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September/October 2019

Building bridges

Today's modern treasury is no longer an island. In order to successfully integrate across the business, how can strong bridges be built?

The Corporate View

Gianluca Gubbini

Director, International Treasury
Viacom

The Bank Interview

Brian Tomkins

Global Head of Commercial Cards
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Cash Management
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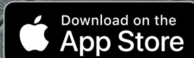

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The rise and rise of the connected treasurer

Treasury once resided in an ivory tower within its own organisation; an inscrutable technical wizard that somehow made sure the bills were paid. Often the only time people knew it was there was when something went wrong.

That has all changed. Today, treasury has become – in the eyes of the rest of the business – the function that keeps the business afloat in a raging financial sea. This makes it very much a part of the gang.

As a vital part of this service, treasuries are becoming much more integrated with core teams such as procurement and sales, using data and knowledge to build an accurate reflection of the company's financial needs. In making that connection, treasurers are also able to assist diverse functions in building relationships with suppliers, and even helping clients in their own financing needs.

Who'd have thought this was likely a decade or so ago? Few, probably. But treasurers have been busy communicating effectively across the organisation and beyond, forming real partnerships, and often harnessing cutting edge technologies to build closer connections.

You only have to look at the winners of this year's Adam Smith Awards to see just how inventive individual treasuries are when it comes to building rapport and making digital connections within and without the business. For example, Treasury Today's Top Treasury Team 2019 overall winner, Honeywell, has been exploiting cloud technology keep its stakeholders up to speed across its vast global enterprise.

Accordingly, the notion of the connected treasurer is one that has gained much credence in recent times. Last year's ACT report, The Business of Treasury, found that 87% of respondents saw treasury as a strategic business partner in their organisations. PwC followed up with its 2019 Global Treasury Benchmarking Survey, identifying business partnering capabilities as one of the top three characteristics "most sought after in treasurers and their teams, beyond functional treasury expertise".

In our Insight & Analysis piece in this edition we explore the extent to which collaboration between treasury and the rest of the business helps the entire company to be (as one interviewee put it) "safer, more streamlined, and more efficient".

Of course, there's much to be gained by building closer connections between treasury and the rest of the business – and there are many ways in which the function can demonstrate its indispensable nature. Indeed, elsewhere in this edition we look at the role of the treasurer in M&A, the future of bank relationships and treasury's movements in the capital markets. And for our Back to Basics article we probe the idea of zero-based budgeting, an activity that requires close cooperation and strong connections if ever there was one!

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Building bridges

Treasury may once have been viewed as an ivory tower within the organisation. But today, it's more important than ever for the treasury to be integrated closely with the rest of the business – both by communicating effectively with other teams, and by harnessing technology to build closer connections.

Treasury was once characterised as an 'ivory tower' within the organisation, with the treasurer seen as relatively separate from other departments. But, in recent years the role of the treasurer has evolved considerably to become more connected with the rest of the business.

A report published last year by the ACT, The Business of Treasury, found that 87% of respondents saw treasury as a strategic business partner in their organisations. Meanwhile, PwC's 2019 Global Treasury Benchmarking Survey identified business partnering capabilities as one of the top three characteristics "most sought after in treasurers and their teams, beyond functional Treasury expertise."

Connecting effectively with other departments within the business is essential to a modern treasury. But in practice, a successful integration will have many different components, from sharing knowledge and moving roles between different functions to using technology to achieve a deeper connection.

Problem solvers

First and foremost, good communication is essential when it comes to effective integration with the rest of the business. Marianna Polykrati, Group Treasurer of Greek food group Chipita, explains that in Greece, treasury has become much more integrated with the business in recent years, especially after capital control restrictions were imposed – not least because across the organisation, all departments are increasingly focusing on the importance of cash generation and improving working capital.

"This has made us collaborate with the organisation more than in the past," she says. "In particular, we have integrated a lot with the business units within areas such as sales and procurement in order to assist with relationships with suppliers, and to facilitate clients in their own financing needs. In practice this means that we meet more frequently with all the business departments – and whenever they need assistance, they call the treasury and ask if we can help with a particular client or supplier. I would say that we have taken a role of a problem solver, facilitating cash flow needs wherever applicable."

Sharing knowledge

Likewise, sharing knowledge is an effective way that treasury can work more closely with the rest of the business.

