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April 2014

Top treasury apps

A few years ago, the word 'app' barely even existed outside of software development houses. Today, apps are everywhere – even in corporate treasury functions. But what exactly are treasurers using them for and what added-value do apps offer?

Corporate View

Byron R. Jackson

Vice President and Treasurer
Itron

Women in Treasury

Jennifer Boussuge

Head of Global Transaction Services, EMEA
Bank of America Merrill Lynch

Corporate Finance
Supplier finance success

Technology
Understanding Big Data

Cash Management
Mobile payments update

Back to Basics
Payments factories

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Time to shine

Nominations close at midnight on 30th April

Recognising the best in corporate treasury is a difficult business. But quality and integrity are vital to the success of the treasury profession. That's why celebrating exemplary practice and showcasing innovative industry solutions is integral to Treasury Today's annual Adam Smith Awards programme.

Named after the father of modern economics, these Awards honour those who aim to question the status quo, push boundaries and think to the future. This might be a project to restructure the company's cash pooling arrangements, embrace eBAM, or raise finance in new markets. With categories ranging from Best Foreign Exchange Solution to Treasury Today's Top Treasury Team, it's about recognising corporate treasury talent regardless of budget, industry or scale.

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Should you need any assistance with your submission(s), your key business partners such as relationship banks or vendors are past masters at this.

Take the first step to winning an Adam Smith Award – enter your nomination today.

IN THIS ISSUE

INSIGHT & ANALYSIS 14

The app advantage

While the app market has boomed in the consumer space, with applications available ranging from the functional to the recreational, corporate usage is still low. But will the new generation of apps geared towards corporate clients lead to a revolution in treasury functions?

WOMEN IN TREASURY 6

Jennifer Boussuge

Head of Global Transaction Services, EMEA

Bank of America Merrill Lynch

'Be competent but be caring', is the mantra of Jennifer Boussuge, Head of Global Transaction Services for EMEA, Bank of America Merrill Lynch. In this interview, she explains what women bring to treasury and how regulation is driving collaboration.

CORPORATE FINANCE 17

Making a success of supplier finance

There is a lot of confusion as to what the term 'supplier finance' actually means. Conflicting views also exist around the drivers and benefits of supplier finance programmes. In this article, we not only clear up these mysteries, but also speak to a leading retail chain about their supplier finance success.

SMARTER TREASURY 31

Smarter Treasury

Collaboration: a force for good

Collaboration: a force for good

Amidst a slowly recovering global economy, a continued drive for efficiency in treasury departments, and a surge of regulatory changes, collaboration between banks and clients is essential. In this article, we look at the benefits of working together for both banks and corporates.

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LIQUIDITY INVESTMENT HORIZONS 20

Liquid funds in India

The liquid funds industry in India is well established and can be used as an 'access point' to other asset classes. Liquid funds can help corporate treasurers optimise their returns on cash, but there are regulatory and tax considerations to take into account.

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BIGGER PICTURE 22

Perestroika

The Perestroika restructuring programme instigated by former Soviet leader Mikhail Gorbachev played an important role in contributing to the collapse of the Soviet Union. In this article, we look at some of the finer points of the programme, which was devised to remedy the nation's faltering economy.

CASH MANAGEMENT 28

Payments on the move

Consumers have embraced mobile payments as a modern channel that makes their lives easier. And it seems many corporates are not too far behind in recognising the value of using mobile devices to carry out certain treasury functions. However, there can be risks, and some corporates may take longer than others to fully adopt the new technology.

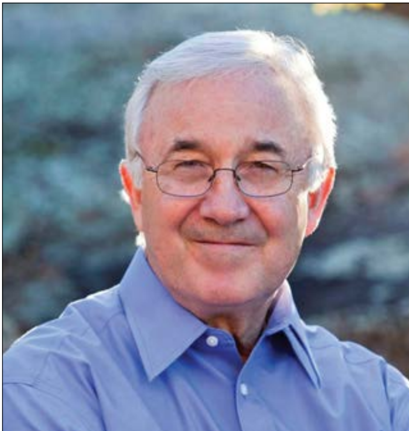
TREASURY ESSENTIALS

Treasury Insights 4

Question Answered 9

Market View 12

Back to Basics 38



25 The Corporate View

Byron R. Jackson

Vice President and Treasurer

Byron R. Jackson, Vice President and Treasurer, Itron, has learned from experience that new knowledge can come from unlikely sources. Making use of his expertise and interest in emerging market economies and anthropology, he is now helping initiate significant changes at one of the world's leading smart utility metering companies.

TECHNOLOGY 35

Thinking big

Since the emergence of Big Data in the early 2000s, the concept has often been considered something of a problem for businesses. But handled in the right way, Big Data can be a great opportunity – particularly for treasurers, who can use the data sets at their disposal to help make better decisions.

These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on treasurytoday.com as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at treasurytoday.com

Tackling overdue corporate payments in China

According to a report published by credit insurance company, Coface in February, 82% of companies in China experienced overdue payments in 2013. The research also reveals that 45% of companies believe that the value of these overdue payments is increasing. "One of the main reasons for the increase in overdue payments," says Rocky Tung, Asia Pacific economist for Coface "is that many corporates are telling us that their customers are facing financial difficulties." With the slowing of the Chinese economy, which the report highlights as a major concern for Chinese corporates, he believes that few companies saw turnover expansion last year. The availability of credit has also been an issue.

So how can corporates operating in China reduce the risk of overdue payments? "In China, unlike many western countries, information is not transparent," advises Tung. "There are therefore many SMEs who do not have adequate information about their counterparties." What is more, the Coface report highlights that around 40% of Chinese corporates are not using any credit management tools. For Tung this is a dangerous statistic as "companies need to protect themselves against credit defaults – and using credit management tools is one way to do this."

When it comes to settling an overdue payment, arbitration is one of the least favoured methods by corporates in China, the most popular being 'amicable negotiation'. This can be because the legal system in China has to be improved for corporates to see this as a more effective method of resolving overdue payments. It is also due to relationships (guanxi) being a very important element of the business culture in China.

I say VNAV, you say CNAV

Running against the grain in the multi-billion dollar money market fund (MMF) industry seems like commercial suicide. But UK-based Aviva Investors took the bold decision a few years back to offer the variable net asset value (VNAV) pricing model when most other fund managers in the UK market were offering constant net asset value (CNAV). Aviva's decision to switch may be about to take on a new sense of vitality.

CNAV prices to two decimal places and providing the underlying mark-to-market net asset value (NAV) remains within tolerance, the price remains constant (hence CNAV). In a highly stressed market, it is possible for the capital price to breach tolerance levels, forcing the fund to restate the actual share price below (or above) 1.00. Because VNAV prices to more than two decimal places (usually three or four), NAV is naturally more sensitive to the valuation of individual investment assets in the fund. This means fund pricing is potentially more volatile but also far more transparent. Some countries only permit VNAV MMFs, whereas the major markets of the UK and the US allow both but focus on CNAV.

Recently, regulators have been looking at how to combat potential runs on MMFs. The main idea on the European table is for all CNAV funds to either switch to VNAV or to hold a capital buffer of 3% of NAV to "support stable redemptions in times of decreasing value of the MMF's investment assets". The industry and its stakeholders are still in discussion. In February 2014 European lawmakers delayed a vote on proposals after splits began to appear within the European Parliament's economic affairs committee on the best way to proceed.

Aviva adopted the VNAV model before the regulators got involved. "We didn't know the regulation was going to change, but what we did see was that in 2008 the money market world changed," says Matthew Tatnell, Head of Liquidity at Aviva Investors. In the decades running up to 2008, CNAV effectively created a commoditised asset class. It didn't really matter which bank you invested with because few ever thought the big banks could fail.

"In 2008 that all changed. We no longer have a commoditised asset class called 'cash': it is not risk-free, it is a credit asset class and it always has been," states Tatnell.

What it means for sponsors and treasurers

CNAV funds are priced to two decimal places whereas Aviva currently manages its VNAV fund to three decimal places. This means it has to be more conservative in its investment approach to avoid volatility.

If the rules change to the proposed four decimal place pricing Aviva will have to change with it. The issue for many fund sponsors (banks, asset management firms and their affiliates) will not be in calculating value for each investor to four decimal places but in doing so on a daily basis whilst providing same-day liquidity. Given the difficulty this aspect of the proposal may create, Aviva, along with other sponsors, has lobbied regulators for an allowance to at least value sub-60 day or 90-day assets at amortised cost.

All fund sponsors know that their MMF investors want capital protection with market yield for their cash. If a treasurer wishes to continue using MMFs (and many larger custodial-type banks are less keen on taking overnight cash because it costs them too much to hold) there must be a decision taken as to when to start preparing for VNAV, given that the market is faced only with proposals to date.

In both Europe and the US, uncertainty remains as to precisely which changes will be imposed, and when. But between the two regions, based on divergence within the current sets of proposals, it is likely that there will be two different money market fund environments which will obviously impact on corporates operating in both markets.

Bitcoin advocates rue fall of MtGox

Some of the more enthusiastic Bitcoin advocates believe the crypto-currency has the potential to seriously rival the role played by central banks and the financial intermediation system. Opponents see it as a speculative bubble based on flawed economics – a tulip mania 2.0. In March MtGox, a Tokyo-based Bitcoin exchange, filed for bankruptcy protection after around $500m of the virtual currency went missing in a suspected theft. A Bitcoin exchange collapsing is nothing new. According to Bitcoin Magazine, 45% of Bitcoin exchanges have failed. What is salient about the MtGox case is the scale of the collapse.

Berkshire Hathaway Chairman and CEO Warren Buffett has stated emphatically that he considers Bitcoin nothing more than a speculation. Nobel Prize-winning economist Robert Shiller is another sceptic. "The central problem with Bitcoin in its present form is that it doesn't really solve any sensible economic problem," he wrote in the New York Times.

Investment bankers also have reservations. In a note to clients, Citigroup outlined three critical risks facing Bitcoin:

- Investors losing confidence in the security and safety of Bitcoin.
- Other digital currencies eroding Bitcoin's market share.
- Conventional financial institutions providing competition using generic Bitcoin technology.

It seems the Bitcoin community has work to do if the currency is to work. "There are ways round it [the lack of investor confidence in Bitcoin]. The industry needs to implement measures, such as a compensation or insurance scheme for instance, to give people confidence in the product once again. If they don't do that, I think Bitcoin will disappear and become a curiosity," says Michael Jackson, Venture Capital Investor at Mangrove Capital Partners and former Chief Operating Officer at Skype.

Major means of payment?

However, before the MtGox collapse, Bitcoin had won some plaudits. Former US Treasury Secretary Larry Summers has said Bitcoin has the potential to be "a very, very important development." Furthermore, Bitcoin trading has received a boost in the UK through a change in taxation rules, which Bitcoin advocates see as a move towards recognising it as a currency. The HMRC announcement comes as the UK is increasingly positioning itself as a Bitcoin-friendly country. Indeed, the non-profit Bitcoin Foundation has said it will redomicile from the US to the UK this year, partly over online privacy concerns in the US but also because it sees the UK as a 'fin-tech' hub.

Despite the emergence of Bitcoin-friendly territories, and the growing willingness of some financial institutions to take it seriously, Bitcoin faces an uncertain future. Those who buy Bitcoin must have a strong appetite for risk – in the past year, the Bitcoin/dollar exchange rate has gone from a low of around 40 to more than 1,230.

The development of virtual currencies is still in its infancy. Despite the recent security issues, the next generation could well use virtual currency as a mainstream means of payment. It just might not be Bitcoin they end up using. ■

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This much I know

Jennifer Boussuge

Head of Global Transaction Services for Europe, the Middle East and Africa

What did you want to be as a child and how did that relate to your career in banking?

My main ambition, even during my teenage years, was to be a politician. It was really by coincidence that I pursued a career in banking – and through various reorganisations that I chanced upon the world of Global Transaction Services (GTS). It's a world that I am extremely passionate about since you can make a tangible difference to a company's growth and efficiency.

Looking at your career path to date, is there anything that you would have done differently?

As I look back at the stages of my life and career, it all seems to have happened for a reason. My personal and professional aspirations have dovetailed well. So, when I wasn't progressing as quickly as I might have liked in my career, my son was born. That gave me the opportunity to spend more time at home and make the most of being with my young family.

How easy is it for women to balance their personal and professional life today, while allowing for career progression?

Technology is a huge enabler and has given us all the flexibility to be able to achieve a better work/life balance. Working mothers and fathers are able to leave the office on time or take their children to doctor's appointments and then log back on at a time that is more convenient for them. The bank also runs a range of programmes around parenting and careers, as well as giving support to women returning from maternity leave. By nurturing returning talent, companies such as ours can encourage greater female representation within the higher ranks of their organisation.

Do you think that the financial sector might be in better shape if there were more women in senior positions?

There are some interesting statistics around that topic. Thomson Reuters examined the performance of companies with more than 30% women on their board against those with less than 10% and found that those with the greater female representation fared much better in periods of economic volatility. A McKinsey study, across all industry sectors, found that the companies with the highest proportion of women on their boards significantly, and consistently, outperformed those with no female representation by 41% in terms of return on equity, and by 56% in terms of operating results. The numbers speak for themselves.

What is the best piece of advice that you've been given in your professional life?

One of my first managers gave me a book called 'True North' by Bill George. It talks about being true to yourself and standing by your own principles. That taught me the importance of being authentic in both business and personal circles – don't try to be somebody that you're not.

"By nurturing returning talent, companies such as ours can encourage greater female representation within the higher ranks of their organisation."

ON THE WEB

To read all the interviews in this series go to **treasurytoday.com/women-in-treasury**

Be competent, be confident, but be caring. These are the 'three Cs' that Jennifer Boussuge has aimed to embody throughout her 19-year career at Bank of America Merrill Lynch. Having risen up through the ranks, with previous roles including Global Head of Sales for GTS, Head of International Subsidiary Banking Sales, GTS EMEA, and GTS Industry Head leading the delivery of global treasury and liquidity management services to large corporate healthcare and consumer and retail clients throughout the US, Jennifer's appointment as Head of Global Transaction Services, EMEA in July 2013 is a reflection of her vision, hard work and commitment, and also of her ability to inspire and motivate.

Indeed, as a member of the bank's Diversity and Inclusion Council and Co-Executive sponsor of its 'Lead for Women' Employee Network, Jennifer has a very keen personal interest in developing talent in the workplace. "I take great pride in being a mentor, and in many ways, a role model for women within the bank. But it's also important to me that we have balanced opportunities for both genders," she says. "Here at the bank our experience is that gender diversity leads to stronger business performance which ultimately produces better results for our clients."

That said, Jennifer does believe that women bring a different skillset to treasury than their male counterparts. "Typically women are by nature quite collaborative. They're good at asking questions (they'll always stop and ask for directions!) and they tend to be proficient at juggling a multitude of tasks. If you look at how the treasurer's role has changed and evolved over the last few years, and how corporates are striving to do more with less, that really plays to a woman's strengths," she adds.

Although the current treasury environment may play to the female skillset, there remain a number of women in treasury who struggle to make their voice heard within the organisation and find it difficult to demonstrate the value that treasury brings to an organisation. Jennifer suggests that data may hold the key: "Today, treasurers are being asked more frequently to provide information to the C-suite. Where treasury professionals – both men and women – can start to raise their profile and make themselves even more valuable within the organisation is by better understanding the data flows within their organisation. Through the analysis of this data and the identification of useful patterns, the treasurer can become more of a strategic partner to the business."

"As a bank we have been doing a lot of work with clients to help them turn information into data. This is all part of a movement towards greater collaboration across the market," Jennifer observes. "In addition to this data enhancement, we've definitely seen treasurers calling more on external partners, such as outsourcing providers, and implementing increasingly sophisticated technology in order to get the best use of the limited resources that they have available."

Regulation has also made the market more collaborative, says Jennifer. "Today, there are major regulatory pressures and costs which affect not only the banks but also impact corporates. It's easy to dwell on the negative consequences of regulation, but it has markedly improved the security and transparency of the global financial system. It has also led to deeper partnerships between the global banks and the local financial institutions."

Interestingly, she also believes that regulation has brought banks and corporates closer together: "Relationships are now much more in focus. As a result of Basel III, when we look at how we provide capital to our clients we aim to have a much deeper and multi-faceted relationship with them in order to support the overall lending relationship. A loan is now looked at as an investment in a client and in a relationship," she explains.

This candid, straight-talking approach is one of Jennifer's hallmarks – as is her ability to recognise the opportunities that nestle among changes and challenges. How appropriate, then, that Jennifer's motto in life (borrowed from Canadian former professional ice hockey player Wayne Gretzky) is: "you miss 100% of the shots you don't take." ■

Jennifer Boussuge is head of Global Transaction Services at Bank of America Merrill Lynch. Based in London, she is responsible for developing and executing the integrated strategy for the full end-to-end regional treasury and custody business for Europe, the Middle East and Africa (EMEA).

Boussuge has worked for Bank of America Merrill Lynch for 19 years. Most recently, she was head of Global Sales for GTS where she was responsible for setting the company's global treasury and custody sales strategy, driving revenue and mobilising teams across all regions to win mandates. Previous roles include head of International Subsidiary Banking Sales, GTS, EMEA; GTS Industry Head leading the delivery of global treasury and liquidity management services to large corporate healthcare and consumer and retail clients throughout the U.S.; senior treasury sales officer for International Government clients and client manager for International Corporates.

Boussuge has worked in the banking industry for 26 years. Before joining Bank of America Merrill Lynch, she worked at Riggs National Bank and Citibank in Washington, DC.

Boussuge graduated from Mary Washington College with a Bachelor of Arts degree in Political Science and French. She conducted her graduate studies in French at the Sorbonne University in Paris, France and business administration studies at the George Washington University in Washington, DC.

In-house banks

"What benefits - both financial and non-financial - can establishing an in-house bank offer to the treasury function? Also, what advice can readers share on best practice for setting up an in-house bank?"

Hans-Peter Rupprecht, Corporate Treasurer, Siemens AG:

An in-house bank can offer treasurers the ability to improve vital processes which have increased in importance since the global financial crisis. However, before establishing an in-house bank, a number of decisions need to be made by the company to provide guidelines for the project. Within Siemens, for example, we wanted to run the financial streams of the company on a centralised basis and invest liquidity from one central department. We also decided that it would benefit the group if we could control all of our financial risk management processes centrally. Finally, we wanted 24 hour coverage over our global operations, so we looked to establish an in-house bank based in three different locations.

The main initial benefit which the in-house bank offered was the ability to centralise and concentrate our cash in one location. To achieve added benefits, however, we integrated the in-house bank with our company clearing systems which are used by the inter-company accounts on a worldwide basis. Following this integration, the inter-company accounts could be used for virtually all aspects of treasury - such as cash management, payment services and the settlement of FX business. The main financial benefit we gained from this was a reduction in banking fees and administrative costs as we were able to consolidate our bank accounts and conduct all inter-company payments internally. In doing so, we were able to avoid group balance sheet inconsistencies and discrepancies.

