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September/October 2020

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The Corporate View

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Managing Director, Global Head Trade Finance

GE

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Volume 22/Issue 5
September/October 2020

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Annual Membership Rate £285
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

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Treasury Today USPS: (USPS 023-387) is published bi-monthly by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

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

Embracing change

"When one door closes, another opens; but we often look so long and so regretfully upon the closed door that we do not see the one which has opened for us." Alexander Graham Bell.

Opportunities may exist even in the most unexpected circumstances. All we have to do is turn our heads to see them, and then act accordingly. It seems simple enough, but as the quote above from prolific scientist and inventor Alexander Graham Bell suggests, we are often too preoccupied with the downsides of change to see the positives that exist within. But exist they often do!

In this edition, we explore some of the potentials for change that treasurers have or can create. In our Banking feature for example, we unravel the notion that nothing lasts forever, not even great banking relationships. We explore what is involved in moving from one institution to another, especially when modern treasury can become so enmeshed in a just a few partners, and what advantages doing so can reveal.

Prompted by current liquidity issues being faced by many businesses, this edition's Funding article looks at suitable alternative or additional sources, taking a peek behind the scenes at Schuldschein and probing the rising international appeal of Germany's private placement market.

With cash management fundamentals currently front and centre for most companies, our Insight & Analysis feature this time round focuses on effective cash segmentation, looking at how this seemingly simple process can be enhanced to become a means of optimising current and future cash holdings.

Finally, we have a brace of leading treasurer profiles, demonstrating just how diverse the profession is in terms of its application and yet how singular it is in its goal to deliver positive results.

In the Corporate View, GE's Linda McGoey – motto: "learn, and then learn more" – tells of her quest to keep pushing the boundaries of what's possible. In a special profile inspired by widespread feeling that it's good to give back to the communities in which we live, we chat to former Expedia Group Treasurer, Ken Bugayong, about his decision to help non-profit educational organisation, Minds Matter, survive and thrive post-pandemic.

One thing is certain: change can be a great thing. Even adversity presents opportunities; you just have to look a little closer.

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Divide and rule: effective cash segmentation for treasurers in testing times

In a time when cash and liquidity are uppermost in treasurers' minds, we look at why effective cash segmentation is so important.

When all is said and done, it's cash that makes the business world go round. Short-term is the big concern for many businesses in the current COVID-19-constrained trading environment. With revenue streams hit hard, the pandemic has impacted the cash and liquidity positions of many companies. But not all are impacted in the same way.

Companies with large cash buffers and low leverage and debt-servicing costs will be more resilient than those leveraged to the hilt. Some sectors are naturally more robust than others in the current situation. Online retailers and supermarket chains are clearly benefitting from increased cash flow. Many of those in the travel and tourism sectors are suffering existential crises.

Even the so-called 'defensive industries' (those that are relatively immune to economic fluctuations, such as the supermarkets) are facing new challenges with COVID-19. As infection rates peak, the supermarkets have had to develop their logistics infrastructures in order to satisfy rapidly rising demand. For some, it was a matter of assessing whether increased demand would be sustained long enough to get sufficient return on any infrastructure development costs, or whether post-COVID-19 their expanded logistics infrastructure would absorb too much cash.

Cash control

"Any crisis, like the great financial crisis in 2008 or now the corona crisis, always highlights the importance of liquidity and the old corporate treasurer's truth 'cash is king'. It is therefore crucial to have good control over your organisation's funds." Thus states Christian Bartsch, a treasury and finance consultant, managing director, and Professor of Business Administration (Finance & Accounting) at IUBH University of Applied Sciences, and Adjunct Lecturer at EU Business School, Munich.

One way to achieve essential control is by cash segmentation. This, he explains, is the division of an organisation's funds into

categories to increase financial stability and promote better control over assets and – at the same time – the budget process. The most common divisions under cash segmentation are operating cash, reserve cash, and strategic cash. However, he notes, some organisations may also have restricted cash division.

For Aziz Parvez, Head of Asia Pacific Corporate Treasury Sales, Global Transaction Services, Bank of America, the extent to which is it necessary to have a clear picture both of cash holdings and capital planning is clear.

"It is extremely important for a company's treasury to segment cash, not only to ensure that day-to-day cash needs are properly catered for but also companies' mid-term requirement and long-term visibility of cash positions to support strategy objectives and expansion plans are met," he says.

Parvez acknowledges that this has become particularly relevant against the backdrop of a pandemic and global economic slowdown. "Now more than ever, companies need to ensure visibility and accuracy of their cash flows so that they can plan ahead and ensure their funding requirements are fully supported in these challenging times."

Thomas Stahr, Interim Treasurer, Treasury Consultant and Project Specialist, believes too that it is essential for treasurers to divide cash into core segments. This, he says, "starts with cash which is available on the balance sheet but which cannot be accessed because it is trapped, and goes all the way to cash that is causing negative interest on credit and, above all, with particular attention given to the currency in which cash is available or needed".

Indeed, the current circumstances of collapsing economic demand on the one hand, and negative interest rates for cash in EUR and CHF on the other, "are the two biggest cash challenges a treasurer should have under control at the moment," says Stahr, a former Head of Corporate Treasury at global airport ground services firm, Swissport.

"The goal in an uncertain economic situation must be very clear: to secure sufficient short-term and medium-term liquidity," he warns. This means "a healthy mix" of committed and uncommitted credit lines is the first choice, because these generate the lowest costs. "But planning early refinancing to secure long-term liquidity is also a priority during this period."

The current economic circumstances have indeed changed client goals, reports Parvez. "Clients are focused on short- and medium-term cash requirements," he says. The key focus right now is to ensure a sufficient cash buffer to see the business through the current situation. "This has become important not only to manage the operational needs of the companies but also from a rating perspective, given the shifting credit environment."

Levels of segmentation

It depends on what the operational business of the company is, as to how detailed and layered the segmentation process is. A company that produces machinery has different cash requirements to one that is a wholesaler, and different again from one that is engaged in insurance or banking. But all areas have one thing in common, and that is ensuring minimum liquidity for the operational business and investments.

Three levels of segmentation are the most effective, covering operating cash/working capital (short-term), reserve cash (medium-term), and strategic cash (long-term).

- **Short-term**. Short-term forecasts provide the cash detail needed to help manage working capital and to protect day-to-day company liquidity, covering the immediate cash inflows and outflows that affect overnight balances. Daily and even intra-day forecasts ensure that treasury keeps abreast of last-minute changes to cash flows. Weekly and monthly forecasts (for up to about three months) provide advance warning of the expected cash positions.
- **Medium-term**. Rolling monthly forecasts for up to 12 months ahead help to predict cash needs and surpluses further into the future. They help to show where the high and low points of cash availability are likely to occur through the course of the year as well as identify when existing investments and debts may be maturing.
- **Long term**. Long-term forecasts may cover up to a three or even five-year period. They provide a longer view of potential surplus resources and financing needs to help ensure that a company's business plans and strategies can be properly funded. They also help to identify future cash that has not yet been 'earmarked' for use and is therefore available to invest for a longer time period.

Vital forecast

In terms of applicable technique, first of all, it is extremely useful to establish well-structured reporting of required liquidity, per entity and currency, and then to consolidate that data, urges Stahr. "The whole process should be on a time axis with a minimum of nine months, but better still over one year."

The aim here is to determine all cash requirements in detail. This should result in a clear understanding of the financing surplus or financing gap. "Always pay attention to the facts of effectively available liquidity," he advises.

In theory then, corporate treasuries can easily gain control over the organisation's assets at any given time by embracing cash segmentation, Bartsch says. But first there is a need to have a detailed cash forecast that directs organisations to which cash segment their money is allocated, in order to survive tough economic times or crisis.

Cash forecasting is one of the most important and effective tools in cash segmentation, agrees Parvez. "It has also been a top priority for corporate treasuries, and recent events have only reinforced its strategic worth in carrying the company through this difficult time and the future."

Although forecasts still tend to be less accurate than most treasurers would like them to be, they do (or should) provide a realistic view of future cash resources, and therefore provide an early opportunity for identifying potential surplus cash or funding gaps, as well as other essential information such as currency denomination, present location, total amount (value) available, planned future location (and currency), and time horizons (the length of time cash will be available for investment before it is needed by the business).

In addition, forecasts will help treasury to define how 'important' the cash is to the business's daily operational

activities and what the impact would be on the company if the cash to be invested was not readily available to meet day-to-day obligations.

From this point, it is up to the treasurer to define, introduce, optimise and, where necessary, expand the adoption of the appropriate instruments. This starts with cash concentration or cash pooling, continues with extending credit lines, even arranging syndicated loans, and ends with the placement of capital market bonds.

