



Pension headaches

Underfunded pension obligations are a major challenge facing many company pension plans. We explore the skills, knowledge and experience corporate treasurers are increasingly bringing to the table to help overcome such challenges.



The Corporate View

Pratibha Advani

Chief Financial Officer
TATA Communications



The Bank Interview

Paul Thwaite

Head of Transaction Services
RBS Global Banking & Markets

Financing

What's new in supply chain finance?

What if...

Your treasury technology fails?

Regional Treasury

Treasury in the Middle East

Back to Basics

In-house banks

Adam Smith Awards 2016

in association with

Bank of America
Merrill Lynch 

bar raising



Nominations for the Adam Smith Awards 2016 are now open. Each year, raising the bar has been a continuing theme and I have no doubt that the 2016 submissions will be no exception. Push the boundaries and share the results of the multi-faceted projects you have been working on, whether it's a cash management, liquidity, risk, working capital, trade or technology project. This year's Awards also have a new category, Best SWIFT Solution. So if you're working on an initiative where SWIFT is a principal component, then I encourage you to share your stories.

I wish you the very best of luck.



Jennifer Boussuge

Head of Global Transaction Services, EMEA

Bank of America Merrill Lynch

Group Publisher
Angela Berry

Associate Publisher Asia
Sophie Jackson

Head of Operations
Samantha Collings

Editorial and Research Director
John Nicholas

Editorial Consultant
Eleanor Hill

Editorial
Tom Alford
Chris Davis
Holly Jackson

Associate Editor Asia
James Hayward

Senior Relationship Manager
Meg Coates

Global Head of Events
Lisa Bigley

Head of Circulation
Sarah Arter

Circulation Manager
Kerry Stamp

Head of Technology
Luke Scammell

Digital Designer
Joanna Smith-Burchnell

Creative Designer
Robert Murray

Managing Director
Richard Parkinson

Switchboard +44 (0)13 0462 9000
Publisher +44 (0)13 0462 9012
Memberships +44 (0)13 0462 9002
Advertising +44 (0)13 0462 9018
Editorial +44 (0)13 0462 9004
Production +44 (0)13 0462 9013
Fax +44 (0)13 0462 9010

Annual Membership Rate £285
memberships@treasurytoday.com

© Treasury Today ISSN 1466-4224

Treasury Today is published bi-monthly
(7 issues) except September and October by
Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication. Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed. Printed by: Buckland Media Group Ltd.

Treasury Today USPS: (USPS 023-387) is published bi-monthly except September and October by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

The 2015 US annual membership price is £285.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

US Postmaster: Send address changes to Treasury Today, Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Membership records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.

The paper used in the production of this magazine is sourced from protected forests and sustainable raw materials.

Something for your 'to-do' list... now



Nominations close at midnight on 29th April

Treasury Today's Adam Smith Awards is the largest corporate treasury awards programme and recognises the very best and brightest in the industry. For 2016, our panel of judges will again be looking for solutions that truly demonstrate exceptional best practice and innovation in the corporate treasury arena.

Now in its ninth year, an Adam Smith Award is the ultimate industry benchmark for corporate achievement. The Adam Smith Awards 2016 will provide a platform to showcase the very best in class across the whole industry, so why not take part?

There are several categories covering a broad spectrum of treasury-related disciplines as well as A Rising Star, Woman of the Year and Top Treasury Team 2016, so plenty of opportunity for your project, your team and indeed yourselves to be recognised. For a full list of all the categories please see page 5.

If you have entered previously please do so again and if you are new to these awards and believe you have implemented (or you are in the process of implementing) a really smart and innovative solution, then please share your story and submit a nomination today.

If you have already submitted one of the many entries received so far, thank you and the very best of luck.

Nominations will close at midnight on 29th April 2016, so the clock is ticking.

NOMINATE NOW

Everything you need, including the online nomination form, can be found at:
treasurytoday.com/adamsmith

INSIGHT & ANALYSIS 14



Overcoming pension headaches

Underfunded pension schemes are a serious issue for many companies. We review the changes applied to accounting methods for pension plans and other post-retirement benefits, exploring the role of the corporate treasurer in tackling the problem, drawing upon the experience of the VP & Treasurer of a major US multinational.

WOMEN IN TREASURY 6



Debra Todd
VP, Global Treasury Services



Debra Todd, VP, Global Treasury Services at BP ended up in a treasury role quite by chance. She is now on her 13th job at BP in a career which spans 30 years. Her motto in life is to be brave. She was a panellist at our Women in Treasury Forum in London where she said: “You can do things you just couldn’t dream.”

SMARTER TREASURY 20



Go your own way: managing investments in a diverging economy

Regulations and divergent monetary policies are forcing treasurers to take a much more holistic view across the many currencies in which they trade. We consider the impact on treasury from an investment policy angle.

WHAT IF... 17

Your TMS or ERP fails?



What are the implications should your TMS or ERP fail? As vital technology platforms in many of today’s corporate treasury departments, how well are you equipped to bring these systems back online and how long could you survive without them?

COUNTRY PROFILE 34



France: the home of stability

France is the Eurozone’s second largest economy and GDP growth is expected to rise 1.4% this year and 1.7% in 2017. We look at the country’s economy and drill down into the payments and cash management landscape.



MAXIMIZING PROCESS EFFICIENCY FOR PAYMENTS AND COLLECTIONS CAN BE SO EASY!

With our renowned, SAP-integrated software FS² we help you set up your individual payment and collection factory. Trusted by over 1,000 customers worldwide, our solutions deliver what finance and treasury professionals need.



Your advantages with FS²:

- ✓ Central control over your company-wide cash flows
- ✓ Faster, integrated and audit-proof systems
- ✓ Enhanced process efficiency
- ✓ Modern user experience with Fiori apps
- ✓ Business Intelligence Reporting
- ✓ Maximum transparency



FINANCING 22

Supply chain finance: what's new?

The global supply chain finance market is heating up. Banks and fintech disrupters have been investing heavily in their platforms in recent years but do either have a solution that corporate treasurers really want?



REGIONAL TREASURY 31

Treasury in the Middle East: shifting sands

As oil prices continue to fall, the Middle East is heading into uncharted waters. What does this mean on a practical level for corporate treasurers operating in and out of the region and what is it like to be working there?



TREASURY ESSENTIALS

Question Answered	9
Market View	11
Back to Basics	38



25 The Corporate View

Pratibha Advani
Chief Financial Officer

TATA COMMUNICATIONS

The common acronym for Chief Financial Officer is CFO, but for Pratibha Advani, CFO at one of the world's largest communications groups, a more suitable definition may be Chief Facilitation Officer. In her role, Advani applies her creative impulses to the fullest extent, acting as a catalyst, promoting new ideas, sowing the seeds of innovation and improvisation, and driving productivity and efficiency within the organisation while also pursuing growth within a highly regulated environment.

THE BANK INTERVIEW 28

Paul Thwaite
Head of Transaction Services



"We have always been and continue to be relationship-led." As a banking strategy, it makes for fine words indeed. But what does this really mean when it comes to delivering what the corporate client wants? In seeking to provide answers, Paul Thwaite, Head of Transaction Services for RBS, takes a broad view of the treasury world and its own quest to add value. In doing so he provides an up close and personal insight into a bank that is moving into the next phase of its development.



Enter now and have your achievements recognised

Nominations for the Adam Smith Awards 2016 are now open. Please submit your nomination and demonstrate why you, your team or your project deserves to win. Nominations close on 29th April.

An Adam Smith Award is THE independent benchmark for corporate treasury success, so please nominate now – treasurytoday.com/adamsmith



NOMINATE NOW

“Receiving this year’s award for Top Treasury Team is truly an honour for us at Hyundai Capital America, especially considering the premier calibre of the Adam Smith participants and the industry forum created by Treasury Today.”

Eric Senay, Vice President and Head of Treasury, Hyundai Capital America – Top Treasury Team 2015

Award categories for 2016

- Treasury Today Top Treasury Team 2016
- Best Cash Management Solution
- Best Liquidity Management/Short-term Investing Solution
- Best WCM, AP/AR Solution
- First Class Relationship Management
- Best Trade Solution
- Best Card Solution
- Best Financing Solution
- Best Foreign Exchange Solution
- Best Risk Management Solution
- Best SWIFT Solution*
- Best in Class Benchmarking
- Harnessing the Power of Technology
- One to Watch
- Best in Class Treasury Solution in the Middle East
- Best in Class Treasury Solution in Africa
- Treasury Today Woman of the Year 2016
- A Rising Star

*New for 2016

This much I know

Debra Todd

VP, Global Treasury Services



How have you found the opportunities for career progression in treasury?

I originally trained as a Chartered Accountant and, after joining BP 30 years ago, I ended up in treasury quite by chance. I had worked alongside the treasury team in my early days at BP and when a role arose in the department, they asked whether I wanted to be considered for it. The job surpassed my expectations and I've been lucky enough since to work in a variety of treasury roles, as well as a number of other jobs in the group. I'm actually on job 13 of my BP career.

And what I have learnt along the way is that each role builds upon the preceding ones. Wherever you are, you are learning. Your colleagues are also gaining more understanding of where your strengths lie and how they can be used. Therefore – and this has been my experience – they will then be happy to propose other opportunities which use and build on those strengths. This type of collaboration, working with different people, people understanding my strengths and using them in a variety of ways, is what has allowed me to gain diverse experience across the group.

What more do you think treasurers – male or female – can do to make their voices heard within an organisation?

What's important for treasurers, in order for their voices to be heard, is to ensure that what they describe or present is put in terms of what that project or request achieves for the organisation. This means relating all activity to what the business is doing and its strategy, and how what is proposed by the treasury will make the business stronger and more successful. That can be at both the group level, as well as at the micro level; when it is articulated and designed well, value can be delivered at each of these levels.

Do you see a day where we have equality in the workplace?

I definitely see that the position of women is growing within organisations. The treasury community has a large number of young women coming through – this was particularly evident at the Women in Treasury London Forum. The mixed demographic was brilliant. And the more women get exposed to treasury, just as to any other field, I think two things will happen. Firstly, women will feel evermore confident that they can step up, seeing others who have successfully done so, and, secondly, men will understand that.

If there was one tool that could help you in your role, what would it be?

Feedback – it's the only way to know how we are doing both in the organisation and as individuals. Treasuries tend to be relatively small departments but they have extensive reach, affecting the whole organisation. Understanding treasury's performance, what people expect and need from us, is the way to continually carry out operations in the best possible way.

“There may be gender differences in nuance, but women can do everything that is demanded by treasury activities.”

ON THE WEB

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



With 30 years' experience at BP, Debra Todd, VP, Global Treasury Services, has enjoyed two lengthy stints in treasury, as well as experience gained from roles outside of the department. And it is from this diverse involvement that Debra has learnt numerous valuable lessons that she now shares with her three children, her team – and Treasury Today.

Like many of her colleagues, Debra enjoys the “umbrella view of the company” that treasury offers. “Treasury continues to play a key role in developing the financial framework for the company. By then executing that strategy, we are at the heart of the company’s operations. I just love seeing that overall picture of what’s going on. For instance, all the group’s major transactions come through us and that is exciting.”

Diversity of experience and thought

That isn’t to say Debra lacks a more localised view, however. After 12 years in treasury, she spent the following nine in other roles – including in Pensions, Finance for BP’s in-house trading activity and being the company’s Chief of Staff in Remediation Management in Chicago – before joining treasury again in 2010. Not only did others benefit from her group experience during that time, but Debra gained valuable insights into how treasury’s actions affect the group on a local level. “By getting involved elsewhere, you can appreciate how the different functions tick,” she says. And BP’s treasury boasts a number of personnel who have made similar moves, as well as members of the team who have stayed put. “The blend is a strength for us, and it is enjoyable to work in because you see different aspects of each situation.”

“My motto in life is to be brave. Earlier in my career, I didn’t always have the level of self-belief that I should have had. I look back at some of the really great opportunities that I’ve had and it was the men around me that thought I could do them.”

A similar blend, according to Debra, is desirable for all companies in terms of having a diverse workforce whether that is gender, background, nationality, sexuality and so on. “It’s critical that we have the diversity of thought that arises as a result of this,” she says. “We need to have different ways of approaching the same problem because these alternative ideas allow us to come up with the best solutions.” At the moment, there is not one particular challenge Debra is facing. Rather, she explains, “it is the ongoing imperative of ensuring operational excellence, dealing with change and ensuring that we continue to remain in compliance with so much change in regulation”.

The importance of bravery

Reflecting on her career to date, Debra says she has grown in confidence. “My motto in life is to be brave. Earlier in my career, I didn’t always have the level of self-belief that I should have had. I look back at some of the really great opportunities that I’ve had and it was the men around me that thought I could do them. They pushed me into challenges that I don’t know if I would have done on my own. And those have been some of the best experiences that I have had.” Debra now advises colleagues at BP and others, not least her two daughters and son, who are nearing the end of the education system, to be brave.

And advice that impacts Debra to this day came at a similar stage of her life. “Going back to one of my graduate recruitment interviews, someone from Coopers and Lybrand (now PwC) told me to remember that there is no fairy godmother,” Debra says. She has interpreted this to mean two things. Firstly, you mustn’t wait for other people to do what you want – courage is necessary for success and it is best to be personally committed to your goals. But she also applies the advice when managing her team. “I tell them: if you require my help, just tell me. I’m not telepathic.”

Debra never met the person who inspired her life motto again, but that his words have stuck with her ever since perhaps demonstrates the influence treasury professionals can have on one another. Debra herself can be considered someone from whom valuable lessons can be learnt. A poignant quote, for instance, from her attendance as a panellist at Women in Treasury’s London Forum was: “You can do things you just couldn’t dream.”



Debra Todd has been with BP for 30 years. In her current role as Vice President (VP), Global Treasury Services, Debra is responsible for the central transaction processes, including the systems, cash forecasting and credit. She has also held other roles in Treasury within Banking Relations and Equity Operations. Outside of BP’s Treasury function, Debra has worked in Pensions and Finance for BP’s in-house trading activity and been Chief of Staff in Remediation Management in Chicago. Debra is a Chartered Accountant and is married with three children, who are nearly at the end of the education system.

Circular supply chains

“ What are circular supply chains and how does the model impact the financial supply chain? Is it more than just a Corporate Social Responsibility (CSR) issue? ”



Jocelyn Blériot
Executive Officer
Ellen MacArthur Foundation



Ian Banks
Editor
Ellen MacArthur Foundation

In a circular economy, products and materials flow in loops, maximising asset utilisation and minimising waste by design. It avoids the economic losses along the value chain and negative externalities inherent to the traditional linear model of production and consumption. The Ellen MacArthur Foundation, SUN and McKinsey have identified that by adopting circular economy principles, Europe can create a net economic benefit in 2030 of €1.8trn compared to today, double that offered by the current linear development path. The circular economy can simultaneously create opportunities for growth and jobs, stimulate industrial renewal and innovation, and reduce environmental pressures.

For companies to capitalise on this opportunity, business models as well as collaboration across the supply chain need to be reconsidered. The following two examples of circular economy business models being used on the ground are illustrative. One hundred La Place restaurants in the Netherlands provide 2.5t a week of waste coffee grounds to GRO-Holland, a company that uses them as a growth substrate for oyster mushrooms. The mushrooms are then sold back to the same restaurants to be used as ingredients. The supply chain is therefore made symbiotic or ‘circular’ by turning one player’s by-products into feedstock for the other.

As an example of pay-per-use, in addition to selling lightbulbs, Philips now also signs contracts to provide light, by the lux. The company keeps ownership of the lighting system, taking care of maintenance and remanufacture during the contract. Such a model can be both more profitable than traditional products sales for the manufacturer and cheaper for the user. It also promotes increased customer interactions – and potentially loyalty.

How do these business models affect companies’ (and customers’) working capital and financing needs? In the

symbiotic ‘circular supply chain’ model there is a potential reduction in non-payment risk. Players become both buyers and suppliers and so possess a more equal balance of economic power, likely formalised by contracts that incentivise the continuation rather than termination of the relationship. Can such a risk reduction be measured and priced? Could cash handling costs be reduced, and more liquidity unlocked, by using closer bonds in the supply chain to net off more transactions and to extend supply chain finance to earlier in the purchase process?

