the former category," he adds, pointing out that fintechs have much to gain from partnerships, "as they get to leverage the existing infrastructure and existing client base that banks can get to the partnership."

## Poised for success

Against this backdrop, how can transaction banks best position themselves for success? CGI's Norton says that banks should "aggressively open up their processes, data and systems to allow third-party access, whether directly by customers or via third parties". At the same time, he says that banks need to "court suitable fintechs and introduce flexible new services to help corporate customers in their own digital journeys".

This means adapting to the changing needs and expectations of corporate clients. Jolly explains that CashPro®, BofAML's digital portal, has shifted over time as clients have increasingly embraced technology and digitisation. "It's the idea over time that this will become a digital assistant," he says. "We've already installed live chat, and one of the big enhancements we launched last year was giving clients the ability to use CashPro® Assistant to refresh their KYC and exchange documents securely."

Last but not least, Standard Bank's Madhavan emphasises that transaction banks need to focus on delivering value to clients – for example, by focusing on solving real-world problems – and on helping clients to grow, manage risk and tap into operational efficiency. "While doing so, it's critical that transaction banks focus on doing the 'right business the right way'," he concludes. "Leveraging the disruptive tech, and collaborating with fintechs, positions transactions banks well towards doing the same."



# CORPORATE CLEAR-OUT:

## THE BENEFITS OF A SIMPLIFIED STRUCTURE

For many larger companies that have grown by acquisition, a complex and unwieldy structure is something that they have to work around. It need not be like this. A Corporate Structure Simplification exercise can free up the business to do what it does best.

For many companies, the idea of a streamlined structure that is both easier to operate and explain is something worth aspiring to. In a recent Treasury Today Corporate View article we heard from the Assistant Group Treasurer at RELX Group how this vast business had undergone a recent "simplification" exercise and how it was now the better for it on many levels.

But there are many more businesses that have grown through acquisition into immense empires of sometimes seemingly unconnected entities. This is where process and financial inefficiencies and increased risk can lurk.

"It's not uncommon for an organisation to have hundreds of companies in its structure," said Eddie Bines, Director at global advisory firm, Duff & Phelps. Writing in a piece in the Global Banking & Finance Review, he added that "even when these companies no longer serve an obvious purpose, groups often retain them, leaving them 'as-is', rather than toying with the status quo".

By keeping these entities, Bines argues, firms are not only exposing themselves to additional costs and risks, it can also hinder the progress of more pressing strategic initiatives. It is his belief that Corporate Structure Simplification (CSS) is a project that is demanding attention now within many medium to large businesses, "either on its own, or as a component of wider strategic transformation/reorganisation initiatives".

A well-managed CSS exercise can be used to eliminate the unnecessary entities, manage the risks, and to create a generally leaner enterprise. For investors, financiers, employees and other stakeholders, this means transparency and understanding.

CSS should be undertaken as part of a long-term entity management programme, to ensure regular reviews and clear-outs. There are no hard and fast rules as to when CSS is needed but, said Bines, "if you can't describe your own corporate structure internally, if it doesn't match your organisational culture of transparency, if it takes up a whole wall in your office or if your employees are facing and raising day-to-day challenges caused by the complexity, those are some of the signs".

## Benefits

The CSS process, in essence, is about "identifying and mapping where everything is, getting rid of unnecessary clutter and putting things where you want them". But is it worth the effort? Bines lists what he believes to be the key benefits:

- Reduced audit, tax, regulatory and other compliance costs.
- Reduced internal costs associated with maintaining unnecessary entities – executive, finance, legal, company secretarial and human resources will all benefit from focusing on core activities.
- Mitigation of corporate risk and direct or personal risk associated with compliance failings, fading or lost corporate memory and potential contingent liabilities.
- Improved governance and transparency (and therefore reduced impact of disclosure requirements and corporate governance reform) – increasingly valuable in a world that is demanding it, with legislation and guidance changing to improve it.
- Resolution of issues resulting from unnecessary complexity such as tax inefficiency and dividend blocks.
- Releasing capital tied up in balance sheets of individual entities.
- Restricted scope and cost of future improvement and transformation efforts.
- Synergies achieved through the alignment of the entity structure with operational activities.

For the treasury and finance function, Bines believes CSS can help "promote good corporate governance, as well as release capital, increase corporate efficiency, and reduce the financial and administrative burden faced by many businesses". It has to start somewhere but is treasury ready to make a clean sweep in 2019?

# Achieve excellence

## Last chance to submit – nominations close 15th April

The highly acclaimed Adam Smith Awards programme is now in its 12th year. This globally renowned platform showcases the very best and brightest in corporate treasury across the industry.

The Adam Smith Awards programme recognises best practice and innovation in corporate treasury, regardless of company size, budget or industry sector. Nominations close on 15th April and there are 19 award categories in total. Representing the full range of activities that corporate treasury teams undertake, these categories are sure to capture your achievements. If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward.

Corporate treasury departments operate as a true strategic partner to the business. You are constantly challenged to deliver better and more innovative solutions and an Adam Smith Award is the benchmark of that achievement. The Adam Smith Awards recognise the position of importance the treasury profession now occupies around the world and how treasury professionals are stepping up to support business growth in challenging times.

Everything you need, including the nomination form, can be found on our website during the nomination period – it is a simple case of completing and submitting the short form online.

## 3 easy steps to nominate

### Step 1:

Visit **treasurytoday.com/adam-smith-awards** to access the nomination form.

### Step 2:

Provide a detailed account of the challenge you faced, the solution you implemented and the benefits this has provided.

### Step 3:

Winners will be announced in May and will celebrate their success at the Adam Smith Awards Gala Presentation Lunch in London on 20th June.

## 2019 award categories

Treasury Today's Top Treasury Team 2019
Best Cash Management Solution
Best WCM, AP/AR Solution
Best Card Solution
Best Trade/Supply Chain Finance Solution
Best Funding Solution
Best Sustainable Finance Solution
Best Risk Management Solution
Harnessing the Power of Technology
Best Fintech Solution
Best Cyber-Security Solution
Best in Class Treasury Solution in the Middle East
Best in Class Treasury Solution in Africa
Best in Class Treasury Solution in Latin America/Caribbean
Best Liquidity Management/Short-Term Investing Solution
First Class Relationship Management
Best Foreign Exchange Solution

## Individual awards

Treasury Today Woman of the Year 2019
A Rising Star

Nominations can be made by any corporate, and banks and service providers can assist their clients in completing the nomination form. Banks and service providers are also able to submit nominations on behalf of their corporate clients (with their approval). Nominations close on Monday 15th April and the winners will be announced in mid-May. All winners will receive an invitation to the Adam Smith Awards Gala Presentation Lunch on Thursday 20th June at Plaisterers' Hall in the City of London.

For full details on all categories, please visit **treasurytoday.com/adam-smith-awards**

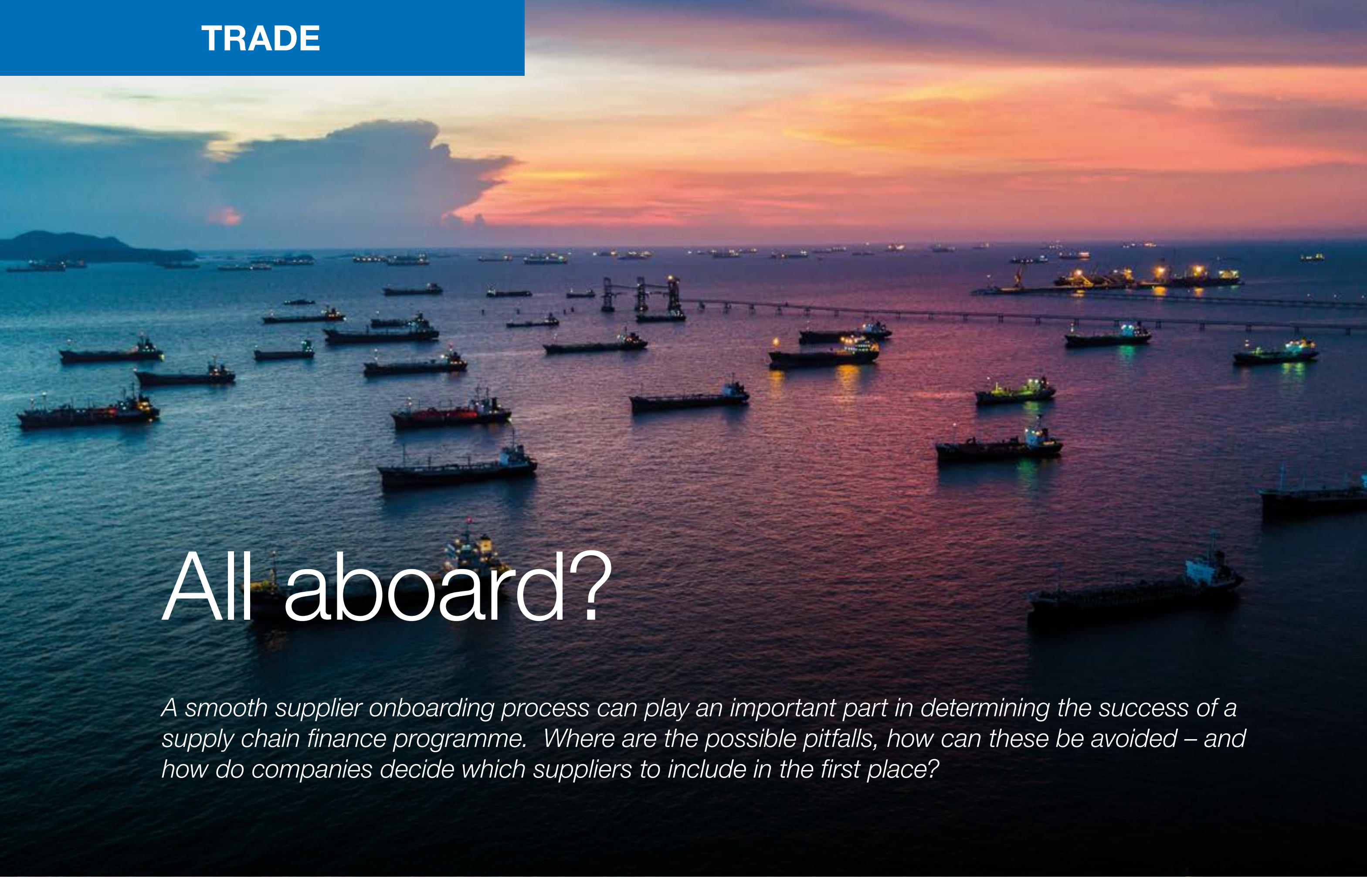
## Save the date

Thursday 20th June | Plaisterers' Hall | City of London

All award winners attend the Adam Smith Awards Gala Presentation Lunch on Thursday 20th June at Plaisterers' Hall in the City of London to be presented with their awards. Good luck with your submissions and we look forward to welcoming all 2019 award winners!

Should you have any queries please do not hesitate to contact us at **awards@treasurytoday.com**

***By submitting a nomination in the Adam Smith Awards you accept that if you win an award, a case study outlining the details of your winning solution will appear in the Adam Smith Awards Yearbook.***



# All aboard?

*A smooth supplier onboarding process can play an important part in determining the success of a supply chain finance programme. Where are the possible pitfalls, how can these be avoided – and how do companies decide which suppliers to include in the first place?*

Supply chain finance (SCF) has become an increasingly mainstream solution in recent years, with companies around the world adopting this approach to accelerate supplier payments – often while extending payment terms to improve their own days payables outstanding (DPO). Supply chain finance can also be leveraged to improve supply chain resilience, while boosting key supplier relationships.

But merely putting a supply chain finance programme in place is no guarantee of success. In practice, not all programmes deliver the desired benefits: while 56% of respondents to PwC's 2017 SCF Barometer said their SCF programmes were a success, 38% said their programmes were only partly successful, with the remaining 6% reported to be unsuccessful.

## The targeted approach

While many different factors can determine the success – or otherwise – of a programme, one of the most important is the supplier onboarding process. Half of the respondents to the PwC paper cited the onboarding process as a key success factor, while 31% identified it as a bottleneck.

Not all companies are alike when it comes to including suppliers in SCF programmes. Even before onboarding has begun, many companies choose to focus their attention on a specific group of suppliers. Less than a third (31%) of the programmes surveyed by PwC were open to all suppliers, with almost half (48%) including no more than 25 suppliers.

Peter Jameson, head of Asia Pacific Trade and Supply Chain Finance, Global Transaction Services, Bank of America Merrill Lynch (BofAML), argues that if a programme is to be successful, "it is important for buyers to focus on specific groups of suppliers where the programme can be maximised, for both the buyer and the supplier."

For example, he says that it is more productive to onboard large suppliers which account for a larger percentage of the total supplier spend, "which in turn will generate the greatest working capital benefit if DPO for these suppliers can be extended." In comparison, he says that smaller suppliers will each generate a much smaller spend amount, so the marginal benefits of onboarding them would be lower. He also notes that for the smaller spend amount, "those suppliers may not derive significant benefit, hence the motivation may not be there for them to join a programme."

Shruti Gupta, Strategic Solutions Manager at Kyriba, likewise says there are several reasons why a corporate buyer might focus their SCF programme on a specific group of suppliers, such as:

- **Payment terms below external benchmarks.** For example, buyers might focus on suppliers which have payment terms below external benchmarks – "even though, on average, the buyer's payment terms may be longer than their competitors," Gupta says. This could include suppliers which have payment terms below average for the goods or services they provide, or for the country in which they are supplying the buyer.
- **Payment terms below internal benchmarks.** Likewise, Gupta says buyers may wish to onboard suppliers which have payment terms below internal benchmarks, in a practice known as payment term harmonisation. "In companies where Procurement is decentralised, or where the buyer has centralised Procurement within the last couple of years, we usually find the same supplier providing the same material with different payment terms in different regions or for different business units," she says. "Naturally the buyer wants to move that type of supplier to the longer payment term."