At Siemens AG we also wanted the treasury department to become a strategic business partner for the company and begin to place more focus on risk advisory within the company. The non-financial benefits offered by an in-house bank have helped us to achieve this by offering a greater oversight of our accounts across the group. We now have better transparency over our account balances, liquidity status, cash movements and payments transactions and have been able to standardise and automate our treasury processes worldwide, giving the treasury global control. We now also manage and control our risk centrally and can limit our counterparty risk.

Although the requirements and processes when establishing an in-house bank vary from company to company, there are some important areas which all treasurers will need to consider. The scope and level of centralisation is one of the key areas to determine. Tax and legal issues also need to be thoroughly investigated and documented, alongside regulatory reporting. There may also be agreements and arrangements which need to be made in advance around items such as transfer pricing. Finally, the project must be well-organised with responsibilities clearly defined amongst the group and guidelines should be distributed and followed to ensure the in-house bank is correctly established and functions as it should. Overall, an in-house bank is a very useful treasury tool and one which, in my opinion, is a must for any company with worldwide activities.

Bruce Meuli, Global Business Solutions Executive for Global Transaction Services, EMEA, Bank of America Merrill Lynch:

As the nature of business becomes more integrated, both horizontally and vertically, the centralisation of treasury operations is an increasingly valuable proposition and one which recent technological advancements have allowed to gather pace. In-house banks are a form of such centralisation which can offer corporates the ability to more effectively manage their cash than they would have previously within a decentralised structure.

The centralisation of liquidity is one of the major drivers behind the establishment of in-house banks. As the regions in which businesses operate are harmonised, the ability to centralise their liquidity becomes a more feasible business case. In doing so, corporates are able to recycle cash within the organisation more effectively as well as offer improved global oversight and yield on a risk-return basis.

Improved foreign exchange execution and risk management are other benefits which an in-house bank can offer. Many corporates (when establishing an in-house bank) look to include an 'FX Centre of Excellence' to oversee and manage all major FX transactions across the business. This leads to a reduction and consolidation of FX transactions, and also gives the treasurer greater ability to recycle cash within currencies.

An in-house bank can provide treasurers with better access to their financial information and data. Many other benefits can therefore be obtained, such as improved cash management and forecasting. Payment optimisation can also be improved ensuring that payments are made in the timeliest and most cost effective manner. Furthermore, working capital management becomes something which corporates can begin to assess thanks to the improved information offered by an in-house bank.

Bank relationships can also be enhanced as one business group is left responsible for the management of the relationship and account oversight. Furthermore, relationships can be developed with internal businesses units and the in-house bank can be used to offer added value to these through ensuring its processes help the business meet its overall objectives.

The implementation of an in-house bank should be seen by treasurers as a transformation project and its design should not be planned in isolation but in partnership with the overall business. Development should start at the top, with key stakeholders being considered, as treasurers will need to demonstrate to all areas of the business how the in-house bank can add value to their (specific) operations. In-house banks cannot realise their full benefit when this process is not conducted in enough depth and breadth in the initial phases.

The location of the in-house bank should also be carefully considered. Ideally, the bank should be located somewhere where it can provide the most value to the business for the bank to achieve its maximum benefit. However, a number of areas such as the wider business operating model, its memorandum and articles of association, current operational locations, tax and regulation must be carefully considered in the selection process. Countries which are included in the in-house banking structure also need to be considered and while many can be added there may be some which need bespoke requirements. For countries such as these it is advisable that corporates create bespoke models which sit outside the main in-house banking structure but within its function. In doing so, oversight and control can still be centrally maintained.

Finally, treasurers should seek to bring in partners as early as possible when looking to establish an in-house bank including core banking partners who should be challenged to provide both the banking infrastructure and consultancy expertise. Other tools and resources should also be used to ensure that the in-house bank is correctly designed and implemented and can respond to changing regulatory pressures to achieve its maximum benefit.

Joerg Wiemer, CEO, Treasury Intelligence Solutions:

Treasury teams are under increasing pressure to drive down internal operational costs and to increase visibility and control. To achieve this, treasury teams need to standardise and automate their payment processes allowing them to make SMART (standardised, multibank-enabled, automated, ERP-integrated, transparent) payments and better decisions. An in-house bank has the ability to achieve 20% of this, with the other 80% coming from the replacement of multi-bank proprietary payment tools with standardised connectivity across all banks.

The financial benefits that an in-house bank can offer are reduced operating costs and banking fees. This is because payment traffic can be maintained within the organisation to allow companies to make payments in-house, which is cheaper than using the external banking infrastructure. This also has the benefit of making payments faster for companies. In achieving this, companies can avoid float allowing them to make the most of their cash and gain higher interest income.

In-house banks by themselves cannot give treasurers full control and visibility over their payment processes. However, this can be achieved when established in conjunction with the cleaning up of external payment processes, through streamlining payment processes, shutting down bank-specific payment tools and electronic payment stations, making sure you have straight through processing established and cleaning master data and bank account management. In doing this, treasurers can gain more visibility and control over their payments which will allow them to become a thought leader and business partner, providing information to allow the Board to make better decisions.

Although in-house banks can offer the opportunity to consolidate the amount of banking partners a company has, we have found with our clients there is often little consolidation because these banks are still used to diversifying risk. An in-house bank therefore should be considered as another banking option and one which can complement your existing banking landscape.

In my experience, when looking to establish an in-house bank it is best to set up a project team which incorporates many areas of the business. It is vital that you include your tax team in the business as they will ensure that transfer pricing is adequate and help to find the best location regarding tax implications. Furthermore the accounting team, shared service team and human resources team should also be included in the project as these functions run payment process, which would benefit by being automated and streamlined.

When setting out on in-house bank projects a lot of treasury professionals focus primarily on their own project with the ambition just to clean up treasury payment processes. This only makes up a small portion of the payments a company makes. To achieve maximum benefit I therefore suggest that treasurers team up with their colleagues and streamline and standardise company-wide.

Overall, my recommendation would be to start with the standardisation and automation of payment processes and then establish an in-house bank to achieve the added value from this. ■

The next question:

"What are the main issues preventing companies from reducing their pension deficits? Also, what practical steps can corporates take to begin to tackle these deficits and what should treasurers be doing in this respect?"

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

At Bank of America Merrill Lynch, we help make financial lives better through the power of every connection. We recognise that sharing knowledge and best practice are critical parts of this process. The Adam Smith Awards, which have grown to become a globally-recognised standard of excellence, provide us with the opportunity to learn from each other. I encourage you to submit your entries by the 30th April deadline.
Jennifer Boussuge, Head of Global Transaction Services for EMEA, Bank of America Merrill Lynch
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ecr research

European parliamentary elections increasingly important

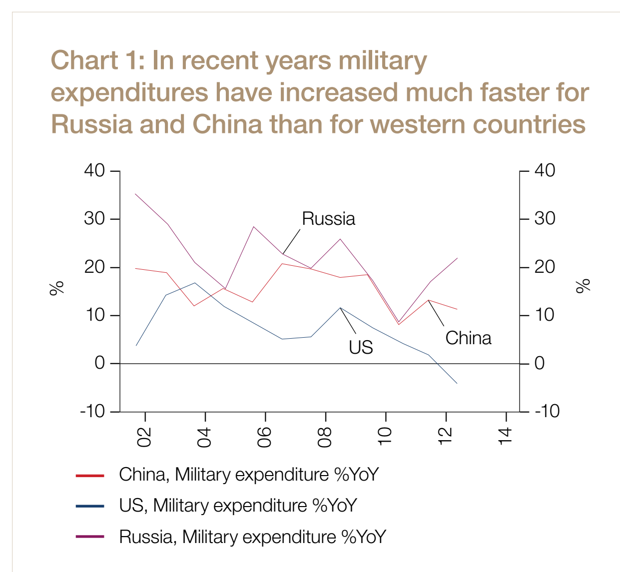
Recent events in the Crimean peninsula have shifted the focus back onto the balance of power between global superpowers. While defence spending in the West has fallen in recent years, Russia and China have forged ahead in developing their armies. Europe now faces irrelevancy unless it can foster closer military and economic collaboration, says ECR Research.

Since Russia sent armed forces into the Crimean peninsula, one thing has become clear, the West is weaker than it was. In itself, this is understandable. After the Cold War ended, defence spending in the West – especially in Europe – has decreased steadily. Furthermore there was no obvious enemy. The Soviet Union had disintegrated, many eastern European countries came under the umbrella of NATO and China was not expected to show aggression to the outside world.

As globalisation took off, the focus shifted from military to economic power. On top of this, the US was getting fed up with having to act as the world's policeman, not least because the wars in Iraq and Afghanistan turned out to be far too expensive, even for the wealthy Americans.

Obviously, Moscow and Beijing saw things differently. The collapse of the Soviet Union made Russia much weaker – and poorer – but it still had a trump card. Namely, oil and gas exports. This ramped up earnings to such an extent that the country had plenty of money to rebuild its army. The expectation is that a few years from now the Russian army will (hypothetically) be a formidable adversary. The Chinese are also very active. Like the Russian defence forces, the Chinese People's Liberation Army is building up its strength.

Chart 1: In recent years military expenditures have increased much faster for Russia and China than for western countries



Source: Thomson Reuters Datastream/ECR

Any kind of armed conflict would have grave implications for the globalisation process and thereby for the financial markets. Earlier on both the US and Europe assumed that, as an inevitable result of globalisation, many states would introduce a capitalist system in order to become more prosperous, which would benefit Western economies. Naturally, overt aggressive action by any side would be a game changer.

Moscow's priorities

For geographic reasons, commodity-rich Russia is vulnerable to foreign invasions. The former Soviet Union surrounded itself with satellite states, which acted as a buffer. Then the Berlin Wall fell and the Soviet Union collapsed. Russia's protection mechanism crumbled.

At the same time, it has nuclear weapons to deter would-be belligerents. However, the country has another weak spot. Mass migration in the early years of the Soviet Union meant that populations with different religions, ethnic backgrounds, and historic affiliations were thrown together. The mix of different people did not gel; often they were sworn enemies to start with. In other words, Russia and the former Soviet states are very exposed to external infiltration. Moscow therefore wants a strong conventional army in order to keep various ethnic minorities under control.

Another advantage of having an army is that it could – if the opportunity presents itself – regain lost ground in countries that used to be part of the Soviet Union but have become autonomous. Ukraine is a prime example. Sections of its population would prefer to link up with the West rather than be dependent on Russia. Should these citizens get their way, suddenly there will no longer be a buffer zone between Russia and the West.

China faces a different situation as it needs to import many commodities. As the country develops economically, it is increasingly vulnerable to blackmail by commodity-exporting countries and/or by countries threatening to stem the flow of commodities into China. For this reason, China is looking suspiciously at Japan, which is also a commodity importer. In that sense, Japan and China are rivals. Based on these considerations, it is no surprise that China has made use of its growing prosperity to build a large army; an important aim is to safeguard the inflow of commodities.

European strength increasingly necessary

Currently, the Americans are shifting their attention eastward. They, too, have plenty of commodities at home, unlike the European countries that have to import numerous raw materials. Inevitably, this pitches them against the awakening giants, China and Russia. The only solution is a closer collaboration within Europe, in military and economic areas. Individually, each European country is too weak to rival China or Russia. In recent decades, Europe's global standing has declined. Undoubtedly, this process will accelerate in the context of the 'new world order' that is shaping up, unless the European countries manage to join forces.

An ever larger portion of the European population does not want this to happen. They blame Brussels and the euro for the fact that their household finances have deteriorated, particularly in comparison with the promises that many politicians have made in the past. In our view, this blame game is unjustified. The aforementioned decline has everything to do with poor or unsuitable education/training and inflexible job and product markets.

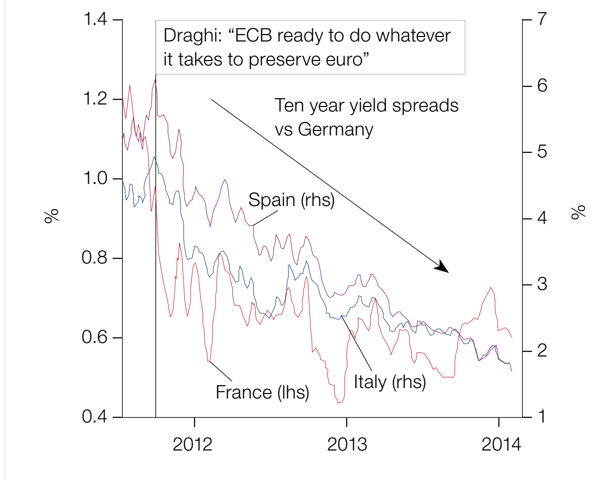
In this respect, the European parliamentary elections in May will be crucial. From our perspective, the current developments in Ukraine should alert voters to the fact that the European countries will become insignificant in the not too distant future – unless they work together. Failing to do so would gravely undermine the European project. One can only hope that this 'wake-up call' will translate into electoral losses for the anti-Europe parties.

However, for the time being the opinion polls point in the opposite direction. The election outcome could be a very important signal for the longer-term investors in Europe and determine the fate of the euro.

Experts agree that if the EMU and the euro are to survive, a banking and fiscal union is necessary. The latter would imply that if one of the member states goes under, the other states will have to foot the bills. In practice, Germany will carry the heaviest burden. Therefore the richer Eurozone states – led by Germany – will only be prepared to move in this direction if the chance of a sovereign default is minimal in real terms. To achieve this, two developments are essential.

Countries such as Italy and France need to do more to restructure on a large scale in order to boost potential growth to a similar level as in Germany. Reforms are the only way to overcome the current economic misery, prevent public finances spiraling out of control and to free up money to increase defence spending.

Chart 2: Lower yield spreads vs Germany reduce pressure on weak EMU governments to implement structural reforms



Source: Thomson Reuters Datastream/ECR

Money illusion

In that sense, we are not impressed that bond yields in the distressed Eurozone member states – for example, Italy and Spain – have dropped sharply. As far as ECR Research is concerned, this should be filed under money illusion. Because of the massive money creation around the world, investors are hunting for higher returns. When the ECB promised to buy unlimited quantities of short-term government debt, everyone chased after the high yielding bonds issued by the weak Eurozone countries. As bond yields dropped, in a cyclical sense these member states were better off. Therefore they attracted more capital, and so on. The downside is that all of this eases the pressure on politicians to push through structural reforms. Especially in the longer term, the outlook is getting worse, not better.

In addition, Eurozone countries will need to work closely together or they will be steamrollered by superpowers like China, the US and India as their economies lag behind. Under such conditions, it would be very risky for the European countries to guarantee each others' finances.

If the opinion polls are correct, the anti-Europe parties will gain a lot of seats. In all likelihood, this will make it very hard for Europe to achieve the degree of integration and collaboration that is needed to offer the member states a healthy financial future. In the longer term, this will certainly affect the euro and the performance of the European stock markets. ■

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The app advantage

Apps have become near ubiquitous in the consumer space. Almost whatever internet service one requires, from the functional – such as making a payment or finding an address — to the trivial – such as killing time with a quick game of Angry Birds – there is an app for it. Yet corporates are still lagging behind in the adoption stakes. Will the new range of next generation apps coming on to the market change their minds?

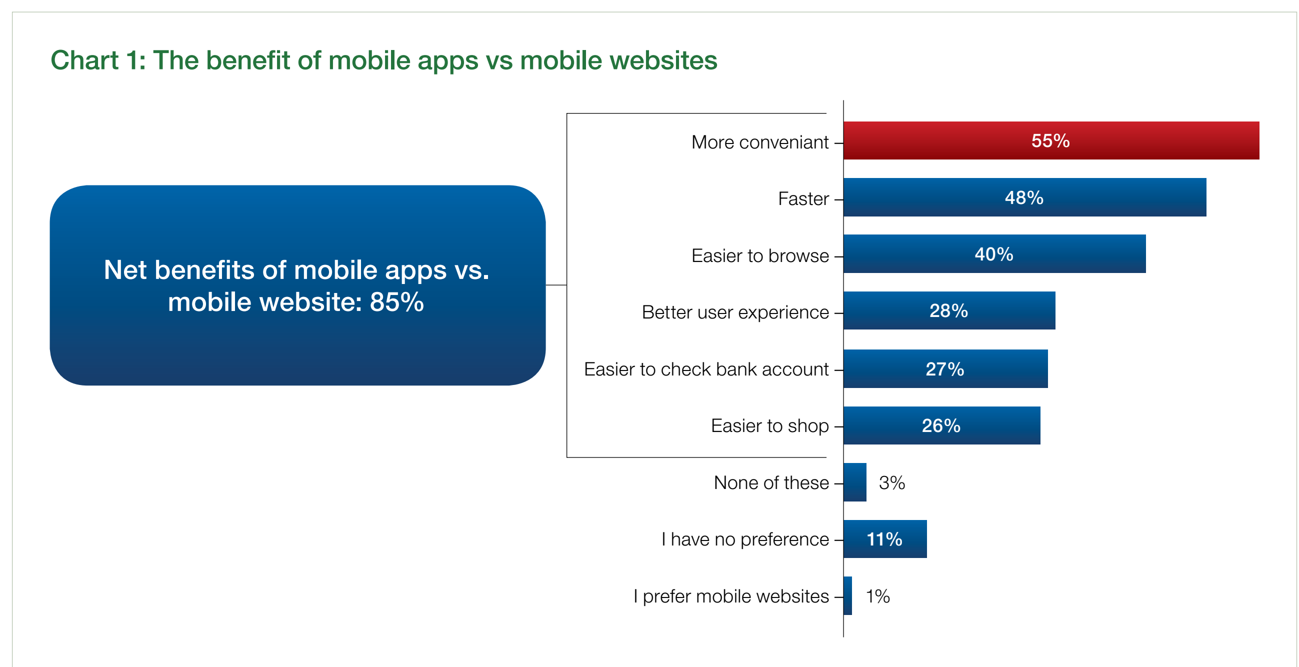
Until recently, a large majority of treasurers maintained that they could not see any great functionality benefits from using tablet or mobile applications in their particular roles. Apps simply didn't help them to do their job better, or offer sufficient benefits to spend time investigating. Add to that a widely held perception, not always correct, that mobile devices are less secure than their desktop equivalents, and it is not that difficult to see why the app breakthrough has taken a while to materialise.

Those initial assessments are evidently changing, though. "It's an exciting time right now," says Graham Warner, Global Head of Online, Mobile and Desktop Client Access Products, Global Transaction Banking, Deutsche Bank. "The last time we saw this type of revolution in delivery channels was back in the late 1990s."