The pay-per-use model increases working capital requirements by extending the time, potentially by years, before which production costs are recovered. It increases credit risk towards customers, but reduces risk from volatile raw materials prices by extending the useful life of the asset. Can assets on the now-extended balance sheet be valued by component rather than by product to allow depreciation to depend on each’s remanufacturing cycle? Can a leasing model share between the user, producer and financier the higher underlying value created by reduced future production costs?

These questions are part of a fundamental re-think of how companies create value and the potentially profound impact on their cash flow and financing: what is at stake is a transformation of the core business strategy, not a mere CSR plug-in.

Finance in a circular economy is a young field. More such innovative financial thinking is needed. How do treasury professionals see the potential for cash and risk management in their own institutions changing to take account of circular economy business models? What are the more radical ideas for new instruments to enable these models? The answers will help shape the financial landscape of the future.

¹Ellen MacArthur Foundation, Stiftungsfonds für Umweltökonomie und Nachhaltigkeit (SUN), McKinsey & Co., *Growth Within: a circular economy vision for a competitive Europe* (June 2015).



Mireille Heijnen
Head Social & Environmental
Responsibility, EMEA/APJ
Hewlett Packard Enterprise

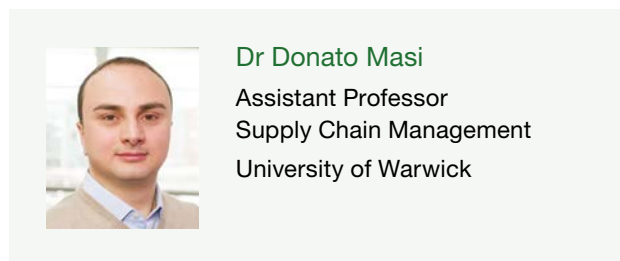
With the former CEO of eBay, Meg Whitman, at the head, Hewlett Packard Enterprise (HPE) is introducing technology that helps companies grow faster, but also allows them to be more sustainable – by playing a part in circular supply chains, for instance. The cloud solutions offered by HPE remove the need for data centres in every office building, saving on

hardware and energy costs. The focus is on sustainably meeting the data needs of the future through energy efficient and innovative server technology.

For example, the company is the first in the industry to offer a 'composable infrastructure' to be able to respond faster to IT needs with software managing the hardware and when the job is done, the hardware is packed up again. IT infrastructure can be configured for a specific workload within seconds and then reconfigured as quickly for a different workload. This removes the need to run idle servers which are doing nothing, waiting until more capacity is needed. HPE provides this technology as a service, limiting the investments on the part of the corporate who do not need to take full ownership of the products. This is a new circular dynamic in a traditionally asset-based economy. One that may prove to be more efficient for businesses and less impactful on the environment.

Where HPE is putting hardware on the market, it offers customers the opportunity to take back the used equipment and recycle it or – even better – reuse it by operating an asset recovery service and a lease programme. Of the servers that are coming back to HPE, 77% is being refurbished and resold and 88% goes back on the market after end of lease. It also allows customers to demo equipment for an average of three to four months, before deciding to either keep or return it; when returned, the equipment is prepared for reuse and circled back on to the market with the same guarantees as a new product. By not discarding them as waste, but considering them a valued inventory and a business opportunity in itself, the lease programme contributes to an increasingly popular circular economy.

These developments will continue, as customer demand will change. IT companies will need to adjust fast to an economy of ideas where speed and agility is needed and new business models, circular in nature, are given an opportunity to prosper.



Dr Donato Masi
Assistant Professor
Supply Chain Management
University of Warwick

Supply chains can be more or less compliant with the principles of the circular economy, because we are in a transition towards a circular economy. The reasons urging for a shift to a circular economy are both environmental and

business related. From the environmental perspective, the importance of reducing pollution and the consumption of natural resources is widely acknowledged, and it is a priority on the agenda of policy makers.

From a business perspective, innovative business models based on services rather than product ownership and innovative consumption patterns – such as the sharing economy – are gaining an increasing importance. Moreover, current trends suggest there will be rising prices and an increasing competition for raw materials. The circular economy represents an answer to these challenges and an opportunity to find synergies between the protection of the environment and the growth of profit.

In terms of impacting the financial supply chain, first of all, a circular physical supply chain implies opportunities in terms of profits and reduction of the costs. For instance, remanufacturing could imply savings in terms of production costs that range from 30% to 90% of the cost of producing a new unit product from virgin materials. At the same time, in a truly circular supply chain, new mechanisms for value sharing among the supply chain partners are necessary.

At the same time, in a truly circular supply chain, new mechanisms for value sharing among the supply chain partners are necessary.

The Ellen MacArthur Foundation provides some very good examples of companies that are effectively managing the shift to a circular economy. These include Rype Office, that is exploiting a completely new business model for office furniture aligned with the principles of the circular economy, and Mud Jeans, that uses the principles in the different and challenging context of clothes. These are only two of several possible examples. In general, the transition to a circular economy is ongoing, and there is good evidence of successful businesses implementing the circular economy principles.

But if corporates want to truly exploit the potential of the circular economy, they should think in terms of systems and embed the principles of the circular economy at the strategic level of business model innovation. They cannot implement the circular economy principles by simply trying to make a production process green, or a closed loop supply chain more efficient. These principles should be embedded at the very early stages of product design, supply chain design, and definition of the commercial strategy.

The next question:

“With recent announcements that several big banks are considering using blockchain technology, how does it work and how could it affect corporate treasury?”

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

MENA: Europe's nemesis?

The European Union (EU) is facing some strong headwinds, as geopolitical forces globally appear to be pushing it in the direction of disintegration. With borders being closed across the continent, the lack of a comprehensive, and unanimously agreed upon, strong foreign and security policy threatens EU economic revival, as countries across Europe have seen.

It is almost a dead cert that the Syrian civil war, and its spill over into Iraq, will continue raging on for the foreseeable future. There are too many factions, militias, and parties that are fighting each other, while several of the major external players have conflicting interests.

A durable truce is therefore unlikely in the near to medium term: Russia and Iran are not prepared to drop Assad, Saudi Arabia is more worried about Iran than about ISIS, Turkey wants Assad to go but is even more fearful of the Kurds, and so on.

In other words, violence, war, and refugee flows will continue to be the order of the day while external great powers – with the US and Russia in leading roles – will continue to jostle for position.

Persistent civil war in Syria and Iraq, as well as more violence in Afghanistan imply that the refugee flows will grow, especially when the weather improves in the spring and summer. This will ratchet up the pressure in Europe and greatly undermine the remaining solidarity between the member states and with refugees. Borders are being closed all over the continent while the rules imposed on migrants are tightened – to an antisocial degree in some countries. And as the populist parties become more popular, cohesion continues to crumble inside the EU.

Extremism, as well as the other conflicts in the Middle East and North Africa (MENA), poses risks to the markets and the underlying causes of the unrest in the region will not disappear anytime soon. In other words, violence, war, and refugee flows will continue to be the order of the day while external great powers – with the US and Russia in leading roles – will continue to jostle for position.

No relief in sight

This is bad news for Europe, where the ongoing refugee crisis has added a distressing dimension to the tensions that are already undermining unity. As well as a rift between North and South, the gap is widening between East and West.

Moreover, the Greek pressure cooker is nearing boiling point. The country's economy was already in the doldrums and the refugee crisis is very expensive, sending shockwaves through society, and weakening the Tsipras government. The Grexit debate could flare up again at any moment. Tsipras and his team are at loggerheads with Europe regarding the treatment and dispatch of refugees and also – not for the first time – about structural reform. The Prime Minister is caught between a rock and a hard place; a new Grexit discussion would not just revolve around a departure from the Eurozone but also from Schengen and even the EU.

Rebellious Renzi versus vulnerable chancellor

From the most fragile to the strongest member state: Germany. Chancellor Merkel's hand has already weakened and her working life has lately become even more difficult. Politicians, including those in her own coalition, are attacking her and she is rapidly losing popularity among voters as the right-wing populist party, Alternative für Deutschland, makes headway in the polls. The pressure on Merkel will only increase as the refugee flows continue to swell over the course of the year.

And the pressure isn't only domestic. The Italian Prime Minister Renzi is increasingly setting himself up as a rival European leader in hopes of filling the vacuum that will be left if Merkel is ousted. Maybe not coincidentally, his domestic reforms are materialising at a sluggish pace. Renzi will take an even more assertive stance if the situation in Libya spirals further out of control and once refugees again try to reach Italy by sea (the vast majority of migrants are now entering Europe via Greece).

Internal frictions, such as these, are hampering the badly needed progress in the euro area – the bank union is far from complete and the monetary union should be strengthened, for instance. However, increased integration appears an ever more distant prospect. National borders are slammed shut as a Brexit looms alongside a Dutch referendum on a treaty with Ukraine (which is just a thinly disguised vote on the EU itself) and so on and so forth.

Apart from the concrete risks that Europe faces and the factors that could potentially act as a drag on growth – a French think tank estimates that disintegrating Schengen would cost €110bn over the coming decade – a miasma of misery could descend on Europe.

Boundless malaise

Whilst the Eurozone economy is not doing that badly, many people feel despondent. Citizens feel defenceless; many have abruptly realised that Europe's borders are porous and susceptible to a multitude of threats.

Although the disintegration of the Eurozone is not yet on the cards, the global geopolitical forces seem to be pushing the EU and Eurozone in this direction.

When scanning the panorama from West to East we see a variety of risks, including: a possible Brexit, which would be fuel to the fire of the separatist movement in Scotland (and perhaps even Northern Ireland); a deeply divided Libya that could be overrun by ISIS; countries such as Syria and Iraq that are torn apart by civil wars and foreign interference; Islamisation and authoritarian governance in Turkey; corruption and Russian meddling that are destabilising Ukraine. Clearly, Russia will relentlessly continue to play the European countries against each other.

Add to this the uncertainty about the slowdown in China and the notion that the United States' power and status on the global stage are waning and it will be obvious that the outside world holds few attractions for the Europeans. But there is scant evidence – if any – of concerted action.

Addressing the refugee crisis would go a long way to easing the pressure on Europe. The problem is that Europe can do very little in this respect as – regardless of various grandiose plans – it has not managed to pursue a strong foreign and security policy. The continent is dependent on other actors when it comes to restoring calm in the MENA (which would help to reinstate a sense of order at Europe's boundaries). However, the chances of the latter are minimal.

The US is wary of getting in too deep, Russia is doing its utmost to make the situation worse, China does not (yet) aspire to play a pivotal role, while Iran and Saudi Arabia seem to be obsessed with tripping each other up. Finally, Turkey is

preoccupied with shoring up Erdogan's authoritarian regime and suppressing the Kurds. We also do not have high hopes of the effectiveness of supranational organisations such as the UN and NATO.

Fragile foundation

To sum up, the main geopolitical risks threatening US interests are identical to the forces that could trigger an existential crisis in the EU and (by extension) the Eurozone. This leads us to believe that the euro will be in trouble again later this year. Levels near 0.90 in EUR/USD are possible while we could see widening yield spreads between the (supposedly) strong Eurozone countries and those in the southern part of the monetary union.

Yields rising in tandem could signal a burgeoning confidence in economic growth or (in a pessimistic scenario) mounting doubts about the durability of the EU and the euro. There is no denying that the (political) trends around the world and in Europe are restrictive rather than stimulative.

Addressing the refugee crisis would go a long way to easing the pressure on Europe. The problem is that Europe can do very little in this respect as – regardless of various grandiose plans – it has not managed to pursue a strong foreign and security policy.

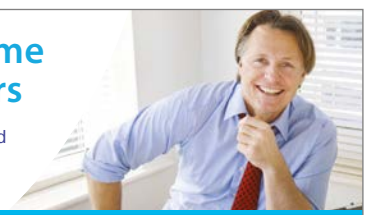
Although the disintegration of the Eurozone is not yet on the cards, the global geopolitical forces seem to be pushing the EU and Eurozone in this direction. Particularly as an EU-wide consensus appears to be an impossible ideal. Nevertheless, Europe is unlikely to implode in 2016 – if at all.

But not so long ago it would have been inconceivable to present the demise of the Schengen Zone and even the EU as a realistic possibility. Now thoughts of this are buzzing around in more and more people's heads. This is not a solid foundation for a strong European economic revival.



Unique approach for time pressed decision makers

ECR's unbiased and thought provoking research on the major currency and interest rate markets is subscribed by thousands of CFOs and treasurers globally. Get your complimentary trial on www.ecrresearch.com and experience your new web based research solution!



YOUR GLOBAL AMBITION IS OUR LOCAL BUSINESS.

As your business's supply chain stretches across the globe, allow HSBC's Global Relationship Managers to be the links. Our global presence, made up of over 8,000 local connections in over 60 countries, can streamline both sides of every transaction. We'll finance your entire supply chain, mitigating risks and managing logistics with the kind of expertise that only comes with 150 years of on-the-ground trade and supply chain knowledge. With a seamless process around the globe, your focus can be at home, growing your business even more.

Search HSBC Global Trade and become a part of our global network.
Where ambition connects with opportunity.

HSBC 

United States persons (including entities) are subject to US taxation on their worldwide income and may be subject to tax and other filing obligations with respect to their US and non-US accounts. US persons and entities should consult a tax advisor for more information. Trade and supply chain transactions may be subject to credit approval. Other restrictions, including specific country regulations may apply. Foreign currency exchange rates may apply to certain trade transactions.

HSBC Bank USA, N.A. Member FDIC. Equal Credit Opportunity Lender.

Copyright 2016. ALL RIGHTS RESERVED.



Overcoming pension headaches

Over recent years we have seen numerous examples of multinational companies making changes to their accounting methods for pension plans and other post-retirement benefits. But that is just one of the many new remedies to which treasurers are turning for relief from their pension headaches these days. In this article, we consider the challenges facing company pension plans, and the skills, knowledge and experience treasurers have to offer in overcoming these challenges.

Back in the first week of January, Ford Motor Co. announced that it would be changing how it accounts for the performance of its pension plans, a move that the company expects to provide a \$1.5bn boost to its pre-tax profits for 2016.

By changing to mark-to-market (MTM) accounting, the second biggest automaker in the US will be following in the footsteps of a host of other US corporates including AT&T, UPS, Verizon Communications, FedEx, and Honeywell, whose treasury team won an Adam Smith Award after the company became the first to make the move in late 2010. Ending the longstanding practice of 'smoothing' large deferred gains and losses generated by changes in interest rates and actual returns on assets over several years has allowed these firms to provide a clearer picture of the underlying performance of their business operations.

The new model will mean that changes in the funded status of defined benefit (DB) pension plans, which promise to pay a

specified amount to retirees, are now recognised annually as and when they occur. Companies like Honeywell say that this provides for greater transparency in earnings reporting. "I think a lot of these companies came to the conclusion, like we did, that the amortisation of prior actuarial gains and losses limits a clear picture of your businesses' underlying operating results," says John Tus, Vice President & Treasurer of Honeywell International. "Accordingly, we began to recognise the impact of the changes in interest rates and actual returns on plan assets annually."

The treasurer's business

The accounting issue and its impact on profits highlights the implications pension planning can have on overall financial performance, and consequently the work of the corporate treasurer. Historically low bond yields and rising life expectancy in most advanced economies has left global

companies burdened with ever larger pension obligations to service. According to recent research by S&P Capital IQ, a vast majority (82%) of global pension plans are now significantly underfunded, while in the US fully-funded plans have all but vanished, with just 38% of the S&P 500 firms able to boast plans funded at 90% or above.

Such deficits are part of the capital structure of the firm and, as such, are taken into consideration by lenders, creditors and investors. To avoid potential conflicts of interest, treasurers do not usually have direct responsibility for pension investments (although some may sit on a pension investment committee). Treasurers do have responsibility, however, for understanding how a pension plan fits strategically and how its management impacts the company. Pensions are very much the treasurer's business, then, and mounting pension obligations seen post-crisis are proving to be a big headache.

"It can have implications from a credit perspective because, generally, the ratings agencies – with the exception of Fitch – consider underfunded pension obligations as debt," explains Tus. "And so if a company has a very large, underfunded pension plan that could have implications not only on future cash demands but, secondly, credit capacity. If you have an underfunded obligation, it will limit your credit capacity at your targeted credit rating."

