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March 2015

Preparing for the worst

The latest episode of Greek turmoil comes at a time when businesses are already feeling uneasy about the potential of deflationary forces in Europe. How might events develop in the Eurozone and what can corporates do to minimise any negative impact should things not work out as planned?

The Corporate View

Rajan Gupta

Group Treasurer

HYVA

Women in Treasury

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Head of Treasury

Van Oord

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Country Focus

Colombia: top of the class

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On a SEPArate note

In recent weeks, regulatory talk has understandably turned to the European Parliament's proposed money market reforms. And with ongoing concerns around the knock-on effect of Basel III, bank ring-fencing measures in the UK, and the US's Foreign Account Tax Compliance Act (FATCA), for example, it is little surprise that the Single Euro Payments Area (SEPA) has fallen under the radar of late. Yet the next SEPA deadline is now less than 12 months away and some corporates have much to achieve in that time.

As treasurers will remember, the main phase of the migration in the euro area was completed on 1st August 2014, after the European authorities agreed to a six month 'grace period'. But what some treasurers may have overlooked is the fact that there are compliance requirements mandated by the SEPA Regulation applicable as of 1st February 2016 as well.

Top of the list here is that, on that date, the ability for payment service providers (PSPs) to offer conversion of legacy in-country payments and/or direct debit formats into a SEPA-compliant ISO 20022 XML format will expire. As such, corporates and public entities in the euro area will have to send XML formatted files to their bank(s) from the beginning of February 2016, in line with the provisions of the SEPA Regulation.

The 'IBAN only' rule also comes into effect as of that date, meaning that statement of the Bank Identifier Code (BIC) for cross-border SEPA payments (and national payments in the countries where an extension was granted) will no longer be necessary – only the IBAN will be required. On a related note, PSPs will no longer be able to provide consumers with Basic Bank Account Number (BBAN) to International Bank Account Number (IBAN) conversion services for national payment transactions from that date either.

Elsewhere, the European Payments Council's website states that niche products (credit transfer and direct debit instruments with a cumulative market share of less than 10% in any given EU Member State) which have previously been granted an exemption must also be SEPA-compliant as of the 1st February 2016.

So, for those corporates in the euro area, the message here is that SEPA migration is not yet over. And, as with all regulatory requirements, expert advice should be sought sooner rather than later around the true impact of this deadline on your company's treasury function.

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Marlies Janssen
Head of Treasury

For Marlies Janssen, Head of Treasury at Van Oord, there is a solution to every problem, including managing a career, alongside family life. In this interview, Marlies candidly discusses the challenges between creating a healthy work/life balance and shares her views on the corporate treasury profession and her career to date.

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Boost your global payments and receivables IQ

Boost your global payments and receivables IQ

As corporates continue to expand their operations across the globe it can sometimes to be hard for the treasurer to know where to focus their efforts. In this article, Citi examine why global payments and receivables deserve some extra attention, and outline practical steps and solutions to help treasurers on the path to optimisation.

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Over the years, some treasury departments have had the choice between implementing either a Treasury Management System (TMS) or the treasury module of an Enterprise Resource Planning (ERP) system, while others have had to soldier on with spreadsheets. What are the arguments for and against each system?

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Rajan Gupta
Group Treasurer

Whether it is augmenting HYVA's working capital management, or navigating his company through one of the highest periods of FX volatility in decades, Rajan Gupta has long been comfortable with the heaviest of workloads. In this article, he tells us what initially attracted him to treasury and why the role continues to excite him to this day. He also explains how he managed to get on top of group liquidity management at a Dutch multinational that places a high value on local autonomy.

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One for all?

If basic processes of payments and collections are centralised, the cost of those processes decreases; it is a simple economy of scale. But do payments on behalf of (POBO) and collections on behalf of (COBO) deliver more than just cost benefit – and are there any drawbacks of note? Treasury Today gets 'back to basics' with these vital functions.

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

Top tips for treasurers heading to Africa

Treasurers should take note. With five of the top ten fastest growing economies now in Africa there is no doubt that the continent is becoming an increasingly popular destination for international businesses. According to a survey conducted by the Economist Group in 2013, approximately two-thirds of the 217 companies questioned named expansion in Africa as a priority within the next decade.

But when the treasurers of these companies arrive to set up operations they might, as Mark Schwartz, a Treasury Manager who works at the Johannesburg-based treasury centre of brewing and beverage giant SABMiller suggests, be very different to what they are used to. For those treasurers, these three points should serve as a useful primer ahead of any African expansion.

1. **Think local**

Foremost among the challenges for treasurers is the regulatory landscape. Africa, of course, is not one homogenous economy, but over 50 independent nations, each with their own rules and ways of doing business. This means that liquidity management has to be executed very differently from how it is typically done in the US, Europe, or even Asia.

"The regulatory environment makes any cross-border pooling of cash all but impossible," says Schwartz. "If you have surplus cash in one country, and a shortage in another you don't have the ability to do a notional pool. You have to treat each country almost as its own entity and manage it around that."

2. **Choose a pan-African bank**

Although local differences remain an unavoidable reality on the continent, one emerging trend offers at least some opportunities for treasury centralisation. Pan-African banking groups have expanded rapidly across sub-Saharan Africa in the past decade, a development which has gathered pace in recent years as crisis-hit international banks from Europe and the US have begun to pull out. The rapid expansion in cross-border banking this has brought to Africa means that multinationals in the region are now beginning to see opportunities to standardise some of their treasury processes across the jurisdictions they operate in. Many are finding it is also helping to drive down banking costs.

3. **Be risk averse**

While the rise of pan-African banks may offer treasurers opportunities for centralisation, treasurers ought to remain conscious of counterparty credit risks as these groups grow in size and complexity. As an IMF report from the end of last year notes, some banks have expanded at such a rapid pace across the region's nascent financial services sector that "significant supervision gaps, governance issues and questions about cross-border resolution have emerged."

We know who you are

February saw the theft of millions of names and social security numbers of customers and employees of Anthem Inc., the US's second-largest health insurer. Hackers managed to evade security measures in order to raid the firm's database which reportedly contains the personal information of around 80 million individuals, including those of the firm's own CEO, Joseph Swedish.

Perhaps the biggest hack news event of recent times happened at the end of 2014 when Sony Pictures was targeted by politically motivated hackers who destroyed data and released details of private internal correspondence to the media. The company has recently set aside $15m to investigate the reasons for and remediate the damage.

No protection

For a corporate, data loss is a very serious business. It is not just a matter for IT to erect a protective barrier – often the perpetrator comes from within or has access to an insider. "Phishing campaigns are extremely successful, especially if targeted," says Stephen Coty, Chief Security Evangelist for cloud security and compliance specialist, Alert Logic. "Email filtration products that inspect incoming attachments in email would be a good technology to start with." He adds that web filters will monitor and filter outbound web traffic that may be going to malicious sites. Net flow data analysis can also monitor for large transfers of data that might be leaving the facility. Security information and event management (SIEM) architecture – designed to give a holistic view of an organisation's IT security – would be able to collect all of the logs from the above technologies to create incidents that have actionable data.

Companies need to start investing "properly" into their security strategy, warns Coty. "They also need to ensure that they have the right people and processes to support the technologies that they have deployed as part of that strategy."

It will happen to you

"The lax state of security is a problem because there is sometimes an assumption that a breach will 'never happen to me'," says Coty. Businesses need to think long and hard about what it has that someone may want to steal. "This goes back to 'one man's trash is another man's treasure'. What you think may not be valuable may be worth something to someone overseas or in a competitive business," he warns. "Breaches happen every day and we can no longer stick our head in the sand and hope for the best. You have to take a proactive stance to security, not only for your business but also for your customers."

"If 2014 was the 'year of breaches', obviously 2015 is set up as the year of 'more breaches'," warns Rahul Kashyup, Chief Security Architect of virtualised security technology firm, Bromium. He urges firms not to think about the latest data breach in terms of how lucky they should feel that it was not them but to consider instead how they would react if they were the victim. "Most large organisations are hackable due to the fallible nature of humans at work, outdated security controls and inefficient security practices," notes Kashyup.

Avoiding guilt by association: supply chain sustainability

Recently, China's government-sanctioned labour organisation, the All-China Federation of Trade Union, launched a scathing attack on the Foxconn Technology Group. The Taiwanese technology giant was accused by the labour union of overworking its staff in China in order to achieve increased profits, leading to depression, other mental health problems and, in extreme cases, death and suicide.

Of course, Foxconn is not the only company in recent years to be accused of worker abuses, but the company has made the headlines due to its pivotal role in the supply chain of many household technology companies such as Apple, Samsung and Microsoft. By association, the names of these corporate giants have become entangled in the negative press surrounding the incident.

At a time when consumers are becoming increasingly aware of – and unhappy with – the unethical practices used by certain companies to boost profits, responsible supply chain management is significantly growing in importance. Yet with many multinationals having thousands of suppliers, monitoring every single link in the supply chain can be a gargantuan task.

The good news is that there is an increasing array of services (not all hugely expensive) out there to help corporates to monitor the sustainability of their suppliers. Not for profit, Sedex Global, is one such company. Founded in 2004, the firm was originally established to create more streamlined and efficient data sharing processes between suppliers and buyers. "Suppliers often have to provide lots of information surrounding their business practices and answer lengthy questionnaires," says Mark Robertson, Head of Marketing and Communications at Sedex Global. "If that company is providing this level of paperwork to, say, ten companies they are supplying to, then the administration burden surrounding this process is huge." By joining Sedex, this information only has to be uploaded once, thereby reducing duplication and increasing transparency in global supply chains.

Understanding the drivers

"As building responsible supply chains has become increasingly important for corporates, Sedex platform has become an increasingly important tool to assist them in managing this process," says Robertson. The reasons that corporates have begun looking to build responsible supply chains are numerous. Of course, mitigation of reputational risk is the most publicised reason, but corporate social responsibility (CSR) is also becoming more than just a 'nice to have' – it is being recognised as an optimal way of doing business.

Reaping the rewards

Despite the clear drivers, is there really a key role for treasury in supply chain sustainability? For Robertson, the answer is 'yes' – not least because of the financial benefits. "Across our global community of 37,000 members, we often hear of the substantial financial benefits that can be gained through better supply chain management," says Robertson. "Investor relations is one area, for example, that a responsible supply chain can benefit the company financially as investors are increasingly looking to these areas when making their investment decisions." In addition, understanding the supply chain and building better relationships with suppliers can also offer the treasurer the opportunity to optimise payment terms with each supplier, perhaps through supplier finance. ■

Longer versions of these articles are available at treasurytoday.com/treasury-insights

This much I know

Marlies Janssen

Head of Treasury

As a busy professional, how do you balance work and family life?

I believe it is a matter of honing your organisational skills to make sure you are flexible and able to improvise, whilst having backup plans in place. It's also important to be realistic about the time that you have available: sometimes I leave the house thinking 'what a mess!', but that simply isn't my biggest priority.

Fortunately, the balancing act has been less of a burden for me due to the consistent support of my husband. We have both been able to develop our careers because we are committed to putting in equal efforts to our family life.

Do you think the business world is progressing in the right direction to enable women to achieve a good balancing act?

Possibilities for women to balance their personal and professional life are expanding. However, steps should be taken towards ensuring men are given the same chances. For example, the male employees on my team are offered equal opportunity to take care of their children.

Only focusing on women doesn't help the business world head in the right direction – but giving men the same options opens up possibilities for both genders.

Do women bring something different to the needs of a successful treasury function?

In any business, diversity is important. At Van Oord, having a diverse age range and representation of international identities is just as important as gender balance, but having a combination of men and women ensures a great team atmosphere. That said, I think women bring something different in any profession – generally being better at motivating others, recognising their talents and encouraging them to be pursued.

What advice, that has helped you become a better treasurer, would you pass on to others?

It is sometimes difficult to see the vast opportunities that are available in the business world. I have always tried to keep my eyes open and not be too focused on a singular aspect – choosing to investigate everything in order to make informed decisions.

Finally, what is your motto in life?

There is a solution to almost every problem. However big the challenge is, I remain a solution-oriented and driven person. To make the most of the options and solutions available, however, you need to be flexible and well organised.

"I think women bring something different in any profession – generally being better at motivating others, recognising their talents and encouraging them to be pursued."

ON THE WEB

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

Shortly after graduating from Rotterdam University, Marlies Janssen was first drawn to treasury during an internship at Unilever. Placed on a project to implement a somewhat less-advanced version of the cash management software that she uses today, Marlies explains "I had never considered treasury previously. Like many other people at the time, it was a relatively unknown subject to me. During that project, I realised it was something I would like to gain more experience in and I started at a regional treasury centre for Bausch & Lomb."

Marlies credits an American colleague at the company for putting her on a great, but sharp, learning curve to treasury. "It was the eye opener to the forward-looking financial profession that is really close to the business, and my heart." Early experiences obviously struck a chord with Marlies who has stayed in treasury for her entire career.

Ambitious and driven, Marlies advanced through various roles, from Cash Manager to Senior Manager of Corporate Treasury, within the nine years she worked for her previous company, Royal Vopak. The skills and knowledge demonstrated throughout her progression at the company resulted in Marlies leading the project financing team in a major joint venture between Royal Vopak and NV Nederlandse Gasunie. A project which she is rightly proud of, the development of Gate terminal (Gas Access to Europe) was often referred to as her third child! With initial costs of approximately €800m, the project was a huge success in meeting – and continuing to meet – the capacity needs for gas imports due to growing demand. As one of her key responsibilities in that role, and her current position, Marlies describes project financing as a hobby – second only to treasury.

This admission is typical of Marlies, who certainly knows how to prioritise. "You have to accept that you cannot complete everything with absolute perfection. Being realistic helps me prioritise." But prioritising isn't always glamorous, or easy. "Unfortunately, I don't always have enough time for my friends. It's probably my last priority at the moment and spending time with friends is definitely something I wish I had more time for."

Ambition and action

Marlies credits the strong partnership between her husband and herself for enabling the progression of both of their careers. "By putting in equal efforts towards home life, our balancing act between personal and professional time is, well, balanced!" Therefore, when Marlies wanted to pursue a new challenge, one where she didn't feel held back by being the second in charge, it is unsurprising that she jumped at the chance to be Head of Treasury at Van Oord in 2010.

Unphased by a company where treasury was a fledgling topic and only an under-developed department existed, five years later, she heads a six-strong department that is responsible for treasury activities worldwide. Marlies continues to add value to both the company and her career, but her contributions are not solely business-related. By emphasising the importance of not only discussing but putting into action notions of gender equality and international diversity in her team Marlies shows she is as forward-thinking as the profession she values.

Lessons learnt

In addition to outlining her ideals, Marlies is happy to share some good advice for others, such as: keep your eyes open for possibilities that you may not have considered, or even been aware of – just how being a flexible individual steered her into the career she remains passionate about.

Furthermore, Marlies emphasises that experience gained from different companies is invaluable. "Between companies, treasury departments will have different objectives and pose different challenges. I believe you become a good treasurer by seeing a few of these roles, the assorted experience bringing value to your career. Encountering the treasury department within a contracting business (such as Van Oord) in comparison to a company which deals with consumer goods, for instance, offers involvement in overcoming different obstacles."

