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November/December 2022

Treasury battens down for 2023

As companies prepare for a likely recession, operational resiliency is proving key.

The Corporate View

Debbie Kaya

Senior Director Treasury,
Global Cash and Stock Operations
Cisco

Embedded finance

What do the terms 'embedded finance' and 'banking-as-a-service' really mean.

Sustainable Treasury

Data-driven sustainability

Treasury Talent

The qualities behind a good leader

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Crypto sceptics vs crypto believers

Question Answered

Surviving the energy crisis

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Operational resiliency

As 2022 draws to a close, war continues to grind on in Europe in a brutal stalemate. Russia is now attacking western Ukraine in its bid to destroy the country's critical infrastructure and Russian troops, dug-in in the east, currently occupy 16% of Ukrainian territory. Meanwhile, Ukraine has led a successful counterattack behind Russian lines and exposed critical Russian weaknesses ahead of what promises to be a long winter. Winter promises tough months for European businesses too. If there is one key message from European treasurers featured in this edition, it is that the energy crisis is taking a heavy toll.

In our Question Answered, Oliver Stratmann, Head of Treasury and Investor Relations at Germany's specialist chemical group LANXESS, says energy costs at the company have doubled in the last year. So far, LANXESS has been able to pass on increased raw material and energy prices to customers, albeit with a time lag, but this will become increasingly challenging. In an alarming long-term implication for Germany's industrial base, the company has substantially increased exposure to cheaper US-based production.

Meanwhile, treasury at the European and international operations of Japanese brewing giant Asahi Europe and International (AEI) has put in place advanced business continuity plans which include the ability to immediately switch to alternative fuel sources at its gas-fired European brewery operations should gas supply into Europe dwindle further. In one silver lining, many corporates, AEI included, report stepping up the hunt for renewable capacity in their energy mix because of the crisis. Perhaps the International Energy Agency's prediction ahead of COP27 kicking-off in Egypt that the war could be a historic turning point towards a cleaner and more secure future will come true.

In today's shaken up world of heightened geopolitical risk, corporates can, at least, rest easy in the dollar's dominance. Our Back to Basics feature finds crypto isn't going to become the new global currency anytime soon. Our key take-home is that treasurers are adopting a 'wait and see' approach and are wary of investing in crypto.

Other digital and tech innovations are gathering steam, however. As embedded finance continues to evolve, there is an opportunity for treasurers to explore how these developments could help their businesses. Our feature explains what embedded finance means, what's driving progress in the space, and how treasury can get involved.

Lastly, we explore the essence of good leadership, one of those amorphous concepts that people struggle to pin down because it comprises a fuzzy combination of different skills. Treasury Today interviewees point out leadership isn't synonymous with corporate position nor is it something that necessarily responds to generous remuneration. It can be taught – and companies neglect it at their peril.

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2023: treasury battens down for tough times ahead

As companies prepare for a likely recession, operational resiliency is proving key from shoring up supply chains and working capital, to investing in technology to create efficiencies and the flexibility to manage change. For corporates with businesses in Europe, weathering the energy crisis is a key priority.

Amkor Technology, the US semiconductor packaging and services group, is well used to the cyclical ups and downs that characterise the industry. Over the years, periodic bouts of overcapacity in the sector have collided with slumps in demand building a resilience in the industry to downturns and the impact on revenue. "In these uncertain times it is hard, if not impossible to predict the 2023 economic conditions," says Eric Chambers, Vice President, Finance and Treasury at Amkor Technology, speaking from the company's Phoenix headquarters in Arizona. "I personally don't believe this will be a transformational year, but as we have learned from past economic downturns, it's difficult to tell."

Still the prospect of recession, recently flagged by the IMF warning that more than a third of the global economy will contract in 2023 and the World Bank, cautioning central banks that hiking rates too aggressively risks a "devastating" contraction, leaves Chambers' treasury focused on a handful of key priorities. Surety of supply chain and operational resiliency, even if demand falls, is front of mind. "Surety of supply chain is one of the industry's biggest concerns and we will continue to work with our vendors and customers. This means a heavy emphasis on collaboration and working together," he says.

Working capital is another priority. Particularly given the industry's working capital is already stretched by rising costs, building inventory, and competing capital needs. Making payments out of the door to secure inventory and investing in equipment and capacity, naturally creates a bit of a working capital crunch, he says.

Elsewhere Chambers is keen to avoid volatile capital markets in the foreseeable future. "It's not a good time to be borrowing, and the optimal strategy is to wait until borrowing costs and volatility have reduced. In this market, interest rates can change fast and any plans to borrow can be dramatically different by the time a potential borrower gets to market."

But it's not all negative. Reflecting further on the economic landscape, he says higher interest rates are already raising returns on investment, positively impacting corporate P&L over recent quarters. For the first time in years, corporate investment portfolios have gone from earning below 1% to above 3%. "Investment portfolio strategies are finally paying off."

What to expect

For many treasury teams preparing for 2023, recession is now depressingly inevitable. What is more difficult to predict is whether two consecutive quarters of negative economic growth turn into something deeper and longer lasting. Treasury Today interviewees stress the importance of sticking with core strategies, preparation, contingency planning and acting proactively rather than defensively or reactively – frantic, survivor-mode cost cutting or letting go of talent have implications that can linger for much longer than a recession.

At the European and international operations of Japanese brewing giant Asahi Europe and International (AEI) treasury is also doubling down on operational resiliency – only their focus is navigating high energy and commodity prices. For its European breweries that use gas, the company has advanced business continuity plans which include the ability to immediately switch to alternative fuel sources if required, and where possible.

The energy crisis has underlined the importance for AEI of accelerating its transition towards green electricity and continuing to work towards its Legacy 2030 sustainability ambition of achieving carbon neutrality in all its breweries by 2030. AEI has already signed a ten-year electricity contract in Poland wholly tied to wind in a long-term offtake deal that helped the wind farm finance its infrastructure build, and the brewer is now looking at similar opportunities across European markets. Although it's not the best time to fix long-term energy prices, the strategy fits with AEI's carbon reduction pledges, explains Antony Buchanan, Treasurer for Europe and International at AEI. "It is a challenging time, but the business is keen to look for opportunities to operate in clean energy in line with our ESG agenda."

The company's quest for greater certainty as recession looms is pushing its hedging strategy centre stage. In addition to hedging transactional FX of around €1bn, treasury hedges other material commodities with enough liquidity including aluminium and diesel. The team is currently looking at hedging additional inputs including sugar, maize, and bunker fuel for global exports – amongst others. Indeed, such is the current volatility in commodity prices, treasury, with the tools and policies to support, is increasingly taking over responsibility for elements of procurement, says Buchanan. "With all the volatility, procurement is finding it challenging to manage our inputs via supplier agreements."

Treasury is also investigating the potential to proxy hedge some of the grains used within the brewing process. However, this is complicated by the fact AEI uses local, sustainably sourced grains in many of its beers. Yet these

grains do not have a strong enough correlation to the Chicago Board of Trade or US barley indexes to hedge their exposure.

Value destroying

Managing FX risk in 2023 will likely be another headache. The dollar is up at an all-time high; sterling's wild ride took it to an all-time low, and Japan's government is frantically propping up the yen for the first time in decades. As central banks crank up interest rates in response to inflation after years of near zero borrowing costs, volatility is returning and corporates with exposure are looking to protect themselves. Kyriba's latest Currency Impact Report estimates global corporates took a US$49bn hit to earnings in the last quarter thanks to volatility and the strong dollar.

At AEI, the team has the opportunity within the company's corporate treasury policy to hedge all transactional FX out to two years with a keen focus on large exposures against the euro in Romania, the Czech Republic and Poland. The company doesn't have a massive sterling exposure so has been spared the worst volatility in the pound, while exposures to Asian currencies, the dollar and CAD dollar are also smaller because AEI doesn't brew in these countries. Still, Buchanan notes these exposures are growing as the company looks to increase sales in these regions.

But the quest for certainty must be balanced against the risk of destroying value, says Buchanan explaining that such are the moves in FX, the cost of hedging is starting to negate its value. "We have a €1bn total transactional FX exposure that our policies allow us to hedge two years forwards. But hedging has become so expensive because the forward points are pricing generally above where the underlying comes and have therefore become value destroying. It would be possible to hedge all currency risk, but it would be incredibly expensive."

Looking ahead, he notes the possibility of some of the currencies AEI hedges beginning to fall towards the end of 2023. For example, Czech interest rates are slowing and flattening, and he thinks he might see some cuts in the tail end of next year. Still, currency uncertainty continues to plague Hungary and Poland and the UK where politicians recently triggered unprecedented market volatility.

Scaling automation

Elsewhere, companies are readying for recession by beefing up automation and investing in technology. Amkor is considering a TMS implementation in a sign that suggests treasury's call for tech investment is increasingly heard. "Treasury is benefiting from more of a focus and willingness by corporations to invest in technology, enabling treasury to obtain information quicker and to make more informed decisions," says Chambers.

Digitisation is one of the best ways to recession proof treasury, agrees management consultancy group Bain in recent research the 'New Recession Playbook' (**https://www.bain.com/insights/the-new-recession-playbook/**). Automation brings transparency, helps cut costs and gives treasury the flexibility to manage rapid change like the introduction of new products or a shift in supply chains. Recessions can create wide and long-standing performance gaps between companies and better analysis helps treasury understand the business in a downturn and see where there is potential for operational improvements. "Companies that have neglected digital transformation may find that the next recession makes those gaps insurmountable," warn the report authors.

AEI is already well positioned to benefit from technological efficiencies, says Buchanan. Five years ago, treasury introduced a new TMS system tied to trading platform 360T. Treasury has two SWIFT codes (but plans to rationalise further) and a single bank cash pooling solution with zero balances into London for most of its currency transactions. "We have a straight through process that comprises cash forecasts for three months and two-year FX forecast that we can drop into our system without too many variances and then trade straight out," he says.

The missing piece is a similar commodity trading programme. "Commodity hedging is more manual because the tools aren't out there yet. I keep asking providers why no one has developed a commodity trading platform. They always respond they are looking into it!" he says.

Pricing

Pricing is another recession-busting tool. Many companies have increased prices to address rising supply and energy costs but may now find they have reached their limit on price increases. It means companies may have to develop more sophisticated strategies through 2023. This could include replacing broad-based price increases with strategic increases to protect margins informed by costs, but which also remain within the bounds of customer expectations. Strategies could include exchanging price for value, offering other benefits such as volume guarantees, bundled products, or adjusted service levels, lists Bain.

In another strategy tweak, some treasurers report plans to rationalise bank accounts for the first time in years. Bank fees may seem small but combined, quickly add up and pruning their number is low hanging fruit when it comes to cutting costs. Others say bank rationalisation is only likely on the margins, however. Avoiding the capital markets will leave treasury dependent on existing funding lines with their relationship banks.

Eileen Dignen, Global Head of Treasury Services, Corporate Client Banking, J.P. Morgan observes corporates dig deep into their banking relationships during a recession. Companies are still navigating a period of profound change following the pandemic when many switched to survival mode. "A recession always creates opportunities, but clients are holding a fairly conservative view of the year ahead, particularly in their approach to liquidity and working capital requirements."

Opportunities

The idea that recession holds opportunities as well as challenges is shared by Treasury Today interviewees. Corporates make more dramatic gains or losses during downturns than during stable periods. Firms that have been able to restructure costs ahead, manage liquidity and balance sheet, focus on their customers, reignite growth plans that melted away during the pandemic via M&A opportunities, or selectively re-invest can emerge stronger. Despite uncertainties around deal valuations and credit markets – and the timing of the recovery – capital is still available for M&A deals and many businesses still have strong cash flows and balance sheets, opening possibilities for companies willing to act.

En route to the self-driving treasury

Why do banks need to think like a fintech, how does co-creation with corporate clients work in practice, and how can AI help companies achieve a self-driving treasury organisation? Tony Wimmer and JB Commans from J.P. Morgan Payments, and Ariel Kuperminc and Jordan McFarland from Evoqua Water Technologies, share their insights.

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Technology continues to provide new opportunities for treasury teams to streamline their processes and improve efficiency. Banks, meanwhile, are drawing inspiration from fintechs to accelerate innovation and roll out new solutions for their corporate clients. So what does this mean for treasury teams, and how can treasurers play a more active role in developing the solutions they need?

Thinking like a fintech

In today's fast-moving world, banks cannot afford to stand still. As such, forward-thinking banks are increasingly taking steps to transform their product teams into in-house fintechs, explains Tony Wimmer, Head of Data & Analytics at J.P. Morgan Payments.

Given that payments are the lifeblood of the world's economy, and given the role that banks play in ensuring money moves across the economy, Wimmer argues that banks "have a true homefield advantage" when it comes to leading innovation in payments. "At J.P. Morgan alone, we move over US$9trn each and every day," he says. "There's a lot of data in there, and data is what powers artificial intelligence and products."

