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November/December 2020

What to expect in 2021

From COVID-19 to LIBOR transition, what will treasurers be focusing on in the year ahead?

The Corporate View

Anita Bubna

Senior Director, Treasury

Flex

Corporate purpose: how can treasury get involved?

Companies with a purpose often perform better. We explore how purpose is manifesting in corporate treasury

Technology

How can corporates protect treasury from opportunistic cybercriminals?

Risk Management

Pandemic proves importance of FX hedging strategies

Back to Basics

Open banking: time to focus on corporates

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Volume 22/Issue 6
November/December 2020

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Annual Membership Rate £285
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© 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.

Purpose in a volatile world

The idea of corporate purpose is still relatively new, but companies' ability to combine profits and purpose is increasingly on the radar as corporate stakeholders, particularly employees and ESG-minded investors, demand more than just shareholder primacy. Rather than knock purpose off the agenda, the pandemic has pushed many companies to revisit their social purpose and role in society, encouraging more to act in the interests of all their stakeholders.

In this edition, we speak to multinational food manufacturer Danone about how its purpose to inspire healthier and more sustainable consumption and its core belief that a healthy planet and people are intertwined, has shaped its funding strategy.

Indeed, as companies struggle to navigate unprecedented challenges which most recently include stricter lockdowns in Europe and a spike in political risk following Trump's refusal to concede Biden's US election victory (ongoing at the time of writing), corporate purpose could act like a North star on a rough sea.

It is these challenges – and others – we focus on in this month's Insight & Analysis, offering a deep dive into what 2021 could hold, with insight from Drax's Group Treasurer Chris King. COVID-19 and Brexit will continue to dominate, while King flags that the transition to a low carbon economy and only a year to go until LIBOR's demise, should also be high on treasury's agenda. Elsewhere, we find that relentless regulatory and technological change will continue to drive and shape treasury in the year ahead.

Regulatory and technological change are key factors that should have propelled open banking, the initiative to get banks to share customer data, mainstream. However, in our Back to Basics feature we report that banks, primarily focused on their retail customers, have been slow to offer open banking products to corporates. We urge banks and companies to look afresh at its transformational impact around cash management and liquidity planning, as well as easy onboarding, and to view open banking as an opportunity, allowing them to compete with tech groups and other API driven companies.

In the Corporate View, Flex's Anita Bubna talks about how today's heightened risk has pushed treasury centre stage in a coming of age. Reflecting on the importance of data and technology in successful treasury function, she suggests treasury teams develop coding skills to enable simple modelling and better connected data sources. Noting the importance of persuasion when it comes to leading change, she adds that a team effort and strong relationships with colleagues are also key to success.

Finally, this edition explores how volatility is encouraging more companies to hedge their developed market FX risk. However, we also note a reluctance amongst companies to take out long-term FX hedging strategies, such is the enduring volatility. As financial markets continue to swing around in response to news out of the US and the second bout of COVID lockdowns, it is a cautious sentiment that will prevail for a while yet.

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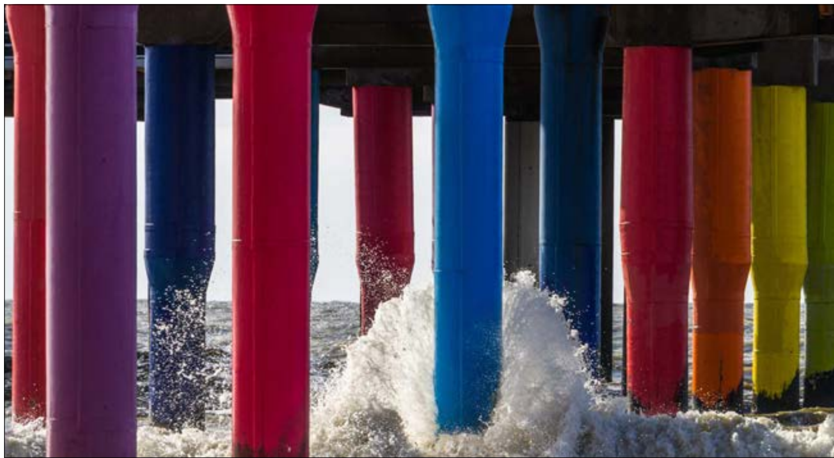

Cybercriminals seek home comforts

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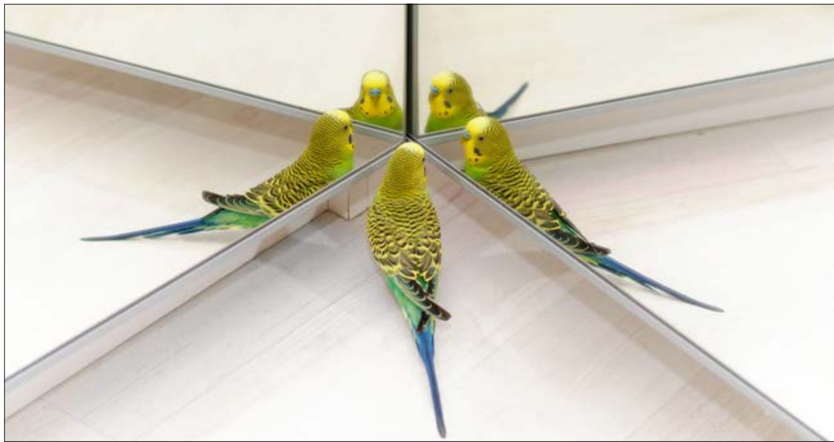

Pandemic proves importance of FX hedging strategies

Companies that hedged FX risk have been well-protected from currency volatility this year, and experts note demand for hedging strategies as a result. Yet uncertainty means many companies only favour short-term strategies.

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Anita Bubna

Senior Director, Treasury

In just a short time with Flex's treasury, Anita Bubna's rise has been meteoric. An astute technologist, agent for change and financial professional, it's easy to see how she has positively transformed Flex's treasury landscape. She talks to Treasury Today about her experiences and approach to life.

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Open banking: time to focus on corporates

Open banking promises to usher in competition and new products but it has had little impact in corporate treasury so far. It is time for banks and treasury to adopt a new mindset.

Expecting the unexpected

From navigating the challenges that continue to arise from the COVID-19 pandemic, to driving other initiatives including sustainability and the transition from LIBOR, here's what treasurers are likely to be focusing on in 2021.

Twelve months ago, few could have foreseen the pandemic that would come to dominate 2020. As the year draws to a close, COVID-19 continues to bring widespread disruption to people and businesses around the world – and it is likely that this will continue well into 2021.

For corporate treasurers, the challenges of the past year have been extraordinary. Lockdown conditions have forced entire treasury teams to adopt home working models, often overnight. While some had prepared for such an eventuality – albeit with the expectation that any such disruption would be short-lived – others had to act fast to adjust their processes and secure the equipment they needed to operate from home offices. And for many, school and nursery closures meant that work had to be balanced with childcare and home learning responsibilities.

As if this wasn't challenging enough, treasurers have also had to navigate numerous obstacles that have arisen during the course of the crisis, including securing access to liquidity, mitigating soaring cybercrime threats, managing FX in volatile conditions and addressing supply chain disruptions. Some companies, notably those in the aviation and hospitality sectors, have faced particularly severe challenges, while others have seen customer demand ramp up rapidly. As Jack Spitzer, CFO of health and wellness company Plexus Worldwide, comments: "We have had a strong surge in sales during COVID, so it has forced us to look further into how we can better handle spikes in volume from order to fulfilment to customer support."

As 2021 approaches, treasurers are not only continuing to navigate the specific challenges brought by the pandemic itself, but are focusing on a wide range of treasury initiatives, from automating processes to exploring opportunities for sustainable financing. Matthew Davies, Head of Global Transaction Services (GTS) EMEA and Global co-Head of Corporate Sales, GTS at Bank of America notes that the challenges in the year ahead can be divided into three: "There are going to be the priorities that are a direct result of COVID-19; the priorities that are a by-product of COVID-19 – such as the macroeconomic environment – and the priorities that come under the heading of business as usual, including topics like risk management, working capital management and rationalising banking structures."

While not exhaustive, the following are some of the areas that treasurers are expecting to focus on in the coming year.

COVID-19

Unsurprisingly, businesses are expecting further disruption in 2021 as a result of the pandemic. Carl Sharman, Director, Financial Advisory at Deloitte, says a recent CFO survey carried out by Deloitte highlights that the COVID-19 pandemic is set to have the highest negative effects to their businesses over the next 12 months, with 75% of respondents expecting either 'significant' or 'severe' impacts. "Interestingly this compared with only 23% expecting the same level of negative effect caused by Brexit," he says. "In comparison, 72% expect the negative effects for Brexit to be at either 'mild' or 'some', which highlights a significant shift in emphasis."

But while the challenges of COVID-19 are set to continue in 2021, it's likely that the focus will be somewhat different. Davies notes that while 2020 was a year of adjusting to the new environment and protecting the business, the emphasis in 2021 will be on "getting back to a forward-looking view of how to position the company for the future." He adds, "That means making sure the right architecture, processes, structures and teams are in place to deal with an environment that continues to be highly uncertain."

In the meantime, Sharman says that treasurers are "likely to be pushed into the fast lane" next year as developments take hold, with cost reduction and increased cash flow coming into sharper focus. "It is also highly likely that reducing leverage will become critical for many businesses and sectors, with asset disposal and debt/equity restructuring playing a major role," he says. "Already the signs are there for next year's budgets to have increased spend in software, data and IT/automation compared to pre-pandemic plans, in many cases offset by a marked decrease in land, buildings and workspace infrastructure spending, as businesses begin to re-jig their priorities."

Technology investment

Alongside an abrupt transition to remote working models, technology has risen rapidly up the treasury agenda. Some treasurers have accelerated their adoption of treasury management systems, fraud prevention software and cash forecasting solutions in the quest for greater visibility and control – although in other cases, technology initiatives have gone on the back burner as more pressing priorities have emerged. As Enrico Camerinelli, Senior Analyst at Aite Group, points out: "On the one hand, the pandemic has pressed the pause button – a lot of people are stopping and thinking about what comes next. But the other comment I'm hearing is that the pandemic has accelerated some decision processes that were already there."

The current climate may also have brought a shift in focus when it comes to the type of technology investment companies are focusing on. Deloitte's Sharman says that

Preparing for the unexpected

Chris King, Group Treasurer at Drax Group

For corporate treasurers, preparing for the unexpected has never been more crucial, says Chris King, Group Treasurer at Drax Group, a British electrical power generation company which aims to enable a zero-carbon, lower cost energy future.