Drivers for change

Part of the reason for this shift might be that software developers are becoming progressively more aware of the richer functionality that can be derived from a mobile app as opposed to a mobile web browser. As these products hit the market, treasurers using them are hastily revising their views. "When tablets first began to become available, banks were initially just sticking with that browser-based format," says Colin Kerr, who has been working closely with development teams at a number of leading banks in his role as Head of Industry Solutions at Microsoft. Given the larger size of a tablet screen that seemed reasonably logical. But it soon became apparent that there are certain scenarios in which utilising the native software of the tablet or smartphone – such as the ability to receive push notifications – can be used to create fully integrated, actionable workflows.

Treasurers are also finding that the dashboard view that comes with an app lends itself well to activities such as analytics, so much so that some continue to use it for that purpose even when they are in the office and have access to their desktops. Although it is a factor, the benefits are about much more than eliminating the need for users to navigate through multiple URLs and logins on a touch screen keyboard to make transactions. There are also opportunities for integration with the treasurer's desktop software applications, transforming the app into a tool for cross-collaboration. "We are starting to see a lot of interest in that," says Kerr. "From a Microsoft perspective, Office is



Source: Compuware

pervasive on the desktop and in Window's tablets so there can be a very natural integration into the Outlook calendar and emails, triggering off workflow scenarios."

Listen and learn

Sensing the scope of the opportunities native apps offer over web apps, developers have been refocusing their efforts on user experience. It is an important shift. By listening to the market, developers say they have learnt that treasurers do not care to see all their online tools transformed into a single, cumbersome mobile application. What they want instead, the developers claim, are apps specifically tailored for certain core activities, such as authorisation alerting, actionable analytics and the ability to execute simple transactions remotely (see our article on mobile payments on page 28 for more detail on the latter).

It is those capabilities that now form the main focus for Deutsche Bank's 'Autobahn Mobile' offering. With 'Autobahn Mobile', we have started to introduce selected services from our existing 160 online applications of the Autobahn App Market to the mobile space. More Apps will be added throughout 2014 and will soon also be available for iPhone usage. "Clients are becoming more receptive to mobile," says Warner. "Keeping our clients involved throughout the development of our mobile offering has created an end product with which they are much happier," he notes. "It enables us to get where we want to be a lot faster. Rather than offering a long list of solutions, which might not be seen as important by the corporate, we're able to quickly roll out the key functions we know to be the most useful."

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> Graham Warner, Global Head of Online, Mobile and Desktop Client Access Products, Global Transaction Banking, Deutsche Bank

Bob Stark, Vice President of Strategy at Kyriba says the TMS provider's own client research produced similar findings. Like Deutsche Bank, Kyriba asked treasurers how they want to use mobile apps in a professional context and, similarly, found them to be focused on a few key functions. "There are definitely some core things that are really important to them," says Stark. Above all they want to get visibility into cash – a core activity for treasury teams worldwide – and know that a payment can be both initiated and approved. Finally, they also want complete visibility over reporting. "They just want to make sure that their ability to do their jobs is not device dependent," adds Stark.

A size that fits

It seems obvious that certain types of devices are likely to be better suited for different functions. Treasurers might, quite rightly, wonder what value they could possibly derive from attempting to analyse complex analytics data on a small smartphone screen, for example. But the mobile medium also includes larger tablet devices which, with screens often comparable to a laptop, are much more suited for complex activities such as analytics. While early movers in the app space seemed to ignore this distinction, there are examples of apps now coming onto the market designed with a particular device in mind. "Choosing the right information to be consumed through the right form factor is crucial to developing apps that the corporate treasury professional finds valuable", explains Microsoft's Kerr.

> "Most apps designed for corporate treasurers are not only very restrictive with regards to login authentication and permissions, but also have extra features that provide a safety net should the treasurers device ever become misplaced or stolen."
>
> Colin Kerr, Head of Industry Solutions, Microsoft

About a year ago, the company rolled out a new app developed in-house for the benefit of its treasury team. The Wire Request Tool (WRT), a Windows Phone app that the company developed illustrates perfectly how the capabilities of native apps are allowing developers to do things that wouldn't have been possible before with web apps. The WRT app checks against the company's active employee directory and safe approvals list – that details respective authorisation limits – to find the correct person to authorise the transaction and then alerts them to it using a push notification sent to their smartphone handset.

"This is a good example of the right kind of app functionality for the right size form factor," says Kerr. Unlike a tablet, he explains, a mobile phone is more likely to remain switched on throughout the working day, allowing push notifications to be received when needed. In addition to that, the smaller screen size of the phone makes it safer to reveal private information in a public space. "A tablet is a device that the treasurer might refer back to at certain points in the day, but when there is an urgent issue which requires some kind of resolution, the phone is the ideal way of initiating," he says.

Is it safe?

Despite the careful measures outlined above, security is often raised by treasurers when talking about apps. Clearly, given the difference in the sums of money involved, a corporate banking app needs to be even more robust than a retail banking app. Banks and treasury technology specialists, however, insist that the apps they release to the market are as secure as they can be. "Treasurers ask about security every time, as they should," says Kyriba's Stark. Often the problem is that treasurers are not typically IT experts with an extensive knowledge of computer security, they are just aware there is a threat. In light of that it is important for treasurers to discuss security with both their software provider and their IT teams.

"Sometimes treasurers are educated and come to us with a list of specific requirements which they ask us to meet," says Stark. "Other times, they will say this is really important, can we have some help from you to understand what we should be doing."

Nevertheless, most apps designed for corporate treasurers are not only very restrictive with regards to login authentication and permissions, but also have extra features that provide a safety

net should the treasurer's device ever become misplaced or stolen, Microsoft's Kerr explains. "If a treasurer's tablet or mobile was left on the train, for example, the company's IT department would have the ability to wipe all of the data held on the device remotely," he says. "A thief would be picking up a brick, basically."

The revolution will be mobilised

It is all very well hearing what developers have to say about their app products, but what do treasurers think? Do those that have mobile access to their treasury software actually use apps much or are they, despite all the reassurance, still questioning the safety of the technology? "I actually use it every day," says Anita Prasad, General Manager, Treasury Capital Management at Microsoft. Prasad now finds herself at her desk less and yet is still able to approve wire payments using the WRT app designed for Windows smartphone. The app is used by her and executive management with wire approval authorisations. She also finds herself referring back to a treasury analytics app on her tablet at regular points during the day, just to check on how operations are running.

Prasad says that she has demonstrated how she is now able to work away from the office when networking with her peers at conferences such as last years' Sibos event. Most, she says are very enthusiastic about the technology, even if that is still tempered for some with a degree of caution due to the security question. "Of course, nobody wants to see their face on the front page of the Wall Street Journal because something has gone wrong with an application they were using," she says. "But we did not take the decision lightly either. We went through vigorous testing and had it in pilot for a long time. What we have found is that there is much greater security in these mobile apps and dashboards on tablets than ever before and this is driving deployment across functions in treasury, finance and business more broadly."

"We've been using it for a year now," she adds, "and billions of dollars are now getting processed in a far more secure way than was feasible before and in a way that suits the needs of a mobile management team." Evidently, the lesson that Prasad and a growing number of treasurers are learning is that the key to getting more done at work is, perhaps, giving yourself more to work with. ■

Five apps for the corporate treasurer

In addition to the various offerings from banks and treasury software vendors there are also a range of apps available in the Apple and Android app stores that the corporate treasurer might find useful. Here we provide a quick rundown of five essentials that no discerning treasurer should be without.

1. EZ Financial Calculators (iOS, free)

This app offers corporate treasurers – and other financial professionals – a quick and accurate way to perform many frequently used financial calculations including APR and ROI all from their iPhone or iPad.

2. Keynote (iOS, £6.99)

Imagine the scenario. You are moments away from delivering a presentation to a packed conference room at an international treasury conference. Suddenly, important economic data is released that might bolster your address. There's no desktop computer to hand but that doesn't matter as last minute edits can be made on the slides saved on your smartphone.

3. iSpreadsheet (iOS, free)

No matter what up-to-date, fully integrated, STP-enabling software one buys, treasury will always need spreadsheets in some shape or form. With this app the corporate treasurer can read, edit and save Excel documents on the go.

4. Bloomberg (iOS and Android, free)

Staying on top in today's increasingly volatile markets requires constant vigilance from the corporate treasurer to signs of market stress. There are a range of apps out there providing financial markets news, data and portfolio tracking tools, but few better than this one from Bloomberg. One of the app's many innovative features is the ability to create personalised views of the news by industry, region or popularity.

5. CardMunch (iOS and Android, free)

Treasurers have been using LinkedIn to stay informed with the latest industry trends for many years now. This app utilises the native hardware of smartphones to allow users to take photographs of business cards, which are then automatically added as LinkedIn contacts.

Making a success of supplier finance

Characterised by smoke and mirrors, supplier finance is seen by many as something of a dark art. In reality, it is a practical means of enabling key suppliers to secure an early cash flow injection on better-than-normal credit terms, while allowing the corporate buyer to obtain a longer settlement period, reduce the risk of supplier failure, and increase supplier loyalty. So why does this 'win-win' solution still have an air of mystery about it and how can companies make the most of supplier finance?

Different banks and providers use myriad names for it – some misleading or even erroneous. Little surprise then that there is often confusion around what supplier finance actually is. Referred to by many under the generic supply chain finance (SCF) banner, and by others as 'reverse factoring', supplier finance is actually a form of receivables-driven financing that is initiated by the buyer, through their relationship bank(s).

A balance sheet efficient solution, supplier finance works by allowing the supplier to leverage the buyer's credit rating and access an agreed percentage of the due payment up front from the bank. It is described as a 'win-win' since, in return, the buyer is able to extend out payment terms or benefit from early settlement discounts, safe in the knowledge that their supplier is being supported financially – and that there is no arrangement fee to pay.

Despite the obvious benefits, "a number of misconceptions still exist around supplier finance," says Rene Chinnery, Head of Supply Chain Finance, Lloyds Bank Commercial Banking. "On the buyer side, there is a fairly widespread perception that supplier finance programmes require a great deal of systems integration, for example. That's simply not the case. All that needs to happen is for a report to be written and the file to be exported from the company's standard accounts payable system."

On the supplier side, continues Chinnery, "the main misconception that we encounter is that 'there must be a catch' – it seems too good to be true. But supplier finance is referred to as a 'win-win' solution for very good reason."

Somewhat ironically however, it is precisely this 'win-win' label that seems to be one of the factors holding supplier finance back. After all, when a bank comes knocking at your door promising a solution that works in favour of all parties, it's only natural to feel a little suspicious. As Anil Walia, Head of Supply Chain Finance, Global Transaction Services, RBS notes: "There is still a lack of education on the mutual benefits of supplier finance, so there is a certain amount of insecurity around the way it works – not least the fact that it is a form of off-balance sheet financing."

In many senses, these psychological barriers are the most difficult to overcome. As supplier finance becomes more deeply embedded in the consciousness of treasurers and procurement professionals, however, the rationale for such programmes should seem increasingly obvious to both buyers and suppliers – these mental barriers will shrink. And as more and more supplier finance programmes become a success, momentum will only continue to gather. But how can corporate buyers make their supplier finance programme one of these success stories?

Get your ducks in a row

The first step towards supplier finance success is getting internal buy-in and making sure that all the relevant departments within the corporate are ready for the programme to begin. According to Oliver Petersen, Global Head Supply Chain Finance, ING, "one of the main challenges is internal alignment. If a large buyer is not ready from an internal perspective to implement a supplier finance programme, it is unlikely that the rollout will achieve maximum efficiency."

There is a dialogue which needs to happen within the corporate, he says. "It's not a very 'typical' conversation because it actually requires the alignment of people from treasury, procurement, the IT department, and accounting and legal as well. In our experience, it is very beneficial if this alignment is also supported from top down. You need upper level management support, from the CEO to the CFO."

RBS's Walia agrees, saying: "Every buyer has its own environment, both internally and externally, and that is actually what creates the challenge when implementing a supplier finance programme. Corporates often still work in siloes and different departments will have varied, and sometimes conflicting, KPIs."

The approach that Petersen advises is "for KPIs to be implemented in line with the rollout to keep track of accountability. These KPIs could range from implementation dates to cash flow targets." He adds that: "A well-structured supply chain finance programme tends to generate free cash flow more quickly and generally grows larger than those programmes that are not so thoroughly thought through. This is because people are more engaged – and once the benefits start to show, everyone is motivated to continue."

Internal timing of the programme is another critical success factor, since supplier finance requires so many different corporate departments to come together and work collaboratively on the project. "If it begins in November for example, it is likely that

Auchan: a shining example

Case study

Arnaud Crouzet joined the Auchan Group in 2010 as Head of Group Global Payments Development. He is also General Manager of Auchan Suppliers Advanced Platform SA (ASAP SA), the company in charge of managing the Group's supplier finance programme. Here, Arnaud explains how the programme came about and what factors have contributed to its success.

Back in 2010, requests began coming in from suppliers across the different countries in which Auchan operates to assist with earlier payment of their invoices. This was in large part due to the difficult credit environment at the time. Some suppliers were asking for factoring arrangements, while others were looking to negotiate reduced payment terms. Since Auchan has very strong and valued relationships with its suppliers, the company's treasury function began looking into possible solutions.

"We analysed a number of possibilities, but it was reverse factoring that seemed to tick all the boxes," says Crouzet. Given that there were few large scale supplier finance programmes in the market at the time, there were some initial hurdles to overcome. "What we found was that many of the reverse factoring programmes that were out there were beneficial for the buyer, but not so interesting for the suppliers. Certain programmes virtually forced suppliers to join. But we felt that this was not a fair approach and it certainly didn't match the Group's philosophy," he explains.

"What we were looking for was something open, transparent and flexible that we could offer to all of our suppliers. We wanted a programme that suppliers could decide to use – or not use – however they wanted." Additionally, Auchan needed a solution that would operate on a multi-country, multi-currency, multi-bank and multi-lingual basis. The best way to achieve this, it was decided, would be to manage the programme in-house, rather than outsourcing it to a third party.

A significant number of RFPs were sent out to gather information on the type of platform that would best meet the company's requirements – whether it be an out-of-the-box solution or something bespoke. "We wanted to get the broadest possible view of the market, so the RFPs were sent out to banks and software vendors not only in Europe but also in the US and Asia. It was a huge amount of work, but it was definitely worth the effort," says Crouzet.

What the research highlighted was the importance of a platform that would not only meet the company's needs from a buyer/supplier perspective, but also from a treasury perspective. After consideration, Auchan chose to work with Kyriba to deliver the platform as the vendor was able to respond to all of the requirements set out in the RFP through its white-label offering, while addressing the need for integration with the treasury workflow. "We were pleasantly surprised by Kyriba's response to our RFP. Only knowing the company by name, we spoke with some other corporates who were using Kyriba's treasury software and the feedback was extremely positive. As such, we chose to run a pilot programme with Kyriba."

A handful of companies were involved in the pilot, and it went very smoothly so Auchan was soon able to expand its reverse factoring programme. "The programme is currently live across several different countries and Auchan entities, with many different suppliers now onboard. On the whole, our suppliers are very pleased with the programme – we can see that from the level of uptake and the fact that once they are live with one Auchan entity, they are asking to go live with others. The platform gives them a single window on their transactions with the entire group. It also gives them a lot of flexibility – they can ask for payment manually or automatically, specifying their requested payment date. They also know exactly how much to expect, which helps them with their cash flow forecasting," he notes.

Auchan chose to work with multiple banks to provide the financing for its supplier finance programme and this provides an extra level of flexibility for suppliers. "We arranged it so that the suppliers can access funds at a very reasonable rate – and through their bank of choice."

It is precisely this flexibility and transparency that Crouzet believes has made the programme such a success. "Nothing is imposed on our suppliers. They are free to use the programme if they wish, or to leave it if they wish. What you see is what you get – there is no hidden agenda. For me, this is vital to make a real success of reverse factoring."

Another key success factor, he believes, is the intuitive and user-friendly supplier portal, which Auchan has worked with Kyriba to enhance. "Financial software is often over-complicated. We wanted something very simple, so that no specific training would be required to use it. Not only have we achieved this easy-to-use functionality – suppliers can request payment in just two clicks – but it looks great too," Crouzet explains. The supplier portal is also available 24/7.

For other companies thinking about implementing a supplier finance programme, Crouzet has the following advice: "Don't forget the legal side of things. This can be extremely complicated and it's very important to get it right, so make sure you allocate sufficient time and resources to that. Marketing the benefits of reverse factoring to suppliers is also key – if you make the business case clear to suppliers, this will help to speed up the onboarding process. However, I must re-emphasise the importance of not forcing suppliers to join the programme. A fair approach is always best."

delays will happen as the company will be busy setting up its annual report for the following year," Walia explains.

Choose the right partner

Although there are a handful of large corporates that run their own supplier finance programmes, without the help of a banking partner or third party provider, the vast majority do have external involvement. What is more, the choice of provider can have a significant impact on the seamlessness of the programme's implementation and its overall success.

The challenge here is, as Walia puts it, that: "All of the supply chain providers can talk the talk, but which of them can deliver? That's a key question for the treasurer to consider." Looking at implementation times and previous experience in the space will help the treasurer here. "Those providers that have established themselves well in supply chain finance now have quite streamlined business propositions in this field. From an RBS perspective, five years ago, it used to take us two to three months to put in place the connectivity between the buyer and our system – now it takes all of ten days," says Walia.

But it is not just the buyer's implementation experience that matters in the overall context of 'success'. The partner bank's standards and practices around supplier onboarding are also vital, and again these vary greatly from institution to institution – not least where documentation is concerned. "At RBS, our supplier documentation is simple and ranges between two and a half and four pages, depending on the jurisdiction," he notes. It is not uncommon for documentation to run into double figures, however, and this can be extremely daunting for smaller or family-owned suppliers.

The way that banks approach supplier onboarding can also have a significant impact on uptake. "Some banks believe that suppliers can be onboarded through overseas call centres," says Chinnery. "That's not Lloyds Bank's philosophy. We have a team of experts on hand to support the onboarding process at every step. What is more, they understand how each supplier's business works and where supplier finance fits within that."

Jacqueline Keogh, Managing Director of Global Trade, Lloyds Bank Commercial Banking, re-emphasises the benefits of this: "Each supplier has the support of a named point of contact at Lloyds Bank who is equipped with the knowledge to answer all their questions. We establish relationships with every supplier; they are never 'just another number'."

RBS's Walia supports this philosophy, adding that: "There needs to be a relationship of trust between each supplier and the bank, too. Before suppliers join an RBS programme, we assure them that we will not use their data to approach them for any other business – it's a question of mutual respect."

The right banking partner can also help to overcome any concerns the supplier might have, or iron out creases in the plan. Petersen explains that one such hurdle might be "if the supplier has existing financing in place that has essentially locked up the company's assets as security – meaning that all of the receivables can't be pledged." In this case, he says, "we would urge the supplier to go back to its lenders to either waive the overall requirement or ask for a basket in terms of what they can approve. After all, supplier finance brings in cash more quickly for the supplier, so it's in the best interests of both the supplier and its lenders."