"I think a lot of these companies came to the conclusion, like we did, that the amortisation of prior actuarial gains and losses limits a clear picture of your businesses' underlying operating results. Accordingly we began to recognise the impact of the changes in interest rates and actual returns on plan assets annually."

John Tus, Vice President & Treasurer, Honeywell International

Because defined benefit pension plans have an economic impact on the company sponsoring them, Tus believes it is critical that each company understand their plan's design, investment strategy, and the impact that changes in investment returns and interest rates could have on both the funded status of the plan as well as net periodic pension expense. For companies, a weak macroeconomic environment will not only impact the company's financial performance but also negatively impact the performance of its pension plan.

As well as acting as a check on borrowing capacity, the distortions pension plan performance can have on a company's reported financial results and how these are perceived by the market may also have a bearing on the pricing of coupons in debt offerings and, of course, the stock price. It is absolutely critical therefore that corporate treasurers, as Tus says, develop an "adequate understanding of the plan's investment strategy and the potential volatility that could occur as a result of changes in interest rates, and factor in the implications of that with regard to credit metrics and credit capacity".

Adding value

Other experts in the pensions business agree with Tus on the treasury significance of pension planning. Treasurers, after all, are in the business of managing financial risk – and with many DB schemes having become very significant in terms of size (some, indeed, larger in terms of assets than the companies they are tied to), a spiralling pension obligation is often a risk that the treasurer can ill afford to ignore.

"Defined benefit pensions clearly pose a risk to the business and, quite often, a substantial risk," says Richard Smith, Consulting Actuary, at Spence & Partners, a company that specialises in advising on and managing DB and final salary pension schemes. "Frequently pension schemes are quite large relative to the business and, given that the treasurer is responsible for managing risks across the company, the treasurer needs visibility of that."

But short of becoming a trustee and assuming direct responsibility for the plans' investments, can they do anything meaningful about it? There are numerous other areas connected to pension planning where treasurers might become involved – directly or indirectly – in supporting the company's schemes. They might, for instance, be required to raise finance from the debt capital markets to cover shortfalls, as Honeywell and indeed a number of international companies did in the wake of the last crisis.

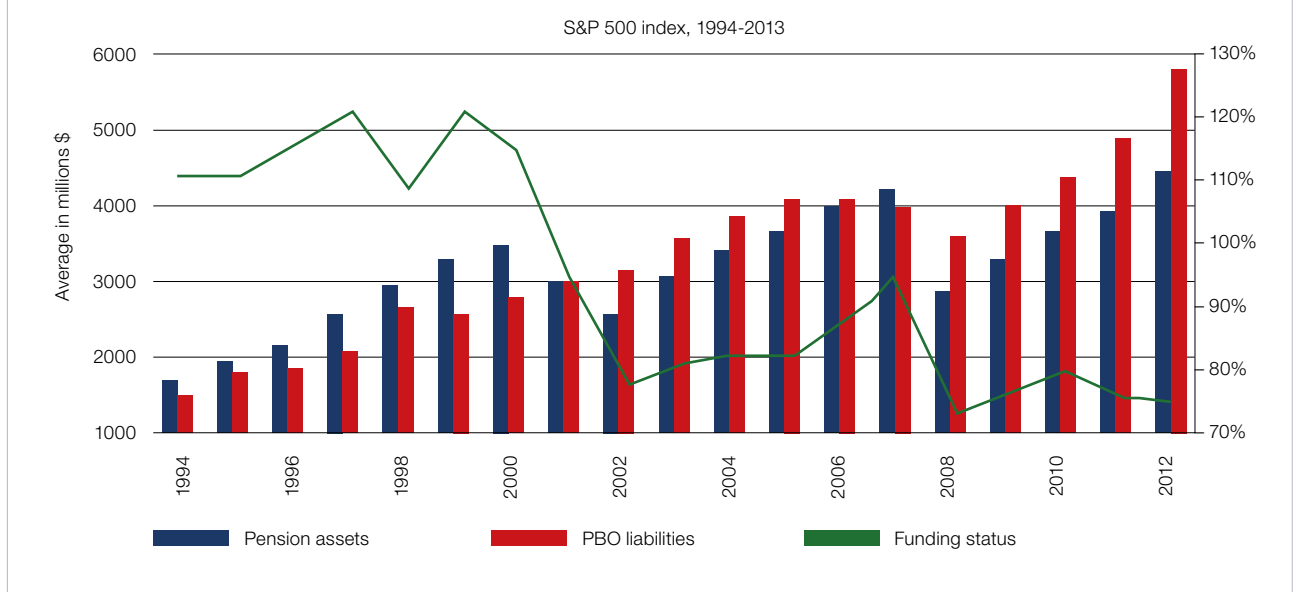
Given the nature of their skillsets, treasurers might also be the ideal people to serve as a form of counsel for the trustees. In the UK, regulatory developments might make this role ever more critical. In its most recent guidance, the Pensions Regulator emphasises the importance of integrated risk management: that is, that trustees should identify and manage the factors that affect the prospects of a plan, especially those factors that affect risks in more than one area. "To me that's what treasury is all about," says Smith. "Trustees will have to balance the funding of the scheme with a close eye on the covenant of the employer: how strong the company is and how it would deal with any risks if investments go south. Since treasurers will be familiar with addressing risks in an integrated and a holistic way, they will have the skills that could be utilised effectively in a pension scheme environment."

Raj Mody, Partner and Head of UK Pensions Consulting at PwC, says that regardless of where it sits in relation to the governance of a scheme, the treasury department has expertise companies ought to utilise one way or another. With the obligations of DB schemes running on over several decades, a means must be found to ensure the asset portfolio continues to meet those long-term cash flow demands. This is something treasurers might be able to help with. "Treasurers should have a good understanding of this challenge, and that is why I am quite excited and energised about the value they can bring," says Mody. "If you look at the problem properly it is more than just about a deficit calculation at a moment in time, it is about those cash flows. And treasurers can then apply their skills to dealing with that."

The long view

Although investment horizons of a typical DB pension scheme tend to be much longer than cash managers will be accustomed to, many treasurers may still have some experience in handling longer-term obligations, such as

Chart 1: Pension funding



Source: S&P capital IQ compustat pension data

property or equipment leases. It is this sort of expertise that an amenable pension trustee might wish to draw upon as new asset buying and hedging strategies are explored. And should the current low yield environment persist, new investment strategies are likely to be explored by plans on an increasingly frequent basis as those searching for yield may begin to look beyond the purchase of traditional securities to instruments of a somewhat more esoteric nature.

According to global pensions advisory Towers Watson, about \$7bn of its clients' money is now invested in so-called illiquid credit, such as real estate loans, mortgages, infrastructure debt and non-performing loans (NPLs). The money allocated to such assets just five years ago was close to zero.

"Clearly the universe is a lot larger now," he says. At a basic level, funds need assets that can deliver cash flows that meet their liabilities and there is a much wider range of assets today that can help them do that. "Everything from long-term cash flow bond type assets, through to infrastructure to diversified growth funds might be considered," Mody says. "There is a lot of variety out there."

More can also be done in terms of risk management, and there are even new derivative products that can be used for hedging non-financial risks to a pension plan, such as longevity.

Although still not a commonplace practice, there are easily accessible structures that allow pension schemes to cost effectively transact with reinsurers for the purpose of hedging their exposure to increasing life expectancy. In companies exploring the use of such products, who better to evaluate their efficacy than the corporate specialists in risk management, the treasury? "That is a new development," Mody says. "There is a structure called lccaria that effectively allows pension schemes to do that. It was a very complex and opaque process before, but now it can be really transparent."

A clean slate

All of this demonstrates that while underfunded pension plans are certainly proving to be a big financial headache for many corporate treasurers at the present time, the problem is not an

incurable one. On the contrary, there are a whole range of options – some tried and tested and some more novel and experimental – that can be taken to mitigate pension risk.

To begin with, the examples of Honeywell, and more recently Ford, show us that legacy losses need not be a factor weighing on future results; there is a way by which companies who suffered heavily during the post-crisis years can start again with a clean slate. However, the two examples also show us that switching to MTM accounting is not a panacea, rather only a small part of a much broader strategy.

Indeed, prior to switching to MTM accounting both Honeywell and Ford took numerous other steps to address pension funding shortfalls. In the case of the latter, these include the making of close to \$11bn worth of contributions since 2012 to help finance its plans, and the paying out lump sums to retirees who give up their pensions that have, to date, totalled \$46bn. The measures certainly seem to have done the trick: between 2013 and 2015 Ford's global pension plans went from being \$19bn underfunded to \$9.8bn underfunded. Although more recent data is not yet available, given the current trajectory the shortfall may be even smaller now. It was the success of these measures that allowed Ford to press on with the switch to MTM accounting. "Because we're nearly finished with that strategy...we're at that point where we can make this change," Ford CFO Bob Shanks said in a recent interview.

But whether a company ultimately opts to do something similar or take a different approach, treasurers should be involved in the conversation. This is appropriate not only because of the impact pensions evidently have on overall performance, but also because of the role treasurers have in debt issuances needed to plug deficits; the expertise they can bring with respect to risk management; and the counsel some will be able to offer trustees on asset strategies. Pensions are an almost inevitable headache for most corporates and their treasury departments in today's economic environment, but the expertise and capabilities treasurers can bring to the table may be an important part of the cure.

Your system is dead?

When a core treasury system such as a TMS or ERP fails, either partially or catastrophically, you had better be prepared to take control. But how likely is this to happen? And even if it does, what can be done? Treasury Today looks at what happens and what to do if your TMS or ERP goes down.

You may believe that you have the most secure and dependable technology known to treasury-kind but the fact is, there are no infallible systems on the market. This sounds like a gloomy prognosis but system failures occur, sometimes without any warning. For treasurers, the key questions that should be asked are: 'are you aware of the risk, and will you be ready to deal with the outcome?'

Catastrophic system failure resulting in a significant and sustained loss of access, loss of data, or damage to hardware or its total failure is extremely rare, notes Alex Ellison, an independent consultant (and a former Director of Treasury Solutions Business Development at SAP). In the event of a catastrophic or partial failure, she believes most "mission critical" systems within a large organisation will be (or should be) capable of 'hot switching' between mirrored data centres to allow almost immediate take up and continued use of live data.

Unfortunately, notes Bob Stark, VP Strategy at technology vendor Kyriba, most treasurers will have previously made the assumption that their system is well-supported and, as such, do not necessarily have a recovery programme beyond their treasury system being available. As a result, he believes that many will be severely tested when the worst happens.

Is it really likely?

But what are the chances of a modern ERP/TMS failing to perform either catastrophically or partially? Outside of substantial physical damage caused by natural disaster or terrorist attack, for example, the risk really is uncertain says Tim de Knecht, Head of Strategic Finance and Treasury for the Port of Rotterdam. "With standardised processes, a good and integrated testing procedure, and knowledgeable people, there should be a limited likelihood of this happening," he believes. "But real life experience shows us that system failure – including ERPs and TMSs – happens rather more than we might imagine in recent years."

One of the reasons that there is a reasonable chance of failure of a core system is down to the model of deployment notes Stark. Although diminishing in number,



an internally installed TMS is completely dependent on the configuration offered when it was deployed: if the in-house server goes down it will take the TMS with it and if IT has not built a fully redundant backup to take over, then treasury will be system-less for the duration. Similarly he says non-cloud hosted software runs the same risk with a single point of failure. “The risk is a lot higher than people realise because the majority of systems on the market are not true cloud and do not have the capability of behind-the-scenes disaster recovery and business continuity.”

In practical terms, the risk comes down to whoever manages the IT component: if it is installed on premises then it will be internal IT’s task to get it back. The majority of systems sold today are hosted and, states Stark, the vendor has 100% responsibility to ensure that their system is up and running and goes back online following disruption. “This is why many organisations are not choosing on premise any more – but then they must rely on the vendor having everything in order and having made all the right investments to be able to get you back up and running very quickly.” Service Level Agreements (SLAs) provide a commitment to delivery but if the business continuity and disaster recovery is not effective and downtime exceeds what is comfortable then Stark says it doesn’t matter whose responsibility it is, “ultimately treasury is made to suffer”.

The immediate effect

Indeed, should the worst happen, there will be a number of immediate concerns to tackle and the absolute prerequisite is “to avoid, under every circumstance, panic and uncontrolled action”, warns Thomas Stahr, Managing Partner of Stahr Treasury Consulting and a senior treasurer of many years’ experience. This is where robust planning comes into force. In practical terms, the first task is to convene an emergency meeting with the most senior responsible personnel. “Designate an immediate task-force, ensure clear definition of tasks and responsibilities and enlarge it where appropriate and necessary,” he advises. This and all subsequent direction will form part of the business continuity plan (BCP), of which more later.

“Consider it as an opportunity to avoid it in the future by introducing a scenario-procedure guideline, keeping in mind that second time around it could be worse and have an ever harder impact.”

Thomas Stahr, Managing Partner, Stahr Treasury Consulting

Back in the here and now, with the sudden loss of a TMS or ERP, the impact on the daily treasury process will straightaway hit payments, the reconciliation of bank statements and related cash flows on all external and internal accounts. “Still having ‘old’ permissions to get immediate access to the accounts with individual banking software would be an asset,” notes Stahr. “If not – and this is mostly the case – at least an up-to-date contact sheet for your bank account managers, with their phone numbers and emails, is a must.” In such a situation, he adds that re-

learning how a fax machine works would be beneficial too. The same burden applies to all following procedures such as gathering information on exposures, maturities of trades, the need for new trades, and so on.

De Knecht immediately alights on the ability to make payments too and adds concern over how open futures positions are closed without a trading platform. He further notes that it will be necessary to somehow secure accurate market data and bank statements and to acquire cash forecasts from subsidiaries. The bad news in all this, he warns, is that the most probable immediate remedial action for treasurers will see them having to resort to a series of manual steps – typically calling upon spreadsheets and bank portals for essential activities – to make do until their workflows within the wider system are back online.

As events unfold in the minutes and hours following a major technical event, Stahr is adamant that not only is it essential to have treasury personnel with a solid grounding in all underlying treasury processes but also that a “good team-spirit” pervades the entire operation. “It must be clear to everybody that nine-to-five days are suspended as long the problem exist,” he cautions. As such, “serious but calm communication” with all stakeholders will be required of the senior treasurer. However, detail should be only as much as is necessary to avoid confusion. In the case of catastrophic system failure, all upstream process stakeholders – including accounting, controlling, the CFO and possibly even the Board – must be made aware of the situation without delay.

It is important too for certain downstream participants to be alerted: risk owners (business units bearing the underlying risk) should be clear that their orders for hedging need to be submitted now by e-mail or fax for the duration. Doing so by phone is not advisable says Stahr. “The phone line will be glowing hot anyway; avoid making the situation any more hectic than it is already.” Conversely, he warns of the need to keep awareness of the problem “at the lowest possible level” as far as external relations are concerned, avoiding reputational damage and stakeholder panic.

After the fact

Once the worst has been contained there will be time for reflection. Post-event analysis should reveal any limitations. “Consider it as an opportunity to avoid it in the future by introducing a scenario-procedure guideline, keeping in mind that second time around it could be worse and have an ever harder impact,” notes Stahr. However, he advises treasurers not to wait for the worst to happen but to try instead to pre-empt worst-case scenarios and to present them alongside the usual risk-mitigation strategies to the risk committee.

To help mitigate the risk of system failure, both Stahr and De Knecht refer to a ‘scenario handbook’ which should be one of the first ports of call for any treasury system failure. Creating this will come either from experience or from stress-testing various ‘what if’ situations for disruption of the different functions of a TMS or ERP.

When initiating steps to mitigate the risk of technical failure, Stahr urges participants never to be afraid of thinking “unpopular” thoughts. For a third-party system failure, this may demand serious questioning of the vendor’s capability under pressure. If its response was less than satisfactory, he says reflect carefully and consider finding an alternative; this may be an unpopular decision but a working and well-

supported system is an essential tool. "The risk of a fail is too serious not to take full control".

Having a good relationship with a core system vendor is thus vital and it is a joint responsibility between the treasury team and internal IT not only to find the most suitable technology but, as Ellison notes, also to ensure that the vendor has continuity in terms of investment in R&D and its own financial resilience. The impact of ongoing consolidation in the TMS market and the issue of ownership is one that must be considered in the context of product longevity.