"The approach we adopt is to look at core strategic themes, assess how they may develop and then seek to maintain as much flexibility and optionality wherever possible to be able to respond to the broadest range of scenarios," says King. He notes that four themes in particular stand out as he looks forward to 2021:

1. Net zero emissions

"Drax, the UK's leading renewable generator, undertook Europe's largest decarbonisation project and was the first company globally to announce its ambition to become carbon negative by 2030," says King. "We will need to continue to focus on innovation, in terms of how we seek to translate that into our financing structures, our financial KPIs and approach to derivatives structuring and risk management."

2. Brexit

King says that once Brexit is finalised, "we should get some degree of certainty, which one would hope would be accompanied by inbound investment. This may happen as a cliff edge event, or it may happen over time and with it may come some increased questioning (and uncertainty) over how the UK navigates a post-EU trade landscape."

He adds that currency and broader economic influences are very impactful to Drax, and continue to remain a key focus. "We have been immensely innovative in the last two or three years, working to reassess and implement a novel and fundamentally different approach to derivatives execution and risk management to substantially enhance our risk adjusted return," he says. "We have developed a number of new products with financial institutions, and this is something we will seek to optimise further."

3. 'Lower for longer'

Where interest rates are concerned, King says "I have been wrong on this point for longer than I care to remember, in that over the last decade I have typically thought that global interest rates would rise."

He adds that while he still holds this opinion, he now expects this will take longer than previously thought. "That said, for many organisations, including Drax, locking in long-term financing costs at ultra-low rates provides certainty to focus on strategic objectives, unfettered by concerns of near-term rising interest rates – which in itself is valuable."

4. Enjoyment

In addition, King muses that people have become "less connected" during the course of 2020. He adds: "I believe that life is a collection of experiences, about embracing the diversity of mindset (while acknowledging differences of opinion) and having those unexpected moments that only arise in live scenarios. These are the real visceral influences that help stimulate creativity and guide our future." When it comes to looking back on 2021, he says, "I want to ensure the approach taken to team, colleagues, family and the person on the street has sought to do this with positivity and fun at its core."

In summary, King says, "If we focus on flexibility and enhancing risk-adjusted return, in the long run we should be able to navigate any changes that come our way – be it in regulation, in the economic landscape or within our business – while also having fun on the journey, wherever it leads."

before the pandemic, "spend may have been focusing on the competitive advantage and development areas of machine learning, automation and predictive analytics – but now it may be more concentrated in doing the basics well in terms of remote working."

He adds that this may "put the treasurer at the heart of the recovery", with robust payment processes, cash visibility and heightened risk management emerging as "core business-critical candidates for being enabled by the latest technology platforms, with corporates focusing less on marginal gains and more on protecting avoidable losses."

Mark Smith, Head of Treasury and Trade Solutions EMEA at Citi, says a major focus in recent months has been on building resilience in order to manage business disruption. "It's about being able to run your systems and platforms, connect with clients and enable them to continue serving their customers," he says. For corporate clients, he says the crisis has acted as "a catalyst to investment and digitisation," and has led to greater adoption of initiatives that can automate manual processes.

In this environment, banks are seeing significant uptake of their digital services. Bank of America reported in a Q3 press release that CashPro Mobile active users have increased by 39% in the last 12 months, while the value of payments approved using CashPro Mobile has increased by 111% year on year. "Clearly clients are embracing the opportunity to do more through digital capabilities," says Fernando Iraola, Head of GTS LatAm and Global co-Head of Corporate Sales, GTS at Bank of America. "I see this as one of the opportunities to come out of this crisis, and this will continue in 2021."

Smith, meanwhile, says that over 75% of Citi's account opening can be carried out using digital onboarding capabilities. "We've been incredibly focused on our digital onboarding, and working out how we can make doing business with us easier," he comments. "It's not about having reams of unnecessary legal documents, but about having the pertinent ones that are necessary, and then offering digital onboarding." He also cites the growing take-up of API connectivity to initiate payments, check balances and send queries.

LIBOR transition

Another topic facing treasurers in the coming year is the transition away from LIBOR. While the transition to LIBOR alternatives – such as the Sterling Overnight Index Average (SONIA) and the Secured Overnight Financing Rate (SOFR) for USD – is due to be completed by the end of 2021, many treasurers have yet to prepare for the switch.

"Transitioning from LIBOR is complex and will require a considerable amount of time and effort from corporates," says Deloitte's Sharman. "Alongside the commercial impacts of direct and indirect exposures, treasurers will need to understand the new pricing conventions in order to assess the cost of new products and identify any differences that would impact risk management strategy."

When it comes to specifics, Sharman says that debt financing will be widely impacted, along with hedging strategies, KPIs and ratios. "Scenario modelling should enable proactive decision making and the formation and execution of a transition plan – including negotiation with bank counterparties."

Sustainability and ESG

Meeting sustainability and ESG (Environmental, Social and Governance) objectives had been expected to be a major theme in 2020 – and despite the disruption brought by the pandemic, this has proven to be the case, not least because the shift to home working has helped accelerate the move away from paper-based processes.

Treasury Today's 2020 Global Sustainability Study found that for 61% of respondents, sustainability is reflected in the organisation's core values, while 81% said that their companies have a sustainability 'champion'. That said, sustainability still represents a small portion of the overall workload where treasury is concerned. The survey found that 63% of treasury teams devote less than 10% of their time to sustainability issues – although as one respondent commented, "Sustainability issues will take up a higher portion of future activities – we are still in the early days."

Likewise, ESG and sustainability are a major area of focus for financial institutions. Citi's Smith says that the bank's initiatives in this area include financing wind farms from the bank's trade organisation, building 'sustainable' supply chains for financing, as well as the 'Priceless Planet' partnership with MasterCard to channel fee revenues from travel spend into a reforestation programme. "This also links into digital, and making sure that we can move away from paper statements, large amounts of documentation and wet signatures," he adds. "We are really encouraged by the number of our clients embracing that, and working with us in partnership to drive it forward."

Beyond these initiatives, Smith says there are "more exciting things to come", including a focus on expanding the bank's ESG investment portfolio. "We already support a lot of ESG money market fund investments, but that could potentially lead into ESG-compliant deposits that link the appropriate assets on the balance sheets into ESG assets," he explains.

And it's clear that corporations are looking closely at how banks are approaching this topic. BofA's Iraola says that the bank is participating in an RFP with a global client, which has already included two stages focusing on the company's business capabilities and technical requirements. For the third round, the company has requested a two-hour discussion about the bank's ESG strategies and philosophies.

"They've already heard about ESG from a capability standpoint, but now they want to know that if they decide to work with us, they will have a partner that is completely aligned with their philosophy from an ESG perspective," says Iraola. "We are delighted with this evolution, which shows how the ESG agenda is becoming even more relevant from a global treasurer's perspective."

Looking forward

The events of the past year have brought significant challenges for treasurers – but they have also prompted treasurers to accelerate process improvement and digitisation initiatives which should leave treasury teams better equipped to tackle the year ahead. And while COVID-19 is sure to continue dominating the agenda for some time to come, treasurers will have plenty of additional challenges to focus on in 2021, including LIBOR reform, the post-Brexit European trade landscape and the continuing focus on ESG and sustainability.

LIBOR REFORM: WHAT'S NEXT?

While the challenges brought by COVID-19 have required the full attention of corporate treasurers this year, the demise of the London Interbank Offered Rate (LIBOR) is still looming – so are treasurers ready?

With LIBOR's credibility undermined by the discovery of a rate-rigging scandal after the financial crisis, the industry is currently in the process of moving to a variety of different risk-free rates (RFRs) for the five currencies in which LIBOR is calculated: CHF, EUR, GBP, JPY and USD. Different rates are being adopted for each of the currencies, including the Sterling Overnight Index Average (SONIA) for GBP, the Secured Overnight Financing Rate (SOFR) for USD and the Tokyo Overnight Average Rate (TONAR) for JPY.

The COVID-19 pandemic has already brought some disruption to the planned timeline for transition, with UK regulators announcing in April that it would not be feasible to meet the planned deadline for new sterling LIBOR linked loans. However this has not affected the deadline for transitioning to LIBOR alternatives by the end of 2021. Indeed, Edwin Schooling Latter, Director Markets and Wholesale Policy at the FCA, warned in July 2020 that the coming four to six months would be the most critical period in the transition away from LIBOR, adding that "The time to act is now."

While the clock is still ticking, many treasurers are not yet ready for this major change. "Aside from the big names, a lot of corporates haven't really thought about it, or are still working through it," comments David Stebbings, Director, Head of Treasury Advisory at PwC, adding that this "isn't only a treasury issue."

Stebbings says that whilst it can be relatively straightforward to identify key issues relating to LIBOR where debt is concerned, finding all clauses in commercial contracts may present more difficulties – "for example, if you pay a bill late and you have to pay an interest penalty." Hence, he believes that before starting a project it is absolutely key for corporates to go through some form of business-wide risk assessment to ensure all issues are identified and actions planned to address each of them.

Adam Bridgewater, Risk Product Manager at Kyriba, points out that the ISDA-Clarus RFR adoption indicator shows only 6.4% of new derivative trades in August 2020 being based on risk-free rates. "This suggests that many corporate treasurers, along with others in the market, are not yet in a position to adopt the new rates," he says. "Corporate treasurers are also mostly unprepared to migrate existing trades and processes to the new rates as they are waiting for their banks to start offering lending as well as to facilitate the process of legally transferring existing trade contracts."

In addition, Bridgewater points out that rate administrators are still releasing information on methodologies. "In the case of USD LIBOR, the market is still awaiting the Alternative Reference Rates Committee (AARC) to announce the methodology for calculating interest under the Secured Overnight Financing Rate (SOFR)," he adds.

In transitioning away from LIBOR, Bridgewater notes that corporate treasurers face a number of significant challenges. For one thing, migration is set to be time-consuming for both banks and corporates, with lengthy delays to be expected. As such, beginning discussions early, and considering engaging advisors, "will result in better outcomes for corporate treasury portfolios and departments."

Bridgewater adds that other challenges include the calculation complexity of the new risk-free rates, putting "a greater reliance on automation and so systems" and underlining the need for preparing and testing well in advance. In addition, he says that a period of maturing in the market is to be expected, with many market participants waiting on each other, and on the banks, to migrate to risk-free rates before they can update their own processes away from LIBOR.

In light of these challenges, corporate treasurers should be initiating discussions with their banks now to understand the timelines for banks to start offering lending on risk-free rates and migrating existing trades for each currency.

Finally, Bridgewater points out that treasurers should also ensure that their treasury systems are ready for the transition from LIBOR and make sure their internal processes are ready for the change.

Standard Chartered

How leading treasuries are helping to drive digital transformation

As conversations about digital transformation turn into action, high-tech treasuries are leading the way – and more traditional treasuries are also taking the opportunity to embrace innovation, says Victor Penna, Head of Cash Management for Europe & Americas, and Global Head of Structured Solutions Development, Cash, and Olle Malmgren, Executive Director, Structured Solutions Development, Cash, Transaction Banking, Standard Chartered.