Wimmer notes that banks have unique knowledge, from client needs to local regulations. Likewise, they have data on "who pays whom, how, when, and how often" for their corporate clients – this "Payment Intelligence" as Wimmer describes "is very hard for anybody else to replicate." In addition, he points out that banks have "tremendous access to talent," not least because of the investments they have made in technology and artificial intelligence (AI).

In order to bring all this to life, says Wimmer, banks need to "think like a fintech" and follow the same principles that have made fintechs successful. In particular, banks need to:

- Operate a state-of-the-art data product platform with a micro services architecture that enable teams to deliver prototypes early, get client feedback, and make changes with every sprint.
- Focus on the highest priority products with a well-defined product vision – and commit to multi-year programmes to deliver against this vision.
- Be "obsessed" with clients – client needs are at the centre of a product and "design thinking" is an important part of a product team's capabilities.
- Embrace adaptive and iterative development in collaboration with clients.

Power of collaboration

Where collaboration is concerned, there is much to be gained by designing solutions in tandem with clients, says JB Commans, Head of Treasury Data Products at J.P. Morgan Payments. He explains that the bank works with a panel of clients that are excited to participate as thought partners in the cocreation of products.

While every product is different, the cocreation process involves a number of steps: in the first instance, research is needed to pinpoint and prioritise the problems that need to be solved and identify the right client for the product development. J.P. Morgan then works closely with the client at every step in the design process to make sure the original problem is being addressed.

"We rely upon this iterative process to make sure we address the right problems," says Commans. "That's key to the codesigning process – we want to solve a practical problem, and codesign is how we ensure this happens."

Cocreating in practice

A recent example of this approach was a cocreation project with Evoqua Water Technologies, a leading provider of water and wastewater treatment solutions. Building on the success of other cocreation projects with Evoqua, J.P. Morgan approached the company to propose working together on a new AI-powered cash flow forecasting solution.

"J.P. Morgan is the lead cash management bank for Evoqua, and has seen roughly 90-95% of all the cash transactions we do as a global company," says Corporate Treasurer Ariel Kuperminc. "To have them come forward and demonstrate a commitment to work with us in transforming our data into actionable information in a consistent solution only emphasises the value of this relationship for both parties."

As with most treasuries, Evoqua places considerable importance on its cash flow forecast, which is used as the basis of many cash management decisions. "As a treasurer, you wake up in the morning and wonder where your money is, where it's going and where you need to place it," comments Kuperminc. "So having a software tool that goes out weeks and months gives us comfort in the decisions we make for borrowing and repaying."

When it came to collaborating on the new forecasting software tool, the initial discussions about Evoqua's cash flow forecasting processes and needs were an essential first step in the process. "Sometimes you feel like you're being interviewed in order to fit into someone's process that has already been designed," says Kuperminc. "In this particular conversation, there were questions the J.P. Morgan team returned to several times about how we think about things and how we use our forecast."

In subsequent stages of the process, J.P. Morgan continued to take a thorough approach, seeking feedback on the tool and making sure it was fully aligned with Evoqua's needs, adds Jordan McFarland, Treasury Analyst. "Ultimately any feedback I gave resulted in more tweaks, and then J.P. Morgan would ask me for more feedback on how that reacted," he recalls. "It was truly a collaboration, with a lot of back-and-forth between the design team and our treasury team."

Benefits of AI-powered forecasting

Once Evoqua's team was comfortable with the layout and features of the forecasting software, the tool was implemented as part of the company's standard process for forecasting. The resulting tool makes use of a variety of different forecasting models, running an AI algorithm that uses historical transaction data to choose the best fit model for the company's particular transactions.

"On top of the advanced AI, we have the ability to investigate any specific spike in the company's history. You can click on any day and find out what happened that day transaction by transaction. This provides the layer of context you need to fully explain the numbers you are presenting," notes Commans. "And if that spike was a one-off event that is never going to repeat itself, you can choose to take it out of the equation so that the AI won't factor it in."

Likewise, treasury teams might know that a large flow is due in three months' time, and add that one-off to the results. "It's about creating an end-to-end intelligent workflow solution, where all these layers of human knowledge can be integrated with the AI," Commans says. "At the press of a button, all this information flows through the process."

Evoqua uses both top-down and bottom-up forecasting techniques at a company-wide level, as well as a 'back of an envelope' forecast. Compared to other methods, the AI model "is very much more informed, keeping a lot of history and being able to look at the patterns we're unable to pick out," says Kuperminc. "It's less prone to human error – and a process that would otherwise take hours now takes just two minutes."

The road to self-driving treasury

Turning to the future, Wimmer and Commans envisage a future in which companies can use AI to build a self-driving treasury organisation.

"There is a version of our future where artificial intelligence is fully trained to recommend, and then even accomplish tasks for treasurers," explains Wimmer. "In this bionic world, the AI executes day-to-day, simple tasks. It finds patterns invisible to the human eye, bringing attention to critical issues – so humans can focus on what they do best: finding creative solutions to complex problems."

The cash forecasting solution, for example, not only compares cash flows over time, but also uses AI to build an added layer of insights on top of the company's data. "The next stage will be to have AI recommending actions – for example, you could programme it to optimise your working capital, or decide what currency to send a payment in, to optimise your foreign exchange fees," says Commans.

The final step – "and the one we're all very excited about" – is to create a feedback loop whereby treasurers can indicate that recommendations made by the AI are beneficial, Commans adds. "And when you've collected enough information about this, the AI can start doing things on your behalf, which is really what we're driving for."

Evoqua's McFarland agrees that the idea of self-driving treasury is a welcome prospect, noting that some types of recommendations could bring considerable value to many of the company's routine processes. "If we could get to a place that our banking infrastructure just knows that we need to move X amount from one account to another on Wednesdays, without us having to be reactive to certain events, that would make our lives even easier," he concludes.

Unlocking the potential of embedded finance

As embedded finance continues to evolve, there is an opportunity for treasurers to explore how these developments could help their businesses. So, what does embedded finance really mean, what's driving progress in this space, and where should treasurers begin?

Among the numerous developments reshaping the financial services landscape, embedded finance is one of the most significant. Recent research by Bain & Company found that financial services accounted for US$2.6trn of US financial transactions in 2021 – almost 5% of the total. By 2026, the transaction value of embedded finance is predicted to rise to over US$7trn.

A significant driver of embedded finance is the ability of companies to add to their existing revenue streams, launch additional products and improve the user experience for their customers. But what do the terms 'embedded finance' and 'banking-as-a-service (BaaS)' mean? And, what do they mean for corporate treasury teams in particular?

Understanding embedded finance and BaaS

Definitions vary, but in general terms embedded finance can be described as the provision of financial services by non-financial companies. A retailer, for example, might offer customers insurance for certain goods at point of sale.

"Embedded finance is where financial products are made available seamlessly within the customer journey of a non-financial platform, as and when they are needed," explains Jonathan McPhail, Lead Client Partner, Banking-as-a-Service at Finastra. "By embedding the products, they can very easily be tailored to the customer and circumstance in which they are presented." He adds that financial institutions expose their services for consumption in this way via BaaS platforms, which enable the connectivity and embedding of their products.

Aman Narain, Global Head of Platforms, Commercial Banking at HSBC, adds that financial services have "evolved from being someplace you went to (a branch) to being somewhere you needed it (in your pocket). Embedded finance, we believe, is the next phase of this evolution where banking is integrated or embedded into something you are doing, typically in a non-bank environment." He notes that BaaS is "the tool or the infrastructure, including APIs, that enables others to consume banking products seamlessly in a non-bank environment."

A variety of financial services can be embedded in this way. While embedded payments might be the most ubiquitous, says Narain, "you can equally embed lending, trade finance, or foreign exchange, as we recently announced with our partner Finastra – or even a suite of services, which we offer to Oracle NetSuite customers."

Drivers and enablers

Several factors are driving progress in this area. François Masquelier, CEO of Simply Treasury, says that while embedded finance does not derive from legislation, it is one of many innovations to be enabled by the adoption of open banking with PSD2. "Indeed, this regulation has allowed the generalisation of APIs in the banking world, a practice that has also extended to insurance and investment," he says.

Masquelier points out that embedded finance is based on API systems – "Indeed, on the use case allowing to extend the distribution of financial products to any website or mobile application, embedded finance connects via APIs to the information systems of banks and insurances to offer a seamless pricing and subscription to the end user. It is via similar systems that the underwriting information is then transmitted to all the CRMs involved."

Silvia Mensdorff-Pouilly, Head of Banking and Payments, Europe at FIS, cites two key drivers of development. "On the one hand, digitalisation and interactable technology is enabling the embedding of financial services in customer journeys," she says. "On the other hand, consumers are increasingly expecting transactions to become easier, faster, and more transparent."

As corporate treasurers begin to experience the ease of embedded financial services being offered to them as consumers, says Mensdorff-Pouilly, they will also expect to have similar experiences in the corporate environment.

Aggregators and orchestrators

Another notable feature of embedded finance is what it means for the competitive landscape. François De Witte, Senior Project Manager – Member of the Board of Directors at Transfer1, notes that the rise of embedded finance comes against a backdrop of fading barriers to entry that have traditionally protected the financial services sector, with incumbents facing a multitude of disruptive shifts. "On the other side, customers expect real-time, seamless, and

intelligent financial services," he says. "Regulation drives further competition."

With new providers working to compete with incumbent banks, they have been prompted to produce new solutions that leverage a greenfield environment to benefit from innovations such as cloud, microservices and APIs, adds De Witte. "The new challengers are born native to the cloud and provide 'build-your-own-platform' solutions via modular, microservices-based and API-first architectures."

He adds that these are both aggregators and orchestrators. "A successful orchestrator aims to leverage financial data and capabilities, brand equity and product supply on a group level," he notes. "Individual ventures remain autonomous and focused enough to innovate and stay close to external or internal client needs, such as wealth management, P2P payments, business banking, etc."

Implications for treasurers

So how could treasurers benefit from developments in embedded finance and BaaS? Mensdorff-Pouilly explains that treasurers could gain access to flexible or needs-based embedded lending options, such as invoice financing, trade financing, or factor invoicing, for example. "These could be embedded in their receivables or payables management system via an embedded lending API, and would enable working capital optimisation," she adds.

As major purchasers of financial services within their organisations, treasurers stand to benefit immensely from embedded finance, says McPhail. "With improved access to tailored financial products, such as payments, foreign exchange and financing, presented when they are needed, treasurers will be able to optimise the cost and reduce the time taken to select and acquire the services they need."

Enrico Camerinelli, Strategic Advisor at Aite-Novarica Group, explains that BaaS enables treasurers to select and use banking products directly as part of a brand experience. "With embedded banking they can move from picking and paying for discrete products to enjoying a unique community experience in which the same products are 'pulled' based on the context that constitutes the user's experience at that moment in time," he says. "Users will also want to move money around, deposit that money, borrow or lend it, and generate interest."

Understanding the use cases

Narain argues that any business that would like to improve its customer journey by reducing friction could benefit from integrating a finance offering, adding that BaaS can help businesses broaden their customer offering by introducing complementary products or services at the point of need.

HSBC, for example, has integrated banking services into NetSuite Accounts Payable Automation. "The service will accelerate cashflow and accounts payable (AP) processes, such as paying vendors and processing invoices, for customers," says Narain. "Using NetSuite, users will be able to access payment discounts and cashflow regulation."

The bank is also working with Finastra to offer its FX services to mid-tier banks, which "allows participating banks to deliver a wide range of currencies to their customers through branch networks and other retail channels, without requiring any additional technology integration."

> Embedded finance is where financial products are made available seamlessly within the customer journey of a non-financial platform.
>
> Jonathan McPhail, Lead Client Partner, Banking-as-a-Service, Finastra

Other use cases and opportunities include:

- **Working capital optimisation**. "Many businesses are overly reliant on expensive catch-all standard financing products, such as overdrafts and in many cases credit cards, to finance their short-term borrowing needs," says McPhail. "We see this as a great example of how harnessing the data available in the business applications, which become the embedded finance venues, can enable identification of and access to right-sized financing options, which can be significantly cheaper than the catch-all standard financing products."

  He adds that companies most likely to benefit from this are those that are included in extended supply chains and have high borrowing costs. "Building on the financing use case, we expect to see complementary products around risk mitigation (eg foreign exchange, interest rate) provided as packages in the same venues," he says.

- **Point of sale finance (POSF) solutions**. With B2B e-commerce becoming a critical sales channel for corporates, POSF solutions play a key role in helping them grow and retain their customer base, increase sales and gain an edge over competitors. "Sellers can introduce a POSF proposition which gives their customers flexibility to pay on terms or over a period," says Narain. "Sellers still get paid in full, up front without needing to wait for their customers to pay – meaning there is more cash flowing into their bank account, making resource allocation, purchasing, and business planning smarter and easier."

