May/June 2021

treasurytoday ASIA

research | insight | analysis

Treasury centre locations in Asia

New locations for treasury centres are emerging in Asia Pacific. None, however, are likely to break the dominant choice of Hong Kong vs Singapore.

The Corporate View

Zurab Abutidze

Regional Treasury Director ASPAME

Danone

Singapore: sustainable city

Singapore has positioned itself as a pioneering force when it comes to all things sustainable. We explore its journey as a sustainability leader in APAC.

Technology

Keeping internal fraud in check

Trade

Digitisation efforts continue

Regulation

Time to act: integrating financially material ESG data

Cautious optimism

Recent anti-Asian racist attacks in America have renewed focus upon xenophobia towards Asian people in the US and the Western world. We want to make sure that we support our readers who may be feeling anxious about this worrying trend. Calls for racial equity for black people in America have been supported the world over and likewise protections for Asian people facing rising xenophobia and terrifying attacks must be extended everywhere. Although when walking on the streets of Singapore and Hong Kong it is easy to feel inured from such actions, particularly during a pandemic where business travel is at a minimum, we are all so globally exposed and globally connected that this trend must concern us all. We will be addressing this issue throughout the year and in particular will discuss at our upcoming Women in Treasury APAC Forum taking place in June, to which we invite all of our Asian treasury community to attend.

Elsewhere spring 2021 is tentatively ushering in an air of new optimism alongside blossoms blooming in some parts of the world and plans for the end of the pandemic. We are busy preparing for the first of our digital events and look forward to 2022 and the start of new physical events.

In this issue we take a look at Singapore and its approach to sustainability. This comes at the same time as we close our 2021 Global Sustainability Study and we look forward to analysing, assessing and sharing the results of our findings this year. The pandemic has only served to highlight the problems caused by a lack of sustainability and we hope to emerge from 2021 with companies across the board in a far advanced position on such issues when compared to their positioning at the start of 2020.

We look forward to sharing these articles with you and to hearing from you at our digital events throughout this quarter. If you have any concerns or suggestions please don't hesitate to reach out.

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IN THIS ISSUE

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Hong Kong and Singapore have been the go-to choices for multinationals setting up regional treasury centres in Asia Pacific. Now, however, alternative locations are emerging.

Don’t let corporate fraudsters off the hook

Employee fraud is an emotive topic. But keeping a cool head and conducting investigations ‘by the book’ will maximise the likelihood of the guilty party facing the consequences of their actions.

Celebrate the fruit of your labours

It has never been more important to recognise and reward the very best and brightest in corporate treasury. Nominations for the Adam Smith Awards Asia open on June 7th and we look forward to receiving your submissions.

Trade finance digitisation: what’s next?

The processes involved in global trade are notoriously costly, paper-heavy and manual, and the need for digitisation is well understood. Which industry initiatives and technology developments offer the most interesting opportunities for trade finance digitisation?

'Usual suspects' dominate treasury centre choices

Multinational corporations now have choice when it comes to locating a regional treasury centre in Asia Pacific. With new locations emerging, and a number of incentives on offer, however, none has been able to match the attractiveness of Singapore and Hong Kong.

Global treasurers considering where to locate treasury centres in Asia now have options that go beyond the 'usual suspects' of Hong Kong and Singapore. However, the events of the last year have shown the need for treasurers to have certainty in a crisis and has pushed them towards the familiar options.

As a result of the COVID-19 pandemic, treasurers needed greater access to liquidity and so established financial centres have remained the go-to locations for regional treasury centres. "Liquidity requirements went up massively last year," says Anton Ruddenklau, Head of Financial Services at KPMG in Singapore. "Liquidity rules – the cost of funds is not the issue, it's just making sure there is access to cash," he adds.

In this environment it is critical for a corporate's regional treasury centre to be located where there is access to liquidity and banking services.

Varoon Mandhana, Head of APAC Solutions, Wholesale Payments at J.P. Morgan, explains that the overall financial ecosystem is important to locating a treasury centre. Given the key function of the treasury is to manage cash, funding and handle multiple currencies, it needs to be able access deep and liquid financial markets. In this respect, locations like Hong Kong and Singapore offer a more holistic environment, he says.

Access to financial services is just one of the factors that influences a group treasurer's decision about where to locate their regional treasury centre. There are also other elements that come into play, points out David Blair, Managing Director at Acarate Consulting. "Treasurers need to locate treasury centres in places that are open, tax effective, and have deep talent pools. This does not leave much choice in Asia – and benefits Singapore enormously," he says.

For multinationals, whose operations in Asia have reached the point where it is worthwhile to have a treasury centre in the region, the major decision still remains Hong Kong or Singapore – a situation that has not changed greatly in recent years. However, there are now newer options that are emerging to rival the dominance of the 'usual suspects' of these financial centres.

Prem Thakur, General Manager, Finance and Treasury at Sopra Steria, a consulting, digital services and software firm, comments on the alternatives: "Other potential regional treasury centre locations are emerging, including Kuala Lumpur, Bangkok and various cities in India," Thakur tells Treasury Today Asia. He adds that India, the Philippines, Thailand and Malaysia are often attractive locations for financial shared service centres – including payment and collection factories – general ledger reconciliations, foreign exchange settlement and back office confirmations.

The newer locations for treasury centres are fast emerging, says Sandip Patil, Asia Pacific Head of Liquidity Management Services and Head of Sales for Financial Institutions, Treasury and Trade Solutions, Citi. "One such example is Shanghai, driven by a number of factors – China's scale, particularly in an Asian context; increasingly favourable policies introduced by Chinese regulators; sound financial infrastructure; and the availability of talent."

China has been making efforts to lure multinationals to Shanghai. Blair gives the example of how China, in the context of internationalising the renminbi, has introduced regulatory facilitation to attract treasury activities like inter-company funding and foreign exchange risk management to Shanghai. The jury is still out, however, on whether Shanghai can be a serious contender to the likes of Singapore and Hong Kong for regional treasury centres in the near term. Some observers comment that the liberalisation of the economy has somewhat stalled, and although there has been a push for renminbi internationalisation, free trade zones, and tax benefits, it is too early for treasury centres in Shanghai to be supporting the whole region.

Another location that has emerged as an alternative location is Thailand. Mandhana at J.P. Morgan notes that a number of Japanese and Korean corporations have manufacturing bases in Thailand and in recent years the country has created incentives – such as tax reductions and the simplification of reporting processes – to encourage them to set up treasury centres. As of February 22nd 2021, 38 companies had treasury centre licenses in Thailand, he notes.

For companies that have a larger presence elsewhere in Asia, however, a treasury centre in Thailand is unlikely to meet all their requirements around regional cash consolidation and multi-currency management, says Mandhana. "In such situations, we have often seen corporates adopt a two-pronged strategy of linking the treasury centre in Thailand to their regional or global treasury centre over a common banking infrastructure ie a hub and spoke model," Mandhana explains.

Malaysia is also on the radar of corporate treasurers, with some considering treasury centres in Kuala Lumpur. Like Thailand, Malaysia has been offering incentives to corporates, but one observer comments that the intention is really to prevent their domestic companies going to Singapore, rather than seriously attracting treasury operations away from Hong Kong or Singapore.

With the alternative locations, there are also other drawbacks. Blair at Acarate Consulting says, "China, Thailand and Malaysia are all controlled countries with regulatory barriers that make them unattractive for treasury centres. They tend to be used for domestic and cross-border ex-country activities rather than true regional treasury." Thailand and Malaysia, he notes, have been more focused on their local multinational corporations.

Ruddenklau comments that Thailand and Malaysia are attractive secondary locations for treasury centres, but they are not that developed yet – for example, in terms of talent. This issue of access to the right talent is a serious consideration and plays a major role in the distinction between what is needed for a treasury centre as opposed to a shared service centre (SSC). Blair notes that with shared service centres – where treasury processes are effected for legal entities elsewhere – the requirements are lower for corporate treasurers. Whereas treasury centres require open markets and reasonable taxation, and a more highly-educated workforce (as can be found in Hong Kong and Singapore), SSCs use cheaper, English-speaking clerical labour. "Philippines and Malaysia are enjoying some success for SSCs and processing, but they are very difficult places from regulatory and tax perspectives," Blair tells Treasury Today Asia.

Another location that has been keen to encourage multinationals to set up regional treasury centres is India. Thakur at Sopra Steria says, however, that it is still early days. There are many reasons why India would be an attractive location, Thakur explains. These include its highly-educated English-speaking workforce, cheap labour and resources, and a pool of skilled treasurers. Also, looking to the future of corporate treasury, India also has skills in robotics, machine learning, artificial intelligence, and blockchain, which hold potential for treasury's transformation in the future.

A shift toward digitisation is also having an impact on corporate treasuries are organised. As more processes are automated, there will be less need for shared service centres, for example. Automation will remove the manual labour that is often associated with such centres – where there has often been a lot of rekeying of data, for example – and headcount will likely disappear from offshore locations. Ruddenklau comments that having a shared service centre in Malaysia, for example, is no longer a badge of honour for multinational corporations. "It is an indication of poor process and poor levels of automation," he says.

If the main motivation for having a regional treasury centre in Asia is for the cost savings, this benefit may now be eroding. This is not just in the headcount savings that come with increased automation, but also the tax benefits that have traditionally been associated with treasury centre locations.

Alan Lau, Partner, Head of Financial Services, Tax at KPMG in Singapore explains that recent developments regarding tax could be a factor in the deciding where to locate a treasury centre. Hong Kong and Singapore's corporate taxation rates have been in line with a global trend of declining rates. Their headline corporate tax rates, for example – of 17% for Singapore and 16.5% for Hong Kong – are similar to the UK's 19%, for example. In this context, Hong Kong and Singapore went one step further and cut these rates further to incentivise multinationals to set up treasury centres there – to 8% in Singapore and 8.25% in Hong Kong.

However, these tax incentives could be eroded by developments elsewhere, points out Lau. For example, the Organisation of Economic Cooperation and Development (OECD) has an action plan on base erosion and profit sharing (BEPS), which targets multinationals that exploit loopholes in tax regimes and ultimately avoid paying tax. Under the OECD's action plan, there was a move to eradicate 'harmful tax practices', which could have had serious implications for the treasury centres in Singapore, for example, if the tax incentives were deemed to be too low and harmful. Lau explains that Singapore – where he is based – was very cooperative and provided documentation to the OECD that explained why the low corporate rate is justified. The good news, he says, is that the low corporate tax rate is not considered 'harmful'.