Victor Penna

Head of Cash Management for Europe & Americas, and Global Head of Structured Solutions Development, Cash

Olle Malmgren

Executive Director, Structured Solutions Development, Cash, Transaction Banking

In today's challenging climate, digital transformation has never been more important – and leading treasuries are playing a key role in expanding the possibilities of what can be achieved.

The opportunities offered by new technologies in treasury have been a topic of discussion for some time, but increasingly this talk is turning into action. Leading treasuries, particularly those in faster paced industries, are increasingly adopting technologies like robotic process automation (RPA) and artificial intelligence (AI).

By embracing new technology, treasury will be better able to support the business. In some cases, treasurers can even help create new business models by suggesting new ways of paying or receiving funds for e-commerce or digital customer channels. Digital transformation can also take away a lot of the mundane work in the treasury, making it easier to attract and retain more qualified employees. And technology also helps the treasury to be more agile, change faster and take on more volume without needing to add more resources.

Harnessing technology

Where specific treasury activities are concerned, a traditional treasury would typically use spreadsheet based cash flow forecasting to identify an upcoming funding gap, or excess cash that needs to be invested in the near future. In contrast, more advanced treasuries are using tools that look for patterns in data to forecast much further ahead. Once you can forecast months ahead, there are opportunities to bring in data from sales and production forecasts to gain a greater understanding of the relationship between customer demand, manufacturing, and inventory. From there, companies gain the ability to undertake working capital forecasting, and understand what funding the company is going to need in three, six or nine months into the future.

Forecasting is not the only area that is being transformed with digital technology. As treasurers sharpen their focus on technology, it is becoming clear that there is so much more that can be automated. In the past, there was an assumption that functions like payments processing and foreign exchange execution needed to be done manually, but many companies are now seeking automated solutions in these areas. Technology, and the ability to access more information and underlying data, is also enabling treasurers to do things that they haven't attempted before, such as algorithmic trading.

Companies are also looking to gain more insights from their data, for example by seeking greater insights into which customers are paying late or early, and how important this business is to its customer or suppliers. Meanwhile, with clearing systems increasingly moving to 24/7 models, treasurers also need to start thinking about how to deal with cash flows that come in outside of normal working hours, and what technology solutions are needed to support this.

A shift in mindset

These opportunities are not only open to new companies which have built treasury functions in the digital era. Traditional treasuries are also embracing digital technology – although this may require a shift in mindset, both within the treasury and across the business.

For one thing, treasury is often viewed narrowly as a risk management and governance function in traditional organisations. More advanced treasuries are increasingly thinking about how they can add value to the business. Companies embracing digital transformation may also need to upskill their employees, either through training or in some

cases by hiring new talent, in order to gain the necessary expertise in areas such as data analytics and RPA process management.

Treasuries that embrace technology are more likely to partner with the business on its own digital initiatives. For example, a traditional manufacturer that previously sold via distributors might decide to begin selling directly to its small and medium sized customers using online channels. The company will need a whole different infrastructure to support that, and where treasury is concerned, there are opportunities to help the business make that transition by exploring online real-time foreign exchange, payments gateways and different ways of interacting with customers.

Conversely, treasuries that don't embrace these opportunities won't be able to support the business of tomorrow. As a result, the traditional treasury risks becoming less relevant to the business. So instead of working with treasury, the business will seek out external service providers, meaning that the role of the treasury shrinks over time. This is something we've seen in companies that have a big online presence. Often they have dedicated payment teams within the business that focus on things like electronic collections, payment gateways, wallets and P2P systems. If those teams are driving those decisions themselves, treasury is not actually at the table anymore.

Embracing innovation

While some treasuries have yet to embark on a digital transformation journey, there is plenty that can be done. For more traditional treasurers, this is likely to mean embracing self-education and learning in order to grow and develop. This might include talking to banks and fintechs about the possibilities or carrying out some selective hiring to bring fresh ideas into the organisation.

To some degree digital transformation involves a behavioural change, as the most innovative companies are those that are comfortable with experimenting and failing fast. Whilst Treasury has always been about risk aversion rather than risk taking, experimentation does involve a certain level of risk taking. While there is a balance to strike here, treasurers can start by undertaking some limited experimentation in order to bring about a change. This can be challenging, as the finance function is not normally the first place where you think about innovation, so some groundwork might be needed in order to present these ideas internally and get buy-in.

Some treasurers may struggle to gain support for transformation from their CFOs, while other CFOs may be proactive about including innovation in treasury key performance indicators (KPIs). Two or three years ago, it was quite common for treasurers to be given a KPI by the CFO to implement RPA, AI, or blockchain. Now, instead of having a KPI focusing on a specific technology, treasurers are becoming more expansive in thinking about what is possible, because they hear other treasurers talking about what they have delivered. Hence, today the focus is less on figuring out how to use blockchain or AI, and more about deciding where treasury is going and what it should look like.

Rise of the connector bank

As treasurers aim for digital transformation, banks and other external partners also have a role to play in advising and guiding their clients. This can range from knowledge sharing to looking holistically at the client's processes and delivering end-to-end solutions. At Standard Chartered, we are developing a lot of new solutions and capabilities, sometimes with fintechs, and sometimes on our own through our SC Ventures business. These include APIs, QR codes, payment gateway solutions for internet banking and virtual accounts to name but a few areas.

Beyond this, the role of banks has long been to act as an intermediary. In the digital world, this is still the case – but as that role evolves, our institution is increasingly becoming what we call a connector bank. In essence, corporate clients like the idea of fintechs and bank agnostic platforms – but they don't want to take the risk on the fintech. So increasingly banks are becoming part of different platforms. For example, Standard Chartered is connected to over a dozen trade platforms, which means that clients can connect to the bank through these platforms to provide working capital finance and other trade related services.

We are beginning to see a similar movement in the cash management space. Some of the TMS and ERP platforms are evolving to become financial marketplaces in their own right, with certain financial services embedded in their platforms. Likewise, we have connected to mobile money payment systems so that corporate clients can reach a bigger consumer base in Asia and Africa, and make payments to suppliers in remote locations. By connecting to these platforms, we are extending our role as an intermediary in the digital world, and we're giving clients the comfort that the risk and technology has been properly engaged.

Impact of COVID-19

Alongside these developments, it's clear that the COVID-19 pandemic is accelerating the move towards digital technology. Retailers have significantly increased their online sales, while corporates dealing in the B2B space have also had to adapt. Receiving and depositing a cheque, for example, may be impossible during lockdown conditions, with shared service centre staff working remotely and bank branches closed. As a result, we are seeing a wholesale shift to electronic payments and collections.

In this difficult environment business digitisation is accelerating, even though the vast majority of people in treasury and banking are working from home. Many major corporations have issued RFPs in order to revisit the way they are doing cash management across an entire market or region. Treasuries have had to eliminate their paperwork quickly, so a lot of things have become digitised by default – and that's leading to a broader change in people's thinking.

To give one example, the pandemic has driven demand for e-signatures. This isn't only about the signature itself. People often need to go backwards and forwards a number of times in order to agree a document, so there is also demand for electronic workflows and real-time collaboration. Again, this is a behavioural change, and a shift that is likely to continue to accelerate in the coming years.

Finally, real-time information has become even more important in this climate. Forecasting is more challenging at a time when nothing corresponds with previous years' sales patterns, so having access to real-time or near-real-time information is an increasingly important component of liquidity management.

Cybercriminals seek home comforts

With the volume of cyber attacks increasing since the start of the coronavirus pandemic, corporates need to demand constant vigilance and security policy compliance from work-at-home treasury staff.

Criminals thrive on turmoil, so it should come as no surprise that treasury exposure to cybercrime has increased over the course of this year. The latest Journeys to Treasury report produced by BNP Paribas, EACT, PwC and SAP refers to an upsurge in electronic fraud, with one contributor advising corporates to stress test their business continuity plans to mitigate the impact of a successful cyberattack.

This represents an acceleration of a trend highlighted in the 2019 AFP cyber risk survey, which found that 88% of corporate practitioners' organisations had been targeted by cybercriminals over the previous 18 months.

When it comes to preventing cyberattacks, identity and access management is vital. Detection modules in treasury management systems detect anomalies in account use, for example if an unusual request is made.

Another basic control principle is ensuring that the endpoint of the user connecting into the cloud system is encrypted across the network, explains the Chief Information Security Officer at treasury management solution vendor Kyriba, Eric Adam.

"If a user is connecting from a public space, an attacker would be able to listen to all the network traffic using security software tools and if this traffic was not encrypted they could analyse it for password and account information," he says. "We are therefore constantly refining our encryption technology, running penetration and network tests and assessing the vulnerability of individual devices."

Many organisations have different levels of control so if an attack was made on an internal business system it would not affect the applications they host or allow the attacker to extract data from these applications.

"Application level security is vital to ensure treasury applications are not vulnerable to attack," says Adam. "However, regardless of how the corporate structures its cybersecurity system, consistent policies are enormously important. If your business solutions require 15 character password access you want to keep this as consistent as possible across all applications."

A survey of IT professionals in the US, UK, France and Germany conducted by Tanium Security found that 90% reported an increase in the frequency of attacks after shifting to a distributed workforce. Visibility of new devices; overwhelmed IT capacity due to virtual private network (VPN) requirements; and increased security risks from video conferencing were the top three security challenges identified for staff working from home.

According to Martin Schlageter, Head of Treasury Operations at multinational healthcare company Roche, working from home in itself doesn't make it harder to protect treasury teams from cyber threats. However, he says, it does require different solutions (for example, highly sophisticated web application firewalls) as the existing measures don't scale to such an unprecedented increase in traffic and remote working.

"Firewalls and anti-virus protection may not be up to scratch on home PCs, so employers should ensure that only approved and tested communication devices are used for business and that these devices are not open to use by other family members," says Len Jones, Senior Accountant at property services firm Wincham Group.

Adrian Rodgers, Director of treasury consultancy ARC Solutions observes that corporate IT departments have spent a lot of time and money on creating hermetically sealed, safe computing environments for employees. "Staff using their own machines in shared space with family members is not going to improve the security situation, but this is not really the vendor community's problem," he says. "Responsibility for the development, propagation and validation of safe work from home practices lies with corporate IT departments."

In the office, treasury professionals will be protected by the corporate firewall and their IT colleagues will often be in close proximity, so if they receive a suspicious email, for example, they can quickly check if it is genuine. The networking equipment they use provides a further layer of protection. However, when they are working from home they will be using different routers and have different software controlling their devices' hardware, while their physical separation from IT staff makes them more vulnerable.