Elsewhere, having a professional third party service provider, who has experience in implementing supplier finance programmes, either engage in a benchmarking or business case exercise or simply validate what the corporate buyer has in mind, can also be extremely valuable in ensuring the programme is a success for everyone, Petersen believes.

Support your suppliers

Ensuring suppliers are on side and up-to-speed with supplier finance is not just up to the provider, however. For Keogh, "a successful supplier finance programme is largely determined by the level of buyer engagement and support in promoting it. Some buyers are very restrictive around which suppliers they will allow to join, while others have been known to give their suppliers no choice but to participate. In our experience, best practice constitutes a supportive buyer who encourages supplier uptake, without making the programme mandatory."

Walia echoes this sentiment, saying: "In the spirit of best practice, the buyer should not be influencing suppliers by pushing them to join a programme. That said, much can be done around educating suppliers about the benefits of supplier finance."

This education might not be the typical 'small supplier' conversation, either. "If you have a supplier which is stronger rated than the buyer," explains ING's Petersen, "supplier finance can be a great risk management tool. Take a company that has just been acquired by a private equity firm, for example. All of a sudden, the credit metrics don't stack up – and if there is no credit insurance available, supplier finance is a very quick and efficient way to de-risk."

Embrace technology

The kind of technology that a supplier finance programme leverages can also have a significant impact on its success and uptake. User-friendliness is imperative. "When it comes to platforms, simplicity is key," says Lloyds Bank's Chinnery. "While our platform has global reach, is multi-currency and is available in multiple languages, we have never had to provide on-site training to a supplier because it's so intuitive."

Indeed, when looking to implement a supplier finance programme at French international retail group Auchan, the company knew that, among other key ingredients, the right technology platform would make a real difference to the overall outcome – as the case study opposite clearly illustrates.

Play the long game

A final word of advice for both corporates and banks in the supplier finance space is to think to the future. After all, supplier finance aims to build sustainable supply chains. According to Petersen, "it's all about the long-term view – this is not something that you put in place just for one or two years, it's about understanding how the client is developing and what the future business case is."

Keogh adds that: "Longer-term, the industry will need to further analyse and respond to the need for cross-border supply chain finance. While FI networks and partnerships are becoming more collaborative and transparent, cross-border supplier finance is most definitely an area that deserves greater attention going forward." ■

Liquid funds in India

From the outset it should be known that the liquid funds industry in India is well-established. New asset managers launching in the country will typically offer a liquid fund as their 'access point' to other asset classes. India's success in this sector can in part be attributed to the fact that it is well-regulated, with the Securities Exchange Board of India (SEBI) continuously monitoring and responding to activities in the segment. The market size as of January 2014 is approximately $40 billion, around 35% of the total mutual fund market size. Over the last five years the liquid funds segment has grown at an annual rate of 15% (source: The Association of Mutual Funds of India, AMFI). The market is 90% composed of institutional investors, eg large and medium corporates, multinational corporations (MNCs), financial institutions and banks, for which it clearly remains an attractive proposition. Whilst the economic growth rate of India has slowed in the last 24 months, it is a broad-based economy and with more investors continuing to enter the liquid funds market at the corporate and institutional level, the sector looks relatively healthy.

Liquid funds as an asset class

Liquid funds in India provide daily liquidity whereas the bank deposit structure imposes a seven-day minimum placement; there is no concept of overnight deposits in India. In addition, yields from liquid funds are typically higher than seven-day deposits. However, investors should note that the risks associated with liquid funds may be different from bank deposits. "You have access to professional credit management, transparency and efficiency and you have a higher yield and daily liquidity; these are interesting parameters in themselves," notes Gordon Rodrigues, Investment Director, Fixed Income and Head of Liquidity, Asia, HSBC Global Asset Management (Hong Kong). But liquid funds also offer a diversified portfolio of instruments and (perhaps as importantly for corporate investors) it is "very easy to access the markets", with bank and non-bank online trading portals and cash sweeping facilities in conjunction with mutual funds readily available.

Tax status

For investments in liquid fund, short-term capital gains tax (currently 30%, assuming the investor falls into the highest tax bracket) is applicable on investments held for less than a year in the accumulating or growth option. It would be the same as that applicable to a bank deposit. If the dividend payout option is chosen, dividend distribution tax at 25/30%* (plus surcharge and cess) is paid by the liquid fund before distributing dividend to the investors. If investments are held for more than a year, it attracts long-term capital gains tax. Long-term capital gains tax is currently applied at a rate of 10% without indexation or 20% with indexation (eg cost of the investment is indexed to the Indian government's annual Inflation Index). Investing in a product that spans three financial years (eg starting 25th March 2014 and ending 5th April 2015) gives investors a 'double-indexation' benefit.

Ratings

It is a benefit too that all liquid funds necessarily have the highest rating from the domestic Indian operations of global ratings agencies, Moodys (ICRA) and S&P (CRISIL). CRISIL's high-point is AAAmfs to ICRA's A1+mfs; there is no appetite for lower-rated funds. In order to distinguish between funds providers such as CRISIL publish fund rankings in which individual funds are placed in order of merit using a weighted system based on two key parameters: a quantitative assessment linked to returns, and a qualitative assessment of asset quality, liquidity and investment concentrations. These are dynamically ranked CPR 1-5 (1 being the highest) and are reviewed quarterly. This provides corporate treasurers with another independent source for reviewing fund quality and returns.

Regulatory environment

The Indian liquid fund environment has been based on variable net asset valuation (VNAV) from the start. Funds have to mark-to-market (or fair value) assets beyond a certain tenor with amortised cost for assets below that tenor unless a traded price is available which creates volatility as the price alters. The maturity cut-off beyond which assets are marked-to-market has progressively been reduced from six months to 91 days to 60 days currently. The alternative (used by most Money Market Funds (MMFs) in the US and UK, for example) is constant net asset value (CNAV) which uses amortised cost accounting to value all assets. In Q4 2008 India saw interest rates on a sharp upwards trend with the banking system in a "deficit liquidity scenario". This, combined with the global financial crisis, led to concerns on liquid funds credit and liquidity risk which saw a group of international and local institutional investors pull out of the market. Although far from causing a run on funds, institutional investor concerns did trigger redemptions.

"In an illiquid market it forced some asset managers to step in and support their own funds so as not to show negative returns in a VNAV environment," recalls Rodrigues. This hit the year's profitability for those funds. The regulator started to pay close attention to the kind of risks being run in the liquid funds versus the level of liquidity they could provide. Until this point, investors in Indian liquid funds could buy instruments of up to one year's tenor.

Following regulatory intervention in 2009, the longest maturity that could be purchased for an Indian liquid fund was shortened from one year to 91 days, one of the few jurisdictions in the world to take such a precautionary action. In 2012 the regulator started requiring all instruments of over 60 days maturity to be marked-to-market, every single day whether traded or not; previously they could be accounted for on an amortised cost basis.

**This depends on the status of the investor - 25% for individuals and 30% for corporates.*
The information provided is based on provisions of the Finance Act 2014. You are advised to consult your tax advisor for detailed tax implication.

A daily security level valuation alongside a credit pricing matrix is provided by both CRISIL and ICRA to value all 60+ days credit papers, but when this ruling came into being, the extra volatility generated in portfolios saw asset managers automatically dropping their weighted average maturities closer to 50 days. "In the global context, if an investor wants less volatility in a VNAV environment where it has fairly volatile short rates – and short rates in the Indian and emerging market context can be more volatile than in a European or US context – this essentially means that they might have to run significantly lower-maturity instruments," says Rodrigues.

Macro-economic events

In spite of all of the Indian regulator's actions, in July 2013 the Reserve Bank of India (RBI) recalibrated its Marginal Standing Facility (the rate at which a bank can borrow on a clean basis) to be 300 basis points above the policy repo rate. This action was seen as an interest rate-led defence against depreciation of the Indian rupee (INR). In the belief that the US would start tapering its quantitative easing programme, pressure had been put on emerging market currencies as they were sold by investors returning to USD (despite the relatively promising economic fundamentals of countries such as India). The INR came under pressure as one of a number of EM currencies facing current account deficits; the RBI's decisive action was taken to restore stability to the foreign exchange market.

With a 300-basis point hike, even an investor with 60 days or less of weighted average maturity in its cash fund was going to see a negative NAV, explains Rodrigues. Mutual fund providers under the aegis of the Association of Mutual Funds of India (AMFI) agreed that the effect of US monetary policy could not have been anticipated and it was decided that the mutual fund management industry could pass on to investors the negative returns it had been seeing – the first time this has ever happened. It is a classic example of interest-rate risk but this time investors did not panic and those that remained invested for a week or more recovered to a position of net positive return. "This time they understood what was happening," he says. "There was a lot more mature communication from asset managers to their clients in explaining the reality of the product."

Corporate treasurers and institutional investors were forced to consider their reaction in context of their individual investment policies and how they should view their portfolio going forward. Rodrigues believes the industry has in fact "come out stronger from this entire experience", knowing that it can quickly rebalance itself even in the wake of significant macro-economic events.

Investment options

For corporate treasurers, the biggest advantage in terms of optimising returns on cash will be attainable if they have the ability to tranche that cash, explains Rodrigues. Under this model, normally cash is split three ways; "working capital" (on-demand cash), "core cash" (held in the medium term for a specific reason such as a dividend payment) and "strategic cash" (the long-term 'war chest').

Medium-term core cash options in India include fixed maturity plans (FMP). "These are closed-end products run by asset managers invested in a combination of debt securities and money market instruments," explains Rodrigues. The securities cannot be greater in maturity than the stated tenor of the FMP, another 2009 ruling intent on avoiding interest rate mismatch between assets and liabilities and ensuring all obligations can be met. FMPs are "an established and robust market" with usual maturities being three months, six months, one year, two years and three years, the bulk being six months and one year. "Specifically in the one-year segment investors get very good tax-adjusted returns," he notes. Investments of this type also help to maintain a diversified portfolio and, as a 'hold-to-maturity' product, can insulate against interest rate risk. As passively managed products the pricing attracts lower fees too, adds Rodrigues.

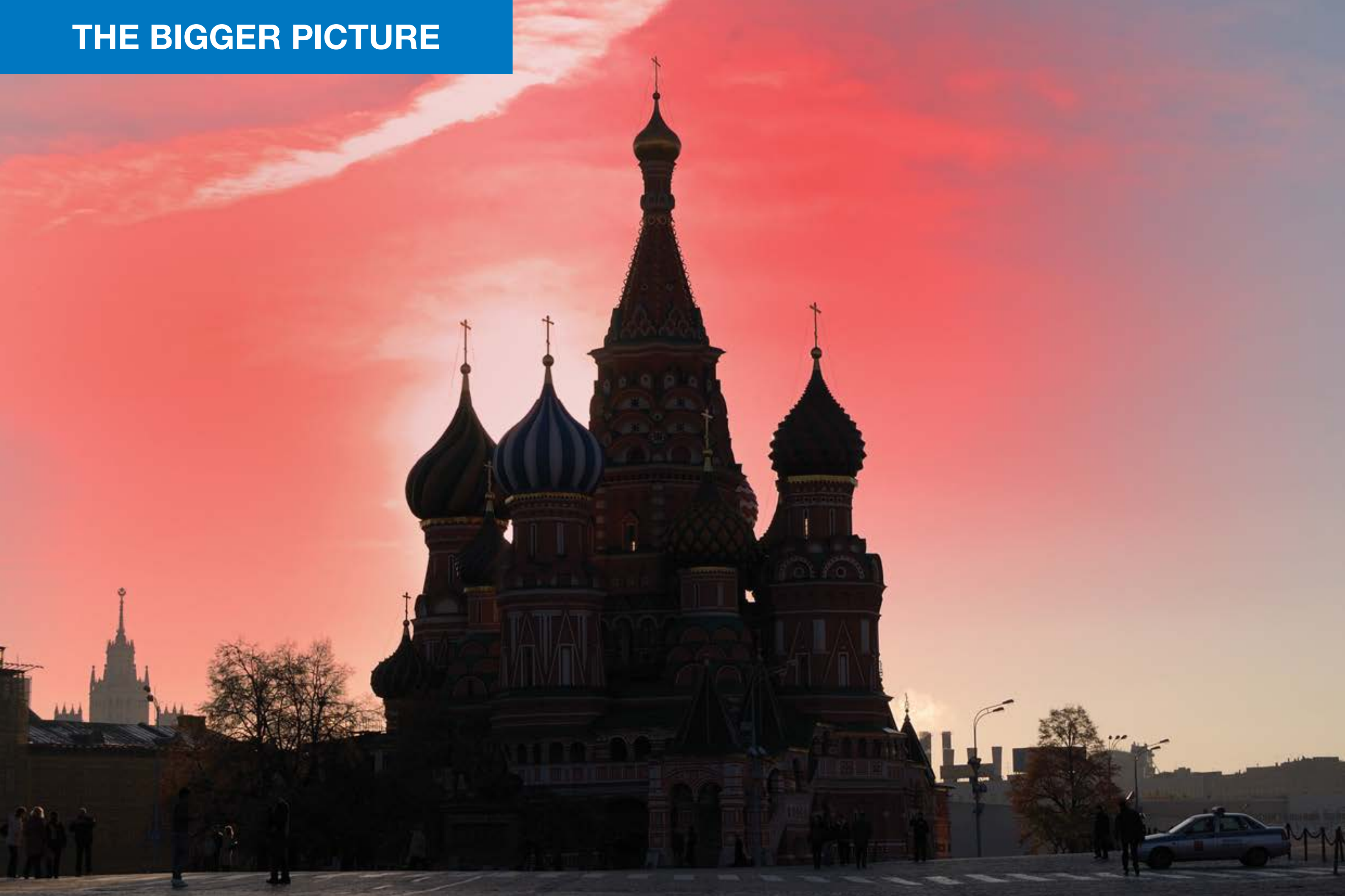
In terms of longer-term strategic cash the Indian market offers a segment known as ultra-short bond funds. These are often split two ways, with a weighted average maturity of two and five months for the conservative option or as a "more aggressive" version running between five and 12 months. The yield differential between these two could be as much as 50 basis points.

Outlook

The RBI's focus on containing inflationary expectations is expected to continue. The RBI repurchase (repo) rate – the rate at which banks borrow in the overnight market from the RBI – is now hovering around an anti-inflationary 8%. "In the short term we expect that rate to remain relatively stable if still on the high side" says Rodrigues. Although the central bank is looking to be more "pro-growth", he feels that during 2014, short-term funding rates are likely to range somewhere between the repo and Marginal Standing Facility rate. From an asset manager and treasurer's point of view "it therefore makes sense to run shorter-weighted average maturities".

Gordon Rodrigues is an Investment Director in the Asian fixed income team and is also the Head of Liquidity Asia. Rodrigues has been working in the industry since 1992. He joined HSBC Global Markets, India in 1994 as a treasury sales specialist covering corporate and institutional clients. He traded credit products on the fixed income trading desk from 1998-2002. He moved to HSBC Asset Management India in 2002 to set up the fixed income investment team and headed the team until 2007 before relocating to Hong Kong. Prior to joining HSBC, Rodrigues worked as a foreign exchange and fixed income dealer at Merwanjee Securities in Mumbai. He holds a Bachelor's degree in Electronics Engineering and a Master's degree in Finance, both from the University of Mumbai, India.

HSBC Global Asset Management



Perestroika

On 26th December 1991, the Soviet Union was formally disbanded, closing a period of history which was dominated by the Cold War. In the build up to the collapse, then Soviet leader, Mikhail Gorbachev, launched a restructuring programme named Perestroika which looked to save the nation's faltering economic system. In this article, we explore the finer details of the Perestroika programme, while examining the role it played in the collapse of the Soviet Union and the economic troubles of 1990s Russia.

Perestroika is a Russian word which entered dialects around the globe in the late 1980s when the Soviet Union began its transformation from a socialist state into a free market capitalist country. Literally meaning 'restructuring,' Perestroika first fell from the lips of Mikhail Gorbachev in 1985 alongside its partner 'Glasnost', which means openness. Together, Perestroika and Glasnost laid down the platform for reform which would ultimately lead to the collapse of the Soviet Union.

The Soviet Union already faced many challenges when Gorbachev assumed the Soviet leadership. The centrally planned Soviet economy was in decline. Military spending was high – equating to circa 25% of Soviet GDP and 70% of industrial output. Soviet society was suffering from a decline in living standards with a general shortage of basic supplies. Civil unrest was the natural by-product of this decline and was further fuelled by nationalism and the advancement of technology which allowed Soviet people a glimpse of the prosperous capitalist world beyond the iron curtain.

The Soviet economy

The story of Perestroika actually begins decades prior to Gorbachev's tenure, in the infancy of the Soviet Union. Officially formed in 1922 by the Bolsheviks, led by Vladimir Lenin, the Soviet economy began to take its true shape following the rise to power of Joseph Stalin. Heavily influenced by the vision of both Lenin and the economist Karl Marx, Stalin implemented an ideology which committed the Soviet Union to a centrally planned top down economy. The Soviet government owned and controlled all aspects of the economy. Private ownership was prohibited and all goods manufactured were utilised by the

government. Five year plans implemented by Gosplan, the State Planning Commission, directed the economy – setting targets for Soviet enterprises. Supplemented by an annual plan, the Soviet government allocated materials and funding to each sector of the economy and determined what, when and how much of a product would be created and its value.

Under Stalin the Soviet economy underwent a dramatic transformation, industrialising at an unprecedented level. For Stalin the Soviet Union was 50 to 100 years behind the rest of the world and needed to catch up in ten years or face extinction. To achieve this, Stalin implemented a 'big push' for the economy, driven by heavy industry, collectivised agriculture and the production of capital goods.

Stalin's push worked. The economy boomed, transforming the Soviet Union into an industrial giant. And even though the devastation of World War II put a temporary halt to Soviet economic growth, in the wake of the conflict, recovery was swift. Driven by the centrally-planned economy and continued industrialisation, output soared and the Soviet Union posted average yearly growth of around 10% between 1950 and 1960 which, according to Soviet statistics at the time, outpaced that of the United States.

Cracks under the surface

From the outside looking in, the 1970s Soviet Union appeared to be a political, economic and militaristic powerhouse. In some respects this assessment was true, but cracks were beginning to appear. In reality, the Soviet Union had reached its economic zenith in the late 1960s, and in the following decade it began to stagnate.

"There was always a problem with the state run economy," states Mike Bowker, Senior Lecturer in Russian History at the University of East Anglia (UEA), "and at this time it could not cope with the changes internally and internationally." Soviet central planners were beginning to struggle with the vastness and complexity of the country's economic system, which had already reached its peak, and action was needed to maintain the levels of production and growth.

Soviet leader Leonid Brezhnev however, assumed the premiership promising to retain the status quo. Only limited economic reforms were therefore introduced early in his tenure which were often mismanaged and underfunded. "The commitment to the reforms was always doubted," says Bowker, "and because of this they faded out and failed to reinvigorate the economy." As a result Soviet industry was unable to modernise and intensify production, output stalled from 1979-82 and the economy began to cripple.