Despite her obvious experience in the industry, Marlies remains keen to learn. "There is still a lot to do in treasury if you look outside your normal routine. Just because people may have spent 15 years in one role, it doesn't mean that is the only way the world works." ■

Marlies Janssen started her career as an after-graduate intern at DiverseyLever (at the time part of Unilever) in 1996. In 1997 she joined Bausch & Lomb's European treasury centre as a Treasury Analyst. After a short period at Rabobank International, she moved to the group treasury of Royal Vopak where she performed various roles from Cash Manager to Treasury Controller before being promoted to Senior Manager Corporate Treasury in 2009. During her time at Royal Vopak she lead various international project financings. In 2010 she was offered the opportunity to become Head of Treasury at Van Oord, a large Dutch marine contractor, the role she continues to hold. In her current role she is responsible for the worldwide treasury and heads up a team of six professionals.

Managing signature mandates

> *I have been looking at ways to manage signature mandates, what options are available? How do they work? And are there any other developments in this space that can benefit corporates?*

Jörg Wiemer, CEO and Co-Founder, Treasury Intelligence Solutions:

One of the biggest challenges treasury departments worldwide are facing today is the efficient and secure management of banks and bank account related information and processes. Visibility and control over the bank accounts globally, the ability to effectively store bank account related information and documentation (including signature mandates), as well as centrally managing the processes on the lifecycle of this information is fundamental for CFOs and treasurers to minimise risks and adopt automated processes.

In order to achieve these goals, many corporates decide on a comprehensive solution for the management of their bank accounts. Effective and structured bank account management can be easily realised by implementing a solution, which is one of the main steps treasury departments take to fulfil governance and compliance regulations. In addition, the adoption of a central bank account repository, for collecting both data and bank documentation, ensures that processes are optimised and performance is measured and monitored.

In my previous role as Head of Global Treasury at SAP, I faced a similar challenge and can recommend that the management of signature mandates should be provided by external experts as a service. This allows treasury departments to focus on strategic topics which help to deliver better business results.

The key advantages and acknowledged benefits in adopting a Bank Account Management solution, provided as a service, are gaining complete control and effective management of all bank relationships – including bank master data, legally binding documents as well as signatory mandates.

Through automated approval workflows for requests to changes in bank mandates, secure and audit proof processes, such a solution provides full corporate compliance. In addition, complete integration with existing back office infrastructures improves efficiency and cost reduction, through automating manual processes and monitoring their performance. All departments involved benefit from easy access to real-time information for strategically managing signature mandates.

Furthermore, the recognition that the banks are using electronic exchange of Bank Account Management (eBAM) information, including the electronic opening, closing and maintenance of bank accounts as well as generation of audit reports, is picking up pace in the market, especially within large corporations. The business case is now becoming fundamental as a growing number of companies, across all sectors, aim to resolve governance and compliance issues as well as minimising risk.

We have provided our customers with a best practice service model to globally manage signature mandates within all bank relationships and providing efficient, low-risk business workflows which embeds governance processes as corporate regulatory requirements.

My final recommendation is to approach this challenge by establishing a model which captures all of the bank details into a central 'source of truth', which is the fundamental milestone in achieving a global overview of signature mandates.

Michael Vonckx, Head of Sales Europe, Hanse Orga International:

When discussing treasury topics with our clients, one of the key challenges that is constantly raised is the management of bank accounts and related signatories. The complexity, the time to process changes with banking partners and the highly manual process result in large inefficiencies and little visibility and control over this highly error and risk prone process. Auditability and compliance are key in this area – there are a number of initiatives that organisations can drive to reduce the complexities.

Rationalisation of bank accounts is an activity that many are constantly working on. By having less bank accounts the management of bank accounts and related signatories will clearly be reduced. The introduction of SEPA has introduced new possibilities but it has not been fully leveraged by many corporate treasurers. The benefits that the rationalisation bring should be balanced with other factors such as bank wallets, counterparty risk but also making sure that the services for the local entities continue to be serviced.

A second option would be to move away from bank-branded electronic banking to a multi-bank payment solution, coupled with bank communication such as host-to-host or SWIFT. By using such solutions you will have the benefit of approving payments in

a multi-bank payment tool and securing the payment files with a company token. Organisations benefit from operational efficiencies by eliminating duplication of user and bank account data in multiple e-banking platforms.

A third, and more significant, efficiency and control mechanism would be to migrate to a central bank account management (BAM) solution. In recent studies, 15% of treasuries reported to have a tool in place for managing bank administration and relationships. The majority of these tools include Excel reports or simple homegrown database solutions. While these types of tools provide visibility on the number of bank accounts and signatories, they lack control, auditability and efficiency. It is remarkable to see that in many corporate organisations the accounts payable process requires high levels of security, while the management of the underlying mandates and signatories has lower controls.

It is vital to have all documentation and letters readily available and easily generated. This requires streamlined BAM for all processes and exchanges within the company and across different countries. Internal and external reporting and correspondence to internal and external stakeholders should be automatically generated, taking out the risk- and error-prone paper trails around this process.

Besides bank BAM solutions, there are many proven solutions in the market available that provide bank account management functions including workflows (to open, close and modify bank accounts), activity lists, dashboards and report generators that can be sent straight to the banks. In the last few years, ERP integrated solutions have also been introduced in the market – further leveraging efficiency and compliance around BAM.

Although the exchange of the related XML-based eBAM messages needs to mature in the next few years, corporates can reap benefits of visibility, control and efficiency over their bank account management processes as of today.

André Casterman, Global Head, Corporate and Supply Chain Markets, SWIFT:

As the financial community seeks to reduce costs, mitigate risk and streamline their processes, corporates face challenges in managing their relationships with multiple banking partners – particularly when different channels, different protocols, different formats, and different data requirements need to be factored into the implementation process. A number of initiatives seek to address the ambiguity of how corporates and banks interact with each other, in particular regarding messaging formats and standards. Of note is the CGI-MP initiative, an industry-led effort that is gaining prominence as a key frame of reference for the implementation of ISO 20022 (an international standard that's designed to simplify global business communication) payments messages between corporates and banks which represent the next generation messaging standard for SWIFT.

CGI-MP (Common Global Implementation – Market Practice) embodies the notion that, "a corporate can use the same message structure (for each message type) to interact with all of their transaction banks across the globe for payments initiation (credit transfer and direct debit), account and status reporting."

The goal of CGI-MP is to provide a forum for both financial (banks and bank associations) and non-financial institutions (corporates, corporate associations, vendors and market infrastructures) to progress various corporate-to-bank implementation topics on the use of ISO 20022 messages and to other related activities in the payments domain. In particular, it is to simplify implementation for corporate users and thereby promote wider acceptance of ISO 20022 as the common XML standard used between corporates and banks. SWIFT operates the ISO 20022 Registration Authority (RA) as the guardian of the ISO 20022 Financial Repository and the www.iso20022.org website. ■

The next question:

"With currency volatility approaching record levels, a growing number of multinationals have seen currency translation negatively impact top line growth figures. Should corporates hedge translation risk?"

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

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ecr research

Europe: drifting apart

As investors demonstrate unwillingness to finance the social spending of weaker performing Economic and Monetary Union (EMU) countries, those countries who have performed comparatively well and successfully managed their debt deficits are worried they will be left to foot the bill. This article explores the options available and their implications for both strong and weak EMU countries.

The rising status of populist parties in Europe is threatening the Economic and Monetary Union (EMU). Those parties' demands for more fiscal stimulus and less extensive structural reform measures appeal to many voters who are accustomed to costly social provisions and protection. Whilst such provisions may be socially desirable, they are also very expensive and divert increasing amounts of money away from projects that enhance both competitiveness and the earning capacity of the economy.

Most European countries need to borrow money to finance social spending on a structural basis. Earning capacity, meanwhile, has slowly but surely deteriorated and debts have been piling up. The Eurozone crisis signalled that investors were no longer willing to finance social spending of many weaker EMU countries due to concerns that some countries would not be able to pay back their debts.

An appropriate way to respond to rising concerns is through structural reforms that increase earning capacity and make economies more competitive. This, however, is easier said than done. It would require less spending on the social system (a short-term pain) to free up money for productive investments (a long-term gain) and offer less protection of influential political stake holders because of initial lack of appeal. Most politicians, who campaign for a four year term in office, fail to convince voters of the need to make sacrifices in order to strengthen the economy in the longer term.

Instead, more and more voters are turning to populist parties who promise less painful structural reforms and, instead, more debt-financed government spending.

Structural change is crucial

Without structural reforms, credit going into the private sector is bound to stagnate. Already, growth across Europe is sluggish and unemployment is high. Therefore, wages have not been rising enough or sometimes not at all. The only way to quickly boost demand is through wider budget deficits. Germany, however, fears that the politicians in the weaker Eurozone countries will make use of any fiscal stimulus measures to postpone the necessary structural reforms. The experiences with Greece are proving the point. The German government is especially dissatisfied that Paris immediately declared its sympathy for the Greek desire to pursue a less stringent budget policy after Syriza won the Greek elections.

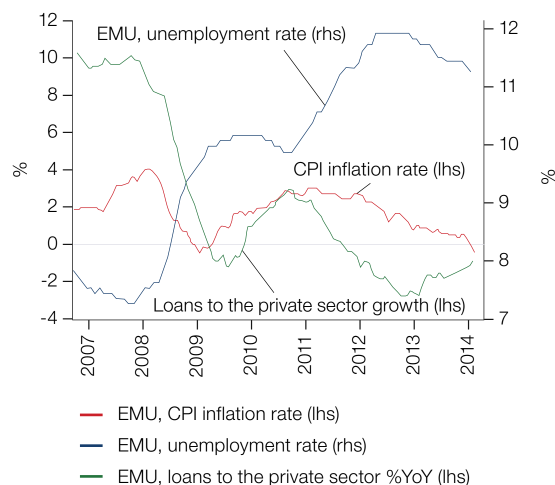
Pivotal in this situation is the European Central Bank (ECB), which can bolster credit supply in the private sector via lower interest rates, more money creation and, if need be, higher asset prices. However, the same proviso applies. As the central bank becomes more active, fewer reforms may be implemented. Since the credit crisis, for example, most member states have not implemented as many structural reforms as they intended and/or promised. This has contributed to the fact that, despite looser monetary policy by the ECB, credit has eased far less than anticipated.

ECB action necessary but will it help?

Given the circumstances, it is undeniable that the weak Eurozone countries are struggling because demand is lower than supply. Widening budget deficits do not offer real solutions (although many governments see this as an essential first step). That is, negative deflationary spirals loom in these member states and, unless something is done, this could lead to a deeply embedded economic crisis. The ECB, therefore, has intervened and announced a large-scale bond-buying programme, in combination with money creation.

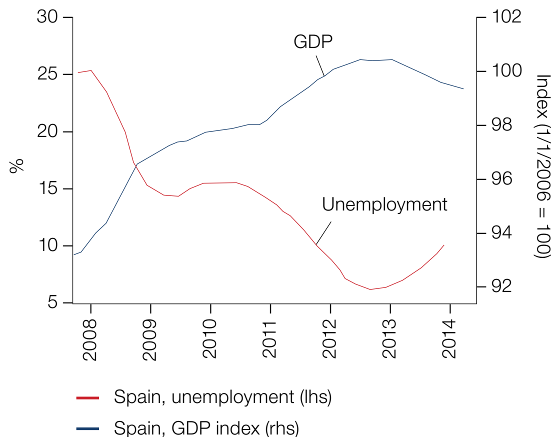
Apart from the question whether such a policy will exacerbate the debt problem whilst structural reforms are not forthcoming, the expectation is that ECB's bond-buying programme will do little to facilitate credit supply. Yes, the value of potential collateral will appreciate but earning capacity will not increase.

Chart 1: Weak labour market and poor credit activity in the EMU creates a downward pressure on inflation



Source: Thomson Reuters Datastream/ECR

Chart 2: Social costs for Spain and the other weaker EMU countries have been enormous



Source: Thomson Reuters Datastream/ECR

In addition, private individuals in Europe (in contrast with the US) own relatively few shares and bonds. Many people are home-owners and consider property price rallies far more important. The problem, therefore, is that most European governments are pursuing policies that aim to prevent the type of housing bubble that triggered the recent credit crisis rather than focusing on those to increase credit supply.

As credit continues to be tight, growth will remain sluggish, and budget deficits will tend to widen. It is a concern that the need to reduce deficits will act as a drag on the economy, potentially slowing down growth further and resulting in deflation looming for longer. Such concerns are prompting governments to ask Brussels for permission to widen their budget deficits.

Germany becoming isolated

When it comes to the issues discussed in this article, all of the participating member states in the EU have equal voting rights. Only a few countries within Europe, however, have an economy that is performing reasonably well – first and foremost Germany. Whilst many of the weaker EMU countries find it very hard to implement structural reform, at the present juncture, the stronger ones are boxed into a corner:

- Increasingly, the stronger performing member states find themselves in an isolated position. Germany, for example, thinks that the problem countries should be implementing structural reforms quickly but the debt-laden states are turning the tables on Berlin. They, in contrast, think the 'well-off' countries should apply fiscal stimulus in order to help the weaker Eurozone economies. Additionally, they want the EMU to drop the requirement that deficit reduction should be of top priority for them, eliminating its sluggish effect on the economy.
- The governments of the weaker Eurozone countries think Berlin is not considering the social misery in their countries that result from the deteriorating economic conditions. It is in this context that they point to rising popularity of populism that could be damaging. On the other hand, the strong member states can see storm clouds gathering. Unless earning capacity improves swiftly, it will only become harder for those under-performing Eurozone countries to pay off their outstanding debts. Eventually, this could spell financial disaster – particularly in combination with an ageing population, which will be demanding on public finances. Gigantic losses could be on the horizon and the countries with stronger performing economies fear that it will be their taxpayers that have to foot most of the bill.
- Stronger EMU countries, however, are frequently overruled within the ECB. The weaker Eurozone countries are shouting down the stronger member states. This is why the central bank recently decided to launch a large-scale bond-buying programme even though Germany and the Netherlands, among others, were opposed. It is no surprise that EU membership and management is a contentious political issue.
- In the case of Germany, another factor is also relevant. When the country decided to adopt the euro in 2002, it did so based on a guarantee that budget deficits would remain modest and that high inflation would be out of the question. But now, the deficits threaten to widen too far and the current ECB policy could well be too accommodative in Germany's eyes. As Germany is the only European country with full employment (give or take), however, it could benefit from tighter monetary policy.

In conclusion, it seems that further Eurozone tensions may well be on the cards and in all likelihood, this will have a huge impact on the financial markets. And whilst quantitative easing (QE) by the ECB could send asset prices higher (at least for a while), it will do little to boost economic growth. If advocates of widening budget deficits become more vocal, this is bound to frustrate the stronger EMU countries, which fear that they will have to foot the bill if everything goes wrong.

In other words, although we expect a Grexit will be avoided this year, we do expect the continuation of rising tensions between the weaker and the stronger EMU countries. Such tensions will weaken the euro further and invigorate the battle we expect in interest rate markets in the weaker EMU-countries. QE by the ECB will exert a strong downward pressure on interest rates, whilst rising tensions mean a strong upward pressure. Only time will tell which force will win. ■

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Preparing for the worst

The recent election of the left-wing anti-austerity party Syriza has everyone speculating once again on the future of the Eurozone's embattled periphery. What's more, the latest episode of Greek turmoil comes at a time when businesses are already feeling uneasy about the deflationary forces that are appearing to take hold in Europe. Here we ask a treasurer, an economist, a banker, and a corporate ratings analyst how they see the situation developing, and what corporates can do to minimise the impact should events take a turn for the worst.