- **Particular need of SCF.** Gupta says companies may focus on suppliers which are in particular need of supply chain finance – such as those with a higher cost of funding, or those which are located in countries where access to liquidity is challenging.

Other criteria might include wishing to incentivise behaviour among specific groups of suppliers, or focusing on suppliers with which the buyer has long-term relationships.

BofAML's Jameson points out that negotiating power can also be a factor when deciding which suppliers to focus on. He says that when the buyer has less negotiating power to extend payment terms, "these suppliers may be too difficult to onboard" – and that buyers may wish to prioritise based on when supplier contracts are coming up for renegotiation. He also notes that suppliers which have a similar or better cost of borrowing than the buyer "may be able to source bank funding themselves at a lower rate."

## The few or the many?

Many companies do choose to offer supply chain finance to specific groups of suppliers – an approach which Gupta says can bring "greater efficiency in achieving supply chain finance objectives more quickly and with less resources." However, she notes that this also brings certain disadvantages: by focusing on certain suppliers, "the buyer is reducing the cost reduction and cash flow gain for the supply chain as a whole."

She also warns that if the programme design effort and supporting analytics are not comprehensive, the buyer "is more likely to unknowingly exclude segments of the supply base where supply chain finance would be highly valuable for both the buyer and suppliers."

Bob Glotfelty, VP, Customer Success at Taulia, argues that by onboarding more suppliers, buyers can create more value from their supply chain finance programmes. "The suppliers that aren't onboarded are typically the smaller ones – and in many cases, those can be the ones who get the most value out of the programme, because they may not have access to good financing rates," he says. "These suppliers may receive the most benefit from a supply chain finance solution, but since they don't generate enough revenue for some supply chain finance providers, they get left behind."

Taulia's approach is therefore to onboard every supplier. "We are able to do that because our processes are really streamlined – it takes 90 seconds to sign up and it's completely automated," says Glotfelty. "So if we are working with a company that has 10,000 suppliers, as soon as the programme goes live we make it available to all of them – not just the top 25 or 50."

Demica, likewise, recommends a more inclusive approach to supplier onboarding. "Our advice is not to go only for the top suppliers – while this is where most of the business is concentrated, there is also a significant amount of business that you can generate in the so-called long tail of suppliers," says Enrique Jimenez, Demica's Head of Supply Chain Finance.

## Supplier onboarding: the pain points

Whatever the buyer's chosen approach, onboarding suppliers smoothly is a key priority. Kyriba's Gupta points out that there are two components to the onboarding process: firstly convincing a supplier to participate in the programme, and secondly enabling them to receive early payment through the platform by completing the required documentation and training. In both of these steps, certain pitfalls will need to be avoided:

### 1. Marketing phase

Where the marketing phase is concerned, Gupta says that using the same messaging for a small, private supplier and for a large, public company, investment grade supplier "will not be effective". Likewise, suppliers based in different countries may need different messaging.

BofAML's Jameson agrees that effective marketing is an important aspect of the onboarding process. "It will be key to press the benefits of the programme with suppliers," he says. Consequently, he says, it is important to have dedicated resources – either within the buyer's organisation or provided by the SCF provider – "to continually market the concept to suppliers and get them onboard."

And for companies focusing on specific groups of suppliers, Jameson points out that selecting the wrong suppliers – "either because of their size, risk rating, or lack of negotiating power around payment terms" – can hinder the success of the programme, ultimately resulting in a lack of uptake.

### 2. Joining the programme

Also important is the process involved in joining the relevant platform. "If suppliers find the onboarding process onerous, they are less likely to see it through," warns Jameson.

The process can be onerous for different reasons. Where a multi-funder platform is concerned, Gupta notes that one issue may be the lack of banks to meet the needs of some supplier segments. "The SCF funding bank (or lead bank in a syndication) may not be the most effective funder in a particular region or currency," she says. "Further, they may not want to fund certain types of suppliers."

Fulfilling KYC requirements can also hinder the onboarding process, although specific requirements may vary between banks. "Some banks, which are more used to supply chain finance, do not ask for too much information from suppliers in the KYC process," says Demica's Jimenez. "But others – whether they are more conservative or less used to supply chain finance – ask for a level of detail comparable to the information they seek from their own clients." That said, Jimenez says that where supply chain finance is concerned, KYC processes are becoming lighter as time passes, making it easier for suppliers to sign up.

## What are SCF providers doing?

While there are many obstacles to navigate, there is much that supply chain finance providers can do to streamline the onboarding process.

Kyriba, for example, provides a range of working capital solutions services based around the four pillars of working capital analysis, customised programme design, procurement programme training and supplier onboarding. Where the latter is concerned, Gupta says Kyriba's involvement includes follow ups, facilitating the KYC process, status tracking and helping buyers educate their suppliers about the programme.

## Including smaller suppliers

External factors may play a part in widening the net of supply chain finance. Glotfelty highlights a number of developments that may prompt more companies to include smaller suppliers in their programmes, such as the UK's Prompt Payment Code and the SupplierPay initiative in the US. "A law was recently passed in Canada limiting construction terms to 28 days – so there are also government drives to discourage long payment terms, or offer ways for companies to get paid earlier, because of the importance to the economy," he says.

However, including smaller suppliers may necessitate certain changes. Andrew Jess, VP Fintech & Banking Alliances at Tradeshift, says that offering supply chain finance to broader sets of the supply chain "requires new lighter ways of onboarding, risk modelling and underwriting to support this scale. It also requires efficient accounts payable processes for the smaller, less frequent suppliers to ensure early payment can actually happen."

"All these steps take away the efforts and resources that otherwise buyers might have to put in place to execute and track the programme."

Areas where SCF providers can make a difference include:

- **Achieving buy-in.** SCF providers may be able to help buyers convince key stakeholders of the benefits of an SCF programme and thereby securing the necessary resources.
- **Helping buyers achieve buy-in.** Taulia's Glotfelty says that the company's outreach and marketing teams support buyers in communicating suppliers in "around 95% of cases". This includes aligning with customers about messaging and then executing email campaigns on the customer's behalf. Likewise, Jameson says that BofAML supports buyers in their marketing activities to suppliers, either through providing materials to help them do this, or providing resources through a dedicated supplier marketing team.
- **Onboarding tool.** Demica has recently launched version 2.0 of its supplier onboarding tool, which aims to make the process as smooth as possible. The updated tool includes a fresh look and feel, the removal of unnecessary clicks and additional security measures within the supplier sign-up process. "The tool tracks the onboarding status of suppliers, with the front end interface giving the funder and the buyer a snapshot of how suppliers are progressing," comments Gregg Jones, Demica's Supplier Onboarding Manager. "It also captures different banks' KYC requirements and prompts suppliers to upload the relevant information."
- **User-friendly portal.** Tradeshift's Jesse warns of the issue of 'portal fatigue', noting the need for an attractive, easy-to-use single access place for suppliers to register, send invoices and view the status of payments all in one place.

Indeed, a user-friendly portal can go a long way towards facilitating the process for suppliers, both during the onboarding process and once they are up and running. "We provide a supplier portal where you can see all your invoices and choose to get a specific invoice paid, or a batch," says Glotfelty. "Or you can choose every invoice going forward. It updates directly back into the ERP system, and the invoice is paid – everything is automated."

As Demica's Jimenez concludes, "The supplier onboarding process is the only real measure of a supply chain finance programme's success. If you don't get suppliers to discount invoices, you don't have a programme – so it's essential to have an easy and light onboarding process."

## Other obstacles to a successful programme

The onboarding process is not the only factor which determines the success of a supply chain finance programme. The PwC report also identified a number of key success factors for SCF programmes, including supplier appetite for cash or SCF – identified as a success factor by 69% of respondents – as well as business case (47%), commercial offering to suppliers (41%) and IT/technology (38%).

Experts agree that first and foremost, buyers need to define the goals of the programme at the outset and set out how success is to be measured. Kyriba's Gupta notes that while onboarding suppliers is the primary objective of the SCF provider and/or the funding bank, for most buyers "the objective is to extend payment terms for some (or all) suppliers, which increases the buyer's cash flow and generates capital for growth and other corporate initiatives." Consequently, "the successful extension of supplier payment terms needs to be the first priority because without that, the buyer will not meet their SCF objectives."

## Breaking down silos

The success of a programme may also be hindered by other factors, such as the existence of internal silos. Taulia's Glotfelty says that within the buyer organisation there are typically three different groups which may be involved with suppliers: "There is the accounts payable team, which is responsible for paying suppliers. There's the procurement team, which buys from suppliers and sources new suppliers. And there's treasury, which is responsible for the return on cash and meeting the company's working capital goals."

All three groups will have some degree of involvement with an early payment programme – so it's important to ensure that the different groups are closely aligned in terms of shared goals and open communication. "If you have a treasury team that wants to adopt supply chain finance, but the team doesn't collaborate with the other groups, things can get messy because everybody has a hand in managing the process with suppliers," Glotfelty warns.

# The modified treasurer

**Ben Walters**
Deputy Treasurer

Ben Walters is Deputy Treasurer for Compass Group. His career is marked by a deep fascination for his subject, a genuine love of what he does, and a desire to spread the word about treasury's vital role in business.

---

*Compass is the world's largest catering business, operating in 50 countries and across sectors such as business and industry, health, education, sports and leisure and remote sites. It employs more than 600,000 people and has revenues of over £23bn. It is ranked in the FTSE 30 with a market capitalisation of over £25bn.*

Rising up the treasury ranks is something Ben Walters, Deputy Treasurer at FTSE 30 company, Compass Group, has managed rather well over the years. Stepping up twice as Interim Group Treasurer for the business did not faze him, but then he has made a point throughout his career of knowing precisely what he is doing, and skillfully blending an academic interest in the profession with a thoroughly practical outlook, to make things happen.

Today, his responsibilities include funding and risk management, managing external relationships with banks, credit ratings agencies and auditors, and interaction with the Compass tax, finance and internal audit teams. With the challenge of Interim Group Treasurer having been taken up on two occasions, Walters has been able to seize "really useful" opportunities to take his game to a higher level. In fact, he adds, the chance for any treasurer to step up to the number

one position, albeit temporarily, is one that helps resolve a potentially intractable but common career progression difficulty. If the opportunity presents itself, "take it", he advises. It's an excellent opportunity to gain experience in managing a team and learning to navigate the upper echelons of the business.

## Early spark

Having kicked off his professional life in auditing and accountancy, Walters knew almost from the outset that he wanted more. Having qualified professionally, he moved into the head office of a FTSE 250 business, taking on central finance duties. This provided his formative interaction with treasury, engaging with the function on a European cash-pooling project. The mix of practical finance and technical know-how "sparked an interest".

Continuing to explore his options, Walters exploited an opening at the larger FTSE organisation. Once again, this was a central finance role, but this time with a focus on writing accounting policy, allowing him to progressively build on his reputation as the go-to technical expert.

Despite the increased level of responsibility assumed in this position, this was still viewed as a transitional role. "It was a way in to a bigger business where I was hoping there would be more opportunity to specialise," he recalls. At this point treasury was "now very much on the radar". Indeed, it was fast becoming the right direction to take.

One of the defining moments of realisation followed the introduction of IFRS, in particular, IAS 39. This set out new principles for recognising and measuring financial instruments, demanding mark-to-market on all derivatives. The widespread sense of corporate disquiet that ensued – "it was the one that had everyone panicking at the time" – saw Walters, with his accounting experience and ever-enquiring mind, volunteer for implementation duties.

Undertaking a task of this complexity was, for many, a step too far. But Walters refuses to back away from projects "just because they are going to be challenging". In this instance, the need to work closely with, and understand treasury and the make-up of its debts and derivatives, gave him the necessary "foot in the door". He needed no second bidding.

## Clear progress

From Group Policy and Technical Accountant to Assistant Treasurer to Deputy Treasurer, with fully leveraged opportunities as Interim Group Treasurer, there has been a clear and steady rise up the ladder for Walters. Progress had not been achieved in isolation though. "I was very lucky to have had a very good mentor in the Group Treasurer at that time," he recalls.

He describes this "highly experienced and respected professional" as a "very approachable individual who genuinely wanted to bring his team along with him". But treasury is like that. "Perhaps it is function of being part of a small specialised team," he muses, "but I have rarely come across another treasurer who doesn't have this approach."

That said, success in treasury is no easy ride. "You have to be prepared to work extremely hard," asserts Walters. "You also have to develop a flexible mindset; you need to be able to switch seamlessly between talking about cash management issues in multiple locations, to thinking about Group interest rate policy, to explaining a complex issue in layman's terms to non-treasury colleagues." However, although he jokes that the required level of mental agility "is still a work-in-progress for me", he declares that the capacity to quickly and easily shift modes – from the everyday, to the deeply technical, to the relatively simplistic – "is part of the beauty of the role".

## Modern skills

In addition to being able to take complex ideas and practices and shape them for a specific audience, Walters believes today's treasurer needs to be an excellent networker. "Few will have all the resources within the department to accomplish all that they need to, so they have to be able to work across teams, internally and externally," he states.

"At the outset of a career, few appreciate this. But anyone arriving at a senior level today has to be good at it; it's certainly a skill I've appreciated as Deputy Treasurer, but it's now something that needs to be developed by everyone entering the profession."

Unquestionably, treasury is a meeting point for many different skills, he continues. Being good at the job requires the individual to maintain a broad understanding of forward-looking risks, and elements such as the impact of strategy and the effects of global economics. Whilst it's common ground shared with senior financial management, Walters believes that the critical nature of their work means other finance functions could benefit greatly from some of the training undertaken by treasurers. Indeed, he argues, doing so would instill in all "a more rounded view", to the benefit of all.