Brezhnev's New Social Contract also played a role in the stagnating economy. Promising Soviet society employment, wages, accommodation and social security, the Contract killed social mobility. Therefore, Soviet people no longer had any incentive to work hard, other than to hit the targets set by Gosplan. As a result, productivity and quality were reinforced as secondary objectives for the Soviet workforce and begun to decline, causing further economic trouble for the country.

Enter Gorbachev

On 11th March 1985, 54 year old Mikhail Gorbachev assumed the role of General Secretary of the Soviet Union. Gorbachev was the first leader of the Soviet Union born after the revolution and was regarded by many as a leader with the potential to bring change. Facing a tidal wave of problems, Gorbachev quickly realised that the old policies were not working. He soon denounced the policies which had gone before him and laid out his own roadmap for restructuring.

Perestroika was first mentioned in Mikhail Gorbachev's economic report just a few days into his tenure. However his initial attempts at reforms sought to accelerate the economy through investment in industry. These produced little results as they repeated the fatal error of previous measures – failing to address the structural problems at the heart of the faltering economy. As a result, his policies became more radical throughout his tenure.

It wasn't until the January 1987 Plenum of the CPSU Central Committee that Perestroika was announced as an official state policy. Together with Glasnost, Perestroika outlined Gorbachev's third way in which he sought "resolute and radical elimination of obstacles hindering social and economic development of outdated methods of managing the economy and of dogmatic stereotype mentality." He believed this would "resolutely reverse the unfavourable tendencies in the developing of the economy, to impart to it the due dynamism and to give scope to the initiative and creativity of the masses to truly revolutionise change."

UEA's Bowker sees Gorbachev's policies at this time as an "attempt to reform the system, not overthrow it. His main idea was to introduce the efficiency of a market based system which had the social conscience of socialism. It was a last chance saloon for Soviet style socialism."

Perestroika is often attacked as a vague term which promised a lot but offered few elements of practical policy. To a certain degree, this may be true. The Soviet government often changed and adapted the meaning of Perestroika as conditions in the Soviet Union shifted. There were, however, a number of quantifiable policies which were introduced – these, Bowker says, "in hindsight may seem insignificant but at the time were fairly revolutionary." The first of these was the Law of State Enterprises; passed in 1987, which was introduced to remove the grip of central planners over the productive elements of the Soviet economy. It allowed enterprises to adopt free market methods and adjust their levels of output according to supply and demand. State orders however still needed to be fulfilled and inexperience of private management led to a number of issues such as inter-enterprise debt and the failure to pay taxes, which ultimately caused more harm than good.

A year later, the Law on Co-operatives was passed, expanding the co-operative sector to include privately owned ventures which were treated under the laws as state owned businesses. Privately owned restaurants, shops and salons soon began to flourish under the new policies, lining the streets of the major Soviet cities and offering a better service than their state-run counterparts. Furthermore, foreign trade was no longer monopolised by the government and limited foreign investment was granted in the form of joint ventures. Red tape however often made this problematic.

Shortcomings

The decentralisation that these policies created ultimately failed to have the desired effect on the economy and may in fact have attributed to its eventual collapse. One of the key issues was that Soviet bureaucracy and industry at all levels were so deeply entrenched in the centrally planned Soviet structure that the transformation was mismanaged.

Gorbachev later highlighted this shortcoming in his memoirs stating that there was "confusion caused by the haphazard transition of industry to a system of cost accounting, self-financing and self-management." Furthermore, the policies created new problems for the Soviet Union as the government had to rescue enterprises which it could not allow to fail. In addition, the lack of basic supplies worsened as co-operatives poached the best workers away from state run enterprises and began charging higher prices than the average Soviet could afford for their products. This saw growing resentment build towards Gorbachev and Perestroika as living standards fell.

Perestroika was also played out in the shadow of the Cold War which limited the effects it could have. The inability of the Soviet leadership to escape the Cold War paradox meant that the economy remained strained due to high defence spending and a fear of losing parity with the United States. Reforms therefore still had to maintain the military status quo which underpinned the system and although Gorbachev ultimately brought an end to the Cold War, it was too late for the Soviet economy to escape the paradox.

The curtain collapses

A year into Gorbachev's Perestroika programme, the Soviet Union was showing little sign of improvement. Nationalist demonstrations and conflicts swept through the Union in 1989 as Soviet satellite nations buoyed by policies of Perestroika and Glasnost established their own regimes. Conditions for Soviet citizens continued to decline, with large queues for basic supplies becoming a regular feature across the Soviet landscape. Conditions reached unprecedented levels in 1990 which saw rationing introduced for the first time since World War Two. The same year also played host to one of the most iconic moments of the 20th century as German citizens from both the East and West reunited when the Berlin wall was torn down and the country was brought together under one flag. This event metaphorically signalled the collapse of the iron curtain and the Soviet Empire which was formally disbanded on the 26th December 1991.

The extent to which Perestroika caused this collapse is a point still debated today by historians. Some suggest that the Soviet system was doomed to fail from its conception and eventually collapsed under its own weight. The other school of thought suggests that the collapse may have been unavoidable but that Gorbachev's policies turned the tide and ultimately triggered its collapse. Bowker believes that ultimately "the Soviet economic system was unsuitable for the modern era which it was entering. Gorbachev's reforms failed primarily in the economic sphere and this proved a catalyst for the collapse. It's his policy of Perestroika, therefore, which explains why the collapse happened when it happened."

Following the disintegration of the Soviet Union, Russia became the successor state. Led by Boris Yeltsin, Russia continued with the reforms which began under Gorbachev, especially in the political sphere, with the further establishment of democracy and integration into the world system. Economically, however, Yeltsin moved beyond the restructuring brought on by Perestroika and abandoned the Soviet system all together replacing it with a capitalist market based system. This was pursued under the title of 'shock therapy' which had three main pillars; liberalisation, stabilisation and privatisation.

Rather than bringing Russia to life, 'shock therapy' had adverse effects on the economy. The liberalisation of the economy saw Russia begin to suffer from hyperinflation in 1992, reaching 2,520% at its peak. The economy also shrank dramatically and by the end of 1995 Russian GDP had declined by 50% since 1990, a greater decline than that experienced by the United States during the Great Depression.

Exchange between the ruble and the US dollar was legalised which caused further economic instability. The rate of exchange initially sat at 144 rubles per $1 but this rose significantly over the following years to around 500 rubles per $1 in 1993. Despite all the problems the Russian economy was facing, the West, led by the United States and IMF, urged Russia to continue its rapid transition.

The detrimental effects which 'shock therapy' had on the economy played out in Russian society during the early 1990s and conditions were far from those first envisaged when Gorbachev introduced Perestroika. Unemployment swept across Russia as state run factories closed. Poverty in the country increased from 1.5% of the population in the late Soviet era to around 45% in 1993. With inflation and the lowering value of the ruble, the average Russian's purchasing power had decreased meaning that they could afford very little, despite the shelves now being full, unlike in the late Soviet era.

Diseases and addiction ravaged the population, who could no longer afford basic medicine. Violent crime and ethnic conflict also began to spread. It was a dire time for the Russian population and is widely recognised as not only one of the most devastating peacetime economic collapses but also a human tragedy. Gorbachev, the father of the reforms, stated in a 2010 New York Times op-ed that ultimately "shock therapy was much worse than the disease." For the Russians who lived through the fall of the Soviet Union and the 1990s, the promise of Perestroika had not delivered and shock therapy caused further pain to the nation. Many longed for a return to the Soviet era.

In retrospect

Domestically, Perestroika remains a polarising concept. Despite all the successes which Gorbachev achieved, such as bringing the Cold War to an end, democratic reforms across the Soviet Union and liberalising the country, economic failure still resonates in the mind of Russian citizens. As Alexei Makarikin, political analyst at the Centre for Political Technologies states in an article published on the World Security Network: "all hope was placed on him [Gorbachev], and all failures are being blamed on him."

Speaking in his own defence, Gorbachev focuses on the political success of Perestroika believing, in hindsight, that these offered freedoms unlike ever before. He does however admit mistakes including the collapse of the Union, losing sight of the economy and causing the people of the Soviet Union to suffer because of the shortages of basic supplies. For Bowker, "Gorbachev would see the collapse of the Soviet Union as his biggest failure. He never wanted that to happen. It was his aim to build a social democratic union with a free market and high living standards. He failed to deliver this."

Russia has since recovered from the collapse of the Soviet Union and the disastrous 1990s. As one of the BRICS, it is now considered one of the most important emerging economies in the world and is fully integrated into the global political and economic system. Therefore, despite all the hardship Gorbachev believes that Perestroika was a success in the end because it "brought the country to a point from which there could be no return to the past." ■

Power to the people

Byron R. Jackson
Vice President and Treasurer

Itron

Byron Jackson has worked in corporate finance and treasury for long enough to know that lessons can be learnt from the most unexpected of sources. With a deep understanding and interest in emerging market economies and anthropology he has applied his collected experiences from around the world – including a pre-liberalised China – to great effect and is now bringing home some major changes at one of the world's foremost smart utility metering companies, Itron.

Itron is a global technology and services company providing solutions for measuring, managing and analysing energy and water. From its headquarters in Liberty Lake, Washington in the United States, it employs thousands globally, supporting nearly 8,000 customers across more than 130 countries, including electricity, gas and water utilities, retailers, wholesale market operators, large commercial and industrial energy and water users, and service companies. Itron is a publicly traded company. In 2013 it reported revenues of $1.9 billion.

If, through acquisition, a business doubles in size and turns from a simple and largely domestic operation into a complex global organisation with no central systems or processes, matters can get out of hand pretty soon unless it can find a calm and collected presence to steer it in the right direction.

So when US-based utility technology company, Itron, acquired a major international meter manufacturer, Actaris, in 2007, it needed an individual with many years' experience in the global treasury arena to formulate a technology-led plan to simplify, standardise and centralise operations.

Arriving at Itron in 2008 as its new VP and Treasurer, Byron Jackson was faced with a fragmented global operation built around "too many legal entities, multiple instances of ERP, numerous manual interfaces and accounts with nearly 60 banks". But drawing on knowledge accumulated throughout his time working in developed and emerging countries in the Americas, Europe and Asia, Itron is now looking at a more unified future.

Much of Jackson's career had been spent working out of the major world financial centre that is Chicago. But his interest in international financial affairs started as a 19-year old despatched to Uruguay for two years as a missionary for his church. "I witnessed first-hand the impact of high inflation, currency devaluations and economic dislocation on the lives of the common people," he notes. "Growing up I'd never really witnessed a high degree of poverty before." With a newly found passion to try to understand its causes and how to improve it, the experience has had a major influence on his career direction.

First break

Jackson first arrived in Chicago to study for his MBA in Finance at Northwestern University. He decided to stay on in the 'Windy City', having secured an internship and then in 1974 full time employment with FMC Corporation as a financial analyst. The firm was a $5 billion diversified industrial company with a major interest in agricultural chemicals, machinery and food processing equipment.

The first real international opportunity for Jackson arose when the company experienced some "significant losses" in foreign exchange. "Defining foreign exchange risk management back in the early 1980s was a major issue," he recalls. "It was a great learning experience."

Going mobile

With 20 years of service at FMC under his belt, Jackson decided the time was right for a move. Still based in the Greater Chicago area, in 1994 he joined mobile communications firm, Motorola. "International finance was becoming increasingly important to them and again they had some issues with foreign exchange management." Stepping up as Corporate Vice President and Assistant Treasurer at a time when Motorola "needed to focus on working effectively in a lot of different countries", over the next 14 years that is exactly what he did, carving out some very interesting partnerships, including work with the World Bank.

Motorola was at one point the largest foreign investor in China. Jackson describes the company as having a "very strong relationship" with the Chinese government, it being the first western business to establish a semiconductor manufacturing facility in the country (semiconductors are used in all modern electronics). Having established a relationship "built on trust," Motorola helped the Chinese government work on a number of international financial processes before opening them up to other corporations, such as lending cash generated in China to Motorola's finance subsidiary in Singapore or investing dollar-denominated cash in Motorola's private, global money market fund.

In 2008, the role of VP and Treasurer at Itron surfaced. "It came at just the right time for me," notes Jackson. Itron was a smaller business than he had been used to, but having just purchased Actaris, with its many international operations, overnight it had been thrust onto the world stage and was suddenly facing all of the issues that Motorola had faced.

Scaling up

In reality, Itron had scaled up from being an operationally centralised company in North America to being a "complex global organisation with no central systems or processes". Developing international finance capabilities was now vital as countries such as South Africa, Brazil and Indonesia would increasingly play an important part of the company's expansion. Immediately, this meant hiring new team members and developing the skills of those already in situ.

Today there are 17 personnel on board, including the members of a financial accounting group, a risk management group and an international treasury group (based in Brussels). The emphasis on bringing about "simplification, standardisation and centralisation" of all treasury processes has seen the integration of new and existing treasury technologies, notably the IT2 treasury management system (a case study covering the project in depth was published online in January 2014 as part of the Treasury Today Insight series).

"The goal is straight through processing and transaction automation," explains Jackson. By freeing people from having to manage individual transactions and manual analysis it is possible to deliver "visibility and transparency" over all transactions, he believes. "We want the same financial systems and financial processes throughout the world."

Debt management

At the start of the global financial crisis in 2008, Itron was in a highly leveraged state having just acquired Actaris. It was insulated to a degree from the worst of the downturn by a number of very large electricity utility contracts in North America, sustaining it through to 2012. But it was far from clear sailing. "We still experienced a lot of the volatility, the dislocations of the financial crisis and the natural conservatism of utility investments throughout the world," says Jackson.

There has always been a strong sense of the importance of cash flow at Itron. In difficult times that focus became more intense. Itron mobilises its cash around the world, concentrating it in the US and, in the midst of global meltdown, paying down more than $1 billion of debt. That debt is now at "quite a comfortable level", the company even managing to implement a share buy-back programme.

It was fortunate too that as the US programme of quantitative easing (QE) was ramped up, Itron moved to floating rate bank debt. During the last three years the business has experienced "an extremely low cost of borrowing", the likes of which Jackson says he has never before experienced. But as the low interest-rate environment continues the financial concern he has is the degree of volatility being created in emerging markets as QE tapers away.

With Itron's business strong in many emerging markets he has already seen some "real volatility". With rates rising, investors are heading back to quality, practically forcing central banks in countries such as Turkey, South Africa and India to raise their key benchmark rates to try to offset falls in their respective currencies and to protect against rising inflation. From Itron's perspective it means having to maintain focus on cash flow, looking at commitments made on longer-term contracts and becoming more effective at forecasting and hedging its exposures.

However, given the company's presence in many emerging markets, banking in some countries can be a challenge. "Our

international bank group has a pretty good reach in places like Indonesia, South Africa, Argentina and Eastern Europe, but there will always be countries such as Mozambique where it is hard to find an international bank to work with," notes Jackson. Today it has a panel of 11 banks. When Actaris first came on board, it swelled the number of Itron banking partners around the world to around 60. "We pared that number down dramatically but that is a difficult process; it changes the financial flows and processes in each country," he reports. Change management has been a "challenge" but Itron has focused on delivering a fair share of its wallet to its relationship banks. "They've stepped up with technology and have been very helpful as we move to our new treasury system," he reports.

All change

On that topic, the implementation of IT2 is going well, but in January 2013 Treasury Today reported on the acquisition of that vendor by Wall Street Systems. "When that change was announced I had some concerns but they have been open in their communication," comments Jackson. "Overall they continue to focus on their product line; we feel like we are at the forefront of using their system and provide a lot of ideas for enhancements going forward; we are waiting for some of our enhancement requests and suggestions to be incorporated into future versions of IT2.

The project to deliver a whole suite of new treasury technologies was just over half-way through at the time of writing. However, the scope of the undertaking means Jackson spends much of his time engaged in internal change management. "Technology provides opportunities but it changes the roles and functions of a lot of different people, not just in treasury," he explains. The shift, for example, from manual transaction processing towards more analytics where rich data and information that hasn't been available before on a global scale can now be called upon, means training treasury and financial groups throughout the world.

Resistance to change is common, but Jackson points out that as well as giving a lot more insight into processes, technology provides opportunities for personal growth and development. "I think people have been surprised at the value created when you have a common system across many different countries." The new technology will make life easier in the future but the process of change can see some staff effectively doubling up on workload as old and new systems function in parallel. With most of the implementation expected to be completed by the end of the year, the benefits are becoming ever more apparent. For many, this signifies "the light at the end of the tunnel" helping to sustain the project effort.

Making plans

Of course, one of the first projects undertaken by Jackson upon joining Itron was the implementation of a foreign exchange management structure. The introduction of a balance-sheet hedging programme has, he reports, worked out well but it does not solve all foreign currency issues. "How do you manage currency risk in a country such as Argentina?" he asks (the country is still reeling from its 2001 IMF default, it has no access to international capital markets, and CDS spreads on Argentine debt are in default territory). Notwithstanding such challenges, Itron is still looking at a point in the future of its cash flow hedging where more of its contracts are hedged. "We haven't introduced that fully yet because all the systems have to be in place first."

Its work in emerging markets almost inevitably means Itron is holding more cash in certain countries than it would normally tolerate. This forces treasury to find more effective ways of mobilising that cash but where possible it is brought into Itron's pooling and inter-company lending structure. Jackson wants to go further. "We like the idea of having an in-house bank," he states. With the systems falling into place, treasury is currently able to see over 98% of its global cash balances and statements on a daily basis and is getting to the point where an in-house bank can be a reality.

In addition, the next stage of Itron's development will see treasury preparing for growth, both organically and through acquisition. With bank debt maturing in 2016, the next 18 months have been set aside as a time to explore all options. As treasurer, Jackson feels it is his job to be "ahead" of the company. "As growth opportunities appear we have to be prepared to move quickly."

Lessons will be learnt

With continued interest in anthropology and the economic development of the emerging markets, Jackson is always keen to learn from new sources. He notes that manual processes can become entrenched in larger economies whereas some emerging nations have been able to jump straight to the next level, unencumbered by legacy processes. The use of cheques in the US, for example, continues almost unabated whilst those that never used them (perhaps because of economic uncertainties) have been able to leapfrog into the modern age with vastly more efficient electronic payment tools (M-Pesa mobile payments in Kenya being a classic example).

On the darker side, Jackson notes that many emerging markets have demonstrated that there are fundamental economic and financial principles that must be followed. "They tend to suffer the consequences of mismanagement rather quickly whereas in the developed world we think we don't have to listen to those principles." As a word of warning to the larger economies he cites an old maxim learnt from a former treasury boss that says the 'chickens always come home to roost'; in other words, you have to pay for it some time. "It is surprising how long the US has been able to maintain very low interest rates – but things have to return to balance sometime and that can create a lot of volatility." Asked whether it is the job of the regulators to reinstate balance, his view is forthright. "We will return to balance one way or another. It just remains to be seen how much volatility, dislocation and disruption occurs in getting there."