However, since then, there has been a move to smooth the differences between tax rates in various jurisdictions. Under BEPS 2.0, explains Lau, there could be a global minimum tax rate that could be higher than the rates for treasury centre locations like Singapore. Lau illustrates with a hypothetical example of a UK multinational corporation that sets up a finance and treasury centre in Singapore. Conceptually, if the proposed global minimum tax rate were set at 12%, and the Singapore rate is 8% – ie below the global minimum rate – then the UK multinational would have to make up the difference between the two rates and pay the top-up tax in their home country. In this scenario, Lau says, "You effectively do not get any benefit from the incentive of setting up the treasury centre in a low-tax location."

If this global minimum tax rate is realised, a group treasurer may decide it does not make sense to locate a treasury centre in Singapore or Hong Kong purely for tax reasons because they would have to top up the global minimum in their home country anyway. "It is still in limbo," says Lau of the decision on the global rate. "They have not come out to explicitly say what the magic number will be." Also, the details of how it would be administered, or what exceptions there will be, have yet to be revealed. "It remains to be seen how it will play out," Lau tells Treasury Today Asia. And added to this move by the OECD is the news that the Biden administration in the United States is planning to push for a global tax rate that would be even higher. Such as move could erode how meaningful it is to have a treasury centre in Singapore or Hong Kong, especially if the main motivation for setting one up is for the tax benefits.

When looking at the tax benefits of where to locate a treasury centre, Lau comments that it is important to look beyond the main corporation tax rate. "Some group treasurers who do not have a deep understanding of taxation codes get fixated on the headline tax rate," Lau tells Treasury Today Asia. He explains that it is the withholding tax rates that can have more effect. For example, if a company is paying US$100 cross-border to Malaysia and the withholding tax is 10%, it holds back US$10 and pays the net US$90 to Malaysia. For a location to be effective as a treasury centre, it needs to have a low corporate tax rate, and also lower rates for when the treasurer pays out cross-border – otherwise this withholding tax can overwhelm the benefit of the headline tax incentive.

Mandhana at J.P. Morgan comments that many treasury centres are operating as cost centres – and therefore not generating profits on which tax would need to be paid. The bigger consideration is the inter-company positions and the withholding tax treatment they have, and the double taxation treaties the location has. "Hong Kong and Singapore are well-placed on that aspect," says Mandhana.

Singapore and Hong Kong continue to be the obvious choices for a number of reasons, aside from the tax benefits. For US and European multinational corporations with sizable operations in China, Hong Kong has been the natural choice for a regional treasury centre. Meanwhile for corporates with a presence in South East Asia, Singapore has been the gateway to those markets.

For some larger multinationals, it may not be a case of either Singapore or Hong Kong – they could a regional treasury centre in both locations. They may use Hong Kong for their mainland business and onshore and offshore renminbi, and Singapore for the South East Asian currencies. Also, having two centres can help with business continuity planning and each can act as the other's back up in the same time zone.

Patil at Citi comments that aside from the considerations that typically drove decision-making about treasury centres – legal and markets infrastructure, tax policies and so on – there are now broader considerations. These considerations, he says, are expanding in scope to support a company's growth and the client experience. "This expanded scope includes consideration for e-commerce business model needs, supply chain and manufacturing shifts, digital infrastructure and real time connectivity, as well as aspirations of digital treasury," he says.

Patil continues, "On one hand, these increased considerations are leading companies to converge the scope of regional treasury centres with shared services centres. On the other hand, we are also seeing treasury centres that are more specialised and focused on specific geographies, including North Asia, ASEAN [Association of South East Asian Nation countries] and South Asia. By operating in this manner, these centres can better connect with their businesses on the ground and more effectively manage disruptions in supply chains while benefiting from the continued growth of the digital economy and eventually, Covid recovery," he says.

Blair at Acarate Consulting comments on another trend, "The other macro change we see cycling approximately every decade is for multinational corporations to centralise everything to head office – enabled by technology – then realise they need local or at least regional knowledge so they come back to Singapore."

For now, however, Singapore and Hong Kong remain the dominant choices for treasury centre locations. And while there are other alternatives available, they have yet to be serious contenders to match the attractiveness of these 'usual suspects'.

SHOULD TREASURERS BE TAKING BITCOIN SERIOUSLY?

Bitcoin has made headlines in recent weeks, with some companies making high-profile investments in the cryptocurrency – so could this be a route worth exploring for typical treasury teams?

In January, the UK's FCA warned consumers that if they invest in cryptoassets, "they should be prepared to lose all their money" – and indeed, the world's first cryptocurrency, which was first developed in 2008-2009, is nothing if not volatile. Nevertheless, the recent surge in the price of bitcoin has regularly been making headlines since the beginning of 2021. The price of bitcoin was less than US$6,000 in March 2020, but in February 2021 it reached an all-time high of US$58,000.

Interest in the digital currency has been fuelled by news that carmaker Tesla had purchased bitcoin worth US$1.5bn for "more flexibility to further diversify and maximise returns on our cash" and that the company was planning to start accepting payments in bitcoin, albeit on a limited basis in the first instance.

Tesla is not the only company to set its sights on bitcoin. PayPal and Square have both embraced digital currencies in recent months, while business intelligence company MicroStrategy has accumulated over 91,000 bitcoins. In a press release, CEO Michael J. Saylor cited "our belief that bitcoin, as the world's most widely-adopted cryptocurrency, can serve as a dependable store of value."

Currency or asset?

A previous Treasury Today article explained the opportunities that bitcoin can potentially offer treasury teams, from diversification to hedging against inflation. But for companies that do take the plunge, it's clear that the risks can be considerable. Indeed, Tesla's share price suffered steep falls as the price of bitcoin fell by 25% in the space of a few days – a decline that followed a tweet by CEO Elon Musk noting that the prices of bitcoin and fellow cryptocurrency ethereum did "seem high". Nevertheless, MicroStrategy has not been deterred from spending another US$10m on bitcoin in recent days.

Could other treasurers be tempted to venture down this road? Francois Masquelier, Chairman of the Luxembourg Corporate Treasury Association (ATEL), Vice-Chairman of the European Association of Corporate Treasurers (EACT) and CEO of Simply Treasury, is sceptical. "It was interesting to see some major companies investing in bitcoin – but to me bitcoin is not a currency; it's a highly volatile virtual asset," he says. "I don't believe that bitcoin will be an asset that typical corporate treasurers in typical companies will adopt."

Masquelier points out that in today's world of negative and low interest rates, there are plenty of reasons for CFOs to consider how best to use their surplus cash in order to avoid destroying value. "But it's already so difficult to sell the idea of going outside of the money market and deposit landscape," he adds. "I don't see CFOs investing in virtual currencies."

Accelerating development

Chris Skinner, industry commentator and author, has a different view. "When you see MicroStrategy moving treasury reserves into bitcoin, and then followed by the likes of Square, Mode and Tesla, what you are seeing is leading technology firms believing that a core part of their asset strategy is the inclusion of cryptocurrency and, particularly, bitcoin," he says.

Skinner points out that other recent developments include news that BNY Mellon is forming a new digital assets unit that the bank says "will accelerate the development of solutions and capabilities to help clients address growing and evolving needs related to the growth of digital assets, including cryptocurrencies." Goldman Sachs has also reportedly restarted its cryptocurrency trading desk.

As Skinner concludes, "It's time to take these things seriously, folks."

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Celebrate the fruit of your labours

Nominations open June 7th 2021

The Adam Smith Awards Asia are now in their eighth year! We believe amidst a backdrop of global disruption and difficulty, it has never been more important to recognise and reward the very best and brightest in corporate treasury. We look forward to toasting the fruits of your labours as the most successful treasury teams across the region.

The Adam Smith Awards programme recognises best practice and innovation in corporate treasury, regardless of company size, budget or industry sector. Nominations close on September 6th and there are 23 award categories in total. Representing the full range of activities that corporate treasury teams undertake, these categories are sure to capture your achievements. If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward.

Corporate finance departments are a true strategic partner to the business and are constantly challenged to deliver better and more innovative solutions. An Adam Smith Award Asia is the benchmark of that achievement. Our awards recognise the importance the treasury profession now occupies and showcases how treasury professionals are stepping up to support business growth.

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

3 easy steps to nominate

Step 1:

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

Step 2:

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

Step 3:

Winners will be announced at our live winners' announcement on October 14th and their success stories will be showcased in a series of winner podcasts and in individual case studies which will be published in January.

2021 award categories

Treasury Today Asia's Top Treasury Team 2021
Best Cash Management Solution
Best WCM, AP/AR Solution
Best Card/e-Cash Solution
Best Trade/Supply Chain Finance Solution
Best Funding Solution
Best ESG Solution
Best Risk Management Solution
Best Crisis Management Solution
Harnessing the Power of Technology
Best New Technology Solution
Best Cyber-Security Solution
Best SME/MME Treasury Solution
Best in Class Treasury Solution in the ASEAN
Best in Class Treasury Solution in India
Best in Class Treasury Solution in the PRC
Best Liquidity/Investing Solution
First Class Relationship Management
Best Liquidity Management/Short-Term Investing Solution
Best Foreign Exchange Solution
Best Talent Management Solution

Individual awards

Treasury Today Asia Woman of the Year 2021
Corporate Treasurer of the Year 2021
A Rising Star

Nominations close on Monday September 6th and winners will be announced at our live winners' announcement on Thursday October 14th.

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

Top tips

Please don't be dissuaded from submitting a nomination in the event that you feel your company may not qualify for whatever reason.

You do not need to be a major multinational to qualify. Focus on the problem that the **solution** you have implemented, or are in the process of implementing, addresses. Quantify the benefits, both qualitative as well as quantitative.

If you feel your submission qualifies for **more than one category** please tick the relevant categories on the submission form.

Please submit any **relevant supporting documentation** if you think it will add to your submission.

Good luck with your submissions! Should you have any queries please do not hesitate to contact us at **awardsasia@treasurytoday.com**

All winning solutions are profiled in case studies which appear on our website and are promoted in our Treasury Insights newsletter and on social media. The case studies are based on the winning nominations and are written by our editorial team. The text is submitted to the winners for their approval prior to publication. By submitting a nomination in the Adam Smith Awards Asia you accept that if you win an award, a case study outlining the details of your winning solution will be published.