The first step for a corporate looking to boost its cybersecurity is ensuring it has enough VPN connections so that when staff connect remotely they are doing so through an encrypted private network. "They should then ensure that laptops and other devices being used at home are updated by the IT department," says Adam. "Making IT staff available to answer queries promptly is important, as is phishing training to prevent employees downloading malware." Jones says most potential cyber threats can be identified by a robust risk assessment, which will show the risks facing the overall organisation and its treasury staff. "It is clear that employee behaviour and IT

literacy have a crucial role to play," he says. Corporations need to build resilience to constant cyber threats while still being able to operate. Knowledge is the key and many large corporates have employed ethical hackers to penetrate their internal systems and operate as audit and assurance police."

A common form of attack is social interaction, which can lead to identity theft. Hackers may also impersonate CEOs or people in senior positions and use language which causes the recipient to initiate a payment. "Even with additional layers of authorisation this can be problematical as hackers may have access to other co-signatories on the accounts," says Jones. "Criminals will also hack into client emails and impersonate the business in order to have the corporate pay them rather than the legitimate company. Multi-step verification processes and internal controls are crucial here so that no one person has complete control of the payment process." Another step corporates can take to improve their cybersecurity is to establish protocols around how email addresses are structured so that phishers can be identified. Given the level of fine that can be levied by the ICO, companies should already have robust controls in place to protect sensitive information.

Cultural organisational issues should be at the forefront here because data is a resource that has value and must be protected. User behaviour must also be modified so that apps and programmes are not downloaded indiscriminately, while the usual internal controls regarding passwords and user access (including past employee access) is essential.

When asked how treasury cybersecurity technology vendors keep pace with the evolving threat from cybercriminals who are constantly developing new methods of attack, Adam explains that it starts with analysing the types of attack that are made to get an understanding of what the cybercriminal is trying to achieve.

"We also ensure that only permitted communication is allowed between different corporate systems, which links back into the issue of access control," he adds. "When we analyse major cybersecurity breaches, we can often trace the source to non-observance of a basic principle."

The authors of the Journeys to Treasury report observe that while treasurers rarely 'own' responsibility for cyber risk, they can play a major role in preventing attacks, given the sensitivity of the data and scale of financial transactions and holdings managed within their departments.

It would be unusual for treasury departments to have dedicated cybersecurity systems or processes distinct from those of the wider organisation. However, because these departments deal with a small number of high value transactions they are at particularly high risk of attack.

Schlageter suggests treasury systems not only require much stricter controls than most other information systems, such as ensuring the identity of the user and mapping every action and connection to that user and device. "Due to the potentially high financial loss in case of a system breach, they also require dedicated cybersecurity systems for security incident and event monitoring," he says.

"We expect treasury cybersecurity technology vendors to keep up with evolving threats by running a security lab with full-time security researchers and offering professional services such as security penetration tests and consultancy as well as participating in and running security conferences," he adds.

Stephen Lane, Chief Financial Officer at mechanical engineering firm Xtrac, reckons any business would be well advised to look at cyber security in 'the round' while acknowledging that there may be certain nuances required to protect the financial elements of the business. "The role of the chief technology officer/chief information officer has been rapidly evolving to ensure that businesses invest appropriately in modern equipment and security that offers suitable protection," he adds.

"There are certainly opportunities for cybersecurity vendors, but I think there is also a very clear opportunity for proactive management of a company's IT estate such that protection can be developed as efficiently as possible within a pragmatic and financially sensible framework."

The challenge for corporates is how to take a more focused approach to treasury if their cybersecurity processes are applied uniformly across the whole organisation says Dino Nicolaides, Managing Director, Head of Treasury Advisory UK&I at Redbridge Debt & Treasury Advisory.

"I have seen clients address this issue through stricter processes," he says. "For example, some treasury departments are not allowed to accept payment instructions via email, even if the authorisation appears to come from the very top of the organisation. This would require payments to be verified by phone."

In other cases the corporate might impose a policy of not accepting payments made to a supplier that is not already onboarded on the system, or insist on a pro-forma being provided before any invoice is submitted for payment.

Of course, in the pre-coronavirus era a payment instruction could often be verified in person. With so many treasury staff working from home this is no longer possible, although Nicolaides says corporates have responded by reviewing cybersecurity processes and procedures to tighten controls around remote access. "This remains a work in progress, but progress has been made."

Nicolaides believes corporates are making greater efforts to keep treasury staff updated on potential cybersecurity vulnerabilities.

"Treasury cybersecurity technology vendors react quickly when new forms of attack emerge and we have noticed an increase in attempted attacks since the start of the pandemic," he says. "Corporates have been more proactive in reminding their treasury staff of the main threats and risks and the techniques used by cybercriminals to ensure they remain alert and don't ignore suspicious activity."

Rodgers offers some reassurance for corporate treasurers by suggesting that banks' systems now incorporate many of the lessons learned from decades of experience in producing payment systems and portals.

"For treasury, multi-level approval layers – tailored to the risk involved – will underpin a robust control environment," he concludes. "It is probably even more important to create and widely publicise the payments rulebook in order to avoid the dangers of 'Friday afternoon' fraud and similar social engineering attacks."

Agent of change

Anita Bubna
Senior Director, Treasury

Flex is a diverse multinational technological manufacturer and a leader in hi-tech manufacturing supply chains serving some of the world's best known names. It started life in 1969 as a family business but today has a global workforce of 160,000 in over 100 manufacturing and service sites across 30 countries. Flex revenues in 2019 were over US$26bn.

In just a short time with Flex's treasury, Anita Bubna's rise has been meteoric. An astute technologist, agent for change and financial professional, it's easy to see how she has positively transformed Flex's treasury landscape. She talks to Treasury Today about her experiences and approach to life.

From her office in San Jose, California, Anita Bubna, Senior Director, Treasury, Flex, is located within the heart of the cultural, financial and political centre of Silicon Valley. It's an appropriate location for a business and finance-minded individual with very strong leanings towards technology.

Originally from India, Bubna trained as a software and systems developer before launching her own successful web design and development company. On moving to the US, she initially worked as a project manager in a web design and development firm. The dot-com crash saw her change career paths and transition to finance.

A degree in finance kick-started her move into banking as a financial analyst before joining Flex in 2010 as Treasury Analyst. Rising rapidly up the ranks of this hi-tech specialist, through five different roles, Bubna's obvious blend of technical and personal skills propelled her into her current position as Senior Director of Treasury in October 2019. Today she holds responsibility for FX, Debt Capital Markets and special projects.

Being ready

The fact that Bubna has studied well before taking on new positions suggests someone who likes to be prepared. But experience has taught her that study is just the beginning. "You can never be fully ready for a new role; you learn most by doing it, by not being afraid to take on something new and knowing that in each role you will pick up something different." It's this cumulative experience, and the ability to ask the right questions and learn quickly, that has allowed her to contribute optimally to any new undertaking.

Although this is part of the secret of her success, enabling her to work on some very large and complex cross-functional teams over the years, Bubna acknowledges that in some instances where she has not necessarily had the authority to get everyone on board, she has had to resort to persuasive powers to influence progress.

"In big projects, there is often a reluctance in the initial stages to move forward. I'd not always understand why when I could clearly see how a certain path would lead to positive results. But then I would realise that not everyone has the same information that I have, and so their conclusion may be different."

From thinking that people would at some point catch up if she just left them to it, she soon realised that sharing information and understanding in the early stages is one of the most effective ways of overcoming resistance. Even if it means slower progress initially, she believes adopting this approach can prevent far more painful failure at the later stages.

With her success breeding more responsibility, often Bubna was expected to be more productive with the same resources. This made her think about the choice between taking on more but potentially being less effective, or focusing on perfecting the job in hand. Here she admits to making an early mistake.

"I thought it would be better to do a job really well, rather than take on a lot and maybe not do justice to that role." Later she felt this was not the right conclusion because although the extra work may feel overwhelming at first, it's possible to develop "systems that enable progress".

Bubna's training as a software and systems developer enables the right mindset to apply to any challenge, taking apart and re-assembling its components, rather than allowing herself to be overwhelmed by the bigger picture. "There's almost an algorithmic thinking behind it," she says.

By looking at every task computationally, with process inputs and outputs, her framework can be applied to almost any situation. It helps her to break down most complex projects and not take things personally when they don't go well; very useful when other people start with different information or assumptions, she notes!

Inclusivity and connectivity

However, Bubna has also managed to move away from a totally results-driven approach, giving her a far better grasp of the human aspect of her work and how her actions affect others. "I've realised that it is important to slow down and check at every stage in a project to make sure that everyone has had a chance to speak up," she explains.

Of course, she adds, the kind of environment where individuals feel comfortable commenting, and can enjoy the progress and results, needs to be created within the team; "it doesn't happen automatically". That sense of inclusion extends from treasury into the rest of Flex, ensuring the work of Bubna and her team has a far-reaching impact.

Its treasury department consists of connected groups covering cash management, corporate finance, FX and credit control. Combining these groups forms the heart of the organisation. But the work only begins in earnest when treasury has the right data to analyse, enabling different scenarios to be used as guidance for the whole of the business.

In a previous role in cash management, for example, she was receiving global cash balances (from Flex's 50 banks) just once a week. Collaboration was required with the many different treasury teams dotted around the world. Throw in a holiday or a transmission issue, and a fully accurate view was not possible.

With global treasury shouldering the responsibility for providing accurate figures to senior management, change was necessary. Bubna knew that accuracy could only be assured if cash data came from connected systems. She describes this awakening as a "game-changer".

Under the potentially crippling restrictions imposed by COVID-19, she knows that if Flex had relied upon its old fragmented processes, its cash positions (impacted by suddenly highly unpredictable revenue streams) would be largely unknowable. This could have presented a huge working capital and liquidity risk to the business. With cash positions visible in Flex's connected global system, that risk is mitigated.

By making sure efficient ecosystems and processes are in place, treasury enables the business to secure additional liquidity. Having worked in Flex's corporate finance group, one of Bubna's contributions was to double the funding within its ABS and receivables financing programmes, identifying new opportunities and speeding up the onboarding of new banks.

With all the work done at that time, Flex is now reaping the benefits of scaled-up liquidity, especially in its supply chain finance programmes. Indeed, with its own suppliers facing extra financial stress at the hands of the pandemic, many more are leveraging this solution, ensuring both their business survival and the continuity of Flex's supply chain.

When things are going well, treasury can sometimes disappear into the background. It's only when the risk levels rise that the function comes into its own, notes Bubna. Now is such a time. "Our CEO has said she will not take any critical decisions without having the CFO in the room."

Data front and centre

All the work put in, in terms of making sure granular-level data is available for detailed scenario and what-if analysis, has helped the team provide essential insight. This is why treasury has also been a key part of every current conversation on risk management.