Whilst pondering such events, Jackson can occasionally be found engaging in a spot of fly fishing. But, he insists, he is always thinking about treasury. "It's been a part of me for so long that it's difficult to pull my mind away from work. I have to be fly fishing and away from the phone for many days before I start to focus on other things."

Dating back to his first overseas experience, it is of great importance to him that he is part of a business that in some way benefits society. It has been a conscious decision throughout his career to seek out businesses whose corporate objectives are in alignment with his personal views. FMC's positive agricultural impact is obvious. Motorola worked to reduce the cost of wireless communications in developing countries. And now Itron, which is focused on conserving energy and water, is making a difference with its pre-payment meters by taking credit risk out of the utilities, allowing acceleration of their expansion into emerging markets, and giving power to more people. ■

Payments on the move

As mobile payment solutions become a more accepted payment medium for consumers, they could also ultimately have a significant impact on the work of corporate treasuries. But what are the risks with mobile payment applications? And are corporate treasurers ready to approve large payments using their mobile devices?

Consumers appear more comfortable than ever using their mobile devices as a means of transferring money. Earlier this year in the UK, for example, a retail bank customer used a mobile payment application to put down a deposit on a house, in what is thought to be the first transaction of its kind in the world. The UK is widely recognised as one of the most forward-thinking digital economies, and the country is often one of the first to embrace innovations in payment technology. Developments in the UK are therefore likely to be replicated in other regions in the not-too-distant future.

This preparedness to accept mobile as a means of payment is filtering down to corporates, with banks increasingly offering mobile services to larger corporate clients that allow them to approve payments, check balances and even initiate payments using their mobile handsets. After all, treasury departments are staffed by consumers, and their experience of payment technology in their personal lives (provided it is positive) can influence the technology they introduce into the corporate treasury.

> "We have seen increased customer demand for mobile payments via the Pingit app and are confident our customers will use both methods to suit their needs."
>
> Darren Foulds, Mobile Banking and Pingit Product Director, Barclays

Unlike Direct Debits (DD), which pull funds from a bank account, many mobile payment solutions push the payment, effectively transferring control to the payer. Popular examples of applications that work on this basis include Barclays' Pingit and VocaLink's Zapp, both of which run via the UK's Faster Payments system. As more solutions appear on the market, mobile is becoming a hot topic for both corporates and banks.

Greater reach

At the end of April the UK's Payments Council – the body responsible for ensuring the smooth running of payment services in the country – will launch its Paym (pronounced "Pay Em") mobile payments service. The service allows customers of the participating banks to make payments by entering the beneficiary's mobile number, then confirming their name. The service translates the phone number entered by the initiator into the beneficiary's sort code and account number, which are securely held on a central database designed and developed by VocaLink.

What marks Paym out from other services is that it is industry-wide, and has the potential to link to every current account in the UK using just a mobile number. "Many of the mobile payment services on offer at the moment suffer, to some extent, from a lack of ubiquitous reach. With lots of them, to receive a mobile payment you've got to be part of a club, or an existing customer of the bank," says Chris Dunne, Payment Services Director at VocaLink. VocaLink operates the infrastructure behind payments in the UK – Dunne describes it as the 'national grid' for UK payments.

At launch, the Paym database will already be populated with a large number of accounts. Nine banks and building societies – Bank of Scotland, Barclays, Cumberland Building Society, Danske Bank, Halifax, HSBC, Lloyds Bank, Santander and TSB Bank – will be able to use Paym once it is launched, with a further seven joining later in 2014. The Payments Council says that by the end of the year, nine out of ten current accounts in the UK will be covered by the scheme.

But what will the launch of Paym mean for banks who already have their own mobile payment solutions? Will they be rendered obsolete? Barclays, one of the banks participating in Paym from the launch, says its customers can still use Pingit in conjunction with Paym. "We have seen increased customer demand for mobile payments via the Pingit app and are confident our customers will use both methods to suit their needs," said Darren Foulds, Barclays Mobile Banking and Pingit Product Director in a statement.

And despite a greater ubiquity of reach provided by services like Paym, mobile payments are unlikely to revolutionise the financial system as we know it. They will just make certain transactions easier.

Another payment channel

Mobile payment solutions are unlikely to turn the treasury function upside down either – at least for the moment. These solutions will, however, add a degree of flexibility as a complement to existing payment channels. "Corporates will continue to use desktop-based banking in the back office for high volume payments, as mobile is not a practical medium for this type of activity. Where it does become practical is when a handful of high value payments need approval while the treasurer or senior payment approver is on the move. The approval workflow lends itself to mobile, and treasurers are very

happy to use a mobile to approve payments. The mobile itself is another channel, and the mobile payment is just another payment. In its simplest term, you're settling to a telephone number instead of a bank account," says Jon Ashton, Managing Director and Head of eChannels at Barclays.

However, as the medium adapts, it could start benefiting corporates at a much more fundamental level. "While it is just a new channel, it is also a channel that could challenge existing business models and ways of managing cash. It can make treasury processes much more efficient and lean, improve cash handling, and help right down to the working capital level, as money is coming in before it would have with the old way of doing things," says Mark Wraa-Hansen, Head of MobilePay at Danske Bank, which offers a retail mobile payment application and is currently developing a corporate solution.

It could also transform the way some corporates invoice customers. As an alternative to Direct Debits (DD), invoices with a Quick Response (QR) Code allow mobile payments that are almost instantaneous. Furthermore, these payments have embedded in them a token containing information about the customer and the bill, thus saving the corporate on administration costs, as well as making it easier for the customer to pay. This form of payment could bring particular benefits to regulated utilities in billing customers who are either unable or unwilling to pay by DD.

Indeed, the advantages of the mobile medium are particularly relevant to certain industries – such as the utility example above. But certain regions, too, stand to benefit from mobile payments more than others owing to demographic and infrastructural idiosyncrasies. Africa is one such example.

Mobile Africa

Africa is particularly ripe for the growth of mobile payment platforms, with its combination of a large unbanked population and widespread mobile phone usage. In 2010 management consultants McKinsey estimated that 326 million people – 80% of the adult population – in Sub-Saharan Africa were financially unserved. Meanwhile, GSMA, the body that represents the world's mobile operators, has forecast that there will be 346 million mobile users in the region by 2017.

"Mobile can play a key role in getting access to the massive population in Africa that is currently unbanked, or underbanked, and wholly dependent upon physical cash as a means of payment," says Jerry Pearce, Head of Product Management and TPS at Standard Bank, which offers mobile payment services to its customers in 12 of the 18 countries in which it operates, including Kenya, Nigeria and South Africa. Mobile banking solutions are an essential part of the new banking ecosystem in the continent," he adds.

M-Pesa, the Kenyan money transfer system supported by mobile phone operators Safaricom and Vodacom has grown rapidly since its launch in 2007. Roughly $19 billion, equivalent to around 25% of the country's GNP, is now transferred through the medium. Other applications, such as SnapScan, which allows users to scan codes in retail stores before paying electronically, are also proving popular.

As is the case in other regions, mobile payment proliferation for retail customers is driving demand for corporate solutions. Mobile payment solutions also present opportunities to development and charitable organisations as a safer and more efficient way of remitting funds. The potential benefits of the new channel to individuals, corporates and development organisations alike in Africa are clear. "We've seen cases where companies and organisations have previously had to ship large quantities of physical cash to remote rural locations, which carries significant associated costs and risks. Now this can be done in real time through a mobile service," says Pearce.

> "From our research, it's very clear that people are much more likely to use a mobile payment application, if it is provided by their bank rather than a third party, because they trust their bank, they trust their banking application, they've had to go through the setup, and they know it's secure."
>
> Chris Dunne, Payment Services Director, VocaLink

Pearce also thinks the spread of mobile payment technology in Africa could be replicated in other parts of the world where there is a similar financial and mobile ecosystem. He highlights Bangladesh, India, Sri Lanka, and Vietnam as examples of countries with low levels of bank accounts and high mobile usage.

Embedded trust

Mobile payment applications represent something of an architectural shift from what is used for web-based payment applications. This has posed new challenges in securing the solutions. "With the web model, you had a browser and some HTML code, but the bulk of the logic was on the back-end server. And that's really the way mobile started as well, the first generation of mobile applications were effectively just web browser applications on your mobile device," says Vince Arneja, Vice President, Product Management at Arxan Technologies, an application security group whose security is "baked in" to some of the leading mobile payment solutions.

But recent mobile payment applications have progressed to the point where a large part of the functionality is now running on the device itself. "Now the application has effectively become a target because it doesn't hide behind a firewall any more where trust is embedded in the firewall layer; the trust has to be embedded into the application itself," he adds.

Users are much more willing to put their trust in a brand they know. "From our research, it's very clear that people are much more likely to use a mobile payment application, if it is provided by their bank rather than a third party, because they trust their bank, they trust their banking application, they've had to go through the setup, and they know it's secure," says VocaLink's Dunne.

For example, Zapp, a real-time mobile payment solution and VocaLink subsidiary, is delivered through the user's mobile banking application, and utilises the bank's existing mobile security channel. This provides the twofold benefit of securing the solution using safeguards that are tried and

tested, and gaining the trust of the user via their existing relationship with the bank.

Security challenges

In terms of the specific security threats facing mobile payment applications, one of the biggest is that of reverse engineering, where hackers repackage mobile applications after inserting malicious code and redistribute the application on secondary application stores online. The risk is that users will download these applications assuming that they are official bank products, only for the fraudsters to syphon funds from the account using the malware they had previously introduced. Arneja says several large banks have already approached secondary vendors in order to have reverse-engineered software taken down, to protect their customers, and to prevent damage to the bank's brand.

Another risk with mobile payment solutions is that of non-repudiation, as it can be difficult to categorically identify the person who has entered or approved a payment. Some solutions turn the device itself into a security token, but in the absence of a smart card and reader – which are generally considered too unwieldy for mobile payments – this remains a challenge in the space.

> "New handsets and tablets are coming out every day and the processing capabilities of these devices are exponentially growing at a pace even faster than laptops and desktops; on top of this, the wireless connection speed available on mobile handsets is comparable to that of fibre optic connections."
>
> Milton Santiago, Global eCommerce Executive, Bank of America Merrill Lynch

An extra dimension of security that some banks have started using behind their mobile payment firewalls is forward profiling, which is particularly used for higher value payments. This involves the monitoring of transactions for patterns, and highlighting outliers that do not correlate with the others. "We have historical data where we can compare the types of payment that have been approved in the past, with what is approved on a mobile device, so we can identify if there are any differences in the payment patterns that we're seeing that get approved through both channels," says Cindy Murray, Head of Global Treasury Product Platforms and eChannels at Bank of America Merrill Lynch.

Trade-off

As with any payment method, there is a trade-off between security and usability, and this can be a difficult balance to strike. In the retail space, mobile PINs range from five to ten digits. "Long PINs are very cumbersome to enter on a mobile device, and the chances of getting it wrong and disrupting the transaction are very high. It's a question of playing off the simplicity of the workflow against elements of security. At the moment we're trying to get a proposition in place that is both secure and easy to use, and we're very cognisant of the balance to be struck there," says Ashton.

Danske Bank's Wraa-Hansen agrees that the security-usability trade-off is a difficult call, but counters that mobile is not a riskier medium per se. "You could make the most secure mobile payment solution in the world, but it would probably be so complex that no one would use it. A lot of the concerns come down to perception; some people just have not realised yet that mobile payments are not inherently riskier than other methods. Security is always a hot topic around new technologies, and this concern will die down," he adds.

Wraa-Hansen also believes human error – akin to 'fat finger' trading mistakes – is perhaps even more of a risk than fraud, and that solution providers should address this by making applications as simple and user-friendly as possible.

Mobile future

In the future, the usage of mobile payment solutions is likely to evolve in line with new developments in the devices themselves. "New handsets and tablets are coming out every day and the processing capabilities of these devices are exponentially growing at a pace even faster than laptops and desktops; on top of this, the wireless connection speed available on mobile handsets is comparable to that of fibre optic connections. Allied to these technological changes, we're going to see a richer, more intelligent, and more predictive experience coming from these solutions," says Milton Santiago, Global eCommerce Executive at Bank of America Merrill Lynch.

He also believes the ownership of identity, which currently resides with the banks under the existing mobile security model, could shift to clients, as a result of disruptive mobile technologies devised by the likes of Apple and Samsung. "The integration of biometric security into mobile devices could have a similar effect on mobile payments to what smart card technology had on online payment solutions, significantly impacting how authorisation and authentication take place," he adds.

According to Arxan's Arneja, as mobile payment solutions evolve, so will the security behind them: "Mobile security is effectively where internet security was in 2003. It's very, very early in the space. A lot of effort in enterprises right now is simply being directed to device management. But mobile security will inevitably mature, as it has for web."

And while mobile payment solutions may not have revolutionised the way corporates make their payments just yet, they should ultimately become part of the standard suite of services banks offer corporate clients. "It's a new channel and it's evolving fast. This is not going to happen overnight, but certainly over time it will be expected of banks to include mobile capabilities in their end-to-end payment solutions," says BofAML's Murray.

In summary, the mobile payment solutions currently available have the potential to make certain tasks quicker and easier for treasurers. One of the most obvious examples of this is the ability to approve high value payments on the move. But it is only as the use of mobile payments across the supply chain becomes much more widespread that the medium will have a more profound effect on the treasury function and begin to have a material impact on corporates' working capital. ■

Collaboration: a force for good

As the global economy finds its feet, corporate treasurers continue to push for efficiencies in their operations. Meanwhile, financial institutions and end-users of financial services are working through a deluge of regulatory changes. The rationale for collaboration between banks and clients to overcome these hurdles and create a sustainable growth environment for all is more compelling than ever.

From Basel III to payments reform, the financial world is undergoing substantial change. While the need for a more stable regulatory environment that addresses the shortcomings of the pre-crisis years is undisputed, the impact of these changes on both corporates and banks is significant. Well-intentioned regulation is in many ways making it more difficult and more expensive to do business, and is threatening the ability of companies to leverage growth opportunities. Illustratively the new credit conversion factors in Basel III have been raised markedly forcing banks to keep more risk capital for Export Agency Financed transactions and Letters of Credit, in turn making such instruments more expensive for the end-client. Moreover the cost of compliance (relative to revenue) for smaller banks has gone from 5% in 2009 to 7% in 2013, with larger banks seeing their compliance cost: revenue ratio going from 1% to 2% in the same period.

The question, then, is how can corporates and banks work together to lessen the burden of the new regulatory order? How can collaboration create a stable future for transaction banking, thereby safeguarding companies' financial and commercial flows? In a world of increasing digitisation and globalisation (heightened cross-border mobility of capital, labour and goods), national ring-fencing of balance-sheets and financial transaction taxes create inherent policy and practices conflicts.

Regulatory impact

Over the last five years, financial reform has been driven by two aims: achieving financial stability and improving consumer protection, standards and harmonisation. Under the 'financial stability' banner, the main measures include Basel III, bank recovery and resolution planning; whereas the latter covers everything from the Single Euro Payments Area (SEPA) to the European Market Infrastructure Regulation (EMIR). The result is both opportunity (treasury transformation to maximise standardisation under SEPA XML with greater availing of payment on behalf of account and operating models) and threat, in the form of funding access and increased cost, with banks facing higher risk capital limits and Return on Risk Capital requirements.

Under Basel III, banks must rightly shore up their balance sheets, whilst certain reforms are decreasing attractiveness and thus returns on short-term cash. Trade finance is increasingly concentrating with the global leaders who have proven "supplier onboarding" pedigree and large asset distribution capacity.

While at first glance the outlook may seem bleak, positives are emerging from this change, says Mark Tweedie, Head of Sales EMEA, Treasury and Trade Solutions, Corporate and Public Sectors at Citi. "Basel III may be altering the availability of lending, but it's also improving the quality, transparency and dialogue of lending decisions. It is critical that both borrower and lender are clear on what factors make the facility attractive. All parties realise that balance sheets have finite capacity and that returns are driven by ancillary flow and episodic business awards," he explains.

"Banks and their corporate clients are being brought closer together through open discussion around the need for reciprocal relationships. Indeed, discussions between banks and their clients are going deeper than ever before and looking more at the

genuine needs of each client's business. Banks are now strategic partners, working ever more closely with the corporates to whom they lend, with wide relevance across multiple constituencies in the client office eg for full-service transaction banks; finance, treasury, procurement, sales finance, credit control, Shared Services, marketing, travel and business development."

Basel III is prompting treasurers to keep a closer eye on their bank facilities ie revisiting the size of unused credit facilities and diversifying beyond overdrafts and general purpose loans, in order to avail of finely priced/shorter tenor working capital assets. "Corporates and banks are sitting together to determine the most appropriate way to fund operations, which can only be a positive step. At Citi we are collaborating with our clients' treasury and tax teams to map legal entities, asset and cash flow exchanges, in order to better refine cash management and foreign exchange solutions," says Tweedie.

A stable future for all

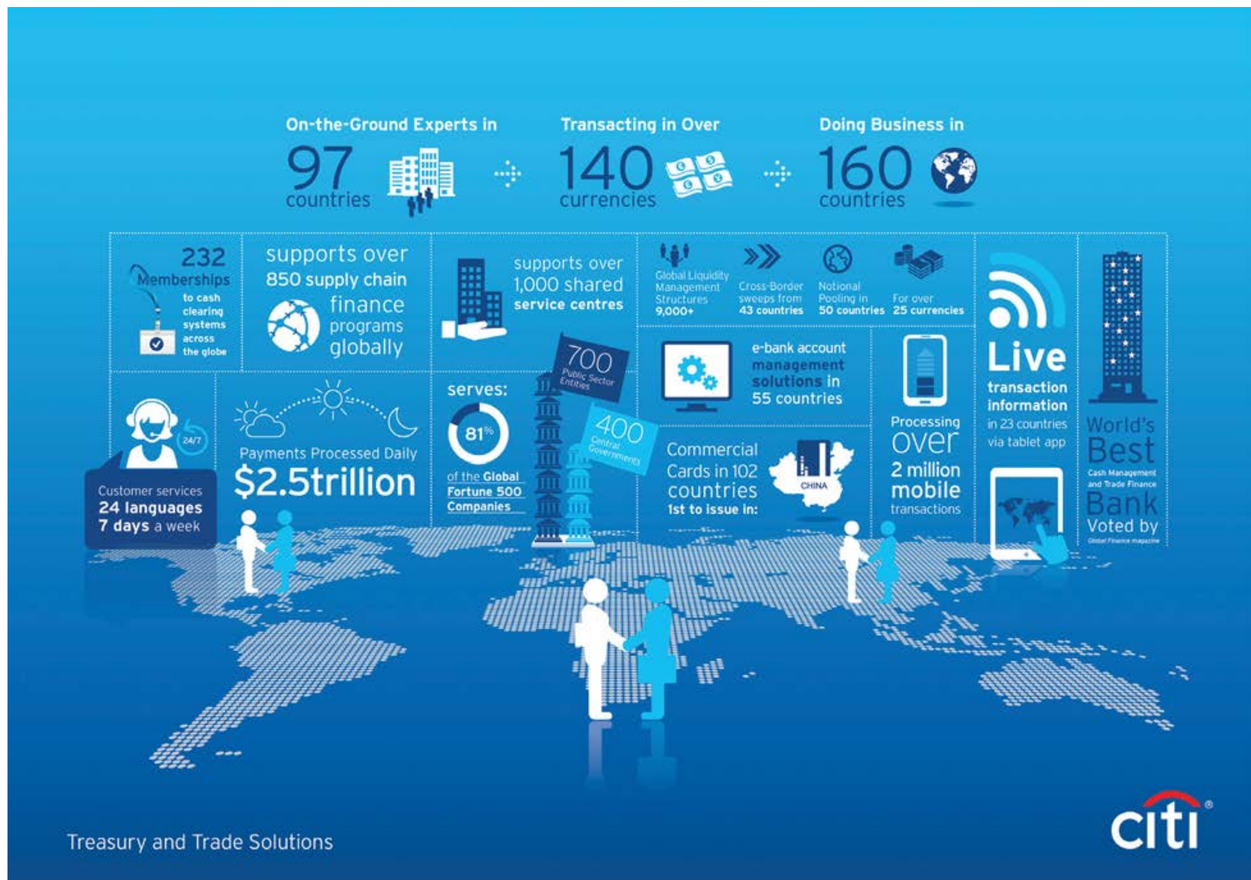
This dialogue creates a more sustainable and meaningful business relationship for both parties. The business world recognises that transaction banks grease the wheels of global commerce. "It is our job to support complex client ecosystems by managing clearing, settlement and liquidity, therein enabling global buyers and sellers to facilitate international trade," Tweedie notes.