"What's the worst that could happen?" That's a question all conscientious corporate treasurers need to ask themselves every once in a while. Exceptional risks with potentially catastrophic consequences, however improbable, must always be considered; then, once thought through, contingency plans should be drafted and filed away, with the hope of course, that they will never be needed.

Corporate treasurers have received plenty of reminders of the need for such planning since the beginning of the year. The Eurozone crisis is back after several years of respite. And there have been numerous occasions over the past several months in which treasurers may have felt the need to get reacquainted with those earlier prepared Grexit contingency plans (circa 2012); the same plans, of course, which have been gathering dust ever since Mario Draghi bought some time with his famous "do whatever it takes" speech.

> "When people see increased volatility there is a natural tendency to hedge more. But if you follow that line of thinking and start hedging further forward, the corporate may find themselves in a situation where the market moves against them."
>
> Yuri Polyakov, Head of Financial Risk Advisory, Lloyds Bank

To be clear, even in the immediate aftermath of the Syriza election victory, when speculation around Greece's future in the Eurozone project was at its height, most political analysts and economists thought that Greece will not, on the balance of probabilities, be leaving the euro in the immediate future. "At this stage, we see the risk of Greece leaving the euro as small," says Adam Chester, Head of Macroeconomics, Commercial Banking, at Lloyds Bank. "It is difficult to make any strong statements at this stage about what the election in Greece means, because negotiations between Greece and the so-called Troika are likely to be ongoing over the next few months. But I think the markets have taken some comfort from the rhetoric that has come out since the election that suggests while [Syriza] are very much looking to reverse some of the austerity measures, they are also very much wedded to staying in the single currency."

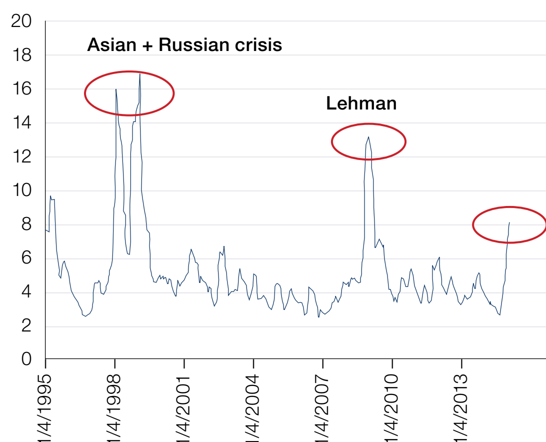
Yet, the recent election of this new, left-wing, anti-austerity government in Athens who are now appearing to engage in brinksmanship in their negotiations with the "Troika", means it is a possibility that must at least be considered. Even after February's apparent 'breakthrough' in negotiations (the striking of a deal that will extend the current bailout deal for another four months) the fact remains that this crisis, as it was three years ago, is far from resolved. It is likely that the European authorities, particularly the European Central Bank (ECB), will continue to be tireless in their efforts to keep Greece in the single currency. The problem, notes Philippe Gelis, CEO of foreign exchange provider Kantox, is that there are limits to what central banks can influence. For evidence of that, look no further than what happened recently to the Swiss franc. "I'm sure that the Swiss national bank wanted to maintain the CHF peg with the euro," says Gelis. "But what they realised was that it was no longer possible for them to go on buying euros and printing CHF. I think it could be the same with the ECB. They will not accept a 'Grexit', but if at some point it becomes unsustainable, then who knows?"

If that scenario were to play out it is not difficult to imagine, especially with the pressure other nations in the periphery would come under, it precipitating a complete loss of investor confidence in the euro. Some commentators are already speculating that such an event would send the single currency plummeting, potentially, to levels against the dollar not seen since in the history of the currency. It is easy to see why, then, Gelis's clients have expressed grave concerns about the situation to him in recent discussions. "If this happens, we will probably see for the first time the euro being equal to one dollar," says Gelis. "Clearly, a Grexit would see the euro lose a lot of value."

A 'lost decade'?

Greece or no Greece, the Eurozone economy remains in an incredibly perilous position at present. After growth ground to a halt in mid-2014, analysts do not expect to see any meaningful rebound in GDP in the year ahead. A research report published by Bank of America Merrill Lynch (BofA Merrill) at the end of last year, for instance, forecasts 1.3% GDP growth in 2016 – up just 0.1% from 2015 – and CPI inflation to average 0.5%.

The big fear, of course, is that Europe might be heading into a deflationary spiral of the same sort that afflicted Japan during



Source: Bank of America Merrill Lynch Global Research

its 'lost decade', an economic mess from which it is only now emerging. Given that the ECB is now committed to a programme of quantitative easing this, analysts say, is also unlikely. According to the base-case of ratings agency Fitch, for example, we are facing a number of years of sub-target inflation not, thankfully, Japan-style deflation.

Analysts at Lloyds Bank concur. While the Eurozone is currently experiencing negative inflation, a sustained, broad-based fall in the general price level is not something they believe to be on the horizon. "We think it is largely due to the fall in energy prices that we've seen," says Chester. "You cannot dismiss the risk [of deflation] if conditions in the Eurozone were to deteriorate markedly from here. But given the amount of stimulus that is now being poured into the Eurozone, both in terms of QE, the fall in energy prices, and the weakness of the currency, our forecast is that over the medium term prices will begin to rise again."

However, if Europe does indeed slip into deflation – and clearly we must be conscious of the risk – what will the implications be for the region's corporates? Obviously deflationary spells are negative for all businesses, regardless of size or sector. The real cost of debt rises, asset values decline and consumers defer spending on the grounds that a good or service might be acquired for cheaper tomorrow.

Even so, Mike Dunning, Head of European Corporates at Fitch Ratings believes that deflation poses a much greater risk for some types of business than it does others. "At one end of the scale, you've got large multinationals, the likes of Nestle and Siemens, who are diversified with core operations in strong economies," says Dunning.

"It won't be good for them, but it won't be a dire situation either. At the other end of the scale, the small and mid-sized enterprise, we think will be hit very hard. Then in the middle, you've got corporates who are sitting in periphery countries which still need to rebalance following the sovereign debt crisis. We think they will be affected disproportionately, especially those in cyclical industries, because those economies are still struggling to emerge from recession and structurally rebalance so the impact of any deferral in consumption would be felt more acutely here than in Northern Europe."

Corporates will not be completely bereft of options, should deflation begin to manifest itself in Europe in the next couple of years. Capital expenditure plans could be cut back to steady-state levels, for example, spending just enough to keep the business ticking over. Certain companies, those in research and development (R&D) heavy sectors such as technology will be faced with a very unenviable predicament, however: cutting capex might cost them their competitive advantage.

"We've seen that with Japanese tech companies. They lost momentum and missed a number of technological shifts that were occurring globally because they were not spending enough on R&D," says Dunning. As such, companies in this sector would be closely monitored by the ratings agencies if deflation were to take hold.

These are budgeting decisions that reside outside of the treasurers remit, strictly speaking. However, treasurers should at the very least be cognisant of the options given that the strategy which is decided upon might, potentially, impact the whole spectrum of treasury activities from financing to risk mitigation and cash management.

In the dark

If there is one thing that is certain in Europe at present, it is uncertainty. With numerous central banks across the world now engaging in beggar thy neighbour currency policies – the ECB being but the latest to join the conflict when QE was announced – there remains a distinct lack of clarity around where the market might take us in the coming months or even years. We can see already how this is going to play out in the currency markets. According to recent research by BofA Merrill, realised FX volatility has now reached its highest non-crisis level in two decades (see Chart 1). The only other occasions in the past 20 years when the magnitude of currency swings have been higher were during the Russia and Asian crises of the late 1990s, and in the aftermath of the Lehman Brothers collapse.

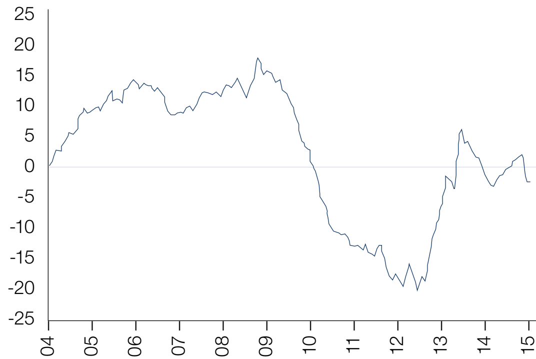
In such an unpredictable environment, any kind of extended hedging strategy in which a treasurer uses forwards to lock in the rates could be beneficial or could be detrimental and play against their competitive advantages, says Yuri Polyakov, Head of Financial Risk Advisory at Lloyds Bank.

"When people see increased volatility there is a natural tendency to hedge more," says Polyakov. "But if you follow that line of thinking and start hedging further forward, the corporate may find themselves in a situation where the market moves against them. That's a lesson a lot of companies learnt just recently, following the fall in oil prices. Airlines should be happy right now that energy prices have halved. On the other hand, if they have hedged in the past 12-18 months and are locked in at higher prices, the capacity to put in additional hedges now is very limited."

These experiences could, Polyakov believes, lend more consideration to the case for an options-based hedging strategy. The question of whether corporates should use options, and in what circumstances, has long been a matter of debate in the world of corporate risk management, of course. Typically, there are two camps. On one side, there are those treasurers who argue that there is not enough transparency in option instruments and that, coupled with the accounting complexities, does not make them an ideal instrument for corporate hedging purposes. Other treasurers, meanwhile,

Chart 2: Greece: renewed deposit flight

Bank deposits of households and companies, % yoy



Source: Thomson Reuters Datastream; ABN AMRO Grup Economics

take a more positive view. For them options are a useful instrument and have enough internal strength to be able to demonstrate to the board that there are certain situations in which they are the most suitable strategies to deploy.

The latter group's case is becoming ever more difficult to counter with everything we are seeing taking place in the Eurozone at the moment. "I think in the current market conditions the case for considering options-based hedging is becoming stronger," says Polyakov. Moreover, those who already use options are realising that they need to be smarter in the way that they use the instruments. Often, such instruments are most effective when only used to hedge the big moves in the market, rather than day-to-day volatility. "This calls for a risk management strategy which will clearly define the ability of the business to take a little bit of uncertainty, and only hedge the uncertainty beyond that," he adds.

What's the plan?

Options contracts are undoubtedly useful instruments in today's uncertain markets. As we all know, there are some risks that derivatives cannot hedge, however. Greece leaving the Eurozone is one such example.

What is needed instead is good contingency planning, says Dimitris Papathanasiou, Coca-Coca HBC's Financial Risk Manager. Coca-Cola HBC used to be headquartered in Athens but moved to Switzerland in April 2013 following the initial outbreak of the sovereign debt crisis. But with an operational footprint retained in Greece, the trauma of a Grexit and treasury's options in terms of limiting the fall out is something Papathanasiou has given much thought to.

"There are many elements in a contingency plan that a corporate could look at," he says. Perhaps the most important of these is cash. First and foremost treasurers would want all of their assets to be outside of the country (see Chart 2) – which is near impossible, of course – and would want external liabilities to be locally denominated. But there are a whole host of other areas that could be affected, from payment issues, to supply chain stability to credit issues with your customers. There is no ambiguity around what Papathanasiou deems to be the principle concern, however. "When putting together a contingency plan the big thing on your mind is how you can keep on working with a local banking system facing trouble," he adds. "In general we try not to keep balances in the country. We have always used a centralised cash management pool, so fortunately we have a relationship only with highly rated international banks."

Before one can draft their plan, one must first understand the impact of events in question. This is of fundamental importance, suggests Lloyds' Polyakov. "The one exercise I would encourage everyone to do is to assume it does happen and then try to understand the potential impact," he notes. Take, for example, a treasurer at a European multinational with a subsidiary in Greece. If, after analysis has been performed, the treasurer concludes that revenues from that region will halve in the eventuality that Greece leaves the euro but the overall impact on company earnings is only marginal, the company may be in a position to take that hit. Meanwhile, if the data shows company earnings will be impacted significantly, a more protective strategy might be required.

"A good example is how people are dealing with what happened in Russia recently," says Polyakov. "There are plenty of companies who have seen earnings in Russia halve. However, some of these same companies remain very focused on the market and a couple that have actually increased their inventory. They will tell you it's about positioning and that they are prepared to take the volatility."

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What does Polyakov believe the strategy should be to deal with risk events of significant impact? "If there is no way you can possibly hedge it," he says, "you need to create enough liquidity and enough expectations management so that the company can withstand the shock and move on to redefine the strategy in the new environment. If it does happen, understand the impact, make sure you have enough liquidity, deal with it and move forward."

Think the unthinkable

Yanis Varoufakis, Greece's new and rather eccentric finance minister recently likened Greece's position to the line in the Eagles Song 'Hotel California' in which Joe Walsh sings "you can check out any time you like, but you can never leave."

The message was unmistakeable. Greece, he wants the world to know, is not going anywhere despite the rising speculation in the midst of negotiations with the Troika. Leaving the euro would just be too painful for all parties, not to mention difficult considering there is no mechanism in place for forcing a country out of the euro (nor, for that matter, to guide a country who wants to leave of its own accord). But like Victor Hugo once wrote in Les Misérables, "Nothing is more imminent than the impossible. What we must always foresee is the unforeseen." That, particularly at this moment in time, would seem to be the perfect motto for corporate treasury professionals with interests in Europe. ■

Stuck in the middle with you

The mid-market corporate community has relied heavily on bank-sourced funding in the past but with a new-found regulation-driven prudency, borrowing is more difficult for such firms. There are newer models of credit in the market and the banks say they are keen to lend, so does the 'squeezed middle' still exist?

One unintended consequence of the raft of 'post-financial crisis' regulations, Basel III in particular, is that the supply of bank funding is becoming less of a reliable option for some corporates. The largest corporates are still a safe bet for them and although small firms have long since been subject to punitive risk-based pricing, they are increasingly able to look to alternative funding sources such as angel investors and crowd-funding. Stuck firmly in the middle of all this are the mid-market corporates – those sitting approximately in the €500m to €1.5 billion revenue bracket – which are seemingly at a funding crossroads.

Whilst many feel the need to keep the favour of their banks to help finance day-to-day operations, the mid-market treasurer will need to work out which of their partners they wish to continue working with. But just as treasurers need to decide where their business will go, the banks are taking the view from the other side of the fence. They want to know that they will be getting a decent slice of the corporate wallet to warrant offering the full range of products. With regulation and negative interest rates placing a high cost on taking in short-term money, banks will not be afraid to say goodbye if the wallet is not forthcoming. Gone are the days when banks lined up to offer cheap money; now it's all about mutual trust and depth of relationship.

We have the money

Some mid-market firms might feel they are being squeezed but a number of banks are now saying they have the funds to support good quality businesses however the appetite for debt of those firms has diminished. Bank lending volumes in the Eurozone have been falling for around two years, the FT reported in May last year. At that point they were nearly 3% under the May 2012 level. Anecdotal evidence suggests little has changed. One explanation for this is the continued lack of confidence in the markets – no one wants to commit to debt when revenues are so unpredictable. According to S&P Capital IQ stats, net loan issuance to non-financial corporates turned negative in 2012 and remained so throughout 2013. Has this changed in the last 12 months?