## Making choices

Into the everyday life of the treasurer come elements that cannot be ignored. Walters points in particular to the frustration created by having to deal with wave upon wave of regulation "It just seems to be cranking up year-on-year," he notes. He also points a finger at the inescapable "noise" accompanying the fintech revolution in treasury.

On the rise and rise of digitisation, he feels that current levels of speculation and hype can make it extremely difficult to know "where the dust will settle". Admitting that it may not be the ideal stance, he nonetheless appreciates that "no one wants to be a first mover". As such, amongst "usually conservative" treasurers, there is a strong element of 'wait-and-see'. The benefits being attributed to advanced tools such as AI and blockchain, are a case in point; there is much talk but a lot less action. That said, Walters also accepts that there are plenty of new, maybe less fully formed treasury environments "where it would be quite correct to try to take advantage of these developments".

Within this rapidly changing environment, there are many such decisions to be made. Allied with its broad commercial perspective, its technical know-how and its realistic appreciation of risk, Walters believes treasury is now perfectly positioned to become the strategic voice within the finance function. Whilst he asserts his right not to be passionate about technology nor regulation, what does get him excited is "trying to raise finance into a mainstream strategic discipline".

## Strategic viewpoint

Business strategy tends to be thought of as a separate discipline, sometimes sitting outside finance, says Walters. Because he believes that "effective strategising demands a significant merging of ground", it comes as no surprise that he makes a point of challenging the way finance and business strategy teams interact.

Finance is a vast resource within every business, producing valuable quantitative data, painting an accurate view of the health of the business. Strategy teams, meanwhile, draw heavily upon qualitative information, exploring and making judgments as to whether the company is, for example, producing the right products or operating in the right markets. Bringing the two together can create a whole more powerful than the sum of its parts, explains Walters. "And treasurers, with their broad perspective, are very well placed to bridge that gap."

One practical bridging idea that Walters is currently putting forward focuses on the strategic use of hurdle rates – the minimum rate that a company expects to earn when investing in a project. He notes that it can be challenging for a firm to make an informed decision about where to draw the line on new projects it takes on. Treasurers can help. "Companies operate in the real economy where some of the assumptions behind weighted average cost of capital (WACC) break down," he says. As a solution, when making investments in its own business, a company could use what he calls modified weighted average cost of capital (MWACC) metrics (an idea he has now trademarked).

MWACC is the result of analysing the marginal opportunities on either side of current levels of reinvestment. This alerts the firm as to whether it can increase its worth to its shareholders by changing the amount of capital it reinvests. From here it can determine whether it has set its level of re-investment correctly.

"Many treasurers work in companies which employ a higher hurdle rate for investment decisions than their WACC," he says. "Intuitively, I'm sure this feels right." The justification might be a combination of factors such as a better reflection of the risk, acceptance that only the best projects can be taken on, or a desire to push the operations harder. "These reasons are all valid, and MWACC reflects them, but in a more transparent and scientific manner," he explains. "Firms simply taking on investments that create returns equal to WACC will probably not meet next year's profit targets."

"What really excites me about financial strategy though," says Walters, "is the vast opportunity out there to think differently about the way data is used to manage the business. Traditional finance centre around the profit and loss account, but we have the tools and wherewithal to genuinely cut and slice the data to see where the value in any business really lies. The treasury profession, by the very nature of the experience, training and broad perspective it engenders, is ideally placed to bridge this gap. When people talk about the strategic role of the treasurer this to me is the crux of the matter."

The way businesses have traditionally structured themselves means there are now many such opportunities for treasurers with ambition to bring about change and to advance their careers. "Technology is enabling a lot of mundane processes to be automated," says Walters. "The future of treasury lies in bridging the gap between finance and strategy, creating insight to better direct the business." He sees this as an evolutionary process.

## Keep moving

It took decades before corporate finance theory developed in the 1960's came into the mainstream corporate world. Now that it is accepted, Walters wants to see it moving further ahead. Indeed, he is a champion of bringing academic thought into the real world of treasury, allowing elevated concepts to become robust practical solutions. Treasurers now have an opportunity to grasp the theory, explaining to business partners how such ideas translate into the cold reality of business.

As an MCT qualified treasurer, Walters is well-grounded in the profession's own academic canon. His work towards the qualification, which saw him simultaneously facing up to the long-term illness and later sad loss of his wife, nonetheless saw him achieve formal acknowledgment from the ACT as their Student of the Year.

Given the circumstances, he is justly proud of his achievement. There have been some strong drivers here though, Walters attributing his success to two key factors: "I was very lucky to have an excellent mentor, but I also love treasury." His will to continue the work is testament to his commitment to the profession. Except for him, it isn't work: "it is something I genuinely enjoy doing".

Despite the scepticism that his statement may induce in others, Walters points out (and many Treasury Today Corporate View articles confirm) that it is quite common for people working in treasury to honestly enjoy the field in which they work. "I like to keep learning and constantly be challenged. In combining a strong technical element with the need for an extremely broad perspective, and a set of finely-tuned soft skills, treasury covers a lot of bases."

## Life beyond

As might be expected from someone who has a keen interest in life, Walters takes great pleasure in activities outside of treasury. He professes a strong fondness for cricket but admits that, now in his forties, its practice is becoming more challenging. Having become a dad again over the summer, cricket might be on hold for a while, but with his partner, a former professional sailor, he hopes to do some sailing in the future. Not one to miss an opportunity to learn, he is now setting his sights on taming the ocean waves, or at least the Solent as a starting point.

Alongside a genuine passion for treasury, the idea of giving back to the community is another recurring theme in Corporate View interviews. Walters' involvement with the UK's National Health Service (NHS) during his wife's illness was such that he is now determined to pass on his experience as her carer to people within that organisation. He has to date done this through a series of presentations that help staff better prepare for their role in helping others. "If I see something that I think can be improved, I try to get involved," he says of his motivation.

However, he is adamant that his is not a campaign to transform the NHS, but a way of quietly offering his support to something in which he firmly believes. It is his way of "trying to make a difference". As one who has used his natural curiosity, intellect and flexibility to make improvements throughout his career, who could expect anything else.

# Meeting the money: the making of an effective debt investor relations function

*With the treasurer's role becoming more strategic, many investor relations and treasury duties are overlapping. What makes best practice in establishing and running a sound debt investor relations (IR)? A trio of seasoned treasury professionals offer their views.*

Robust liquidity and funding strategies can only be executed effectively if all investors have confidence in the business. For this to happen, there needs to be a means of imparting clear and consistent information to debt market participants, reassuring individual investors that they are making appropriate decisions. In a market where uncertainty and volatility prevail, this role increasingly falls to the debt investor relations (IR) team which today increasingly involves treasury.

In some businesses, the debt IR function is well-developed and valuable lessons can be learned from their skilled practitioners.

RELX, for example, is a BBB+-rated FTSE 100 information and analytics company, listed in London, Amsterdam and New York, operating with a £32bn market capitalisation. It has around £7bn in revenues and £6bn in debt, most of which is in bonds but with about £1bn in commercial paper. It is a company that annually delivers around 4% revenue growth, 6% profit growth and 8% EPS. In issuing in the debt markets, typically a couple of times a year (to avoid spikes that would put it at the mercy of the markets), the kind of message this business gives to investors is one of positivity. Indeed, with a cash conversion of over 90%, "there is really nothing in our company profile not to like", says Suzanne Perry, its Assistant Group Treasurer and leader of its debt IR programme.

Both the RELX board and CFO take an interest in debt issuance and the company has a permanent equity IR team. In debt circles, Perry tends to team up with one of her equity colleagues for a roadshow – a co-ordinated series of visits to existing and potential investors – every other year. Additionally, she explains that a lot of effort is put into the firm's explanatory debt investor website "helping to remove as many barriers to investing as possible".

The reasons for debt issuance are manifold, and the funding strategy taken by UK retailer, Matalan, since it went private in 2006, has seen it take on a £400m debt facility. This has been re-financed every four or five years, guided, in IR terms, by Carl Walsh, the company's Head of Finance.

Walsh, who took up the position in 2016, is charged with strengthening the firm's IR portfolio standing, doing so in the light of "challenging" trading conditions that followed the "difficult" transition of its northern England warehouse to a new purpose-built facility in Liverpool.

With a significant impact on earnings to defend, Walsh says early engagement with investors was essential, reassuring them "and taking them on the journey of recovery". With that route established, and the company emerging successfully from its latest re-financing deal in January 2018, it has been "quite an intense two-year period" for Walsh and his debt IR activities.

The story for Liberty Global, the world's largest international TV and broadband company, hinges on a market capitalisation of circa US$17bn, and US$37bn of high-yield debt (mostly leveraged loans and high-yield bonds). This, says Beatrijs Woltring, its VP, Treasury, makes it a "very energetic debt capital market player", with debt IR being run out of treasury.

As part of its debt IR effort, the team maintains an active dialogue with relationship banks (which provide capital, market access, investor feedback and credit research), debt investors, rating agencies and key financial media.

## Building blocks

For all businesses, the structure and process of IR demands clear thought. It inevitably brings together different voices within the business – equity and debt investors having quite different needs. This has potential to create internal friction, if not managed well.

To mitigate this risk, Perry explains that RELX has adopted internally audited controls, including restricting those allowed to speak on IR matter to a small group of people (principally Perry, the Group Treasurer, the equity IR team and the CFO). "We make sure we don't have too many people getting involved because we need to ensure we all stay on-message," she says.

Because a lot of what is done on the debt IR side is about getting the right equity story into the public domain, the RELX debt team tends to "piggy-back" off the equity IR function, using its investor footprint and its operational model to achieve shared financial and corporate goals. It works well. "The board are very involved in terms of approving specific debt issues but they don't generally dictate what level of engagement we have with investors," she explains.

With the company's CFO and CEO taking an active interest in debt IR, their regular attendance at meetings with treasury keeps them up to date with investor interactions. Having built a robust framework around the process, debt IR has seen significantly increased engagement with debt investors over the years, she says.

For Matalan, although the board itself had undertaken a lot of engagement with the investor base previously (primarily as new management and leadership roles were introduced to power the business through its turnaround), the more recent adoption of a structured and honed IR approach has proven effective. Only Walsh and the CFO are authorised to interact with debt investors and banks, keeping the message "in alignment".

> We've also started arranging one-to-one meetings with our largest debt investors, allowing us to have a more meaningful dialogue. This has been very useful so far; the conferences may give you a 30-minute slot in front of three or four investors but that allows very little time to go into detail.
>
> Beatrijs Woltring, VP, Treasury, Liberty Global

The Liberty Global debt IR team similarly works closely with its equity counterparts, says Woltring. "It's very much a joined-up approach. We both report to the CFO, we have a shared calendar for conferences and one-to-one meetings and we have monthly meetings where we discuss feedback from equity analysts and investors and from the debt investor community."

Woltring further ensures that leveraged loan and high-yield bond conferences are well-attended (around four a year in the US and up to ten in Europe), giving the treasury team opportunities to speak to debt investors directly. "We've also started arranging one-to-one meetings with our largest debt investors, allowing us to have a more meaningful dialogue," she says. "This has been very useful so far; the conferences may give you a 30-minute slot in front of three or four investors but that allows very little time to go into detail."

## Challenges

All three companies here exhibit robust structuring of debt IR, with collaboration central to their success. But there can still be challenges to overcome. The reason why the teams don't rely wholly on the banks for market feedback, and instead make a point of seeing investors face-to-face, is that this the only way to gain a full understanding of investor motivation. "RELX is a unique proposition and sometimes we find that the questions investors ask are different to the ones that the banks are asking," explains Perry.

It's a sign of the times too, she says, that where once a BBB+ rating was "the sweet spot between risk and reward", rates are now so low that some investors don't feel they are getting the return they want. This means gauging the right price for an issue can be difficult.

Technology will serve to increase the speed and frequency of touch points; there will be a greater expectation of how many times IR will engage with investors and other stakeholders.

Carl Walsh, Head of Finance, Matalan

In the investment space, regulatory change is never far away, comments Walsh. The MiFID II directives, for example, push the principles of open and transparent trading to all asset classes. This may not pose a direct impact on the way debt IR interacts with investors but it certainly will steer the direction of any issuance and requirements to notify investors of activities likely to impact on debt trading levels (M&A for example).

The broader impact on financial services of one current theme – Brexit – is also a concern from an IR perspective for Walsh. He feels that the highest level of engagement with investors, both at a macro- and micro-economic level, must be sustained, as IR necessarily builds an understanding of, and answers to their needs, in the context of Brexit uncertainty. "The real challenge here is the amount of time that businesses will need to devote to IR," he comments.

With finite IR resources, finding a balance between time spent with the banks, the desk analysts, the ratings agencies and the investors, is difficult. "There is no perfect answer to this," he says. "For us, it is about having a mix of regular, more structured touch points, and overlaying that with an 'as required' basis, depending on the investor. It cannot be a fixed approach, it has to evolve."

## Good IR

Of course, when a business is performing well, then debt IR can be relatively easy. However, if a business is facing a challenge, financial (such as a rating downgrade) or even physical (extreme weather, for example) issues will see investors lining up for clarity. IR must be ready with answers. "That's when you really get to see if you are doing a good job," says Woltring.

The importance of getting it right should not be underestimated; access to capital markets may depend on it. "You're only as good as your last deal," she warns. "It's vital to be proactive. Even if you feel it's not needed now, it's important to know who your investors are, and to engage with them, because they are key stakeholders."

Although time and effort is required for good debt IR, the success of that effort is hard to gauge, especially as investments are, to a degree, subject to market behaviours. As we have seen, IR earns its keep when the company is facing a challenge. But a recent survey by the US National Investor Relations Institute offers a loose quantification of that value, at least on the equity side.

It concluded that 82% of US buy-side investors believe that IR impacts a company's valuation. It said that good investor relations provided a 10% valuation upside, but poor investor relations had a negative impact on a company's valuation by up to 15%. This may well translate into the debt IR realm; the only certainty is that effective debt IR demands that the function stays wide awake.