It is your problem

"In essence, responsibility for uptime of systems lies with the IT department," says De Knecht. "However, it is quite a bit easier for a CFO to place this responsibility with the treasurer to ensure they are on top of the game and that there is an understanding of the implications and which risks need to be mitigated." For Stahr, responsibility begins with the treasury user and he believes all should be obliged to escalate issues to try to resolve problems, even though this may temporarily create more work. "Never try to resolve apparently simple problems with workarounds – that's no solution at all, that's just a risk-increasing action."

Rewinding to a time before anything has actually happened, Stahr has a further, if unexpected, take on accountability. He believes that some treasurers may be storing up trouble for themselves should the worst happen. "Running a TMS is on the one hand increasing the efficiency and safety of treasury processes but on the other it can allow treasury to drift into standard processes where tight guidelines do not permit the treasury manager individual thoughts." Some treasury staff, he feels, are "becoming the function of pressing the right button at the right time within a strict daily, weekly or monthly guideline". The net result is that in the event of core system failure, treasury personnel who learned the business "mostly as a non-creative job" and who are suddenly thrust into an emergency situation "are often not able to think in an alternative way".

There is another issue to consider here concerning the level of treasury understanding. "What can be difficult for some is that maybe before treasury invested in a TMS the requirements were less complex," says Stark. When investing in such a system, he notes that treasuries are not necessarily trying to recreate what they did before; they naturally want to take it to the next stage. "As they adopt the capabilities of a treasury system, there will be an expected increase in complexity. Suddenly it becomes that much more difficult to replicate advanced processes for anything more than a couple of hours at a time."

Regardless of the origin of such difficulties, in the event of a major system failure, Stahr asserts that of necessity there may need to be a "quick and dirty education" on treasury fundamentals. "Assuming that there is anybody in the treasury department who has good practical experience working without a TMS, then only now will some staff learn those pure underlying treasury processes," he comments.

Continuity planning

Of course, as a general guide to maintaining treasury operations under emergency conditions, a Business Continuity Plan (BCP) – which should also include a Disaster Recovery (DR) plan – is an essential tool for any business.

This should be clearly documented, easily accessible and regularly tested. BCP should cover likely emergency scenarios and provide the broad means of keeping critical business functions running following such an event – the emphasis being on 'critical', states Ellison. It will include input from multiple functions and cover the direction of people, locations and technology. The role of DR is that of a subset of BCP and is typically an IT-driven set of procedures that focus on the recovery of software, hardware and data.

A number of key BCP elements are noted by Michael Baum, Senior Manager, KPMG, in his December 2015 Insight piece in KPMG Corporate Treasury News. There are two determining factors that are the guiding principles for the generation of a treasury-specific BCP, he writes: availability and efficiency. The key enquiry when devising an approach to availability is to pinpoint the maximum tolerated period that any given process can be forgone. Importantly, identifying critical processes must primarily be the responsibility of treasury: all other steps – in particular IT technical steps – must be based on the outcome of this analysis. "Issues of possible threats, risk mitigation and security needs, particularly for time-sensitive treasury processes, logically lead to greater investment needs to protect availability," suggests Baum. "This is where the second guiding factor comes into play: the efficiency of requirements needs to be ascertained to achieve the best possible balance between investment and risk tolerance." In short, he contends that an exercise in prioritisation is essential not just for operational needs but in terms of economic effectiveness too.

Know your system

Of course, the best protection is never to let your system fail in the first place. If the right decision is made when selecting core technology, treasury dramatically reduces the chances of having to face a major disruption, says Stark. Indeed, under such circumstances, he feels total failure becomes "extremely unlikely". If, however, treasury has made some incorrect assumptions around the capabilities of its technology, it could find itself in a situation where workflow cannot be brought back online as easily as needed. If service is not resumed within a comfortable timeframe then resorting to manual operations is almost inevitable.

To reduce the likelihood of a major technology fail, treasurers should therefore in the first instance ask their supplier (internal or external) what the backup plan is, should the system go down. Be sure to clarify what 'backup' actually means, warns Stark. Simply backing up a database to ensure data is not lost is one thing, but a treasury system is a vastly more complex platform requiring a whole new approach. Indeed, questioning and understanding whether a core treasury system is suitably protected may not necessarily sit within the skillset of the typical treasurer and there is a wide range of details within this line of enquiry which must be dealt with satisfactorily. Unless fully conversant with the likes of SOC 2 Type 2 evaluation reports and the new Trusted Service Principles, Stark urges "bringing your experts into the room to make sure you are asking the right questions and making the right decisions".

Ultimately, treasury must not be on an island from an information security standpoint, let alone one that meets all the needs for hosting, disaster recovery and business continuity. For Stark, the reason for adopting this viewpoint is simple: "It is not a pretty situation to go back to a manual workflow".

Go your own way: managing investments in a diverging economy

In an economic environment characterised by divergent monetary policies and regulatory change, treasurers more than ever need to think holistically across currencies. Nowhere is this demand more insistent than when reviewing investment policy.



Amit Agarwal
EMEA Head of Liquidity
Management Services,
Treasury and Trade Solutions, Citi



James Lee
EMEA Sales Head,
Technology, Media & Telecoms,
Treasury and Trade Solutions, Citi

When in December 2015 the US Federal Reserve raised short-term interest rates by 25 basis points – the first rise in nearly a decade – it not only ended near-zero borrowing costs but also signalled that the world's largest economy had at last turned a corner. The impact of that action was felt far and wide as equity markets quickly rose across Europe and Asia and USD strengthened against a basket of major and minor currencies.

The US central bank's tightening of monetary policy also heralded a small change for the better for some investors as the two-year Treasury yield pushed past 1% for the first time since 2010. With only gradual increases indicated by US policymakers from now on, caution is the watchword: the Fed said in a statement that it would "carefully monitor actual and expected progress" towards its 2% inflation goal.

Meanwhile, on the other side of the Atlantic, the European Central Bank (ECB) maintained its accommodative course with Mario Draghi taking time in late January to staunchly defend the central bank's aggressive monetary easing policy. Eurozone borrowing costs have dropped by 80 basis points since the launch in 2014 of the ECB's quantitative easing (QE) package. The programme has now been extended until March 2017.

Taking the wider view

With two of the largest central banks on an opposing interest rate trajectory, divergence of monetary policy, with far-reaching consequences on both sides, it seems, is the new normal. This is the first time in a long time where we are seeing divergence in major central bank policy rates across the world, notes Amit Agarwal, EMEA Head of Liquidity Management Services, Treasury and Trade Solutions (TTS), Citi. Divergence, he comments, is a symptom of different levels of economic growth: the US is on an upward stroke whereas Europe is exhibiting growing pains and the China-led Asian emerging markets are slowing.

Of course, it is not just USD and euro that are affected, observes James Lee, EMEA Sales Head, Technology, Media & Telecoms, TTS, Citi. In Europe, the ECB's stance has been mirrored by other currencies with Swiss franc (CHF), Danish krone (DKK) and Swedish krone (SEK) even going negative. Following the Fed's rate rise, other central banks in LatAm and in parts of Africa also opted for interest rate rises. Clearly, treasurers must broaden the outlook of their currency and associated interest rate exposures.

With the expectation that the Fed will continue to tighten policy and the ECB to remain accommodative, divergence will only increase on the wider scale. But there are other elements to consider too. With Basel III and CRD IV, for example, the different jurisdictional interpretations of key regulations are creating additional challenges for bank and non-bank organisations alike. There is potential for conflict too between the as-yet undecided path of the EU regarding MMF reforms versus the already resolved US approach which will be implemented in October 2016. For investors the world over, this state of affairs demands attention.

The right approach?

"Treasurers have always reviewed their investment policies on a regular basis. But this has caused them to take a look at those policies from the ground up," says Lee. Security of principle and liquidity remain primary concerns but whilst investment return is of secondary importance, in the current environment certain considerations must be attended to in order to ensure optimisation. Indeed, there is an arbitrage opportunity here, notes Lee. With USD offering a better return, companies using low, zero or negative rated currencies are seemingly at a disadvantage. But borrowing in a low rate environment and investing at a higher rate is a simple opportunity.

To ensure this is the right approach, treasurers need to consider their pool of currencies and if they are associated with USD they may consider leaving them in-country to get better rates of return, Lee explains. “Many corporates look to maximise liquidity and bring cash into the centre for maximum control and to enable them to invest it in the most economical way possible. But maybe they need to leave some currencies in the local market to minimise the cost of negative interest rates.”

Consideration ought to be given to dividend policy too, says Lee. Where a negative interest rate currency is held, it may be beneficial to dividend up to another company in the group, translating that cash into another currency to mitigate the cost of managing negative interest rates in that jurisdiction. The efficacy of this would depend on local rules around withholding tax. However, these may pale into insignificance as the corporate taxation agenda prepares to take a major new direction as the OECD’s reforming Base Erosion and Profit Shifting (BEPS) project comes to fruition.

Where companies artificially shift profits to low or no-tax locations where there is little or no economic activity, the level of corporation tax being paid is minimised. BEPS, supported by many governments around the world, aims to modernise international tax rules by revising the OECD’s existing Model Tax Convention and Transfer Pricing Guidelines. It is anticipated that these revisions will be completed and released by 2017. Before that, warns Agarwal, there will not only need to be a wholesale review of how treasury centres are managed and where they are located, but also how companies approach investments where their cash ends up in different locations and currencies.

With a full strategic review of investment policy advisable in order to extract the most value, Agarwal urges treasurers also to consider any such revision from a risk management perspective, paying particular attention to translation risk. On the one hand, putting a lot of liquidity into some of the emerging market currencies – Turkish lira (TRY) or Russian ruble (RUB), for example – may yield satisfying results as interest rates in those markets are at a very high level. But some emerging markets have seen devaluations of between 40% and 60% in recent months.

“Companies have to be mindful of their investment policy but also be conscious of their supply chains in terms of where cash is being generated and in which currencies they have appropriate currency translation risk hedges in place,” comments Agarwal. There may be natural hedges available if producing and selling in the same market, but in a global interconnected economy, the supply chains of the companies often tend to have buying and selling patterns in certain currencies. It is here, he notes, that substantial exposures are created which in the current environment “need to be seen in a holistic manner”.

Taking action

In terms of translating this understanding into investment activity, a firm grip on exposures is the essential starting point, says Agarwal. Major corporates and MNCs operating in almost every part of the world will have exposures to most currencies albeit by varying degrees. These companies may have good visibility of their cash across 80% of their market, these tending to reflect the most stable part of their portfolio. But in a volatile and divergent environment, he argues that robust forecasting strategies must come to the fore “so that even before they start building an investment portfolio, they know where their cash is, in which currencies, and where their exposures are”.

There has been a notable shift in the last few years that has seen increasing numbers of corporates opting for a more sophisticated in-house bank model, notes Lee. A key part of this structure is the visibility and control of cash that it brings. Control can come through automation of sweeps from local accounts into centralised locations, minimising or zero-balancing cash locally. Visibility comes from investment in various core systems (such as an ERP or TMS) but also in the deployment of bank proprietary solutions which not only deliver visibility but also assist with forecasting, allowing treasurers to manage their investments “in a much more structured and sophisticated way” and providing a more accurate line of sight for short-, medium- and long-term liquidity needs.

The combination of a stressed global economy, divergent monetary policies and the leveraging of technology has seen a partial shift by some corporate investors away from traditional investments tentatively towards those that might yield a greater return whilst upholding their policies of security of principle. Tri-party repos in particular have seen an uptick in interest (in both senses of the word) and banks such as Citi have responded to market conditions with the introduction of new products such as the 31-day, 60-day and 90-day term deposit options, which allow its clients to invest more strategically and potentially mitigate negative interest rates.

Stay alert

In the long run, keeping a close eye on the Fed and ECB is essential as their actions have far-reaching consequences. But Lee urges treasurers to pay heed to broader political themes. With the spectre of ‘Brexit’ (the UK’s possible departure from the EU) for example looming over the markets, the likely fallout of such an event will spread, potentially with significant bearing on the investment space.

In preparing the ground for control and visibility over cash and investments, Agarwal advises treasurers to use resources that are close to the action – including the banks – as the move towards reshaping investment portfolios gathers pace. Maximising returns whilst maintaining liquidity and security is a tough ask in today’s divergent economic environment. However, Agarwal believes that banks’ own balance sheet needs, their interpretation of regulatory reform and the pace of monetary policy change should be sufficient motivation for all parties to discuss strategic investment options and portfolio mix in terms of the right products, currencies, tenor and even geography.



SCF: incumbents vs disrupters

The battle between the banks and the fintech disrupters for a bigger share of the global supply chain finance business is heating up. Both have invested heavily in their platforms over recent years. But who has got the solutions treasurers are really coveting?

Not too long ago treasurers interested in supply chain finance (SCF) all tended to follow the same well-trodden route. Sometimes treasurers would look to finance suppliers using payables; sometimes treasurers would look to raise finance themselves using receivables – but almost all the time they would look to one of their banks to deliver the service.

Then new providers came along, the self-proclaimed disrupters of the fintech world. A multitude of these nimble, bank-independent platforms began to spring up around the globe post-financial crisis, each looking to grab their share of a SCF market now said to be worth \$275bn and expanding by 30% annually. The new platforms that brought multiple banks together for large programmes introduced new delivery methods to the market – web applications and Software-as-a-Service (SaaS) – and they introduced SCF to a whole new type of client. As a result, corporate treasurers today are just as likely to access SCF by clicking a button on their cloud-

based TMS or e-invoicing application as they are by picking up a telephone handset and calling a bank.

In this feature, we take a look at the conditions, like recent regulation and technological trends, and especially those that allowed new entrants to crack the SCF market, before explaining why the banks, despite the advantages their new rivals currently enjoy, are not going to give up ground in SCF without a fight.

A core bank product?

In the battle for the SCF market, the banks sound confident that they will prevail in the long run. Although they are conscious of the challenge posed to traditional business models by fintech, most corporate buyers, they say, still see their institutions as best placed to deliver SCF programmes. “It is a big threat, because these smaller players have the ability to do anything and everything,” Parvaiz Dalal, Citi’s

Onboarding tips from procurement

Whether it is a bank or a technology provider, picking the right solution is not the end of the job for the corporate treasurer. Indeed, very often, it is what comes next that is the most challenging part of the process.

For SCF to be considered an unmitigated success, the buyer must be able to bring on board all of the trading partners it has designated. But even with all the benefits SCF has to offer suppliers, this is not always as straightforward. As hard experience has taught treasurers time and again, when it comes to SCF, there are suppliers out there who can take some convincing.

What steps can be taken to ensure a better chance of success? Since the procurement department is, in most organisations, the commercial link to the supplier base, there are perhaps few better people to go to for insight on that question.

"I think it comes down to how a project is handled," says David Loseby, Group Procurement Director, at the multinational transport company Arriva. "Even simple things like first piloting a solution before going ahead with a full-blown roll out are now and again overlooked. A more structured and considered approach will have more phases to it and the finance may not come through as quickly, but what it does give you in the long run is something more sustainable."

When it comes to the specific issue of handling reticent suppliers, Loseby's advice is simple: put yourselves in their shoes. It is all about communication. First, the treasurer must not keep in the dark counterparties who will be impacted by a project. Secondly, when treasurers do inform suppliers about an SCF scheme they wish to enrol them on, they must make an effort to communicate to them in a language they understand. Financial jargon, then, should be avoided at all cost. "The rules of all these things are actually very straightforward: keep it simple and keep the communication going keep it transparent and there is a good chance of success," he says.

Finally, Loseby says, treasurers should, at the very outset, consider whether the solution they are looking for fits with the project's objectives. Noting that there is a lot more to choose from today in the SCF market, he says that the choice between going through a bank proprietary solution or an independent third party, is made a lot simpler when one knows what one is trying to accomplish. "There have been a lot of developments in the technology space and, as a consequence, that starts to open up new opportunities. If there is an objective to ensure incorporation of SMEs, then that might start to drive a different approach in terms of looking at solutions from niche providers more geared up towards solutions in that market. So that is the overarching imperative for me – understand what is driving the requirement and then work from there."

EMEA Supply Chain Finance Head tells Treasury Today. "But it encourages us to keep up the pace, and we are constantly re-engineering our business to ensure we are offering a very efficient processes."