"It's not necessarily a question of a squeezed middle as there's plenty of liquidity in the lending markets," says Farouk Ramzan, Head of Commercial Banking – Europe, Lloyds Bank. Where banks have been accused by mainstream media of turning down too many business loan applications, Ramzan points out that whilst an individual bank may have a strong balance sheet it will never be unlimited. "I would much prefer to do business that has continuity to it because it is that type of value-added client business that gets the bulk of our client relationships through any economic down-turn," he comments. Ramzan further argues that restrictions on balance sheet may in part be an unintended consequence of Basel III. Despite that, he acknowledges that regulation is imposed for a reason. "The challenge for banks is how to own that regulation and work with regulators," he says. "We need to ask how we can align ourselves with it in a way that allows the best outcome for our clients."

There is, he continues, "more flexibility out there than people think." Clients with sufficient funding needs can maintain their banking relationships as well as explore other options open to them with large institutional investors. Increasingly, credit funds are looking to play in the mid-market space via the Private Placement market. However, he notes, a mid-market client may feel "rather vulnerable" if it decides not to have a trusted advisor at its side with a deep understanding of the clients' needs when approaching large institutional investors. "It is our duty as a bank to look after our client and manage the covenant structure, the pricing and the options on tenor to make sure we can optimise those deals for the client," he states. "It's all part of the process of being more accountable to our clients."

The availability of bank funding is a theme taken up by Benoit Desserre, Global Head of Payments and Cash Management, Societe Generale. The concept of the 'squeezed middle' may have existed a couple of years ago, he agrees, but he is adamant that now there are few constraints on lending: bank funding is available but firms are just not increasing their level of borrowing. "This is really a matter of confidence," he notes, adding that no matter how cheap borrowing is, even if rates are zero, if companies are not confident that their investment will generate extra revenue they will not borrow. "That is a simple economic fact."

In an attempt to make banks safer with larger capital buffers, their increased regulation pushed them into a position where they had to bring in more deposits and keep fewer assets on their balance sheets. This in turn forced the wider financial community to bring other sources of corporate finance to market. This, notes Desserre, was the genesis of France's EuroPP market, the growth of the USPP and Schuldschein, and the general expansion of interest in corporate bond issuance.

However, the banks have now moved to a third stage where some central banks – notably the ECB, but also Swiss and Danish to date – have imposed negative deposit rates. This gives the banking system two choices, says Desserre: lend more or change the inflow of cash. Lending has been naturally curtailed by low business confidence so taking cash deposits

suddenly becomes undesirable. "We're still very keen to have corporates manage their cash flows with us; that is for the long term. But the ECB deposit rate is currently in effect a 20 basis point charge on all excess cash. For a short period of time it may not be an issue, but if negative rates recur then it could be detrimental to end-customers if it constrains bank's ability to lend. I have never seen this before, it is so unusual."

Indeed it must be unusual because the industry was certainly not ready with the tools to compute negative interest on deposits. With low growth levels almost everywhere you look in Europe, working out how to increase business confidence is a task for the politicians, says Desserre. But in the meantime, he acknowledges that the corporate community will be tightening its collective belt. It will also be looking to other forms of funding.

An alternative offering

As more businesses seek alternative sources of funding, it could be that the mid-cap community no longer needs to rely fully on the banks anyway. Indeed, the range of finance solutions open to 'quality' mid-market firms has expanded in recent years. Traditional bank lending has been joined by an increasingly well-trodden path to the debt capital markets, in particular private placements. This model is well established in the US (with roots back to the 1930s) but there is a nascent equivalent market in the UK, Germany (the Schuldschein serves the country's 'Mittelstand' sector of mid-market businesses) and France (Euro PP). Although EuroPP is just two years old, it has already raised more than €7 billion, albeit mostly for French companies funded by French insurers.

Although the USPP is by far the biggest market, even for European companies, one benefit of having a 'local' market is that investors will more likely know the companies they are dealing with. If there was any doubt that, globally, these offerings are of interest, S&P Capital IQ figures state that European companies raised around €60 billion on the US and European private placement markets between 2012 and 2013. There is little sign that this is slowing down.

Investors are clearly coming round to the idea that the mid-market asset class is a serious means of diversifying their own holdings. As yields in some traditionally secure asset classes hover barely above ground, pension funds and insurance firms – the institutional mainstays of the PP space – need to find an acceptable return on their 'buy to hold' investments. The quality mid-market sector has shown itself to be a useful addition to their lagging portfolios. In May 2014, Deloitte's Alternative Lender Deal Tracker reported 33 leading alternative lenders as having taken part in 105 European mid-market deals over the previous six economic quarters. Private debt funding, it seems, has an equal appeal for both the institutional investor and the mid-market corporate. With the flexibility now to offer delayed draw-down, firms do not even have to time their approach to the market quite so perfectly.

Getting noticed: mid-market ratings

The word 'quality' has purposefully been used above in reference to mid-market companies seeking funding. Objectively assessing a company for 'quality' – the strength of its business and financial models and market appeal, for example – involves more than a simple credit check. This is why many large corporates seek a credit rating from an independent agent such as S&P, Fitch or Moody's, to ease the funding process (and potentially even lower its costs). Mid-market corporates can do the same but obtaining a rating is quite a lengthy process, involving considerable effort and cost. One of the credit agencies – S&P – believes it has come up with a solution that, whilst not intended to be a credit rating per se, is based on a simplified version of its own corporate rating methodology. Pitched at businesses with group-level revenues below €1.5 billion and total drawn and undrawn reported debt facilities below €500m, the mid-market evaluation rating (MME) "increases the transparency in this sector and provides a common benchmark for issuers, investors and lenders to assess specific credit risks," says Roberto Rivero, Head of Market Development, EMEA for S&P.

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Driven by the apparent lack of financial information about mid-market companies, MME is intended to provide investors with a "standardised and objective means" of assessing prospective mid-market borrowers without those companies jumping through the many, varied and expensive hoops of the full rating process.

A firm will be ranked on a range from MM1 (highest) to MM8 (lowest) and MMD (default). The same scale is applied to issuers and to debt instruments, although instrument ratings also incorporate S&P's view of the expectation of recovery if ever a default occurs.

The rating gives S&P's views on the creditworthiness of a mid-market company relative to firms of a similar size. It assesses the firm's capacity and willingness to meet its financial obligations based on a number of data and information sources including annual audited financial statements, interim reports and liquidity status, and also includes a review of governance, strategy and financial policy.

In theory, investors get an independent view of the mid-market companies in which they are considering investing, and the mid-market companies improve their access to investors which may otherwise be off-limits.

Seeking diversity: a corporate view on private placements

How easy is it for a mid-market firm to wean itself off traditional funding sources? As Group Treasurer at Neopost, France-based global leader in mail, communication and shipping solutions, Christophe Liaudon has first-hand

experience of just such a re-balancing act. Speaking at last years' EuroFinance event in Budapest, he explained that in 2012, two thirds of all Neopost's borrowing was from banks; a year later, bank credit accounted for just one tenth, Neopost having turned to the private placements market in a big way with investors spread across Europe, the US and Asia.

The company, listed on Euronext Paris, can be placed at the upper end of the mid-market sector with annual sales of around €1.1 billion from its direct presence in 31 countries (39% coming from North America). Although it has been dipping into the US private placement (USPP) market since 2003, it saw 2012 as "a year of challenges and diversification" for its finance structure.

It sought a refinancing package of €808m but diligent balancing of bank and private funding saw Liaudon and his team eventually raise €867m, and $270m between June 2012 and January 2013. The team managed to extend average maturities from under two years to more than four, and reduce its average interest rate to below 4%.

Neopost returned to the USPP market in early 2014, securing a further $50m. By June it was issuing its first unrated bond, Liaudon describing this as "a natural next step", benefitting from an "attractive market" enabling it to issue €350m with a seven-year maturity at just 2.5%. Three months later, back in the USPP market, Neopost established a $140m shelf facility agreement (with a total of $90m drawn from first day and $50m for future drawings). The company's new debt profile, post-refinancing, extends out to 2022.

Be prepared

The secret to success in the 'alternative' markets is to be fully prepared, says Liaudon. This starts with the buy-in from top management from day one. The process, which in most cases takes between four to eight weeks to execute, kicks off by selecting the most appropriate market. A bank that has partnered a business for some time will not only be able to explain and precisely position its client's credit status to potential investors, it should also know the markets well and be able to help its client "talk to the right investor at the right time." The usefulness of the banks in this process is undeniable but they are only the intermediaries: as Liaudon says, "we like to keep control of the process and of the relations with investors."

At an early stage – "the sooner the better" – it will be necessary to select essential third-party advisors, states Liaudon. The list will most likely include key players such as the book-runner (the lead arranger bank or banks), a legal team and an agent (the bank intermediary between the corporate and the various investors). "Proper" selection should consider that "some advisors have deeper knowledge of certain markets."

Documentation will need to be prepared detailing the business and finance model of the company, its aims, the funding required and its purpose, existing facilities and so on. The loan contract mandate letter (appointing the third parties) and the term sheet (the main contract) will also be drawn up at this stage. As far as contract terms are concerned, equality is the watchword: "most investors are looking for pari-passu," he states.

Preparation of PP documentation can be laborious but the process received something of a boost in January this year when the LMA launched its template documents, based on English law and incorporating both a loan and a note option, for use in European private placement transactions. Commenting at the time, Calum Macphail, Head of Corporate Private Placements, M&G Investments, said the creation of standardised private placement documents in Europe "will simplify the borrowing process for corporates and has the potential to encourage new liquidity into this market."

The French authorities, with European agreement, had issued a charter ('Financing for mid-sized Companies') in March 2014 for developing Euro Private Placements (Euro PPs) and creating a benchmark market for them, both in France and internationally. Commissioned by Banque de France and the Paris IDF Chamber of Commerce and Industry, it sought to explain how "capital markets can provide a significant share of the financing for mid-sized companies that might be unable to access international bond markets designed for large corporations with agency ratings."

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Aside from establishing the French Euro PP as a fully-fledged market segment and "a standard of quality for French and international issuers, intermediaries and investors," one of its chief objectives is to determine a specific execution framework, based on international credit market best practices. It has already produced a model for term loans and in January this year produced a model for bonds. Liaudon believes that this work shows the willingness to cooperate of all the different actors of this market including investors, associations, governments and issuers.

For the corporate borrower in the PP space, whether a first time player or an old hand, Liaudon stresses the importance of establishing a solid relationship with investors from the start. The first contact will likely be the roadshows and Q&A sessions with individual potential investors and making a good impression is important. Thereafter, it is common practice to submit, at least annually, an update on company progress. In the interim it may be prudent to arrange meetings or calls with the main investors "to maintain contact and explain strategy." Neopost recently secured an extra tranche from one investor on the strength of its communicative nature. After all, he notes, "investors are looking for a long-term relationship." ■

Boost your global payments and receivables IQ

Ireti Samuel-Ogbu
EMEA Head of Payments and Receivables, Treasury and Trade Solutions

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

Hemant Gada
EMEA Head of Channel and Enterprise Services, Treasury and Trade Solutions

So much is happening in the world of corporate treasury that it can sometimes be hard for the treasurer to know where to focus their efforts. In this article, we examine why global payments and receivables deserve some extra attention, and outline practical steps and solutions to help treasurers on the path to optimisation.

In the search for growth, corporates continue to expand their operations across the globe. This is not limited to Western companies looking to Asia and Africa; emerging markets companies are also spreading their wings towards the developed markets. The potential benefits and opportunities in each market may differ, but the overall globalisation challenge is the same: any corporate expanding its global footprint must do so in a streamlined manner, whilst remaining connected to their end markets. Otherwise, they risk top line gains being eroded by process and structural inefficiencies.

"For corporate treasurers, this means embracing centralisation and rationalisation to ensure an optimal payments and receivables global set-up," says Ireti Samuel-Ogbu, EMEA Head of Payments and Receivables, Treasury and Trade Solutions, Citi. The first step on this centralisation and rationalisation journey, she says, should be the establishment of a shared service centre (SSC) – something which is not new, but is most definitely evolving.

The new shared services model

"But don't be fooled into thinking that this is a 'lift and shift' exercise of yesteryear," notes John Murray, EMEA Head of Corporate and Public Sector Cash Sales, Treasury and Trade Solutions, Citi. "As corporates get smarter about cutting costs, delivering value and reducing risks against a backdrop of geopolitical and market uncertainty, they are putting a lot of time and energy into deriving financial and control benefits through optimising their SSCs."

Take the example of Mondelēz International, one of the world's largest snacks companies, which streamlined its treasury and business services to release resources within its European Business Services Centre (EBSC) to focus on more value-adding tasks. The EBSC faced challenges in working with multiple banking providers and using multiple electronic banking channels. These arrangements were complex, leading to high levels of banking fees and resource-intensive supporting functions and limiting the ability to take advantage of improved banking technologies.

With the help of Citi, the Mondelēz International treasury team embarked on an ambitious 'One Bank' project in order to bring simplicity, consistency and transparency to treasury operations – with the goal of rationalising the number of accounts it held and to reduce its overhead variable costs. In addition to collaborating with just one bank across the entire European region, the company also wanted to move to a bank-agnostic delivery channel and a single global file format, namely ISO XML.

"As the Mondelēz International case highlights, the greatest levels of optimisation and rationalisation are being achieved by those corporates prepared to go 'under the hood' of their SSC and really challenge the status quo," says Hemant Gada, EMEA Head of Channel and Enterprise Services, Treasury and Trade Solutions, Citi.

Doing it in-house

Taking this rationalisation drive one step further, in-house banks (IHBs) are also becoming increasingly popular among forward-thinking corporates. Rather than taking a payments factory approach (where each subsidiary retains its own bank account), the SSC model is evolving towards a very streamlined or even single account approach, thanks to the IHB.

in association with citi

"Furthermore, the in-house bank set-up lends itself very nicely to payments-on-behalf-of (POBO) and receivables-on-behalf-of (ROBO) structures, which can help an organisation move to the next stage of operational efficiency and risk management control," adds Samuel-Ogbu.

The on-behalf-of (OBO) model offers numerous benefits. On the POBO side, the liabilities of each local business unit can be discharged out of liquidity owned centrally at the IHB (even though they remain on the balance sheet of the business unit). As a result, treasury can better design and deploy optimal liquidity structures. Meanwhile, the ROBO structure provides a significant incentive to improve straight through reconciliation rates, minimise errors, and provide a full audit trail from the IHB back to each subsidiary.

Leveraging the IHB set-up, it is also possible to simplify the management of foreign currency balances and transactions through the use of a multi-currency account. And as Samuel-Ogbu observes, "using a streamlined or single account set-up to process multi-currency payments – in up to 100 different currencies – can dramatically reduce FX administration and the associated costs."

Increasing control, reducing risk

Operating a centralised treasury with a streamlined payments and receivables structure also aids 360 degree cash visibility. "Right now, clients need real-time visibility over their flows from every perspective, including at a country level," says Murray. "Take Russia and Ukraine, for example. Treasurers with operations there need to know they have sufficient funding in those markets to pay their local teams and meet local supplier payments. This is where having the single view over your balances, and working with the support of a knowledgeable banking partner that you trust, can help you to honour your obligations to your employees, and to the company from a working capital perspective," he explains.