Quite understandably, given her background, data is seen as a kind of lifeblood by Bubna. In another interview (following her Highly Commended award as Woman of the Year 2019 in Treasury Today's Adam Smith Awards) she has said: "in the future, I see treasury as the organisation that will be the stewards of data, insight and the glue that will bring all the

other organisations together to drive strategic decision making". Data and treasury, in her mind, are clearly bound tightly together.

Believing that most treasurers will have to evolve "at some stage" into the position of strategic advisor, she argues that this is not possible if all the transactional work is not subject to continual streamlining. This is why Flex's pre-existing FX systems and data sources, for example, are now being augmented with the greater accessibility by treasury of granular data.

Doing so enables the function to add value far beyond its traditional remit. In the case of FX, Bubna's team has used system streamlining to build new modelling that is enabling Flex's business teams to assess the FX risk component in the contracts they are negotiating. These evolved solutions, along with and an appropriate level of coaching for users, are helping business colleagues understand and mitigate a far wider range of risk types and levels, as is essential in today's volatile world.

Working with and for others

Of course, balancing the technical and analytical with the softer human skills is what makes Bubna stand out. Her motivation to mentor, for example, stems from a desire to move beyond the fully hands on, do-it-all approach of her formative years. She now adopts a more mature, reflective stance where, within a project, she understands the benefits of empowering others to define and reach their own goals. Evaluating personal success, she says, becomes less about individual projects and more about the achievements and growth of the team. Essentially, it becomes a more selfless activity.

"It can be hard to ask even more of the team, and challenge them to do the best work they are capable of. But in going through this process, they each learn so much more," she says. The positive effect can be startling, with some of her mentees becoming firm friends, appreciative of what they have learnt over the years and of how they have been able to grow in their careers.

Building a team in her own image though is not what it's about. "I want diversity and I want people to challenge me. As long as we do so respectfully, and the criticism is constructive, this is healthy.

Lifelong learning

Alongside technical know-how, personal skills are an essential part of successful treasury today. For Bubna it all starts with the "right attitude". Treasurers must accept that they are, to all intents and purposes, a service operation. "But it's essential to not look at our role in a narrow way, continuously expanding it, and identifying how we will add value in the organisation."

There is a real need to ensure treasurers are engaged in continuous learning, she adds. A natural curiosity will help bring order to a rapidly changing world. As well as the early acquisition of razor-sharp analytical and modelling skills, it's vital for today's treasurer to be asking the right questions from the outset. Only then will they have the capacity to drive progress in cross-functional teams, and be able to build and present a compelling business case to colleagues from across the board.

Of course, data is key here, and whilst some may deem this unnecessary, the advantage of coding skills in treasury cannot be overestimated by Bubna. "It gives you an edge," she states. "Most treasury teams are heavily dependent on IT, but with the new tools it is possible to take on a lot of that work ourselves."

The reason she offers for doing so is simple: treasurers can find it hard to translate their highly technical knowledge to those outside the function such as IT. Combining coding skills and specialist treasury knowledge allows the incumbent to push ahead with simple modelling and connecting data sources, making them "so much more effective". She goes so far as to say that treasurers with coding skills will soon become the equivalent of Excel power-users, now that spreadsheet mastery is a given in the profession.

Career development

Acquisition or development of all these skills at an early stage is as much a career investment as the considered choice of the first few jobs, Bubna believes. "Those initial choices should not be based on the salary, glamour or status of the role, but on how much you are able to learn in those positions."

On the basis that young minds find it so much easier to learn new skills, making best use of the formative years is the advice from one who knows the value of time well spent. "Don't worry about rapid promotions; they will come for the right person." Bubna has never been motivated by career progression at any cost, but more by the knowledge that she is doing "work that is meaningful".

By purposefully filling in the skill gaps, she has let her career evolve outside of the self-imposed constraints of a defined career plan. In doing so, she has avoided the stagnation that can come from being too comfortable in a role, instead allowing herself to leverage learning opportunities as they arise. Fortuitously, Flex offers a biennial rotation programme to fast-learning employees, nurturing the depth and breadth – and professional empathy – required in more senior roles. It's something Bubna has exploited to the full.

Balanced approach

Creating a skillset that meets the dynamic needs of the organisation certainly explains how she has risen through the ranks, becoming a much-valued contributor to the wider treasury community. The challenges have been varied on the journey, and Bubna admits that in her formative professional years it had been difficult to find the right work/life balance. That's changed.

Having extensively proven her credentials, and having formed a talented and trusted team around her, her role now is more about guiding and mentoring others.

The lockdown period has been an eye-opener. For a manufacturing company, homeworking is not the norm, but in many cases Bubna reports that team productivity has been higher. "If you have your day littered with meetings, you just don't have that block of time to get on with it," she explains.

This is why, post-pandemic, a new treasury structure may prevail, with the team taking time at home each week, grouping meetings for office time only and, in doing so, "unleashing greater efficiency". Of course, even in the worst of times an effective agent of change will continue to learn and make improvements. It comes as no surprise then that Bubna is doing precisely that.

AS US CORPORATE BOND ISSUANCE HITS NEW LEVELS, EXPERTS FLAG THE RISKS

As US corporate bond issuance hits new levels, experts flag the risks around increasing leverage at a time of struggling economic growth. Any spike in inflation also risks a rise in interest rates, they say.

Rock bottom interest rates have made it cheap for companies to borrow ever since the financial crisis when governments set about kick starting the recovery. However, the number of US companies issuing debt to tap historically low borrowing costs has just reached unprecedented heights. According to figures from data provider Refinitiv, US corporate bond issuance has hit US$1.919trn so far this year, surpassing the previous annual record of US$1.916trn in 2017 with months of the year still left to go. For companies facing the cocktail of challenges unleashed by COVID-19, cheap borrowing offers one silver lining. However, experts are increasingly warning of perils ahead.

The swathe of top rated US corporates bringing bumper deals to market (and juicy fees for investment banks) in recent months include Coca Cola, Walt Disney and Ford, while Amazon locked in some of the lowest borrowing costs ever secured in the US corporate bond market in June. Elsewhere, media giant AT&T has issued around US$17bn of debt with maturities stretching out 40 years. The strategy allows the company to fund the repurchase of debt that was set to come due over the next five years and take advantage of historically low interest rates, explained John Stephens, AT&T Senior Executive Vice President and CFO speaking on a recent earnings call.

"We've been active in the bond market, rates are low, demand is healthy, and we [are using] this opportunity to issue about US$17bn in long-term debt at rates significantly below our average cost of debt.

Drivers

The issuance bonanza is being driven by policy moves by the Federal Reserve. As well as cutting interest rates, this has included a promise to buy corporate bonds for the first time. It led to borrowing costs sharply falling and has fired up the market with blue chip and lower-quality companies rushing to issue debt as well as opportunistic borrowers seeking to lock in cheaper funding. Nor is the pace set to slow anytime soon, as bankers urge treasury departments to secure their funding needs ahead of the US election, and anticipated market volatility.

Low borrowing costs and companies seeking to extend the maturity of their debt are not the only drivers, however. Starved of yield, investors are piling in, explains Campbell R. Harvey, Professor of Finance at Duke University, and an advisor to Man Group and Research Affiliates. "Investors are not attracted to government bonds because rates are near zero or negative. They are more likely to reach for something risky and this is stoking demand for corporate debt which is helping to moderate credit yields."

He also flags dangers on the road ahead. High borrowing is a concern for companies if their earnings remain depressed and they can't service the interest costs. Vulnerable sectors include travel and hotels, or those facing disrupted supply chains.

The prospect of a rise in inflation in turn triggering a rise in interest rates is another worry.

Harvey also points out that some companies hit hardest by the pandemic have sold bonds secured against their assets. These could be taken if the company struggles to meet commitments should interest rates go up or the recession bite harder. For example, airlines have written aircraft and flying routes into covenants while cruise operators have pledged ships that will be called in if companies can't repay investors. "Companies have pledged different types of collateral written into covenants which might have to be offered up if debt service costs go up or if go into another recession," he says.

Concluding with advice for treasurers, he urges treasury departments to actively manage their risk, weighing up different scenarios. "Increased leverage generally means increased risk. Don't be misled by low debt service costs today. The time to increase leverage is when you are confident that the economic outlook is robust, and right now there is considerable uncertainty."

Pandemic proves importance of FX hedging strategies

Companies that hedged their currency exposure have been well-protected from currency volatility in 2020, and experts note a spike in demand for hedging strategies as a result. Yet the enduring market uncertainty means many companies are adopting a short-term focus.

FX strategy at Takeda, Asia's largest pharmaceutical group, has continued as normal throughout the currency volatility caused by the pandemic. The company's balance sheet FX hedging programme and net investment hedge scheme sees it hedge against the month-end rate, forecasting and rolling its FX exposure forward, explains Assistant Treasurer, Financial Risk Management, Urs Berger, speaking from the Japanese company's Zurich base.

Key risks in the strategy include any sudden shortage in liquidity, or the market rates fluctuating the day month end falls or the following day, when the company readjusts its positions after month end. Despite a spike in both those risks back in March, the company didn't deviate from a core strategy specifically structured to protect its P&L from currency fluctuations and just the kind of background financial turmoil that hit in March.

"We use a systematic approach because it makes the economic situation largely irrelevant," says Berger, adding that the company is currently exploring ways to develop the strategy further by hedging currency risk on future cash flows not yet recorded on the balance sheet. "Such a hedging programme would only cover highly probable cash flows where the company can apply hedge accounting, but it is the latest innovation in strategy at the firm," he says.

What has been relatively seamless for Takeda has proved more challenging for other companies, however. Many corporates exposed to supposedly risk-free, developed

market currencies during the early weeks of the pandemic, have found currency moves have eaten into their profit margins and combined with illiquidity in a perfect storm. It has shaken many companies out of an enduring belief that currency volatility won't affect them, and that they don't require hedging programmes.

Others, where managing FX risk came below other immediate priorities like looking after staff and managing liquidity, also found themselves exposed. With more currency storms approaching as the markets prices in big swings in exchange rates around the US presidential election and Brexit transition, recently burnt companies are seeing FX risk in a new light.

Once burnt

In the Nordics it's sparked a new interest from corporates who either didn't hedge or had very low hedging ratios prior to the pandemic, based on a belief that trading conditions in the region had, and therefore always would be, benign. Not so now following the Norwegian kroner shedding nearly 30% of its value against the dollar in March triggered by the pandemic and collapse in oil prices. "Many corporates in the region didn't have hedging policies, especially against neighbouring countries. Now we are seeing more treasury teams look to safeguard the company against currency volatility and concentrate on their core business. They want to remove the headache of volatility that can quickly become a migraine," says Jesper Bargmann, Head of FX Sales at Nordea in Copenhagen.