"We provide liquidity through the supply chains of companies – upstream and downstream – and ultimately facilitate the free movement of cash which is the lifeblood of the global economy," he adds. "Our aim is to provide a low-cost, highly efficient environment which allows businesses and society to prosper. There is a great deal of mutual benefit in what we as transaction banks, and our clients, are trying to achieve."

In fact, says Tweedie, "corporate banking which encompasses transaction services, is at the core of the 'socially useful' banking concept, which has been the subject of much debate since the global financial crisis." To illustrate this point, he cites two examples of Citi's engagement in society.

The first is the bank's work with Italy's Istituto Nazionale per la Previdenza Sociale (INPS), the primary Italian government pension fund. INPS has 410,000 pensioners in 131 countries and is one of the largest pension funds in Europe in terms of overall pensions paid. The fund's management team wanted to improve efficiency and control over these payments.

Citi Treasury and Trade Solutions



"Governments have recognised that a number of their citizens relocate post-retirement to pastures new. We are working with the Italian pension fund, as we are with a number of governments, to provide adjacent services that help them to better manage their cross-border payment flows to expats," he outlines. "We provide a complete payment service suite to INPS, based on Citi's WorldLink global payment platform, along with value-added services including Proof of Life certification, central pensioner database management and an interactive website and call centre for INPS' pensioners.

"In other words, we are enhancing the service provision and going beyond mere payment settlement business. Just look at the Proof of Life example – to prevent payments going out to deceased individuals, we issue annual forms for certification and manage the approval process to ensure that payments are only made to active beneficiaries. This saves the Italian state the time and inconvenience of having to recall the funds. Against a backdrop of ongoing fiscal austerity, we certainly see this as a socially useful service."

The second example Tweedie refers to takes us from Italy to Africa, where Citi is working with almost 200 development sector organisations. "The Non-Governmental Organisations (NGOs) in Africa are looking for more efficient ways to ensure that foreign aid and investment is being used effectively. They want to be satisfied that the donor flows are both tracked and monitored in terms of effectiveness," he explains. In a banking context, this means increasing visibility, which creates greater accountability; and shifting from paper to electronic instruments, leading to increased control. "We are seeing the same needs in the Corporate space where illustratively in Nigeria we are assisting the airlines move from an instance of online booking with offline (physical) cash settlement, to an integrated model leveraging the new digital Faster Payments instant settlement system."

Citi already has experience of doing this in other developing economies and is therefore well-placed to do so across Africa.

Case study

ACF and Citi join forces to support flood victims

Action Against Hunger|ACF International (ACF) is a global humanitarian organisation committed to providing communities with access to safe water and nutrition. The organisation runs life-saving programmes in around 40 countries benefiting five million people each year.

In 2011, tropical storm Washi swept through the Philippines, bringing flooding and rainfall that killed more than 900 people. As part of its emergency intervention programme for the families affected by the storm, ACF needed to disburse funds within one month to more than 2,000 victims on behalf of a major donor. The funds were to be used exclusively to purchase food items from a specific retailer in order to ensure that donations were channelled towards alleviating hunger and preventing misappropriation of funds.

A customised Citi Prepaid Card programme, based on a closed-loop system, ensured that cards could be used only at the designated grocery store. In order to comply with the Philippines Central Bank's Know Your Customer requirements, Citi and ACF developed a simple process whereby photographs of beneficiaries were used for identification.

The cards provided essential support to vulnerable families. While compliance with KYC rules can be frustrating, particularly in the absence of government issued identity cards, the solution suggested by Citi was convenient and could be implemented quickly, whilst complying with the relevant regulations.

Improving infrastructure

Elsewhere, Tweedie says that Citi is seeing more and more global RFPs from clients wanting to understand how developments such as common monetary zones are leading to borderless banking. "Companies are looking to explore opportunities for rationalisation of bank accounts with global systemically important banks that have footprints across the key growth markets and a mantra of technological innovation and solution delivery."

Citi has invested across Africa and was proud to be a lead sponsor of the March EuroFinance Africa, London Event. "We have also invested heavily in helping national banking bodies, and customers within the local markets to make the most of new technology and evolving payment methods."

Citi acted in an advisory capacity around the Nigerian central bank's move to a real-time gross settlement system (RTGS). And in Kenya, Citi has enabled both B2C and B2B mobile payments through advocating mPesa. According to Tweedie, "Banks such as Citi are helping the developing economies to leverage technologies for processes improvement, while enabling them to leapfrog the legacy steps and constraints that many developed markets are still struggling with."

A catalyst for change

The same rationale around seizing the opportunities that change brings – whether regulatory or innovation-driven – also applies to Citi's work with corporates across the globe. "Right now, we are helping clients to use SEPA as a catalyst for change," says Tweedie. "By educating clients on the wider benefits of SEPA, we are able to help them to streamline their euro bank account structures, improve their reconciliation rates, maximise DPO through payment warehousing, and improve their supplier's experience via beneficiary advising.

At the same time, since SEPA uses the XML format, which is an industry standard, we are working with clients towards the adoption of a common interface. This will not only allow for vastly streamlined bank-to-corporate connectivity, but at a time of immense regulatory and political reform, will assist in lowering the cost of doing business."

In addition to working towards standardisation of messaging formats, Tweedie believes that transaction banks have a responsibility to streamline and standardise client documentation, making it far more intuitive. This statement of intent is certainly being put into action at Citi. "In EMEA, on the back of our clients' feedback, we have consciously and systematically reduced our local account conditions by 50%. We are also working to automate and digitise as many paper processes as possible. Working with our technology partners and our innovation labs we have created a common document taxonomy and internal search capacity to reduce duplicative client document requests. These changes will save time and money, while improving tracking and monitoring for everyone."

"To that end, Citi is also introducing additional value-added services for clients, such as online audit certifications. "Clients need to provide certified statements at the end of the financial year and we have recognised a need for specialisation in that area. As such, we have a Direct Debit styled self-service site which provides audit confirmations. In the EMEA region this process only applies to Western Europe."

This, says Tweedie, is all part of the bank's increasing focus on self-service technologies. Such an approach minimises the need for contact with bank support staff and empowers clients to help themselves. "A lot of the queries we receive are around payment confirmations and statements and we are working very hard to equip clients with the answers to those queries via our technology. It is quicker, more efficient, more direct and leads to an improved client experience."

Upgrades have been made to the Citi Direct e-banking platform. "Citi has upgraded the platform to enhance its functionality and improve its self-service elements. Rather than forcing clients to migrate with all the associated disruption, upgrades are less invasive but show clients rich new features in a controlled fashion. We recognise that clients have challenges interfacing with large banking institutions such as ourselves and we are committed to delivering the highest level of customer experience, so this is a key priority for us."

"It is partially as a result of the regulatory environment, redefining rules and operating frameworks, that more candid and in-depth discussions have been taking place between banks and their clients. And as a result of these increasingly transparent relationships, corporates are providing more detailed and honest feedback to their banks around their end-to-end propositions. So, by driving collaboration, regulation is ultimately contributing to a better transaction banking experience. We know we have much work ahead but there is an institutional conviction to delighting our clients."

Mark Tweedie

EMEA Head of Corporate and Public Sector Sales, Treasury and Trade Solutions

Mark Tweedie has been with Citi for over 14 years and is the Europe, Middle East and Africa (EMEA) Head of Corporate and Public Sector Sales, for Treasury and Trade Solutions (TTS). EMEA is the largest region for TTS with a presence in over 50 markets. Tweedie is responsible for addressing the cash management, working capital, treasury and trade service/financing needs of clients across all sectors, through the mobilisation of the Citi infrastructure, resources and TTS solution set.

Citi Treasury and Trade Solutions (TTS) offers the industry's most comprehensive range of digitally and mobile enabled treasury, trade and liquidity management solutions, platforms, tools and analytics. TTS continues to lead the way in delivering innovative and tailored solutions to its multinational corporation, financial institution and public sector organization clients. Based on the foundation of the industry's largest proprietary network, with banking licenses in over 100 countries and globally integrated technology platforms, TTS' deep local market knowledge, expertise and insights assist clients to meet their business objectives.

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Thinking big

'Big Data is not a problem, it is an opportunity.' This may sound like the kind of empty mantra beloved of assertiveness counsellors or lifestyle gurus, but in this case the statement might be true.

Few in the business world can have failed to notice the concept of 'Big Data'. Since it first emerged in the early 2000s it has often been used as shorthand for 'impending meltdown' as businesses sink under the weight of uncountable bits and bytes. But the volume of data carried by a business as a whole could be a problem or an opportunity – it all depends on how data is managed and what is done with it to make it useful. Treasurers have access to a variety of different data sets that could, for example, be useful in helping them with their forecasts so they can make better decisions. Being able to look at a wider set of data provides better intelligence however mismanaged information is at best confusing but potentially a major source of risk.

To try to quantify just how 'big' Big Data is, IBM published an 'infographic' last year showing that an estimated 2.3 trillion gigabytes of data are created each day and 40 zettabytes (43 trillion gigabytes) of data will be created by 2020. Data analysis and data-about-data (meta-data) generates yet more data ensuring that growth really is exponential. The problem with having so much data is that it can be difficult to capture, file, store, search, share, transfer, analyse and visualise without coming up against a range of issues such as duplication, inaccuracy, irrelevance or unavailability. In essence, if it takes too long to make a decision it may be too late.

Today, very few businesses will be unaware of the importance of their data. But leveraging Big Data to unlock more business value requires planning. Kelvin To, Founder and President of Data Boiler Technologies (and a guest speaker and lecturer at City University, Hong Kong) says discovery of opportunities "often depends on the correct diagnosis of problems".

For analysing historical bank transactions, for example, the typical reporting tool in a treasury management system (TMS) will probably limit analysis to a 12-month period at best, especially if the business has an annual, repetitive nature to its cash flows, says Bob Stark, VP Strategy, Kyriba. "You end up narrowing down what you are analysing very quickly." However, the concept of Big Data in this context is about taking a larger data set, across a larger number of years, to give a better idea of what the cyclical nature of data is going to

look like. Expanding reach for Stark is not just how far back in time analysis goes but also how broad a sweep is included – and this even covers macro-economic data. "Big Data is about being able to leverage all those data sets and being able to pick and choose how you want to use them; for treasurers without the right tools it is not something they have been able to achieve in any meaningful way," says Stark.

The financial crisis of 2008 certainly provided motivation for looking further into and more widely at data, with most forms of risk mitigation higher on the agenda, notes Alex Robertson, Head of Treasury Analytics, Treasury Solutions, Capita Asset Services. The reliance on more data – both internally and externally sourced – and deeper analysis to protect the business (counterparty credit risk might now take in CDS spreads, equity prices, tier one capital ratios, bond spreads and so on) naturally demands increased time, but so too does the need to seek out different investment and funding options and, notes Robertson, "this is all increasing the scope of information that treasurers need to look for and understand".

If confusion reigns when too much information is available, Richard Childes, Director, Product Marketing, OpenLink Financial, says the problem is usually that people "do not know what they want, they ask the wrong questions and end up being inundated with the data". In the Big Data world, knowing where to source data and then asking the right questions is critical.

What's stopping you?

When it comes to seeking answers, Robertson suggests barriers to meaningful business analytics may arise from existing technology, resources and processes. "Overlapping data sources and contradicting data versions often exist both within and outside the organisation," adds Data Boiler's To. "This can be exacerbated by poor vendor performance and integration issues, constant battles with non-standardised technologies and frequent requirement changes." In 'fire-fighting' mode, he notes many organisations are attempting to adapt by rolling out "retrofitting" projects, "trying a hundred different things and hoping some of them will work" and/or using Business Process Outsourcing "to let someone else worry about it".

For a treasurer, spending time identifying, collecting, cleansing and analysing additional data "to the point where they can make meaningful decisions confidently" means spending less time on core activities, comments Robertson. "Most businesses will have a clear corporate strategy; what is required here is a strategy for business analytics."

Starting a project

Before any project commences, Childes urges all companies to ask this simple question: "What business challenge are you trying to solve?" By understanding what the requirements are it is possible to figure out not only which data should be found and analysed but also what tools will be needed to do that. Business teams and IT should collaborate to reveal those needs. Only then will firms overcome barriers to leveraging their data, such as legacy systems that aren't easily replaceable, lack of confidence in new technologies, and siloed functionality and data.

Big Data and business analytics issues can be tackled internally as long as the right plan and resources are in place. Alternatively, as To states above, the project can be outsourced to a third party, typically using cloud technology to manage and process data offsite. Cloud technology still raises the issue of security (and may even be prohibited by corporate policy) but in reality the cloud is as secure, or more so than in-house storage, a view now espoused by many IT professionals who, Stark notes, tend to be the drivers behind such moves. Be warned though: data management projects can be costly when IT and final stakeholders who will use the information are not aligned and requirements for the project are unclear, says Leonardo Orlando, Manager in Finance and Risk Business Services at Accenture UK. "When the IT function and those who will ultimately use the data are in agreement about their final goal and have a mutual understanding of the project trigger, such as regulatory compliance, these projects tend to be more readily supported by those involved."

Technical solutions

Centralisation is one of the key components for efficient use of Big Data for Orlando. "Without using a unique golden source, there is the risk of having multiple versions of the truth," he notes. "Standardisation, however, is not the answer when there are multiple requirements across an organisation." One of the most efficient Big Data methodologies therefore involves creation of a common golden source, which can provide information at its lowest level of granularity. However, it also needs to offer organisations the flexibility to use additional data sources to meet unique departmental needs.

Current technology is capable of meeting Big Data requirements. What's important, says Orlando, is to think through how your organisation wants to use Big Data and factor that in before selecting and implementing. "Technology is constantly evolving but there are multiple options that should be evaluated against business use cases to ascertain the most suitable – one size does not fit all."

Notwithstanding his obvious bias as a technology vendor, Stark believes companies need to centralise as much as possible. "It doesn't mean that if you haven't centralised it is impossible, but for a treasurer looking across 18 different systems to try to understand their cash forecast, rather than having it in one system, it's easy to see which approach is simpler."

But for Data Boiler's To, centralisation is not necessarily the answer. "Putting everything into a central data warehouse and maintaining that every year is very expensive; an 'Enterprise Service Bus' architecture [a system of connecting and unifying multiple data inputs] is capable of addressing many non-standard data issues, but it too is not cheap."

He suggests tiered data storage as a potential solution. High-tier, high-availability servers enable real-time delivery and instant backup for business-critical data, whilst the lower-tiered servers are used for non-urgent or archiving purposes. Tiered data storage has been made possible with the advent of new analysis tools. With older technologies, when data analysis was required, it was necessary to load all sets of data into a high-availability server to execute the process, To explains. "With modern in-memory analysis and tiered storage there is no need to do that; you can do the analysis wherever the data is."

One of the persistent issues, according to Robertson, is cleansing and normalising data. "Unless you have common identifiers to integrate data you will have to spend a significant amount of time doing it manually," he explains. There are rules-based tools available to help look for and normalise common linkages between data (to quite a granular level), and there are systems to ensure version control and document

management, but users must have confidence that their data has been properly integrated.

Standardisation and centralisation clearly have a place in Big Data management, but for To, "firms should focus on optimising what ought to be fast, resilient, scalable and flexible". In the real world, where funding is limited, this creates a genuine need to balance the cost and benefit of standardisation with the need to preserve IT agility for rapid response to business change.

In order to keep costs down, Orlando urges companies to prioritise goals, information and stakeholder needs. "A company might create a roadmap for change that also factors in short-term compliance considerations, and then slowly move towards an integrated reporting platform that enhances a more efficient decision-making process." Prioritisation requires cross-functional discussion, the aim being to find a common goal. It demands the buy-in of senior management, to drive fair and equitable discussion, and may even see the provision of a dedicated project manager to ensure focus. Everything should connect back to the business model.

One way of achieving unity when aggregating data from multiple sources, without recourse to a single central data warehouse, is to embrace 'Lean' IT processes. The Lean process, To explains, stems from the Japanese motor-manufacturing sector. It is a way of maximising efficiency through organisation and removing the unnecessary through constant refinement. "If you look at all processes together in your system development, you will be able to prioritise the aspects that give the biggest 'bang for your buck'." In the context of Big Data, Lean is about building a "flexible and agile" IT system that is capable of handling multiple standards.

Human intelligence

Using technology to automate processes is a useful exercise in itself, but Stark believes IT should be deployed to enable treasuries to take their processes "to the next level". Automation can free-up individuals to concentrate on more valued-added activities, allowing the entire treasury team to contribute to data analysis and the search for new trends and opportunities. In this respect, treasury experience and expertise are still essential. "If you don't know what you're looking for and don't have the experience to know which buttons to press, the technology won't just magically do your job for you; you need to know what you are doing to learn from data."

From Robertson's perspective, designing a system that will do everything is not the point. "What we are really trying to do is give treasurers transparent information to enable them to make good decisions; the process of good decision-making shouldn't change," he says. "Becoming over-reliant on any application is a bad thing; it should be a tool to make the best decision, not one to make the decision." In the risk management space, for example, there is an increasing need for stress-testing, complex simulation and scenario analysis, using higher volumes of data and at a more granular level. Whilst software can steer a decision in a certain direction, ultimately there will have to be a call made based on professional judgement.