- **Embedded payments**. De Witte notes that embedded payments enable consumers to make payments at the touch of a button and without switching between apps, thereby speeding up the checkout and payment settlement process and improving the customer experience. "By providing embedded payments to customers, companies can increase their revenue, customer sign-up rate, customer loyalty and gain powerful analytics insights," he adds.

- **Embedded lending**. "Embedded lending lets someone apply for and get a loan right at the point of purchase," says De Witte. "The Buy Now Pay Later (BNPL) scheme is an example. This removes the need for excessive paperwork and cumbersome processes and enables the customer to get loans at the tap of a button. Another example is B2B lending."

- **Embedded investments**. Embedded investments, meanwhile, "simplifies the investment process by offering a single platform for investing and managing money," De Witte explains. "It allows users to put money in different

financial instruments without leaving the platform, which is a safety measure."

Impact on corporate banking relationships

With embedded finance and BaaS blurring the lines between banks and non-bank providers, how could these developments affect corporate banking relationships in the future? And is there a risk that banks will become disintermediated?

As Camerinelli points out, embedded banking involves the integration of financial services into non-bank products and business processes. "Companies do not have to hand over the customer relationship to a bank," he says. "They can maintain direct customer contact throughout the entire value chain."

Mensdorff-Pouilly observes that financial service providers that can offer embedded finance and BaaS to their corporate customers will be able to strengthen their relationships and find new markets. "However, financial service providers that miss the boat on this may find themselves disintermediated in their corporate relationships by those offering more advanced digital services," she adds.

On another note, embedded finance can also help financial institutions reduce the cost of serving their customers, says Finastra's McPhail. "With a lower cost to serve, financial institutions will be able to more readily position their value-added products, in risk-mitigation and advice, on a broader scale," he explains. "Embedded finance will not replace relationship banking – it will move it to a different venue which benefits both sides."

Getting started

With the evolution taking place in transaction banking, HSBC's Narain argues that "now is the time" for treasurers to consider reviewing their current treasury set-up with an eye to the future. "Against the backdrop of rapid digitisation and the arrival of exciting solutions encompassing embedded finance, treasurers have a unique window of opportunity," he adds.

Camerinelli suggests that for companies seeking to deliver financial solutions and experiences to their customers, the best path "is to partner with financial services providers that have everything in place today."

Asking the right questions

When reviewing embedded finance proposals, De Witte says treasurers should raise the following questions:

Trust: does a corporate have enough trust in the brand to interact in a financial context? Will they feel comfortable sharing their financial data with the embedded finance provider and trust that their privacy is protected?

Relevance: does the financial solution make sense for the corporate?

Business impact: can the solution provide sufficient value to the corporate, such that it incentivises adoption and usage? What is the value that this generates for the business? Will it be meaningful to the business?

"The provision of financial services requires a license, and businesses partner with qualified banks or financial services providers with corresponding licenses," he points out. "The fintech players best suited to offer embedded banking services are those with proven experience delivering agency banking – not simply holding an electronic money institution (EMI) license – and that have a bank license to develop BaaS products."

For treasurers looking to take advantage of opportunities in embedded finance, Mensdorff-Pouilly of FIS suggests starting off by looking at working capital management tools and linked financing. She notes that this is currently "greenfield space", given that most current embedded finance propositions are designed to serve retail or small and mid-sized business (SMB) customers. Nevertheless, she says, "it presents an interesting opportunity for industry members to come together and co-create a new solution."

Future developments

While the focus has so far been on services for consumers, it is likely that future developments in embedded finance will result in more opportunities for treasury teams.

"The key tenet of embedded finance is that it allows non-financial companies to embed financial services within specific contexts in order to streamline processes, broaden value creation and unlock unique business models," says Mensdorff-Pouilly. "From a treasury perspective, embedded lending solutions seem like an obvious place to start, but in future, there may be additional use cases, such as B2B embedded loyalty reward programmes that can strengthen the buyer-supplier relationship."

Could these developments give rise to a new breed of embedded treasury or treasury-as-a-service offerings? "As a new process, embedded finance brings a lot of ambition to move the financial industry forward," comments Masquelier. "As a consumer, we will have access to many existing and new products. Now, could we talk about 'embedded finance' for treasurers? Interesting question."

He suggests that banks could include in their banking service offerings elements such as treasury solutions, KYC platforms, cash flow forecasting tools and treasury-as-a-service offerings. "Banks could embed services into their offering, even if not pure banking products or services," he adds. "I am convinced the banks will have to differentiate by offering other IT solutions to corporate customers."

As Masquelier points out, this could be a way for banks to differentiate their offers, increase profitability, compete effectively, gain customer loyalty, enhance the customer experience – and enable customers to access better quality information, for example in the area of cash flow forecasting.

"We are only at the end of the beginning phase of embedded finance," concludes HSBC's Narain. "As the pioneers learn from their lessons and more players start to offer solutions, I believe the foundation of success will be based on the ability to develop the muscle to cocreate capability." As such, he predicts that cocreation between clients, banks and fintechs will form the basis of solid relationships in this new era of collaborative working – "especially where BaaS is concerned."

NO TIME FOR LIBOR LETHARGY

With just nine months until the cessation of LIBOR for US dollar-denominated contracts, many issues are still to be addressed.

One crucial difference between the cessation of LIBOR for US dollar-denominated contracts on 30th June 2023 and the December 2021 deadline for the cessation of LIBOR 1-week and 2-month is in the volume of products linked to the legacy benchmark.

This means market participants still have a lot to do according to Didier Loiseau, Global Head of Trading and Financial Engineering at treasury fintech Murex.

"For example, banks in Latin America and South-East Asia had very little exposure to sterling, yen and Swiss franc LIBOR products, but have a much greater percentage of USD LIBOR-linked products in their portfolios – meaning many firms will be dealing with the transition without the experience of 2021 and the other three legacy rates," he says.

There will be market participants for whom the US dollar LIBOR transition will be their first and the risks that smaller US regional players are not as prepared as they might be should also not be underestimated says Julien Ray, Executive Director Data, Valuations & Analytics at S&P Global.

"Some firms are highly prepared as they transitioned their exposure to the Secured Overnight Financing Rate (SOFR) and other alternative rates pre-emptively and/or performed a thorough review of their current exposure, whereas others have adopted more of a wait-and-see approach," he says. "The LIBOR Act signed into law on 15th March will help minimise litigation risks after 30th June 2023, but firms should not be complacent."

In the US alone there are in excess of 5,000 financial institutions, many of which do not have non-USD exposure. Some of those participants that do not have significant USD LIBOR exposures have temporarily scaled back the project set-up and will look to ramp up again closer to the cessation date agrees Shankar Mukherjee, Business Consulting Partner at EY.

"The significant number of firms that are doing this for the first time will be at varying levels of maturity in their understanding of what needs to happen," he says. "Some education would have happened through the large global firms that have been educating their clients over the last few years, but these firms will have to now turn to execution of this complex challenge that will impact many functional areas."

From a technology perspective, Ray cautions that market players have limited funds available and need to really understand how to use and optimise them through a combination of building in-house and using third-party data, platforms and solutions.

Volatile capital markets have not helped promote progress given lack of deal activity observes Tal Reback, Director at global investment firm KKR with responsibility for leading its global LIBOR transition.

There is no one-size-fits all approach with respect to data or technology functionality for the transition as every institution, non-financial corporate and/or market participant is set up uniquely, he says. "That statement rang especially true for the loan market given the bespoke nature of loan contracts. Industry working groups, vendors and market software and data providers continue to enhance functionality as the transition ensues."

For the transition of contracts from LIBOR to new risk-free rates – whether through the use of fallback language, bulk transition via CCPs, or active transition – firms have designed technology solutions where feasible. But Mukherjee warns that there is still a level of manual processing required for transactions that don't transition via technology solutions as well as contingency requirements.

"For firms that have significant non-USD exposure, most of the technology investments have already been made when transitioning GBP, CHF and JPY LIBOR," he adds. "However, like most significant change programmes some of the solutions are tactical in nature and further investments will be needed to embed strategic solutions over time."

Onwards and upwards: reimagining the mobility sector

Autonomous vehicles, electric vehicles, pay-per-use – a major transformation is underway in the mobility sector. And as Citi's Manash Dasgupta points out, this has significant implications for the way in which OEMs manage everything from sustainability goals to changing customer preferences and inventory financing.

Manash Dasgupta
Solution Sales Head, Industrials, Treasury and Trade Solutions

Changing landscape

From electrification to autonomous vehicles and new ownership models, a significant transformation is currently reshaping the mobility industry. With new types of vehicles becoming more prevalent, and cars becoming 'software on wheels', there is a shift in the way consumers interact with the vehicle – and this is opening opportunities for cross-selling and commerce with passengers.

For original equipment manufacturers (OEMs), these developments come with new challenges when it comes to consumer payments, forecasting cash and financing inventory. At the same time, companies are having to navigate ongoing supply chain disruptions, including geopolitical disruptions and chip shortages. So how are corporate treasury teams in this sector adapting to the new landscape – and how can banks support them through this transformation?

From ownership to pay-per-use

"One of the biggest things I'm starting to see is that the ownership model is changing," says Manash Dasgupta, Solution Sales Head, Industrials at Citi®, Treasury and Trade Solutions. Until now, he explains, consumers have wanted to purchase vehicles, either by paying money up-front or by obtaining the necessary financing. But increasingly, the younger generation of consumers is looking for flexibility through subscriptions and pay-per-use models that enable them to access vehicles when they need to, without owning them. The introduction of autonomous vehicles, likewise, lends itself to the greater adoption of subscription models – meaning that rising consumption levels may not necessarily translate into higher levels of vehicle ownership.

With different ownership models comes the need for different processes, particularly where financing and collection models are concerned. "With pay-per-use, the car company – or whoever is closest to the consumer – has to figure out how to collect the money," says Dasgupta. "With traditional models, the OEM or the finance company would collect every month. But with a pay-per-use model, they need to figure out how to collect money more frequently and offer multiple means of collection to customers, which impacts cash flow projections."

Rise of EVs

Likewise, Dasgupta says the growing adoption of electric vehicles (EVs) will have a significant impact on the entire ecosystem. "Some EV companies want to provide charge points around the country – but others are proposing a model whereby you pick up a fresh battery every time you need to charge," he says. "There are also companies that are now reselling electricity." He adds that in contrast to the traditional method of filling up a vehicle with gasoline, EVs will increasingly vary in terms of their capacity to charge up at different speeds, voltage levels and price points.

The rise of EVs will also help to propagate different business models. Dasgupta notes that internal combustion engines are a lot more complicated than battery connected vehicles, and consequently require more sophisticated mechanics – "so the technology that's required to service cars is also changing with electric vehicles."

With new entrants in this industry turning their attention to EVs, companies are increasingly understanding the competitive importance of customer centricity – whether that means digitally engaging customers or creating a more fluid after-sale experience. “Consumer proximity is a big trend that OEMs must address, because they’re not used to it. With the dealership models, transactions just happen once a month,” says Dasgupta. “With greater proximity to consumers, they’re suddenly getting paid once a week. There are refunds and cancellations; there’s customer service – OEMs will have to start dealing with all this, because the consumer will come directly to them.”

Connected vehicles

A further change is the potential for the vehicle itself to become a point of sale. Historically, once a vehicle is sold, any subsequent revenue streams are predictable, such as servicing and financing arrangements. “But once you start bundling services, there’s no limit – you can bundle a coffee a day for the driver; you can bundle insurance; you can bundle road taxes,” says Dasgupta. “And why stop there? You can also make the vehicle your point of sale, enabling the driver to place orders from ecommerce websites.”

This approach may be particularly valuable in countries where lengthy commutes are commonplace. “If you’re not busy driving the car, you can sit in the back and buy services from the tablet in the car – if you’re going to the airport, you could order food so that it’s ready when you arrive,” Dasgupta predicts. As such, the rise of mobility-as-a-service will see different companies developing different ways to monetise services through cross-selling and through services that can be bundled into weekly, monthly and annual subscriptions.

Supply chain disruptions

On another note, while innovation has a major role to play in transforming the sector, OEMs have also had to address significant disruption during the last few years – from factory shutdowns in the early stages of the pandemic to the more recent geopolitical uncertainty and chip shortages.

“The output, production and supply of vehicles is so dependent on the supply chain that we all need to consider whether the supply chain is adequately funded, and whether it is resilient enough to withstand geopolitical disruption,” says Dasgupta. Estimating demand is also likely to become more difficult with the rise of subscription models and autonomous vehicles, making it harder to predict inventory needs and manage the supply chain.