Don’t let corporate fraudsters off the hook

As corporate treasurers prepare for post-pandemic trading, they would be well advised to review their fraud investigation mechanisms to ensure they are fit for purpose.

Fraud committed by employees continues to take its toll on businesses. According to data from Action Fraud, losses from corporate employee fraud in the UK amounted to £277m in 2019/20, with almost two-thirds (64%) suffering some kind of fraud. This chimes with the findings of Bottomline’s 2021 treasury fraud and controls research report, in which 54% of treasurers in larger firms across North America and EMEA reported experiencing a loss in 2020.

Cases of fraud perpetrated by employees rarely make the headlines for a variety of reasons, with the reluctance of the company involved to expose itself to negative publicity high on this list. Many incidents are resolved internally – fewer than one in six incidents of fraud reported in the UK last year ended up in the judicial system according to Action Fraud.

One of the highest profile examples of alleged corporate employee fraud in the UK in recent years was Patisserie Valerie. In 2019 the Serious Fraud Office arrested and questioned five people over allegations of accounting fraud at the company, following on from the arrest and bailing of its former finance director. More recently, car dealership chain Lookers corrected its accounts in November 2020, partly due to ‘a number of fraudulent expense claims’.

> A comprehensive background check is going to add a certain cost to each hire as well as add time to the onboarding process, but this trade-off is increasingly deemed essential for certain positions.
>
> Steven Smith, Managing Director EMEA, Sterling

Technology is a vital weapon in the battle against employee fraud, but treasury also plays an important role and it is the responsibility of treasury staff members to report suspicious activities by their colleagues. Bottomline describes assessing organisational payment processes to reduce exposures and speed up detection as a good first step.

Once suspicious activity has been detected, it might be tempting to confront the perpetrator immediately. However, corporate fraud investigation firm Ten Intelligence advises companies who suspect they have been victims of fraud to analyse the available evidence and circumstances surrounding the suspicion, retain accurate records, develop a fraud theory, and set out their objectives in an investigation plan.

Once the suspicious activity has been identified, fraud investigators can begin their investigation. As part of this they will ascertain the facts and make a judgement as to whether the incident demands disciplinary action or a more severe course of action.

"The scope of fraud investigators varies across different companies and sectors," explains Tracey Carpenter, Proposition Manager – Insider Threat at Cifas. "Some organisations may allow fraud investigators to access confidential information such as human resources records, which would show if an employee had previously faced disciplinary issues or had difficult personal circumstances and could offer vital intelligence as part of the investigation."

Law firm Kingsley Napley observes that companies should proceed with caution when engaging an investigator, noting that illegally obtained information can have serious adverse consequences. In extreme circumstances it could result in criminal proceedings being brought against the victim of the fraud personally and could also result in the loss of legal professional privilege over the instructions to (and the report of) the investigator, the discharge of injunctive relief obtained, and a costs order being made against the victim. Its advice is to provide clear instructions as to what the investigator is not permitted to do and to carefully define what they are being asked to do.

According to Avi Kahalani, CEO and Chief Financial Officer at Blackhawk Intelligence, compromised evidence is one of the main reasons why cases that are brought to the attention of the police may proceed slowly.

Upon learning about fraud, many company managers and directors tend to confront the alleged perpetrators immediately, giving them – or their accomplices – a chance to tamper with any incriminating evidence. If the alleged perpetrators are employees, this type of confrontation may also see directors risk breaking employment laws and give the affected employees a chance to take action against the company later.

For corporates that want to ensure they are not recruiting someone who has previously committed fraud, Steven Smith, Managing Director EMEA at background and identity services specialist Sterling explains that there are several elements to a background check.

"The first is identity, confirming that individuals are who they say they are and verifying what they claim to have done in the past," he says. "Then you have additional components such as criminal and reference checks. There are three levels of criminal record check in the UK, but for roles outside regulated industries the basic check is probably the most appropriate and will show up any conviction that is unspent."

Checks take anywhere from several hours to several weeks to complete, with the average check taking around ten days to complete and costing less than £100. Costs have fallen in recent years as the cost of accessing the source data has gone down, making background checks accessible to a wider range of businesses.

"The final report goes to the client and it is then up to them how they use that information," says Smith. "If there is a discrepancy or a significant finding, the employer may choose to have a conversation with that individual. Some will decide not to move that person into employment, while others may proceed but with caveats around probation periods." He suggests there has been a sharp increase in non-regulated organisations choosing to commission background checks.

"Companies need to consider the cost of doing these checks in terms of time and money in the context of their wider onboarding process," says Smith. "A comprehensive background check is going to add a certain cost to each hire as well as add time to the onboarding process, but this trade-off is increasingly deemed essential for certain positions."

ACAS has produced guidance (https://www.acas.org.uk/investigations-for-discipline-and-grievance-step-by-step) for conducting workplace investigations. This guidance provides information on the rights of people being investigated at different stages of the investigation.

At disciplinary investigations, there is no statutory right for a worker to be accompanied to the meeting, whereas at a grievance investigation the worker does have this right. But even in a situation where there is no statutory right to be accompanied into an interview there are instances where it may be allowed – for instance under the Equality Act 2010 where it would be considered a reasonable adjustment for a disabled worker.

CASE STUDY

Vince Tickel is the owner of wholesale trading group Hunter Worldwide. In 2018 he took a private prosecution against his former financial controller, who stole more than £1.5m from his various businesses over more than a decade.

Having set up a marketing agency he decided to build a group of businesses and realised that he needed a better finance function. "This person came to us on a freelance basis in 1996," he recalls. "He seemed to know what he was doing."

Over the following years the group of companies including Hunter grew into an organisation with turnover of £15m and around 220 full and part time staff across offices in the UK and Portugal. What Tickel didn't know was that his financial controller had put processes in place that allowed him to defraud the business.

"For example he changed the bank mandates after they were signed by directors and himself with 'anyone to sign' so he could write cheques to cash, taking cash directly and posting the amount to cost of sale," he says.

Credit card statements were sent directly to his home and the total amount of the company's three credit cards was paid by direct debit, so his individual expenditure was 'hidden'.

"The fraud we discovered was in full swing as far back as at least 2003 (he was dismissed in 2014)," explains Tickel. "It was uncovered when we closed one of the businesses and the final credit card statement was sent to the office instead of his home."

"I was leaving the office one evening and noticed the statement among the post," he says. "It was addressed to him and when I opened it I found that there was nothing on my card, about £300 on my managing director's card but more than £3,500 on our financial director's card, which all appeared to be personal expenditure."

Tickel contacted the card company but was told he wasn't an authorised signatory, so he had to ask his managing director to retrieve previous statements from all the group's cards. This revealed expenditure of hundreds of thousands of pounds over just a two-year period. In addition, the company's bank had set up an online payment system that was in theory designed to be more secure but in reality prevented visibility on payments by batching them together so it was impossible to see who was being paid. Tickel says he recently spoke to another business that had been defrauded and that it was the same bank and method used in their case.

Over the period the fraud was perpetrated the group's accounts were audited and it had VAT investigations, but the financial director managed to keep his activities hidden by misleading the auditors.

"I had thought that once he went to a lawyer they would get together with our lawyers and he would sell his house and pay back at least a significant amount of money," says Tickel. "But after about a year it was clear this wasn't going to happen so I went to the police and explained the situation."

However, he says the police didn't even visit him and that he was told white collar crime was too difficult and expensive to prosecute. He then instructed Edmonds Marshall McMahon to investigate and commence a private prosecution, which culminated in his former financial controller receiving concurrent sentences of seven and a half and five years imprisonment for fraud by abuse of position and theft and a ten year director disqualification.

Tickel says pursuing the case has cost him almost as much as the original fraud but that he couldn't let the perpetrator get away with it.

"Looking back there are a number of things I would have done differently," he says. "The systems we had in place were not robust enough and I wasn't sufficiently experienced to know that. I would tell my younger self to ask my external auditors for a pressure check on the business to see where we should tighten up our systems to reduce the opportunity for fraud. Some people think that if they steal money and there are no consequences it is victimless, so the answer is to not leave temptation in people's way."

Tickel is an advocate of changing auditor every three years and also suggests companies should 'change things up' occasionally, especially if they are working with the same accountant for a long period of time.

"The business got so large that I didn't look at the bank accounts, I didn't sign off on the credit cards and the auditors didn't look at the credit card statements in detail – it was only when we made changes that we discovered the fraud," he concludes. "When we interview people for financial positions now, I ask them if they steal money and make it clear that the last person who stole from us is doing seven and a half years in prison."

Rising to the challenge

Zurab Abutidze
Regional Treasury Director ASPAME

It was the collapse of the Soviet Union that first set Zurab Abutidze, Danone's Regional Treasury Director for Asia Pacific and Middle East, on course for a career in treasury. Since then, his experiences have shown more than once that it is at times of crisis that treasury has the greatest opportunity to shine.

Headquartered in Paris, Danone S.A. is a multinational food company specialising in dairy and plant-based products and advanced medical and early life nutrition. With over 100,000 employees in 55 countries, its brand portfolio includes both international and local brands across 120 markets with annual sales of over of €24bn.

"Treasury is my passion," says Zurab Abutidze, Regional Treasury Director ASPAME at Danone. "There has not been a single day in my career when I did not look forward to going to work."

Although treasury has been an important part of Abutidze's life for 17 years, in childhood his dream was to become a diplomat. With most of his family involved in teaching foreign languages, it seemed a pragmatic career choice. "However, just as I was preparing for university, the Soviet Union collapsed," he recalls. "In the countries of the former Soviet Union, the economic situation became very difficult, so my family took the decision to leave our home in Georgia and move to Russia."

After taking a year to improve his Russian enough to be able to pass exams, Abutidze enrolled at a university in Moscow to study economics. Following further study and gaining a degree in finance, he realised that securing employment was going to be more of a challenge than he had anticipated. "In Russia, people start to work at quite a young age, even when they are still at university. By the time they finish they have already one or two years' experience," he reflects. Fortunately, a family friend was able to recommend him to the company where she was working, and although they did not have any available positions, they were able to offer Abutidze work experience in their treasury department.

When the member of staff responsible for banking resigned, Abutidze was able to take over the job. "You cannot imagine how happy I was," he says, "because now I had a fixed position with a concrete responsibility." For the next 12 months he gained a good understanding of treasury, being in charge of payments preparation and treasury reporting, as well as helping in cash flow planning and supporting issuance of bank guarantees and letters of credit."