A large global bank may not be able to match the 'lightness' of smaller technology companies, but there are other persuasive arguments, they say, for sticking with them. Top of the list, of course, is the relationship. At a time when banks are looking to increase their share of wallet with key clients and, at the same time, end relationships that are no longer profitable, is it really wise to be giving away a service that could be delivered by a relationship bank to another, less critically important counterparty? "Some treasurers do see it as like buying a system, and will select a software solution," says Jeremy Shaw, Head of Trade Finance, EMEA at J.P. Morgan. "But most corporates view it more as a core banking product which they allocate to their key relationship banks, because they know they can rely on them and have access to potentially deeper pockets in terms of investment."

The long tail

If there were some clients the tech firms knew they would never prise away from the banks that did not matter, however, because there were many more organisations in the market – the non-top tier corporates the banks ignored – that also needed affordable and accessible solutions.

In 2012, Eric Riddle, EVP & Global Head of SCF at cloud-TMS provider Kyriba, was working for PrimeRevenue, at that time the largest third-party provider of SCF. Back then it was the banks,

he explains, that seemed to hold all the cards. "At that time I felt the pressure from large global banks and that relationship capital they held was very significant in terms of their ability to influence decisions and win Reverse Factoring business," Riddle says. "However, there was never any question that reverse factoring through a bank had limited application beyond a certain point."

What Riddle means is that banks are encumbered relative to third-party competitors, like Kyriba, because of the various Know-Your-Customer (KYC) requirements such institutions now have to manage through as they onboard suppliers to the programme. Consequently, banks prefer to focus on a small subset of the market, the largest volume suppliers, from which the end justifies the means. These suppliers represent the largest materiality of transaction volume to justify benefit to both the buyer and the supplier as measured against the friction to onboard imposed by KYC. These suppliers are considered to be the low hanging fruit and are referred to as the 'short tail' of the SCF market; it is those large stock listed international companies that sit at the summit of the supply chain.

Non-banks have, sensibly, therefore, looked elsewhere for opportunities to intermediate. "Truly, the most dire need for capital, and the most significant opportunity for cash visibility and managing cost and risk in the supply chain is with the long tail," says Riddle. Leveraging Kyriba's SaaS-based TMS solution when combined with a non-bank lender, a broader set of companies can now access services such as dynamic discounting, reverse factoring and receivables finance in order to optimise working capital and mitigate risks in the supply chain. It

is by virtue of not being a bank that gives Kyriba an advantage in delivering solutions to these types of companies. “In relation to the emergence of Kyriba and other technology providers, we are more willing to embrace innovative solutions and as a result can really have an impact on that long tail. In summary, there is a significant move to technology providers that are not banks and therefore not burdened by KYC.”

Facilitators

Escaping that regulatory burden means these companies must be content with being facilitators. Indeed, most do not claim to sell a total solution; they offer platforms, but there are no balance sheet or onboarding capabilities. Another example of such a provider is Basware. The enterprise software company, much like Kyriba in the TMS-world, saw opportunities in the SCF solutions market to build upon its core offering, which happens to be, in this case, Purchase-to-Pay (P2P) solutions. Rather than becoming a regulated financial institution, Basware stands between enterprises looking to borrow and banks looking to lend, utilising the data residing in the network through which millions of companies are using to exchange e-invoices. The middlemen of SCF, if you like.

“Basware does not want to become a bank; we do not want to become a heavily regulated organisation,” explains Ad van der Poel, Senior Vice President, Financial Services, Basware.

“So we are not the ones doing the actual financing we are merely facilitating or rather orchestrating between the network, the companies connected to that network and the data we have and the actual funders and financiers. We are actually partnering with the banks. They want to fund SCF, and we want to offer SCF to our clients.”

However, Basware bring something to the table that is invaluable when it comes to delivering SCF solutions to the so-called long tail. Unlike a bank, they already know not only the corporate buyer, but also the supplier, the goods that have been ordered, the amount that has been invoiced, and even when that invoice has been approved. Van der Poel says: “We have the data and we leverage that data by feeding it into risk and pricing assessments allowing us to tell companies, almost immediately, whether they are going to get financing and at what rate.”

All this points to the fact that the market for SCF might not be quite as clear cut as that dichotomous narrative of nimble disrupters versus dinosaur incumbents initially leads us to believe. Even when it is a TMS the customer goes to, it is the banks (together with an array of other institutional and retail investors) that are ultimately the ones providing the capital. Collaboration of this sort between technology providers and banks could be seen as being very beneficial for the corporate end-users of SCF; a means for them, perhaps, to overcome bottlenecks and potential credit inefficiencies found when using single banks.

Growth potential

For that reason, some banks recognise that there is value to them in participating in deals led by third-party vendors. However, significant investments have not been made by the banks in their own proprietary technologies for no reason. They are seeing growing demand for SCF, and they are convinced that their solutions are best placed to meet that demand. “We continue to see more interest from companies [considering SCF],” says J.P. Morgan’s Shaw. “There are

companies who may not have had a programme in place previously in industries which, historically, were very cash rich, such as energy commodities, for instance which are now looking at supply chain finance. And there are also companies that have a programme, but now wish to look to expand it in size or geographically.”

“We have the data and we leverage that data by feeding it into risk and pricing assessments allowing us to tell companies, almost immediately, whether they are going to get financing and at what rate.”

Ad van der Poel, Senior Vice President, Financial Services, Basware

For Citi’s Parvaiz, SCF is still a growth engine with opportunities to expand their services now presenting themselves across new regions as well as new market segments. “When you look at companies in developing markets, there is still a big gap between the best performers and the worst performers,” says Citi’s Parvaiz. “The worst performers are not necessarily the small firms, but rather the larger companies that simply have not been able to achieve the efficiency that some of their peers have achieved. Traditionally, retailers used to do a lot of supplier financing but lately we’ve seen a rise in energy segment like oil and gas, power, industrial housing, airlines and shipping. We are seeing new segments that are buying into this solution and deploying it. For that reason, I see a lot of room for growth in this business. There will be no slowing down.”

Meanwhile, the likes of Kyriba, Taulia and Basware are expected to continue to focus their attention in the area where they are seeing most interest, the long tail. But while there may be many more companies in this bracket – relative to those sectors that the banks are targeting – this does not necessarily mean technology providers have the best growth prospects. As Kyriba’s Riddle readily acknowledges: “The largest relationships are often the most powerful because around 80% of the money spent is with 20% of businesses in the supply chain. The banks do very well in the top of the supply chain – that short tail as they call it.”

The entry of new players into the SCF market, and the new ideas they have brought with them, has certainly given the incumbents of the banking world something to think about. But as the comments of Dalal and Shaw emphasise, SCF remains a growth industry. Are the banks likely to now give up on proprietary solutions that they not only have made considerable investments in, but are also now drawing interest from an ever-broader portfolio of corporate clients? Not a chance.

So, however one looks at it, the battle for the SCF market is looking increasingly finely balanced. However, for all the treasurers out there shopping for new solutions, it seems that the choice will ultimately come down to what they are looking to achieve through SCF and, in particular, the parts of the supply chain they are most concerned about supporting. If there is one overriding value the new competitive landscape brings to corporate treasurers, it is the range of new opportunities it presents for them to optimise both their working capital, and that of their suppliers.



The fine art of corporate finance

Pratibha Advani

Chief Financial Officer **TATA COMMUNICATIONS**

With more than two decades of experience in corporate finance, Pratibha Advani has built a reputation for knowing exactly what is required to take a company forward. Her most recent role, as CFO for a global telecommunications company with Indian roots, is a challenge she relishes and one which allows her to exercise her creative impulses to their fullest extent.

Tata Communications is a global business headquartered in Mumbai and Singapore. The \$3.2bn listed company owns more than 210,000 kilometres of terrestrial fibre and claims the world's largest wholly-owned submarine fibre network, formed of more than 500,000 kilometres of subsea fibre. Its vast infrastructure means almost 25% of the world's internet routes are on Tata Communications' network, and around 70% of the world's mobile network operators use its services.

The idea that artistic minds cannot or will not flourish in the commercial world is one perpetuated by the romantic notion that impoverishment somehow unleashes true originality. However, despite many great artists throughout history claiming destitution, the creative muse can and does find its expression in the business environment. And when the vision of imaginative individuals are channelled towards commercial endeavour the results can be exceptional.

As CFO at Tata Communications, Pratibha Advani is responsible for its strategic financial management. She is also

a talented artist with a creative style that finds its expression in many different ways, not least through her approach to her responsibilities with this \$3.2bn listed high-tech and telecommunications company.

With over two decades of experience ranging from financial strategy, project financing, M&A, risk management, and legal and secretarial, Advani has had plenty of opportunity to develop her creative methodology. But on her own admission, she entered the world of commerce "by pure default". Although she felt a natural inclination towards artistic expression she recalls

that whilst still at school her introduction to business as a study area was taken as a challenge – of which she proved more than capable of rising to. Following her foundational success she gained a Bachelor of Commerce (Honours) degree before engaging with professional accountancy exams. “It was still by default that I became a chartered accountant and then stepped into the world of corporate finance,” she recalls.

Art into business does go

Arguably Advani was moving ever further from her artistic aspirations, but with the progressive development of her creative approach to business she feels this was not the case at all. In fact, as her career advanced, she soon realised that “creativity knows no limits”. Corporate finance provided her with a stimulating exposure to a broad range of commercial issues, at times offering fascinating insights into a variety of businesses and sectors in which the imaginative individual can explore new models and methods as they seek to transform functions and whole organisations.

Driven by the knowledge that imagination can be applied in every function, Advani quickly moved up the ranks to become CFO & VP of Finance at GE – SBI Cards, and later at Barclays Shared Services in India. A similar high-ranking role followed as CFO at NIIT Technologies where she led the global Finance, Secretarial, Compliance, Regulatory, Legal, Secretarial and Investor Relations functions. In May 2015 the call came to join Tata Communications as CFO, “finishing work one night at NIIT Technologies and the next morning taking up the post with Tata Communications”.

CFO: a new meaning

The acronym CFO is well-understood to mean Chief Financial Officer but this is not enough for Advani. She sees the role as having evolved over time into that of the Chief Facilitation Officer. “It requires one to be an effective organisation leader, balancing the responsibilities of stewardship with those of business partnerships,” she explains. In the high-tech communications sector, the challenge is to “act as a catalyst, promoting new ideas, sowing the seeds of innovation and improvisation, and driving productivity and efficiency within the organisation while also pursuing growth within a highly regulated environment”.

In reality, the rules and regulations faced by all those operating in the tightly controlled communications sector are not a source of frustration for Advani, even if she admits they can slow progress sometimes until “realignment to the changes” is effected. “As CFOs we have to make the organisation both commercially and compliance-savvy. Once this foundation has been laid, it is not so difficult,” she reports. Her ultimate objective is to ensure “sustained growth with profit maximisation within these constraints, alongside wealth creation for the stakeholders”. This understanding is cascaded down to all those in her finance team.

Keep learning

In the “all-encompassing” role of the CFO, the need is to keep one eye on “just about everything”. Every transaction in some form or another has a monetary impact so that “like it or not, you do get involved”. From this standpoint, Advani sees her position as both challenging and fulfilling. But it has been a conscious career decision to move across various industries as part of her mission to absorb as much information and knowledge

as possible. She has had the “good fortune” to work in manufacturing, hospitality, retail, various financial services, IT and now telecom as she continues to satisfy her quest. The fact that she initially saw both IT and telecoms sectors as “too complex for a creative person like me” but entered both nonetheless is testament to her sustained willingness to take on a challenge and “continuously be high on the learning curve”. But keeping cutting edge businesses ahead of the game is just the kind of creative challenge upon which the artist within her thrives.

Despite her initial misgivings, Advani’s immersion into the world of technology has clearly now extended her appreciation of its value to the decision-making process of corporate financial operations. She recognises that it underpins “nearly every industry and business process today”, improving efficiency and helping more informed, timely and correct judgements. “The integration of systems is critical for the success of any enterprise; if the back end and front end do not communicate and allow seamless movement of data it could be an operational nightmare for any industry player.”

The high-tech challenge

Tata Communications is at the heart of an industry that is unavoidably high on investment but long on payback cycles, notes Advani. “The way that the industry is transforming today brings a strong flavour of IT services, which is currently unregulated, so that within this sector a business must try to balance opposing demands,” she comments. “For Tata Communications there is a need to balance the needs of a ‘bricks and mortar’ company, with all the essential investments in infrastructure we must make, coupled with the ‘start-up’ mentality we adopt as we open up new opportunities around the world.”

The fact that this balancing act takes place against a backdrop of global financial volatility adds to the pressure. “We have to have the ability to raise capital at highly competitive rates and at the same time satisfy the complex regulatory and tax environment across the world [Tata Communications has around 45 subsidiaries globally]. We also have a very diverse range of customers: we really are sleeping with the enemy, working with other telcos and businesses across the wide spectrum of the industry, and this requires us to develop bespoke pricing models – this is a highly price-sensitive industry which also obliges us to continuously find a balance between chasing volumes and maintaining profitability.”

Few companies have been insulated from current financial volatility and Tata Communications is no different. But its global presence as a communications business is “both a challenge and a boon for us”, notes Advani. Market shifts can cause short-term disruption but they also provide opportunities. “If one particular market stops firing we have the fall-back option of focusing on our growth markets,” she explains. As its mature markets had been tapering or remaining steady, it found opportunity in EMEA and APAC. And with a behavioural shift towards data usage putting pressure on its “bread and butter” voice business in terms of volume drop and pricing pressure, it has been able to leverage huge opportunities in data services, especially with the rise of ‘superpower’ tech businesses such as Google, Amazon and Netflix.

This awareness of and response to market changes is something very much in the remit of the CFO as the need arises to optimise resources across all capital investments. In addition to continually balancing investment in innovative ideas with the

upkeep and development of essential investments in its fibre network, Advani explains that she also has to take tough decisions on timing when pulling the plug on ideas and investments that are not delivering the right return. The latter, she explains, is one of her biggest challenges but points out that facilitating and enabling growth is critical. Getting this right necessarily involves finance partnering with its business colleagues.

Building relationships

The relationship between the office of the CFO and the rest of the business may have moments of tension but the management of the financial process requires “discipline, governance and rigorous evaluation”, says Advani. She is a strong believer in partnering and collaboration: “It is not individuals that win but teams.” Whilst at times tough decisions are taken which may impact people in other functions, she is adamant that actions are taken in the interests of the organisation and that these must align to the corporate strategy and the vision. “I think if you communicate – and there is no such thing as over-communication – you are transparent, if you can show that there are no hidden agendas, then coming to a consensus is not too difficult.” And by listening to the collective worries of colleagues and accepting their diverse viewpoints, a far more robust organisation is built.

As a firm believer in the importance of human relationships in business, Advani advocates respect for others. The development of the so-called soft skills – including empathy and sensitivity, communication and presentation skills – are thus a “prerequisite” for every professional. “More so for finance people,” she adds. “Given the nature of our role, we are required to take tough decisions and implement them. I think that if an idea or decision can be socialised, that is the first step to opening the minds of people to something new.” She continues: “We cannot just be number-crunchers; we should also be able to communicate the logic behind those numbers. Today’s finance professionals are not like old-fashioned bean counters – we have a much more proactive role to play as business partners in drafting and implementing business strategy.”

The proactive role extends to managing external stakeholders and investors, and unless the right soft skills are in place, maintenance of such relationships can be difficult. “I am a believer in the measurement of RoE – Return on Equity – in business,” says Advani. “But when it comes to people, you have to modify RoE to read ‘Return on Ego’ – and that means respecting the voice of another individual.”

Bank catch-up

This is a two-way street of course. One of the external partners for the finance function is the banking community. Some of the criticism levelled at it in recent time is not unfounded, says Advani. The global economy has and still is paying heavily for mistakes made, but even though there are more compliance and governance layers, increased focus on risk, the stripping out of non-core businesses and so on, she feels that bank/corporate relationships generally continue to be supportive. “At Tata Communications we do enjoy a very supportive relationship with our global banking partners but in talking to my counterparts across a wide spectrum of industries, the sentiment is that banks behaved in a somewhat knee-jerk fashion, suddenly starving long-gestation capital intensive projects from funding. This puts those businesses in

a Catch-22 situation.” Both banks and corporates need to work closely to secure funding for these stalled projects; this will be the biggest catalyst for reviving growth, at least in India, she feels. “A very myopic, distressed-asset focused view from banks will not be able to untangle these complex webs.”