## New tools

To this end, technology is playing an increasing role in ensuring a positive outcome. "Digitisation in IR is here and will continue to evolve," notes Walsh. In terms of engagement, just a few years ago, conference calls and face-to-face meetings were the extent of interaction, he recalls. Now it includes options such as webinars and social media platforms. "Technology will serve to increase the speed and frequency of touch points; there will be a greater expectation of how many times IR will engage with investors and other stakeholders."

There is, he adds, also now the question of how technology will be involved in investor decision-making. The current use of financial statements and business models is slowly being augmented with AI-type technology, enabling greater insight drawn from many more sources. Taken to the extreme, it may even be worth positing that, one day, IR will, on the investor side, be dealing with algorithms rather than human investors.

## Skills

Until that day, it remains a very human function, and humans can sometimes be led by stories in the press, locking-on to certain themes to the detriment of the conversation. "It is our job to ensure they get the right story," states Woltring.

As such, there are certain skills required for the good IR practitioner. These must reflect a mix of technical and soft skills, the latter particularly around communication and human interaction. "You need to be a rounded individual to be able to hold conversations with investors and to drive the desired outcomes," says Walsh.

For anyone considering a move into debt IR, Perry says there is no set route, agreeing with Walsh that a rounded skill-set is essential. "You need the strong technical element and you need a deep understanding of the business. But investors can be quite challenging in their questioning, so you also need to be an effective listener if you are going to be able to answer their questions fully rather than resorting to stock answers."

It is, naturally, incumbent upon investors to ask the right questions too, and in mixing with both equity and debt investors, Woltring notes that equity participants tend to probe a lot deeper, seeking quite detailed analysis. Debt investors, conversely, tend to be "a bit lighter" on some of the detail, even if many do take the time to prepare in the face of short timeframes and an abundance of complex information.

Of course, adds Walsh, as debt IR experts, "it is easy when holding all the information to know what questions should be asked". As such, he feels that it is the lot of debt IR professionals to be sympathetic towards investors. In the digital age, as more information becomes available, so more information is expected; debt IR teams must be ready for anything.

# Digital disruption: advantage treasury!

*Digitisation has transformed many industries over recent years. Treasurers in Pharma and FMCG industries should begin reaping the benefits.*

## Desmon Lewis

EMEA Sub-Sector Head for Healthcare, Treasury and Trade Solutions, Citi

## Hans Oostenbrink

Head of Benelux Sales & EMEA Sub-Sector Head for Consumer, Treasury and Trade Solutions, Citi


**The disruptive powers of digitisation, coupled with rapidly evolving consumer demands and behaviour, are driving the pace at which legacy industries are rethinking their business models, innovation strategies and distribution channels.**

Desmon Lewis, EMEA Sub-Sector Head for Healthcare, Treasury and Trade Solutions, Citi, says Healthcare, namely Pharma, is undergoing such transformation. At the heart of change is the industry's historical reliance on product-centric innovation, which is moving more to data-centric innovation. In addition, a rapidly evolving ecosystem – which includes new supply chain partners and a more demanding patient – is causing pharmaceutical companies to re-evaluate their business models. Data is the new currency in Healthcare, and significant value can be pulled from data analytics.

Demographic change is another big opportunity for Pharma. Ageing populations in some geographies and the particular treatment demands of this fast-growing cohort is enabling some industry players to leverage more specialised business models. This includes the driving of new data streams from diagnostic tools and wearable devices, leading to proactive and predictive outcomes.

"FMCG is also morphing," says Hans Oostenbrink, Head of Benelux Sales & EMEA Sub-Sector Head for Consumer, Treasury and Trade Solutions, Citi. Most visible is the transformation into multi-channel distribution models through small-scale initiatives which are increasingly sharing market space with large retailers. "This is facilitated by rapid e-commerce progress and changes in consumer behaviour and demographic," adds Oostenbrink.

Here, legacy players may see their margins shrink and costs rise, but the innovators amongst them are recouping losses from elsewhere across the supply chain, using new, often bank-driven, solutions to strengthen relationships with suppliers.

## Treasurers under pressure

A major cross-sector factor emerging is the increasing emphasis on data collection and analytics. In FMCG, Oostenbrink says "data analytics is being exploited to gain deeper customer insights and increased capacity to precision-target consumers."

In Healthcare, Lewis observes a "sea change in data analytics", with the raw material coming from consumers and supply chains as they increasingly adopt new tools to collect and harness data. "With the vast amount of real-world and real-time data being collected, companies will be under increasing pressure to translate it into an information asset and figure out ways to monetise it responsibly," says Lewis.

The dynamism of these sectors is seeing prudent treasurers evolving their operations to better support strategic and growth objectives. Lewis says Pharma firms are busy experimenting with digital and data solutions "but their organisational mindset on the value and use of data must change," he says, adding: "Being traditionally an extremely highly confidential and private sector, Pharma will have to learn to share and collaborate more, while keeping in mind the cyber-security risks that are at play." Oostenbrink, meanwhile, says "while digitalisation is a clear focus for FMCG business teams, there is a need to transform the finance function to align it with these changing business models and become an integral part of the customer experience."

## How your bank can help

"It's critical treasurers instil a data and 'digital first' mindset," says Lewis. "That requires the right tools and resources to drive consistency across new technology partnerships or acquired businesses. It means managing the increased complexity of new market expansions, managing risk and quickly adapting to change," says Lewis. "Treasurers should expect their banks to be able to aggregate and distil the right financial data for their company on the back-end, whilst also providing a customisable, easily digestible summary of relevant financial activity on the front-end."

Lewis says treasurers can now leverage new and real-time communication and technologies such as APIs and Citi Payments Insights (leveraging Citi's network and SWIFT GPI) to help better contextualise data to support internal and external stakeholders. These can be used alongside existing platforms such as ERP or TMS systems.

Within the changing supply-chain dynamic, trade finance solutions can help treasurers maximise short-term cash, and leverage analytics on those requesting early payment discounts to understand how resilient their supply chain is and uncover areas of risk.

Furthermore, with M&A expected to remain strong across both FMCG and Pharma, identifying short, medium and long-term priorities for treasury as an outcome of such transactions becomes vital. Firms could benefit from solutions like Citi's M&A Playbook, enabling focus on consolidation of people, processes, platforms and integration. By leveraging bank-offered big data and benchmarking tools, like Citi's Treasury Diagnostics and Client Relationship Insights solutions, treasurers can now perform self-diagnostics, predicting future changes in treasury activities.

On the evidence of the digital disruption seen in just two sectors, treasurers are well-placed to step up to a more strategic vantage point. The gap between current and potential treasury capabilities is one which Lewis and Oostenbrink believe can be addressed by working with banking partners towards "a more data-centric, innovative and agile" approach.

# Computer says no: the role of AI in detecting financial crime

*We look at how AI can be used to drive greater efficiency and accuracy in fraud detection and sanctions compliance and probe the issues that its adoption may present.*

The world is awash with data. When it comes to matters of compliance monitoring, especially around sanctions screening and fraud detection, the traditional 'human operative' approach to analysis looks increasingly difficult and yet is still very much in evidence.

This means that in a progressively real-time world, businesses and banks face a direct and indirect threat from real-time crime. The answer to the problem of too much data, and too many actors with bad intent, in this environment is to fight fire with fire, deploying yet more technology.

Certainly, the world's major banks think so. A global study of 400 bank executives conducted in March 2018 by The Economist found that 71% of executives are focusing their digital investments on cyber-security. And for good reason. According to a Javelin study, major banks lost US$16.8bn to cybercriminals in 2017. This figure, notes Forbes' analysis of the study, includes regulatory fines, litigation, additional cyber-security following the breach, the need to respond to negative media coverage, identity theft protection and credit monitoring services to customers affected by breach and lost business due to reputational damage.

It is interesting to note that The Economist's study also revealed that around 30% of respondents saw AI platforms as a key part of their digital investment. But then the capacity for AI to sift through, analyse and report on vast and disparate data sources goes hand-in-hand with the rising threat of financial crime.

## Just an algorithm

A simple definition of AI can reduce it to an algorithm or a set of rules that are followed to form an outcome. It may then be seen as having a 'narrow' purpose, where it is used for a specific use case (such as online shopping assistants), or as a

‘general’ solution where it exhibits so-called ‘deep learning’ capabilities more akin to humans (such as the Deep Blue and Watson supercomputers).

AI in a fraud and compliance application is narrow in scope, albeit both a simple data-crunching exercise across a vast data pool, and a fairly complex, long-term pattern-recognition system. At some stage it could become part of a general ‘neural network’, capable of predicting the behaviours of and making decisions about multiple actors within the broad-ranging financial sector.

For now, it is only feasible to deploy AI to detect changes in activity where perhaps a new beneficiary is being paid or an account number has changed on a regular payment. But here it can flag anomalies (sometimes referred to as outliers) over a huge set of transactions and an extended period, that no human could ever match. These unusual values could be a single data point or a general trend or behaviour observed in that data set.

For Emma Loftus, Global Head of Payments, J.P. Morgan, AI has an increasingly important role to play in financial services. And for good reason. “With wire business, while it is easy to use standard rules to filter everything out that does not conform, it is a blunt instrument. AI allows more nuanced filtering,” she explains.

Looking across 12 months of payments activity, it may be possible for AI to see that what at first appears to be abnormal, is in fact a regular but low frequency transaction that exceeds the norm. This, Loftus says, enables the bank to give the client a lot more context on why it has called out a specific instruction, or to process it unhindered.

## Status quo

In terms of its ‘traditional’ general cyber defence, a major banking institution will commonly deploy at least a three-tier approach, says Loftus. In this context, it has to protect its perimeter, erecting internal levels of control around money movement and augmenting this with a strong education programme with its clients to encourage digital security best practice.

The second layer, where controls around payments operations are supported, sees a number of systems in place. The bank has to detect, for example, when client computing and credentials have been compromised, ensuring any access attempts that do not conform to expectations can be managed with a high degree of precision.

Where uncharacteristic account activity is spotted, the bank’s proactive response to such findings has, for example, seen it close down unused SWIFT Relationship Management Applications (RMAs) with institutions. It has also enforced its own payment access limitations where there is no longer a reason for an individual to have that permission.

Loftus adds that clients are encouraged to review their own auto-procedures and authorised transaction initiators and signatories. The bank supports this with internal controls around, for instance, transaction limits where bank contact is mandated to seek verification beyond a certain transaction level or where a new beneficiary is detected. Indeed, as she notes, “first-time beneficiaries are often where risk is heightened and a simple call-back would stop a lot of fraud”.

## Artificial assistant

So far so good, but a reminder that banks lost US$16.8bn to cyber-criminals in 2017 brings us to the deployment of new weapons in the war against cyber. Here, AI has a role to play in protecting banks and their clients.

With the move gathering pace (certainly in the consumer space) towards real-time payments and the credit ‘push’ model, Loftus says the idea that fraudsters can navigate rapidly across the consumer space, using ‘mule’ accounts spanning multiple institutions, is driving greater interest in AI. Indeed, she believes that AI is becoming “necessary” to properly secure clients’ money movements because only this type of technology is able to effectively and efficiently collect, collate and analyse data across vast numbers of remitters and beneficiaries.

## In action

Basic AI is already being used to enhance the efficiency and seamlessness of processes in fraud detection and sanctions compliance, says Kristian Luoma, Head of OP Lab, OP Financial Group (one of the largest financial companies in Finland, consisting of 156 cooperative banks). For him, AI is only just at the stage of “intelligent assistant”, augmenting the work of its human counterparts. “It may be a while, if ever, before an algorithm is trusted fully in this context,” he comments.

However, he recognises that the advance of new digital channels and the exponential growth of data is driving deeper interest in AI. As Loftus says, it has to. Indeed, Luoma believes that it is the greater degree of accuracy promised by AI, and the understanding that machines are better at executing certain tasks – such as the detection of long-term patterns of behaviour – that will encourage its uptake.

The reasons for not adopting AI as a superior mitigation of financial crime are beginning to melt away. But there are pure commercial reasons for its uptake too, says Luoma. “We can already see that the entire finance landscape is being reshaped by competitors that do not necessarily share the physical challenges of traditional banks,” he comments. “Almost by definition, offering a digital-only interface potentially gives these players the upper-hand on cost structure. As incumbents, unless we are ready to use technology to help drive down costs, there is a real possibility that we won’t be as competitive in terms of our pricing to customers.”

## Advancing AI

Financial institutions have been increasingly incorporating unstructured data from external sources, such as news feeds and social media, into their financial crime and compliance investigations, says Leonardo Orlando, an executive in Accenture’s Finance and Risk practice. But this approach, he notes, has always proven costly in terms of resources. Some institutions have therefore sought to embed into their systems intelligent web crawlers, capable of automatically retrieving such data.

But as tackling financial crime takes on a new urgency, banks are looking for ever more accurate and efficient solutions. Orlando says some banks are beginning to deploy more advanced AI, in the form of machine learning technology. The ability to analyse existing transactions to detect outliers, and

extrapolate patterns to form a structured future view, means these systems offer a clear advantage over basic AI.

These systems can begin to make self-directed decisions as the algorithm learns the mapping functions, from input to output. Accuracy improves as more and more relevant variables are embedded in the rules, even when using data from unstructured sources such as social media. This 'supervised' form of AI, where humans 'train' the model step-by-step, is sometimes referred to as intelligent automation.

At the cutting edge of AI in this context is network analytics. This, explains Orlando, is designed to seek out all the knowable connections of a business or individual. Where one otherwise above-board organisation seems to be connecting with another that, although itself clean, has some questionable associates further down the line, investigation may be triggered. This might especially be the case if the first organisation is generating unexplained transactions within its own network. This level of depth and breadth of analysis would not be possible using traditional models. Some may find this intrusive.