Embrace digitisation

"The right technology can further improve visibility on all fronts – whether you're trying to get money in or out of a country, or simply want real-time balance information," says Gada. "In this respect, banks such as Citi are developing a range of new mobile and tablet tools which give treasurers greater transparency on their account information, together with analytics on-the-go. The resulting 'snapshot' enables them to take quick decisions on where cash is most important – globally – at any given moment."

The analytics that Citi currently offers include balance information across accounts at the bank – and third-party bank accounts. The data can also be cut by currency and by country to monitor exposures in that way. And if a trapped liquidity concern does arise, then the client can easily act upon that data, or get in touch with their liquidity provider for support. "The true value of analytics lies in enabling treasurers to be better informed and to work smarter," adds Gada.

"As an example of this 'working smarter' theme," says Murray, "this kind of analytical data also assists greatly with benchmarking and achieving best practice in liquidity management. It allows clients to examine whether they might be able to invest their money more wisely; pay down debt; reduce risks; or see if there is any liquidity that they are not capturing, for instance. In short, it provides a catalyst for clients to think differently."

A collaborative future

Aside from analytics, the big transaction banks are also helping clients to embrace technologies which are perhaps less 'exciting' but equally fundamental to overcoming the globalisation challenge. For example, by leveraging cloud innovation and format standards such as XML, treasurers could not only reduce their IT costs but also implement a single core technology base that should improve transaction and information flows to and from their banks.

These flows include transparency around pricing data. "And this is where the XML comes into its own as it allows the bank to gather data from all of its global applications and present a coherent picture to the client that says precisely what we charge them for their transactions and what we collect from their subsidiaries," Gada observes.

The underlying message here is that clients' ecosystems and banks' ecosystems no longer need be distinct. "Today, a treasury can leverage the bank's ecosystem to help them get their job done – whether this be analysing bank fees, or even streamlining bank account management (BAM), through eBAM. A co-operative model, potentially with the bank embedded in the client's ERP, has to be the way forward in terms of efficiency and productivity," he adds.

This collaborative approach also rings true on the advisory side, with Murray keen to work alongside corporates to help them "explore other ways to digitise payments to suppliers, through commercial and virtual card solutions, for instance." These might not be the traditional payment instruments treasurers are familiar with, he says, but corporates need to consider alternative methods in order to achieve an optimal payments and receivables set-up.

Samuel-Ogbu agrees, saying that: "Whether it be virtual accounts, multi-currency accounts, or POBO and ROBO structures, it is the responsibility of the treasurer – in conjunction with their banking partner(s) – to implement the best tools, processes and structures to optimise global payments and receivables." Furthermore, as globalisation continues, geopolitical and macroeconomic uncertainties remain, and cost pressures increase, an intelligent approach to payments and receivables will no longer be 'nice to have', it will be essential. ■

Mary Roebling: the first lady of finance

Although Mary Roebling may be one of the lesser known financiers of her generation, her achievements are by no means small. From humble beginnings, Roebling went on to have a career at the top of US finance. Achieving a number of firsts for women in the industry, Roebling championed workplace equality at a time when it wasn't chic to do so.

"So many women have deposits in banks, so many women are interested in retail and wholesale business. It is only natural that women are being elevated to positions of an executive nature," said Mary Roebling on her first day as President of major American Bank, the Trenton Trust Company. At the time, Roebling was one of the most high profile executives in the country and her career is an inspiration to women in business.

Early life

Born Mary Gindhart in July 1905, Roebling was the eldest of four children in a suburban New Jersey family. Her father, Isaac Dare Gindhart, Jr., was President of a local telephone company and her mother, also Mary, was a talented pianist and vocalist. During her formative years, Roebling was a keen learner, described as hard working and enthusiastic by her teachers at the local school she attended, Moorestown High School.

Romance interrupted her studies, however, and the young Roebling never finished high school. At the age of 16, she left education to marry Arthur Herbert, a World War One veteran and nephew of the American conductor and composer, Victor Herbert. Roebling's late teens and twenties did not follow the fairy tale she expected though, as two years after the birth of

their first child, her husband Arthur died of blood poisoning, a result of experiencing a gas attack during the war.

Following Arthur's death, Roebling's father urged her to resume her studies. Despite the ban on women attending daytime classes at the local business school, she took his advice and began attending night classes, studying business administration and merchandising. A second marriage, that lasted only a few years, did not prevent her studies this time and Roebling was able to join a brokerage firm in Philadelphia, first as a secretary and then as a consultant.

It was at the brokerage firm that Roebling met her third husband, Siegfried Roebling, Vice President of the Trenton Trust Bank and grandson of Brooklyn Bridge builder, Washington Roebling. Marrying in 1933, she fully immersed herself in this world of high finance: working long hours at the bank, studying at home, and frequenting the social scene with her high-flying husband. Two years into their marriage, Roebling gave birth to her second child, Paul.

Shortly after Paul was born, tragedy struck again as Siegfried died of a stroke in January 1936, aged just 45. His sudden death left Roebling a widow for the second time, a single mother of two, and on the verge of making the biggest decision of her life.

Stepping into big shoes

Roebling inherited her late husband's estate including a large amount of stock in Trenton Trust. In a very strong position at the bank, Roebling was fast-tracked to the top – she and her father swiftly became directors at Trenton Trust and, a year later, Roebling was appointed president. The merit of this appointment is debated by historians – with some suggesting that Roebling took advantage of the strong position she gained from her husband's stock and staged a coup. Others note that she was held in high regard by members of the board for both her business mind and work ethic. For Roebling, the decision was quite simple: "it was the depths of the recession and a necessity," she later said.

> "So many women have deposits in banks, so many women are interested in retail and wholesale business. It is only natural that women are being elevated to positions of an executive nature."
>
> Mary Roebling

Whatever the catalysts were for the appointment, the outcome was that the 33 year-old Mary Roebling was now the first female president of a major American commercial bank and one of the most powerful individuals in the city. But 1936 was not exactly an ideal time to be in such a position: the Great Depression had firmly taken hold, causing economic misery to millions in both the US and abroad. Trenton Trust was by no means exempt from the effects of this and, despite holding assets of $11m, the bank also had debts of $4m. Roebling later remarked that, at the time, "everybody was busted, and the bank was busted too."

Undeterred by this challenge, Roebling made the decision to make her job her life. Her teenage daughter and young son were cared for by others whilst she worked all hours of the day to ensure that the bank succeeded. And despite already sitting very high up in the bank, she constantly sought to improve her knowledge and understanding of the finance world – frequently attending banking and law courses.

> Gender played an important role in defining Mary Roebling and she used her position of power and fame to drive the development of professional women across the US.

But it wasn't all about concentrating on the business nuts and bolts for Mary – she brought her flair to the bank's marketing campaigns too. These included offering small gifts to customers when they opened an account, introducing special promotions around public events such as St. Patrick's Day, and even handing out umbrellas to customers when it rained.

There was also sponsorship of local events hosted by Trenton's customers and displays created from customer's merchandise. Particular attention was paid to the bank's window displays – with Roebling calling bank branches "the department store of finance." Besides the aesthetic innovations, Roebling also introduced some novel customer service tools, such as customer walk-up windows and even drive-through banking at Trenton Trust branches.

It wasn't only the bank where Roebling realised marketing was important; she employed a full-time PR professional to handle her personal public relations too. "She knew how to play the game and she projected an aura of power and confidence. Even if you were close to her, as I felt I was, you still felt that aura," said Eunice Levie who was responsible for her public relations. This strong personality was emphasised by her appearance: Roebling was only seen wearing clothes from the nation's top designers, resulting in her being named the US's best-dressed banking woman in 1958. She also lived in style, purchasing plush homes in New York, Trenton and Palm Beach that allowed her to entertain and sell, not only Trenton Trust, but the Mary Roebling 'brand'.

In 1941, Roebling became the Chairperson of Trenton Trust, yet another first for a female. And, by 1950, she had helped turn the bank around to have assets of $70m. The self-named "banker in high heels," had proven to herself, her colleagues and society that women could maintain behaviours associated with femininity and be equally capable as men. Indeed, a New York Times profile at the time stated that "it is difficult at first to realise that a woman with her natural charm built the total resources of her bank from $17,000,000 in 1936 to $70,000,000 today. She acts like the wife of a successful banker, not the banker herself."

Championing women

Gender played an important role in defining Mary Roebling and she used her position of power and fame to drive the development of professional women across the US. It was Roebling's goal to bring equal pay and equal opportunities for

career progression. She believed that companies and women themselves were not exercising their power fully. "As a woman who for years has competed in the business world, I would be the first to agree that the American woman has almost unbelievable economic power, but American women, like women of all civilized nations, do not use the influence their economic power gives them," she explained in 1965. Roebling frequently spoke out publicly about issues that women faced, addressing sexism in the boardroom and pay inequality in particular. She also passed some of the onus onto women whom she believed had to want success and work hard for it – in Roebling's world nothing should be handed to anyone on a plate solely because of their gender.

Roebling did more than talk about the challenges facing women though – she actively sought ways to empower women in the financial sphere. At Trenton, Roebling hosted teas for women to discuss banking and also introduced female service counters. She took this ambition further and launched a bank focused solely on women. The Women's Bank N.A. of Denver was founded in 1978 and was the first US bank to be founded by women. Serving as its Chairperson, Roebling believed that the bank could assist women in ways that a traditional bank couldn't. At the opening of the bank, she announced: "women's banks can be better listeners for women and give them more time, advice and direction than an ordinary bank would give."

For Roebling, the ultimate aim of the bank was to "translate the economic power of our women into a more productive and profitable resource for the whole community." Business-minded as ever, Roebling was acutely aware that the bank was not just a public service and put the same levels of dedication and effort into the financial success of bank as she did Trenton – by 1981, it had accumulated over $21m in deposits.

Forbes magazine said that: "Mary G. Roebling didn't wait for women's liberation, she was ahead of it, way ahead." Roebling was named by Vogue as one of the most powerful women in the world and her achievements were admired by many, including her daughter. "My mother was one of the first to speak out on equal pay for equal work. It drove her crazy that women would earn less than men for doing the same job. But she didn't just complain – she did something about it."

Despite all this success, even the most powerful people have fears – and for Roebling it was that the hard work and progress that had been made in driving gender equality would eventually be for nothing because of technology. "The economic forces that allowed women to escape from the home to work and earn a livelihood will, within 20 years, turn like Frankenstein's monster and destroy the job opportunities which are now open to most women," she famously commented.

Trenton and beyond

Perhaps this is part of the reason why Roebling never had just one iron in the fire. Aside from her work at the bank she immersed herself in a number of directorships at corporations, including the Standard Fire Insurance Company and the Colonial Operating Company. She also was a member of the National Business Council on Consumer Affairs and an officer of the New York World's Fair Corporation as well as being active in a number of other non-profit organisations.

Out of all these positions, the most prestigious and one that she claimed as "possibly the most outstanding appointment since I was made president of Trenton Bank," was her governorship at the American Stock Exchange (AMEX). Here, Roebling triumphed as the first women to hold such a position.

Compared to Roebling's other endeavours, this role was not particularly onerous – she was required to report public reaction and thoughts from those in the market to the board of governors. Attendance at meetings was optional and, over a two and a half year period, she only attended four meetings. Despite this, the role was symbolic and threw open the doors for women to participate on the trading floor – Roebling was the first woman to be able to walk the floor unaccompanied by a man. It is worth noting, however, that it took three years, following Roebling's departure from the AMEX in 1962, until another female member was appointed.

Service to the country

Unsurprisingly, Roebling's 'power status' opened a number of doors that allowed her to exercise her natural charm and social skills. Aside from socialising with business leaders and movie stars, the gates of the capitol were also open to Roebling who mingled with a number of US Presidents including Ford, Carter, Bush Sr. and Nixon. In fact, she served as a delegate in Nixon's 1960 presidential campaign, sparking a lifelong friendship that would see her unwaveringly support his controversial tenure.

Her political influence was more than a social affair as she served on a number of governmental initiatives such as the China Relief Bill, International Rescue Committee and many business councils. Her main governmental service, however, was for the military that she staunchly supported, through her conservative values. She was the only woman on the Citizens Advisory Committee on Armed Forces Training Installations in 1950. She was also appointed to the Defense Advisory Committee on Women in the Services and the Recruiting and Public Information Subcommittee. Later in her life she was appointed Civilian Aide Emeritus and employed her skills of public speaking and public relations to make speeches and advise others in the military. For her services to the military, Roebling received a number of prestigious awards including the President's Medal from the Association of the United States Army.

The full package

A mother, astute businesswoman, socialite, political lobbyist, supporter of the armed forces, trailblazer for women's rights and a prominent banker, Roebling certainly had plenty of strings to her bow. With such a wide range of interests she had little time for herself and for hobbies outside of her professional life. Although she was an avid collector of porcelain, paintings and glass and a supporter of music and arts, it was her work that dominated her life. "I made work my hobby, I was lucky in that way," she later said.

In 1972, the Trenton Trust merged with the National State Bank, creating the largest bank in the country based on assets at the time, and she served as its chairperson until the age of 78, when she finally retired, after a long career at the top. When reflecting on the start of her career she said that: "there were many people around who naturally thought I would fail and I think that was the fun of it all. There is no greater thrill than that of achievement, particularly if some people say it can't be done." ■

Doing the heavy lifting

Rajan Gupta
Group Treasurer

Whether it is augmenting HYVA's working capital management, or navigating his company through one of the highest periods of FX volatility in decades, Rajan Gupta, Group Treasurer has long been comfortable with the heaviest of workloads. In this article, he tells us what attracted him initially to treasury and why the role continues to excite him to this day. He also explains how he managed to get on top of group liquidity management at a Dutch multinational that places a high value on local autonomy.

HYVA (HYVA Group BV) is a global multinational company based in the Netherlands, with a treasury centre in Hong Kong which co-ordinates cash management and funding for the group across 43 subsidiaries worldwide. The company is committed to the development, production, marketing and distribution of components for the commercial vehicle industry, and is one of the world's biggest brands for hoist cylinders and container handling equipment.

Early on in his career, at a time when he was still working in the Home Finance division of Deutsche Post Bank, Rajan Gupta was invited to give a speech to the 'who's who' of Indian finance about the mortgage backed securitisation products (MBS) he had helped to roll out for the first time in India. "After that I was known as a securitisation expert," he recalls.

That Gupta was once known as an expert in the field of securitisation reveals a lot about both his personal character, and approach to his job as treasurer for a large multinational company. Securitised products are, of course, infamous for their complexity. Even the former Chairman of the US Federal Reserve, Alan Greenspan, who is renowned for his sharply analytical mind and aptitude for quantitative problem solving,

admitted once to finding such products baffling, describing them as being "beyond human understanding". That Gupta does indeed understand securitised assets and, moreover, can boast a level of expertise in these notoriously opaque products reflects just how adept he is at making sense of highly complex financial issues. It is a skill which, as we will see, has since served him very well in his career as a corporate treasurer.

A vital role

At a renowned Indian university, Gupta had originally studied law. Yet by the time he began working towards his MBA in Finance at the Institute of Management Technology in Ghaziabad, an earlier ambition to join the bar faded as he became captivated by financial matters. Treasury had a particular appeal as it resides right at the core of corporate finance. "That excites me," he says. "It is the degree to which treasury impacts on all aspects of the company. I always wanted to be involved in the active part of finance, and that is how I ended up in treasury."