Banks need new ideas but their level of creativity is in catch-up mode right now, notes Advani who suggests that most innovations are actually coming from new non-bank market entrants (in Europe the PSD2 regulation has paved the way for many new payments service providers). Whilst the tightening of the regulatory environment means banks are constrained in being able to deliver more innovative and imaginative products she stops short of offering her sympathy but feels many have become so risk-averse that infrastructure projects requiring finance are not being supported. “They have to find a balance between turning on the tap and being conservative.”

Don’t worry, be happy

Although at an earlier point in her career Advani did find aspects of the job that concerned her, she recalls the day when her CEO questioned the value of worrying and losing sleep. “That was the day I realised that there will always be issues and challenges and that we have to learn to deal with them.” It worked for her. “Nothing keeps me awake at night now,” she states. In fact, she sees challenge as a force for good, arguing that if there were no challenges there would be no creativity. “Risk remains an integral part of conducting any business; we need to be aware of it and work on our mitigation plans but at the same time be aware that we cannot be in control of each and every situation – the world is dynamic and we have to play along.”

This forms part of her advice for anyone plotting a career trajectory that takes a path through the world of corporate finance. That journey, insists Advani, must be underpinned by self-belief and by a sense of ownership of what you do. In achieving this state of mind, she believes the individual will never feel “that they are just doing a job”.

Of course, for someone with a balanced approach to her career, Advani places a strong emphasis on what she calls “me time”. She loves to paint and write poetry and is a self-proclaimed “fitness freak”. If the world of finance had not been offered up as challenge at the start of her career, perchance, inspired by her love of colour and artistic design, she feels she might have achieved great things as a textile designer. Even today she makes time for her local community of artisans and weavers, attending exhibitions around Delhi and curating her unique collection of fabrics. But just maybe, with the inspiration, curiosity and imagination she brings to bear on her work as CFO, Advani is already weaving her skills as an artist into a calling that is perhaps not so different after all.

Women in Treasury Asia Forum

Thursday 14th April 2016

The South Beach, Singapore

We are delighted that Pratibha Advani is one of our four industry panellists at our Women in Treasury Asia Forum in Singapore. To find out more about participating in this key industry event, please contact Lisa Bigley, Global Head of Events lisa.bigley@treasurytoday.com

A professional portrait of Paul Thwaite, a man with dark hair and a slight smile, wearing a light pink striped shirt and a blue tie. The background is a plain, light grey.

A royal engagement

Paul Thwaite

Head of Transaction Services



What corporate treasurers want from their banks and what they actually get may be mutually exclusive propositions. When a bank claims to have realigned itself with the real needs of its corporate clients, both for the here and now and for the long term, it seems prudent to let that bank explain just what it means.

Listen in to any mainstream conference session where treasurers are asked what they want from their banks and the excitement is often ratcheted up a few notches. There will be more than a handful of responses listing what the particular audience does not want typically bemoaning the act of 'being sold to' rather than being treated as respected partners. But amongst the opprobrium will be found nuggets of information that all bankers in the room would do well to act upon. For treasurers, choosing the right banking partner is a matter of utmost seriousness, perhaps even the commercial equivalent of tying the matrimonial knot – and the earnestness with which that choice is made must be fully reciprocated for it to succeed.

Most financial institutions aim to provide intelligent solutions, build a stronger and more open relationship with their customers and deliver everything with a professional flourish. But the list of treasury requirements goes so much deeper than common platitudes. In no particular order (and with due credit to the Association of Corporate Treasurers), that wishlist is likely to include fairness, clarity, relevance, innovation, choice, proactivity, respect, confidentiality, and a keen eye on future developments. It is quite a list and one which, if delivered, will act as a mark of distinction.

One bank that has taken stock of the treasury community's wants and needs and, in light of this understanding, sought to reinvigorate its strategic agenda, is Royal Bank of Scotland. For Paul Thwaite, the bank's Head of Transaction Services, the measures it has implemented now set out its stall for the long term but, importantly, also serve as a timely reminder of who its clients are and why it is important to deliver what they need: in the current somewhat volatile economic environment, Thwaite is absolutely convinced that the true bank-client relationship needs to be acknowledged.

A broader view

The corporate treasurer is today faced with a host of practical issues. Not least of these will be in trying to strike a balance between running an efficient day-to-day operation, and the unending pressure that comes from safeguarding the function's capacity to support the organisation's long-term goals. It can do the job today, but what about tomorrow?

Of course, cost efficiency has always been a key driver here and remains so, as indeed has the need to be operationally effective, delivering an optimal service to internal and external clients. "But most treasurers will have also perceived a mounting need to look beyond their immediate treasury remit, to engage with and support the wider business strategy, taking on an ever-expanding sweep of responsibilities: in essence, the role is more complex now than it has ever been."

In seeking to meet the longer-term goals of the business, no one could fail to have noticed that the regulatory back-drop has seen intense activity in recent years, driven in the main by macroeconomic events that show little sign of dampening down. All such changes must be subsumed within the treasurer's strategic and operational development plans, with the added challenge that comes as the rapid advancement of treasury technology tests the decision-maker's ability to differentiate between fact and fiction.

Moving away from the old school view that treasury is a necessary cost centre, Thwaite is alert to the fact that today's

function will position itself as one able and willing to add value to the rest of the organisation. "This is a very healthy view and one which provides an opportunity for banks and other industry partners to work alongside the treasury community to enhance its value proposition."

Indeed, partnerships with third-party providers should be leveraged by corporates because therein lies expertise and solutions to potential stumbling blocks, not least in the form of direct and indirect regulatory change. View the level of cash held by some corporates in the context of Basel III's Liquidity Coverage Ratio, for example, and it is clear that close liaison with banks is essential. The issue of impediment is of course broader than the regulatory piece, notes Thwaite.

The prognosis on the economic environment, for example, looks somewhat different today from how it did just a matter of months ago in late Q3 2015: contemplation of a 'lower for longer' interest rate scenario will force a different set of responses from the treasurer. The challenge of dealing with the 'here and now' issues – such as galloping regulatory change, tumultuous economic conditions and sinister cybercrime – whilst trying to equip and build treasury for the future is clearly ongoing.

A true partner

When corporate treasurers seek to match commercial threats with the skills of their banking partners, it should be considered that opportunity is often born out of adversity. In other words, it makes as much sense to actively seek the support of a respected partner to discover every positive, as it does to seek their advice on the negatives.

It is the role of the true banking partner, in the words of Thwaite, be part of a "holistic relationship" where the sought-after balance between current and future corporate needs is met head-on with a tailored mix of ideas, advice, services and products. To this end, he feels that creating a transparent and open connection with the corporate across all touchpoints leads to an agreeable level of proactivity on the bank's part. Such an empathetic approach yields honest discussion and the mutual development of ideas and insights which are capable of supporting the immediate goals of treasury and those of its progressively wider corporate remit.

Adding value in this way may further be established by the bank through investment in its own technology and innovation processes, improving the resilience and quality of its proposition. This in turn enables clients to develop more efficient and robust operational models of their own. "At RBS we are clear that we put the customer at the heart of what we are trying to develop in our transaction and treasury services business," states Thwaite. "We have invested significantly both in the systems and infrastructure of today, and in the propositions that we will take to customers in the future."

The positive experience of treasurers when dealing with banks can be undermined when the relationship is seen by the bank solely as an opportunity to up-sell and cross-sell its products. An aggressive sales-oriented push is much maligned by treasurers so when engaging strategically at a relationship level, banks must develop a deep understanding of what the corporate client and its treasury function is trying to achieve, insists Thwaite. In such a case, he feels proactivity that introduces industry insight or best practice alongside sales

ideas “can add value to the broader aspirations of the corporate client”. Providing there is mutual understanding about what the priorities are, and the bank can deliver support and ideas consistent with that, he believes treasurers “will embrace the approach”.

Giving clients what they want

The capacity to deliver ideas and insights has been in the spotlight more since the onset of the financial crisis. Although he acknowledges that there is “still some way to go”, Thwaite comments that recent industry surveys have tended to indicate a higher degree of satisfaction amongst the treasury community with what their banks provide. The effort undertaken since 2008 has, for example, made deep inroads into the simplification of processes.

Development of the digital arena in particular exemplifies this positive evolution, enabling the removal of a significant proportion of costs. “There is a lot more transparency across the industry and banks have become more open to agnostic solutions,” he adds. The call for bank-agnostic technology as a means of easily unhitching from one provider, may send silent shockwaves through the industry but, says Thwaite, this is what customers prefer. “RBS absolutely embraces agnostic technology. We have invested in our understanding of the benefits of it for corporates and are committed to making sure we can align with it to deliver what the client wants.”

Necessarily broad in its viewpoint, the banking sector remains on the lookout for improvements. Account opening and KYC processes are constantly under the microscope, for example. And whilst progress is being made in the use of data, Thwaite notes an industry acceptance that “additional effort” is required to advance the ways in which banks harvest, process and deliver information to afford clients superior decision-making. Naturally, he adds, there is constant investment in the resilience and security of systems within this ever-evolving landscape. “All banks, including RBS, are increasingly looking to deliver in even better ways.”

The discovery process

Delivery of the right ideas, solutions and products by banks must commence with “open and clear conversations” at the outset of any partnership, states Thwaite. The goal is a solid understanding of what the corporate and its treasury function are trying to achieve. “It is very much a relationship-led discussion where we aim to clearly grasp what the short and medium-term priorities are for the treasurer.” Of course, priorities will vary according to indicators such as ownership, sector, industry and geography. But the early discovery phase will shed light on opportunities for mutual additional value.

There is a key difference that must be acknowledged when meeting the needs of new and existing clients, notes Thwaite, the latter requiring regular and structured conversations around the operational service and operational delivery of treasury. “It’s about making sure everybody understands the nature of that delivery, what is working well and where there are opportunities to improve.” The RBS approach in all cases, he adds, is to establish regular reviews to ensure that it is delivering “to its fullest extent”. Conversations will thus be

had around the broadest strategic aims of the organisation – a process which affords the bank’s team the chance to review the client’s operational service “with forensic attention to detail”. This sets the scene for the subsequent delivery of insights and ideas, aligned with the treasury function’s stated targets and priorities.

A new model bank

“We have always been and continue to be relationship-led,” says Thwaite of the RBS strategy. “We have historically made significant investment in our treasury and transaction services product set in the UK but we don’t just look at these core elements, we expand that to consider the whole relationship.” However, where many offerings – especially around core functions such as payments – have become largely standardised to the point of commodification, treasurers may find great difficulty in differentiating between one transaction bank and its corporate client services and another, especially when all tend to make similar claims around customer-centricity and product innovation.

For a bank that wishes to stand out from the crowd there is no dodging this issue. “It is a key focus for the industry and it is key focus for RBS,” admits Thwaite. For RBS then, its sources of differentiation are based around a ‘past, present, future’ approach to modelling perception. It starts with the “extent and longevity” of its relationships, with “very deep and long-standing connections with a significant proportion of UK plc”. History and public awareness clearly have a significant role to play in forming an emotional response but a bank still has to deliver. The second and ‘present’ strand for RBS is its recognition – not least through a variety of industry awards – of what Thwaite describes as its “very strong and compelling product set”. This extends across cash management, payments and trade finance and its breadth alone, he believes, “gives us a source of differentiation”. Complemented by “heavy investment” made in its service delivery model around core day-to-day treasury and transaction services, clients are assured of interaction “across the range of channels” as the bank seeks to enhance its future proposition.

A virtuous circle

RBS is characterised by the ‘focus on strength of relationship’ with its customers. Of course, acquiring new customers plays an equally important role too and this informs an additional ‘future’ strand for its differentiation model. “Acquiring new customers and delivering the products and services they want is a virtuous circle,” states Thwaite. “As new customers become the retained customers of the future, we continue to invest in our product range and service model so that as each relationship grows over the years, it deepens across those products and services,” he explains. “As those customers’ needs inevitably change in response to market forces, it helps us develop our future offerings, and so it continues.”

In delivering its wider strategic focus on the UK and Western Europe, transaction and treasury services remain at the heart of RBS’ corporate banking division. From SMEs through to the largest UK businesses, Thwaite speaks with confidence when stating that its investment in products and solutions, and realignment with the genuine wants and needs of its clients, perfectly positions RBS “to fulfil the strategic priorities of corporate treasurers, today and tomorrow”.

Treasury in the Middle East: shifting sands

Over the last century, the Middle East has transformed into a global economic powerhouse, driving the world forward with its plentiful oil supplies. Yet, as oil prices plummet, the region and its businesses are heading into uncharted waters. In this article, Treasury Today explores the impact this is having on the corporate treasury function and what it is like to work in the profession across the region.

During the course of history, the Middle East has been a region of vital importance, politically, economically and culturally, due in large part to its strategic position at the meeting point of the Asian, African and European continents. In the modern era, the Middle East has arguably risen to even greater importance following the discovery of oil in 1908. Today the region is best known for its wealth of national resources, making it the world's major oil exporter and home to 66% of the world's oil reserves.

Despite its abundant resources, the region's economic prospects are beginning to stagnate. This is the view of the World Bank, who, in their Economic Outlook for the Middle East and North Africa October 2015 report, predicted that for the third year running growth across the region will be less than 3%. Losses in revenue from oil exports – which the IMF predict will have reached \$300bn by the end of 2015, or 21% of the Gulf's GDP – is a major contributor to this decline in growth. Moreover, continued low oil prices, conflicts, the global economic slowdown and the US interest rate hike, make the short-term prospects of a recovery unlikely, according to the World Bank.

Governments across the region, as a result of the slowing growth, have seen the need to diversify their economies in order to build a sustainable economic future. The UAE, and in particular Dubai, has set the example in this regard by focusing on international finance and high quality tourism.

Of course, this diversification will open up new opportunities for businesses domiciled in the region and also further afield. Yet the Middle East – with a particular focus in this article on Kuwait, Bahrain, Qatar, the UAE, Oman, Saudi Arabia and Egypt – remains a complex region with well-publicised geopolitical challenges and great diversity. But, it is also one filled with much promise and opportunity for businesses.

Uneven development

The diverse economic landscape across the region corresponds with the varying levels of corporate treasury sophistication. Some companies match, and in some cases exceed, international best practice, whilst others remain underdeveloped. "There are a number of large MNCs that operate out of the region that run very mature treasury departments, leveraging the head office treasury systems and mirroring their processes where possible," explains Sunil Veetil, Regional Head of Payments and Cash Management – Middle East and North Africa at HSBC. "On the other hand, there are

Key economies in the Middle East

Egypt

Capital: Cairo
Population: 88,487,396
GDP real growth: 2.2% (2014 est.)
Currency: Egyptian pound

Qatar

Capital: Doha
Population: 2,194,817
GDP real growth: 4% (2014 est.)
Currency: Qatari rial

Saudi Arabia

Capital: Riyadh
Population: 27,752,316
GDP real growth: 3.5% (2014 est.)
Currency: Saudi riyal

UAE

Capital: Abu Dhabi
Population: 9,445,624
GDP real growth: 4.6% (2014 est.)
Currency: UAE dirham

Source – CIA World Factbook

the large local companies (typically referred to as family owned businesses) that have started to recognise the importance of the treasury function. Finally, there are those mid-level companies and SMEs that for the most part have some way to go before they match their peers in Europe and the US."

The reasons for this uneven development in treasury sophistication across the region vary, and are influenced by internal and external forces. Location, for one, is a big driver. The economic development of countries like the UAE and Bahrain in particular has encouraged the expansion of the financial services sector and investment in infrastructure, attracting an influx of talent from overseas and affording corporates access to international best practices and services.

The nature of the region's companies also has a large role to play. As Irshad Jooma, Head of Treasury Advisory Services Deloitte Middle East, explains: "It is typical for family-owned

businesses to have wealthy shareholders who have been able to pump cash into the company at times of stress,” he says. “As a result, the need to develop high quality skill levels around cash and liquidity management and financing has been limited due to this safety net.” Similarly, despite many family owned businesses being very large, their growth has typically only been regional, again limiting the complexity of the function. “The result is a limited role for the corporate treasury in these companies and little room to influence as a strategic partner.”