## No takeover

Whilst Luoma is not predicting a machine takeover, as a technologist, he is not prepared to say there are elements of cyber that AI can never learn. That said, he suggests that few if any organisations are anywhere close to letting it "fly solo". Even if in most cases AI can produce a better result than a human, he accepts that there may be circumstances where human intervention is necessary; humans having a far broader set of experiences and knowledge upon which to draw.

The unending race between those engaged in malicious acts, and those seeking to detect and prevent is a case in point. AI can learn but currently an algorithm is "only as skilled as its training data allows it to be", Luoma notes. It is not yet configurable to recognise new types of fraud; it can only see anomalous effects after the fact. For this reason, for now at least, he argues that human involvement is essential.

In fact, despite the adaptive and resourceful nature of those who seek to commit financial crime, banks and businesses are not scrambling to implement AI out of fear for what may happen at the hands of criminals. Instead, says Luoma, organisations that are adopting it are doing so as a measured and rational response to 'normal' business challenges. In short, some are already seeing the commercial opportunities.

"I don't see fear of the existence of this new technology, nor do I see the pledging of blind allegiance to it," he says. "From our own perspective, if there is a tool to help mitigate risk and help increase the value that we are able to produce for our customers, then that is an opportunity we should take. It is an opportunity to be more efficient with less resources through the use of humans and AI."

## Recognised issues

It's a given that where the AI opportunity is taken, the biggest issue will always be the quality of the data being analysed. However, another concern with AI is calibration of an algorithm to create an appropriate feedback loop. Traditional rules-based systems lack the nuanced capabilities of AI, but poorly calibrated AI is at best unhelpful.

An algorithm must be calibrated to avoid too many false positives or false negatives, Loftus explains. Here, transactions are unnecessarily stopped or allowed because the algorithm is either over- or under-sensitive. At best it annoys clients when their transactions are stopped unnecessarily. At worst it allows criminal activity to pass undetected. It is a difficult balance to achieve but one that nonetheless must be tackled.

Moreover, an algorithm that incorporates bias – usually unintended but incorporated in its decision processes as a result of historical or cultural norms – can detract, to similar effect, from an otherwise successful system.

## Treasurers get ready

Fraud detection, anti-money laundering, and sanctions and watchlists screening form an essential part of every bank's ongoing processes. These actions have not traditionally been part of the treasury remit. However, suggests Orlando, treasury has a unique view over every transaction of the business. As such it is in a position, even before any transaction has been settled with a counterparty, to assess if there is any fraud or compliance risk.

AI technology is now being deployed by some TMS providers, Loftus notes, helping treasury departments become a "first line of defence" in detecting anomalous internal activity. But, says Orlando, it may be time to go further.

Treasurers could, for example, use AI to better understand multiple counterparties in hitherto unseen depth. Knowing where a counterparty is winning or losing contracts, its investment in strategic activities such as M&A or R&D, current and historical investor sentiment, and even ongoing legal cases, can paint a picture of an organisation in ascent or decline.

As a risk management tool, he argues, this surely is valuable data. As a means of improving forecasting accuracy, where customer payments can be predicted far in advance, he suggests that it has a ready-made strong business case for treasuries seeking to optimise liquidity and capital.

## Time to jump?

Where AI is being adopted, for it to gain acceptance and trust, the business needs to be confident that its algorithms are working as intended. Orlando advises initially limiting the scope of what is trying to be achieved. "Start small and work on elements that can be monitored and controlled. Get comfortable with it first. Understand how it works and where the value exists. From there you can try to expand the scope in an organic and structured way."

Regardless of how AI is approached, Orlando insists that planning is essential and that it is therefore vital to "connect the dots between the right data, technology and solution". Jumping to the conclusion that AI is the answer to every problem, he warns, is a recipe for failure.

Of course, organisations that are exposed to the increasing risk of financial crime, are in no way obliged to adopt AI just to meet regulatory requirements. On the other side, the enormous potential of a well-balanced AI solution is something that should be considered, and treasurers have many reasons to be at the cutting edge.

# Investing in yourself

*No one comes as a complete package; it takes years of hard work to become a skilled treasurer. We look at how individuals and companies can get the most from training, coaching and mentoring.*

According to a recent study of Fortune 500 CEOs, 75% believe mentoring or coaching to be one of the top three critical factors for their career success. Of the FTSE 100 CEOs, 80% have benefitted from investing in a mentor or coach. In Treasury Today's Women in Treasury Global Study 2018 (supported by State Street Global Advisors), 79% of respondents believe that mentoring and coaching are key to a successful career.

There is clearly something in the related ideas of coaching, training and mentoring from which professionals in all sectors, even at the highest levels, can benefit. Those who do invest in developing their own realistic and robust career plans are increasing their chances of success, said Laura White, Operations Director at The Treasury Recruitment Company in a recent Treasury Today Insights article. "Investing in your career can increase opportunities for greater job satisfaction, new career openings, enhanced self-development, greater sense of fulfilment, and higher earning potential."

## Training, coaching or mentoring?

Typically, there are three related but discrete forms of development open to professionals: training, coaching and mentoring.

If the 70:20:10 model for learning and development is to be believed, 70% of learning happens through experience, such as daily tasks; 20% through conversations with other people, such as coaching; and 10% through traditional training courses. The right approach depends on need.

The essence of training is about developing a specific set of skills; it's a structured approach aiming to reflect the tactical and transactional aspects of a role. Coaching tends to be about the person, usually requiring a bespoke approach in which the individual is encouraged to develop the wherewithal to best use their own skillset. "It is where you get to differentiate," notes Carole Berndt, Strategic Advisor at Transition Hub, an organisation dedicated to helping professionals through change. Mentoring is concerned with sharing experiences and gaining feedback from a wider circle, even benefitting from the "battle scars" of the mentor, notes Berndt. As such, although she feels it can be quite transformational, it requires a far deeper relationship and higher degree of trust. "I see it as a way to collate, consolidate and validate inputs, enabling you to get greater clarity on the directions and outcomes you want to pursue in your career, and life."

## Who's it for?

Throughout their career, the individual should be open to and adept at moving back and forth between these three options. This applies to even the most experienced people. The dynamic nature of a career means professionals should seize upon all the relevant training they can, says Berndt. "To not do so is crazy; it's like refusing a free gift." However, where an individual has been in middle management for a long time, they may have exploited training opportunities but seen very little coaching or mentoring. This is potentially limiting. "With all the disruption in the market, where jobs are being relocated or terminated, these people are the least well-equipped to navigate change," she warns. In fact, access to coaching and mentoring may well "mark the difference between successful leaders and those who flounder mid-career".

## Motivation

Of course, we're all far more than just the role we play in our organisations. This is where coaching and mentoring add real value. Coaching is as much about helping the individual be effective in their role as it is about being effective in their everyday life, notes Berndt. "Mentoring takes that idea to the next level because it is entirely career- or job-agnostic."

Indeed, she notes that people who have never had coaching can be too heavily invested in their job. "When that job is disrupted, it can completely pull the rug out from beneath their feet," she says. Coaching can be a way of acquiring the skills to achieve a work/life balance, cope with change, "and recognise that opportunities come from both the good and bad things that happen to you".

## Recognising the need

For training, the need may be obvious; the individual either has the skill or they don't. However, it can be the feeling of uncertainty or lack of direction – or indeed a need to address issues in confidence – that might suggest engagement with a mentor.

Although mentoring 'programmes' are the boast of many companies, the idea that it is something that 'must be done' is anathema to Berndt. "There is a need for wise people to help the individual see what they are not seeing – everybody needs a sounding board – but forced mentoring goes nowhere."

Coaching, however, has tended to be offered only when there is a problem, she notes, it being seen as a means of turning a negative into a positive. "But it should be proactive, bringing out the best in an individual, placing them in a supporting environment that lets them practice using the skills they've learnt in training." That said, when a skilled and motivated individual senior executive, appears not to be fully effective, despite their best efforts, it may be a sign that executive coaching is required. Either way, it can encourage progress.

## Finding focus: executive coaching

For Geraldine Gallacher, MD of the Executive Coaching Consultancy, coaching is more effective for those with experience and who have a better understanding of their own sense of 'self' within their role.

Where younger people tend to seek more input and 'words of wisdom' from coaching – requirements better suited to mentoring – experienced senior executives will use it to examine their options and arrive at their own conclusions, she explains.

Indeed, this is one of the main reasons for seeking a coach. The senior executive will face many different situations, and people around them will have a vested interest in the outcomes of their decisions. "It can be quite lonely at the top," notes Gallacher. "Having an external sounding-board is extremely important, especially under such pressure."

A professional coach offers a key advantage in that they will usually work across multiple industries, giving them a far broader perspective than their executive client. Being able to reassure their client that the problem they are facing is not unique, is in itself is quite settling, notes Gallacher. But a coach is also able to use their impartiality to help the individual "declutter", focusing on what the individual is good at, so they can learn to amplify those strengths.

The most effective senior executives are able to clearly articulate their personal expertise, and for everything else, seek support (which is as much about de-stressing as it efficiency) through delegation to the right people.

At a practical level, where a challenge is faced – whether it's about organisational restructuring, motivational levels or communication issues – there is a strong temptation to focus on the bottom third of performance, notes Gallacher. This can take up a lot of time and energy. Access to a neutral third party can help the senior executive clarify their own thinking on how to move forwards, enabling a shift to more constructive part of their work.

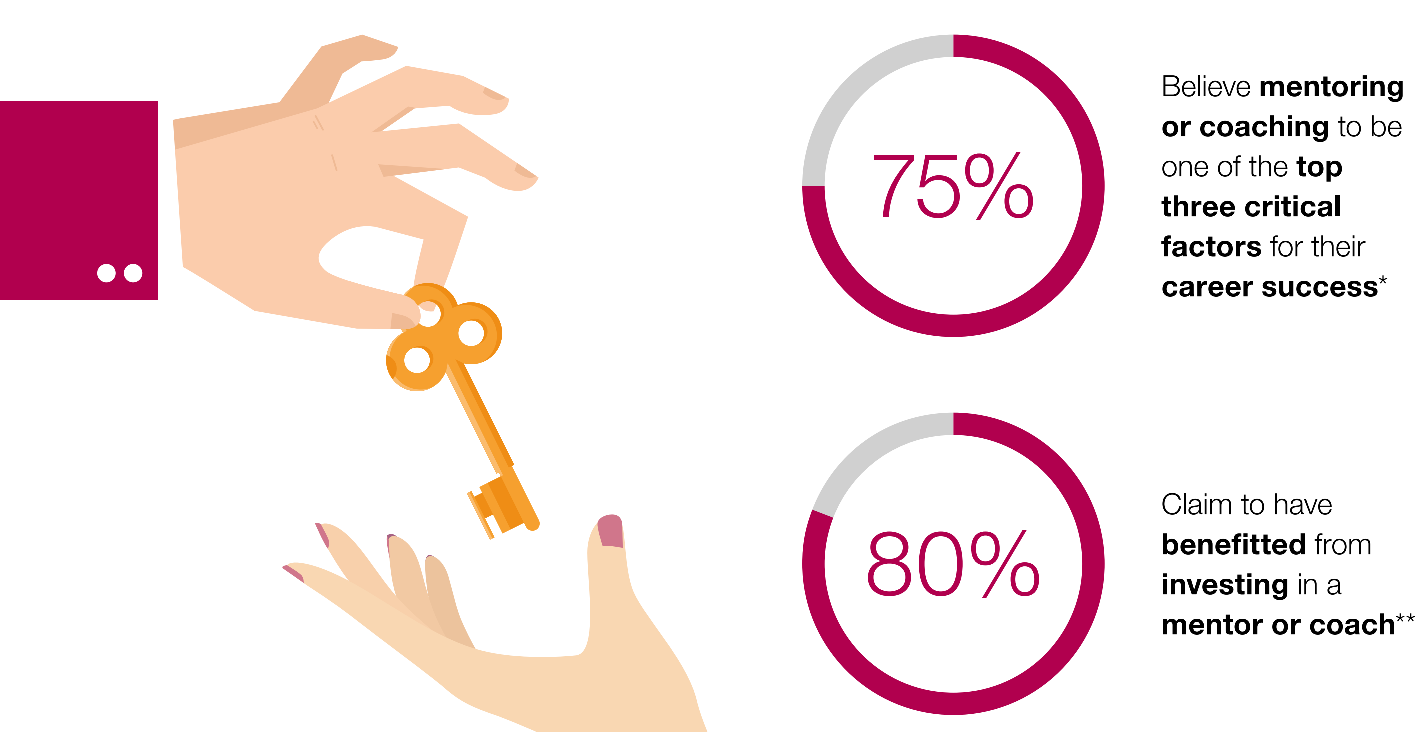
But coaching is not advisory, she states. It is a means of getting the individual to think positively about progress, and then how best to take their team with them. From this standpoint, it's easy to see why coaching juniors is less applicable – they simply haven't got as much influence over the organisation.

Neither should coaching be seen as a panacea for troubled leaders. "The executive struggling with a single issue is not a problem, but for anyone failing on all fronts, do not get them an executive coach because it will turn into a miserable experience for both coach and client," says Gallacher. Indeed, she adds, if someone no longer fits in, or never did, coaching will not provide any answers, except perhaps that it is time to move on.

Similarly, comfort with the idea of coaching is essential if it is to work. If someone does not believe they will get anything out of it, it will be unproductive. It takes time and requires work on the part of the individual between the sessions. Putting ideas into practice, to see what works for them, is essential because, ultimately, a thematic shift in the way the executive approaches their leadership is required for progress to occur. Indeed, says Gallacher, the process is entirely about empowering the individual to make changes within themselves.

## Moments of inspiration: mentoring

"It is very easy for a busy treasury executive to carry on with the day-to-day without realising where they are heading," says Amit Baraskar, Vice President & Head – Treasury at Thomas Cook (India) Ltd Group. Baraskar is committed to the values




*Source: *orgcode.com*
***The Guardian*

of mentoring in corporate treasury. And for good reason. "I believe that it is vital to take a step back from time to time and get a sense of direction."