For surplus cash, investments need to be forecasted over two to three years. Accurate prediction reduces the risk a company may experience if the investment were to fail under the current economic times as a worst case but more likely counter sub-optimal investing, or the possibility of overestimated surplus cash having to be pulled from investments at short notice or inability to liquidate in time to meet business needs.

"In the current business environment, corporate goals and objectives have changed as many organisations focus on accomplishing short-term goals that lead to long-term ones," says Bartsch. For instance, he notes short-term goals are easier to achieve now, compared to long-term ones, due to the emergence of the pandemic, especially given that forecasting in such tough times is extremely challenging.

What's more, he observes that the use of funds has been reduced, due to current uncertainties, that "would create havoc in organisations if the economic situation does not change in the future". He notes too that a rise in debt has been recorded as many businesses seek to benefit from bank loans, which they may be unable to service on time.

Indeed, the World Bank reports that the debt crunch has made it hard for decision-makers and managers in industries where the production of goods is the main activity. Most organisations, it says, are also focusing on increasing strategic and reserve cash due to the current uncertain financial condition. However, says Bartsch, the operating cash division must be monitored as any eventuality will need to be catered for using these funds.

For many, this is a cash balancing act that could have troubling consequences if the numbers are wrong. Distressed organisations are trying to find emergency liquidity, and cash-rich businesses are having to think ahead and engage with a wide range of 'what-if' scenarios as they reinforce their liquidity positions.

Suitable approaches

When it comes to the three segments, corporate treasuries should maintain a constant flow of funds to the operating and reserve cash divisions, advises Bartsch. This approach will help treasuries to create appropriate financial plans, given that operating in the current environment requires proper economic forecasting to eliminate the chances of insolvency. Thus, he adds, "this calls for corporate treasuries to communicate with other departments to ensure prioritisation of projects".

Indeed, he says, one of the most effective cash segmentation approaches in the current business environment is the budget model. This strategy allows corporate treasurers and accountants to determine what an organisation requires at the present and forecast what might be necessary for the future. The budget model covers all the elements of an organisation, making it more accurate in handling financial issues that arise in the day-to-day operations. Nevertheless, Bartsch adds, this model must be regularly compared to the forecasting model that identifies future risks (the forecasting model mainly used in financial planning and analysis incorporates all the aspects of the organisation in minimising risks and looking for opportunities).

If most companies operating cash segmentation every financial year obtain a scope of what should be done during that period, Bartsch believes that a combination of all three divisions can be effective in the current business environment, "because they cover the short-, medium- and long-term needs of an organisation at the same time". The use of this approach can help corporate treasuries to allocate funds to different departments effectively, being based on an informed assessment of the short- and long-term needs of an organisation.

However, warns Bartsch, a segmentation review should be conducted after every quarter of the financial year to eliminate 'interferences', with corporate treasuries monitoring every task or operation to ensure that money is spent appropriately. Parvez agrees, saying that review is necessary "to ensure that any changes to market or economic conditions are assessed and acted upon on time".

Current risk response

Corporate treasurers have a further significant role to play in the current business environment because they must respond by allocating funds to risks rather than expanding portfolios, suggests Bartsch. "Risks affect the financial aspect of an organisation, hence cash segmentation should be focused on making short-term agile decisions with long-term effects."

Good liquidity planning must therefore always be a top priority, adds Stahr. Due to events that have arisen in the last six months, he believes that consideration should be given to introducing additional reports, such as weekly or even daily cash reports, on top of the usual liquidity planning, in order to avoid sudden unpleasant surprises.

"Segmentation into immediately available cash and funds, which only take a few weeks or even months to become available, is essential," he argues. "If critical time-windows are identified, they must be secured with suitable measures, for example by increasing credit lines or optimising cross-border cash pooling by adding further Group companies."

For Parvez, short-and medium-term cash flows are key priorities now. "This is extremely important, so companies can continue to meet not only their day-to-day operational requirements but also their funding needs for at least a year," he advises.

With markets still trying to contain the coronavirus and some seeing a spike and reintroducing lockdown measures, he believes we will continue to see a slowdown in economies globally. "In order to operate in these times, treasurers should take into account various factors such as purpose of the cash, time horizon and review their liquidity strategy to ensure they are equipped with sufficient cash to ride through the current situation." Segmentation may indeed be a welcome case of divide and rule.

TREASURY RECRUITMENT IN LOCKDOWN AND BEYOND

The COVID-19 crisis has brought numerous challenges where treasury is concerned, from securing liquidity to managing supply chain risk. To navigate this landscape, treasury teams first need to have skilled professionals in place – and where recruitment is concerned, the advent of country-wide lockdowns and social distancing measures has led to the adoption of some new and inventive approaches.

In some cases, there may be no pressing hiring needs, or companies may be selective about whether to recruit. George Dessing, Executive Vice President, Treasury & Risk at Wolters Kluwer, says that the treasury team is "currently stable" with no recent openings or vacancies, adding that "On a companywide level we currently look carefully at hiring – only critical jobs are filled."

While some companies may have put their hiring plans on ice when lockdown started, this isn't possible in every scenario – recruiting for a maternity cover role, for example, is not something that can be postponed. But in the context of a global pandemic, face-to-face meetings may be unappealing or even prohibited by local lockdown rules. As a result, companies are increasingly turning to video conference platforms like Zoom and Microsoft Teams to screen candidates for treasury roles.

"Until January of this year, I had only ever recruited one person who was interviewed via Zoom calls, and was offered the job without ever meeting the team," explains Mike Richards, Chief Executive of The Treasury Recruitment Company. "But since the beginning of the year, we've had four people who have done every round of interview over Zoom." One candidate, for example, had been trapped overseas when lockdown began, but had been interviewed and hired remotely. He has now been working for his new employer for several months – all without meeting anyone in person.

But while some companies are comfortable with a Zoom-only approach to hiring, a fully remote recruitment exercise is not always ideal. Consequently, in countries where lockdown restrictions have loosened, companies may opt for a hybrid interviewing model. As Richards says, "Nothing replaces that face-to-face – but you can still do face-to-face and be responsible."

He cites one company which carried out the first round of interviews using Zoom, but is still planning in-person interviews with the CFO for shortlisted candidates. "They won't have to wear a mask, but modern protocols will be in place – people will be sitting two metres apart, and candidates will be able to have tea and coffee, but will need to use hand sanitiser," Richards says.

With many companies planning to continue working from home arrangements for the foreseeable future, could treasury candidates be eligible for roles further from home than in the past? For roles in the same country, this could well be the case. Richards notes the example of a company based in a less well-known location in the UK which is currently recruiting for a treasury role. "In the past, this was difficult, but now they're saying the employee won't need to be in the office – they could just come in for two or three days a month to work with the team, and the rest of the time they can be based from home," he says.

Could this mean a treasurer could take a role in a completely different country or region without moving there? "I don't think so," says Richards, explaining that obstacles would include time zone differences and cultural hurdles. "Another issue is that if there was an emergency, and the company needed to get everyone together, would that person be able to get there in a few hours? No, they couldn't."

Beyond the recruitment exercise itself, the COVID-19 landscape may also have an impact on the types of skills recruiters will be looking for. While not currently recruiting, Dessing says that any new recruits "should be able to be an effective team player and a networker when working (predominantly) remotely, and even better at sharing innovative ideas about how this remote interaction can be improved." He adds, "This will require building further technical awareness and skills which will allow us to look beyond the traditional treasury role in order to become even more agile and productively add value to the company."

In the remote working context, Dessing says it's more important than ever for individuals to be critical thinkers and able to work in a "self-dependent" way – while still needing to connect and communicate with each other. "Without this connection, problem solving and innovation within the team is not effective, especially given the global disruption and uncertainty due to COVID-19," he says – adding that adapting to the new situation is important not only for any future hires, but also for the team as a whole.

How ESG can be part of your short-term cash investment strategy

As sustainability increasingly becomes part of the conversation within corporate treasury departments, Karyn Corridan CFA®, Lead Portfolio Manager for State Street ESG Liquid Reserves Fund, State Street Global Advisors, evaluates the impact of ESG criteria on short-term cash investments.

Karyn Corridan CFA®
Lead Portfolio Manager for State Street ESG Liquid Reserves Fund
State Street Global Advisors

Systematically including or considering ESG data as part of an investment process is becoming an increasingly critical component to investors' investment decisions. But approaches to assessing what ESG really means in the context of a portfolio have often been subjective, until now.

We have seen various methods of including ESG considerations in an investment portfolio. Traditional exclusionary screening strategies continue to be used, removing particular companies, sectors or countries that do not align with a particular set of values. We've also seen clients adopt a thematic approach, concentrating on a particular area, such as climate.