New drivers of change

These conditions however, have begun to evolve. As HSBC’s Veetil – who is currently enjoying his second term in the region – outlines: “When I returned to the Middle East in 2013, after eight years away, the dynamics had changed. Both the economies and businesses had expanded and now operate with a global outlook.”

As a result of these companies growing in size and complexity, the role of the treasury function, as has been the case in other regions, has become increasingly important. “Many of these companies couldn’t have survived with their original treasury systems and frameworks,” he adds. “Today the treasury requirements of a large family owned business, are for the most part, as sophisticated as those from MNCs.”

External factors, like tightening liquidity conditions across the region brought on by the dramatic drop in oil prices, may also be having an impact. The low oil prices have initiated a domino effect where governments have begun to pull their substantial cash deposits from the region’s banks to plug budget deficits. Banks as a result have been required to seek alternative funding, and are borrowing at higher rates, primarily from the loan market. The net impact is reduced access to funding and higher costs for corporates.

According to Deloitte’s Jooma, current conditions are raising the profile of cash and liquidity management, particularly in the family run businesses. “The current environment has increased the need to bring in greater control, improve visibility and become more efficient in terms of liquidity management,” he explains. “For many businesses, which have typically been cash rich and afforded the luxury of cheap funding, this is a new challenge and one that can’t be solved by simply throwing money at the problem. Real changes have to be made and best practice treasury management has to be utilised.”

A wealth of treasury tools

To help treasurers obtain best practice and scale up operations, there may be a need to invest in treasury systems and look to use innovative products. Thankfully, the region is well serviced in this regard. For instance, on the cash management side, corporates are able to pool (physical and notional) and concentrate their cash – typically USD – domestically in the majority of countries across the region. Cross-border pooling structures however are more restricted due to regulatory restraints, and, for the most part, are afforded only to those companies based in the more open economies such as the UAE and Oman.

On the payments side, the usage of cash remains heavy in the region. Cheques are also used frequently in the UAE by some businesses and are perceived to provide an extra layer of security due to the illegality of issuing a cheque that bounces – something that individuals moving into the country should

be wary of in their personal lives. That being said, payments innovation is occurring in the region and corporates are increasingly able to move to more efficient cashless solutions. Some leading companies in the region, for instance, deal with few cheques and instead use electronic forms of payments, including SWIFT messaging. Although again the diversity and uneven development of the payments infrastructure across the region creates challenges for corporates looking for a consistent and uniform payment process.

“Today the treasury requirements of a large family-owned business, are for the most part, as sophisticated as those from MNCs.”

Sunil Veetil, Regional Head of Payments and Cash Management – Middle East and North Africa, HSBC

As well as the solutions offered by the banks in the region, corporate treasurers are also afforded access to cutting-edge treasury technology in the form of TMSs and ERPs. But whilst access to this technology is helpful, Deloitte’s Jooma sees a regular pitfall that many privately owned family companies are falling into. “There is a trend to just install these solutions without having robust processes in place first,” he says. “The outcome is that they are most likely going to be putting garbage in and getting garbage out which is not helping them manage the treasury more efficiently.” In some cases as well such technology is not being utilised.

Differing strengths

With most markets serviced by both local and international players, there is a good breadth of products and services available. However, there may be certain nuances when compared to other regions such as Europe and the US. Pricing, for instance, may sometimes be more expensive and also the documentation can be different in order to comply with local regulations.

Moreover, the strengths of the local banks compared to international banks can differ. Local banks are unable for the most part to match the US dollar clearing strength and international payment network of the global players. Yet, when processing dirham payments and basic domestic services such as payroll, the local banks excel. Then there are those areas where they are equal in terms of both quality and pricing, FX and interest rate risk management and debt financing, for example.

Aside from the traditional banks, the region is home to a number of large Islamic finance centres – namely Saudi Arabia and the UAE – whose banks offer various Sharia compliant solutions to corporates. Yet, it must be noted that for the most part the vast majority of companies still use conventional banking solutions, unless the treasury policy strictly dictates that Islamic products must be used. Corporates will however tap these banks for funding purposes.

Living and working in the Middle East

Although a good range of products and services are on offer, readily available talent is not. Treasury departments across the

A hub for the region and beyond

In recent years, there has been an increased desire to establish local treasury centres to support operations across the Middle East, the Levant, Africa and occasionally, parts of Asia. The UAE in particular, has seen the emergence of a number of centres because of its position as a financial centre and its skilled workforce, a high quality of living, competitive cost bases and excellent infrastructure.

Treasury centres have many advantages. However, there are also a number of challenges that need to be considered when looking to establish such operations in the Middle East; traditional practices and habits are being challenged and as a result, are beginning to evolve. "Education is pivotal, especially in light of many treasury professionals relocating from western countries, where advances including, digitisation, centralisation, in-house banking and even shared service centres have been a reality for decades," explains Nicoletta Stella, Head of Liquidity and Investments MEA, Head of International Cash Management MEA at BNP Paribas. "Central banks and regulators are also taking positive moves to push forward best-in-class treasury operations by encouraging large local corporations to embrace and implement state of the art banking solutions, such as SWIFTNet or electronic billing."

Another topic, which requires attention and is often not considered with the gravitas required, is the evolving regulatory and reporting environment. "Whilst regulatory procedures are optimised to support fully fledged treasury centres, organisations need to be aware of the changing landscape," explains Stella. "A particular example of this is in relation to taxation. Many still think that tax is a non-issue; this could be a significant error. We strongly encourage corporates to seek advice from tax professionals who have the expertise and are able to advise on sophisticated treasury set-ups."

Another example which Stella believes isn't always optimised is the understanding of different forms of company structures: JVs and partnerships, local sponsors, professional advice on possible set-ups can be a key catalyst for success. "What is clear however, is that the current pace of change is set to continue and this will be exemplified through a combination of education, diversity, evolving demographics and regulatory developments," she adds.

region have therefore turned to the west and brought in experienced treasury professionals to lead their treasury teams and even fill some operational roles. This can be boiled down to the fact that the treasury profession is fairly young, meaning that there is limited talent being produced locally. Moreover, there is a very shallow pool of labour looking for work, or looking to move roles because of visa requirements in countries like the UAE – an individual's residency visa is typically tied to their employment visa, creating an issue when trying to switch jobs, a challenge that is quite unique to the region.

"Most companies have established a structured programme for developing and sourcing local talent from the graduate level upwards."

Ricky Thirion, Group Treasurer, Etihad Airways

To help change this dynamic and reduce the costs associated with importing talent from overseas, a concerted effort is being made to develop local talent at all levels. "Most companies have established a structured programme for developing and sourcing local talent from the graduate level upwards," explains Ricky Thirion, Group Treasurer at Etihad Airways. "At our company alone we have recently established two internal programmes, one for our existing team and the second for a newly established specialised Emirati graduate scheme." The ACT have also been active in the region for eight years, promoting the profession.

In the meantime, whilst the profession looks to grow the local talent pool, there may be more opportunities for treasurers

overseas to move to the Middle East and help continue to develop the profession. For those that decide to make the move it can be very rewarding, if not slightly challenging at first.

"The region is extremely culturally diverse when you look at corporate treasury and financial industry and a large focus is placed on relationships," explains Etihad's Thirion. "As professionals we therefore need to be more culturally aware of the various ways in which to interact with the different profiles of counterparts that we encounter. These considerations impact on style of negotiation and also social engagements. This is true both within our own organisation as well as when dealing with external counterparts." As well, as a result of the emphasis on relationships some technology solutions used elsewhere, e-dealing for instance, are seeing a slower take up in the region.

Geopolitical instability may also be a concern to some and can have an impact on business – many companies across the region can no longer do business in Syria for instance. Yet, in countries that are largely stable such as the UAE there is little impact, however.

Despite these challenges, businesses are continuing to grow in the Middle East and as the role of corporate treasury develops and becomes of greater importance across the full-spectrum of companies, the future looks bright. This is the view of Etihad's Thirion: "Our playing field is made up of economies that have great opportunity for growth and evolution supported by leaderships that are focused on the future and in bringing in efficiency, innovation and technology as a key enabler to everything that we do," he says. It therefore seems that the role of the corporate treasury function will continue moving from strength to strength and that the role treasurers play in companies of all shapes and sizes will almost certainly increase.

France: the home of stability

One of the leading European nations, France's economy didn't suffer to the same extent as other countries in the economic crisis. Growth, however, seemed to stagnate in the years following and is now set to rise steadily in 2016 and beyond.

According to the European Commission 2015 winter forecast, GDP growth in France, the Eurozone's second largest economy, is expected to rise 1.4% in 2016 and 1.7% in 2017. Having stagnated over the three years prior to now, lower oil prices, low inflation and sustained wage growth encouraged private consumption throughout 2015. Whilst positive consumer sentiment should remain a growth engine, drivers of growth, in a globally competitive environment, should be diversified. Aptly, Audit firm EY predict that France's economy will become less reliant on consumer spending (EY Eurozone Forecast, October 2015). EY suggests that businesses will accelerate their investment spending supported by pro-competitive reforms in the country, underpinning an expected increase in consumption and export volumes.

Gaining traction

Encouraged by the euro's depreciation and the French government's competitiveness policies – such as a reduction of labour costs, increased flexibility of the labour market and a greater promotion of Research and Development (R&D) – foreign trade will make a positive contribution to growth throughout this year (+0.2 GDP points in 2016, the same as in 2015, according to the French Economic Observatory). And the foundations are in place to support this; the World Bank Group's Ease of Doing Business 2016 report ranked France first globally for trading across borders, alongside 14 other countries.

In France, HSBC's barometer of Trade Confidence amongst corporates, declined slightly in H2 2015 (a Trade Confidence Score of 119) compared to six months earlier (127), but it appears to reflect a less optimistic view regarding the global outlook rather than in-country pessimism. The number of respondents expecting global economic conditions to improve in the short term fell 30%, but the Trade Confidence Score (TCS) remains firmly in expansion territory and the majority of companies surveyed (60%) continue to expect trade volumes to increase in France. HSBC's Trade Forecast Report, produced in conjunction with Oxford Economics,



Key facts

Geography and society

Population: 66m (2015 estimate)

Capital city: Paris

Time zone: CET

Land boundaries: Andorra, Belgium, Germany, Italy, Luxembourg, Monaco, Spain, Switzerland.

Coastline: 3,427 km

Economy and business sector

Currency: Euro

Financial capital: Paris

GDP annual growth: 1.2% (2015)

GDP per capita: \$35,670 (2015 estimate)

Ease of Doing Business rank: 27th (2016)

Index of Economic Freedom: 73rd (2015)

Politics

Government type: Republic

President: François Hollande

Prime Minister: Manuel Valls

Trading partners

Top import partners: Germany, Belgium, Italy, Netherlands, Spain, China, UK.

Top export destinations: Germany, Belgium, Italy, Spain, UK, US, Netherlands.

Country credit rating

AA

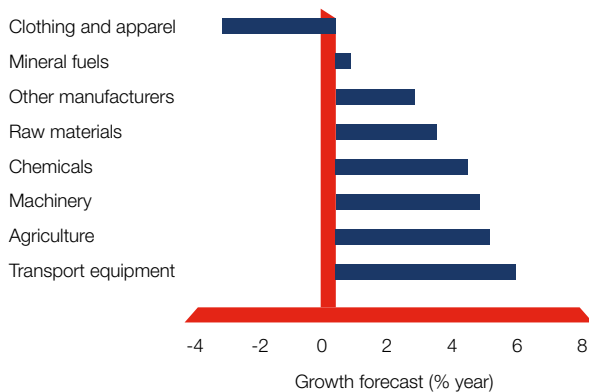
predicts France's exports, in current US dollar terms, will grow by just under 1% in 2016, but will pick up steadily towards 5% a year by 2020. Germany will remain France's largest trading partner and is its primary export and import destination.

A value proposition

The country's economy boasts leading companies in a number of manufacturing sectors, including aerospace, pharmaceuticals and agri-business, as well as in the automotive and railway sectors. And this global leadership is supported by generous government support for France's cutting-edge R&D – the French tax credit can reduce the cost of research by almost a third, for instance.

A supportive environment for R&D activity (Deloitte, October 2015 Global Survey of R&D Tax Incentives), in addition to the country's successful educational establishments, will continue to support France's activity at the top end of the value chain (see Chart 1).

Chart 1: Exports by sector



Source: Oxford Economics/HSBC Trade Forecast

As such, it is no surprise the country is a large recipient of foreign direct investment (FDI). Certain declarations and permits are necessary but there are limited restrictions to FDI – in fact, France offers multiple investment incentives, especially for small and medium-sized enterprises (SMEs). With a number of trade corridor links relating to France, appetite to invest in the country remains high as it is still ranked fourth place after the US, China and the UK regarding FDIs. Key investors into France come from the US, Germany and UK.

Asides from also being the most visited country in the world, maintaining the third largest income globally from tourism, other contributing factors to France's attraction as a place of business include: well-maintained industrial infrastructure, one of the most developed transportation systems in the world and a highly educated labour force – the country has the highest number of science graduates per thousand workers in Europe, for instance. "External companies, from China and Middle Eastern countries for example, are coming to France as the first port of call in Europe. It's a decision based upon getting access to the

Eurozone via a stable economy in a stable environment," says Christophe Roy, Head of Payments & Cash Management, HSBC France. "Having a financial centre in France, together with operational centres, is something we are seeing from a lot of corporates looking to manage their European activities."

HSBC – Payments and Cash Management

HSBC France provides corporate banking services to French and international companies and their subsidiaries. Services available include treasury and capital markets solutions, in addition to commercial banking products. HSBC's in-country Payments and Cash Management (PCM) team consists of a sales team covering both Global Banking and Markets (GBM) and Commercial Banking (CMB) sectors, as well as product managers and a client service team. A wide range of services are on offer to both domestic and international companies operating in France, covering accounts in both local and foreign currencies. Available channels include HSBCnet, SWIFTNet, HSBC Connect, and at a local level Elys PC and EBICS®.

In the Commercial Banking space, HSBC's International Subsidiary Banking (ISB) team are experienced in facilitating market entry and providing guidance to international companies looking to enter the local market. The team sits in a number of European markets and comprises a number of highly-skilled Relationship Managers with experience of working in a variety of different markets including Asia, the UK and North and South America and for France, is located in four centres throughout the country (Paris, Lille, Lyon and Toulouse). HSBC offer a full suite of Payments and Cash Management solutions plus Trade and Receivables Finance, Markets, Investments, M&A, ECM and DCM, and Lending as well as the day to day role of support with funding and FX (see Table 1 overleaf).

Christophe also expands on the latest developments: "The HSBC team is also looking at new innovative technology to create flexible, more efficient solutions. Long-term investment in HSBCnet Internet Banking and HSBCnet Mobile will see the deployment of new mobile solutions in different markets, such as B2B mobile collections. HSBCnet, the online e-banking platform, is an accessible gateway to effective corporate financial management on a global scale. Corporates can manage payments, receivables, liquidity and the changing value of their assets with one secure, global solution; connecting markets and giving you the real time information to compete in today's business environment."

France boasts a mature financial sector, one where cash management solutions are driven by corporates. "There are strong relationships between corporates and banks. The treasury association also leads technical discussions on the evolution process in cash management," says Christophe. "It is different to countries where banks may lead those discussions." HSBC has a unique position, dating back to 1894, in the competitive sector that is France's multi-bank environment – the country has 170 commercial banks, 88 branches of foreign banks and 110 savings, cooperative and rural banks operating. "HSBC is one of the largest international banks and our extensive network ensures we can support domestic requirements with strong local knowledge." No other foreign bank has a nationwide branch network. Also operating in the country are purely international banks offering offshore capabilities and locally-focused banks. "For corporates looking to successfully establish operations in France, choosing a banking partner with global reach and local knowledge is a good starting point," says Christophe.