A well-planned mentoring programme can offer the necessary direction. But what does that mean? "A treasurer's potential can best be understood and unveiled when collaborating with a mentor that has greater qualitative experience, and one that possesses the essential traits required for effective mentorship."

For Baraskar then, the 'must have' general traits for a mentor include expertise at building trust, the ability to listen and offer feedback effectively, the possession of an "inspiring personality" and the "maturity to encourage change".

For treasurers specifically, domain expertise is a given, says Baraskar. "Treasury is a specialised subject which can be difficult for the people outside of it to experience and understand. The real treasury pressures can be felt only by deep-diving into it, unlike mentors in other fields where this may not be quite so necessary."

It is Baraskar's view that treasury mentoring should revolve around establishing a connection, understanding and taking stock of progress. "It is a process of self-discovery for the mentee and there needs to be a setting of realistic yet challenging goals, and preparation of an appropriate plan of action," he explains.

In the treasury team at Thomas Cook India, Baraskar cites Group CFO, Debasis Nandy, as "our most valuable mentor". Nandy has of course benefitted from the generosity of others, saying of his own experiences as a mentee that he feels "indebted" to those who mentored him in the early stages of his career. "They gave me responsibilities which helped me develop self-confidence and guided me when I was in difficulty, but purposefully never solved the problems for me. They also encouraged me to think differently and helped me to find innovative solutions."

Baraskar is in accord with Nandy's view. He too feels that mentoring "should be about inspiring and giving individuals the tools to do it themselves, instead of the mentor trying to be a trouble-shooter for them".

## Foundations of success: training

For Natalie Eggins, Director of Learning, Association of Corporate Treasurers, training and development should not follow a one-size-fits-all approach. Only by understanding individual needs can the right approach be provided.

When tackling professional development, the first thing to decide is if the aim is to quickly fill a skills gap, or if a broader set of skills need developing. "To fill a skills gap, attend a face-to-face training course or an online eLearning course," says Eggins. "Both are shorter options than a qualification and can be completed in as little as a couple of hours to a couple of days."

If longer-term career progression is the aim, then accredited training through professional qualifications is the answer. "When recruiting in treasury, employers and recruiters look for these marks of accreditation on candidates' CVs," she explains. "They are a clear indicator that you have been through formal training and assessment, and can therefore be trusted to adhere to benchmark expectations in a role."

However, she adds, careers can also be accelerated by attending conferences, events and through building networks.

Identifying development needs can be challenging because a gap in training or a skill set is often perceived as a sign of weakness. "It's important to encourage open dialogue amongst team members so that everyone can play to their strengths," urges Eggins. Line managers should encourage the setting of personal development plans.

"Development and performance reviews are a great opportunity to discuss development needs and career development with your line manager," she comments. "A manager needs to understand their team members' development needs by talking to them and watching them working. Often, just asking the right questions can reveal knowledge and skill gaps in the team."

When development needs are acknowledged, although the temptation is to simply look at what training courses are available, Eggins believes that it is better to try and identify what the development needs are first, then work out ways of meeting that need. "And that may not be through a training course."

A progressive training plan, alongside a personal development plan, can get the individual from where they are right now to where they want to be in future. This plan should include learning both technical and soft skills.

"You'll want to establish a reasonable timeline for achieving milestones along the way, and the advice you got from your informal meetings will help you set realistic timelines," says Eggins. Indeed, performance evaluations can be a great source for feedback and advice when creating a professional development plan, as line managers or HR managers will have evaluated performance and behaviour over a long period of time and can identify both strengths and weaknesses. "Ask your line manager to have regular follow-up discussions with you, scheduling time every month to review your progress, identify any areas of the plan that may need to be adjusted, and update the plan with any new opportunities that may have arisen."

To build more effectively upon a plan, individuals should set realistic goals to measure their successes, suggests Eggins. "If goals are impossible to reach, then it's difficult to keep up either the momentum or the motivation to reach them." She advises making a tick list of objectives but to include a mix of simpler and more challenging ones. And, of course, she adds "feedback from colleagues is always a useful benchmark to gauge how both you and your work are perceived within the organisation".

## Changing world

Today, more than ever, the tools of training, coaching and mentoring have relevancy. The workplace is changing. Lifelong jobs are no longer; people need to learn to enhance their transferable skills to enable them to move to new careers – as many as five in a lifetime, according to a Financial Times 'Masters in Management' article.

For this to happen, flexibility and adaptability are vital. Industry is demanding it, and up-and-coming employees are too. By taking advantage of coaching, mentoring and training throughout their working life, the individual is protecting their investment in themselves.

**STATE STREET GLOBAL ADVISORS**

# WOMEN IN TREASURY

## EQUITY AND EQUALITY

*Quotas for female representation on boards are top of mind as State Street Global Advisors and Treasury Today Group's Women in Treasury initiative brought treasurers together in New York to discuss the findings of the 2018 Women in Treasury Global Study.*

*Sculpture by Kristen Visbal, commissioned by State Street Global Advisors*

in partnership with

As the Fearless Girl statue (sculpture by Kristen Visbal), a symbol of female empowerment, drew the attention of the good and the great, following its move from a position near Wall Street's Charging Bull to a permanent home outside the New York Stock Exchange, the discussion about the presence of women in executive roles continues.

The unveiling of the Fearless Girl statue in December 2018, preceded the latest Women in Treasury roundtable, hosted by Treasury Today and State Street Global Advisors. The opportunity for guest treasurers and other finance professionals to discuss the relevance of the statue in the context of the findings of the Women in Treasury Global Study provided much material for debate.

"As we head into 2019, our goal is quite simple: to make it the year of taking insight into action," Yeng Butler, Senior Managing Director and Global Head of Cash Business, State Street Global Advisors, told roundtable guests seated in Siebert Hall – named after Muriel Siebert, the first woman to own a seat on the New York Stock Exchange.

Guest speaker India Gary-Martin, Leadership for Executives, spoke of the elusive 'executive presence' in the workplace and the manner in which it is closely tied to "how people perceive you – their perception of who you are as opposed to who you actually are".

The Fearless Girl statue may embody positivity and strength, but many women still struggle to obtain executive presence in their career, she argues. "It doesn't matter what level of seniority you have, environmental conditions mean that women are often still challenged by that."

## Far to go

Despite a global push for gender equality in recent years, data shows the battle is far from over. Only 5% of female treasurers have a female CEO and 82% lack a diverse board leading their company, Treasury Today's latest Women in Treasury Global Study reveals.

The annual report, supported by State Street Global Advisors, found that most respondents work in teams where more than 30% are female. However, at the top of their organisations, the view changes fairly dramatically.

Only 5% of respondents have a female CEO and 82% lack a diverse board, the survey found, with over 348 responses worldwide.

## Key to success

Mentoring, sponsorship and coaching programmes continue to receive positive response, with over 79% saying these were key to career success. While the line between a mentor and sponsor is thin, treasurers agreed that a sponsor speaks on your behalf in senior management situations, whereas a mentor is someone you can go to for advice. Establishing a mentorship or sponsorship relationship must be done organically, argued one female US-based treasurer. "You can't force people to be your mentor or sponsor. To get a good mentor, you need to put yourself out there," she explained.

However, not everyone in the room agreed. One treasurer previously worked for a bank where there was a more compulsory mentorship programme. "I was junior, and a managing director was my mentor. I think it was really good to ask managing directors to help young people who are starting their careers," she said. "I learnt a lot, but my mentor learnt from his interactions with me. Companies can force it and mentors will see the benefits afterwards," she added.

## Renewed support for quotas

A 2018 McKinsey report, 'Women in the Workplace', cited by one speaker, reports that hindrances to women reaching the top start long before they take time out to raise a family. "It's actually at women's first chance of promotion that men are promoted, and women are not," commented the speaker.

For the first time since the Women in Treasury Global Study was launched in 2013, support for quotas on boards has overtaken opposition by more than 10%. In fact, 44% felt there should be a quota for women on boards, 32% were opposed and 24% were unsure.

Some treasurers at the roundtable argued that quotas give female leadership a necessary push, whereas others argued that they do not "win people's hearts and minds". This new support for quotas may be connected to a feeling that more should be done to support women at work.

With this in mind, Yeng's call to make 2019 a year of turning "insight into action" perhaps should become an industry-wide mantra.

---

The Women in Treasury Annual Global Study 2019, proudly supported by State Street Global Advisors, opens 18th March and the results will be released in September. To learn more please contact Lisa Bigley, Global Head of Events – **lisa.bigley@treasurytoday.com**

# Treasurers urged to head to the cloud

*Treasurers in recent years have been coming round to the benefits of moving to the cloud and with the technology holding considerable promise for the future, especially in its ability to integrate new technologies like artificial intelligence (AI) and big data, finance departments are being advised to not get left behind in exploring its potential.*

The history of cloud computing dates back to the 1960s but only in the last ten years has it gathered momentum, and only in the last five has its power begun to be leveraged for managing treasury operations. As a relatively recent phenomenon, its take-up by treasurers has naturally been cautious and measured – the cloud-based treasury remains far from being a ubiquitous feature across finance departments globally. Still, the signs are that it is only a matter of time.

According to studies by the respected industry analyst IDC, adoption of cloud-based services by firms and evolution of solutions has picked up significantly within the last five years and will continue to do so. IDC reckons 35% of businesses in the midmarket are expected to invest in Cloud ERP in the next 12 months, with 70% of CIOs expected to embrace a cloud-first strategy in 2019. Looking further ahead, it predicts 70% of enterprise IT spending will be cloud-related by 2020.

That certainly suggests a bright outlook for cloud-based treasury solutions, though a survey of over 100 major firms in the US and Europe last year by one leading provider, Kyriba, shows it could be tricky to wean many corporates off their beloved spreadsheets. According to the US-based firm, which boasts more than 2,000 treasury clients globally and is a leader in its space, global treasury teams are wasting an average of 4,812 hours per year – more than 600 days of full work – by using traditional spreadsheets to manage their cash, payments and accounting operations.

The biggest Excel time-waster, according to survey participants, was getting the daily global cash position, which takes up an average of 1,296 hours per year, followed by treasury-related accounting tasks (1,176 hours); payment fund transfers (960 hours); cash forecast generation (792 hours); and 588 hours per year for other key tasks.

"The lost productivity due to spreadsheets is a huge opportunity cost for organisations," says Dory Malouf, Treasury Operation Value Engineer at Kyriba. "Instead of focusing on value-adding initiatives that help drive the business, treasurers and their teams, along with cash accounting managers, are stuck spending literally thousands of hours updating and manipulating spreadsheets."

Kyriba's survey of treasurers and senior finance professionals spanned multiple categories, including real estate and construction, retail, technology, manufacturing and financial services. In each case, participants were asked to estimate in detail how much time they spent using traditional spreadsheets to manage various key tasks. Their estimates were compared to the time required to complete the same task with Kyriba's solution, which automates and streamlines manual reports, locks down data, and offers services beyond data crunching.

Kyriba believes the survey findings put a new spin on the perennial debate over whether finance professionals are overly dependent on traditional, labour-intensive spreadsheets to accomplish modern duties. "There is no question that finance professionals will not stop using spreadsheets in isolation, but what our numbers show, rather dramatically, is the cost of over-relying on spreadsheets to manage an entire finance function, like treasury," Malouf says. "Spreadsheets are only effective to a certain extent, and cannot be counted on to scale to global requirements."

Malouf believes the time treasurers save by embracing cloud-based automation via a treasury management system can be put to better use, for instance focusing more on working capital optimisation and strategic transformation initiatives generally. He points to other past surveys of Kyriba clients, showing that they recouped up to 80% of time spent on spreadsheets by employing cloud-based solutions.

"In the end, the debate is not so much about Excel as it is about freeing up finance staff from the shackles of burdensome data assembly and validation," said Cheik Daddah, Global Vice President of Value Engineering at Kyriba. "The most valuable asset for finance is time. Freeing up time enables finance professionals to focus on strategic analysis to uncover data and insights that help drive decision making."

## Future proofing

The broader, positive growth trajectory for cloud-based treasury solutions cannot be denied however. Over at SAP, the German-based market leader in enterprise application software, Christian Mnich, SAP Head of Solution Management, Treasury and Working Capital Management, says several key drivers underpin prospects.

"There is no doubt cloud computing holds enormous benefits for finance and treasury organisations," says Mnich. "Its speed, efficiency and economy are widely acknowledged. Finance and treasury organisations also benefit from a shorter time spent in initial implementation projects; user interfaces are intuitive, allowing business users to get up and running faster and easier.

"The entry ticket cost to adopt cloud applications is also much lower than establishing large, complex systems inside the organisation. This smooths out IT investment over a longer period of time, with no yearly maintenance costs incurred, like in an on-demand set up."

Mnich is also keen to stress the importance to finance departments of engaging with cloud if they want to leverage new technologies such as AI and big data. "With cloud they can access the latest technology innovations in finance faster than ever before, without any business disruption."

Drilling down into the types of cloud solution, he explains that two types have evolved to become the most adopted globally: the public cloud, also called software-as-a-service (SaaS), and the private cloud.

In a public cloud set up, applications like financial management run on shared servers at the provider's data centres. While each instance of the SaaS application and related data are made available only to the intended recipient, the system resources in the background are shared, providing economies of scale. Whenever an application is updated by the provider, all the end-users benefit from the same update instantly.

A private cloud set up is, in general, also located at the provider's data centres, but the servers on which the applications run are not shared. That allows for more customisation and better control of systems upgrades.

Mnich says cloud deployments help to reduce the total cost of ownership and that those deployments in turn help drive faster innovations because they are easy to scale and consume. Corporates investing in cloud solutions also benefit from a lower dependency on IT resources, shorter upgrade cycles, and they get rid of associated hardware costs and challenges. And with public cloud, business processes are standardised following industry best practices, and individual customisations are mostly prevented, leading to a much more simplified environment.