Implications for treasury

For the CFO and the treasury team, it is important to understand the impact of these changes. Treasurers will not only need to think about different payment methods, and understand which methods are more prevalent in different countries, but also consider the associated reconciliation capabilities. In addition, they will need to review their cash forecasting processes.

“In the past it was very simple: treasurers only had to forecast monthly payments, a significant part of which would be financed,” Dasgupta says. “The CFO would have to forecast floor financing requirements and the financing of those vehicles based on sales trends – and that data has existed for decades.”

Today, in contrast, treasurers will need to base their forecasts on day-to-day consumer trends. “The flow of money and information is going to drive forecasting process, so treasurers have to think through a completely new process for forecasting cash inflows and outflows,” he says.

Another significant change relates to inventory, which is currently financed by the OEM or supplier until the consumer purchases a vehicle. “In future, if the consumer doesn’t own the vehicle, who will finance the inventory?” says Dasgupta. “Is it the banking system that will provide temporary financing, or will fintechs help the OEMs find financing alternatives? Ultimately the capacity to finance must align with projected inventory from short-term consumer demand forecasts.”

How can banks help?

During this profound transformation, treasury organisations are demanding greater flexibility from their banks. “We’ve had all these OEMs go to the capital markets and raise money for new ventures – that’s traditional banking,” says Dasgupta. “But we are also trying to learn from OEMs about what else we should aim to do.” For example, he says, collecting directly from consumers means having the right collections channels in place, from credit cards to digital wallets. “So, we’re putting a lot of investment in Spring by Citi®, which aims to create a consumer collection channel that includes all those channels.”

Another challenge is that when OEMs start bundling services, consumers will not want to make payments to multiple companies such as electricity companies, coffee chains or insurance firms. “Today, companies may need to get a payment intermediary licence in order to resell someone else’s product,” says Dasgupta. “That’s something that still needs to be solved.” As such, Citi has invested in a resource pool to develop banking-as-a-service that OEMs can then provide to their sub-merchants. Meanwhile, a dedicated global mobility team is focusing specifically on developing the bank’s business in the mobility space, from running client workshops to providing dedicated people who understand the needs of OEM clients.

On the supplier financing side, Dasgupta says Citi has previously offered supplier financing solutions based on OEMs’ credit lines – “but that’s not sustainable, because OEMs need the credit line for themselves.” As such, the bank has now created receivables financing structures which can be used to finance tier-one suppliers. “There are a lot of investors in the market who are willing to invest in suppliers so that the supply chain can get financed,” he observes.

“So right across the spectrum – whether it’s collections, financing the supply chain or providing access to the capital market – we’ve got banking services that can support mobility.”

Looking forward, Dasgupta notes that the trends currently transforming the mobility sector will slowly move across all forms of transportation – “It’s not just about consumers going from point A to point B,” he concludes. “I feel that business models will start to change not only with cars and motorbikes, but maybe also for trains and planes. There’s a lot of change and evolution coming across this space.”

Information underpins evolution of sustainable trade finance

As ESG data becomes more accessible, companies need to ensure that they can stand over their environmental and social metrics.

A sustainable trade finance solution is by definition a financing solution facilitating trade while having a material and positive contribution on either environmental or social aspects. This ESG impact is sought either directly in the underlying project/asset financed or facilitated, or indirectly through the ESG performance of the borrower.

Sanjay Sandarangani, Head of Sustainability Propositions, Global Trade and Receivables Finance at HSBC explains that there are two broad categories of sustainable trade finance transactions – use of proceeds; and transition financing.

"Metrics and underlying targets need to be relevant and ambitious based on historical performance and industry best practice," he says. "In both scenarios there is a requirement for annual reporting by the client to confirm that the intended purpose or target was met."

Key components of sustainable supply chain finance include track-and-trace, certification, and financial incentivisation.

"Assessment of the customer's economic activity or line of business and/or relevant industry certifications of their ESG goals and actions taken to achieve them are crucial when a bank looks to finance a sustainable trade," says Sriram Muthukrishnan, Group Head of Product Management, Global Transaction Services at DBS.

The certification process needs to be supported by a robust traceability process and data-led, while potentially enabling

the completion of financing and settlement processes simultaneously. This means clients should utilise data directly from business processes to enable tracking, certification and financial arrangements.

The first step in assessing suitability for sustainable trade finance solutions is to understand where the client is in their ESG journey explains James Binns, Global Head of Trade & Working Capital at Barclays.

"Some clients may provide products to the market that meet the relevant industry standards for being 'green', but may not have developed external reporting for their broader ESG goals," he says. "This could mean that sustainable solutions that link to the purpose of transactions are appropriate."

Other clients may offer a suite of products which are both 'green' and 'non-green' but have developed their ESG goals and regularly report on their progress towards these goals. In this scenario, solutions that link to attainment of targets linked to their ESG goals are more appropriate.

"Both of these solutions enable the client to speak to stakeholders (suppliers, buyers, regulators, employees and shareholders) about their commitment to supporting transition to a more sustainable economy," adds Binns.

Ahmed Benraissi, Head of Strategic Advisory, Global Trade Solutions at BNP Paribas observes that the first movers tying their sustainability commitments to their trade and supply chain financing were listed and large corporates from Europe, APAC & North America.

"We expect this movement to extend to all regions and clients segments including mid-corporates, who typically face significant challenges in complying with sustainability standards, either through top-down or bottom-up pressures and incentives," he adds.

Muthukrishnan refers to increased interest in sustainable trade finance solutions globally, with European-led corporates in particular driving demand as larger corporates ramp up efforts to transform their procurement operations to meet international sustainability standards and/or targets.

"In terms of specific sectors we see a sharp pick up in interest from the apparel, footwear and textile industries, especially from Asian suppliers located in markets such as Bangladesh, Vietnam, China and India," he says. "The renewable energy segment in Greater China also remains active and we have supported several projects in the region over the years."

Sustainable solutions are in their infancy within the trade and working capital market with many banks still developing solutions to meet this client need according to Binns.

"So far, we have seen a similar level of use for sustainable trade and working capital products across all geographies and client size," he adds. "However, we are noticing an increasing requirement from clients as knowledge of these products and the benefits they can bring to the client and their stakeholders increases."

Greenwashing and reputational risk are important issues to factor into any sustainable finance solution according to Donna McNamara, Global Head of Trade Product Commercialisation & ESG Strategy at Citi Treasury and Trade Solutions.

"To help mitigate these risks, data validation is at the centre of the procurement practice and the financing," she explains. "Banks and corporations have a similar approach to validation requirements and have built it into their respective procurement strategies."

Many organisations have started to address their direct emissions, but not enough has been done to reduce indirect

CASE STUDY

German adhesives and consumer goods giant Henkel recently confirmed that it had integrated sustainability criteria into the largest segment of its supply chain finance programme.

The programme – which Henkel has been running with Taulia since 2015 – now provides flexible financing options to the company's suppliers with preferential rates depending on their ESG ratings. EcoVadis was chosen as a co-operation partner for the programme, allowing for a globally consistent rating mechanism.

Since each country and region is different, it is very important to take local aspects into account and at the same time not lose sight of the need for consistency regarding impact. For this reason Henkel applies one consistent scale to measure sustainability using the same ESG provider worldwide.

The company does not expect sustainability to have any negative impacts on its supply chain in terms of additional costs or complexity.

"While the positive funding impact is still hard to measure, we expect sustainable programmes in the future to gradually receive funding at preferred rates from financial institutions," says Ulrich Borgstädt, Head of Group Treasury. "This requires their refinancing for green programmes to be cheaper than funding costs for 'classical' programmes."

Henkel has set a target of achieving 100 million tons of CO_2 reductions together with its customers, consumers and suppliers between 2016 and 2025.

The company has been using ESG ratings as a criterion for selecting suppliers for a number of years. Its sustainable supply chain finance programme incentivises suppliers to improve their ESG rating using a multi-dimensional approach on sustainability beyond pure carbon reduction.

> Assessment of the customer's economic activity or line of business and/or relevant industry certifications of their ESG goals and actions taken to achieve them are crucial when a bank looks to finance a sustainable trade.
>
> Sriram Muthukrishnan, Group Head of Product Management, Global Transaction Services, DBS

emissions, including Scope 3 emissions arising from their suppliers according to Sandarangani.

"On average, more than 80% of a company's carbon footprint resides in its supply chain, which means delivering on Scope 3 emissions won't happen unless more is done to help small and medium sized suppliers," he says. "Anchor buyers are in a unique position to influence positive change across their supply chains by helping their suppliers with know-how and financing tools to enable the transition."

He suggests that buyers need to identify metrics (which need to be robust, ambitious and in line with industry best practice) for their suppliers to improve against and which can help address the buyer's own ESG strategy.

Buyers also need to consider the social aspects of their supply chains, such as human rights. "While the EU and UK have had ESG disclosure requirements for public entities for many years, this is now being enacted into law," adds Sandarangani.

To remain relevant, companies will need to align profitability goals with meeting the needs of society – to demonstrate their efforts in supporting the betterment of lives and livelihoods, and show how the organisation is changing and investing in business practices to encourage a more sustainable future says Muthukrishnan.

"Banks can also work with corporates to provide working capital to suppliers and improve financial inclusion of SMEs while at the same time enabling and incentivising the achievement of agreed sustainability goals," he adds.

When asked to outline the sort of advice he would offer to companies looking to incentivise their supply chains to implement sustainable practices, Binns says he would start by recommending that they define and understand their ESG goals internally to ensure they have a compelling story to present to the market.

"Companies can then focus on those elements that are influenced by their supply chains, for example, reducing the end-to-end carbon footprint of the goods or services that they provide," he continues. "This can then be used to incentivise their supply chain to improve those elements by provision of key metrics that are externally verifiable on a periodic basis."

In a similar vein, clients can use their goals to make positive changes to how their supply chain operates – addressing the social and governance elements of ESG – by agreeing targets and pricing linked to the achievement of these changes with these suppliers, which will have a positive influence towards their own goals whilst providing leadership within the industry.

According to Benraissi, the success of this kind of supply chain financing programme relies on a number of factors including:

- The capacity of the buyer to convince its suppliers of the criticality of the ESG topic.
- The reliability and robustness of the ESG data.
- The appeal of the incentives.

"Research shows that the financial performance of companies corresponds to how well they manage ESG and other non-financial matters," says Benraissi. "However, for SMEs – especially in less ESG mature countries – there are still challenges in complying with sustainability standards and allocating time, money and resources. Those challenges are amplified if they need to demonstrate transparency and initiate sustainable actions to many buyers with different expectations."

He suggests that integrating these supply chain financing programmes within a digital platform enables suppliers, buyers and banks to interact seamlessly by connecting ESG data to financial metrics, speeding up access to early payments, while having a concrete and positive ESG impact.

Another consideration for corporates is the extent to which sustainability has a negative impact on supply chains in terms of additional costs or complexity.

Binns acknowledges that some supply chains will bear greater costs, for example where processes need to change or where increased monitoring and governance results in changes to suppliers. Accessing the data required to measure the ESG credentials of supply chains can also be complex and lead to increased costs. "However, this should be viewed through the lens of initial investment costs," he says. "In the current climate of the high price of utilities impacting the bottom line of supply chains, the time required to recoup the initial investment for making sustainability-linked changes is reducing."

This process is necessary over the long-term and will ultimately result in more sustainable and resilient supply chains, adds Binns. "Governments and regulators are also putting increased focus on transition to sustainable solutions, so if supply chains delay implementing these they risk negative reputational impact."

Muthukrishnan accepts that lack of supply chain transparency and control can be a source of business disruption and non-compliance to sustainability policies, resulting in financial and reputational losses.

"However, there has been a marked improvement with the advent of digital tools such as the internet of things to collect data, 5G networks to transmit this data more efficiently and cheaply, machine learning to make real time decisions, and blockchain to enable supply chain traceability and visibility," he concludes. These technologies can provide corporates with critical early warning signals to potential disruptions and help them manage exposure to risks and verify that products are procured sustainably.

Overcoming challenges in treasury and payments

How can NGOs drive changes to treasury and payment processes? Experts from Coupa Pay and Treasury, the International Organization for Migration and Save the Children International shared their views in a recent webinar.

Joanna Fanthorpe
Senior Treasury Manager
Save the Children International

Malcolm Grant
Chief of Treasury
International Organization for Migration

Caroline Lacocque
Regional Sales Director EMEA
Coupa Pay and Treasury

Making payments can be challenging at the best of times. But when you need to pay at short notice – and possibly in a place where you don't maintain a bank account – the challenges are compounded. A recent webinar by Treasury Today and Coupa Pay and Treasury looked at the challenges faced by NGOs and the changes they have introduced to their treasury and payment processes.