Table 1: HSBC Cash Management solutions at a glance

Investment products	Payments	Collections	Liquidity management	Channels
<ul style="list-style-type: none"> • LCY/FCY current accounts. • LCY term deposits. • FCY term deposits. • Certificates of deposits. 	<ul style="list-style-type: none"> • Electronic payments: <ul style="list-style-type: none"> ▪ High-value. ▪ Low-value. ▪ SEPA (SDD/SDD B2B/SCT). ▪ Multi-currency. • Cash. • Cheques. • Cards. • Bills of exchange (BOE). 	<ul style="list-style-type: none"> • Incoming electronic payments: <ul style="list-style-type: none"> ▪ High-value payments. ▪ Low-value payments. ▪ SEPA (SDD/SDD B2B/SCT). ▪ Multi-currency. • Cash. • Cheque collection. • Cards. • Bill of exchange (BOE). 	<ul style="list-style-type: none"> • Overdraft facilities.* • Interest enhancement.** • Cash concentration (LCY/FCY for residents and non-residents, domestic and cross-border).*** 	<ul style="list-style-type: none"> • HSBCnet – our internet-based electronic banking platform. • SWIFTNet – we provide a full range of SWIFT services for corporates. • HSBC Connect under EBICS® protocol – local host-to-host multi-banking solution. • Elys PC – HSBC France's local internet-based electronic banking platform.

Potential subscribers must ensure beforehand that their subscription is compliant with the applicable regulations.

*Overdraft facilities are subject to credit assessment.

**Balance contribution only.

***Cross-border cash concentration is available but there may be regulatory and taxation issues that need to be resolved prior to setting up such an arrangement.




In terms of competitiveness in the country's banking sector, there are two things corporates should note, according to Christophe. Firstly, because of the current regulatory environment and specific technical requirements, some international banks are withdrawing to their local markets. "Secondly, and hugely important, is the SEPA environment. As the result of the creation of a zone where all electronic EUR-denominated retail payments are to be treated as domestic payments, a local bank can offer services all over Europe."

What's more, the XML format of ISO 20022 affords banks, and corporates rich information regarding payment information. "One of the key parts of efficient cash management is clearly managing that information well," says Christophe. Aply, the European agenda on e-invoicing using XML format is being pushed as a means linking invoices to payments. "It will afford the ability to make a payment against real electronic invoices. It will be a real change in the industry in terms of control and transparency over the transaction and the reconciliation of a corporate's payment activity," says Christophe. "Once you have this electronic invoicing information coming together with the payment information, you can converge the working capital of the supply chain activities with cash management."

This matches current ongoing trends, Christophe observes, where treasurers are looking for more and more visibility. "Getting information faster, with more accuracy, helps treasuries manage working capital activities as well as protect themselves against fraud and money laundering." These are areas of concern, increasingly so, for treasurers.

Overseeing this environment is France's central bank, The Banque de France, responsible for implementing and controlling interest rate policy, and formulating credit and monetary policies. The three French authorities with supervision powers over money laundering regulations are: The Prudential Control and Resolution Authority (ACPR), The National Enforcement Commission and The French Ministry of Foreign Affairs. Banks and credit institutions must make certain declarations to the Ministry of Economics and Finance service against money laundering.

Chart 2: Payment services are converging

<p>High value and low value</p> 	<p>Merging of retail and wholesale payments</p> <ul style="list-style-type: none"> • Powerful facilitator to attract volume in online and mobile payments. • Domestic use will increase and new cross border services will emerge. • Emergence of wallet schemes and ecosystems in emerging markets and elsewhere.
<p>Online and mobile</p> 	<p>Traditional payments to modern services</p> <ul style="list-style-type: none"> • Channel agnostic services, easily integrated to clients' operations. • Omni-channel, mobile "first", mobile "only" services. • Use of re-engineered schemes ("fast" schemes).
<p>Files and API's</p> 	<p>Legacy implementation to easy integration</p> <ul style="list-style-type: none"> • Service orientated architecture, using cloud and API technology. • Services embedded in customer context. • Common/open platforms.

Payments innovation

Electronic payment opportunities available to corporates in the country are on the rise. Instant payments, for example, have been “silently revolutionising” the landscape, according to Christophe. “It may change the business to consumer (B2C) relationship as instant payments can be a direct competitor to card schemes.” When banks offer instant payments, without dependence on the main card networks, it could change the way the industry is using banking payments.

Christophe also believes the growth of fintechs “will be a gain for both banks and fintechs and, ultimately, corporates”. Why? Because, “in a new ecosystem”, fintech companies will bring a lot of innovation and value add technology, but banks will continue to be important companions, not least because of important regulatory control reasons. For corporates, Christophe advises: “Follow ongoing projects in order to anticipate the practical consequences on your daily activity. The digital revolution has not finished surprising us.”

Points of interest

Aligned with the developments in electronic payments is an increased governmental will to do more regarding anti-money laundering activities. As mentioned earlier, “corporates are spending more to ensure their payments and cash management processes are resilient. The responsibility is falling on them more and more. The bank, however, is here to help with these concerns that are playing on treasurers’ minds,” says Christophe.

The benefits of the Eurozone are clear – integrated financial markets, reduced cost of trading, and a stronger presence in the global economy, for instance – but recent troubles, including the Grexit dilemma, migrant crisis and worries over Russian aggression, are hard to ignore. What treasurers should look for, therefore, is a single entry point which offers collaborative innovation and stability amidst volatility. France offers that: an economy with secure offerings in terms of banking environment, infrastructure and investments, as well as a recognised focus on the value-add end of the chain.

International presence

Christophe concludes: “HSBC’s extensive local presence and global footprint gives us access to 85% of world trade flows. We can also manage cross-border requirements with global reach and recently became the first bank to implement a two-way RMB sweep between Europe and China.

With our international connectivity and footprint, HSBC is committed to supporting our clients and helping them discover the strongest avenues for business growth, helping them increase control over their cash flow, optimise their working capital and help connect to opportunities in Europe and beyond.”

Payments instruments in France

- **Payments cards.** The use of payment cards in France has increased in the past decade. Visa and Mastercard are the principal payment card brands issued in France.
- **Cheques.** Cheques are declining in use due to the increasing preference for electronic payments – both for high value and low value transactions. They are, however, still a common cashless payment instrument, particularly for retail payments.
- **Direct debits.** Direct debits are available in France and are used for low-value recurring payments. On 1st August 2014, SEPA direct debits replaced all legacy direct debit schemes in France. SEPA direct debits can be settled on a same-day basis via CORE or STEP2.
- **Credit transfers.** Credit transfers are used for both high-value corporate and low-value retail payment transactions. Companies with a gross turnover above €15m must use credit transfers for tax and social security payments. All credit transfers are automated.
- **Electronic banking.** Electronic banking is available in France and offered by all of the country’s banks. The SEPA-compliant Electronic Banking Internet Communication Standard (EBICS) is used in France. EBICS is a secure, IP-based, XML-file transfer protocol.
- **Mobile banking.** It is offered by many of the country’s banks, but remains mainly retail orientated.



Christophe Roy
Head of Payments & Cash Management, HSBC France





A valuable proposition

Often cheaper and faster than using external banking infrastructures, in-house banks can revolutionise a company's cash flows and significantly reduce the expensive time cash spends stuck in the banking system. But given that corporates must streamline their payment processes and increase the visibility and control over cash flows first, Treasury Today explores the role of a treasurer in implementing the structure.

Predominantly established by medium-sized businesses upwards, an in-house bank (IHB) acts as the main provider of bank services, which are traditionally provided by commercial banks, to all group subsidiaries – on a regional or global scale. Rather than relying on local external banking partners, therefore, each subsidiary directs its cash flows through accounts held at the IHB. The internal bank is then responsible for netting out the resultant debit and credit balances across the whole group. This structure can result in huge savings of both time and money, as well as boasting limited disadvantages (see Table 1 overleaf), so what do treasurers need to know?

Firstly, it must be noted that IHBs should not be seen as the first port of call when trying to streamline cash flows and payment processes. There are several other elements that are needed in conjunction: efficient external payment

processes, shutting down bank-specific payment tools and electronic payment stations, making sure you have straight through processing established and cleaning master data and bank account management, for instance.

The reoccurring advice is to start with the standardisation and automation of payment processes and then establish an in-house bank to achieve the added value from this. For instance: a consolidation of FX transactions and a greater ability to recycle cash within currencies.

Communicating benefits

The implementation of an in-house bank should be seen as a transformation project, and its design is not to be planned in isolation but in partnership with the overall business. The structure's benefits need to be articulated to the

Founded in 1895, Firmenich SA is a private Swiss company in the perfume and flavour business. Employing 6,000 people globally, Firmenich is the largest privately owned company in the industry and ranks number two worldwide.

The challenge

As part of a global financial transformation project – to ensure that it had the necessary structure and governance to operate with rigour and discipline moving forward – Firmenich was looking to replace its traditional decentralised cash management solution with a global solution.

One of the company's requirements was to reduce the number of external banks used by the affiliates to one core bank when offering, at the same time, the possibility to opening internal bank accounts with the in-house bank (IHB). Firmenich also wanted to deliver uniform payment and security processes, to ensure compliance with their risk management and internal control standards and to deliver true automation.

The solution

After putting the mandate out to tender, Firmenich selected BNP Paribas for Europe, Citi for the rest of the world with the exception of the CHF covered by UBS to be their partners for the new solution. Working together with the banks Firmenich implemented a global cash management solution covering all 28 affiliates allowing them to join their global cash pooling solution as well as their inter-company netting process. This was completed by the implementation of a payment-on-behalf-of (POBO) structure serving more than 20 affiliates.

In less than two years, Firmenich has set up a global IHB. This was made possible by the existence of a single SAP instance (ECC6 version) implemented earlier to which two new SAP modules (IHC and BCM) were added to run the IHB. Today, the IHB is:

- Heading a global cash pooling structure (26 affiliates zero balanced on a daily basis on master accounts held in Switzerland and UK), offering full control on the cash around the globe.
- Running an internal netting (ICO) process to settle the payables and receivables of 25 affiliates.
- Paying on behalf of 22 affiliates using only three banks.
- Providing a complete change in the payments process of the company, transforming inter-company payments into internal settlements with no cash transfer and cross-border payments into domestic payments.

Key benefits include: reduced reliance on bank credit lines, reduction in bank charges, productivity gains (on average, 800 intra-group invoices are processed on a weekly basis without any rejection) and a daily view on more than 95% of the total cash of the group, out of which more than 75% is captured by the cash pooling structure.

key stakeholders. Treasury should demonstrate to all areas of the business how an IHB can add value. Since treasury teams are under increasing pressure to drive down internal operational costs and to increase visibility and control, the argument for IHBs is persuasive.

What's more, core banking partners should be brought into the early stages of development to provide the banking infrastructure and consultancy expertise necessary. This is because when all of the internal transactions have been carried out by the IHB, any remaining investment, financing and hedging needs will be fulfilled by the company's preferred group of external, relationship banks. IHBs should be seen as complementary to existing bank landscapes.

It would be wrong to assume that traditional banking relationships suffer – the set-up may actually deepen them. IHBs are often run with the support of just one of two banks, to carry out final stage transactions, so they are likely to

handle more flows than previously. This isn't to say, however, that IHB structures necessarily suit every company. The benefits of IHBs are dependent on the presence of several factors, including:

- The number of countries (and different currencies) involved with the company's outgoing payments.
- FX volume and extent of hedging activities.
- The number of transactions – internal and external – treasury is responsible for.
- Total amount of bank fees.
- Group structure and geographical distribution of operations.
- How centralised treasury management is, including the IT structure (ERP systems, interfaces and electronic banking systems, for instance).

Table 1: Advantages and disadvantages of an IHB

Advantages	Disadvantages
Economies of scale achieved.	Group treasury must be confident that each subsidiary will submit all its transactions via the in-house bank.
The number of bank partners and bank accounts is streamlined.	Loss of interaction between local subsidiaries and local banks may reduce local competence regarding treasury and banking issues.
More competitive rates are offered to subsidiary borrowers and lenders, compared to those that may be obtained locally.	–
Group treasury has greater control, improved transparency and access to more accurate data.	–
Group treasury can operate the in-house bank as a profit centre.	–

Location, location, location

In order to provide the most value to the business, the location of the IHB needs to be considered too. This selection process will involve wider elements of an individual company's operating model, such as: current business operational locations, whether certain countries have specific requirements, associated tax and regulation issues and the company's articles of association. For those countries with nuances, it is advised that control is centrally maintained, even if the country's bespoke model sits outside the main IHB structure. For instance, the IHB executes the transactions in the name of the local subsidiaries.

To avoid centralisation and standardisation being compromised by country-specific concerns – local payment instruments, technology capabilities and banking infrastructure maturity, for instance – explicitly entails a large amount of research prior to implementation of a full service IHB available to all subsidiaries of a group. Including exceptions and nuances in the overall

design will ensure treasury's key priorities, compliance and operational risk for instance, are not undermined.

However, the end visibility this affords is important to the success of an IHB. By having more control over all payment traffic, treasury can provide strategic information to the board – in turn, allowing them to make informed decisions. Any organisation considering rolling out an IHB structure should evaluate the costs, of course. But other factors to address before implementation include: educating the workforce, deciding upon new workflows and who will carry out what. Clear segregation of duties is needed when operating an IHB. There are various banking functions, such as bank account services, financing and hedging services and payment services, which can be brought in-house but it might not be in every case worthwhile to implement all.

Any changing of processes need to be well articulated to local teams. Starting with the benefits may ease some of the potential frustration as a result of losing control. For instance, from the local entities perspective, the IHB bank account will function like any other bank account. Employees can settle payments and receipts, as well as monitor such activities. Additionally, IHBs are closely linked to the company's ERP system and treasury systems; subsidiaries can export statements to integrate with AR/AP and accounting systems.

Internalising banking services

The centralisation of treasury operations has been an increasingly valuable proposition for some time now, but one which recent technological advancements and regional harmonisation are allowing to gather momentum. Although an IHB structure can also be used to enhance operations whilst keeping a decentralised structure, one of the major drivers for establishing one is the centralisation of liquidity.

Working capital optimisation, bank fee reduction and returns on idle cash are some of the many benefits corporates can expect from an IHB, which, in the current climate, would be well received. However, it is that same climate where the greatest threats to IHB structures originate – currency restrictions, political sanctions and regulation are the key things to bear in mind in 2016.

Some global considerations

By extending the IHB structure into payables and receivables, regulatory hurdles in some regions are encountered. This meant, for some time at least, corporates had favoured a more traditional set-up – in Asia, Latin America and Africa for example. But recently, the popularity of IHBs in Asia has been on the rise; expansion has been occurring rapidly in some of the less restricted markets such as Hong Kong, Singapore and Australia. In these markets, the IHB processes payments and collections through its own accounts but where the use of local currencies for cross-border transactions is restricted, an account held in the name of a local entity can be used. Even in extreme cases where the IHB can only operate as a processing agent – utilising local accounts held by subsidiaries, rather than accounts held with the IHB, to process payments and collections – benefits of standardisation and greater control can still be felt.

Careful due diligence, in terms of the legal, tax, accounting and technology issues, is required for each market in order to address whether any level of local customisation of the IHB structure is necessary. Often, specific in-country requirements will drive an IHB's operations.

These considerations also relate to other regions like Latin America and Africa, both of which are very diverse with regulations varying from country to country. Significant constraints exist in what form payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO) can take. Therefore, a one-size-fits-all policy cannot be applied and there is a need to be flexible. Treasurers can lean upon banking partners, tax advisors and legal advisors to ensure the correct understanding of whether an IHB structure can be implemented and if so, to ensure that this is done correctly.

ULTIMATE TREASURY FITNESS



EuroFinance's 21st annual conference

Strategic International Treasury

May 11-13, 2016 | Miami, US

What must treasury do in order to stay at the front of the pack? Find out at the most international treasury event in the Americas.

- Hear how leading global treasurers are seizing the opportunities of high-speed technological innovation
- Real world fitness for real world challenges: How to respond to change
- Get insights from treasurers who really are helping their businesses grow faster, penetrating new markets and boosting profitability
- Discover how finance and technology intersect to help you drive the business forward

Join the elite for 2.5 days of first class networking opportunities with high-level senior treasurers and finance professionals from the Americas.

www.eurofinance.com/miami

**20%
DISCOUNT**

FOR TREASURY TODAY READERS

with code **TT/20**

**Book by March 18, 2016
to save even more!**

 **EuroFinance**

The Economist Group

you can too



Adam Smith Awards

in association with

**Bank of America
Merrill Lynch**