Although he very much enjoyed his work, the high cost of living in Moscow prompted Abutidze to find another position. At Metro Cash and Carry, as Deputy Head of Treasury Department, he was not only able to broaden his treasury experience but also travel to many of Russia's cities. After a year and a half in the job, he found himself recommended to the outgoing head of treasury at Danone Russia (a former treasurer of Metro) as someone who might be a suitable replacement for her.

Golden opportunities

After several rounds of interviews, Abutidze was offered the position of Head of Treasury at the company – an outcome that he says came as something of a shock. "I was 27 at the time, with just three years of limited treasury experience and no managerial experience," he recalls. "The scope of Danone's treasury operations was much wider than my experience so far. That's where the real treasury work started for me."

On his first day in the office, Abutidze found a pile of old brochures from treasury seminars detailing the responsibilities of various regional treasurers. "I knew from day one what I wanted the next stage in my career to be," he says. "When you know precisely what you want to do, you are already 80% there. You just have to be patient." In fact, within a short period of time he was appointed Regional Treasurer of the CIS countries, which included Russia, Ukraine and Belarus. Then, when Danone merged with the much larger Russian dairy company Unimilk, Abutidze became Head of Corporate Finance & Treasury of the new venture.

After six years with Danone in Moscow, he moved to Brussels, where the in-house bank was located, with responsibilities for Central and Eastern Europe, Middle East and Africa. Eventually, when the group needed to fill the position of treasurer for APAC, Abutidze was proposed for the role. "I always wanted to work in Asia, specifically in in Singapore. Although I took time to consider it, I knew that I would say 'yes'."

Managing treasury

Since January 2019, Abutidze has been based in Singapore, managing a treasury team that covers 22 countries stretching from Turkey to New Zealand.

"We also have local treasury teams in ten countries, some of them managing several jurisdictions," he explains. "We are responsible for rolling out treasury policies and ensuring that they are respected. In some countries, like in Saudi Arabia, Israel and the Philippines, we have also joint ventures where treasury is managed by the partner, but we're involved in funding and capital injections, and anything that requires involvement of both parties."

The Singapore-based team supports local treasury teams in areas such as funding, making sure that there is always sufficient liquidity either through local credit finance or onshore pooling structures. "We use inter-company loans, offshore funding and capital injections," says Abutidze. "In addition, we help local teams to establish the most efficient cash management structures, especially in the countries where we have many legal entities."

The team also monitors all investments in the region through deposits or money market funds, ensuring that income yield is acceptable and it is also in charge of the bank relations at regional level. "As well as identifying banking strategy, we are also responsible for optimising the bank account structures and generating ideas as to how processes can be improved," Abutidze says.

Career highlights

Joining Danone at a time when it had recently acquired the specialised nutrition business of Numico presented Abutidze with certain challenges. "There was no treasury department as such in the Numico Russian entity, with operations being split between accounting and controlling," he recalls. "We had to move the majority of operations to the Danone treasury where we could start to manage according to our own rules and policies. It was my first experience of merging treasury functions, and it helped greatly when the group acquired Unimilk."

The merger with Unimillk – which was three times the size of Danone in Russia – also brought new challenges. "It was heavily indebted, with many assets under pledge and a lot of covenants," Abutidze says. "Removing all the covenants and renegotiating the contracts, as well as being able to reduce interest rates, resulted in savings of ten million euros in just one year."

With over 30 entities, Unimilk also had more than 300 bank accounts. "We started to rationalise our banking relationships, simplifying account structures by optimising the cash management process, decreasing the number of bank accounts to less than 100 and moving business from local banks to Danone's core banking partners," he explains.

But for Abutidze, the most complicated part of the merger – and the most interesting – was the integration of the two treasury teams. "In Danone, we were a team of seven people; after the merger, we became team of 20. That was just in Moscow. In addition, we had seven regional treasurers and their teams in other cities in Russia," he comments.

And not only was the treasury now very large in numbers – Danone and Unimilk also had very different corporate cultures and styles of management. "We were very careful to give people time to adapt. Our strategy was to keep the best treasury practices developed in Unimilk and integrate Danone's values and ways of working, to decide what to bring forward as well as what to leave behind. I think it was quite a success."

The road ahead

A current focus for Abutidze is the implementation of a treasury management system in the region as part of an initiative to centralise parts of the treasury operation, as well as centralising foreign exchange execution – a project that was recognised in the 2020 Adam Smith Awards Asia.

"We now just have a couple of countries left. We split the implementation into phases across the region, with a close coordination with the multiple internal and external stakeholders," Abutidze explains. "We can already see significant improvement across every targeted parameter that we had on our list. We have increased visibility and transparency of the treasury flows, as well as increased security, which leads to an improved liquidity management strategy and a more effective risk management approach."

In fact, the removal of repetitive tasks allows time savings of some 10% to 15%, freeing the team to work on more strategic tasks. "In the beginning, we rolled out three modules in TMS, which were cash forecasting, financial transaction position-keeping and bank fee analysis," says Abutidze, "and now we are implementing the Business Intelligence module and the Bank Access Management module as well.

As part of the process, the team is implementing the payment platform CashPooler. "Instead of, say, having three banks and three different banking tools with CashPooler implementation, we will have just the one," Abutidze explains. "We are centralising bank access management in Singapore. The objective is to get a standardised process for Bank Access Management across the key banks and geographies with standardised documentation sets, which will help us to increase security and compliance with our internal audit requirements, as well as reducing the treasury team's workload."

Abutidze is also working with a fintech in Indonesia to adopt a virtual account solution which will allow the closure of around 50 bank accounts and optimise bank relations in the country. "The solution will also allow us to achieve efficiency in cash management and enable our automatic reconciliation and the settlement of AR," he says. "It will help us to improve quality, reduce the workload for the AR team, and contribute to a stronger credit control process with a lower credit risk level."

Last – but not least – is the focus on China, where Abutidze is working with C2FO to adopt a pilot dynamic discounting solution in China in order to utilise local cash more efficiently.

"China is one of the most crucial markets for Danone globally, contributing 10% of the annual global sales, and it is a continually growing market," he says. "It is also highly regulated, with a strict system of FX controls and additional barriers for cash repatriation, so our focus will be on liquidity and on maximising access through our offshore pooling structures. Improved access to cash in China will contribute to the growth of the business across the region, which is a major strategic goal for everyone."

Expecting the unexpected

Like treasurers everywhere, Abutidze was faced with challenges upon the arrival of the COVID-19 crisis.

Nevertheless, he is proud of the way his team managed the situation. "We did not face any major disruptions in treasury processes," he reflects. "Fortunately, the replacement of physical signatures by e-signatures had occurred in some of the countries prior to the pandemic, and we could execute our FX hedging remotely using Bloomberg Anywhere."

Because he felt it was so important to keep up the morale of the team, Abutidze spoke each evening with treasurers to keep abreast of any challenges or disruptions they faced and to find out how the business was doing. "Our industry did not suffer in the way that others did: people continued to consume our dairy products and baby food. We didn't experience any liquidity issues which helped us to concentrate more on other important topics," he notes.

Given the impact of the crisis on suppliers, the company adopted various measures which included payment terms adjustments and the allocation of liquidity facilities. "We have 15,000 small companies around us who are our most fragile partners, and the facility is aimed to help them to continue to operate," Abutidze says.

One of the things that the pandemic has disrupted has been the ability to hold face-to-face meetings with local teams, and regional seminars where treasurers would share experiences and benchmark on different topics. "I would meet the teams and the local banks to discuss what is in the pipeline and thank the teams for a good job done as well as share new ideas," Abutidze says. "I am hopeful that in 2022 we will be able to meet again."

Embracing innovation

Looking ahead, Abutidze sees digital transformation as being on every treasurer's priority list, not least because of the constant need for innovation. "As treasurers we are always being asked to do more with less resources," he says. "In the past it was difficult to persuade businesses to spend money on treasury innovations. But COVID-19 has moved the world through a very fast digital transformation. We are at the heart of the company, so we can be involved in almost all areas of the business."

Likewise, there is a growing shift towards the adoption of real-time data and processes as APIs and instant payments bring new opportunities to monitoring balances and payments on a 24/7 basis. "Even the FX management is starting to shift to real time," Abutidze explains.

Meanwhile, if the last year has demonstrated anything, it is that times of greater volatility and uncertainty are when the role of the treasurer really rises to the fore. "When are we most visible? It's during a crisis," says Abutidze, citing his experiences during the 2008 financial crisis, the 2016 currency crisis in Egypt and Nigeria, and the current pandemic.

As Abutidze explains, it is in these situations that the finance director comes to treasury, to ask about the FX markets and liquidity, the political situation in different countries, and what kind of impact the crisis may have on the business. "So treasury naturally innovates and becomes more proactive than reactive, learning to anticipate negative events and maximise opportunities that come to the business, and becoming more and more of a strategic thinker," Abutidze concludes.

Trade finance digitisation: what's next?

Trade finance processes are still predominantly paper-based, resulting in unnecessary costs, delays and inefficiencies. With a number of digitisation initiatives and developments currently in play, how could trade finance benefit from digitisation and how much progress has been made so far?

In the global trade arena, the need for digitisation is widely understood. "The current process for trade is notoriously paper-heavy, manual and iterative," explains Peter Jameson, head of Asia Pacific Trade and Supply Chain Finance, Global Transaction Services at Bank of America. "Digitisation can help treasurers create simpler workflows, track flows of goods and funds in real time, and make smarter financing and funding decisions based on available data."

While various initiatives have been attempted over the years, these have tended to create digital islands that fall short of digitising the industry in any meaningful way. But with numerous industry initiatives under way, not to mention the opportunities brought by emerging technologies, could trade finance digitisation finally be an achievable prospect?

Why digitise trade?

Given the costs, delays and potential for error associated with traditional processes, everyone in the trade ecosystem stands to benefit from greater digitisation. Indeed, the abundance of paper and the lack of common standards can sometimes mean that the paperwork related to a transaction is still being processed days after the actual goods have arrived – particularly when it comes to trade finance instruments such as guarantees and letters of credit (LCs).