For companies with hedging policies in place, the response is more nuanced. Rather than increasing their hedging ratios, many have adopted a wait and see approach. Although treasury teams know they will have to buy and sell currency next year, few have the confidence or certainty in forecasts to commit to hedging all that risk at this stage. "Clients who have always hedged 18-months ahead may be hedging more like 12-15 months ahead. A client who always used a hedge ratio of 75% may now be using a hedge ratio of 50%. Extrapolating from 2018 and 2019 flows doesn't mean much when the world has been turned on its head," explains Jonathan Pryor, Head of FX Sales at Investec.

The problem with the COVID crisis is rooted in companies' inability to predict their future cash flows – even for the next three months. "Hedging every order is impossible if you don't know your future income or expenses," says Nordea's Bargmann, who says companies are hunting for more flexible strategies that combine a typical forward contract with options (and the right to fulfil contracts or not) for greater flexibility.

Although companies still want products that give them a guaranteed hedge, they also want an element of flexibility when it comes to the amount they want to buy, agrees Investec's Pryor. "A lot of the work we've done with clients is around providing them with zero premium solutions given guaranteed hedges with an element of flexibility."

In other trends, banking experts observe heightened interest amongst corporate clients in the macro drivers and economic factors that move markets – especially amongst those without comprehensive hedging strategies in place. "People are watching inflation, GDP and employment figures like hawks," says Pryor. Although volatility has fallen, currencies remain jumpy, especially if the market considers a government's response to the pandemic wrong around, say, lockdown rules or the amount of stimulus, opening-up the risk of a sell-off. A particular concern at Takeda is US inflation, where any spike might impact interest rates, says Berger. "If they increase the interest rate, we will have higher costs of carry and higher hedging costs," he says.

Banking relationships

Market volatility and spikes in pricing have also shone a spotlight on corporates' banking relationships. At Takeda, where the balance sheet hedging programme is currently augmented by additional hedging exposures because of Takeda's ongoing acquisition of Shire, banking partners' ability to hedge in a short period of time has been key. "We placed big orders in a short period of time," says Berger. "Banks might not always be able to quote because they have their own counterparty risk exposures."

A diverse number of counterparties as opposed to relying on specific banking partners has proved invaluable. "We trade via automated trading platform FXall with many FX banks and can therefore diversify counterparty and liquidity risks, as well as ensuring best price execution," he says. "In times of high FX volatility we expect our banks to enable liquid trading volumes at the best price."

That said, the cost of hedging has fallen since the peak of the pandemic and implied volatility is at low levels. "We have a market that feels so fragile and volatile, but still, a six month option doesn't currently cost that much," says Investec's Pryor.

Elsewhere, experts note increased demand amongst some corporates to hedge emerging market currency risk. Although many companies active in emerging markets are volatility veterans with clear strategies in place, others were left exposed. The crisis proved that emerging market currencies can move a lot more than the majors from a percentage perspective. "Emerging market currencies can move so quickly that even relatively small exposures matter – sometimes more so than larger exposures to stable currencies," says Investec's Pryor.

Automation

Demand for automated strategies could also get a boost from the pandemic. FX has always been at the forefront of automation, mostly between the interbank market and brokers. In one trend, more small Nordic treasury teams without dedicated members of staff looking at FX are exploring automated FX payment and clearing of currency balances, as well as automating liquidity swaps. "Rules based automated hedging is new in the market and a very interesting development within next Gen FX," says Nordea's Jesper. Under these solutions, software speaks to a customer's ERPs (Enterprise Resource Planning System) to define a hedging policy from the order book, hedge and then execute trades with chosen banks.

He cautions, however, that rigid automated strategies based around a fixed hedge profile don't necessarily fit the changed corporate landscape and new pandemic-induced factors driving underlying business strategy. Automated strategies offer the most compelling solutions viewed on their own merits in the context of the markets. "The number of FX transactions is huge, so if companies can automate it to run in the background, they can stop worrying and also eliminate operational risk. It's like a self-driving car – you may feel safer in this than driving with your friends," he concludes.

How COVID-19 is accelerating the evolution of ecommerce

BNP Paribas Treasury Insiders: Episode Two

In the second episode of Treasury Insiders, Neil Pein, Head of Payments Transformation and Global Head of Acquiring at BNP Paribas, spoke to Treasury Today about the evolution of ecommerce against the backdrop of the global pandemic, the solutions that have helped retailers pivot their business models effectively, and the role that brick-and-mortar stores will play in the future.

Neil Pein
Head of Payments Transformation and Global Head of Acquiring
BNP Paribas

The COVID-19 crisis has brought numerous challenges for companies around the world, from shoring up liquidity to transitioning entire workforces to remote working models. In addition, some sectors – including retailers that sell their goods via brick-and-mortar stores – have faced particular challenges, with social distancing measures and local lockdowns making it impossible to operate as they have done in the past.

Indeed, the developments of the last few months have resulted in significant changes to customer behaviour. While demand may have fallen for some types of goods and services, lockdown conditions also prompted a sudden increase in purchasing food, clothing and other goods online. "Some of our clients saw a huge increase in demand," says Neil Pein, Head of Payments Transformation and Global Head of Acquiring at BNP Paribas, citing the rise in sales of sports equipment as people opted to exercise at home.

Meanwhile, in March and April, the crisis led to a considerable decrease in transactions globally. But as Pein points out, this mainly related to in-store transactions – "what we saw online was that there was almost no decrease, despite the fact that activity dropped."

In practice, many consumers "discovered the convenience of the online payment process" as they turned to online purchases and click-and-collect options offered by larger retailers. What's more, this shift in consumer behaviour is likely to be here to stay, with consumers expected to continue shopping online going forward.

Supporting clients through the crisis

For retailers, making the move from in-person transactions to online sales is not without its challenges. The shift has presented a considerable challenge for merchants who suddenly needed to cover this new channel, "because it was the only one that was viable and authorised at the time."

However, necessity breeds invention – and BNP Paribas has taken action to support its clients in collecting payments remotely while their stores were closed. "We set up a secure solution called AXEPTA Lynk2Pay that enables merchants to collect all payments, either by email or by using an SMS," explains Pein. "Consumers then don't have to share their credit card details online or over the phone, which makes AXEPTA Lynk2Pay much more secure."

The solution has been well received by clients, who have been able to stay close to their customers, with some creating a new sales channel that wasn't previously available to them. Pein cites one client which had previously delayed a payments project, regarding it as 'nice to have'. "With the current crisis, suddenly this became a big priority," he says. "With this

specific merchant, we onboarded all their stores in France and are now onboarding some outside France as well."

Pein says this is a big advantage of the bank's solution, which covers the whole of Europe and offers 300 different payment methods – "so it's very convenient to extend this type of solution across customers' geographies."

User experience

As Pein points out, it is likely that the shift towards ecommerce will last – not least because the trend spans all generations. But as well as requiring an online sales channel, retailers also need to be able to provide a smooth user experience, and to be able to follow customers as they moved through these new channels. The latter can be particularly challenging when customers make a purchase online but then go to the physical store to collect their items.

"We have built AXEPTA Unified Commerce, that enables managers to pilot their sales channels," says Pein. "It analyses how many clients are coming from online and what they do then – do they go to the store? If they buy something from the store, do they want to go home and then return it, or exchange it for another colour online? Our solution allows merchants to optimise the customer experience and maximises sales."

Future of brick-and-mortar stores

In light of the events of recent months, what does the future look like for brick and mortar stores?

Pein says he believes these will continue to be part of the sales landscape. "The digital experience is increasing – we can do a lot of things – but in the end, people will still go to a store for the real, physical experience," he comments, adding that people still want to be able to see real products.

"Maybe the experience that you will have in store will be different, meaning that you might not buy it as you used to," he adds. "However, you will be still be very happy to enter a shop, see the products and compare them."

That said, merchants are having to rethink the in-store experience in order to provide the reassurance consumers need in light of the continuing pandemic. Pein cites the rise of contactless transactions and the ability for customers to scan goods. "For example, we've increased the limit for contactless payments to €50. As soon as we did this, all merchants and all individuals knew they could use this and they used it a lot, because it was a response to social distance requirements."

Another shift, Pein says, is that if consumers sample products and then have them delivered to their door, retailers may no longer need to keep large numbers of specific items in their shops. "You don't need to have 50 samples of your sneakers in the shop to make sure you haven't run out of products when your customers come in," he says. According to Pein, this shift provides an opportunity for retailers to rethink their approach – for example by displaying a greater variety of products in store. This can result in a better customer experience.

Currently, Pein says, brick-and-mortar stores are the only channel offering an "emotional experience" for customers. While this could change in the future, with the rise of virtual reality and augmented reality, "these are still very young technologies, and it will take some time before they can catch up with real life experience."

Small stores

But what of the smaller stores that may lack the reach of larger retailers? How can these businesses maintain their relevance and be part of the industry's wider journey to digitalisation?

In the new era of purchasing, Pein emphasises that there is still a place for small businesses – "I'm among the people who are very happy to still have my local bakery store" – but adds that lockdown has been a "tremendous shock" to such businesses. As a result, he says, "they need to reinvent themselves and probably provide additional services."

As part of this transition, Pein notes that AXEPTA Lynk2Pay has enabled even small stores to provide a click-and-collect option for their customers. Also interesting, says Pein, is the rise of local marketplaces – such as a development in France that allows customers to shop online from a number of local shops using a single basket.

"When you think of marketplaces, you think of a very large company reaching merchants in Asia and the US," says Pein. "But with the crisis, we've seen local marketplaces that are gathering local merchants in from the street." He adds that this new way of addressing customers is beneficial for local shops, and provides a new way of creating client relationships and offering new services.

Post-pandemic?

Looking to the future, Pein says that the COVID-19 crisis has shone a light on the evolution of consumers' purchasing habits, and the strategic role that both ecommerce and m-commerce can play in supporting those new habits. Indeed, he says m-commerce has proved to be particularly significant during lockdown, "because people were at home – they spent much more time on their mobiles."

In addition, Pein says, the crisis has focused attention on the role of physical stores when it comes to providing an enjoyable customer experience. "That's not a paradox – it's just encouraged us to take the measure of what we already knew: that the retail future will have both channels, and will include the successful implementation of digital solutions into the customer experience and into stores," he explains. "And what we have also discovered is that this is true for small shops, as well as for very large ones."

Talking more broadly about the areas of innovation that will most shape people's lives in the coming years, Pein picks out quantum computing as an innovation "which can tremendously change everything." He explains: "I think it will force us to rethink all our security and everything we do with current computer science. And it could probably allow the real development of artificial intelligence, including many more uses cases than we can think of now."

Thanks to Neil Pein for sharing his insights on these trends. You can listen to the accompanying podcast to hear more.