Another focus has been on ESG 'best-in-class' strategies, where investment in sectors or companies are selected for their apparent superior ESG performance, relative to their respective universe or industry peers. Others have adopted an ESG integration approach, where ESG factors are integrated as part of the investment process which has led to an increase in demand for 100% ESG-aware portfolios.

To reflect this goal, in July 2019 we launched the State Street ESG Liquid Reserve (ELR) fund, a prime money market fund investing in instruments that meet our ESG criteria.

Knowing that cash management plays a critical role in our clients' investment portfolios, we overcame some pressing challenges in implementing material ESG criteria across ELR. But we met those challenges by creating a unique solution to the problem of assessing the ESG components of a portfolio's underlying assets.

New drivers

The degree of client engagement in portfolio construction depends on individual ESG drivers. The relevant motivator influences the approach taken. But one thing is certain: whilst an exclusionary approach is still favoured by some investors, others are becoming proactive as they seek to bring cash into their ESG portfolio. These investors understand that it's about more than just 'doing the right thing'. They know that it actually matters, and are now insisting on inclusionary screening.

Various barriers have existed for some potential ESG investors. Where, for example, a fiduciary duty is imposed, it has kept some from adopting ESG implementation due to perceived hinderance on returns. But there is now growing recognition that mitigating ESG risk actually aligns with fiduciary duty and may provide better risk-adjusted returns. Our clients are focused on maintaining their primary objectives while incorporating ESG criteria.

In a money market fund, principal preservation and liquidity are paramount while earning a competitive yield. Our clients are looking to achieve these goals while achieving ESG objectives.

We are committed to solving these challenges, and we have dedicated a significant amount of research and resources to creating a cash management solution built on a unique and dynamic ESG scoring, screening and tilting process.

Data challenge

Across all asset classes, the lack of reliable and consistent ESG data has kept investors from implementing ESG considerations to their investment process. Numerous third parties provide ESG ratings using proprietary methodologies, with varying degrees of transparency. Assessments of a single company can produce wildly different results, so for the sustainability-focused investor, adopting positive screening methods is a problem.

Additionally, relative to other asset classes, integrating ESG considerations into a publicly traded cash strategy presents unique challenges. Money market funds face regulatory and investor-driven requirements to maintain high levels of liquidity and security. These funds primarily hold sovereign debt and securities issued by high quality large banks and financial institutions which leads to a concentration of 35 or so AA- or A-rated global banks that access the market daily.

In applying an unrefined ESG filter, the exclusionary approach would further limit that investible pool – potentially increasing fund concentration risk.

Additionally, prime money market funds may also hold asset-backed commercial paper (ABCP) and repurchase agreements secured by non-government collateral (referred to as alternative repo). However, evaluation of the ESG performance of the repo bank counterparty or ABCP liquidity provider does not reveal the full factors at work for satisfactory inclusion in a client's ESG mandate. The underlying collateral needs analysis. But for any asset manager, performing satisfactory reviews of this collateral is often subject to limited internal resources and expertise and, most challengingly, a lack of reliable and transparent ESG data.

There are challenges, but that doesn't mean investors need to ignore sustainability factors in their cash management strategies. We are committed to solving these challenges, and we have dedicated a significant amount of research and resources to creating a cash management solution built on a unique and dynamic ESG scoring, screening and tilting process.

Meet R-Factor™

In response to the data challenge, State Street Global Advisors has developed a transparent ESG scoring system called R-Factor (where 'R' is Responsibility). Leveraging multiple data sources (including Sustainalytics, ISS-ESG, Vigeo-EIRIS, and ISSGovernance), and SASB's financial materiality framework, R-Factor generates a unique score for individual companies.

R-Factor was built to solve the data quality problem, and to remove opaqueness around ESG materiality in the scoring process. It measures the performance of a company's business operations and governance as it relates to financially material ESG issues facing the company's industry. Importantly, each score is dynamically adjusted as each element changes.

We are seeing more investors appreciate that ESG considerations influence the sustainability of returns in all asset classes. For investors, R-Factor offers a standardised, bias-free and comparable view of the ESG components that focus on the financially material ESG issues shown to impact companies' long-term performance. In doing so, it is opening up our clients' corporate cash management strategies to the full and transparent incorporation of ESG factors.

By excluding a small subset of instruments and issuers involved in controversial practices or those that lack necessary transparency, ELR provides 100% coverage of our stated ESG criteria. By applying a sophisticated tilting process that assesses the R-Factor scores of the issuing counterparty – and, for ABCP and certain types of alternative repo, giving consideration to the underlying collateral – we can provide our clients with a scalable ESG cash management strategy that achieves investors' objectives.

Building on our transparent R-Factor scoring system, we are proud to offer one of the asset management industry's most comprehensive and innovative solutions for ESG-focused cash management.

As ESG-centric money market products continue to be introduced in the marketplace, we believe that State Street Global Advisors is uniquely positioned to solve these challenges. Building on our transparent R-Factor scoring system, we are proud to offer one of the asset management industry's most comprehensive and innovative solutions for ESG-focused cash management.

Switching banks: how has it changed?

Nothing lasts forever, and the same is true of banking relationships. With the COVID-19 pandemic putting both corporates and banks under immense pressure, whilst also prompting the development of new, digital opportunities, we evaluate how the process of switching banks might change – and whether those changes will benefit the treasurer.

For a treasurer, changing banks can be a daunting prospect. The idea of switching over sometimes hundreds of accounts is off-putting enough that many simply choose not to do it. The 2019 PwC report, Digital Treasury – It takes two to tango, found that nearly one-third of respondents only review their core banking relationships on an ad-hoc basis, or not at all – although 7% review core banks on a monthly basis, 9% do so quarterly, and 48% annually. The report issues a call to action for treasurers to conduct "systematic, regularly scheduled reviews" of bank relationships, adding that such reviews should emphasise both quantitative and qualitative elements.

As various technologies are introduced to automate manual processes and centralise treasury systems, banks are having to adapt to keep themselves and the products they offer ahead of the curve and relevant to the modern treasurer. The 2019 CGI Transaction Banking Survey found that client satisfaction is at an all-time low, with just 49.5% of respondents rating the service they receive as a '4' or '5' on a five-point scale ('1' is not at all satisfied and '5' is very satisfied) – a 6.5% decline from 2018.

The report also found that 46.3% of respondents cited 'improving digital customer experience/service' as a driver behind the review of banking relationships. Meanwhile, when establishing a banking relationship, 'bank continually improving their products and services and providing innovation ideas' and 'bank conforms to industry standards, systems and processes' were the joint highest rated as 'very important' or 'quite important' factors considered – each at 84%.

The drive for digital

The social distancing measures forced upon everyone by the COVID-19 pandemic have had the unexpected benefit of also forcing digital solutions on those who were previously reluctant. This has particularly been seen in the banking sector, explains Etosha Thurman, Head of Treasury Management Sales and Client Engagement at Capital One. "There have been many clients that have been very resistant to moving forward with digital processes, but in this 'new normal', many are asking how they can move away from paper and cheques, and leverage digital solutions instead," she says.

Likewise, a key challenge for corporate treasurers that became evident at the beginning of the pandemic was the frequent need for wet signatures, says Brice Zimmerman, Global Head Treasury at Alcon. He adds that banks that offered flexibility in this area have had a clear advantage. Treasury is more likely to steer towards banks that make account opening, KYC and deposit confirmations digitally easier, than those who continue to insist on wet signature, postal/courier services and time delays while documents are checked and verified.

Thurman is of a similar view, and notes that the importance of IT support when tackling this manual and paper-based challenge is often underestimated. "I think that's because historically, IT has not been a function that people associate with treasury, as many of the processes are manual and paper-based," she explains. But in this day and age, when most best in class treasury management solutions and processes are digital, involving IT is essential.

Banks are also facing similar challenges when onboarding new clients: gaining and verifying client signatures, and coordinating document requirements between different functions for due diligence processes, is a struggle when both parties are no longer centrally located. However, for treasurers, Thurman says they shouldn't be left alone by their banks to struggle with this. "For us, it's important to not just focus on getting solutions out there, but to really look at the full client experience, which includes the onboarding effort."

The cost of switching

For Carrie Reyna, Director, Global Treasury Operations at Sysco Corporation, a key thing that treasurers should keep in mind when changing banks is the cost of doing so. "Transition costs can be high or low, depending on your processes," she explains. "While it may not be intuitive, the more automated your processes, the higher the transition costs may be." Indeed, whilst the long-term benefits of automation can be substantial, it can significantly increase the costs associated with moving business to a new banking partner.