"In a digital process, a guarantee can be issued within minutes, rather than days," says Enno-Burghard Weitzel, SVP Strategy, Digitization and Business Development at Surecomp. "And documents under an LC can be reviewed within hours rather than days." In addition, with participants able to access full transparency over the status of the transaction, "such instant feedback allows corporates much better planning and greater reliability."

Beyond the ability to speed up individual transactions, digitisation also has the potential to improve the resilience of global trade on a much wider scale. "Digitisation – in other words, not having to rely on physically moving pieces of paper around the world to support the movement of critical goods – makes global supply chains and trade more robust, more reliable and less prone to shocks," says Steven Beck, Head of Trade & Supply Chain Finance at Asian Development Bank.

Beck explains that digitisation could drive numerous improvements throughout the trade ecosystem, which includes exporters, shippers, ports, customs, warehousing/logistics, finance and importers. "Digitisation would reduce costs, lowering barriers to entry for SMEs. It would drive higher productivity – and it would also drive transparency, thereby improving environmental and social safeguards while reducing trade-based money laundering," he says.

In addition, he notes, digitisation has the potential to create metadata that can support the closing of trade finance gaps by providing "granular information on risks including credit risk, performance risk and money laundering risk."

Developments to watch

Various developments and initiatives currently under way could pave the way for greater digitisation. For one thing, Weitzel notes that the rise of digital transferable records, together with relevant legislation, has the potential to replace paper with digital tokens.

One notable development is the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR). Adopted in 2017, the MLETR provides legal recognition for electronic transferable records and has so far been enacted by Bahrain and Singapore.

Digital identity is another area of focus. Weitzel explains that the Global Legal Entity Identifier Foundation (GLEIF) has created a framework for a chain of trust relating to the "digital identities of corporates and the natural persons acting on behalf of these entities." He adds: "There is a growing number of very interesting fintechs that provide an ecosystem with services around these digital identities. Ultimately, this will drive down the effort for corporates and banks/financiers alike to verify counterparties."

Another notable initiative cited by Asian Development Bank's Beck is the Digital Standards Initiative (DSI) which has been created by ADB together with the Government of Singapore and the International Chamber of Commerce (ICC). "DSI is bringing together industry from each component part of the trade ecosystem to agree common standards and protocols that will drive digitisation and interoperability," says Beck.

In addition, when it comes to facilitating interoperability between digital islands, Vinay Mendonca, Global Head of

> In a digital process, a guarantee can be issued.
>
> Enno-Burghard Weitzel, SVP Strategy, Digitization and Business Development, Surecomp

Product and Proposition Management at HSBC, says the ICC's Uniform Rules for Digital Trade Transactions (URDTT) "is a key initiative which would create a framework for an end-to-end digital trade transaction and adoption." He adds, "HSBC is an active participant in the design and construct of these standards, which are in the final stages of release."

Innovation through digitisation

Enno-Burghard Weitzel, SVP Strategy, Digitization and Business Development at Surecomp, says innovation is key when it comes to enabling corporates to compete successfully. "Think of an import of dried fruits from Namibia to Hamburg," he says. "The fruits need a certain temperature band and also humidity level. If the temperature or humidity are outside the bands, the fruits will be rotten and worthless."

In the traditional process, says Weitzel, the status of the fruit would only be discovered at the destination port – and if the fruit is worthless, the importer would have to wait for three of four weeks to receive the next shipment and get funds from the insurer.

In a digital process, says Weitzel, "there are almost no barriers to the scope of innovation that can be adopted." In this case, he says, a sensor within the container could continually measure temperature and humidity. "In case one of them is outside the bands, the insurance would automatically pay, the importer could immediately order a new lot, and the container could be discharged at the next best harbour."

Digital trade finance tools

Alongside these initiatives, efforts are under way to bridge the trade finance gap and support digitisation through the adoption of technology. "One of the most meaningful by-products of the pandemic for trade finance is the renewed drive to digitise its historically manual and paper-based processes," comments Bank of America's Jameson.

He adds that this has led to a greater emphasis on accessing trade finance online portals remotely, converting non-digital data into a digitised format, leveraging e-signature capabilities, "and simply being able to operate effectively outside the office environment in a fully electronic manner with enhanced visibility and control."

Different companies have different requirements where trade finance digitisation is concerned – and as such, Jameson emphasises the role of "digitisation opportunities across

> End-to-end automation is hampered by the least sophisticated party (or country) in the supply chain, which in turn is governed by local market rules.
>
> Peter Jameson, head of Asia Pacific Trade and Supply Chain Finance, Global Transaction Services, Bank of America

multiple technologies which can offer the right mix of digital solutions". He adds that digital trade finance tools include secure trade finance online portals which can automate workflows for traditional trade and supply chain finance transactions.

Also of interest, says Jameson, is "an innovative concept called 'supply chain as a service', which creates the ability to integrate bank systems directly with clients' ERP systems to identify transactions that can shore up the financial health of a client's supply chain through early payment financing."

Blockchain and beyond

Where technology is concerned, Jameson also notes the role blockchain can play in tracking goods and funds in real-time, while providing transparency to instruments throughout the lifecycle of a transaction.

Indeed, blockchain/distributed ledger technology (DLT) has emerged as a key enabler for digitisation. As HSBC's Mendonca points out, this is due to its ability to offer decentralisation, real-time visibility for all participants, and tokenisation. "Digitalising and tokenising assets enables banks to have better control over the financing of trade assets," he comments. "It also opens possibilities to finance deeper into the supply chain to lower tiers."

Mendonca adds that HSBC has pioneered the use of blockchain technology in global trade since the first blockchain-enabled letter of credit transaction in May 2018. "Since then, we have been instrumental in the evolution of the Contour platform, and we're currently working with several clients to help them to move their flow transactions onto the platform," he says.

In addition, Mendonca says a number of other technology developments have a role to play in trade finance digitisation, from big data and advanced data analytics to artificial intelligence (AI), Optical Character Recognition (OCR) and Robotic Process Automation (RPA).

Overcoming the obstacles

While there are plenty of developments and initiatives in the pipeline, adopting technology in the trade finance space is not always straightforward due to the complexity of global supply chains and the proliferation of different standards and practices in different markets. As Bank of America's Jameson notes, "End-to-end automation is hampered by the least sophisticated party (or country) in the supply chain, which in turn is governed by local market rules."

In addition, he says there is sometimes a perception that the adoption of technology is too expensive or futuristic, or that only large or newly set up companies have the luxury of being able to put funding aside for investment in technology.

"Unless all parties in a supply chain are aligned in moving towards paperless, there is little incentive for a company, especially a smaller player, to make the first move and invest in digitising their internal trade processes," he says.

Forward thinking

So what is needed in order to accelerate digitisation? Where specific solutions are concerned, Surecomp's Weitzel emphasises the importance of focusing on users in order to encourage the wide adoption of digitisation. "The smaller the change for the user, the more likely is the adoption," he points out.

At the industry level, Jameson notes that as governments recognise the importance of keeping supply chains moving during the pandemic, "many policymakers are re-examining how legal and regulatory environments need to evolve in order to accommodate greater digitisation of trade finance, whilst providing the same level of certainty and risk mitigation afforded by paper-based predecessors. These moves should set the framework for – finally – enabling trade finance to move towards a digitised future."

He adds, "To realise the full potential of digital trade, it is also crucial for industry leaders and practitioners to drive the development of digital standards that will enable trade digital solutions to function and communicate with one another."

As such, the coming years could be critical. Citing the importance of developments such as the widespread adoption of MLETR and the standardisation of API interfaces, Weitzel predicts that in 2030, "If we look back to the year 2021, we will realise that the pandemic was a great shift towards digitisation, and that the years until 2025 saw a steady growth in the adoption of digital solutions."

Accelerating digitisation

When it comes to accelerating trade finance digitisation, Steven Beck, Head of Trade & Supply Chain Finance at ADB, cites the importance of the following developments:

- Closing legislative gaps for the digitisation of trade – countries should adopt UNCITRAL model laws on legislation.
- Global implementation of standards and protocols for digitisation, which would drive interoperability between IT platforms and between the component parts of the trade ecosystem.
- Global implementation of the Legal Entity Identifier.

Singapore: sustainable city

Singapore became fully independent in 1965 and since then has rapidly asserted itself as a leader in all aspects of state impact and power. Its social and economic growth and potential have been awe inspiring.

> Singapore is a city state located at the Southern tip of the Malaysian Peninsula. It is made up of Singapore Island and then around 60 small islands of which the main island takes up all space excluding 18 square miles. Singapore is the largest port in South East Asia and one of the world's busiest. Once a British colony and now a member of the Commonwealth, in 1963 Singapore joined the Federation of Malaysia and then seceded to become an independent state in August 1965. Nearly two thirds of the main island is less than 50 feet above sea level. A dense network of short streams drains the island, but floods can be severe because the streams have low gradients and because of excessive water runoff from cleared land. Characterised by uniformly hot and humid weather all year round, Singapore's focus on sustainability from an economic, social and environmental perspective has clean impetus.

As sustainability becomes another marker of strength and resilience for countries across the world, it is interesting to look at how, in recent years, Singapore has also become a pioneer in sustainability and has made concerted efforts to associate itself with best green practice. The city state adopted a variety of long-term goals and decade spanning plans which would balance sustainability with its ongoing priority of economic growth.

Sustainability encompasses many different focal points, from climate change prevention to social issues and economic stability. We spoke with Seng Ti Goh of Focal Partners and Chair of the Association of Corporate Treasurers in Singapore, who explained Singapore's particular commitment to sustainability, "Since the independence of Singapore in 1965, our Government led by the late Minister Mentor Lee Kuan Yew made a conscious decision to make Singapore a clean and green city. In 2019, our Prime Minister Lee Hsien Loong devoted his national day rally speech to why Singapore should be preparing for climate change especially with global warming and the resultant rising sea levels that pose a real threat to low lying Singapore. He expounded the expedient need for Singapore to find sustainable solutions and that it might cost Singapore S$100bn to prepare ourselves against rising sea levels."

Certainly Singapore's unique positioning both in terms of geography, population and regional ambition create a particularly powerful case for sustainability. We spoke with Melissa Moi, Head of Asia Pacific Environment Social Governance at Bank of America, who expanded on Singapore's somewhat unique positioning, "Part of understanding Singapore's relationship to sustainability is context and understanding how the country is positioned. Singapore is a city state, it's a relatively prosperous city state. It also has relatively high exposure to sustainability-related risks. So, if you look specifically at climate risk, we don't have a source of naturally fresh water. Singapore is very exposed to climate change and to issues around sea level change. On top of that, Singapore is also impacted by the effect of climate change on the other countries in the region – both environmental and social. What is most interesting about Singapore is, number one, I think we've seen the country and its government and its corporate citizens as well, take a very strong position in terms of building up the resources and the resilience needed to battle and deal with climate change."