Naturally, there were several career defining moments along the way. The first of these came when he received his initial induction into the world of treasury after being hired in 1999 by Korean conglomerate Daewoo Motors, then one of the largest companies in the world. At that time, Daewoo was attempting to establish a factory in India from which it would export to Europe and the Americas. The projected cost was $1 billion, meaning the business had to leverage itself considerably to finance the venture. It was, says Gupta, the perfect induction to the work of a treasurer.

"That is where you get tremendous exposure. Any financial instrument you can think of – it was all there. In that first role I was exposed to so many different instruments and practices in the treasury; it was a conduit for innovation and work satisfaction as well."

The second career defining moment came later on, after he had left Daewoo to take up a role as a senior manager in the Deutsche Post Bank, working specifically in the area of home finance. Here he played an integral role in the launch of the first MBS products in India. "For the first time, my company actually endorsed my initiative, and I worked closely with a subsidiary of India's central bank in the roll-out of the product." When he was invited to a conference to explain the structure of the product to some of the most eminent names in Indian finance, he realised he was building quite a reputation for himself. "That helped me to define my career and, ultimately, opened the door for me to move to a bigger role."

Another career defining moment was joining Nortel Networks of Canada, at one time was one of the most renowned telecom companies of the world, "which opened doors for me to the international treasury and with a special focus on APAC treasury."

The Dutch way

After a brief spell working in the Hong Kong treasury of Australian telecommunications giant Telstra International, Gupta finally walked through that door, taking up the role of Group Treasurer at HYVA. The first thing that Gupta noticed when he arrived at HYVA was the company set-up being very different from that of most other multinational companies. In Holland, where the company is headquartered, there has long existed an entrepreneurial culture that attaches great value to local autonomy, he explains.

But how does this Dutch business trait shape the decision-making process on treasury matters? "Here all the entities are responsible for their own matters," he says. "In recent years, we have put strong focus on centralising various process and procedures while maintaining a level of local autonomy and we were quite successful in doing so." Gupta, as Group Treasurer, will propose the strategy and, once approved at board level, he will talk to the local finance managers responsible for executing what has been decided and keep a track of the progress, in coordination with local management. "Each country where we operate has its own finance manager. These local finance managers are my eyes and ears on the ground, and they are the ones responsible for executing the strategy that we decide upon," he says.

Overhauling working capital

Local autonomy is indeed a deeply embedded value at HYVA. However, that definitely does not mean that the various entities are permitted to use inconsistent, erratic processes. Especially on working capital front, to support working capital optimisation, Gupta developed internal policy on Accounts Receivable (AR) and Accounts Payable (AP) management, which helped the company to further streamline working capital management.

"We put together a policy on how debtors should be managed and in this policy we have defined processes and procedures – how and when we should chase them, how and when we should follow counterparty credit limits and so on, including covering the risk using credit insurance products."

> "These local finance managers are my eyes and ears on the ground, and they are the ones responsible for executing the strategy that we decide upon."

In the post-crisis environment, where liquidity is still drying up and nearly every company is looking nervously at the Days Sales Outstanding (DSO) metrics, optimising the collection process has proved quite challenging, notes Gupta. Yet HYVA has seen significant improvements in this area in recent years. It is nearly all down to the adoption of a two-pronged approach to debtor management, he explains.

The policy was not especially radical, but it sure was effective. In order to further optimise working capital as a next step HYVA is trying to set up receivables discounting programme for some entities, wherein invoices are automatically discounted on the first day and we get the money into the our bank account. "These measures actually help a lot in terms of working capital and also on the debtor risk management perspective," he notes.

Managing uncertainty

It is in times when the economic climate turns gloomy that measures to optimise working capital management, such as what HYVA introduced, really begin to show their value. The recent market turmoil in Europe, reignited by the election in January of the anti-austerity party Syriza in Greece, has created precisely that kind of environment for many global

businesses, HYVA included. The euro, already down on the ECB's announcement of a new programme of quantitative easing, has taken a mauling against other G10 currencies this year, particularly the US dollar. That working capital management is now performing more efficiently, therefore, is probably just as well as Gupta is now heavily occupied in keeping an eye on the group's multiple currency exposures.

> "In my opinion hedging should be balanced. It should never just be fixing the whole lot, because then your upside is gone."

Why has the euro's recent plunge against the US dollar proved such a headache for Gupta and his team? After all, HYVA are domiciled in the Netherlands and use the euro as their transaction currency in Europe. The explanation, says Gupta, is that with a dollar denominated bond listed on SGX worth $375m, HYVA is a US dollar function globally, and movements in the euro impact the company both in terms of transaction and more importantly translation risk and such significant EUR movements will become more and more a matter of concern.

Of course, the euro may be the biggest but it is far from being the only FX concern for the companies at this moment in time. Latin American currencies have suffered from rampant inflation and geopolitical tensions and the falling oil price precipitated a collapse in the Russian rouble on a magnitude beyond anybody's imagination only a year ago. All in all, FX volatility has now reached its highest non-crisis level in two-decades, according to recent research by Bank of America Merrill Lynch (BofA Merrill).

When deciding upon the FX risk management policies to be executed across the group's various subsidiaries, Gupta is eager not to be overly aggressive. "First of all, I'm not in favour of hedging everything," he explains. "In my opinion hedging should be balanced. It should never just be fixing the whole lot, because then your upside is gone." Wherever possible, Gupta prefers to find a natural hedge. On the transaction side, for example, HYVA is managing its Russian rouble risk, not with the help of derivative products, but by funding the contract of the customer in euros or in hard currency US dollar which lessens, considerably, the impact of the currency's current volatility.

Regarding translation risk, HYVA has to date not put a policy in place to actively hedge their exposure, like a majority of multinationals. The sheer scale of the recent market volatility means this strategy is far from being set in stone, however. "I think translation hedging may be necessary, given how markets are performing at the moment," he says. "If you have a very big exposure in a BRICS market and that market is in trouble then however well you perform there, the balance sheet will probably not reflect the same. It can be a big risk, especially on your financials. So I am in favour of hedging translation risk, although not in favour of hedging everything."

That HYVA is not hedging every exposure across its 40 global entities is probably just as well for Gupta. Since hedges are decided and executed centrally, FX risk management is, as he says, already a very big job. "That's taking up an awful amount of my time," he says. "It involves looking at the way transactions flow in certain countries, the inter-company relationships, flows of goods and invoices, transaction currencies and finally ways to reduce FX exposure or establish natural hedges at first place before using external instruments to hedge the FX risk."

And that doesn't look like it is going to change anytime soon. On the contrary, Gupta is likely to be spending more time in the weeks and months going forward working out whether the company's strategy needs to change in order to account for the extraordinary volatility we are currently seeing. "We will be looking at how we can best manage the volatility, especially on the translation side to address the volatility ensure we don't take hits from month to month on our balance sheet."

Scaling the refinancing wall

That pressing task, along with HYVA's ongoing efforts to optimise its use of liquidity, means that there will be plenty of challenges for Gupta to get his teeth into over the course of the coming year. And that's even before taking into account of the refinancing of the biggest financial instrument on the company's balance sheet, the $375m bond due to mature in March next year (the year that many ratings agencies and other commentators, such as auditors KPMG, believe will mark the summit of the next refinancing wall).

In current times, companies are generally looking all the possible refinancing options and not sticking a single source of funding. Generally yields are at peak level in the Asian bond market and therefore bonds are not so attractive source of funding, as it used to be few years back. The syndicated loan market globally has been quite active and many companies have managed to fund themselves.

Gupta is confident that for a business of its type and size, HYVA is well positioned, and he will be putting in the hours in the coming months to lock in new funding at an appropriate rate. "There is a lot of work around making sure we have refinancing in time, at the right price and in the proper condition. That is one of the biggest current projects we have and it is certainly keeping me occupied," he says.

An expanding role?

It's a heavy workload, unquestionably, but that's just how Gupta likes it. In fact, that, along with his love for numbers and mathematical problem solving, is one of the principle reasons why he sees himself staying in treasury for a very long time. Like most treasurers, he would one day like to reach the level of CFO, but that is not an ambition he is set upon realising in the immediate future. There are simply so many exciting things going on in treasury at HYVA at the present time, testing daily his analytical talents, to allow him to ponder such possibilities for too long.

"I like challenges, and deadlines," he says. "So I think I'll stay on the treasury side for some time." Ever keen to broaden his skill-set, however, he does admit he hopes to have the opportunity to delve into new areas around the periphery of treasury – such as accounts, budgeting or tax – in the coming years. Since these are areas that require a high level of specialist knowledge and expertise, they are not usually seen as the domain of the corporate treasurer. But for an individual once recognised by his peers as an expert in securitisation, one wouldn't bet against Gupta quickly becoming an authority on these matters too in the coming years. ■

Colombia: top of the class

Economic growth in Colombia has exceeded the world's average growth rate every year – bar 2010 – this century. Although impressive growth rates have sometimes been attributed to 'good fortune' in rich natural resources, this article explores the role that robust economic management has played in helping the nation successfully cope with external shock factors. We also examine what the future holds for the country's economy and those corporates operating in and out of Colombia.

Colombia shouldn't suffer from the perceptions of the past; the reality of the last decade has brought extraordinary change to the country. The past five years, in particular, have seen major milestones reached in Colombia's economic journey. The country gained much-sought-after promotion to investment-grade status in 2011 from Standard & Poor's, Moody's and Fitch, where it remains. And, in 2013, the annual level of foreign direct investment (FDI) reached a record high of $16.8 billion.

Juan Pablo Cuevas, Head of GTS Latin America and Caribbean, Bank of America Merrill Lynch, explains that "in recent years, we have seen an incredible flow of FDI into Colombia, there really has been a lot of interest in companies going to work there and the economy is booming today."

Furthermore, "in 2014, Colombia was the strongest performing economy in Latin America. The country did not experience the same drastic slowdown as other commodity exporters, such as Chile and Peru," says Marcos Buscaglia, Head of Latin America Economics, Bank of America Merrill Lynch Global Research. Exemplified by a GDP growth estimate for 2014 of 4.7% – compared to regional examples of 0.1% for Brazil, 2.4% for Peru and 1.7% for Chile – Colombia has been outperforming its regional peers.

This impressive growth is indicative of the government's consistently sound economic policies that have strengthened the country's ability to weather external shocks. Focusing on fiscal discipline, flexible exchange rate management, inflation targeting and investments in infrastructure (in October 2012, the government pledged a $10 billion spend over ten years), the resulting macroeconomic stability has convinced investors that improvements are here to stay.

Achievements such as these are no small feat for a country overcoming armed conflict. For more than 50 years, the struggle to defeat Revolutionary Armed Forces of Colombia (Fuerzas Aramadas Revolucionarias de Colombia or FARC) guerrillas had sidelined Colombia from international markets.

Developments towards peace

In October 2012, the government started formal peace negotiations with the FARC. Now, three years on, both sides could be close to a final agreement. Peace talks have reached – and signed – vital agreements on land reform and how thousands of acres will be returned to displaced populations.

The crucial objective yet to be reached is how best to balance peace, reconciliation and retribution. If this can be achieved, it could end one of the longest periods of violence experienced in any country throughout the 20th and 21st centuries.

In terms of the impact this will have on the Columbian economy, according to Buscaglia, it must be noted that "most of the peace dividend has already been reaped in recent years. So, although signing a peace agreement will bring additional benefits, they won't be as high in net terms – considering the costs of implementing the peace process – as they were in past years."

Key facts

Population: 48.32 million (2013)

GDP per capita: $378.4 billion (2013)

GDP annual growth: 4.7% (2013), 4.7% (2014e)

Ease of doing business rank (2015): 34

Index of economic freedom (2015): 28

Trouble spots?

Although violence in Colombia may be reducing, concerns are being raised around the country's over reliance on the oil and mining industries – which accounted for over 80% of all FDI in 2012. Net energy exports also account for approximately 8.4% of the country's GDP, meaning that Colombia could be vulnerable to globally declining oil prices.

That said, Scotiabank's Regional Outlook from November 2014 reports that "the Colombian financial sector is systemically sound and adequately capitalised to withstand financial market shocks caused by a steep oil price decline." Colombia's flexible exchange rate (stimulating other sectors of economic activity and partially offsetting lower oil revenues) and countercyclical fiscal policy should act as buffers – broader public deficits cushioning the negative impacts from external shocks.

Additionally, ending rebel attacks should eliminate lost output caused by destroyed pipelines, costing $500m in 2014. So, although the global decline in oil prices could result in wider twin fiscal and current account deficits, the government predicts economic growth of 4.2% (lowered from 4.8%) for 2015 – more than twice the 1.3% forecast for the Latin America and Caribbean region. Bank of America Merrill Lynch Global Research, however, predicts the Colombian economy to slow down to 2% in 2015 and Scotiabank to 3.5%.

Banking sector

Colombia's banking system comprises 22 privately owned banks, of which 11 are domestic, nine are foreign and one is state-owned (Banco Agrario). The two largest banking groups – Grupo Sarmiento Angulo (Banco de Bogotá) and Grupo Empresarial Antioqueño (Bancolombia) – are domestically owned and accounted for approximately 53% of the private banking sector's total assets in May 2014.

"The local banks have considerable market share and sufficient financial muscle to endeavour in new markets, accompanying some local corporates to expand into Central America, for instance," explains BBVA's Carlos Galindo, Head of Global Transaction Banking in Colombia. The financial crisis of 1998-99 meant that whilst many of the larger Latin American banks took advantage of the turbulent financial conditions and bought up other banks, numerous foreign banks opted to sell operations in Colombia.

Recent acquisitions demonstrate that Latin American banks are still dominant in Colombia, these include: Chilean CorpBanca's entrance into the Colombian banking sector through the acquisition of Spain's Santander's local subsidiary renaming the entity CorpBanca Colombia (2011), CorpBanca's further expansion of operations in Colombia through its purchase of Helm Bank (2012) and Bancolombia's purchase of HSBC's Panama operations (2014).

Foreign banks – including BBVA, Bank of America Merrill Lynch, Citibank, GNB Sudameris and ProCredit – however do remain active in the banking sector. Their presence is without doubt intensifying competition and the amount of investment directed towards advanced technologies.

But what does all this mean for treasurers operating in the region? "The financial sector is suitable and prepared to attend to corporate clients' needs," says Galindo. Furthermore, according to Cuevas, "corporates can trust the institutions in Colombia. Many years ago, it was much more complicated but these days the country has a very strong financial system which is regulated by the Financial Superintendency of Colombia (SFC). The financial sector of Colombia exhibits good corporate governance, SFC are always on top of the companies and are doing a phenomenal job."

Payments

- **Cash.** The amount of paper and coin has dramatically reduced but cash remains an important payment instrument, particularly for low-value transactions. Transactions completed using cash are exempt from the financial transactions tax.
- **Cheques.** These have been increasingly replaced by electronic payment products since the 2000s – the number of cheques processed peaked at 212 million in 1996.
- **Payment cards.** During the past decade the use of payment cards has steadily increased. Between 2011 and 2012, transactions completed using debit cards increased by 16.9% and, for credit cards, by 3.7%. In 2013, there were 18,417,238 debit cards and 11,226,733 credit cards in circulation.
- **Credit transfers.** Electronic credit transfers are used by companies for salary, supplier and benefit payments. High-value, urgent credit transfers are cleared and settled via CUD on a real-time basis. Low-value, non-urgent credit transfers are batched and processed through ACH Colombia (for company and individual payments) or ACH CENIT (for government collections or payments).
- **Direct debits.** These are relatively uncommon in the region but their use has slowly grown in the last five years in Colombia. When they are used, it tends to be for utility bills. Direct debits are also processed via ACH Colombia or ACH CENIT.