When talking to treasurers considering a move to cloud, SAP's initial priority, Mnich says, is to ascertain their specific requirements, look at their current technical IT infrastructure and organisational set up: "To evaluate the best solution for them, it is important to understand their broader system landscape. Many treasury organisations have a fragmented system landscape, in which data is spread across various sources. That is a big challenge as the fragmentation means firms don't get a unified vision – what we call a "single source of truth" – and therefore are hindered in their ability to make fast and informed decisions."

Consolidation of all the relevant data needed to make informed decisions can consume a lot of time using legacy techniques. As a result, Mnich says, organisations face the risk of not having the right information at hand to steer and control the business. The absence of relevant data when it is needed can affect their business results such as margin targets. "For such clients, a flexible cloud solution that helps to centralise certain treasury processes such as cash management, payment operations and exposure management, can provide significant business value. However, the biggest challenge for those systems, independent of the deployment option, is the level of integration. In short, everything within the system must work seamlessly with everything else."

## Security fears

Corporate treasuries seriously considering deploying cloud may well be persuaded by its merits. Yet at the same time, having previously had total control over commercially confidential data and operations via in-house IT teams and systems, they will likely be concerned about its security.

Mnich says cloud security used to be "a prime concern" for finance departments but such worries have eased over time: "In the past, treasurers were certainly sceptical about the cloud's security credentials. That fear has largely fallen away as security today is virtually embedded in cloud and its applications. Today, cloud solutions are every bit as secure as those connected to a network and to the outside world. In fact, today, a trusted cloud solution provider has the resources and expertise to invest in the security of global data centres at a higher level than each individual client could achieve for a relatively small business function like treasury."

Another drawback that might concern some treasury departments is that the high level of standardisation and

relatively limited flexibility a public cloud solution offers may mean they have to live with certain limitations and challenges. For example, large companies, which have complex use cases or specific reporting capabilities needs, may find public cloud solutions to be too restrictive. Other companies, meanwhile, may still want to keep full control over their systems, without being tied to automated upgrades. "To cover those requirements, a private cloud infrastructure could be the solution," says Mnich. "In such scenarios, customers – certainly SAP customers – can get the same benefits offered by public cloud, but in a dedicated, privately managed cloud environment. This deployment option is best suited for organisations with highly-customised requirements."

He adds: "Many treasury organisations have been using cloud services for some time, such as online trading systems, e-banking systems or other cloud-based platforms. The opportunity ahead of us is to integrate those systems into the organisation's finance landscape so they can provide a seamless experience for the users with a single source of truth."

SAP itself provides an integration either via application programming interfaces (APIs) in some instances, or natively built integration within the treasury applications that run on its cloud platform. A few services that have been recently made available on its cloud platform include bank and SWIFT connectivity, trading platforms and market data integration.

## Much more to come

Looking at the state of play with treasury in the cloud and the kinds of advances corporates can expect going forwards, Mnich firstly notes that, currently, many of SAP's own customers are consolidating their scattered data into an integrated digital platform. "That can help them unlock new potential in the day-to-day work; users get more transparency and real-time information. They also enjoy increased automation, improved security standards and are able to get rid of legacy systems. They are able to make better business predictions based on existing knowledge in real time."

More specifically, Mnich says SAP remains focused on a number of areas to enhance its offerings for treasurers. They include increasing straight through processing (STP) by further automating processes, including via better analytics and provision of business-critical information in real-time. One example here is the SAP Cash Application, which provides reconciliation optimisations and uses machine learning capabilities.

Other major focal points for SAP include predictive analytics to help businesses get instant visibility into every aspect of their operation and so enable them "to move beyond automation to intelligent, predictive decisions".

The provider is also committed to the integration of increasingly sophisticated machine learning and AI processes. These aim to help businesses not only gain access to next-generation innovations and eliminate low-value and redundant legacy processes, but also enable users to quickly identify areas requiring attention and action, for instance irregularities that could help signal and prevent fraud.

Mnich says the area that probably holds the "highest potential" for treasury in the cloud going forwards relates to the prediction of operational developments in areas such as cash forecasting; automated exposure management; and the generation of deal proposals that respect the treasury policy in place and can be traded automatically via the cloud-based platform. "Our key objective is to help businesses become intelligent enterprises with optimum visibility so that they can use their data assets effectively to achieve their desired outcomes faster and with less risk," he says.

The message from cloud solution providers then seems clear: as well as offering immediate benefits such as speed, cost savings and productivity, migration to the cloud is fast becoming a strategic necessity as without it finance departments will be without the infrastructure needed for them to be agile, leaving them unable to benefit from real-time insights to inform decision-making.

## Mixed messages

Yet, as a survey of 300 senior corporate treasury executives last year by the Economist Intelligence Unit on behalf of EY shows, firms have a lot more on their minds than just new technologies and cloud when it comes to assessing the drivers of change in their finance departments. Although 39% of survey respondents identified disruption due to new technologies as a major consideration for them, they do not deem it to be the clearest reason for change. Changing business models along the supply chain (38%), changing internal business models (38%), digitisation (36%) and regulation (35%) were also considered as drivers of change, suggesting to the researchers that treasurers may be regarding the notion of change as a "chicken and egg scenario".

Moreover, the survey results suggest that treasurers are having difficulty in understanding what the "unknown unknowns" may be. When asked "What will be the most useful technology system for treasury?", 36% of respondents did not even say "upgraded ERP systems", believing instead that existing systems would suffice. It is therefore not surprising to the authors that 35% also said the same for "existing" rather than "upgraded" TMS systems.

The study, titled The Future is Now: How Ready is Treasury?, says: "The fact that moving to cloud-based solutions (cited by 30% of respondents as key) was seen as less useful to treasury than either existing or upgraded ERP and TMS systems implies either that these respondents view cloud as simply a place to move existing functionality for cost reasons rather than a technology that can provide fundamentally improved and new functionality; or that they have security concerns over using the cloud."

The report authors echo Mnich at SAP, however, in arguing that moving to cloud ERP or TMS systems should be much more than a cost-based outsourcing decision, as cloud applications are developed continuously, responding to advances in hardware, software, the regulatory environment and new techniques, like AI. The net effect of that is it allows companies to create operational agility, freeing up resources for other areas.

"Although it is encouraging that a third of treasurers are interested in moving to the cloud, more should be considering it given the evident pace of technological change inside and outside business. Otherwise treasury risks not being able to fully benefit from technological innovations that could give it higher influence within the organisation," says the study.

ARE YOU MISSING OUT?

Join your peers in receiving the latest industry intelligence direct to your inbox weekly.

**Subscribe now:**
**insights@treasurytoday.com**

**treasurytoday.com**

# Meeting the challenges of liquidity planning and forecasting

*Forecasting and liquidity planning is often cited as a major challenge for treasurers. What would help gain the information needed?*

Sean Privilege
Partner & Senior Manager, Treasury & Corporate Finance
John Lewis Partnership

It is treasury's responsibility to obsess about liquidity and to ensure that stakeholders from across the business understand why effective cash forecasting is so crucial to the financial sustainability of the company. However, a finance team's efforts can sometimes be disproportionately skewed toward profit planning at the expense of cash forecasting.

To help redress the balance, and hopefully improve the quality of the forecast, it may help to focus on the following:

**Obtain leadership buy-in.** The support of the Finance Director is a must. Success lies in ensuring that sufficient resource and attention is dedicated to cash planning and forecasting.

Benchmarking a firm's liquidity provision against industry peers and stress testing annual forecasts at their cyclical ebb are useful techniques to help quantify the exposure. Hopefully it will show how well positioned your firm is, but if not, this type of simple analysis can help bring to life the liquidity risk that exists so it can be mitigated.

**Actively engage with internal stakeholders.** If the teams that you depend on for information don't appreciate why accurate cash forecasting is so important, they will inevitably de-prioritise it in favour of activities they think will add greater value. Proactive engagement with teams that feed into the forecast process is therefore critical.

A brief discussion at a functional team meeting can help de-mystify the world of treasury and provides an opportunity to evangelise the importance of effective liquidity risk management.

**Find an enthusiastic analyst**. Most finance teams are brimming with talented analysts, eager to immerse themselves in an interesting change project. Some tips that might support them in this endeavour are as follows:

1. Source at least two years' worth of daily cash flow data and 'clean' it to remove any one-off events (such as disposal proceeds or national events) that might skew the underlying data.
2. Identify any predictable events (for example payroll, tax, VAT or rent) and remove them from the data set until you are left with a cash profile that is essentially a trading cash flow.
3. Obtain the latest budget/plan and overlay the monthly cash flow figures into the model so it produces a phased daily forecast by month – adding back known periodic or unique events on the appropriate dates.
4. Use your judgement to sense-check outcomes and listen to your analysts – they will doubtless have some great ideas that will enhance the quality and presentation of the forecast.
5. With this baseline long-term forecast you can add payment data from your ERP system to create a more accurate near-term view.
6. Track actual daily performance against the model and continually refine.

To ensure that a business can actively manage its liquidity risk, you need good data which requires support from across the business. If internal stakeholders appreciate the consequences of getting it wrong (bankruptcy!) and understand how valuable their contribution is, they will want to help you get it right and things will improve.

Mike Zack
Pre-Sales Manager
GTreasury

Forecasting is part art, part science, part human intelligence, part machine intelligence. While forecasting is done differently across industries, in all cases, treasury first must understand the sources of data and how they impact corporate operations, and then apply technology to make meaning of the data.

Relevant information used for forecasting can be found within the siloes of an organisation and beyond the enterprise, creating complexity, limiting data sharing, and resulting in inefficient data gathering processes. Costly searches and manual sorting lead to data integrity problems, which compound as organisations expand and acquire businesses locally and globally.

Once sources of data are understood, the next step is to centralise and normalise the data into a single source of truth. This can be accomplished through imports/exports from many source applications to an open, cloud-based TMS platform, using APIs and robotics to automate this process seamlessly, without human intervention. System-to-system communication eliminates human errors, and by removing manual information gathering, teams have the time and the analytical power to perform strategically, rather than

operationally. This is beneficial especially as market conditions change.

When data is centralised, it must be flexible enough to manipulate. By default, treasury reverts to using Excel because users can quickly change the data. However, spreadsheets do not allow management to audit or identify trends, and they only provide static views for manual comparison. While management wants to give their teams autonomy to amend data as their business changes, they must still be able to measure changes in forecasts and monitor patterns dynamically. Treasury systems today automate this process, and if they are SaaS-based, they allow everyone to work consistently off the same application, regardless of where they are globally.

After treasury has extracted relevant data, centralised it on a common treasury management platform, and has been able to amend, analyse and archive different versions of forecasts, the TMS can perform the heavy lifting. Treasury management systems should be able to apply sophisticated simulations to predict financial viability over time using historical events. Advanced calculations, AI and machine learning is the science behind the art of accurate and efficient forecasting. Treasury management systems that can identify data patterns can bring organisations one step closer to predicting the future. Once implemented, statistical analytics become any organisation's true competitive advantage.

Mark O'Toole
Head of Americas
Cashforce

For more than a decade, liquidity and forecasting have remained in the top three challenges for CFOs and treasurers globally. This begs the question: why has this been a perennial challenge for so long? The reason: treasury operations today are, for the most part, a series of unintegrated systems, spreadsheets and silos between groups and other departments.

Companies are often faced with multiple ERPs, many entities, and different currencies. These make the task of managing liquidity a major challenge, not to mention a significant manual effort involving many people. The result: lots of time spent gathering and validating data while still not having a full, transparent view into the numbers. The volume, variety, velocity and veracity of data generated each day has made traditional analysis – using spreadsheets, for example – obsolete. It is just not possible to manually aggregate and analyse that much data with sufficient speed to be able to gain insight, and then turn that insight into action.

**What should a treasurer or CFO be asking themselves?**

- Can you identify all your sources of data that you need to make a cash flow forecast? Eg ERP (how many do you have, are they all on the same instance), CRM, bank statements, trend analysis, manual data (such as budgets).
- How often do you refresh your short-term/mid-term cash forecast? (Daily, weekly, monthly, quarterly, or I don't make a cash forecast).
- How do you ensure no mistakes happen in your data capturing/consolidation?
- How do you incentivise your subsidiaries? Local subsidiaries and users typically download information from their ERP, and upload in other types of files to HQ, or in SharePoint, or they will just send Excel files from all over the globe to HQ, which means it's 100% manual. There's no real alignment of the processes across subsidiaries and no audit trail at the local level.

**What to consider?**

- Companies should ensure their information is system-based. In other words, they have full integration with their ERP, so they don't have to manually download data (it should flow automatically).
- Any augmentation of data should have an audit trail so that, ultimately, the group treasurer can see who did what, and when they did it.
- Automate the process and deploy alert functionality, such as reminders for subsidiaries to post their local forecast, and for the group treasurer to look for it.
- Ensure bank connectivity to enable comparison of actuals with forecast figures.

**I have the data. Now what?**

With this data, treasurers should now be able to answer these four key questions: what happened; why did it happen; what will happen; and what should be done?

- Descriptive analytics answers the question, "what happened?" This is the most basic form of big data analytics, and provides a picture of past events.
- Diagnostic analytics, "why did it happen?" Diagnostic analytics enables you to perform root cause analysis and use that information to prevent future repetition of events.
- Predictive analytics, "what will happen?" Predictive analytics uses advanced algorithms – often with artificial intelligence and machine learning – to forecast future events.
- Prescriptive analytics, "what should I do?" Prescriptive analytics tells you what the best steps are to achieve a specific result. Prescriptive analytics requires advanced machine learning capabilities.

## Next question:

"How much of a practical issue will it be for treasurers if LIBOR rates are replaced?"