"People design computer systems and people are not infallible; their systems will do what they are designed to do but that does not mean they are right," notes Childes. Data has to be interpreted correctly and anomalies spotted so even with the best technology "treasurers will always have to remain on the ball".

Whatever technology is used, the final user may make their own analysis and evaluations, says Orlando. "Experience, especially when business-related, may be a factor in data interpretation, but some control may be needed to tie decision-making processes sufficiently to the information provided." With regards to treasury, risk management will want to define a risk appetite and monitor and control treasury actions so they are compatible with that appetite.

In To's view, there will always be a need for treasury professionalism, but he suggests technology can offer a different and perhaps unexpected view. "What Big Data enables you to do is look across the board, where places you would never think of may present big opportunities." He believes that combining the broad sweep of Big Data with a machine-learning approach to analysis is the route to success. "If you don't make that connection, you will be like everyone else because whatever you can think of, other intelligent individuals will be able to think of too!"

What next?

A business is linked by many processes. Where data is generated, the individuals working with it day-in and day-out will have developed specific sensitivities to that data. This unique understanding allied with the Big Data toolset enables every experience and understanding to be drawn together to enhance the view of the business as a whole, through what Orlando refers to as an "interactive and dynamic data flow". Big Data is thus not just an IT issue, but one for the whole business to tackle and everyone in the organisation who works with data can make better use of it. As Childes says, "you just have to know how to access it, what questions to ask and what tools to use to mine that data to get the answers you are looking for". Instead of seeing Big Data as a threat, why not embrace it? ■

√ Big Data checklist

According to Accenture UK's Orlando, Big Data does not become a "big problem" if a business has the right processes, the right teams and the right technology in place. He suggests the following:

- ❒ There are clear functional requirements, which need to come from the information user.
- ❒ There is a unique golden source (even if the level of data granularity may be different across the organisation).
- ❒ The IT architecture is clear, simple and scalable. To help meet regulatory requirements corporates and banks may want to adjust their processes without changing the information source, rather than making manual adjustments which can affect data integrity.
- ❒ Having the right teams with clear lines as to who is responsible for which tasks is key. Many organisations now have a dedicated Chief Data Officer.
- ❒ Data governance and data management is essential. Not all data has to be physically stored in one big box as long as strong data governance is in place.

Industrialising payment processing

Increasing numbers of corporates are setting up payments factories as a way of replacing labour-intensive, repetitive payments processes with more capital-intensive, centralised ones. And with greater connectivity to SWIFT and the implementation of SEPA, this trend towards the 'industrialisation' of payments processes looks set to continue.

Payments factories have been around for about a decade, and to date they have been adopted mainly by very large corporates. But now two forces are driving increasing interest in payments factories: connectivity to the SWIFT financial messaging system and the implementation of the Single Euro Payments Area (SEPA).

Definitions of a payments factory vary, but the common theme is that it centralises payment processing. Greenwich Treasury Advisers defines a payments factory as a process whereby a multinational corporation's accounts payable (AP) centre sends disbursement files in a uniform format to a global bank for payments. These payments can be in-country, cross-border, in cheque or any electronic wire form, and involve local and foreign currency. The global bank then converts the cheques to automated clearing house (ACH) payments, cross-border wires to ACH, or converts the payments into a single large FX transaction rather than many small ones.

Deutsche Bank says the idea behind a payments factory is to 'industrialise' labour-intensive, repetitive processes and replace them with more capital-intensive, centralised ones. However, whereas the goals are similar, a shared service centre (SSC) has the broadest scope, while a payments factory has the narrowest. Deutsche Bank defines payments factories as SSCs that are focused on the accounts payable function. Often, they are part of an in-house bank. The goal is to simplify and automate accounts payable, which is "an ideal candidate for centralisation", says Deutsche Bank, because invoice receipt and processing are often paper-based and labour-intensive processes. Likewise, collections factories are centralised collections processing centres that are focused on the accounts receivable (AR) function. Most definitions of payments factories would also include collections within the remit of the factory.

Citi identifies two different definitions of payment factories. One describes a payments factory as the result of fully centralising both AP processes and staff into a single location (as within a SSC). On the other hand, some organisations would consider a payments factory to be a centralised hub, solely responsible for the execution of payments to banking partners and facilitated by decentralised accounts payable processes.

"For most corporates, a payments factory involves payment centralisation, moving to a single platform to manage all accounts payable and treasury payments across the organisation," says Andrew Owens, Senior Vice-President, enterprise payments and payments factory expert at SunGard. "A payments factory is a way to replace multiple electronic banking systems with a single solution. It brings a level of visibility that companies don't have with existing electronic banking systems."

On a more granular level, Owens differentiates between payment hubs and payment factories: "The difference between the two is how payments are treated as they flow through the system. If a corporate wants to just have a standard workflow that validates payments and acts as a consolidation and bank connectivity layer, that is a hub. A factory goes further and tends to be more sophisticated, touching payments as they go through, by, for example, enriching them with back office data such as instructions for the bank, warehousing payments and also intelligently routing payments to the most cost-effective channel." A payments factory is tied to improved cash management and enables treasurers to manage payments that are not related to treasury accounts.

Why a payments factory?

A payments factory will provide a number of benefits to corporations. One of the most important in the ongoing environment of cost cutting, is lower costs. A payments factory enables rationalisation of bank relationships and accounts and therefore lowers costs and fees. For example, a payments factory will enable a corporation to net payments and FX transactions for the same suppliers in different locations, considerably reducing external bank costs.

Additionally, by centralising payment activities a corporation can reduce its internal headcount and IT costs. For example, a single payments platform will require less IT attention than multiple electronic banking systems with myriad interfaces. By centralising processes, payments factories deliver improved liquidity management and simpler, more visible cash positions. A corporate treasurer will gain better visibility as to who is making payments within the organisation. This improved visibility will also enable treasurers to optimise liquidity management as they have better control of funding arrangements. Centralisation also improves the quality and speed of payments processing and streamlines account reconciliation. Harmonised payment and collection processes and procedures are another benefit, along

with fewer IT interfaces and file formats. Finally, risks can be reduced because internal controls can be strengthened and IT security is also increased.

SunGard's Owens defines the benefits of payments factories as 'hard' or 'soft' returns on investment. A hard return includes savings made from decommissioning e-banking infrastructure and bank connectivity systems. There are also savings to be made from fewer errors that in turn lead to reduced bank charges because the corporate is not attracting payment repair fees. A soft return could be the value derived from gaining an earlier and more accurate daily cash position.

Who should build a factory?

Payments factories are a part of the "very visible trend" towards centralisation of treasury activities, says Paul Stheeman, independent treasury executive and consultant, based in Germany. "Payment factories are suited to lower-value treasury activities such as making or collecting payments, particularly for large companies or those that deal with many payments of low value."

Most of the pioneers of payments factories were very large corporations, seeking reduced costs and more efficient treasury processes. A decision to implement a payments factory will be influenced by a number of factors, including the nature of the business, its trading model, the location of the buyers and suppliers with whom the company interacts, the bank relationships and the extent of existing centralisation of processes, operating currencies, bank connectivity and services, and the status of the corporation's IT and ERP systems. For this reason, each corporate will be assessing whether or not to set up a payments factory from a different viewpoint.

Owens says payments factories are most suited to companies with at least $5 billion in revenues. Such companies have relationships with many banks, and the rationalisation that a payments factory project brings will result in a good return on investment. Stheeman agrees that the largest companies will reap the most benefit from a payments factory exercise but that should not preclude medium-sized companies from considering such an approach.

How to start

The best way to initiate a payments factory project is to assess the company's cash visibility, says Marcus Hughes, Director of Business Development at Bottomline Technologies. "By looking at where money is in the company – even money in accounts that are outside of treasury – a company will get a better handle on cash and will be able to manage working capital more efficiently."

Improving cash visibility can deliver big rewards; one company Bottomline worked with found £20m in hidden cash, which more than paid for the payments factory project. Once a company has assessed its cash visibility it should then consider the impact on payments processes.

The chief financial officer should initiate a project, appointing the treasurer in a key implementation role. Procurement, AP and AR, supply chain management along with IT, legal and tax personnel should all be involved at some stage. It is also important to get the support of subsidiaries in other countries. Subsidiaries typically deal with one or two banks in the country via e-banking systems and may struggle to understand the value of moving to a payments factory. Explaining the bigger picture across the entire company in terms of the cost savings and efficiencies that will be gained from a payments factory should help to bring staff on board.

Around 90% of companies implementing a payments factory will be doing so for the first time, says Owens. For this reason, they should seriously consider engaging a speciality payments consultancy to gain the required expertise. Without this external input companies may be in danger of developing a payments factory that is based on outmoded AP/AR processes and formats. A successful payments factory will ensure that a company's payments processes are future-proofed.

Citi says there are important questions that need to be asked at the set up phase of a payments factory project. These include:

- How are payments processed today?
- How many banks are providing payment services?
- How does communication take place with these providers?
- What are the core currencies for the organisation?
- Are incoming collections funding payments activities?
- Is there visibility and control across payment activities?
- How efficient is the funding process?
- Where is working capital trapped?

The structure of a payments factory will depend on a company's existing payment set up and future cash management strategy. Companies with decentralised, multi-banked environments will typically focus on control, visibility and standardisation of payment flows. This can be achieved with a shared banking application or a system that facilitates the receipt of instructions from business units and creates payment files for onward delivery to banking partners. All external payments are sent and all bank statements are received through a single delivery channel.

Companies with centralised payments processing will be more focused on achieving further process efficiencies through improving straight through processing (STP) rates, improving funding efficiency and automating processes. These companies, says Citi, will also look to build structures such as in-house banks, netting, and payment-on-behalf-of (POBO) structures to facilitate inter-company activities, manage cash positions and aggregate payment obligations.

Citi says there are a number of factors companies should consider when setting their priorities for a payments factory. These include:

- Scope – the locations of the business units and the processes, staff numbers and inter-company activity to be covered.
- Banking strategy – preferred number of payments processing partners, bank capabilities and requirements for local account services.
- Liquidity management – currencies, preferred account structures and locations, funding arrangements, aggregation of liabilities and business unit control.
- Connectivity and file formats – preferred method of bank communication, relative importance of bank agnostic channels and formats such as ISO 20022 XML.

- Internal readiness to support changes in processes – the changes in technology that are required, the ability to support changes in desired timelines, conflicting projects, cultural hurdles such as local business unit autonomy.
- Legal and tax – any changes to account structures, tax implications, reporting requirements.

SWIFT connectivity

Many payments factory projects are run in parallel with SWIFT onboarding projects. Corporate interest in connecting to the network run by the Brussels-based financial messaging co-operative has grown. Nearly 900 corporates, representing 25,000 separate entities, are registered on the SWIFT network, which offers users standardised connectivity to SWIFT's member banks, of which there are currently more than 9,000 in 200 countries.

The benefits of SWIFT connectivity are closely related to the goals of payments factory projects. SWIFT:

- Enables corporates to gain global visibility on cash, receiving end-of-day or intraday reporting directly from all banks in a standard format.
- Lowers financial transaction costs by enabling channel rationalisation and higher STP rates.
- Enables treasurers to control payment initiations and increase security.

The SEPA influence

In Europe, SEPA has driven many payments factory projects. At the most sophisticated level, corporates are looking to leverage the investments they have already made in complying with SEPA to set up a factory that can handle inter-company payments linked to an in-house bank and payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO).

SEPA instruments contain fields for POBO and COBO transactions. SEPA is a significant enabler in the passing of information through to the end client, helping corporations and their suppliers to reconcile payments more efficiently and quickly. It is driving a big push towards POBO in Europe, and some North American corporations are establishing POBO structures initially in Europe because SEPA helps them to do this easily.

Owens says SEPA has triggered payments factory projects, particularly as the initial migration deadline of February 2014 has now passed (although a six-month extension has been allowed for financial institutions and companies to become compliant). "Those companies with existing payments factories found SEPA easier to implement because they had more efficient processes and fewer bank interfaces and relationships," he says. With the deadline having passed, many of the corporates who had taken an initial tactical approach to SEPA are revisiting it and looking to capitalise on the ability to reduce their bank account burden, Eurozone footprint, and implement POBO schemes. SEPA is an enabler of all of these capabilities, says Owens.

Challenges

A payments factory project is not for the faint-hearted. While not necessarily costly in terms of cash, such projects can be very time-consuming.

Stheeman says one of the main deterrents for corporates setting up a payments factory is the time-consuming nature of such projects. Not only do internal staff need to be deployed, but a company must also include third parties, such as banks and software providers, in the project. Depending on the scope of a payments factory project, this can take a lot of time.

Resistance from subsidiaries is also a challenge. Bottomline's Hughes says companies must be careful to segregate duties within a payments factory in order to establish audit trails. "For political reasons, it is often helpful if some of the responsibility remains with local units. Some organisations realise that local people's expertise is important and they need to know what is going on. Finance professionals in local subsidiaries play a key role in cash forecasting." Companies should allow them to initiate some of the payments, while the higher value payments should come under the remit of the treasurer in the payments factory.

Outcomes

Some companies are now undertaking payments factory replacement projects – a sign of the maturity of the industry, says SunGard's Owens. Early adopters have now had factories in place for around a decade and are refreshing their set-up in order to gain new functionalities.

For example, in 1998 Philips's treasury introduced the Philips Payment Factory (PPF). The model for the PPF had been based on a bank-styled inter-company current account that could be used for initiating POBO. The PPF operated accounts in 25 countries and 15 different currencies.

Despite the many benefits, the PPF did not work for all subsidiaries and payment methods so Philips maintained a separate global cash management and payment processing infrastructure. To remedy this, the company implemented the Next Generation Philips Payment Factory (NGPPF) project, with SAP, BBP (a SWIFT service bureau), consultancy Zanders, and bank partners Citi and Bank of America Merrill Lynch. The new platform delivered visibility on all bank balances, control over bank account infrastructure, transparency on local payment processes, more accurate information on trade credit, and improved ability to spin off or integrate new businesses.

Global pharmaceutical company UCB implemented a payments factory to move away from a costly structure based on separate in-country payment teams. One of the key goals of the project was to establish POBO capabilities that would enable the central treasury team to make payments for their subsidiaries, eliminating the need for business units to hold foreign currency accounts. With a payments factory, UCB was able to rationalise its cash management structures and banking systems, standardise formats and achieve greater economies of scale.

T-Mobile uses SWIFT as its messaging platform to support an in-house bank and payments and collections factory, processing payments and statements for its European subsidiaries. Before it moved on to SWIFT the mobile operator had its own bank interfaces and formats across four countries, with a total of 15 different systems in place. The costs of operating and maintaining the interfaces were very high and the company also found it difficult to control its payments flows. T-Mobile has estimated the net benefits of its move to SWIFT to be about €4.5 million over five years (it connected to SWIFT in 2007) and a financial return on investment of 182%. ■

CORPORATE FINANCE

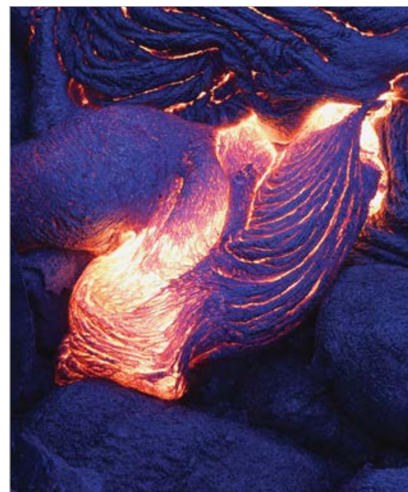
Receivables finance

Following on from last month's article on supplier finance, we now turn to that other hot SCF topic – receivables finance. With bank credit tight, SMEs have had to look for more intelligent ways to finance their supply chains. Does receivables finance have the capacity to fill the funding gap?

REGULATION

Bank regulation

Regulatory compliance is one of the biggest challenges facing corporates and banks at the moment. In this article, we examine the impact of the recent regulatory deluge on the banking sector and explore what it all might mean for the corporate treasurer.



RISK MANAGEMENT

Understanding risk

Risk is never far from the treasurer's mind, particularly in today's volatile markets. But what is the best way to analyse risk? Treasury Today speaks to two industry experts to debate the various merits of quantitative and qualitative risk analysis.

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

Vince Arneja, Vice President, Product Management, Arxan Technologies; **Jon Ashton**, Managing Director and Head of eChannels, Barclays; **Jennifer Boussuge**, Head of Global Transaction Services for Europe, the Middle East and Africa, Bank of America Merrill Lynch; **Mike Bowker**, Senior Lecturer, University of East Anglia; **Richard Childes**, Director, Product Marketing, OpenLink Financial; **Rene Chinnery**, Head of Supply Chain Finance, Lloyds Bank Commercial Banking; **Arnaud Crouzet**, Head of Group Global Payments Development, Auchan; **Chris Dunne**, Payment Services Director, VocaLink; **Darren Foulds**, Mobile Banking and Pingit Product Director, Barclays; **Marcus Hughes**, Director of Business Development, BottomlineTechnologies; **Byron R. Jackson**, Vice President and Treasurer, Itron; **Jacqueline Keogh**, Managing Director of Global Trade, Lloyds Bank Commercial Banking; **Colin Kerr**, Head of Industry Solutions, Microsoft; **Bruce Meuli**, Global Business Solutions executive for Global Transaction Services, EMEA, Bank of America Merrill Lynch; **Cindy Murray**, Head of Global Treasury Product Platforms and eChannels at Bank of America Merrill Lynch; **Leonardo Orlando**, Manager Finance and Risk Business Services, Accenture UK; **Andrew Owens**, Senior Vice-President, Enterprise Payments, SunGard; **Jerry Pearce**, Head of Product Management and TPS, Standard Bank; **Oliver Petersen**, Global Head Supply Chain Finance, ING; **Anita Prasad**, General Treasury Capital Management, Microsoft; **Alex Robertson**, Head of Treasury Analytics, Treasury Solutions, Capita Asset Services; **Gordon Rodrigues**, Head of Liquidity Asia, HSBC; **Hans-Peter Rupprecht**, Corporate Treasurer, Siemens AG; **Milton Santiago**, Global eCommerce Executive, Bank of America Merrill Lynch; **Bob Stark**, Vice President Strategy, Kyriba; **Paul Stheeman**, Independent Treasury Executive and Consultant; **Kelvin To**, President, Data Boiler Technologies; **Mark Tweedie**, Head of Sales EMEA Corporates, Citi; **Anil Walia**, Head of Supply Chain Finance, Global Transaction Services, RBS; **Graham Warner**, Global Head of Online, Mobile and Desktop Client Access Products, Global Transaction Banking, Deutsche Bank; **Joerg Wiemer**, CEO, Treasury Intelligence Solutions; **Mark Wraa-Hansen**, Head of MobilePay, Danske Bank.

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