She gives bank statements as an example. If a treasury accesses its bank statements manually – for example, one person in the team logs into a bank's portal, accesses the statements and distributes them to the required parties – the transition cost comes only from establishing access to the new bank's online portal for the appropriate team member. However, if bank statements are received through SWIFT for Corporates, with a service bureau automatically distributing the files to multiple systems, the transitions costs can be significantly higher. This is because multiple teams and third

parties will be needed to perform configuration and testing activities to convert from one system to another.

Zimmerman is of a similar view, and notes that this consideration for systems integration is a necessity when considering changing banks. "Treasurers should ensure that sufficient internal resources are available for the projects, as banks tend to jump at the new opportunities with large project teams to support," he says. Indeed, treasury teams tend to be on the smaller side, and so can struggle to match the size of team needed and supplied by the bank.

Switching during a pandemic

A global pandemic isn't an ideal time for most things, and as Zimmerman points out, that includes switching banks. "During the worst period of the pandemic, I definitely would not have recommended to change banks," he says, noting that organisations were rightly focusing their attention on ensuring 'normal' operations and having sufficient liquidity. "Adding the complexity that comes from changing banks would not have been advisable," he says.

However, Zimmerman also notes that the picture will be different when things settle down post-pandemic: changing banks can bring new ways of working, with opportunities to improve and automate internal processes and bring additional efficiencies.

Thurman, likewise, explains that the pandemic has presented an opportunity for companies to reassess their account and operational structures. With many companies operating outside of their usual structure anyway, she says the opportunity has arisen to "challenge the status quo" and also to evaluate which bank can best move the company forward. "It gives an opportunity to simplify treasury management, to reconsider the mix of payment channels," she adds.

The re-evaluation of payment channels is something that Reyna is also optimistic about. "Customers and vendors are more willing to discuss electronic and automated payment methods," she says, adding that payment types that require employees to be in an office setting or use specialised equipment are being reconsidered for safety reasons. "Electronic payment methods can be executed in remote locations, are usually less expensive, and the settlement timing is easier to predict," she points out.

Additionally, automatically scheduled electronic payments can save time related to tracking down delinquent invoices, increase the accuracy of cash forecasting and improve working capital. "As you explore these options, you may discover that new banking partners are better suited to executing automated electronic payment transactions that integrate well with your existing systems," she adds.

Utilise the RFP

When it comes to choosing a new bank, the value of a formal request for proposal (RFP) cannot be underestimated. Reyna supports this and says that if a bank that takes the time to answer a RFP thoughtfully and discuss the requirements, it could be a good indicator of a positive long-term relationship. "A RFP also provides to you, in writing, what the bank is willing to offer. If the bank fails to deliver on the promises they made in the RFP, you have a written document you can reference in your negotiations to resolve the issues or to gain concessions," she adds.

Similarly, Zimmerman says it's important to choose a bank with a local presence in the necessary markets. "Local presence should always be the preferred option, as working with partner banks adds complexity in the onboarding processes and in the daily interactions," he says. Additionally, treasurers should consider and evaluate all services on offer by the bank, even if they will not be used immediately, he adds.

For Thurman, the banks' perspective should be similar. Banks should always keep a focus on helping their corporate clients get what they need out of the banking relationship. "We're not just here to sell a solution, we're here to be part of that solution," she says.

Insider top tips

Offering a few top tips from a banking perspective, Thurman begins with one previously mentioned: leveraging IT as a key partner to help manoeuvre the journey to digital treasury management. "Even if you're not ready today, have an IT perspective for what you can do in a technology sense to enhance your cash management processes, even if it's just a foundational understanding," she says, explaining that this will pave the way for further digital growth and transformation.

Keeping with the theme of partners, she says it's also necessary to engage internal stakeholders "early and often". One of the things she thinks is always underappreciated is the breadth and scope of treasury management. "What treasury does touches many teams, so they need to actively engage and create a partnership with those key internal stakeholders." Thurman believes this will not only make the switch more efficient and effective, but also yield more robust conversations, more best in class practices and will ultimately accelerate the achievement of the cash management, risk management and payables management outcomes that the business is looking for.

Keeping the change

When it comes to hopes and predictions for the future, Reyna wants to see a change in KYC processes. "I would love if the banks would get behind a consolidated KYC platform," says Reyna. "Currently, most banks are either developing a proprietary platform or still processing documents manually. An electronic system with standardised KYC forms by jurisdiction would benefit customers by reducing redundant work and allow for standardisation." There are of course various initiatives underway for this, most notably SWIFT's KYC Registry.

Meanwhile, both Zimmerman and Thurman are hoping to see the continuing adoption of digital processes. Zimmerman wants to see fewer exchanges of physical documents and greater acceptance of PDFs as valid forms of a contract, as well as wider acceptance of electronic signatures.

Thurman, meanwhile, wants to see a change in the philosophy of banks. "We're not just supporting the treasury group, but the broader payables team," she says. "Banks need to recognise that there's a wider team that needs support, and we've been really investing in training, how-to guides, best practices and operational instructions because we know how critical this multi-stakeholder alignment and awareness is for clients' success." She expects and hopes that post-pandemic, this focus on exceptional client service will continue.

Learning, leadership and finding balance

Lynda McGoey
Managing Director, Global Head Trade Finance

Headquartered in Boston and serving customers across more than 170 countries, GE is one of the world's most recognised names. For 128 years, GE has invented the future of industry and today the company's dedicated employees, leading technology, and global capabilities help the world work more efficiently, reliably, and safely.

Driven by a quest for knowledge and a desire to keep pushing the boundaries, it seems more than a little appropriate that Lynda McGoey, Managing Director, Global Head Trade Finance, GE, has settled in a business that has a very long history of innovation. In fact, as a source of inspiration, they don't come much better than GE founding father, Thomas Edison.

For Lynda McGoey, Managing Director, Global Head Trade Finance, GE, one of the keys to treasury success is the will to stay informed. Her mantra – "learn, and then learn more" – has sustained her throughout her career. And as with GE's founding luminary, Thomas Edison, McGoey has absolutely no intention of resting on past glories.

It is this approach that has seen her graduate from Manhattan College in New York with an MBA and a BS in Finance, and rising up the ranks of GE, first from Manager to Director of Trade and Project Finance, and then Global Head of Trade Finance, before assuming her current position as Managing Director of Trade Finance, which she took on in April 2018.

This role places her in charge of a global trade team, spanning the US, Latin America, Europe, MENAT and Asia. She has direct responsibility for overseeing GE's evolving trade finance needs, managing relationships with a significant number of banks. Building a consolidated Global Trade Finance team is one of the professional accomplishments of which she is most proud. "We have a winning team today, for sure, and the collaboration is amazing." It was this dynamic that won McGoey and her GE team the 2019 Treasury Today Adam Smith Award for the best overall Trade Solution.

An evolving role for corporate treasury leaders

Getting to this point has of course not been without its challenges over the course of her 22 years at GE. McGoey has seen her role evolve, not only as the company has changed over the years, but also as the role of trade finance has evolved. Whilst technology and an innovative mindset (and more than a little determination) are producing noteworthy results in McGoey's trade domain, she acknowledges that today's treasury leaders must have a perfect blend of technical and soft skills. In trade finance, especially in a global business such as GE where big ticket projects are its bread and butter, there are some quite specific technical demands, she explains.

For example, understanding and being able to mitigate operational risk is vital; performance trade finance instruments are critical to participate in new orders. Similarly, every major project requires performance instruments and warranty and retention tools.

Treasury leaders must consequently understand the risks associated with not being able to successfully procure these vital components. "These are key in the businesses' pricing models, so treasury must have a firm grasp of what its bank capacity is, whether or not it has banking partners in the right countries for the projects, and of course what the costs are of those instruments."

But in addition to technical know-how, McGoey believes communication and collaboration skills should be well-developed in every contemporary treasury organisation. "I have always enjoyed working with people across groups; interpersonal skills are so important, especially when developing strategic partnerships and gaining trust with treasury peers, in addition to working with the businesses and banks."

In today's complex trade environment, the advice she offers colleagues who may be feeling the pressure is to stay informed. "Internally, you really need to understand your pipeline of transactions. Know what your big upcoming credit needs are and plan for them; never let them be a surprise.

> The core values of NCL are about honouring the mother-daughter bond, and through their community work, she feels her daughters have gained confidence, leadership and integrity, all while giving back to the community.

And externally, learn about your markets and how they operate; find out in advance how, for example, a change in sanctions or local banking regulations could impact your business processes. Be prepared."

To this end, formal training and education, and professional membership are all important to McGoey. "There's no better way to stay informed and current than with like-minded trade professionals," she says. "Attend conferences, build a network of peers and mentors, stay connected. As my mother taught me, 'an education is never a burden to carry, and no one can ever take it away from you'."