Moi also expanded on the complexities of the reclaimed land in Singapore. The reclamation of land (https://blogs.ntu.edu.sg/hp331-2014-10/?page_id=7) from surrounding waters was employed in Singapore to expand the city state's limited natural land. The process involves rocks, soil or sand being added to water to create land. Moi explained, "They're always really taking into account, what are the projections for sea level rise?

And can we build on reclaimed land a metre higher than it needs to be? There are barrages that have been put in place to divert water. There are rainwater and wastewater systems diversions all through the city and they've really invested in terms of the infrastructure around dealing with some of the physical changes, which I think is really great to see."

When it comes to government policy says Moi, "In the Singaporean government's most recent budget, they're really focusing on things like food security. Also ensuring that 30% of the country's nutritional needs are locally and sustainably accessible by 2030. Looking at public transit, there have been various licences required, for example, to own a car. There has been a really big push to encourage individuals to move from personal car ownership to taking advantage of public transit. Then they are focused on transitioning the public transit so it could be in cleaner energy, public buses, even the cars and taxis needing to have clean energy models, electric vehicle charging points. And finally, real estate, implementing guidelines around energy efficiency, green buildings and benchmarks for energy efficiency, really promoting solar energy."

As Seng Ti Goh also explained, "More recently in 2020, the Government announced the Singapore Green Plan 2030 that involves multi-ministries and agencies with five pillars: 1) City in Nature, 2) Energy Reset, 3) Sustainable Living, 4) Green Economy and 5) Resilient Future. The shift is profound and there is a strong impetus from the leadership and amongst the business and social communities. Singapore aims to be a leading centre for Green Finance in Asia."

Leading by example

Moi explains how Bank of America are playing a part in this mission, "From a financial institution's perspective, we are trying to drive change around sustainable finance. There's been a lot of work by the regulator here, the stock exchange here, the government here, to really establish Singapore and position itself as a leader in encouraging sustainable finance. The Monetary Authority of Singapore (MAS) has come out with a taxonomy that is so specific, much like the EU taxonomy, language and specific categorisation of what can be considered green and sustainable from a sustainable finance perspective. This is to try to put guardrails and guidelines from a market development perspective. Also looking at establishing a sort of an environmental governance framework, whereby ensuring that the financial institutions that are based in Singapore and operating in Singapore have environmental and social risk integration across their governance. MAS is also a member of the steering committee of The Network for Greening the Financial System. Singapore also has sustainable or ESG-labelled bond incentives. It's a really big push, from a governance, from a monetary authority, regulator and central bank perspective, that I think is trying to really develop, not just in Singapore, but also to encourage a lot of the South East Asian countries that are around us to look at making this a priority."

Hong Kong and Singapore have a rivalry that is well established and in the case of sustainability can serve for the good of everyone as it spurs on both places to do better on sustainability. This is now becoming another tick and another mark of distinction. Moi explained, "Hong Kong is also in the similar position of establishing itself as a sustainable finance centre within Asia. This healthy competition is a good thing because it means that you drive for better standards, you implement more forward-thinking policies."

Seng Ti Goh concurred, "The MAS has announced its Green Finance Action plan to 1) Strengthen Financial Sector Resilience, 2) Develop Markets and Solutions, 3) Harness technology, 4) Build Knowledge and Capabilities. We have seen the increased awareness and activities in the markets and eco-system with regard to Green Financing." In addition, when it comes to influencing operations, or standards from an environmental perspective, of companies with headquarters that are operating out of those countries and some of the more active central banks and regulators. Moi mentioned the progress she has seen coming out of Malaysia and Thailand and in The Philippines around growing sustainable finance and the role that regulators and financial institutions play in financing transition to a low carbon economy.

Investors in Asia, are asking questions about ESG plans of corporations they work with and the sophistication of the questions is increasing, such as; 'How are you going to do it?' 'Are you going to do it by 2050?,' 'What is your plan for 2030?' 'How is this tied to your business goals?' 'How is this tied to your projections?' 'How is your leadership?' 'How is it integrated into your governance?' 'What are you measuring, what are you reporting?' The ecosystem requires investors, it requires the corporates, it requires that regulators and governments, that they all have a piece to play in this puzzle of really driving sustainability forward."

Looking ahead

When Treasury Today Group began it's research into sustainability with first steps towards our Global Sustainability Study in 2019 there were distinct regional variations, with Europe leading the way and North America and APAC some way behind, in terms of corporate awareness. As Moi said, the pace of change in Asia can really be quite rapid, "In Asia, things can happen quickly and rapid changes can occur, so there is the opportunity to leapfrog. What took years of development in the EU could happen within a much shorter span of time in Asia." The pandemic has only served to highlight some of the real arguments for sustainability, as it has exacerbated issues particularly around things like income inequality. Then we have the stark reality that the pandemic is a harbinger of what happens when we don't tackle the climate crisis.

As we look ahead to the future of Singapore post-pandemic we will continue to see Singapore trying to position itself as a leader in the space. Moi mentions, "One of the interesting stories is that of the plant-based meat alternative market and the community around things like vertical farming here in Singapore; hydroponics. So, as well as sustainability and self-sufficiency in the country, there's also going to be a push in terms of investments and understanding."

Treasury Today Group remains committed to covering all aspects of sustainability and this summer we will release the results of our **2021 Global Sustainability Study** where we will be able to assess the impact of the pandemic as well as assess the results on a regional basis. We are particularly keen to see how the pioneering example of Singapore impacts the sustainability journey corporations and governments alike, certainly the speed of awareness and dialogue has been quite remarkable over the past two years. As Seng Ti Goh concluded, "It is certainly an exciting sustainability journey ahead in Singapore!"

Time to act: treasury's role in integrating financially material ESG data

Sustainable reporting has grown over the last decade. Now investors see it as increasingly financially material, and the pressure is on companies to integrate it into their corporate accounting models. It involves the expertise of sustainability teams with the processes and rigour of treasury and finance.

The pace economies decarbonise is set to pick up in the years ahead. Corporate success will increasingly depend on companies' ability to articulate to all stakeholders how they are adapting to the new business model coming down the track. It means finance and treasury teams will need to publish corporate accounting models and balance sheets that put financial numbers on their sustainability data and information.

"Companies should prepare for the same legislative and regulatory overhaul in corporate accounting ushered in after the 1930s US stock market crash," says Leon Saunders Calvert, Head of Research & Portfolio Analytics at London Stock Exchange Group (LSEG). "Back then, reporting via balance sheets and cash flows was challenging. Eighty years on, public companies face another drive in transparency because decarbonising is financially material."

Of course, sustainable corporate reporting has been growing steadily over the last ten years with some 80% of global companies now reporting on sustainability, according to KPMG. Of this cohort leaders have emerged, already integrating their financial performance with their sustainability performance in a single, annual report. However, it is the pace of this convergence that is about to pick up, as standard setters increasingly eye ESG reporting as financially material, and financial statements no longer giving the full picture. "There are developments towards a more integrated form of reporting," says Arjan de Draaijer, Global Co-lead, Impact, ESG and Sustainability at KPMG in the Netherlands. "Financial reporting standard setters and sustainability reporting standard setters like GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board) are increasingly looking at the similarities and connections between financial and sustainable reporting. It all points towards a more integrated perspective on reporting that caters to all stakeholders."

However, de Draaijer doesn't believe this means companies will produce one document. "I expect there will be a portfolio of different reports," he says, predicting a myriad spanning human rights in the supply chain to the financial impact of climate change and, going forward, the impact of biodiversity and inequality on financial statements as well.

According to KPMG, currently only around one quarter of companies at high or medium risk from biodiversity loss currently disclose that risk in their corporate reporting. "This is another element that should be on a treasurer's mind in the future," he says. As for the reporting burden, he believes digital publishing and linking reports from corporate websites will make the process easier. "Stakeholders will just be able to search for the information they need."

Outside in

Another important shift in reporting is also under way. Companies have traditionally approached disclosure and reporting from an inside-out perspective. This typically involves measuring and reporting a firm's impact on the outside world – like its carbon emissions. Increasingly, companies are using new disclosure requirements (namely the Task Force on Climate-related Financial Disclosures, TCFD) which focus on disclosure through a different, outside in-lens that reports on how climate change will impact the company's financial performance.

This could entail disclosure on how rising temperatures could impact suppliers in developing nations, or how changing consumer behaviour will impact demand for a core product. "The indicators that are related to this type of reporting are of a different nature," says de Draaijer. "A carbon footprint is still useful information in terms of detailing the carbon intensity of a product and its vulnerability to a low carbon economy, but this new type of information and data is increasingly appearing," he says.

Investor pressure

Treasury and finance departments need to be able to articulate how sustainability data and numbers are integrated into the company's business strategy to investors and lender banks. The best way to do this is to make externalities directly financially material and view them as a liability on the balance sheet, urges Saunders Calvert.

Most companies have only just begun. Positively, Saunders Calvert estimates around 41% of the 10,000 companies LSEG covers already report their Scope 1 and Scope 2 carbon

PHILIPS

CASE STUDY

Dutch health-tech multinational Philips has taken a pioneering lead in sustainability reporting. The company now reports its environmental impact on society at large via a so-called Environmental Profit & Loss (EP&L) account which includes the complete environmental costs associated with its activities and products from cradle to grave. The Philips Environmental Profit & Loss (EP&L) account guides the company's efforts on all things ecological; it is an economic valuation of the impact that Philips has on the environment, and an environmental footprint of Philips' complete value chain expressed in monetary terms.

The EP&L account is based on Life-Cycle Assessment (LCA) methodology which are in turn used to steer the company's EcoDesign efforts and to determine the Green Focal Areas (GFAs) of the Philips product portfolio. The GFAs are product characteristics like energy efficiency, weight and product lifetime that determine the environmental impact of the company's product portfolio. They form the basis of a steadily growing green solutions portfolio. The EP&L account is a logical next step to extend the scope from individual product value chains to Philips' complete value chain. It will support the direction of the company's sustainability strategy by providing insights into the main environmental hotspots from an overall business point of view.