Challenging environment

Caroline Lacocque, Regional Sales Director EMEA, Coupa Pay and Treasury, explained that current challenges include the need for a more streamlined workflow and greater visibility, security and control, as well as the disruption and challenges brought by the current economic environment. "With expected fluctuations in the economy, and with supply chain disruptions, having a very good pulse on working capital and visibility over liquidity is very important for resiliency," she noted.

In order to drive improvements in treasury and payments, she advised companies should think about their digitalisation strategy and technology landscape. By working with a strong platform partner that provides synergy across their integrated systems, companies can not only achieve more visibility, but also better control and a more efficient processes.

Malcolm Grant, Chief of Treasury at the International Organization for Migration (IOM), explained that the organisation previously used over 100 payment process systems across 170 countries, with virtually no visibility over where money was located. Since adopting Coupa's treasury management system, IOM has been able to drive straight through processing connected to the organisation's ERP system for the chief bank accounts in Europe and North America, as well as rolling this out to some of IOM's larger field offices.

Save the Children International shares similar challenges, explained Joanna Fanthorpe, Senior Treasury Manager. "With growing political and economic uncertainty, we face many operational and funding challenges," she said, adding that these range from the risk of banking system failures and regulatory barriers to economic sanctions and de-risking by banks. The organisation uses the Coupa treasury system, integrated with FX platform 360T – "and without that we wouldn't be able to operate."

Driving improvements to treasury and payments

Lacocque noted that there is a lot of hidden yield for treasurers and accounts payable functions that is often missed, not least because of internal silos. Technology can help to bridge this by driving more collaboration and visibility between different groups. Another valuable approach is to use an in-house bank structure to improve cash flow processes and reduce bank fees, while improving the company's liquidity structure. Lacocque also highlighted the importance of reporting capabilities that can leverage data to drive insights and intelligence, citing Coupa's machine learning capability.

Fanthorpe explained that Save the Children International has around 600 bank accounts worldwide, with visibility over almost 90% of those. The organisation is using SWIFT gpi to gain visibility over the status of payments, although not all banks are gpi-ready to transmit tracking messages over SWIFT XML back to Coupa Treasury. "We're working with our two main cash management banks to make it possible, because this is crucial for our operations," she said.

Grant described a robotic process automation (RPA) carried out by the IOM, which won the **2022 Adam Smith Award for Best Digitisation Solution**. The initiative has seen IOM harness RPA for three processes, including reading bank statement data, replenishing local bank accounts, and making payments on behalf of missions using Coupa and 360T.

On another note, Lacocque discussed how treasury teams can incorporate ESG considerations. While green financing is often cited as a key way of achieving this, she noted that treasury can contribute to ESG in many other ways, including by reducing the need for paper by adopting digital workflows.

In closing, Grant noted the importance of working with colleagues in accounting and procurement to ensure the accuracy of data. Fanthorpe, meanwhile, emphasised the value of a good treasury management system, as well as the need for transparency with banking partners and focusing on wellbeing for the treasury team as a whole.

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

The route to treasury

Debbie Kaya
Senior Director Treasury, Global Cash and Stock Operations

Debbie Kaya, Senior Director Treasury, Global Cash and Stock Operations at Cisco Systems, discusses how her unconventional career path led her to the treasury of one of the largest technology companies in Silicon Valley.

Cisco Systems is a multinational technology company headquartered in San Jose, California. With over 80,000 employees, and revenues of over US$51bn, it is one of the largest technology companies in the world. Best known for its computer networking products, Cisco is responsible for the design and manufacture of much of the technology that powers the internet, as well as solutions which are the foundation of most corporate, education and government networks around the world. In 2022 Cisco Systems was rated number one in Fortune magazine's annual rankings of the 100 Best Companies to Work For, topping the survey for the second year running.

For Debbie Kaya, the appeal of treasury lies in the balance it offers between predictability and variety. "I love the way that treasury has a certain structure to it. The deadlines are fixed, the markets are open at certain times," she explains. "But at the same time, every day brings something different. It presents different challenges. You get to be involved in new aspects of the business and develop new skills."

While Kaya is enthusiastic about the opportunities treasury presents, her route into treasury was somewhat unconventional. In fact, she decided at an early age her career would be in the world of medicine and healthcare, and never really considered any other options. But after gaining a Bachelor of Science in Biology at the University of California, Los Angeles, Kaya had growing doubts about whether it would be the right career for her.

In her opinion, the ever-increasing cost of healthcare and its lucrative financial rewards were leading away from a focus on care, with a greater emphasis on profit. So, when it came to choosing her next step, Kaya says she "had to think long and hard if that was what I really wanted to do."

Kaya's sister mentioned that the company she was working at needed an administrator. Following a successful application, Kaya started working at the company, which was a small networking start-up firm. "I worked in the technical support team, with responsibility for handling the pre-sales and post-sales support," Kaya adds.

Although a degree in biology may not have seemed directly relevant to the role, the fact that it was a science discipline meant it was heavily weighted towards maths – and Kaya had always had a great affinity for numbers. As such, she was able to impress her manager with her abilities in that area. Recognising her potential, he arranged for her to learn as much as she could about spreadsheets and databases. "Before I knew it, I was managing the team's budget," Kaya recalls.

Her manager, who had become both a friend and mentor, then encouraged her to pursue her career further and to consider studying at business school. So, after four years with her mentor at two different firms, Kaya enrolled at the Indiana University Kelley School of Business, where she gained an MBA in Finance.

Next stop: Silicon Valley

Having enjoyed working in a technology company, Kaya realised that was where her future career lay. She therefore decided to move to the heart of the sector in Silicon Valley. After a spell as a financial analyst at a technology networking company, she landed a position at Cisco Systems in September 1999, starting in sales finance.

When Cisco started a recruiting programme at the business school where Kaya had gained her MBA, she had the opportunity to get to know the manager of global investments in the treasury department. When asked whether she would consider working in treasury, her first reaction was that having little experience of the investment side of finance meant she was hardly qualified for such a role. "He told me – 'you're smart, you'll figure it out'."

After working for two years at Cisco's investment operations in Reno, Nevada, Kaya was ready to move back to California. Rather than take another role within treasury, she decided it was time to learn another side of the business. With her boss suggesting she could do a lateral move, she decided to take the opportunity to learn cost accounting and gain an insight into the manufacturing supply chain side of the business.

With Kaya accumulating a wide breadth of experience from the various financial areas of the business, it was perhaps not surprising the Treasurer at the time asked if she had set her sights on becoming a CFO. "I told him that probably 80% of graduates coming out of business school would have that ambition," she remembers. "But I told him that I didn't know if I would be willing to make the personal sacrifices necessary, but I was not ready to rule it out, at least not at that time."

Then, after spending a year in manufacturing finance, Kaya realised that she was ready for her next role – adding that she had been "bitten by the treasury bug."

Cash management

Kaya's previous manager – who was running the global investment team and cash management at the time – asked if she would like to return to treasury. In particular, he asked if she would be interested in cash management.

"I told him I had never done that before, but he pointed out that I hadn't done investment operations before either," she recalls. "And then he asked me if I would consider moving to Europe as well. We had the conversation on the Thursday, and he told me he needed my answer on the Monday." After making many phone calls and having just that weekend to make her decision, she agreed to make the move.

Kaya spent nearly three years in Europe, based at Cisco's treasury operation in Amsterdam, where she was the Cash Manager for EMEA as well as Acting Cash Manager for the APAC region. She subsequently returned to the United States to become the Americas Cash Manager, a position she held for almost four years. "After that, I became Head of Global Strategy and Director for all the cash centres, with more of the treasury operations reporting to me, and more recently was asked to lead stock administration and mergers and acquisitions stock and payroll," she recalls.

In her current role, Kaya is the Senior Director of Global Treasury and Stock Operations, which includes core treasury responsibilities such as global cash management, investment operations, 401(k) operations and treasury systems and compliance. In addition, she has responsibilities for stock administration and mergers and acquisitions stock and payroll. "So, when we acquire new companies, we bring the employees onto payroll and handle the stock transition for the target company," she notes.

The company's traditional treasury activities are handled by a 35-strong team, which focuses on five major functions of treasury – namely cash management, investment, foreign exchange, corporate finance, and risk and insurance management. "We also have responsibility for integrating acquisitions and mergers, and we deal with accounts receivable, accounts payable and sales," says Kaya. "We've built a great team, and I'm really proud of them."

She notes that the company has centres in some of its key geographical locations. "In the United States we have two, one here in San Jose, California, and one in Raleigh, North

Carolina. In Europe, we have our centre operating out of Rolle in Switzerland, which handles EMEA and the Asia Pacific regions. And then we have team members in China, and in Bangalore in India."

Evolving role of the treasurer

With today's environment characterised by geopolitical risks, as well as by rising interest rates and levels of inflation not seen for decades, Kaya notes that risks to financial stability have increased substantially – and that adjusting to this new landscape requires quite a shift for many of today's treasury professionals.

"For the past two and a half years we have had to deal with a lot of challenges, and we're currently going through a big economic shift," Kaya notes. "It's such a changing environment, and a lot of people have never had to deal with these kinds of situations before. What keeps me up at night is thinking about all the situations that we haven't encountered yet, even after the past few years."

Consequently, Kaya sees the current environment broadening and deepening those parts of a treasurer's role that go beyond the remit of traditional treasury, not least because in the present financial climate, the definition of risk is expanding.

"The treasurer needs to be the steward of the financial assets and manage risk," she explains. "But for a treasurer, there is always an 'and' to that role. They also need to be strong internal partners, and build strong external relationships, and make the greatest possible use of technology."

With real-time data becoming a reality, Kaya points out that having a strong understanding of technology presents an opportunity to use data to look at risk in different ways, and at a deeper level – "Be it to assess risk due to changing economic conditions, compliance or global external forces." In addition, says Kaya, fraud and cyber risk has become much more sophisticated. "Teams have to be able to address and mitigate these risks, from the day-to-day transactions and movements of money to the area of insurance management."

Significant achievements

Kaya has achieved much in her career – but as she points out, sometimes not doing something, and steering away from the usual path, can be an achievement in itself. "I would say that one of my greatest achievements was having the courage to stop a project," she recalls.

Some years ago, with treasury in the process of adopting a treasury management solution, Kaya says she realised the new solution was not going to be able to fulfil its purpose. "We were six weeks away from going live with the treasury workstation," Kaya recalls. "There was a list of functionalities we viewed as core, but the vendor regarded as customisation. And the vendor provided costs for two of the items on our list." These two items were going to cost three times the annual licensing fee.

Realising the solution might prove to be a "money pit", Kaya went into the Treasurer's office to inform him what they had been expecting would not be delivered, and to suggest the project be cancelled. "I told him we were not going to get what we wanted, and so we needed to pull the plug on the project, to which he agreed."

With the support of the IT manager, treasury opted for a different approach – namely to rebuild the company's existing in-house solution. The discussions that followed proved fruitful, and with Cisco's internal expertise, it was straightforward to reengineer and repurpose the solution to provide treasury with the necessary functionality. "We had implemented SWIFT, so we could access a lot of really interesting data," says Kaya.

With the solution producing more comprehensive access to data, and in a more streamlined and standardised way, Cisco was also able to build a data warehouse which became a resource not just for treasury, but for other partner organisations too. "That's one of the achievements I'm really proud of," Kaya notes.

She adds: "When I discuss this in larger forums, the reaction from other companies is usually that they wouldn't be able to do it themselves, because they wouldn't have the resources. And if I were at a different sized company at a different period of growth, I would take a different approach now, because the technologies available are different." Nevertheless, says Kaya, treasury continues to revisit and improve the solution, with a recent enhancement including the addition of an off-the-shelf tool.

Moving treasury forward

Kaya believes in the continuous assessment of treasury operations – and working for a technology company means she is always eager to evaluate new technologies and systems. Acknowledging that nothing stays the same for long in the technology space, she says: "You can't just stay stagnant and remain in the same place. You must look at it in terms of a cycle, to find out what technologies are currently available and how they can address the present needs of the business."

With technology providing increasingly powerful tools for treasury to use, she sees real-time data – and the ability to gather information about transactions and operations as they occur – as a major goal for treasury, as well as for businesses generally.

Where other developments are concerned, application programming interfaces (APIs) that allow data transmission between solutions are another exciting area of development. "I think we're still trying to figure out bots and artificial intelligence (AI) and where best to use them right now," Kaya comments. "And personally, I'm really interested to see how real-time payments roll out. There's a lot of talk about it, but it's a question of how it really works in practice."

Turning to current and upcoming projects, Kaya says Cisco has recently implemented an intercompany loan solution in light of changes to the company's structure. "We're also looking into multilateral netting," she says. "We're looking at some tools to help with compliance, and we're also looking at some of our regional set-ups that have been in place for many years to see if we need to make changes."