Whilst experienced treasury leaders will have the wherewithal to deal with most eventualities, what advice does McGoey offer to young professionals just starting a career in treasury? "Ask questions," she replies. "Lots of questions. Work in every part of treasury, learn to see the 'big picture' but also understand the tactical aspects of how treasury works."

The best way to do this? Mentoring. "Get yourself a mentor. You can do that organically; it doesn't need to be a formal process." She adds that those who are just starting out in the profession should never be afraid to ask for the advice and support from someone who has been in treasury for some time "and who can help you with your decisions along the way."

People power

McGoey is well-known and widely respected for her ability to build and lead global, high performing teams who deliver with focus and integrity. She says, "There is only one way to achieve this with any degree of success as a manager, and that is to lead with transparency, by encouraging candid feedback and then taking action to improve as a leader."

"Each year I request team touchpoints to obtain individual feedback on my performance," she explains. "I ask about what is working and what is not, and it is these learnings that go a long way for me and for my team." By taking this proactive stance, she believes it becomes easier to understand any team challenges and to see where support is needed and where improvements can be made.

Indeed, the approach that McGoey takes is one that gives her great satisfaction in her own work. It is, she adds, about ensuring the right processes and people come together. So, it is as much about ensuring credit capacity, for example, as it is about solidifying partnerships with the company's businesses and banks. "It's about understanding the individual cultures and incorporating those various parameters in the overall team dynamics," she says.

Finding success as a leader and as a team also rests on challenging the status quo and being open to and embracing new ways of working. As GE has been using Lean over the past year to make real improvements across the company. McGoey has also challenged her team to leverage lean principles and tools to drive down cycle times and bring down costs in their processes. Using digital scorecards they have been able to drive improved processes with their banking partners.

Giving something back

Perhaps it says a lot about the profession, but many interviewed in these pages are motivated to give back to the communities in which they live. For McGoey, charitable work comes naturally. She has been a member of the Nutmeg Chapter of the US National Charity League (NCL) for the past seven years.

"NCL is a mother-daughter organisation striving to meet the critical needs of local communities through hands-on volunteer support," she explains. The core values of NCL are about honouring the mother-daughter bond, and through their community work, she feels her daughters have gained confidence, leadership and integrity, all while giving back to the community. "These are all key attributes for any successful person. I am extremely proud of all my children and their accomplishments."

Clearly it is important for McGoey to get the work/life balance right. Despite a busy professional and domestic schedule, she always finds time for her passion for running. This is something she does alongside her husband, Desmond. Although she admits to "a lot of laughs" on the way, their choice of distance is no light undertaking.

In fact, she has run numerous half marathons and full marathons, including the Chicago event in 2018. She and her husband qualified for their fourth TCS NYC Marathon in 2020, but will be competing virtually due to COVID-19. "My goal has always been five full marathons: one for each child," she jokes, referencing her two daughters and three sons who range in age from 14 to 20.

As a professional, being able to strike a balance is made somewhat easier when the employer is supportive. "GE has always been very flexible, which I attribute to great managers," says McGoey. This flexibility has been a vital contributor to her longevity and her success within the business. But then for someone who is constantly seeking learning and innovation, such attributes seem only fitting in a business borne out of an individual once described as 'America's greatest inventor'.

Schuldschein: international appeal of the German private placement market

With the LMA recently reporting cautious optimism for growth in domestic Schuldschein issuance, but less so for international deals, is the German private placement market at a tipping point? We explore the purpose and meaning of this funding option for international borrowers.

When it comes to corporate funding, most companies will head straight to their banks – they are, after all, a safe and reliable source of capital, certainly for everyday use. But whereas larger, rated firms might enter the debt capital markets when seeking a significant cash injection for a specific purpose (M&A, for example), their smaller unrated or lower-rated counterparts do not necessarily have that option.

This may not be a problem per se, but having a diverse source of funding, at least as a backup, is something most treasurers would favour under any circumstance. Knowing that other funding doors are open for every use, from the operational to the strategic, can give much-needed comfort not just to treasury, but also to senior management, the board, investors, buyers, suppliers and employees.

Under such circumstances then, it may be prudent right now for treasury to explore all the options. One funding source that has been steadily building a fanbase for some years now is the Schuldschein market (plural Schuldsheine). Although predominantly used by enterprises across the size spectrum in German-speaking countries, it has been quietly building up its volumes across other parts of Europe in recent years.

That said, it is still very much a niche market. Up until about four years ago, issuance volumes hovered below €10bn. For the last four years it has been over €25bn. In 2019, it actually did slightly better, reaching about €28bn. Generally, levels are travelling in an upwards direction.

Based on actual issuance, without cancellations and exchanges, UniCredit (using Bloomberg data and its own curated corporate news) calculated outstanding debt in the market of €89.1bn, as of February 2019. This, it concluded, meant that "demand for corporate Schuldschein loans as a stable and less volatile source of funding should continue unabated".

Easy product

Schuldscheindarlehen loosely translates as 'a loan evidenced by a certificate of indebtedness', the note itself being the 'Schuldschein'. The market is governed by German law, being the result of hundreds of years of development in that territory. The offer is typically a senior, unsecured, private debt product that is a hybrid between a loan and a bond.

Although in documentary terms they are closer to a loan, they share similar marketing tactics to bonds. However, they are quicker to arrange and often less expensive than bonds as there is no requirement for Schuldschein notes to be registered at a stock exchange, and no corporate or debt rating is required.

They can be fixed or floating rate, with tenors usually set between three to ten years. Beyond ten years, Schuldscheine become Namensschuldverschreibungen (NSVs), which are legally a different (although obviously closely connected) product. More than one maturity at a time is possible – with bullet repayments, the borrower builds up its amortisation schedule with different maturities.

Lending amounts range at the lower end of the corporate debt scale, somewhere between €50m and €500m. Different currencies can be used, even within one issue. Euro is by far the most common, but USD, CHF and GBP are increasingly featured, with slightly more exotic currencies, such as Polish Zlotys, making the occasional appearance. Deals can be bi-lateral, privately placed arrangements, but the growth in the market appears to be syndicated, with perhaps three or four arrangers.

Investor view

The initial set-up process involves an investor call or roadshow to drum up interest amongst the predominantly bank investor community. In much the same way as bond issuance preliminaries proceed, an information package will be created about the company, its intentions and prospects, detailing the proposed deal.

Borrowers, notes Penny Smith, Head EM Corporate Debt Origination and non-German Schuldschein, Commerzbank, seem to like the fact that they do not need a rating. It certainly saves the financial cost and administrative effort but, she adds, smaller companies are often looked less favourably upon by the big ratings agencies, even if fundamentally sound, simply because they do not have the financial weight to justify investment grade. There seems little point in depleting resources to achieve a low rating when, in this market at least, each investor carries out its own credit assessment anyway.

Because Schuldscheine are relatively illiquid, the debt is typically seen as 'buy and hold' by investors, which, as a result of that illiquidity, are mostly banks, says Richard Waddington, MD, Head of Loan Syndications & Sales, and Head of Private Debt, Commerzbank. However, with the market split between the domestic German and the International, investor bases are different, he notes.

In Germany, investors are, in the main, financial institutions – the Sparkassen and Volksbanken, with some Landesbanken and a few commercial banking players. Internationally, the investors are almost entirely commercial banks.

The institutional market (such as the insurers, pensions firms, and money market funds) do not seem to be overly interested, these players tending to be driven by investment policies that demand only highly-rated counterparties. If, however, a rated issuer is deemed a worthy target, Waddington says institutional investors will always weigh up the relative value of their Schuldschein versus bond options.

This is not to say institutions are not interested in unrated issuers. Indeed, he notes that some specialist investors will take unrated credit on an ad hoc basis, again making a call on the relative value of the asset versus other investment options. And some Schuldscheine are attractive in their own right. He cites a recent German state-owned rated corporate entering the market, offering an attractive pickup on German bund yield. With debt securities issued by Germany's federal government currently negative, he says some institutional investors have taken the bait.

Diversified funding

For the international treasury community, using Schuldschein just as a means of funding diversification could be a prudent move in itself, says Smith. But it also opens up a new investor-base for companies seeking an amount that would be too small (less than €500m) to warrant going to the bond market, and for those with no wish to get a rating. What's more, she says, pricing is often favourable.

As privately placed debt, Schuldschein is only loosely aligned with the US private placement (USPP) market. As well as offering longer tenors, the US market has a totally different investor base, comprising mostly US-based (and a few Northern European) institutions.

For borrowers, there is a big difference. It's difficult to pre-pay a USPP as it requires a 'make whole' exercise, notes Smith. This means that a business having issued a USPP when rates were high, has no easy escape as it watches rates go lower. "There is nothing they can do about it, because if they pre-pay, they have to pay all the interest that owed," she explains. "With Schuldschein, a floating rate issue is pre-payable on an interest payment date at par – no fees, no penalties."