Philips also has a well-established methodology to calculate the number of lives the company positively touches with its products and solutions. It is the firm's aim to look into valuating these societal benefits in monetary terms as well, including them in future EP&L accounts where possible.

In its 2020 annual report, Philips reported its Green Revenues, generated through products and solutions that offer a significant environmental improvement in one or more Green Focal Areas – Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability that also deliver a contribution to SDG 12. Green Revenues increased to €13.9bn in 2020, or 71% of sales (67.2% in 2019), reaching a record level for Philips and exceeding the 2020 target of 70%.

https://www.philips.com/c-dam/corporate/about-philips/sustainability/downloads/ecovision-methodologies/epl-methodology-2020.pdf

emissions associated with energy consumption in their own operations. "There is a demand for this kind of information from investors," he says. "Investors are telling companies that this is financially material information regarding their cost of capital."

In contrast however, he says a much smaller proportion of companies have a cost of carbon internally that they manage to; deploy a liability to the balance sheet and seek to offset emissions by, say, paying carbon credits. "Only a small proportion of companies recognise the cost of carbon in the way they manage their financials."

Nevertheless, he is convinced this is the direction of travel and it matters more that firms have embarked on the journey than their position en route. "If treasury actually have this information on the balance sheet; if they have it as a proxy, or even if they can just show they are on a journey to treating carbon as a cost to the organisation, it will demonstrate to investors they are somewhere on the road to internally quantifying and internalising these externalities," he says. "Data points around carbon emissions will make their way in time, into actual corporate liabilities. It won't be a separate statement; it will just sit there as financially material next to other liabilities."

Scope 3

Disclosing emissions as a liability on the balance sheet becomes even more complicated around Scope 3, a data set ESG reporting leaders are only just starting to get to grips with. Under Scope 3, companies disclose the emissions in their supply chain – the carbon footprint of both the components in their products and of their products once in use.

For example, a coal mining company won't produce huge emissions in its mining processes, but its product has a profound impact on emissions. In contrast, Tesla's production processes, says Saunders Calvert, typically score poorly in ESG ratings because manufacturing the electric car is a carbon intensive process. In Scope 3 reporting, this is counterbalanced by a Tesla having minimal downstream emissions. In carbon intensive industries, having a high carbon footprint today isn't necessarily a bad thing so long as a strategy for decarbonisation is aggressive and credible. Interpreting the data and its financial consequences requires nuance and expertise, he says. "Treasury teams really need to be able to address all sides of the story."

It will get even more complex with Scope 4 reporting – although this is not a formal category yet. The idea is that when companies report sales of products that have a positive impact on climate or society like, say, insulation, it should carry a benefit on the balance sheet. "Reporting Scope 1 and 2 is mainly about making sure you have the right information from your internal systems around fuel use and energy bills. Scope 3 requires more effort and is quite a struggle," says de Draaijer.

Industry standards and regulation

Companies have resources to help them get reporting right. Industry standards like TCFD and SASB articulate what good disclosure looks like and are gaining traction, helping companies disclose and map their data to specific frameworks. But take up is still slow. According to a report from the corporate governance team at FTI Consulting and Sentieo, a financial and corporate research company, fewer than 50 UK public companies currently comprehensively report on climate risks and set targets in line with the TCFD.

Regulation coming down the track will force the process. By 2025, climate risk assessments will be mandatory across the UK, including for listed companies, large private companies, pension schemes, insurance companies and banks. Elsewhere, the EU's giant taxonomy will land through the course of next year, introducing a classification system of what constitutes sustainable economic activity. Cue the associated EU regulatory drives in support of the taxonomy like growing pressure for mandatory sustainability reporting requirements under the Non-Financial Reporting Directive (NFRD). Under the EU Taxonomy companies will have to articulate what proportion of their revenue is green, says Saunders Calvert. "Revenue is a good proxy for a company's products or services and is a different set of data points to reporting their carbon emissions," he says. "Regulation is going to drive clarity around what kind of information is required."

Collaboration

Of course, gathering data and disclosure won't only sit with treasury, but much of the responsibility could head treasury's way. Although many firms have set up reporting systems out of their sustainability departments, as ESG reporting becomes more financially material it is increasingly the focus of CFOs, finance and control departments. "It involves a combination of the subject matter knowledge of the sustainability team with the processes, rigour and risk of treasury and finance," says de Draaijer, who observes that many of the initial ESG corporate laggards without sustainability departments have fast tracked their sustainable reporting and accounting processes by placing the issue directly with finance teams. "Banks and investors want to know how aligned to the future decarbonised economy a company's business model is. Are they backing the Netflix of tomorrow – or Blockbuster Video," concludes Saunders Calvert.

The international initiatives pushing convergence of reporting standards

The European Union is updating the EU Non-financial Reporting Directive.

The World Economic Forum has released its paper on common metrics and consistent reporting for sustainable value creation, defining 21 core metrics.

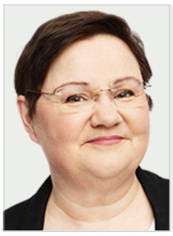
The five major non-financial reporting organisations (GRI, SASB, IIRC, CDSB and CDP) have published a Statement of Intent, committing to work together towards comprehensive corporate reporting.

The IFRS Foundation's consultation, still in process, on establishing a global non-financial reporting framework has already received strong support from other organisations, including IOSCO.

Source: KPMG Survey of Sustainability 2020

Greensill fallout

How important is supply chain finance for companies; what are the implications of Greensill's collapse on SCF?



Minna Helppi

Group Treasurer at Metso Outotec, Board Member at Finnish Industry Investment

At Metso Outotec we run one SCF programme for our large suppliers that utilises a programme run by Citi, and one for our smaller suppliers that uses C2FO's dynamic discounting. The idea is that both programmes enable all our suppliers to obtain faster payments, improve their cash flow, liquidity, and DSO ratios. Rather than waiting for payment under our typical 90-day terms, under our SCF programme suppliers can get paid in ten days.

The Citi programme is global and run across Europe, North America, Australia, Brazil, China and India. The programme has increased in size and we are regularly onboarding new suppliers, especially since our merger as we are now onboarding ex-Outotec suppliers. We have also recently syndicated the programme, adding a couple more banks to the Citi programme to share the risks and diversify the portfolio. It has also allowed us to enlarge the programme with suppliers and countries.

Our SCF programme has a direct link to our strategy. Our aim is to continue to be an investment grade rated company, and SCF helps us to improve our working capital and cash flow with longer payment terms. It also allows us to deepen our supplier relationships by providing them with an opportunity to finance their receivables on good terms. Suppliers are interested in improving their cash flow, liquidity and ratios, and the programme provides them with a competitive financing option. Much of our procurement is from developing countries, where financing costs are typically higher. We have only ever utilised the Citi platform with SWIFT connectivity so have no experience of third party platforms.

The Greensill case has not directly impacted us, but I believe there may be indirect impacts, such as increased regulation and reporting requirements. I expect regulators will require companies to report their SCF exposure in their annual report. At Metso Outotec, we don't externally report on the programme, but because we already report our SCF exposure internally, reporting externally wouldn't be a big step if we were required to do so.

We have strict risk analysis underpinning the programme and have a limit to our overall exposure – a maximum amount that we won't exceed. And our bank programme is not committed, so our banks can stop financing suppliers anytime if they want. If we didn't offer a SCF programme, I assume many of our suppliers, now used to obtaining payments early, would start negotiating shorter payment terms. This would have an impact on our working capital and liquidity. SCF helps with our procurement and supplier relationships. It is a win-win for our suppliers and our treasury.

Another consequence of Greensill's collapse could be that more large players such as global investment banks start financing supply chains, especially if investors grow wary of SCF, and start avoiding the asset class. The Greensill case will also make everyone involved in SCF more careful and prudent in selecting counterparties.

Michael Vrontamitis

Trade Finance and Banking Leader
Independent Consultant

SCF, payables finance or reverse factoring, has been going on for years. It involves banks or lenders financing the gap between corporate buyers receiving goods from their suppliers, and the point the payment is due. SCF programmes are distributed amongst banks which manage the onboarding of suppliers onto their programmes.

Greensill was running traditional SCF programmes using Taulia's technology platform. After Greensill's collapse, Taulia secured financing from a consortium of banks led by J.P. Morgan which quickly picked up the invoice information and brought money to the table. Companies on the platform may suffer a slight delay to their funding cycle, but this is a small interruption for such a significant event. It proves the resilience of the product.

SCF in support of high quality, investment grade corporate supply chains are a good investment in terms of return on capital for banks, but it is low margin and needs scale. If lenders go down the value chain, they take on a higher risk and make a higher margin, but SCF as a product is not designed for this. SCF is about taking the best credit rated entity in the supply chain and shifting the funding cost of that entity down the supply chain, making it cheaper for small suppliers to access finance. When you have a poor rated entity at the top, suppliers down the chain don't benefit as much because the gap between drawing on the SCF programme compared to other costs of borrowing reduces.

Greensill's lending was also based on future receivables: this isn't a trade finance product. Trade finance doesn't intermediate the financing of a transaction that hasn't happened – all trade finance products rely on the underlying trade documents being presented to the bank in order to get financed. Financing future receivables like Greensill was with GFG Alliance is straightforward lending that should have been priced appropriately.

Greensill's collapse won't have a huge impact on SCF. Most of the funders in the space are financial institutions that understand the risk. When they buy a SCF asset, they ensure any structure in place has ultimate access to the obligor and SCF assets are also sold under a trust structure. However, expect more investor scrutiny in terms of asset securitisation vehicles, or SPVs. Investors will look more closely at what makes up these assets, but this is a due diligence that should have been done anyway and is nothing to do with SCF.

Platform providers have an opportunity now. They provide visibility on what is being bought and a dashboard of flows and legal entities. Don't expect more regulation of fintech providers. There may be a cause for more regulation for alternative lenders or shadow banks, but this depends on how systematic the risk is, and I believe Greensill does not pose a systematic risk.

It is incumbent on treasury teams to double check the strength of their underlying platform provider and reliability of their funders. They should check their quality, ability to onboard suppliers, and provide transparency. Elsewhere, treasury teams may face changes in accounting rules. Investors are increasingly calling on the Financial Accounting Standards Board and the International Accounting Standards Board for clarity on companies' supply-chain finance programmes to ensure their true financial health of the buyer is disclosed.