Keeping all of this in motion is no small task. Nevertheless, Kaya says she enjoys good food and wine when she is off duty. She also enjoys long distance running and mountain hiking and loves to travel to different places around the globe.

ISO 20022 MIGRATION HITS ANOTHER SNAG

The migration to the payments messaging format ISO 20022 has been delayed by SWIFT, again, in a move that demonstrates the complexities of getting all the world's financial institutions to adopt the new standard.

It has been heralded as the new era in which payments won't just simply be about money. With ISO 20022, the messaging format that financial institutions use to communicate with each other, there will be the potential for more information. When one institution sends money to another, it will no longer just be about the payment; it will be about the data that accompanies a transaction. This will make it easier to identify where it came from, what it is for, and make it easy to refer to any relevant documentation. The new messaging format could be game-changing for correspondent banking – and cross-border payments – but the migration to ISO 20022 has hit another snag.

SWIFT announced that it was delaying the migration of ISO 20022 for cross-border payments and reporting, a project that is known as CBPR+, until March 2023. It is not the first time that the migration has been delayed.

This time the decision came after the European Central Bank (ECB) announced it was postponing the launch of its upgraded real-time gross settlement and securities settlement system – which also uses the ISO 20022 standard – to "allow users more time to complete their testing in a stable environment".

SWIFT said in a statement, "An overwhelming majority of our global community has requested that SWIFT align the start of the global ISO 20022 migration for CBPR+ with the ECB's updated timetable to ease implementation. In response, we have taken a decision to accommodate this request, and SWIFT will begin the ISO 20022/MT coexistence period for all users on 20th March 2023."

The coexistence period means the old style of messaging will still be possible as the new format is phased in. The difference with the upgraded ISO 20022 has several implications in the services that will be possible with cross-border payments and correspondent banking.

Annemarie Bona, a subject matter expert and Product Manager at ION Group, a provider of treasury and risk management solutions, writes that some of the benefits of ISO 20022 include the gaining of enriched, structured and quality data as well as more straight-through processing and automated remittance reconciliation. Also, this inclusion of quality data with transactions can help prevent money laundering. One example of this could be providing land registration details as additional data to accompany large payments – to prove that the transaction is for a legitimate purchase of property.

The SWIFT CBPR+ migration deadlines affect certain types of financial messaging and MT 1, 2 and 9 messages will be phased out in favour of the ISO 20022 compliant MX format. Bona explains that the categories impacted will be financial messages for customer and financial institution payments transfer, cash management status messages and bank statements.

The old MT and the new MX messages will co-exist as financial institutions adapt to the new format. Although the start of the ISO 20022 messages for cross-border payments has been delayed, this does not mean that financial institutions cannot use them, if they are ready. They can opt-in to the new standard and communicate this way if it has been agreed on a bilateral basis with the financial institution on the receiving end of such messages.

SWIFT previously delayed the migration schedule for correspondent banking back in 2020, pushing back the deadline to 2021. Given the complexity of payments systems, it is perhaps not surprising especially as many payment systems upgrades are delayed. Still, however, industry observers comment that it is frustrating to wait even longer and are concerned that the initiative will lose momentum.

Strategic treasury: the qualities behind a good leader

As treasury's strategic role grows so treasurers are increasingly expected to lead. Good leadership requires empathy, empowerment, and overhauling mentorship programmes in an approach that demands much more than soft skills.

The BBC documentary "The Elon Musk Show" reveals the incredible ability of the world's richest man to lead and elucidate his vision around seemingly far-fetched ideas like space travel for all or, back at the turn of the century, electric cars. In less comfortable viewing, it also shows Musk extracting long and gruelling hours from staff like Colette Bridgman, Head of Global Marketing at Tesla from 2004 to 2017, who recounts in the documentary how she had lost all semblance of family life. "I was drinking out of a firehose every single day for years and years. My three-year-old son was calling me Dad."

Leadership is one of these amorphous concepts that people struggle to pin down because it comprises a fuzzy combination of different skills. For some, the most successful leader is someone who develops and communicates a vision of an organisation in a way that can be understood at every level and allows all to contribute. For others, the essence of a good leader is the exact opposite, someone able to draw on people's resources and talents in a way that doesn't result in burn out. Treasury Today interviewees also point out leadership isn't synonymous with corporate position nor is it something that necessarily responds to generous remuneration. In amongst these diverse opinions, it's possible to draw common threads. Many ingredients go into good leadership; it can be taught – and companies neglect it at their peril.

Empowerment

Optimism is often more effective than a motivational approach to leadership, says Dave Ulrich, Speaker, Author, Professor, Thought Partner on Human Capability. Drawing on the work of Martin Seligman, the father of positive psychology, Ulrich argues that 'learned hopefulness' whereby leaders imbue in employees a belief in their own agency and power to control their own environment makes for the best type of leaders. Success depends on getting people to tap into their own sense of efficacy, optimism and imagination, he says. "These brilliant insights help me personally and help me help others. With agency, people replace helplessness with hopefulness and create a better future. Agency becomes a fundamental principle for people to take charge of their circumstances and reach their potential."

Empathy

Empathy is another key ingredient. "Honestly, do you know how your staff feel?" asks Ulrich. "Living in your employees' shoes alters your perspective, provides valuable insight, and strengthens the culture of the workplace." Empathic leaders allow disagreements to foster innovation and creates organisations rooted in common sense without self-inflicted bureaucracy and where employees want to give their best. Appreciation and sharing also oils the wheels of good leadership, he adds. "You ultimately lead most by example. Share your hopes and fears, your successes and failures, and the processes you use to make key decisions. When your employees experience your values in action, they will feel the sincerity of your commitment."

But leadership's association with words like empathy, gratitude and humility is frustrating for many experts on the topic. It bundles leadership into a nice-to-have box of soft skills, a depleting term that fails to reflect leadership's importance and alienates employees. Like Ulrich, Zahira Jaser, Associate Professor and Director MBA at University of Sussex Business School, also believes that good leadership rests in employee empowerment. "Successful leadership is about understanding that people want to work, are committed and conscientious and don't need to be told what to do," she says.

But that is challenged by the fact that the ability to connect and listen embodies so-called 'feminine' skills (not unique to women) like empathy, caring and making time for people. Yet it is 'masculine' skills (again, as prevalent amongst women as men) of efficiency, presenteeism and control that tend to dominate in many companies.

It also suggests that the hard skills that drive performance are most sought after. "The way we appraise a good leader is often to do with a very masculine approach to leadership that is deceiving and does not respond to today's workers' needs, men or women," she says. It also feeds into why many

companies struggle to build these soft skills. Executives are quick to say if they need more hard, tangible skills like coders or staff on a production line, but it's difficult to gage and push for conceptual skills in an organisation. "Leadership is fuzzy; it's difficult saying you haven't got enough," agrees Russ Porter, Vice President of Finance, Global Business Services, IBM for nearly three decades before joining the Institute of Management Accountants as CFO and Senior Vice President.

Successful leadership is complicated by the fact different situations require a different type of leadership, continues Porter. For example, in a crisis companies might need a coercive leader. At other times, leaders need to be authoritative. A different situation might require focusing on morale and adopting a coach-like role to help people understand their own capabilities. "Good leaders need all these characteristics in their toolbox ready to pull out and use. Pull out wrong tool and you won't get the results you need," he warns.

Learning to lead

David Aldred, at Citi for 12 years, most recently leading treasury and trade solutions in MENA and Pakistan until he left in June 2022, has spent recent months coaching and advising on the key components of strategic management and leadership.

Like others, he is convinced that successful leadership involves empowerment. Something that in turn rests on leaders seeking their own self-development, whether equipping themselves with the latest knowledge around APIs, AI and blockchain, or attending leadership seminars. "You don't have to be a coder, but if you don't understand how to embed these things in a business that is a skills-gap," he says. "You can't rest on qualifications from 20 years ago – and you are never too old to learn. It's about taking ownership of yourself for success in your next role and the role beyond that; needing to do something now that will get you to where you need to be in six years."

"IBM is a huge believer that leadership can be taught – I am living proof," echoes Porter. "If you'd seen me 30 years ago you wouldn't have thought I would succeed, but I studied leadership."

Mentoring

Learning to lead is why mentoring is a key tenet in the leadership process. Yet in many cases, mentoring falls short. Few organisations offer mentoring at a senior level, requiring people to reach out themselves to colleagues and peers they respect to ask for career support. In another challenge, mentors often have a propensity to advise and cajole when the emphasis should be on listening. "Mentors often say 'you should do this' or 'if I was you' but a mentor's role is really to listen, ask questions and get the mentee to think for themselves," says Aldred.

Good mentorship also involves mentors withstanding a critical conversation and not shying away from difficult ethical problems in a way that simply reinforces the system. Drawing on her own experience of mentorship when she was in banking, Jeser stresses the importance of mentors accepting a mentee's criticism of the company and co-workers. "My mentors in banking where good, but when we started talking about politics in the workplace and bad practices from the top, they shied away at the time I needed them most." Now a mentor herself, she makes sure she asks questions about who is blocking mentees and exploring the key alliances in the company to make sense of their challenges. "Don't have generic conversations, be specific to each," she urges.

Good mentorship comprises imbuing a sense of self confidence and belief, she continues. Something that wains, she observes, most obviously amongst minorities in senior roles. "How do you keep your core confidence up when you are continually an outsider? I think a huge part of this involves mentors helping mentees recognise their own value and the need for voices that are not compliant and complacent but innovative and creative. Your uniqueness adds to the organisation."

Remuneration

Companies won't necessarily solve their leadership vacuum by throwing money at the problem. In many ways, high remuneration is the wrong incentive to engender strong leadership. Many leaders are simply not motivated by remuneration or climbing the corporate ladder, says Porter. "I'm not sure we do enough to reward people for whom money is not a motivation." For many leaders, respect, networking opportunities or the opportunity to work on specific projects is what they value most. "I knew a guy who wasn't interested in becoming an executive. He was an expert in a narrow niche of accounting, and this is what he enjoyed leading on most and where he saw his value. It wasn't about seniority or pay."

An anecdote that also speaks to the fact companies often overlook the importance of experience when it comes to leadership. Jobs open-up in a meritocratic system; employees may only stay three or four years in the same role and companies are loath to invest in seniors. Yet experience makes for the best leaders. Similarly, managers, in touch with people on the ground and often a company's most important source of leadership, are often overlooked and not recognised as leadership material.

Moreover, anecdotal evidence suggests that pay is not a key differentiator since companies in the same sector tend to have similar pay levels. Employees do, however, take a keen interest in different leadership cultures and the opportunity to grow and develop within an organisation. Corporations that get leadership right, will be better able to hold onto their staff.

Leaders may not be overtly motivated by pay but corporates still need to overhaul their reward system to better recognise leadership and talent management alongside financial results. If leadership matters to an organisation's success – and study after study suggests it does – it should be rewarded, argues Ulrich. "The reward system should signal or communicate this by making effective leadership part of the criteria for pay. This happens by having indicators of effective leadership as part of the expectations and standards and tying pay to those indicators."

As treasury's reach continues to evolve so the need for treasurers to lead and inspire colleagues grows. Treasurers no longer just lead on cash and FX management. Their prowess extends to technology, ESG, governance and risk expertise. "As treasury adds more value to an organisation treasury leadership will continue to grow, and I don't see any end to this," concludes Aldred.

How innovation and digitisation are transforming cross border payments

Guaranteed FX rates, multicurrency netting, automated foreign exchange conversion and APIs are just some of the tools on hand for treasury teams seeking to improve cross border payments and remittance flows, and take advantage of open banking, digitisation, and new payment technologies.

Daniel Stanton

Managing Director, Head of Transactional FX – GTS

The speed of globalisation is increasing. The world markets are becoming further interconnected and interdependent. Change is a constant. As a result, more and more companies of all sizes are now operating on an international scale, including those in the shared and gig economies, which often introduce new preferences and behaviours by various counterparties. All of this translates to accelerated growth of cross-border payments and remittance flows, propelled by the trends of open banking, digitisation, and new payment technologies.

As a result, the job of a treasurer is also evolving. Adding to the complexities of global transactions are new risks, including:

- Dealing with increasing market volatility and geopolitical impact.
- Managing cross-border exposures.
- Dealing with accounting, forecasting and reconciliation tied to foreign exchange operations.

- Addressing complexity of intercompany flows and different operating currencies.
- Complying with local jurisdictions and regulations.
- Mitigating transactional, counterparty, operational and economic risk.

Banks are responding to these changes in the cross-currency payments landscape by offering tools that leverage new technology and innovation and help mitigate risk, gain efficiency and improve transparency.

Guaranteed FX rates

Guaranteed FX rates lock in the foreign exchange rate for a pre-agreed tenor up to 180 days. After parameters – timeline, currencies, transaction limits – are determined, FX rates are delivered to our client. Once live, transactions within pre-agreed parameters will be priced at the Guaranteed FX rate. This solution provides visibility and predictability, and a buffer against foreign currency volatility.