Table 1: Physical access of financial services

	2008	2012
Commercial bank branches		
Per 1,000 km^2	4.0	4.6
Per 100,000 adults	14.0	14.9
ATMs		
Per 1,000km^2	7.7	11.1
Per 100,000 adults	27.0	35.8

Source: IMF

Payments of high value tend to be made electronically whilst lower value transactions seem resistant to follow suit. The Better Than Cash Alliance notes an accelerated shift away from cash in recent years, 69% of the value of money was paid electronically each month in 2012. However, this value only represents 9.7% of the volume of the 828 million payments paid monthly in 2012. The government hopes to lead the way in electronic-payment progression (where they provide a preferable payment option to cash), its own payments are largely electronic – 94% by value and 76% by volume.

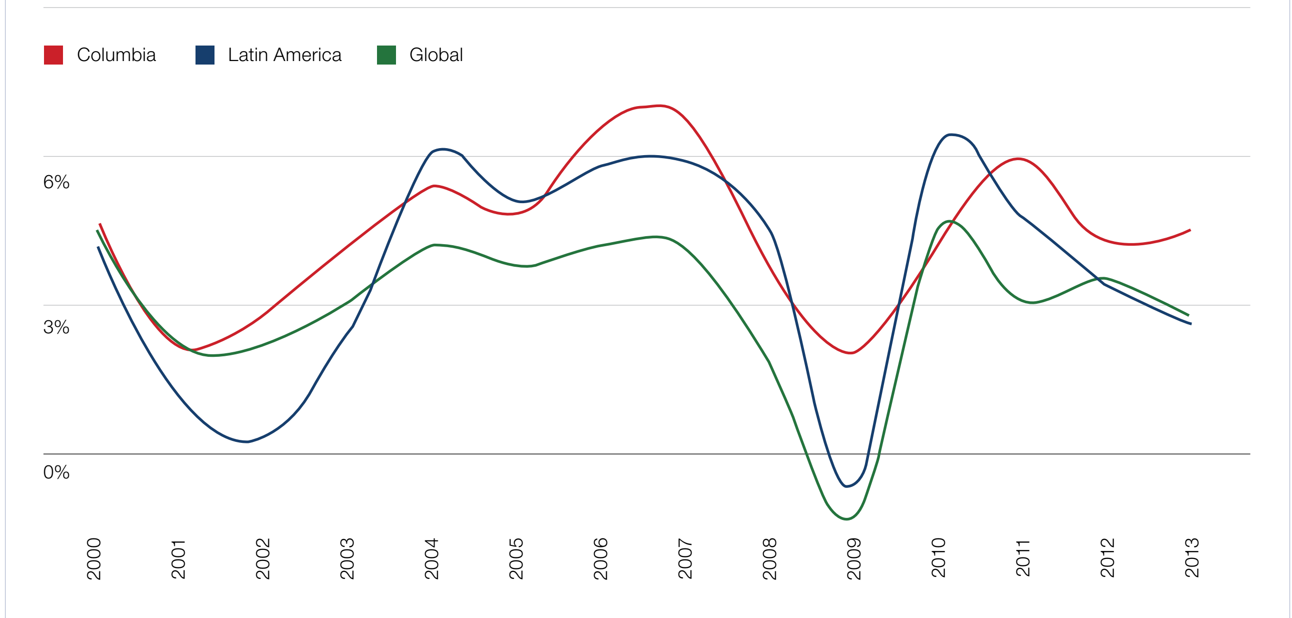
But progression could face a tough reality: only 18% of the 1.6 million small businesses in Colombia have a formal relationship with the financial system – the informal cash economy gives an indication of just how prevalent informal employment is in some areas of Colombia. Furthermore, improvements to physical access of financial services are proving rather slow (Table 1).

Drivers of change

Nevertheless, there is a wide recognition of the need for change – and large local corporates are emerging as the champions of this change. "It is the larger Colombian companies that have been expanding through Central and Latin America, described as 'multilatinas', which are driving the migration towards enhanced technologies and host to host systems. Going forward, it will be these expanding firms that will be looking for more centralisation of treasury and demanding more electronic types of payment cross-regional to increase their efficiency," says Cuevas.

This is a visible trend also noted by Galindo, "regionalisation is happening between Colombia and the Pacific Alliance countries. This is reflected in the current demands from our corporate clients, which, being either subsidiaries or regional corporates (not headquartered in Colombia), are landing in Colombia to establish regional treasuries. This evolution is demanding banks to deliver better products regarding regional platforms, multi-currency platforms and multi-country support.

Chart 1: Colombia's GDP growth rate



Source: Central Bank/World Bank

"What we are seeing right now is the growing need of any corporate, no matter whether local, regional or subsidiary, to expand across the region. Thus, both regional and global banks must deliver the best solutions to integrate clusters of countries and create efficient schemes of vertical integration which can be used in several different countries, depending on the client's needs."

Corporate attraction

Colombia has certainly been doing all it can to improve the business environment for corporates in recent years, being ranked 34th globally in the World Bank Group's ease of doing business 2015 – up 19 places since 2014 and outperforming the regional Latin American and Caribbean average. The country also received its highest ever rank of economic freedom, placed 28th in the world by the Heritage Foundation.

Increased innovation within the local population has also seen Colombia being recognised as an international leader in entrepreneurship by the World Economic Forum (WEF). WEF citied Colombia, along with Chile, as the current global benchmark – largely as a result of its aggressive entrepreneurship policymaking programmes. The report also emphasised that peace would only further productivity and competitiveness in Colombia.

Such achievements recognise that Colombian legal and regulatory systems are, for the most part, transparent and consistent with international standards. The Organisation for Economic Co-operation and Development (OECD), which Colombia is in the formal accession process with, found that legal frameworks in the country are compatible with OECD standards of corporate governance. This investigation was completed at Colombia's request – yet another indication of the government's proactive attitude.

Furthermore, Colombia has shed its association with corruption. Cuevas explains that "the country has the strong institutions and legal frameworks necessary for corporates to do business and continues to replicate good practices from around the world."

Despite the positive developments, one of the major headaches corporates still face in the country is the existence of a financial transaction tax, currently levied at 4% per 1,000 pesos or 0.4%. In 2013, the International Monetary Fund (IMF) recommended that phasing out the financial transaction tax faster than currently planned should be a priority, but the 2014 tax reform incorporates the extension of the financial transaction tax until 2018.

It is likely however that, as the economy further expands over the years leading up to the 2018 deadline, the financial transaction tax could be reduced.

Country outlook

So where next for the country? "Sentiment is positive in Colombia and the country remains very attractive to international investors – but the drivers of growth will change in coming years," says Buscaglia. "Previously, the high prices of oil have attracted an important flow of investment and capital inflows helped domestic demand – hence there was strong investment into the service sector, shopping malls, for instance. This is likely to change. The weakened exchange rate means export sectors (other than oil) and import-competing sectors will benefit the most in coming years. There will be a change, and slowdown, in the engines of growth but certainly not into reverse gear," he explains.

In addition, the rise of 'multilatinas' will pave the way for further FDI and encourage technology, markets, and legislation across Latin America to become more homogenised. Whilst a decline in oil prices beyond 2015 could present challenges, with multiple market opportunities, expanding trade links (exports and imports rose to an estimated 31% of GDP in 2013) and confidence in ending armed violence, Colombia should continue to keep pace with its already high standards. ■

ERP vs TMS: the best of enemies

Over the years, some treasury departments have had the choice between implementing either a Treasury Management System (TMS) or the treasury module of an Enterprise Resource Planning (ERP) system, while others have had to soldier on with spreadsheets. What are the arguments for and against each system?

In the late 1880s, inventors Thomas Edison and Nikola Tesla battled over the correct way to transmit electric currents. Almost a century later, VHS and Betamax fought fiercely to dominate the video market. Today, Apple's iOS platform continues to jostle with Android and Windows for number one position in the mobile market.

Like the retail space, treasury technology has its own battles. Treasury Management Systems (TMSs) and Enterprise Resource Planning systems (ERPs) have been competing to be the treasurer's workstation of choice for well over a decade. Both systems fundamentally seek to achieve the same goal, improving the work of the treasury function. Yet, both have different methods of achieving this, offering their own advantages and disadvantages. Making matters worse, there is the possibility to use both technologies, with spreadsheets also in the mix.

TMS: built to fit

A TMS is a dedicated treasury technology solution that vendors claim offers a wide variety of tools that can be applied to many treasury tasks. "The TMS sits at the heart of a treasurer's operation – collecting data from a plethora of different sources, processing this data and then outputting it where necessary for both the treasury and company as a whole," says John Byrne, Managing Director at TMS provider Salmon Software.

The sheer range of functions that a TMS is able to process is one of the main selling points. Salmon Software's offering, for example, has around 120 modules that cover a range of treasury activities including: cash management, debt and derivatives, forecasting, hedging and risk management. "Typically a corporate would use around 40 or 50 of these modules, depending on their circumstances," explains Byrne.

This flexibility to customise the TMS using modules has been one of the major developments in the TMS space of late. Whereas once there was a worry among the corporate community that a TMS was a relatively monolithic tool, the systems can now be installed to fit. For example, a multinational corporate would be able to select all the FX modules that they require to carry out cross-border activity. A UK domestic company on the other hand with little use for these can turn these modules off and focus on the area that better suit its business requirements. "A TMS is a customisable solution for companies of all shapes and sizes," confirms Byrne. And because corporates don't have to buy the system lock stock and barrel, there are potentially benefits in terms of cost, the

The treasury workstation: a short history

The first TMS providers emerged in the mid-1980s when, inspired by the advent of personal computers and new technology entering the corporate space, pioneering developers began to create solutions that could aid the treasury function. Approaching treasury technology from different backgrounds, these companies initially developed solutions that impacted only a portion of the treasurer's operations rather than offering an extensive treasury solution.

From the mid-1990s, the core functionality of the TMS expanded rapidly as corporates began to migrate across from 'in-house' or spreadsheet based solutions to the 'off the shelf' TMS market. This really began to help drive the widening capability of these offerings.

During this period, TMS improvements allowed treasuries to begin to trade more and more complex instruments, and to integrate with a wider set of internal and external solutions and data providers. "At times, TMS providers struggled to keep up with the fast-changing demands of their clients, and at times new functionality could be delivered to market before it was ready," says Andrew Marshall, Managing Director, SLG Treasury.

Since 2008 however, the treasury industry has gone 'back to basics' to reflect the changing attitudes to risk since the onset of the financial crisis. "This in turn has allowed breathing space for the TMS providers to focus on improving existing functionality, whilst at the same time allowing the ERP treasury solution providers a good opportunity to catch up with their TMS rivals," adds Marshall.

time taken to implement the system, and also the ability to add on modules when business requirements change – instead of having to deploy a new system.

> The sheer range of functions that a TMS is able to process is one of the main selling points.

Another area that TMS vendors have focused heavily on in recent years is interoperability of TMSs – whether it be integration with internal systems, or communicating with an external party's software, such as a financial institution's e-banking platform. "The increasing drive from corporates for straight through processing (STP) has ensured that the vendors have focused on integration," says Salmon's Byrne. "This focus has, in turn, assisted in delivering other benefits such as real-time cash positions and improved forecasting, as well as reducing the error rate from manual inputs."

For many treasurers, an additional tick in the box for the TMS is that the system 'belongs' to the treasury (unlike a company-wide ERP). For the treasury, owning the solution offers a number of advantages. Firstly, the treasury will have control over the system and therefore – in theory – should have more say over when it is optimal to install updates. Of course, central sign-off will still be required for this, and budget will need to be allocated to the TMS, but this should be less cumbersome than an ERP treasury module update. After all, updates to the ERP treasury module would normally be driven by IT and be bundled into a company-wide package therefore leaving treasury little say in when this happens. The smaller scale of a TMS upgrade is likely to mean it will also be cheaper and quicker to achieve.

ERP: the holistic view

Data from consultancy firm Zanders shows that currently 70% of corporates who employ a treasury workstation use a specialised TMS system. Yet, the data also suggests that there is a drive towards companies exploring and implementing an ERP treasury module. In 2006, 19% of companies were using SAP in combination with SAP treasury. In 2014 this number had increased to 40%, says Zanders. The driver for this change is not necessarily coming from the treasury department but from the boardroom.

By its very nature, an ERP system has a wider focus than a specialised TMS, with modules being available and used across the entire business. As such its treasury module can be seen as a branch of the system and not the heart of the system itself. While this might sound like a significant disadvantage, this can actually offer the business a number of benefits as treasury is fully integrated and on the same platform as the rest of the company – helping to facilitate the consistent passage of data. "The capabilities that are provided from a treasury perspective complement the story that the data from the wider finance function and beyond provides," says Christian Mnich, Director of Solution Management for Treasury Application at SAP SE. "An ERP gives a view of core processes that concern treasury from end-to-end, and allows companies to better collaborate, identify risks earlier, obtain real-time data and bring all the pieces together in one place."

In addition, "the ability of an ERP treasury module to retrieve information from other modules reduces integration headaches and ensures that the costs associated with non-ERP TMS platforms, are minimised," says James Bateman, TMS Architect at SLG Treasury. "It also offers executives and internal audit a greater sense of satisfaction because all the data is being retrieved from a single platform."

The sheer scale and technical complexity of an ERP system means that it has the ability, if supported by the right advisory and professional services support, to create a best-in-class architecture that can offer the treasury above and beyond what a standalone TMS can offer. "ERP vendors often work on economies of scales and have an ability to lower cost on the latest technologies a lot faster than non-ERP TMS vendors, as their TMS platforms are crucial to a wider sales strategy," says Bateman. "Concepts that are considered the Holy Grail for most treasurers such as organisation-wide, real-time cash management views, are only available on ERP platforms," he notes.

> "ERP vendors often work on economies of scales and have an ability to lower cost on the latest technologies a lot faster than non-ERP TMS vendors."
>
> James Bateman, TMS Architect, SLG Treasury

The common consensus, however, is that achieving such an integrated architecture comes at a large cost and one that the majority of organisations are not able to invest in. SLG Treasury's Bateman contests this perception and argues that an ERP treasury module project may actually be a cheaper alternative overall. "If a company has already invested in an ERP then installing the treasury module is likely to be a cheaper option overall. This is because these types of systems are almost always architected to integrate seamlessly and haven't in recent years been layered with the latest open interfacing technologies like Enterprise Web Services." For Bateman, the cost of integration post-2008 is an excessively underestimated concept within most TMS rollouts and often accounts for large over-expenditure, future rework and is something that can potentially be avoided by leveraging an ERP treasury module crafted on standardised business and integration processes.

Functionality wars

Cost aside, treasurers have often been cautious of using an ERP treasury module, because – historically at least – it has not offered such a rich variety of functionality in comparison to a TMS. An ERP, by its very nature, is vastly different to a specialised TMS system vendor package because an ERP is designed to fit complex organisational requirements – and the treasury module is only one minor element in the broader scheme of the architecture.