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

# Wanted: higher inflation

*In the first six weeks of 2019, economic data has been disappointing overall, with manufacturing and global trade data in particular pointing to a severe slowdown in growth.*

The main drivers behind the gloomy outlook are relatively tight monetary policy in the US and China; the US – China trade war; confidence sapping political uncertainty in Europe; and some temporary factors such as new emission standards in Germany and the low water levels in the Rhine river.

On a more positive note, prospects for growth, such as they are, are being supported by rising consumer incomes in the major economies and lower commodity prices, which boost real wages, and more fiscal easing measures. Additionally, monetary conditions generally are still supportive of growth.

Still, fear of a global recession – effectively growth below 3% – is mounting. Europe is close to a recession and some economists suspect Chinese growth levels are significantly lower than reported.

We believe that central banks and fiscal authorities are sufficiently alert to excessively low growth to the extent where a recession is unlikely. However, consideration of the outlook within a larger framework is merited.

## Do not expect too much from policymakers

Virtually everywhere in the world, central banks use a target of approximately 2% for core inflation (inflation ex-food and energy prices). This target dates back to the period in which the economies grew by 3%-4% annually. With 2% inflation, nominal growth was said to be around 5% and interest rates were therefore also at this level. In other words, there would be sufficient scope for a rate cut in the event of a recession.

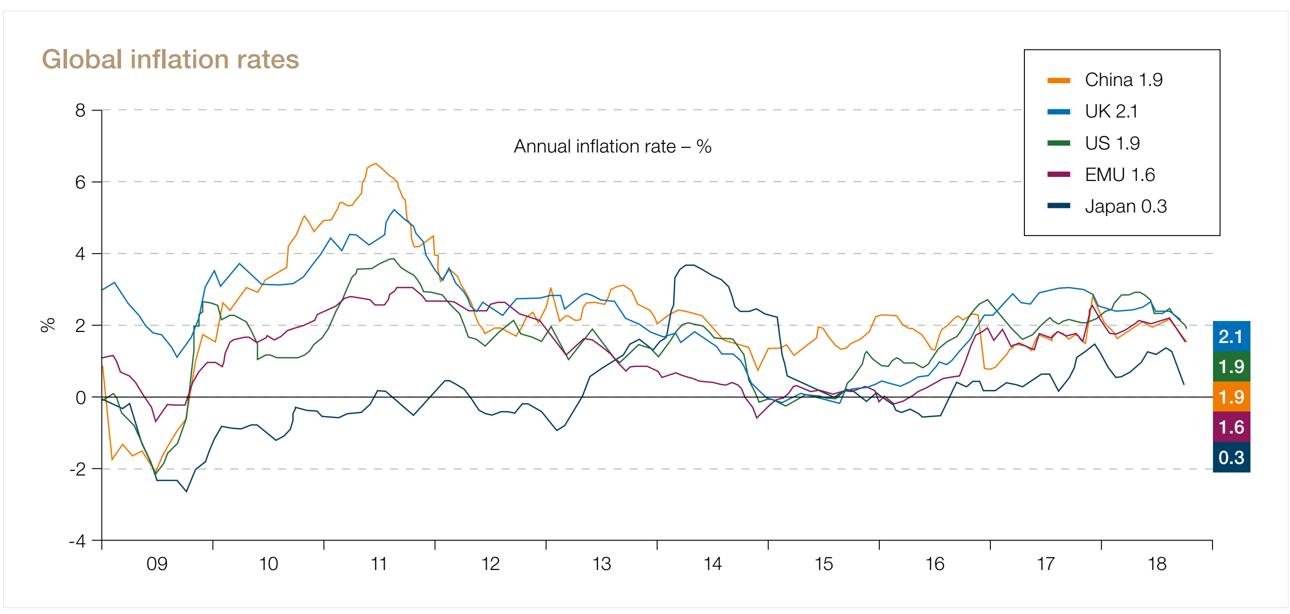
However, the situation is entirely different now, as low potential growth, an excessive reliance on monetary policy to stimulate growth, and high debt burdens keep interest rate levels low and risks elevated globally.

That is why central banks are almost begging governments to implement structural reforms that boost the growth potential of the economy. A far healthier situation would arise in a scenario where these measures achieve a growth rate of 3%-4%. However, structural reforms are met with considerable resistance in most western countries. That implies that central banks will be compelled to take control of the situation to a far greater extent.

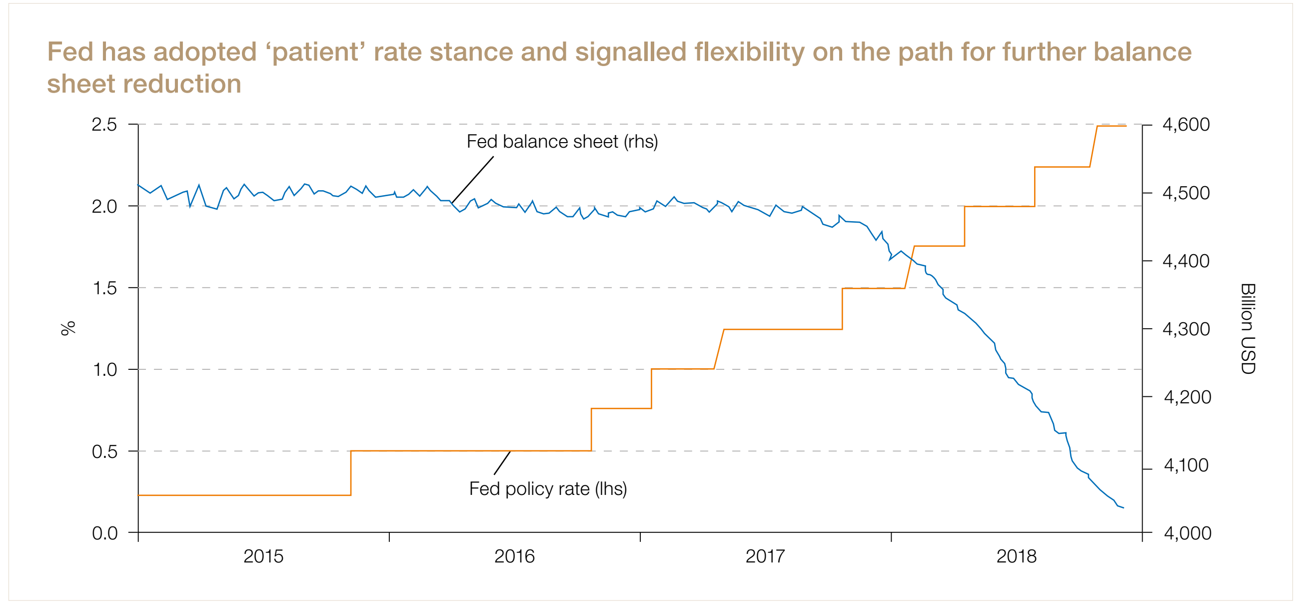
The best thing the Fed can do in this case is to increase its inflation target to approximately 3.5%. This would result in a nominal growth rate of at least 5%, with nominal interest rates ending up at correspondingly higher levels. Moreover, higher inflation reduces the real debt burden. However, inflation will have to be prevented from rising too fast. In times of rapidly rising inflation, nominal interest rates generally tend to rise faster than inflation. In other words, real interest rates rise in this case, which would have a negative effect on growth and could make the high debt levels unsustainable.

## Counting on inflation

So, how can inflation be pulled up to approximately 3.5%? So far, it has remained stubbornly low in the west. This is the result of globalisation, soaring debts and the introduction of modern technology. These factors also keep wage increases at low levels. Yet this does not mean that higher inflation




*Source: Thomson Reuters Datastream/ECR Research*




*Source: Thomson Reuters Datastream/ECR Research*

cannot be achieved. It may best be achieved in a scenario of full employment and capacity utilisation. This is more or less the case in the US and Germany, for example.

If growth stays above potential under such a scenario (at least 1.8% in the US), wage increases and inflation will automatically come under more upward pressure. In reality, this means that a US growth rate of 2.25%-2.5% would be best from now on. This is still above potential, but not too much. Wage increases and inflation would only slowly reach higher levels in this case, exactly what the Fed would like to achieve.

However, what to do in a scenario where the economy still has a considerable reserve capacity, with inflation consequently staying at low levels? Or what to do in a scenario where inflation does not rise significantly due to the aforementioned deflationary forces, even if there is full capacity utilisation? In such cases, it is best to remember Milton Friedman's statement that 'inflation is always a monetary phenomenon'. The faster the money supply grows, the more inflation will rise. However, the prerequisite is that the money has to flow to the real economy. This may well mean that public deficits have to increase further and that central banks need to fund this monetarily. It is effectively an instance where necessity knows no law.

In a practical sense, we believe that this policy of monetary funding of public deficits will only be pursued in the next recession if current attempts to boost inflation prove unsuccessful. However, the US is most likely to achieve higher inflation without too many acrobatics, given the country has reached the point of full capacity utilisation. A persistent (excessively) loose monetary policy is probably sufficient to this end. The Fed's turnaround early this year should be viewed in this light.

Consequently, long-term borrowing costs may drop further as growth slows further and fear of a recession increases. But this would likely herald the start of an uptrend in long-term interest rates, as bond investors will start to discount higher inflation as a result of a more expansionary fiscal and monetary policies.

**INTERESTED IN OTHER MARKETS?**

Go to www.ecrresearch.com and request access to 18 different reports & services. Clear views and concrete market predictions, based on the world's leading research.

**MAARTEN SPEK**

Senior Financial Markets Analyst
+31 (0)30 23208000
m.spek@ecrresearch.com

MACRO & POLITICAL

FX & INTEREST

ASSET ALLOCATION

FUND SELECTION

MORNING BRIEFINGS

*The clever research solution for time-pressed decision makers*

# COMING NEXT ISSUE

INSIGHT & ANALYSIS

## The year of Brexit: it's here; what now?

Unless the process is halted or delayed, by the time this edition is published, the UK will have left the EU. Is the confusion and uncertainty continuing or is it full steam ahead? As the next phase, where the hard trade deals are done, comes into the spotlight, is there anything that treasurers need to be doing to either make the most of the opportunities or protect their organisation's interests? We examine the known knowns and explore some of the known unknowns for evidence of a right way to proceed.

TREASURY PRACTICE

## Holistic treasury

Treasury is no longer an island. It can (and arguably must) work with many other functions within the organisation so that there is full understanding of how the business works – only this way can processes be optimised in terms of cost and efficiency. The means of reaching out will be largely technology-based but there is a strong element of treasury becoming more open and communicative with partners, both formally and informally, in the business and indeed outside too. We explore the notion of the holistic treasury.

TECHNOLOGY

## Future-proofing treasury

Treasury has a job to do that always sees it looking forwards. How, in an age when new technologies are offered seemingly almost every month, can the function assess and plan its way through this potential minefield? How can treasurers ensure they are not buying into the Betamax experience? We look at ways to offset the risk of jumping too soon, whilst still staying currently relevant and preparing for future changes with the minimum of fuss, cost and risk.

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

Emma Loftus, Global Head of Payments, J.P. Morgan; Kristian Luoma, Head of OP Lab, OP Financial Group; Leonardo Orlando, Executive in Accenture's Finance and Risk practice; Sean Privilege, Partner & Senior Manager, Treasury & Corporate Finance, John Lewis Partnership; Mike Zack, Pre-Sales Manager, GTreasury; Mark O'Toole, Head of Americas, Cashforce; Suzanne Perry, Assistant Group Treasurer, RELX; Carl Walsh, Head of Finance, Matalan; Beatrijs Woltring, VP, Treasury, Liberty Global; Ben Walters, Deputy Treasurer, Compass Group; Desmon Lewis, EMEA Sub-Sector Head for Healthcare, Treasury and Trade Solutions, Citi; Hans Oostenbrink, Head of Benelux Sales & EMEA Sub-Sector Head for Consumer, Treasury and Trade Solutions, Citi; Chris Skinner, Chair, Financial Services Club; Jerry Norton, Head of Strategy UK Fnancial Services, CGI; Ad van der Poel, head of Product Management for GTS EMEA, Bank of America Merrill Lynch; Hasan Khan, Head, Transactional Products & Services, Standard Bank Group; Hubert J.P. Jolly, Global head of Financing and Channels for GTS, Bank of America Merrill Lynch; André Casterman, CMO,INTIX and NED, Tradeteq; Vinod Madhavan, Head, Trade, Standard Bank Group; Yeng Butler, Senior Managing Director and Global Head of Cash Business, State Street Global Advisors; India Gary-Martin, Leadership for Executives; Laura White, Operations Director, The Treasury Recruitment Company; Carole Berndt, Strategic Advisor, Transition Hub; Geraldine Gallacher, MD, Executive Coaching Consultancy; Amit Baraskar, Vice President & Head – Treasury, Thomas Cook (India) Ltd Group; Debasis Nandy, Group CFO, Thomas Cook (India) Ltd Group; Natalie Eggins, Director of Learning, Association of Corporate Treasurers; Maarten Spek, Senior Financial Markets Analyst, ECR Research.

# How does treasury cope with the current superstorm of risk?

Hear how the world's most forward-thinking treasury teams are addressing and solving the real issues impacting your world.

Strategic International Treasury

The most senior-level treasury event in the US

14-16 May, 2019 | Miami

- Hear 40+ highly practical case studies from international treasury teams
- Network with a senior audience of 375+ international delegates
- View the cutting-edge solutions that are available in the marketplace today
- Drill down into the core components of a world-class international treasury department
- Benchmark your operations with treasurers from a wide variety of industries

If you attend just one US treasury conference in 2019, this should be it.

**Treasury Today readers save 20% — use code: TT20**

www.eurofinance.com/miami

EuroFinance

The Economist Group

Official sponsors

treasurytoday
Adam Smith Awards 2019
ACHIEVE EXCELLENCE:
COLLABORATE
NOMINATIONS ARE NOW OPEN
AND CLOSE ON 15TH APRIL
treasurytoday.com/adam-smith-awards