Multicurrency netting

Managing cross-currency inter-company payments can be complex, costly, and prone to manual errors. Improving this process is essential to reduce costs, manage risk, and streamline settlements. Instead of entities settling directly with each other, FX netting can aggregate your inter-company payables and receivables into a single location. This means just one single payment, significantly reducing the number of settlements required.

Treasury teams can combine Guaranteed FX rates with multicurrency netting to elevate their experience. Marry the calculation and execution of FX rates, by locking in a spot FX rate for a period of time, typically up to 12 hours for a netting programme. This provides sufficient time to utilise the Guaranteed FX Rate to calculate positions, finalise participant settlements and execute FX trades.

Automated foreign exchange conversion

Often, a corporate will send US dollars to a beneficiary overseas. This can be to their disadvantage as the recipient bank converts the transfer into the local currency of the beneficiary and can add costly lifting fees. The sender may lack transparency on what rate will be applied to the payment and how much will ultimately arrive at the beneficiary, which can lead to disputes or discrepancies. With this solution, cross-border USD payments are converted into the local currency of the beneficiary before the payment is sent. It incorporates cutting-edge artificial intelligence and machine learning and reads the outbound payment details and determines if the beneficiary account is held in USD or in local currency. The result is an accurate, agreed upon receipt for the beneficiary as well as lower costs for the sender.

FX receivables

Our FX receivables solution can help enhance the collection process by automatically converting incoming foreign currency payments into your home currency. FX receivables helps reduce the number of currency accounts that need to be maintained, as well as greatly eases the reconcilement and accounting process of transactions. Moreover, it can improve straight through processing, accelerate cash flow and help cash forecasting.

These businesses may be on the very leading-edge of digital transformation, but that doesn't necessarily translate to having the specific regional expertise and knowledge to tackle the complexities of handling payments around the world.

APIs

API, or Application Programming Interface, are a communication protocol used between two or more applications or programmes to exchange information. APIs connect systems directly, simply, and quickly to initiate requests in real-time. APIs give you flexibility to design your solutions by the means of an ecosystem where all processes are connected in a smart, efficient way, providing you a seamless uninterrupted workflow. APIs are very common in the marketplace, with applications including such functions as FX trading, payment initiation and reporting. API's broad spectrum allows treasury to establish a direct connection to your bank, with real-time data exchange and information flow.

Paperless foreign exchange for restricted markets

Certain restricted markets in Asia Pacific have currency controls in place and require original paperwork to document FX transfers. Working with regulators, Bank of America implemented a paperless solution with electronic submissions, allowing the bank to review documents online and process transfers for clients. It's an approach that's been available for a few years, but the COVID pandemic accelerated demand.

Having expert guidance is key to global payments success

Treasury professionals face multiple concerns and risks that come with cross-order commerce. For some, the greatest risk is not being prepared for rapid globalisation of the business. These businesses may be on the very leading-edge of digital transformation, but that doesn't necessarily translate to having the specific regional expertise and knowledge to tackle the complexities of handling payments around the world.

Ultimately, the key to leveraging the latest payables and receivables innovations is to work with a trusted advocate that not only keeps up with the growth of its clients but is at the leading edge of what is driving growth around the world. Bank of America complements innovation with the right touch to ensure businesses have the treasury intelligence needed to succeed on a global stage.

Believer or sceptic? Crypto divides treasurers

Another crypto winter has dampened the enthusiasm for cryptocurrencies such as Bitcoin, but others are still believers and are playing a long-term game. Meanwhile, many treasurers are adopting a 'wait and see' approach and are wary of investing in crypto.

Since Bitcoin was introduced back in 2009, there have been many 'Agh, if only' moments. Imagine you invested when one Bitcoin was worth US$1, and you'd held onto it – even through its peaks and troughs – and sold today around its current value of US$20,000. If only. Or imagine you had bought thousands in 2011 just before its first bull run when the currency increased in value by over 3,000%. Or if you had sold just at the right time when Bitcoin reached its all-time high (at the time of writing) of over US$68,000. If only.

There are many tales of people buying and selling at the right time. And, equally, there are those who did it at the wrong time and have been kicking themselves ever since. Is investing in cryptocurrencies, such as Bitcoin, the way of the future and something that all treasurers should seriously consider? Or is it all purely speculation?

When it comes to having an investment strategy, Deepali Vyas, Global Head of Fintech, Payments and Crypto at Korn Ferry, comments, "You cannot be fickle if you believe in this ideologically. If you believe in what Bitcoin stands for, you cannot be fickle of mind."

Despite the current crypto winter, where there has been a prolonged decline in value, many are still taking a long-term view because they believe in the future of cryptocurrencies like Bitcoin. Not only are they a currency and asset class, the underlying technology is potentially game-changing as it removes the need for an intermediary – ie a financial institution – for making payments.

Vyas comments that almost everybody who is a believer in crypto ideologically is a long-term believer. They are, therefore, less likely to be fazed by its volatility and recent drops in value. For something to be so disruptive – Bitcoin is, after all, an entire currency and global payment system – there has to be a long-term view on it, Vyas comments.

There are the believers, and then there are the sceptics. These include Bob Seeman, author of 'Bitcoin: The Mother of all Scams: Lies, Manipulation and Gambling' who argues that investing in Bitcoin is simply unlicensed gambling and pure speculation. He also argues that crypto is not an asset because it does not have any cash flow.

Corporate treasurers are caught somewhere between the believers and the sceptics. Some companies are embracing crypto and are investing in it in a careful and considered way. Meanwhile, many of the corporate treasurers that Treasury Today spoke to are taking a wait and see approach and are steering clear of crypto for now. For those that do choose to invest, it is more likely to be in the most well-known and mainstream of the cryptocurrencies, such as Bitcoin or Ether.

The divide has been exacerbated by a number of crypto winters, where there has been a prolonged downturn in the value of the cryptocurrencies. By some estimates, since the start of 2022, the value of some cryptocurrencies has declined by more than 70%.

Despite these figures, many companies have been choosing to invest and there is institutional demand for crypto to be handled by established financial institutions. In an indication that crypto investing is becoming more mainstream, custody bank BNY Mellon announced in October 2022 that it had developed its financial infrastructure to support digital assets. This move enables certain clients to be able to hold and transfer Bitcoin and Ether.

At the time of the announcement, Robin Vince, Chief Executive Officer and President at BNY Mellon, said, "Touching more than 20% of the world's investable assets, BNY Mellon has the scale to reimagine financial markets through blockchain technology and digital assets. We are excited to help drive the financial industry forward as we begin the next chapter in our innovation journey."

A recent survey by BNY Mellon also pointed to this enthusiasm for crypto. The survey found that 41% of institutional investors hold cryptocurrency in their portfolio today, with an additional 15% planning to hold digital assets in their portfolios within the next two to five years.

This echoes the research of Nickel Digital Asset Management, which shows that 18 listed companies with a combined market cap of US$826bn have over US$3.1bn in digital assets. The value of those assets, however, has fallen as they originally spent US$5.9bn buying them. There was also a notable North American bias, with 11 of the 18 listed enterprises being US or Canadian.

Nickel is optimistic about companies' appetites for investing, particularly as a diversification strategy and inflation hedge. Also, the recent crypto winter is not necessarily a negative because the prices are now looking attractive after a long period of correction.

In August 2022, Nickel surveyed professional investors from seven countries – who manage over US$2.2trn in assets

– and found that more than two out of three believed at the time that the crypto winter was either over or will last less than six months. At that time, 9% of respondents believed that the crypto bear market was already over, and 58% said it would end within six months. Others were more pessimistic, however, with 7% expecting the crypto winter to last more than a year.

Many of the companies that Treasury Today spoke to, which did not want to be identified, were much more cautious and were unwilling to even consider investing in Bitcoin. Of those companies that have chosen to invest, Anatoly Crachilov, CEO at Nickel Digital Asset Management, comments on their strategy: "Listed companies that allocated to digital assets have expressed a bold, yet perfectly sound, strategic view to this nascent asset class. Undoubtedly, such exposure ought to be the most volatile line within their portfolio. However, the asymmetric return profile associated with digital assets overcompensates for the embedded volatility in the long run," he tells Treasury Today.

Crachilov points to analysis that shows that over a statistically-significant nine-year period between 1st January 2013 and 1st January 2022, a portfolio with a 60/40 split between equities and bonds, respectively, delivered a cumulative portfolio return of 160.2%. If an adjustment is made to that portfolio by just allocating 5% to Bitcoin, this would have increased the cumulative portfolio return to 335.7%. In effect, explains Crachilov, this small inclusion of Bitcoin into the portfolio would have been "a solid 175% performance boost".

Crachilov argues that even though Bitcoin is inherently volatile, this would have had little impact on the portfolio's standard deviation, even though this seems counterintuitive. He argues that the impact would have increased the standard deviation from 9.8% to 10.6%. "This is explained by the rest of the portfolio – the remaining 95% – absorbing crypto volatility in an efficient manner, softening the ultimate impact of this higher volatility portfolio component," he explains.

On the recent price changes, Crachilov comments, "The major correction experienced by the crypto markets in 2022 did not alter the above picture – a portfolio containing crypto exposure continues to outperform traditional portfolio over the long run."

When it comes to addressing the volatility of cryptocurrencies like Bitcoin, Crachilov argues that the correct sizing of the exposure is the main answer to deal with the concerns. One argument is that companies should at least invest a little bit as an insurance policy; if it really takes off, they will have a stake in the upturn. And if the value plummets, they won't lose much because they only invested a small amount.

On this point, Vyas comments that this is like making a side bet when gambling: "When you're playing blackjack, you have to take the insurance – at some point it pays off," she says. Despite the drop in value of Bitcoin, and other cryptocurrencies, they are still appealing as an investment as an inflation hedge, comments Vyas. And although the asset is volatile, many who have already invested in it will not be concerned; they understand well the inherent volatility of the currency. "They will continue to stay in because of their long-term outlook," says Vyas.

At the moment Bitcoin, comments Vyas, compared to other digital assets, is still fairly stable and has been hovering around the US$20,000 mark. "Crypto is much more stable than it was back in 2014 and 2017," comments Vyas.

> If you believe in what Bitcoin stands for, you cannot be fickle of mind.
>
> Deepali Vyas, Global Head of Fintech, Payments and Crypt, Korn Ferry

Many corporate treasurers, however, still perceive Bitcoin as more volatile than their companies can handle. Treasury Today was in touch with a number of corporate treasurers to understand what their attitude was to investing in cryptocurrencies. The overwhelming consensus was that it was a sensitive topic and many did not want to comment publicly because they did not want the reputational risk of associating their well-known multinational brands with assets that are still deemed risky and volatile.

None of the companies that Treasury Today spoke to – from a mix of industries and based in Europe as well as Asia – have invested in crypto. They were all keenly following the developments in the market, however, and know that this is something they need to understand – albeit from a distance. For now, these corporate treasurers – all of whom did not wish to be identified for this article – were taking a 'wait and see' approach to investing in crypto. For these traditional companies, it was viewed as too risky.

And that perception of riskiness hasn't been helped by recent events in the industry, not least the failure of cryptocurrency lending platform Celsius, as well as the collapses of TerraUSD and Luna. And then there was the recent hack on Binance – the largest crypto exchange by volume – in which its BNB tokens, reportedly worth US$570m were reportedly stolen.

Events like this confirm for the sceptics all that is wrong with cryptocurrencies. For the believers, however, this is all part and parcel of a technology and phenomenon that is in its nascent stages.

And there are other reasons that companies should get involved in cryptocurrencies – not just as an asset class to invest in as part of their diversification strategy. If, as the believers argue, cryptocurrencies are the way of the future, then companies need to understand them because this is what their customers will be using. In El Salvador, for example, Bitcoin is now legal tender and for some a way of life. Depending on who you speak to, however, this move was seen as visionary, or a reckless experiment, by the country's president.

In a world where everyone is aiming to go cashless and focus on digital payments, crypto could be just another option that is offered at the point of sale. Vyas comments that in the future there could be an obligation for companies to offer it, much in the same way that companies are expected to offer credit card payments as an option.

For now, however, many treasurers will choose to sit on the fence while the battle plays out between the believers and the sceptics. And they may be satisfied to watch the price of Bitcoin rise and fall from a distance and say to themselves, 'if only I had invested back then…'

Treasury's supportive role as the energy crisis bites

"How can treasury support through the energy crisis, and what are the potential impacts of the energy crisis on corporate health?"