Open banking: time to focus on corporates

Open banking and its promise to usher in competition and a swathe or new products has done little for corporate treasury. It is time for banks and treasury to adopt a new mindset.

For Pedro Madeira, Group Treasurer at UK telecoms group Arqiva, open banking – the UK version of Europe's PSD2 – and its drive to encourage banks to open-up their precious data isn't really on the radar. "Open banking doesn't affect us. We would be interested in exploring the opportunity to access other banks from our main bank platform, but it's early stage and I can't see how it would change how we do business," he says, reflecting a muted interest in open banking's promise of competition and innovative financial products and services that is shared by many other treasury teams.

For enthusiasts, however, the technology that allows banks to securely share information with their customers' consent via application programming interfaces (APIs) with regulated third parties (TPPs) may be complex, and driving deeper, widespread adoption still a way off, but the benefits are undeniable. And signs of progress, like industry body Open Banking Implementation Entity (OBIE), recently reporting a record number of API calls, or requests for information, between systems, shows banks are finally responding to increased demand from treasury teams to develop corporate APIs.

Challenges

Still, everyone agrees progress is slow. One key reason remains a lack of corporate demand. Treasury teams with little downside risk from ignoring open banking have little enthusiasm to explore its opportunities. For example, Arqiva uses an HSBC banking platform that already embeds strong customer authorisations and security protocols, says Madeira. For large corporates using SWIFT or similar third-party applications that already offer multiple banking information, the push for open banking is similarly lacklustre.

With no pressure from clients, corporate banks have been slow to innovate. On one hand, some of the physical infrastructure isn't fully in place yet, explains Hakan Eroglu, Global Open Banking lead at Mastercard Advisors. Banks need to introduce APIs for TPPs to access customers' accounts, and the speed at which banks systems respond to API calls is crucial. "At the moment, not all banks have compliant APIs available or working the way they should. Speed and availability are important in the API business," he says.

Retail focus

Banks have been equally slow to roll out products for corporates to take advantage of the ability to share information. Their focus has been on retail customers, primarily around encouraging switching to stop money languishing in current accounts not earning interest. "I haven't seen much effort being put into corporate solutions," says Arqiva's Madeira. "Some banks are evolving solutions but it's sporadic. Open banking is something targeted at retail customers, and corporates have been an afterthought." He'd like to see innovations that could help Arqiva's B2B business like greater concentration of the company's bank accounts, tighter security and centralised cash management. "The ability to have all this without using SWIFT would be significant for a mid-sized corporate like Arqiva." The problem is compounded by the lack of regulation pushing corporate innovation, says Eroglu. "Most of the focus is around online banking. Corporates have much more complex needs that are not covered by PSD2 – or other regulation," he says.

Like banks, fintechs have also prioritised retail over corporates, says Professor Markos Zachariadis at the Cambridge Centre for Digital Innovation. However, he does observe that fintechs have developed an increasing ability to offer corporate solutions in the last three years. "There is a lot of accumulated knowledge and experience in the fintech industry that can be re-purposed or transposed to develop business banking solutions," he says.

A next step would involve fintechs partnering with banks. But this depends on corporate banks integrating with innovative fintechs leading in the space, and role models are few and far between, says Zachariadis. "Fintechs are not great at customer acquisition and banks won't necessarily do much to provide them with access to their clients. The emergence of platforms that can connect the dots and integrate fintechs and banks into corporate systems may be the way forward for corporates to benefit from fintech innovation."

Regulatory barriers

Regulatory disparities between different markets don't help. In Europe, despite overarching regulation, there is no uniform adoption of open banking between European countries. Some banks are embarking on automated onboarding processes; others are pushing manual registration or asking TPPs to register on a development portal. "There are different interpretations in different countries, and it is also a question of whether the regulation has been implemented properly," says Eroglu.

Brexit is adding to unknowns for the UK's financial services industry around PSD2, one of many pieces of legislation within the European directive. "Who is going to take charge of

> The problem is compounded by the lack of regulation pushing corporate innovation.
>
> Hakan Eroglu, Global Open Banking lead at Mastercard Advisors

the implementation of this post Brexit?" questions Madeira. "It feels that regulation might be taking a back seat."

Outside Europe, the pace of implementation is equally disparate – and slower. For example, Hong Kong's Monetary Authority (HKMA) began its open banking journey in 2018 launching four phases of regulation, but banks have yet to really open up account data and enable the initiation of transactions by third parties. In Singapore, "by far the most advanced country in Asia in terms of open banking and APIs" according to Eroglu, there is no regulation in place and utilisation remains comparatively low. "The reasons are a lack of market-wide standardisation of APIs and a lack of common infrastructure and processes. A fintech will be reluctant to invest time and money in developing apps that will only work with a certain bank in a relatively small market like Singapore," he says.

Nevertheless, he believes that despite the lack of regulatory stick, open banking's benefits will ultimately drive take up. "When we talk to banks outside Europe about their strategy around open banking in the corporate space, many are not under regulation. But they still want to understand its merits and learn how to build their own ecosystem and business model around it."

New approach

The lack of innovation and interest in all open banking offers, requires a new narrative to capture the industry's imagination. And now is the time as transaction banking grows more competitive, and treasury teams take a tooth comb to costs. Moreover, the pandemic has highlighted the wider importance of APIs, forcing banks to prioritise and drive their digital offerings and explore new technologies to meet increasing client demand for digital solutions.

Because it is real time, open banking can transform working capital and liquidity management, says Eroglu, in an enthusiastic reminder of all open banking's benefits. Companies can carry out instant payments from one account to another or pause payments at the touch of a button. It allows treasury to access all their transactions and balances instantaneously, giving a window into the entire dollar, sterling and yen positions in one go. By connecting to multiple banking relationships, companies can streamline and optimise invoicing, putting all their transactions into one place or paying them at the best time to optimise cash management. "There are things you can do much better when you have a 360 view of financial situation in real-time," he says.

Open banking promises easier digital onboarding. Imagine a 'passport API' that sends all your information from a bank where you are already set up to a new one you want to join, easing a complex process frequently cited as a pain point for corporates. Similarly, it would allow bank credit committees to make quicker, more informed decisions to boost credit lines by sharing data.

Nor is any business too small or large to benefit. For large corporates, the technology can feed data directly into their Enterprise Resource Planning (ERP) systems, providing treasurers with insights on cash flow trends that can help them improve financial efficiency, suggests Andrea Melville, Managing Director and Head of Commercialisation and Propositions, Lloyds Bank Commercial Banking.

As for smaller companies (which find SWIFT too expensive and in excess of their needs, yet still need multiple bank accounts) it enables information sharing across one centralised platform as opposed to managing three or four separate banking relationships, a benefit that has crossed Madeira's radar. "In this respect, open banking could ward off cyber security concerns and manage multiple authorisations and mandates. It would simplify processes and also keep things tight, centralised and secure," he says.

Elsewhere, Lloyds is currently testing an intelligent book-keeping solution for small businesses that combines data gathered from open banking with companies' own invoices and expenses data. "It will help reduce the administration load for small and medium businesses and enable them to make better financial decisions through real-time cash forecasting and profit and loss information," says Melville.

Lloyds is also using open banking technology to become a Payment Initiation Service Provider (PISP), a type of TPP authorised to make payments in and out of accounts. It creates a new receivables proposition that will allow its largest clients to improve the payment experience for its end customers. "On top of this, we're developing new applications for APIs that corporates are starting to integrate directly into their own systems. A good example is an API that speeds-up the 'time to decision' for asset finance credit requests," she says.

Investment

It's the kind of product innovation and new customer propositions that are finally starting to trickle. But banks' journey to becoming API-driven organisations, shifting to innovation and monetising open banking doesn't just require a new mindset. It also needs investment, says Eroglu, who urges treasury teams and their banking partners to view open banking as an opportunity rather than a regulatory must. "Banks need to invest, especially in the regulated market. It means investing in technology and finding their way with the help of strategic and consulting advice. Banks need to make themselves open and agile and change their business models."

Only then will they begin to think about distributing new products in different ways, rethink their target operational model and put themselves between multiple business models as a service, a platform and as third-party service provider – a position already grabbed by the tech groups and other API driven companies. In short, banks need to focus on corporate clients, and grab the opportunity to innovate in a win-win for banks and treasury. "We would consider changing bank accounts if we found that a bank starts racing ahead in terms of developing open banking tools we could take advantage of," concludes Madeira.

What is a purposeful company and how can treasury get involved?

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?

Tom Gosling
Executive Fellow,
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A purposeful company should have its purpose resonate through every aspect of its strategy and operations. A purposeful company understands how the core process by which it makes money is aligned to its purpose. It understands which stakeholder relationships are most important to its purpose and how it impacts all stakeholders. A good purpose, well-articulated, will flow through into everything the company does, including the treasury function.

Treasury decisions that might have been based on optimisation of the balance sheet come out slightly differently when a company looks through a purpose lens. Purpose could play out in treasury strategy through strict rules on how quickly to pay suppliers. It could manifest in conditions a company won't accept in loan covenants to stop creditors doing things that damage the purpose. Elsewhere, purpose could be aligned to employees. For a company where the key purpose is to provide a secure livelihood for employees, for example John Lewis, this could impact how aggressively it negotiates on pension covenants. In another example, a renewables company focused on the transition might look carefully at its banking partners and the extent to which they finance activities that contribute to CO_2 emissions.

Unilever, and its purpose to make sustainable living commonplace, is the archetypal example of a purposeful company. The company has unpacked what this means in terms of the way it makes money and how it integrates across its business operations. It actively invests behind the brands it believes are aligned with its purpose and divests from brands that don't align because they believe purposeful brands create faster growth.

Unilever also looks at the whole ecosystem in which it operates. For example, it works with its supply chains to enable them to deliver products in a sustainable way, which has had treasury implications: the company offered €500m of cash flow relief to support livelihoods across its extended value chain during COVID.

One of the problems that arises is where a company feels that the purpose can only describe the good things it does, and therefore ignores the bad. This can undermine purpose. Discussions about purpose must be grounded in the reality of what the core business is. There are businesses that do messy, difficult things and face genuine conflict with certain stakeholders, but they can still be purposeful. It lacks authenticity if a purpose statement is contrived and does not face up to the reality of the company's business. It is a good idea to be honest, otherwise it creates dissonance and backfires on relationships. Employees are particularly engaged and motivated by purpose and attuned to hypocrisy.

There are now an increasing number of companies looking at purpose with serious intent. But it is difficult to do, and a multi-year process with pitfalls along the way. But we have already seen that organisations that have figured out what their purpose is, and how they impact their key stakeholders, have been better placed to respond to COVID.

Florence Saliba
VP Treasury and Financing
Danone

Danone has integrated purpose since 1972, enabling the company to create both shareholder and societal value. We aim to inspire healthier and more sustainable eating and drinking practices and believe that the health of people and the health of the planet are interconnected. This is now pegged in our 'One Planet One Health' vision.