Steven van der Hooft

Founder & CEO, Capital Chains SCF Consulting & Training

The Greensill case has only directly impacted the companies that used Greensill's SCF programme. But even here, other banks stepped in and Greensill's SCF programmes for large corporates have been snapped up. Moreover, these companies will continue to use Taulia as their main technology provider.

However, companies using riskier SCF will see an impact. Rather than regular payables finance, Greensill was doing something different. It couldn't make enough margin on standard SCF transactions, so it looked to corporate anchors with lower credit ratings and charged a higher margin from providing certainty to their suppliers. SCF is a low margin, big volume, sticky product. When you introduce platforms and asset managers wanting to get paid, or investors wanting yield, it can take on much higher risk.

Greensill got involved in future invoicing. This involves discounting the value of future receivables far into the future to lend money today, effectively allowing corporates to monetise future contracts. Greensill was taking on much greater risk than other lenders in the market by financing future trades that might never happen, based on the prediction that they will. No one is willing to do these kinds of trades for corporates now. There will always be investors in plain vanilla SCF, but returns are low.

Investors looking for yield will now ask more questions about what they are we investing in. Greensill shows that future receivables are a whole difference ball game, and investors will be cautious. Greensill's structure saw SPVs mixed with various anchors and comprising different programmes, not just receivables but also future receivables. The danger comes when you mix up the anchor corporates and tell investors it is a great mix and put credit insurance on top. For this reason, structures around SPVs will change.

I don't expect any scarcity in standard SCF, or pricing to increase. Most programmes comprise a large anchor with a technology provider or bank in a one-on-one relationship whereby the funders know what they are investing in. If they don't know every supplier, they will have a note or structure that they know applies to that one buyer.

Investors and corporates will increasingly look to platforms for transparency around when payments are coming in, and payment trends. Technology providers have an opportunity to provide transparency so that anchor corporates, suppliers and funders all know exactly what is outstanding, and understand on an individual invoice level what they are financing.

SCF has two aspects of due diligence, one around the anchor and one around individual suppliers. Banks' due diligence around anchors is good, but due diligence around a long tail of suppliers is more difficult. It involves more work and is a trade-off between the cost of onboarding and the benefits to lenders. It's one of the reasons why KYC is always mentioned as a stumbling block to long tailed suppliers. The important thing is that plain vanilla SCF or paying confirmed invoices early is beneficial. It is a force for good, particularly for SMEs coming out of the pandemic.

Next question:

"What are the possible implications of Biden's global corporate tax plans? How might they impact corporate locations and supply chains, and who will be the corporate winners and losers?"

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

The changing forms of money

From the early days of sea shells (Asia) and monumental stones (Yap), humans have long used a variety of units for exchange and store of value. Coins date back some 3,000 years (Greece) and paper money dates back 1,000 years (China). Promissory notes known as 'Jiaozi' were printed by a group of merchants in Sichuan during the reign of Emperor Zhenzong (AD 997–1022). Venetian merchants are famously credited with inventing accounting and bills of exchange, but JiaoZi pre date them by a few hundred years.

We tend to think that money as we know it has been around for ever, but the Bank of England was established in 1694 (three decades after the Riksbank), and the Federal Reserve in 1913.

Money is important for the operation of complex societies with increasing specialisation, but there is no intrinsic reason why money will not continue to evolve.

20th century money

While the underpinnings of money changed during the 20th century from money backed by gold to free floating fiat currencies, the experience of money was reasonably stable (and paper based) until the advent of early computer systems that enabled early ATMs and credit cards and telex which powered the initial SWIFT four corner cross border settlement schemes.

Before the early digital era, money comprised coins and bank notes together with personal cheques and bank drafts. It all had to be done on paper and manually, so it was slow and expensive. The role of banks as creators of credit (effectively money) through the magic of fractional reserve banking was well established, albeit much slower and harder to regulate because of the lack of transparency that comes from manual paper-based processes. (Better regulatory visibility enabled by digitisation has been offset by even faster and more complex banking activity delivered by the same technologies.)

Even though banking was slow and expensive, people and businesses became familiar with considering a bookkeeping entry as part of their wealth, in addition to physical notes and coins. In bank back offices, money was moving from ink on paper to bits and bytes. But from a user perspective, the banking system was only accessible during banking hours which were normally more restrictive than the classic nine to five workday of most employees.

Early digitisation of money

Electronic messaging and rudimentary automation were game changers, and eventually led to the first credit cards which freed us from bulging wallets.

ATMs freed us from bank branches by giving people access to cash 24/7 – though in Japan ATMs were locked inside bank branches well into the 2000s, giving a huge boost to non-bank cash distributors like Seven-Eleven. Likewise, credit cards enabled us to spend money 24/7 regardless of bank working hours.

In the early 1970s, Americans discovered the joys of money market chequing accounts offered by brokers to get around the OCC rules that prevented banks from paying interest on current accounts. Regulatory restrictions drove, and digitisation enabled, innovation in the business banking space as well, with new services such as sweeping (ZBA) and in the early 1980s notional pooling. (Notional pooling is still not allowed under OCC rules, so American banks offer the service in Canada and Bermuda.)

Money in the 21st century

The internet, and later mobile, have radically changed user expectations. Massive service innovation and Moore's Law in technology have created expectations of instant everything and mostly for free too. Money has generally been slow to adapt. An industry with a government mandated monopoly has little incentive to disturb the status quo. Fintech encroachment on core money has until very recently been held back by regulatory constraints. Internet and mobile wallets remained niche.

Regulators, seeing the internet develop rapidly ahead of what 20th money could service, and spurred by the growth of niche services such as PayPal, Venmo, AliPay, etcetera to material scale, have finally become more proactive. This is reflected in the push for 24/7 instant payments and the creation of regulatory sandboxes for fintech and financial innovation generally.

Invisible banking

It has become commonplace that "we don't want banking, we want stuff". After decades of emphasising how nice their branches are, or more recently how great their internet banking is, banks are understanding that the best user experience is invisible (and safe). Users want homes, not mortgages. Users want goods and services, not payments.

Uber is a good case study in proto invisible banking. By interfacing with credit card systems, Uber was able to create an invisible settlement experience for its users. Specify your trip, get into the car that arrives, get out at the end – there is no payment step in the process. It helps that the mobility business executed through mobile devices with GPS provides a strong evidence of service delivery to justify those credit card charges.

Banks, often driven by regulators, are catching up with this reality in terms of service innovation. Instant payments, which are rolling out in most markets, enable verifiable settlement with QR codes and RFID tags, offering a cheaper alternative to card networks. Open banking, which is spreading much more slowly, enables better integration of settlement services into internet platforms that provide 'stuff' that users want.

It has been a decade since the internet moved on from 'mash-ups' to APIs everywhere. Mash-ups were the first examples of services built on top of other services – an example is Zillow showing homes for sale on top of a Google map. Now APIs allow internet services to integrate multiple specialist offerings in their own products. For example, the tutorials that pop up over web sites and the friendly chat icon at the bottom right of most web sites are all external specialist services that are pulled in (aka 'consumed') through APIs.

Banks are finally starting to work on similar capabilities, though clearly consuming bank balances, not to mention payment services, through API requires careful security planning. More critically, APIs redefine who owns the customer experience, which is causing headaches to banks.

Wallets

In response to the clunky and expensive user experience provided by traditional banking in the online world, tech in general has embraced wallets. These obviously have their own problems, including fragmenting user cash, potential credit risk, and increasingly regulation.

Ant Financial's Yu'e Bao, which means 'leftover treasure', became the world's biggest money market fund within a couple years of launching. It peaked at US$1.7trn in 2018, but has since shrunk in response to regulatory pressure to increase the liquidity of its assets, which resulted in lower yields.

Consumer facing businesses in China increasingly need to accept settlement from wallets. Some have more than half their cash in 'non-bank accounts' – primarily wallets. The market is material enough that cash pooling and similar corporate products have become available. Integrating wallets and bank accounts remains a work in progress, and it will be interesting to see which predominates in the future.

Most wallets are tied to fiat currencies, but the success of Bitcoin and other DLT coins, has spurred big tech to move into this area as well. Facebook announced its coin 'Libra' in 2019, but strong regulatory and political backlash cancelled the proposed 2020 launch, and it has since been re-branded as 'Diem'.

Also in 2019, J.P. Morgan announced 'JPM Coin' as USD on a private DLT. All this activity has spurred central banks to speed their studies and in some cases roll-outs of their own coins.

Central bank digital currency

In 2020, PBOC rolled out large scale pilots of its CBDC – digital CNY. Uptake has been enough to prompt tech companies to develop capabilities for CBDC settlement. To the extent that CBDC is legal tender – just as notes and coins and bank bits and bytes – commercial adoption is ineluctable.

Although CBDCs are not necessarily implemented as DLTs (cloud databases are totally fit for purpose), it seems clear that the growth of Bitcoin, Ethereum, et al – as well as the 'Libra' saga – has pushed governments forward. CBDCs – properly implemented – can eliminate the volatility problems of Bitcoin as a store of value, and with the same technology base that has been proven with instant payments can provide fast and cheap settlement (Bitcoin is expensive and slow).

CBDCs introduce some interesting issues that have the potential to radically transform money and banking. In some implementations, CBDC has the effect of allowing citizens to bank directly with the central bank, thus cutting out banks. This would have many advantages, and would result in big reductions in risk across the monetary system. It would also render ineffective many central bank policy levers that are currently executed through the banking system.

If CBDCs allow citizens and businesses to bank directly with the central bank, this would free banks from onerous regulation and allow them to focus on value added provision of financial services such as investment, loans, risk management, and so forth.

If CBDCs are implemented via banks, they will not be very different from the current status quo such as instant payments, which are messaging around bits and bytes held at banks.

Conclusion

For treasurers, the future course of money might have radical consequences for daily operations and risk management. In any case, the spread of instant 24/7 settlement will require deep and thoughtful automation as long as treasurers need sleep and holidays. Treasurers are likely to have to deal with new service providers for wallets and potentially DLT coins. And depending on how CBDCs roll out, they may start to have a very different relationship with central banks.

David Blair, Managing Director

Twenty-five years of management and treasury experience in global companies. David Blair has extensive experience managing global and diverse treasury teams, as well as playing a leading role in eCommerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

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