Growing interest in Schuldschein has possibly bothered USPP players, Smith adds. Indeed, before Schuldschein started picking up volume around four years ago, USPP was very much a USD fixed-rate product. "Now it offers floating rates, euros, and much more flexibility in what can be done." It suggests a USPP market responding to stiffening competition.

In 2016, Commerzbank placed the first ever 'green' Schuldschein. Worth €550m, and with terms of three, five, seven and ten years, with fixed or variable coupons, it was issued by German wind-power firm, Nordex. The proceeds were primarily used to finance the acquisition of Spanish competitor, Acciona Windpower.

Certification as a 'green' financial instrument by DNV GL Business Assurance opened up the market to ESG investors which accounted for around 25% of all subscribers. In total, just over 50% of funding came from international investors, the remainder mostly coming from domestic German savings and cooperative banks. Other green issuances soon followed.

Green credentials

When Royal FrieslandCampina – Europe's largest dairy cooperative, and the second largest in the world – sought a new stream of funding, it knew that, as an unrated company, it would need to think on its feet. And so it did. It's green Schuldschein programme scooped the Highly Commended accolade in the Best Financing Solution category of Treasury Today's 2016 Adam Smith Awards.

With a requirement for €300m per year to support its Route2020 strategy, it was looking both at appropriate acquisitions and climate-neutral growth. Working with Rabobank as its green structuring advisor, the company issued in five, seven, eight, and ten-year fixed-rate tranches (respectively at 0.93% for €48.5m, 1.39% for €176.5m, 1.71% for €30m, and 2% for €45m).

The proceeds were aimed at eligible projects under FrieslandCampina's green bond framework, in line with the Global Dairy Agenda for Action's 'Dairy Sustainability Framework'. Most of the funding went towards reducing the environmental footprint of the company's factories, with sustainable farmer development programmes in developing markets, and the development of healthier products, absorbing the remainder.

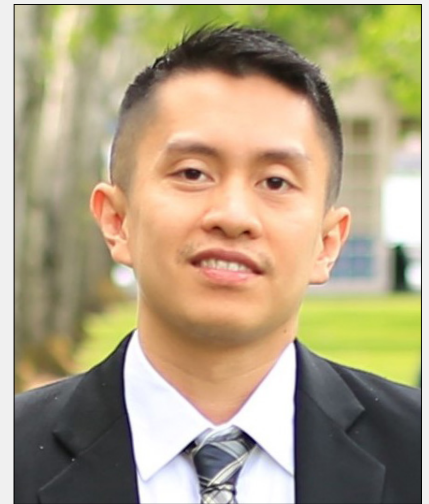
Since then, Unicredit data shows more green corporate Schuldschein loans have been issued. In 2018 there were five, including Enercity (€100m for renewable energy), Volkswagen Immobilien (€100m for real estate), Encevo (€250m for utilities) and Verbund (€100m also for utilities).

Market expansion

Although green Schuldschein is far from a mainstream product, not taking off with as much vigour as has been witnessed in the regular loan and bond market, Smith nonetheless is seeing greater levels of interest. With the recent adoption of LMA Green Principles, Schuldschein is clearly making headway. Indeed, with issuances that reference sustainability and ESG KPIs when setting interest rate levels, it has provided yet more flexibility, with the potential to open up the market even further, adds Waddington.

Indeed, as the market grows, especially outside of Germany, and products develop, he feels that Schuldschein is maturing nicely on the international stage. With treasurers increasingly looking at diversified funding, especially as liquidity issues abound, it should surely be on the radar of continental European corporates. But with India's oil-to-telecoms multinational conglomerate, Reliance Industries, setting up a US$170m deal in 2019, perhaps Schuldschein is set for entrance on the world stage in the not-too-distant future.

Time to make a difference



Ken Bugayong, CFA
Treasurer, Minds Matter Seattle

What is it like to adapt from the treasury of a global corporate, to that of a non-profit organisation? Ken Bugayong, CFA of Minds Matter Seattle tells Treasury Today about his long journey to help students from low-income families prepare for a better life.

Over the past few locked-down months, many professionals will have taken a moment or two to reflect upon and re-assess their role in the world. For some, it may be time to venture from the rarefied world of corporate life, and into the non-profit sector.

After all, by bringing well-honed commercial skills to this environment, it is possible to bring about a much-needed change of fortune for organisations that, frankly, increasingly struggle to survive financially, despite the good work that they do. But what is it like to venture from corporate to non-profit?

For Ken Bugayong, assuming the pro bono position of Treasurer, Board of Directors, at Minds Matter Seattle, a non-profit educational organisation that seeks to transform lives of accomplished students from low-income families and preparing them for college success, it has been a decision that he describes as "a meaningful career experience".

Transitioning from the treasury of a central bank, via technology firms Amazon and Expedia, to a non-profit educational foundation of Minds Matter, Bugayong, a 2019 Adam Smith Awards winner, now presides over the precious financial resources of an organisation that promotes social equity through education by providing academic support, skills-building, coaching and mentoring, financial stipends and aid.

"I manage the Seattle chapter's financial resources, overseeing various initiatives including budgeting, forecasting, endowment planning, fundraising, grants and sponsorships," he explains. He fully believes that the work he does here has real long-term social value, supporting students from low-income families and preparing them for college.

Although now armed with treasury skills honed in the cut and thrust of global business, Bugayong sees his own arrival in the non-profit sector as a natural progression. Even in his formative professional years, he was keen to put something back into the community.

Education is paramount

Education has always been important to Bugayong. Having grown up in the Philippines, a developing nation, and starting his career in the country's central bank, he had a first-hand macroeconomic view of some of the nation's biggest challenges. Being based in Manila, a densely-populated city where poverty is an "elevated factor", he could see that one of its root causes was lack of access to formal education. This, he noted, confined many talented individuals to a state of poverty.

Understanding that with access to education comes social mobility, during his five-year term with the central bank, Bugayong decided to make a difference. "It was inspiring that within the treasury department I was helping the broader economy by managing the bank's reserves and undertaking FX and open market operations," he explains. "But I also wanted to help the nation at the level where individuals directly experience poverty."

The Minds Matter mission is to transform the lives of accomplished high school students from low-income families by broadening their dreams and preparing them for college success. Mentees attend academic, cultural, or leadership programmes throughout the United States and the world, all funded by Minds Matter. Minds Matter of Seattle is 100% volunteer-run.

> At some point I knew I wanted to find an avenue where I could contribute my professional skills and continue making a difference to society.

He found himself volunteering as a mentor within the non-profit Pathways to Higher Education which identifies talented but financially underprivileged high school students. In doing so, it aims to equip them with the necessary academic and soft skills to become future leaders, or 'Trailblazers', who can help positively transform the nation.

Following their educational path, the two mentees under Bugayong's guidance developed into successful professionals (one a dentist, one an engineer). In line with the programme's goal, both now act as mentors to other young, talented students from the same difficult background.

Making a move

For his own development, Bugayong moved to the US to pursue a graduate degree at MIT, eventually moving to Seattle and joining the technology sector as a Senior Financial Analyst at Amazon before moving on to become Treasury Manager at Expedia Group.

"At some point I knew I wanted to find an avenue where I could contribute my professional skills and continue making a difference to society," he says. Mindful of his previous work in the Philippines, and firm in his view that education is "a great equaliser", joining Minds Matter was an obvious choice, its mission "very much aligned with that of Pathways".

With the Seattle chapter looking to bring more organisation and structure to its finances, Bugayong stepped up as treasurer towards the end of 2019. "Often, non-profit organisations have all the soft skills but their professional capacities in areas such as law, marketing and treasury are lacking," he notes.

In Minds Matter Seattle, he saw an opportunity to help deliver far greater impact from its hard-won financial resources. Initial treasury-level challenges were operational, centred mainly on establishing an infrastructure that could allow different stakeholders to interact effectively, improving cash flow management, and creating a more efficient accounting regime. And then came the pandemic.

The impact of COVID-19 on working practices across the organisation, including the administration of the programme, has been challenging. "Lately, we have transitioned into a virtual approach, where we are co-ordinating coaching and academic sessions online," admits Bugayong.

Funding gap

As with most charities, funding presents the greatest concern now. In particular for Minds Matter, the postponement of its lucrative benefactor events, where vital patronage is both earned and reinforced, is a major worry. And with the pandemic now ushering in a global economic recession, balancing the books is increasingly tough.

With economic and financial pressure mounting, the value of professional treasury is coming to the fore. One of the main treasury practices from which Minds Matter is benefitting is efficient forecasting. Bugayong's specialisation in digital transformation and analytics at Expedia has proven

invaluable, forecasting variable revenue streams amidst the pandemic proving problematic for many similar organisations.