Oliver Stratmann
Head of Treasury and Investor Relations
LANXESS

We are a leading speciality chemicals company based in Cologne. With around 13,200 employees in 33 countries, we are an established company on the global market. Our core business is the development, manufacturing and marketing of chemical intermediates, additives and consumer protection products with annual sales of €6.1bn (2021). Our energy sourcing differs from country to country. At some sites, we even produce our own energy. Despite the war in Ukraine, the sourcing at our major sites in the Lower Rhine region in Germany is secure. Here chemical park operator Currenta provides LANXESS with electricity and steam produced in the park's own power plants. Our energy supply is based on long-term contracts.

Energy prices have risen substantially since the start of the war – and we expect our energy costs to double in 2022 compared to 2021. So far, we have been able to pass on increased raw material and energy prices fully, albeit with a time lag of around a quarter to our customers.

Treasury is in close collaboration with our procurement department in order to assess the situation and decide whether physical hedging or hedging via financial derivatives makes any sense, but we don't currently hedge energy.

LANXESS is committed to becoming climate neutral by 2040. This includes a switch to green energy. We are constantly evaluating the potential to switch energy sources and use alternative ways to operationally run plants. Technical possibilities here are however limited. Importantly, we have substantially increased exposure to US based production, and this helps us.

We are passing on higher energy costs to our customers and thereby ensuring that absolute profits remain protected. However, inflation in the top line of our sales arithmetically leads to lower margins. Massive inflation could also lead to a decline in demand which fuels the broadly discussed fears of a recessionary environment.

Our liquidity reserves have been ample and have been diligently prepared since the beginning of the year. Passing on raw material and energy costs ensures that we are being compensated for the higher costs. Nevertheless, our inventory levels and hence tied-up cash, are higher as disruptions in global value chains and higher prices drive up values and volumes of goods in transit and inventories. It is key to be prepared to finance rising cash needs in working capital. Fortunately, we anticipated the current situation early and have been preparing since the beginning of the year.

Gerben Hieminga
Senior Economist
ING

Companies are focused on forecasting and budgeting their energy costs for the year ahead. But in these markets of high uncertainty, a different approach incorporating scenario risk analysis is better suited to assessing the impact of energy prices on financials. Risk analysis will help companies secure their costs for a period ahead so they can start planning in a more stable environment.

Scenario risk analysis allows companies to measure what risk they can take and what type of volatility they can support before it damages the company. Companies should be aware of these calculations and act accordingly – for example, to what extent is halting production a risk to avoid?

We would also warn companies that although energy prices are coming down, they may not drop further – scenario planning should include the risk of gas prices rising and returning to €300 per megawatt (MWH) hour in the winter months.

In December 2021, the gas price peaked at €140 MWH. It subsided, but in February 2022 we had another peak of €200 MWH. Summer 2022 it peaked again at almost €350 PMW. Prices ahead will depend on how severe the winter is and how much gas Europe has managed to store. We believe that if it is a mild winter, prices will stay below €200 MWH, but if it's a severe winter prices could reach €300 MWH. At this price, manufacturers like aluminium or glass makers may be forced to save energy and stop production.

Energy intensive industries like chemicals, plastics, base metals, steel and cement will feel a direct impact. The impact will then filter down to food and beverage groups, and agriculture. These businesses will see their costs increase although it will depend on the type of energy contracts they have. In a second order of impact, high prices will trickle down to the real economy to travel agencies, hospitality and construction. This is where the full economy and every supply chain will start to feel the impact.

Corporate treasury is in a better position than consumers and households to weather the impact because the pricing power for companies is quite high. We hear from energy companies that a lot of contracts will expire by the end of the year as contracts are signed from year to year. It could be that the full impact is felt when companies need to start negotiating their energy contracts. In this way the energy crisis for corporations is like a peat fire, burning underground and not visible from the surface. Renegotiating contracts could mean the energy crisis suddenly becomes a full forest fire.

Positively, companies are in better shape now than after the GFC. Many have cash on their balance sheet because interest rates have been low for so long. In the past, energy has only been a small portion of typical costs and companies outsourced their procurement strategy to energy service providers. Because costs have increased, many companies now want a one-on-one relationship with their energy provider. Procurement departments are working much more closely with their energy provider to secure energy for the year ahead and energy procurement strategies have become more interactive and time consuming as a result.

Gareth Williams

Head of Corporate
Credit Research
S&P Global Ratings

We are seeing companies reconsider their investment plans and they may now be more inclined to preserve cash. Cash balances rose through COVID, and companies may now slow deploying that cash because of economic uncertainty. Higher interest rates offer some benefit from keeping cash too.

We have two areas of concern regarding the effect of high energy prices on corporate credit ratings. First is the potential impact from higher costs on profitability and demand. This might weaken the ability to service debt. For now, this effect has been modest as many companies appear to have been able to pass costs on to customers. Ultimately this is all adding to inflation and broader cost of living challenges, but this is more likely to be felt next year as economies slow.

At some point companies won't be able to pass cost pressures on as easily and we will pay close attention to corporate results in this results season. It may be that companies have been able to pass this cost on in the first part of the year but that their profit margins are coming under pressure as wage pressures rise and the days of easy cost pass through start to fade.

The second impact is the effect on funding costs, with energy prices a key part of the equation pushing borrowing costs higher. Market confidence is an additional element here, with corporate debt issuance slumping this year. Again, this remains a slow burning pressure for now. Companies refinanced at attractive rates during the pandemic and refinancing needs are modest for now.

On a positive tack, we are seeing signs that the supply side shock that has fed inflation is starting to ease. For example, container shipping costs have fallen dramatically. Once inflation comes under control, the medium-term picture might be more positive.

The financing environment remains a concern, both in terms of market sentiment but also in relation to possible systemic risk in the financial system. The sharp fall in UK government bonds in October exposed unexpected risks in the pension system from Liability Driven Investment strategies and could be a sign that other risks might have built up from a prolonged period of very low interest rates. Sharp moves in asset prices can reveal these hidden risks and a financial crisis would make a cyclical downturn more pronounced.

A final concern is that the cost of servicing dollar debt has gone up significantly given the surging dollar and higher US interest rates. Our analysis shows that 51% of the debt of UK companies we rate is dollar denominated. Even though treasury teams carefully manage this exposure, often via natural hedging in terms of where companies' revenues are coming from as well as forwards and swaps, this could be an unwelcome pressure for companies reliant on US debt funding but without matching US revenues.

Next question:

"How prepared are companies and countries for new IFRS rules designed to tackle greenwashing and create a single set of corporate climate reporting standards to meet investors' information needs?"

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

Russia is the storm; China is climate change

The global economy is struggling with volatile financial markets and a dangerous geopolitical backdrop. The Russian invasion of the Ukraine and mounting tensions between China and the West show that purely rational economic analyses alone are not sufficient to gauge the actions of countries and market movements.

Max Weber (1864-1920) coined the term the disenchantment of the world. In this disenchanted world, magical thinking has had to make way for science and the world has become a computable machine in which technical means, models and economic thinking dominate. In addition, the idea that if people's most fundamental necessities of life are amply met, they will be satisfied, is challenged.

Francis Fukuyama built on Weber's thinking with his famous 1989 The End of History where he writes about the victory of liberalism over communism and fascism:

"The end of history will be a very sad time…daring, courage, imagination, and idealism will be replaced by economic calculation, the endless solving of technical problems, environmental concerns, and the satisfaction of sophisticated consumer demands."

It was a great essay, but it also showed scant awareness of humanity's place on the timescale of the world. Research shows that the average mammal on earth exists for one million years on average. The philosopher William MacAskill puts this nicely into perspective by arguing that for every human alive today, ten lived and died before him; and that in an average mammalian existence, every human alive today will be followed by a thousand more.

In any case, it is odd, to say the least, to assume that humanity has already reached the end of its history in its teenage phase at the very mostand is meandering towards the end from there. This will therefore not happen because history is once again vigorously foisted upon us with a very heavily armed nuclear power that is on the warpath, and the most populous country in the world that is increasingly clashing with the richest and (still) strongest superpower.

Although Russia and its war in the Ukraine have been drawing most of the attention in Western media since February, relations between the US and China are very likely to be far more decisive for the further course of this decade and possibly this century. Germany's intelligence service chief referred to Russia as the storm, while comparing China to climate change.

From Chinese high-flyer to lowflyer

China is generally seen as the major challenger of America, and many expect China to surpass the US. However, some (modern) historical awareness will not hurt. In the late 1980s and early 1990s, many 'experts' were convinced that Japan would dethrone America. Even after the enormous Japanese stock market crash Democratic Senator and presidential candidate Paul Tsongas claimed: "The cold war is over, and the Japanese won."

So, we cannot just blindly assume it is only a matter of time before Beijing overtakes Washington. The more so since China's strong growth trajectory is facing heavy headwinds in any event. The economy used to grow by roughly 10% annually. According to most forecasts, however, growth is unlikely to exceed 3% this year.

Several factors are pointing to persistent lower growth for China:

- In the longer-term, economic growth is achieved by more labour working with more capital and using this more efficiently (productivity). However, the number of employed persons is already declining and productivity growth is weakening.
- Capital investments are yielding less and less for China. At this point, the country must invest $8 to increase GDP by $1.
- The investments that China is currently making are not pointing in the right direction either: they are mainly aimed at sectors in which the government has a very big finger in the pie.
- China's total debt (government, companies and households) is now a staggering 275%. Moreover, most of this debt is in property loans, and this sector is very unstable.
- Under Xi Jinping, the autocratic reins have been tightened far more. This impedes the exchange of ideas and undermines creativity and progress.
- Under Xi's three predecessors, more space was created between party and state, while under Xi, the state and party are joined at the hip once again.
- Following on from this, more and more restrictions have been imposed on the private sector under Xi.
- The cult of personality created around Xi is stifling in the sense that everyone is walking on eggshells so as not to offend the great leader.

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China has long been a threat to the outside world due to its heady economic rise, but now the danger may well come from China's rapid weakening, bearing in mind the phrase 'desperate needs lead to desperate deeds'.

We must not exaggerate China's weakening, as the country is, and will remain, a superpower, which, in addition to an economic mark, is leaving an ever greater political and military mark on the world. For example, China currently has more embassies abroad than America: 280 compared to 275. China's military power is also steadily growing.

American vulnerabilities

The power and strength of a country can only be properly assessed if you compare it with other states – in this case, the US, of course. America has enough problems of its own.

Joe Biden has been president for nearly two years, but one in five US ambassador positions are still vacant. And we are talking about (fairly) significant countries, including Brazil, Italy, Colombia, Russia and India. Moreover, the State Department is also understaffed in other areas and spending on diplomacy and development cooperation has stagnated for about a decade. Furthermore, for many years, little or no progress has been made when it comes to concluding major trade deals.

The US is facing more problems that are undermining the superpower's position:

- During the Gulf War of 1990/1991, America managed to rally a very broad coalition of democratic and autocratic countries. In recent decades, these coalitions have declined considerably in new conflicts.
- Domestically, the US has always been bolstered by several fundamentals that made the country dynamic, stable and robust, but which are now eroding – including the rule of law, orderly transitions of power, the ability to attract and retain talented immigrants on a large scale, and socioeconomic mobility.
- Because the US has turned more inward and because of the mistrust of everything that is Chinese in particular, the US is becoming less attractive to foreign students and scientists.
- As Richard Haass wrote in Foreign Affairs: "The fact that it is impossible to predict who will occupy the Oval Office in the future is nothing new; what is new is that it is impossible to assume much about how that person will approach the United States' relationship with the world." This means that potential partners are more likely to go it alone or enter other partnerships.
- The Great Financial Crisis, which largely originated in the US, undermined confidence in America as the guardian and foundation of the international financial system. And the Fed's gross underestimation of inflationary forces in recent years has not improved this picture.

A more unpredictable world

China's economic growth prospects are therefore not great. However, the country has become an economic, military and political superpower, and Xi Jinping will not hesitate to use these foundations of power in the coming years to strengthen and maintain his domestic position. This increasing assertiveness is clashing with a more uncertain but still immensely strong America. Meanwhile, the EU and countries such as Brazil, India and Japan are increasingly keen to play a role in geopolitics.

Renewed and increasing competition and tensions between super- and great powers will make international cooperation more complex. This will widen the gap between global challenges and the possibilities to address them jointly (see, for example, the weakening of international organisations such as the WTO and arms control treaties). Moreover, mounting geopolitical tensions can induce states to accept an increased risk to the world and themselves if they believe the gamble is justified in view of their national security interests. Companies must include this in their risk analyses and increase the focus on diversification of supply lines, for example.

With this more uncertain geopolitical climate, many more political-economic scenarios become possible. Moreover, those scenarios diverge far more than in the past few decades. This means that investors and companies will have to hedge against more risks and, even more than before, they will have to engage in scenario planning. This hedging will increase production costs. This, in turn, will contribute to persistent high inflation in the longer term.

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