However, in recent years there has been a significant push by the ERP vendors to 'beef up' their treasury offerings. "The argument that the functionality in ERP treasury modules is outdated is ten years old now and there has been lots of

investment in the treasury space," says Mnich. "We now provide an end-to-end solution that covers the four key areas of – payments and banking, cash and liquidity management, debt and investment and FX management – and we are increasingly seeing more corporates adopt this."

But then, a vendor will always back their own product. So what do end-users think?

"If a treasurer has the simple choice between a TMS vs ERP solution, I would say the majority would pick a TMS," says Marshall. "A number of factors feed into this, but primarily it is the outdated stigma that exists surrounding the ERP's functionality, cost, ownership and complexity of implementation. However, if for instance the business case for implementing the treasury module of the in-house ERP system is being driven by the wider IT strategy, or even driven downwards from CFO/CEO level, then the proposition becomes a hard one to argue against."

Best of enemies

What then is the best solution for both the business and the corporate treasury? "In a perfect world the most optimal solution for the overall business is for all departments to be on the same platform. This would mean an ERP system that was seamlessly connected with the ERP treasury module allowing all cash flows to flow straight through giving complete visibility over cash and transactions," says Marshall. But heavy investment is needed to achieve this. Also, large corporates often have different ERP instances within the same company, thus adding another layer of complexity when trying to reach a perfect solution.

For corporate treasury to be happy with the ERP solution, it will ultimately need to be satisfied with the level of functionality that is offered by the ERP treasury module, something that Salmon Software's Byrne believes currently isn't the case. "ERP systems in my opinion don't have anything like the range of tools, functionality and coverage that a TMS has," he says. "So depending on what the treasury activity is you would be unlikely to find it satisfied in an ERP system. Integration is therefore the key as this allows you to have best of breed systems that process a logical flow of data and satisfy all parties. Both a TMS and an ERP are strong in their own arenas and they should work together." ■

Case study

William Ward-Brew

Head of Treasury Operations

UK based multinational mining company, Anglo American Plc, installed SunGard's Avant Gard Quantum TMS in 2001 to manage its treasury operations, integrating this into SAP – the company's ERP system. The TMS is upgraded regularly every 18 months to two years.

"We selected this system for a number of reasons," says William Ward-Brew, Head of Treasury Operations at Anglo American. "Aside from it having the functionality we required, the reputation of the company was a big factor and we wanted to use a vendor with knowledge of the different markets we worked in and also with other blue chip companies on their books. The financial status of the vendor was also important due to the consolidation in the TMS industry over the years and we wanted to ensure our system was committed to and would be developed in the future."

Anglo American did investigate the SAP treasury module after being pointed in that direction by IT, however, a specialised TMS seemed to be a better fit. "There was a lot of reluctance to use the ERP module because of the experience that some of the team members had had with it before and this carried a lot of weight towards not selecting it," says Ward-Brew. "The project was treasury-led and we wanted a system that was suitable for treasury needs."

Being suitable for treasury needs extends beyond functionality and also touches on its ability to be flexible. "If you work in a treasury environment where you need to adapt quickly then an ERP upgrade can take a number of months and will have to incorporate other functions that use it as well. With a TMS, you can dictate when things get changed," he says. The support offered by the vendors was another selling point, "we wanted our teams across the globe that use the TMS to be able to obtain regional helpdesk support quickly should they need it and we didn't believe that this was cost effective with the ERP solution."

For Ward-Brew, there is a place for both systems in the current marketplace. "The integration between the two is getting better and better and now areas such as accounting are seamless," he says. "I still believe that TMS vendors are closer to the treasury market in terms of development focus and they have built modules to meet the evolving needs of the treasury. Also, for real-time data, the TMS is a better solution because treasury can determine the flow of information, unlike an ERP which may be updated periodically based on competing workflow processes across the business. If the enhanced data flows from the ERP can be integrated into the TMS and vice versa, then that is a great solution."

One for all?

If basic processes of payments and collections are centralised, the cost of those processes decreases; it is a simple economy of scale. But do payments on behalf of (POBO) and collections on behalf of (COBO) deliver more than just cost benefit – and are there any drawbacks of note? Treasury Today goes 'back to basics' with these vital functions.

When the quantity of goods produced rises, the fixed costs per unit will fall; this is the basic theory of economies of scale. It can apply to the manufacture of parts in an automotive factory equally as well as it can apply to certain basic processes executed by a corporate shared service centre: do more of it in one place and it will cost you less.

When it comes to the core – but vital – payments and collections functions, the last five years or so have seen the rise of 'on behalf of' (OBO) processing. As regional and even global treasury or shared service centres have gained in popularity, so payments on behalf of (POBO) and collections on behalf of (COBO) have risen up the 'to do' list of many a multinational corporate looking for cost and process efficiencies across multiple entities and where multiple currencies have necessitated the use of many different banks and bank accounts. The elimination of redundant processes and the sharing of facilities is often seen as a sensible move.

A POBO/COBO operation is essentially a single point of payment or collection, each set up as a separate entity, administered from a commercially convenient location for the benefit of other entities within a group of companies. It allows corporates to consolidate bank accounts and transactions across the enterprise by using a standard payments process and streamlined bank account structure. Instead of each entity owning and operating its own external bank accounts (and maybe participating in a pooling structure) there is a single legal entity that sits at the heart of the company, supported by an in-house bank (IHB), that manages collections and all payments on behalf of participating entities.

With the centralisation of treasury gaining ground since the onset of the 2008 crisis, models of cash management that offer visibility and control over company cash have become much favoured. Anecdotal evidence suggests that corporates in the ME have been using POBO-type structures since the early 1990s and it is understood that almost all large, multidivisional conglomerates in the region today use a POBO model.

In Europe, it was regulatory change that finally threw open the doors of opportunity around Accounts Payable (AP) with SEPA. A significant benefit derived from the roll-out of the Eurozone payments mechanism is the reduction of banking costs. In creating a standardised payments environment large corporate groups have been able to rationalise their multiple bank accounts and payments formats potentially down to just one for the entire zone. Increased automation of payments processes has become a very real prospect under SEPA too, especially with the homogenisation of electronic direct debits and credit transfers facilitated by the across-the-board adoption of ISO 20022/XML payments standards.

In Asia Pacific too there is movement in the direction of POBO/COBO with Deutsche Bank, for example, launching its comprehensive 'Payments and Collections On Behalf Of' programme for regional clients in 2013 (see its 'Corporate User Guide – POBO/COBO' for a detailed look at the topic).

Progression

The expansion of payments and collections management processes into POBO/COBO by treasuries tends to follow a common path. Collections and payments commonly start with local execution by subsidiaries. From here, regional centres of liquidity may evolve to include shared service centres (SSCs) for basic functions that reach across an enterprise. An in-house banking structure may extend the centralisation programme, replacing most or all external bank accounts for subsidiaries with one in-house operation.

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Whilst there is a common path, there is no one route. Each transformation programme should be planned on its own merits, constraints and objectives.

Basic requirements and set-up

Before embarking on a COBO/POBO project a number of elements must (or in some cases should) be in place to ensure the best outcome. Deutsche Bank recommends the following: central treasury and all entities to be included must be on the same IT systems, including accounting and ERP.

Whilst it is ideal to have central treasury and all participating entities on the same IT systems, it is often not achievable or practical. What is more important is to ensure that all the centralised payments and reconciliations processes are standardised and controlled by one process owner.

Provider agreements must be in place between payments and collections factories and the participating entities. An SSC, IHB or payment factory setup will usually see to it that these are met.

The starting point of a POBO operation will usually be a payments factory (the latter typically using a common IT platform to consolidate SSC processes) which manages a centralised standard payments process for participant entities. With the technical infrastructure and processes in place, a single legal entity will be established to pay the third-party debt obligations of another legal entity in the group. The process requires the exchange of external bank accounts owned by the group entities for IHB accounts (owned by the payment factory) per country and/or currency.

COBO has a similar structure, requiring entities to substitute external accounts for IHB accounts. In this set-up, a central collections factory initiates a claim on behalf of a group entity for payment from a third party. The third party will make the payment into the relevant central account for the currency/country. This account may also be a source account for the group's sweeping/pooling structure. Reconciliation of paid invoices and ultimate fund ownership will be managed and assigned within the internal accounting process (hence the need to have IT alignment).

Technology supports the entire OBO concept. Having a centralised treasury and an IHB in place facilitates consideration of POBO or COBO implementation simply because the technical infrastructure will already be in place, underpinned by a single instance of an ERP. One of the major set-up issues for COBO is the fact that the majority of receivables data is held locally; where the single bank account is used for collections, if reconciliation is managed locally, determination of which payments belong to which entity will be difficult.

One of the main considerations for COBO then is reconciliation of paid invoices. Improving STP rates for cash application relies heavily on the payer attaching all the required invoice data (often they do not). The centralisation of this process and the receipt of paid invoices into a single COBO bank account will enable more effective control and improvement on the quality of information received and the effectiveness of the matching process. This is often supported by optical character recognition (OCR), learning matching algorithms and dedicated workflow. Not least of the issues here is that slow reconciliation can tie up client credit lines and restrict sales. Bank-provided tools such as electronic virtual accounts (in which every client has its own unique identifier number attached to the single main corporate account, the identifier keeping all transactions with this number virtually separated from all others) can provide much-needed assistance: Bank of America Merrill Lynch, Citi and Deutsche Bank, for example, all offer variations on this theme.

Plus points

By its very nature, a COBO/POBO structure will reduce complexity in terms of managing points of contact with group entities, simplifying banking relationships and infrastructure maintenance.

Replacing multiple external bank accounts with a single internal account (per currency/country) equates to potential cost savings on bank fees, especially around account maintenance, transaction fees and foreign exchange (the latter simply by reducing the number of required transactions). This can be driven by control of process execution as much as scale. Other business drivers to evaluate would include the rationalisation of pooling structures and potential for increasing net interest enhancement.

The convenience of POBO/COBO typically also means lower running costs in terms of personnel and overheads. Savings will be made by consolidating local IT systems and software licensing into a single platform. IT and process consolidation should also lead to standardisation of these elements. Focusing banking and IT elements on fewer providers could positively change the dynamic of the relationship with the chosen third parties; an increase in wallet share for those providers could increase buyer-power.

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Because incoming and outgoing company cash can to a large degree be centralised, POBO/COBO will also typically be expected to deliver improvements in visibility of that cash, in turn affording distinct advantages around areas such as working capital management, forecasting and risk management. In the case of COBO, payments from third parties may be expedited with more efficiency and collections may be reconciled sooner.

An efficient POBO/COBO operation should enable local operations to focus more on adding value rather than tackling time-consuming core functions. Although set-up costs are inevitable and are likely to be significant (these are discussed in the costs section on page 36), the ongoing costs of processing payments and collections through a single entity should reduce, simply based on economies of scale.

Who needs to know?

From the outset, tax, legal and compliance teams must be consulted; the initial investigation/proof of concept will certainly call upon their expertise and knowledge to reveal any potential pitfalls. Obviously the individual group entities will need to be brought into the discussion not least because some local entities may resist the move to COBO, particularly sales offices which may resent losing control over receivables activity and the direct relationship with (and knowledge of) their own clients. Indeed, local entity clients must also be informed of a move to an OBO model. Client conversations might, for example, throw up concerns and issues around the

adjustment of direct debit mandates and any stipulations in trade contracts or local legal matters that may hinder or even prohibit movement from local to central payments and collections.

Legal warnings

The movement of financial management from one country to another brings with it a number of potential legal and taxation issues which must first be investigated for each proposed entity; not all may be permitted to join whilst others may be required to meet certain conditions before acceptance (or it may prove too difficult to warrant inclusion).

It will be necessary to establish whether the entities proposed for participation are, by local law, even permitted to take part in a COBO structure – what central bank approval and reporting requirements may arise as a result of participation where they are allowed, and if there are any restrictions on types of payments made by the centre.

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Where client data is shared across borders, provision for data protection will need to be investigated in every jurisdiction. Other regulatory issues may arise, not least the possible requirement for a banking licence; although in most European countries this is not necessary, in the Americas it may well be a requirement (for example, Argentina and Brazil require a licence and in Canada one is required for a central collections operation).

At an individual local entity level, where other bank accounts are retained, treasury will need to establish if the OBO structure infringes any individual banking covenants that may exist for those relationships (such as the removal of all or most funds to a central location).

Tax considerations

Taxation is never far from view. Conversion to an OBO model using an IHB effectively creates an inter-company position which requires the preparation of a combined or consolidated financial statement for tax and reporting purposes.

Corporates must investigate whether withholding tax and thin capitalisation rules are applicable for a proposed OBO operation. Issues around transfer-pricing, Controlled Foreign Companies legislation (designed to stop companies from reducing tax in one jurisdiction by diverting profits to tax shelters and 'preferential' regimes), VAT and stamp duty may also impact the feasibility of an operation or the entities it covers.

Whereas the underlying bank account for POBO is normally viewed as an ordinary operating account, a COBO account is in most jurisdictions considered to be a trust account for tax purposes. Where these are established, their operation, documentation and reporting must be considered in the light of local tax law. Such accounts may have some downstream impact on existing liquidity and credit matters; the corporate's cash management banks should be consulted to see what, if anything, this means.

There may be detrimental tax treatments of inter-company lending applied to OBO structures – all Asian and American markets require a close look at this, and around half of all European jurisdictions require detailed review in this respect too.

Cost of change

Undertaking a significant change to one of the most fundamental aspects of a business' operating model will almost certainly come with a price tag. Prior to implementation it will be necessary to undertake feasibility studies around tax, legal, regulatory and market matters (including banking, vendor, customer and supplier relationships) for the proposed location of the POBO/COBO site and how these elements may impact each entity targeted to join the structure. These elements require continual reassessment due to their constantly evolving nature – the level of understanding needed represents a significant outlay.

Perhaps the main cost for corporates seeking the advantages of OBO, as recognised by Deutsche Bank's white paper, will be technological: implementing and managing IT interfaces, workflows, system configurations, internal and external reporting and reconciliation processes.

In terms of business case, direct costs can be heavily influenced by the cost of IT implementation and integration but other costs, both direct and indirect, should not be underestimated. These can include considerations of the impact on people, organisational structure and the cost of running the programme.

Careful consideration should be given to the implementation approach to control cost and manage implementation risk. All centralised operations will be judged by their ability to execute flawlessly – there is normally no 'honeymoon' period in an 'on behalf of' model.

Is migration an option?

The decision by a large corporate to migrate to an OBO operation is far from obvious. The set-up process requires considerable effort, not least with the legal, tax and regulatory investigations that must take place in advance of that decision and thereafter to keep pace of any developments – for each and every country involved. The need to develop and maintain the IT infrastructure, enabling continued connectivity between the relevant entities and the IHB/OBO facility, is essential. Process automation (including reconciliation) requires standardisation as far as possible if bottlenecks are to be avoided and any resistance by local teams to let go of their client relationships must be tackled sensitively.

However, once in place, an OBO structure can deliver a number of benefits for corporates including bank account consolidation, lower account, transaction and FX fees, re-focus by local entities on value-added work, lower longer-term IT costs and, perhaps the leading driver, improved visibility over working capital. Economies of scale can, and indeed do work – but not before a lot of hard graft has been put in to prepare the ground. ■

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