"We have had to adapt our forecasting model as we try to align our revenue forecasts with where we see the economy going," he explains. In the longer-term, any revision today will need to feed into the multi-year vision of establishing a sustainable endowment framework around Minds Matter as it is this that will allow continued regular scholarship funding.

For Bugayong, the experience and expertise gained in central bank reserves management – also executed on a not-for-profit basis – has proven to be "very transferable". Indeed, he says, a similar approach is required for his vision on endowment planning.

"We will have to forge more alliances and partners, in both education and business sectors, with those who are aligned in terms of where we see the need in our society," he explains. And although he feels the rate of success has been good to date at Minds Matter, the need to promote awareness of its mission needs "renewed focus", especially with funding coming under such unprecedented pressure.

Here, Bugayong has been able to demonstrate through a remarkable set of data what the return on investment is for Mind Matter's students.

A closer look at the impact of Minds Matter over three years

In-person time investment over the course of the three-year programme	300 hours per student
Total amount of merit-based financial aid secured by class of 2020	US$2.3m
Total amount of financial aid secured by class of 2020	US$7.2m
Examples of schools where students were accepted or waitlisted	Harvard University University of Pennsylvania University of Michigan Washington State University Whitman College

Ultimately, "substantial impact" is seen several years down the road, with immense returns to society for every dollar invested.

"What we're trying to do here is initiate a virtuous circle," says Bugayong. "Once we uplift our beneficiaries from their situation, eventually they become stable and successful

> I manage the Seattle chapter's financial resources, overseeing various initiatives including budgeting, forecasting, endowment planning, fundraising, grants and sponsorships.

professionals who we then encourage to come back to the programme and give a little back. It's the multiplier effect."

Tools for the job

The transition from central bank, to corporate, to non-profit has seen Bugayong absorb a wealth of knowledge and experience, not least in the sphere of financial technology. The technological approach is something that Minds Matter is definitely benefiting from, he notes, "especially in how we administer modern cloud-based systems: CRM, accounting, fundraising, and analytics in treasury, and how we can prudently deploy for-profit industry best practices, tailored for our non-profit setting.

"Our aim is to ensure that 80% of our funding stream goes to the student programmes and expenses that will eventually further our mission. The remainder is set aside for operations and investment in technologies that allow us to perform more efficiently." Investment guidelines have now been set by the Minds Matter Board and benchmarked with sister organisations.

With particularly effective results so far in Mind Matters' technologically-driven approach to liquidity management, cash flow forecasting and analytics, the next generation of students can look forward to a better future for themselves, as can society in general.

Time to volunteer?

With many more professionals having had the time under lockdown to think of moving towards a position that, as Bugayong says, "gives something back", the advice of one who has made that move should resonate. "In your profession, it's great if you enjoy your job; it's even better if you find meaning in it. If you can combine the two, you will find much fulfilment."

Achieving fulfilment does not necessarily demand leaving the for-profit sector, he says. Volunteering professional services – especially, in the current economic environment, by those with financial expertise – is very much welcomed by organisations in the non-profit sector.

With treasurers being uniquely skilled to fill a void that many such organisations face as they come to terms with the financial fallout of the pandemic, maybe it is time to make a difference.

Future of transaction banking

With the march of technology gathering pace, will traditional transaction banking still have a role to play in the longer-term future of treasury?

Evaldas Balkys
Senior Manager
Zanders Treasury and Finance Solutions

Amara's law dictates that we overestimate the effect of a technology in the short run and underestimate the effect in the long run. We tend to focus on the here and now, but we barely notice when the change happens slowly overtime. Do you remember when Google Maps was launched? When Google added navigation and real-time traffic estimation? Most of us adopted these tools gradually, and it feels that they have always been there. It is the same story with transactional banking – like any other business, it is adopting new technologies to compete and survive in the future. The change is there, even if we do not notice it.

Reality check. All around us we hear buzzwords: machine learning, artificial intelligence, APIs. The day-to-day reality I deal with while working with the biggest global banks is very different: the onboarding and connectivity process is very slow, there is little flexibility provided by banks in file naming conventions due to hard-coded IT requirements, basic end-of-day statements are incorrect and sometimes they even mysteriously 'disappear'. The reality is that incumbent banks struggle with multiple legacy systems and complex internal structures in different geographies. Heavy investments and time are required to replace existing IT infrastructure.

Is it really that gloomy? Absolutely not! Things are improving very fast. Just not as fast as we want it. Competition and technological changes make treasurers' lives better each day: payments have become faster and cheaper, treasury management systems (TMS) offer multiple ways to connect to banks, SWIFT gpi provides better tracking, there is more visibility and clarity on banking fees. Especially in emerging markets, the paperwork burden has been a big challenge. I remember, in India, supporting documentation requirements for cross-border payments being overwhelming. I was very pleased to see how banks started to accept it electronically via online banking or SWIFT.

What are treasurers looking for in transaction banking? I rarely hear my peers referring to their banks as 'transaction banks'. Typically, I hear 'our (core, non-core, tier 1…) relationship banks'. It is because treasurers value the relationship, the proactivity, the full package of services that banks provide, even beyond transaction banking. During bank selection and evaluation projects, the cost of services is rarely the key consideration. Neither is it purely technological solution. The decisive criterion is often the feeling that when everything goes wrong, the team in front of the treasurer will resolve it.

Will transaction banking have a role in the future? In my view, the role of transaction banking will not disappear anywhere in the future. It will evolve together with technological progress and adapt to the needs of companies. Next to major transaction banks, new agile players are popping up and trying to find their niche in areas of traditional transaction banking. Considering how low barriers of entry have become and how fast software solutions can be scaled, smaller specialised service providers are putting pressure on incumbent players. Banks will have to learn how to operate (and cooperate) in the new digital treasury ecosystem. However, it should not be forgotten that technology is there to improve processes, not to replace relationships and commitment to excellent service when technology fails. It will be very interesting to see who will prevail!

Paul Baram
Director Capital Markets and Treasury – UK
Actualize Consulting

Technology advances are undoubtedly key to the changes we see in how services that were once exclusively performed by a bank's transaction banking division are increasingly available from other sources. Two examples beyond the broader list of fintechs in the market are illustrated below.

Trade finance is a great example of where the bank's offering can be taken entirely in-house by a corporate to directly offer its customers trade finance solutions. In many respects this was always a better option than going through a third party (the bank). The corporate would already have collateral in terms of goods from the supplier and access to key data from that supplier such as payment history and trading pattern. Several treasury management systems (TMSs) now have trade finance solutions as an additional module, and when integrated with the main cash management functionality allows a complete view of liquidity in one place.

As globalisation continues for corporates, so does the need for foreign exchange transactions. Although the banks still ultimately execute the trades (for the most part), today's rise of dealing platforms means banks are forced to compete more acutely for business that used to come directly on a relationship basis. Again, technology advances, in this case via integration from TMS systems, means corporates are able to streamline a process and capture better pricing to such an extent that the savings from just a few months of transactions can recoup the project cost to implement.

In fact, to some extent, the vast technical infrastructure that most of the global transaction banks have developed is actually a disadvantage to their progress in this new world. The commitment to build systems to run at a massive scale with efficiency developed through siloed processes runs contra to the way smaller and nimbler fintechs are able to develop.

Extrapolating from this point leads us to conclude that the one-stop-shop model of traditional transaction banking cannot be the most cost-effective solution for a treasury. The key to exploiting these new options is to pick the right solution for each specific business process, as part of an overall treasury strategy rather than a set of individual disconnected choices. Investing in developing such a strategy for corporates takes expertise, time, and commitment. In that sense, one can see where for some corporates the traditional transaction banking model offered by one financial institution may still be of benefit for now.

Jacqui Kirk
Co-head of Product Management for GTS EMEA
Bank of America

Increasingly, rapid advances in technology can prompt questions about the relevance of traditional transaction banking. Technology undoubtedly enhances the payments ecosystem but the fundamentals at its core will continue to retain their importance in the future. Here we examine the practicalities.

The very basic block of transaction banking is the demand for accounts where cash is deposited with a licensed entity; one which suits the treasurer's risk appetite and currency needs. The requirements for a central bank or local regulatory body to issue a banking license are onerous and require an organisation to have rigorous governance procedures and monitoring processes that are regularly reviewed and reported on – and of course the requisite capitalisation.

While technology is transforming the payments landscape, payments and liquidity management go hand in hand. Liquidity management at its heart is about optimising how clients maintain cash deposits, often in multiple currencies and jurisdictions, involving pooling structures for example. Technology can improve visibility to pool balances and speed the movement of funds across the structures, but the fundamental need is for the offsetting of credit and overdrawn balances. This links to another basic element – the provision of credit.