This purpose and vision is embedded across the business, and our treasury and finance divisions are empowered with the tools to match that purpose. This is particularly evident in our funding strategy.

We are a component stock of leading social responsibility indexes including the Dow Jones Sustainability Indices, Vigeo Eiris, MSCI ESG Ratings and the FTSE4Good Index. Inclusion in these indices involves a long assessment process and this transparency and credibility can drive our investment decisions.

Our goal is to contribute positively to all 17 Sustainable Development Goals, but we have prioritised three particularly:

SDGs 2, 3, and 6 around Zero Hunger, Good Health and Wellbeing and Clean Water and Sanitation, respectively.

Two years ago, we partnered with our core 12 banks in a facility that lowered our cost of borrowing if we increased our positive impact, all verified by a third party. We raised US$2bn in a syndicated credit facility whereby our ESG performance directly impacts – upwards and downwards – the margin payable to the banks over the entire duration of the facility. So far, our external metrics have shown that we are improving our ESG performance.

We have also done a social bond in line with our purpose to create and share sustainable value with all our stakeholders. In 2018 we were the first multinational to sell a social bond in line with the new Social Bond Principles set out by the International Capital Market Association. We had really good results, and a strong reception from investors. I believe this is because we are credible; we were able to demonstrate to investors that this topic has been a long journey for us.

Proceeds from our social bond have gone towards research for specialised nutrition. Funds also support entrepreneurs and start-ups, communities, and healthcare in emerging markets. Proceeds from our social bond also finance mangrove planting in Senegal to create carbon credits, and we support farmers in our supply chain to guarantee stable income for farmers and long-term collaboration on sustainability issues.

When it comes to putting in place this kind of financing, we must partner with banks that really believe in our purpose. It involves a great deal of discussion and collaboration and involves working with banks that are well connected with ESG investors. We find that our purpose also attracts investors to our traditional, or classical debt. I believe investors like our paper also because of our purpose.

Suresh Subramanian

Managing Director, Head, Trade & Treasury Solutions Americas

BNP Paribas

Nearly every conversation we've had with corporate treasury teams and finance officials in recent months has included discussions around sustainability, and increasingly, purpose. The typical questions we ask include how the company is integrating sustainability into procurement and labour practices, or we might ask for more insight into their energy and water conservation policies. More often than not, the response is positive, but the person tasked with sustainability isn't just the treasurer. It is usually a combination of roles split between the chief sustainability officer and treasury.

The push towards sustainability and broader purpose is being driven by growing concerns emanating from a company's stakeholders, particularly employees. Employees are driving companies to push the envelope and become more responsive. There was a time a company could say they didn't know anything about purpose. Now most companies realise that purpose and sustainability make a big difference in employee engagement and how they are perceived by the outside world. It is also right for companies to try and make a difference in society and, of course, COVID has also played a factor.

There is a clear difference between integrating purpose and sustainability. In companies that are clear about their purpose in society, the commitment of employees across the board is more tangible. It is easy to determine corporate purpose when talking to employees. You can ascertain whether it is a new fad or something that lies at the core of corporate strategy. Companies that have a sense of purpose have a direction driven from the top of the house. They are not just giving lip service to the concept.

In the supply chain, purpose usually manifests around procurement and what a company is asking its suppliers. Purposeful treasury teams will look beyond basic regulatory needs to truly analyse their sourcing and supplier selection processes; they will ask for compliance from their suppliers and get tough on them to improve the whole ecosystem.

In fact, purpose isn't exclusive to green endeavour. An oil company can be purposeful by, for example, working with local communities and contributing to society. A company's core products may not be sustainable, but their practices could be contributing and giving back to society in multiple ways. There is no one right answer in the approach to this.

Companies with a purpose anchored in societal benefits often find it easier to attract investment - investors have a clear preference for companies in this category. In fact, much of the drive for purpose is coming from institutional investors and pension funds increasingly asking companies what motivates them. However, purpose doesn't lower a company's cost of borrowing and the PR benefits of integrating purpose are modest.

The benefit comes from the fact employees are much more motivated to work for a purposeful company. The next generation is far more conscious of purpose than previous generations. Consumers are also motivated by purpose. It allows consumer-facing companies to tap a demand pool based on their sense of purpose.

Next question:

"COVID-19 and the strained US-China relationship is causing companies to rethink their supply chains. How are companies beginning to change their supply chains, and what does it mean for corporate treasury?"

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

Turning point in long-term trends

Treasury must prepare as long-term trends in inflation, globalisation, demographics and productivity look set to pivot in new directions.

A handful of major long-term trends have reached a tipping point: economic policy and globalisation; inflation; demographics; productivity; global power relations.

Economic policy and globalisation

Globalisation took off following the fall of the Berlin Wall, China's admission to the WTO, the rise of container transport and the lowering of import tariffs. These changes allowed western businesses to produce cheaply in Asia and Eastern Europe, and competition in western labour markets increased, keeping wage increases at low levels.

It did not lead to lower consumption. On the contrary, downward pressure on inflation has enabled central banks to lower interest rates and encourage consumers and governments to step up borrowing and consumption. This was a golden period for corporate earnings. Profits rose considerably because wage costs went up less rapidly than productivity growth, and interest charges declined.

Monetary policy became the policy of choice to boost growth in times of negative shocks or low growth. The challenge today is that central banks have already cut nominal interest rates to 0% (or lower), making further cuts increasingly detrimental to economies. Central banks could step up quantitative easing. Based on recent years however, it is doubtful whether this alone will be enough to boost economic growth to any great extent.

As a result, the focus has shifted to fiscal stimulus when it comes to boosting growth. It has a number of consequences:

- Governments generally respond more slowly than central banks.
- Central banks have a stable inflation target of roughly 2% and – in the case of the Fed – maximum employment. They fine-tuned monetary policy to meet this target, irrespective of who benefits the most. Although different governments have different and changing objectives, they typically aim to increase employees' wages and benefits, even at the expense of earnings. If their competitive position deteriorates too much because of rising wages, governments can step up protectionism.
- Fiscal policy may change after each election, which increases uncertainty surrounding long-term investments.
- Not all countries are as efficient. It means more variation between countries in terms of the extent and duration of fiscal stimulus. This will trigger more variation in growth expectations, and more fluctuations in the currency and stock markets.
- The growing importance of fiscal policy is particularly challenging for the Eurozone. Without fiscal union, fiscal dominance will lead to greater divergences between the euro countries and ultimately to more tensions.

In this scenario, the role of monetary policy will change into a facilitating role. This means that real interest rates will have to be kept negative and interventions will be required if nominal long-term interest rates rise too sharply. This could be in the form of stepping up bond-buying programmes or announcing yield curve control policies.

Inflation

Inflation has declined on balance since the 1980s. Increasing monetary stimulus has mainly prevented deflation, and failed to trigger higher inflation for different reasons:

- A decline in the velocity of circulation.
- International competition sparked by globalisation.
- Monetary stimulus funds largely flowed to property and stock markets. Prices of these assets rose rapidly, so did related debts. As a result, a more limited proportion of the monetary stimulus flowed to the real economy.

The shift from monetary to fiscal dominance will change this. For governments, the advantages of boosting wages and benefits far outweigh higher asset prices. In addition, governments will be reluctant to allow fiscal policy to lead to a deteriorating competitive position via higher wages. If this happens, the stimulus largely leaks abroad via higher imports. Consequently, the transition to fiscal dominance will ultimately lead to deglobalisation, more protectionism and less competition in the labour market. We also expect central banks and governments to work together to stimulate the economy via higher investment activity. Here, governments guarantee (part of) the loans to businesses, while central banks ensure that there is enough money to supply credit at low interest rates.

Fiscal dominance and associated political uncertainty could also make it far more difficult for businesses to plan adequately. This could lead to more supply bottlenecks. We also assume that low commodity prices have led to too little investment in new production capacity, putting commodity

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prices under upward pressure. This, combined with higher wage costs, will create more upward pressure on inflation.

Demographics

In the coming years, many baby boomers will retire. This means the number of workers compared to the number of non-workers will decline. A contraction of the workforce means that – ceteris paribus – potential growth will be lower. This could lead to more downward pressure on inflation and an even greater urge to step up fiscal stimulus.

Moreover, an ageing population leads to a gradual de-saving process. Over time, this could put downward pressure on asset prices and upward pressure on long-term interest rates.

Productivity

Higher productivity would be able to help sustain growth amid high debt, ageing populations and deglobalisation. Alas, productivity growth has not been very encouraging in recent years and longer-term growth expectations are lower than the growth achieved in recent years. This will probably require far higher public deficits.

However, some developments could boost productivity growth.

- There is considerable progress in the field of robotisation, automated driving and artificial intelligence which will lead to massive productivity growth in the event of large-scale adoption.
- Central banks will keep capital costs low, which makes investment in productivity-boosting elements appealing.
- The rivalry between China and the US could lead to economic blocks that reduce economies of scale, but it could also lead to a technology war with more innovations.

All in all, it is difficult to have clear expectations in terms of future productivity growth.

Global power relations

For the past decades, the US has been the undisputed world leader, promoting free world trade and the importance of multinational institutions. However, China is increasingly challenging the US on the global stage. According to many political analysts, the question is not whether but when China will assume the leading position in the world. In the past, a change in world leadership almost never happened without conflict. A direct armed conflict between the US and China does not seem likely to us, but it would make an economic or technological war more possible. This will speed up the process of deglobalisation and could affect companies doing business both in China and the US.

Consequences for financial markets

It is these trends that we believe could lead to a different economic and investment climate in the decades ahead. Rising inflation and persistent high public deficits are negative for government bonds. We expect government bond prices in the US and Europe to decline over the next couple of years to decades.

Lower economic growth, where a greater proportion of the economy goes to wages and less goes to earnings, is negative for equities in the longer-term; we expect a prolonged bear market in real terms. This is also in line with the very high valuations for equities at the time of writing, which, from a historical perspective, suggests very low return expectations for the next ten years.

Assets that benefit from increased government expenditure and investment and provide protection against increased political uncertainty and inflation have the best prospects: commodities, gold, inflation-linked bonds, and property. In addition, dollar assets have a relatively large share in global stock and bond indices at this point. The chances are that this will increasingly shift towards a larger share of yuan assets and that the relative performance of yuan bonds and stocks will outperform these dollar assets.

Finally, Europe will face major challenges. If the EMU fails to become a fiscal union, a period of fiscal dominance will lead to greater economic differences and rising tensions. It will be increasingly difficult for the ECB to ease these tensions via a looser monetary policy, especially in times of rising inflation. In this scenario, the collapse of the Eurozone will only be a matter of time, resulting in considerable underperformance of many European assets.

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