Transaction banking also requires the secure settlement of payments across the globe. Direct clearing access and secure, resilient platforms remain fundamentally important to clients, and this preserves the need for traditional transaction banks which have established experience in financial and market regulation. As with a banking licence, membership of national clearing and settlement mechanisms is a significant undertaking bringing another layer of compliance, resiliency and security obligations which remain the preserve of transaction banks.

Another important element to highlight is how we are seeing more payment and technology providers take steps to obtain bank licences as a result of PSD2 and open banking. This is so they can meet "traditional needs" as well as innovate payments; and they can often bring new technologies to prototype earlier due to their nimbleness. Some of these technology companies are going further along the path to transform into banks, but it is yet to be determined how many will chose to take on the regulatory and capital burden that could dilute their raison d'etre.

Technology advances will continue to revolutionise payments, but as we reflect on the building blocks of transaction banking, the core fundamentals of payments will always have a role to play

Next question:

"Evidence suggests that companies with a declared purpose perform better on important metrics over time than their less-purposeful peers. (Purposeful companies have a clear role in the world that offers them a reason for being, and promise to work for all their stakeholders rather than just shareholders.) How is this new idea of corporate purpose manifesting in corporate Treasury?"

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

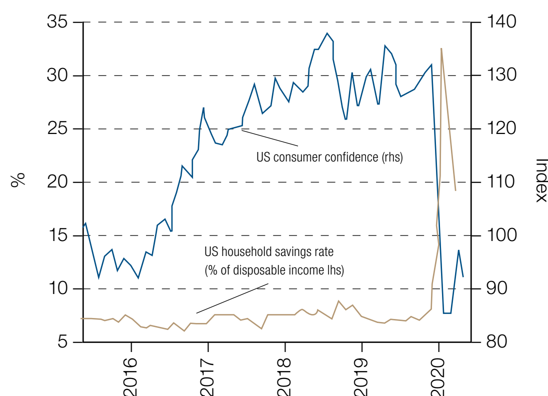
Cooperation between governments and central banks is essential

Coronavirus has hurried Western economies towards a situation of 'inflate or die'. However, it is very difficult to get inflation off the ground. High debt, international competition, the introduction of modern technology and the tendency to save more are factors that slow down economic growth and inflation. Governments and central banks will have to work closely together in order to achieve inflation.

In any case, central banks will have to keep (real) interest rates very low and they will have to continue to create vast amounts of excess money in order to boost asset prices as far as possible. In addition, governments should ensure that borrowing activity is stepped up. They should borrow more themselves or issue guarantees that enable the private sector to borrow more.

Following the outbreak of the credit crunch, central banks in the West never managed to boost demand – read: debt – to the extent where inflation ended up at distinctly higher levels.

Chart 1: Given the risk of a second wave consumers will likely keep the savings rate elevated



Source: Refinitiv Datastream/ECR Research

Banks are dripping with money, but relatively little of it is used to step up credit supply. Debts are simply too high and growth prospects are too low – certainly considering the outbreak of COVID-19 – for companies and consumers to step up borrowings to finance investments and consumption. However, it is also not an option for policy makers to leave the situation as it is. This would lead to deflation and therefore an economic crisis. The only remaining option is to allow the government to borrow far more, financed by the central bank. This indirectly comes down to helicopter money. In other words, the government doles out money to the masses. This policy can be kept up until inflation rises too much. However, two factors need to be considered here:

- In theory, it is possible that households that receive money from the government save this money rather than spend it. This is currently evident as, following the outbreak of the coronavirus, many private individuals and companies concluded that they had far too few reserves to absorb setbacks. This makes them save more now, also because a second wave is quite likely.
- Public deficits and debts cannot be raised indefinitely. At some point, the debts and deficits will reach levels where no-one believes that the old debts will ever be repaid by the government. This, in turn, triggers chaos in the financial system. This should therefore be avoided.

The latter is an issue in the current situation due to the following reasons:

- Public finances are bound to deteriorate substantially in the future due to ageing populations.

ecr research

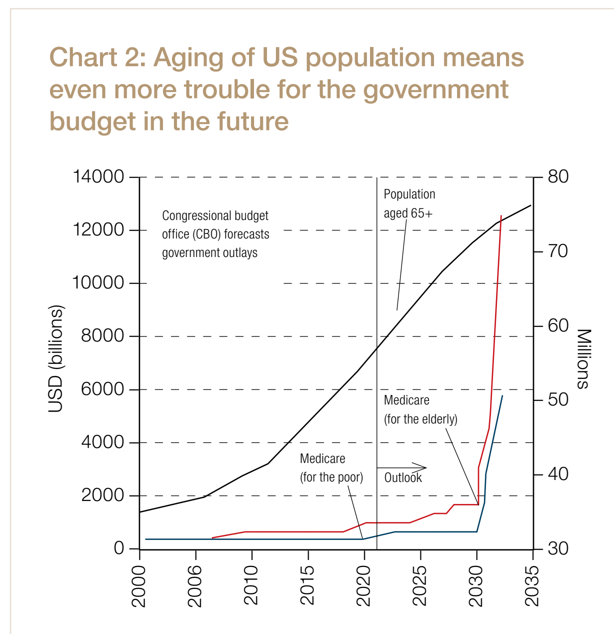
- The corona crisis has forced the government to intervene in unprecedented ways in order to prevent an economic disaster.
- At this point, consumer savings are still high, and this forces the government to take additional measures to boost the demand side of the economy sufficiently.

Obviously, these problems will become more acute if the assumption is that the corona crisis will last even longer. This is why high hopes have been placed on a vaccine. However, we are somewhat cautious here, as experts tell us that they would be happy if the vaccine turned out to be 50%-70% effective. In addition, about a third of the Western population has indicated holding off on a vaccine for the time being. The relevant individuals are concerned about unwanted side effects of the vaccine. This means that we are likely to face many problems with the coronavirus in the years to come – to the extent where they push down economic growth – albeit to a lesser extent than this year. This means that, for the time being, the private sector is unlikely to focus on dissaving to any great extent.

In line with this, we believe that, for the time being, the private sector will reduce debt as far as possible, rather than the other way around. It would therefore not surprise us if public deficits have to stay at very high levels for a long time. This will probably be at the expense of ongoing confidence in public finances. This is why we see more and more Western governments turning to a last resort: a policy where the government guarantees debts run up by companies and individuals. This will suddenly make it attractive/possible for the private sector to borrow more money. At the same time, this will not increase the public deficit, as guarantees are not included in it. This would only happen if the government had to pay out in connection with a guarantee.

Outlook interest rates

At this point, the Fed seems to indicate, using forward guidance, that it will keep interest rates low for a long time. It will also continue to support the economy by buying up bonds, via massive money creation. The central bank will only switch to negative interest rates and/or yield curve control (a policy aiming to place a ceiling on government bond yields) in



Source: Refinitiv Datastream/ECR Research

emergencies. Fed policy will continue to be geared towards boosting inflation, and this is why long-term interest rates will gradually come under more upward pressure. The same developments will be evident in Europe, but to a lesser extent.

However, it remains to be seen what long-term interest rates will do if economic growth slows down again before too long due to the flare-up of the coronavirus. In this case, long-term interest rates could decline slightly for a while. Incidentally, we believe that both Europe and the US will leave short-term interest rates unchanged.

In the longer-term, we expect the authorities will increasingly pursue an inflationary policy to alleviate the debt burden. This mainly applies to the US, and this is why we believe that the dollar will become a structurally weak currency in the long run (massive deficits in public finances and current account deficits, so-called twin deficits). This will also drive prices of shares and gold to far higher levels.

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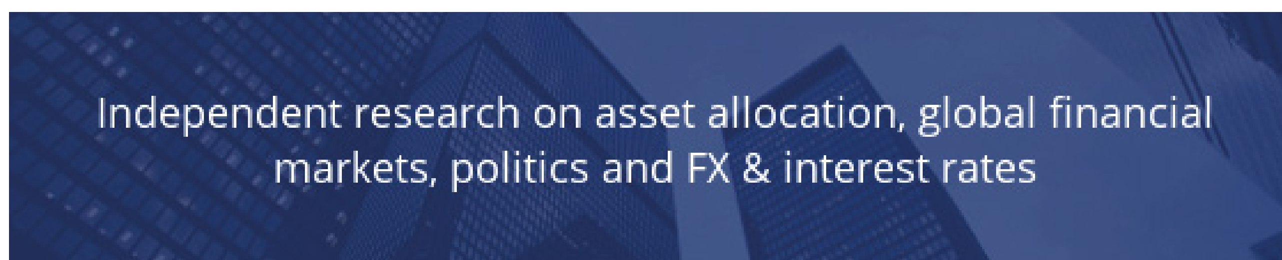

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