While the role of the treasurer is multifaceted, and can vary considerably between organisations, the main competence of the treasury specialist can be roughly defined as "quantifying financial risks and determining the time value and availability of cash flows," says Sander van Tol, Partner at independent treasury, risk and finance consultancy Zanders. He adds that the specific knowledge around those two areas can – and should – be used in an integrated way towards the business.

"There are numerous examples of where the treasurer's specific knowledge is required and can add value to business processes," he adds. "Examples of the business integration are working capital management, credit risk management, insurance and procurement. With regard to the latter, treasury is often asked to support procurement around purchasing commodities and energy, as well as managing the related financial risks from this process."

Peter Cunningham, EMEA Head of Consumer & Healthcare Sector, Treasury and Trade Solutions at Citi, notes that areas such as working capital and supply chain finance provide a clear example of how treasury can engage with the rest of the business, demonstrating "a natural relationship that's evolved between treasury and some of these other internal verticals within the company."

Reviewing roles

Another area of exploration is how roles within the treasury team can be organised to improve integration with the rest of the business. Cunningham says that in the past, treasurers may have focused on more traditional roles and responsibilities, such as ensuring an optimal funding model and mitigating risk. But more recently, he says some treasuries are adding new roles within the treasury team, with the specific goal of engaging more effectively with the rest of the business.

Van Tol says that from a human resources point of view there are a number of different approaches that treasuries may adopt. "Many traditional treasuries see the function as a specialised and standalone function for a high level of specific knowledge is required," he explains. "These treasuries are not fully integrated in the business and prefer to hire (seasoned) specialist treasury professionals when there is a vacancy in the treasury department."

In other organisations, van Tol says a more integrated approach may be adopted. "Specific treasury knowledge and competences are required to get a better view of the broader finance function," he says. "In these organisations, we see that there are job rotation schemes in place where treasury specialists transition into business roles, and finance/business managers take treasury roles." He adds that in corporations where treasury is part of the finance function's job rotation program or management development programme, "we tend to see a better fit between treasury and business."

Holistic treasury

George Dessing, Executive Vice President Treasury & Risk

Treasury is certainly an integrated function for Wolters Kluwer, which provides professional information, software solutions and services for a number of sectors, including health, tax and accounting, risk and compliance, and legal and regulatory.

"Treasury is viewed as a holistic role within Wolters Kluwer," says George Dessing, whose responsibilities include global treasury, risk management, (non-IT) business continuity and real estate. He explains that as well as managing traditional financial risks, the treasury function has evolved over the last decade to support the business with its operational risks "by supporting and servicing via risk management and real estate teams with property and business interruption risks."

Benefits of collaboration

According to Dessing, collaboration between treasury and the rest of the business helps the entire company to be "safer, more streamlined and more efficient", as well as identifying opportunities that drive operational and financial agility. "Treasury can do this in three ways: be the knowledge centre; be the enabler for cost saving; be the arranger for alignment of the finance terms and conditions," he says. "Treasury needs to be a strategic partner working closely with business to identify how to make customer experience as simple as possible, yet make sure that it is done in a secure way."

Dessing says that under the multi-disciplinary approach used to support the company's 2019-2021 strategy, 'accelerating our value', "we look at how treasury processes, practices and technology fit in with the rest of the business and uncover ways of keeping the conversation and the data flow running smoothly." By being more connected, he says treasury can anticipate some of the challenges that might be faced by the business and when possible address them, "before items become a fire drill."

Integration in practice

Dessing highlights three key areas where treasury is closely integrated with the rest of the business:

- **Global liquidity arranger.** Dessing says: "The most important role of treasury is to ensure that the group has ample headroom and liquidity available for expanding our presence in leading, high growth parts of the business and broaden our footprint where we have achieved market leadership and enter new geographies where we see the best potential for growth."
- **Internal bank.** "We act as an in-house bank for short-term cash needs and provide intercompany loans for the mid to long-term where the cash needs are more structural," notes Dessing. "For most intercompany transfers we have a current account netting system in place that greatly reduced handling and bank fees by avoiding having to do real cash payments."
- **Financial treasury risk manager.** As Dessing explains, "The group's activities are exposed to a variety of financial risks, including market, liquidity, and credit risk. Financial risk identification and management is carried out by the central treasury department, whereby the treasury operations are conducted within a framework of policies and guidelines (treasury policy)."

Technology and integration

Aside from soft skills and human resources considerations, the treasury's integration with the rest of the business also has a technology component. Van Tol noes that treasurers are used to working with a "relatively high number of different specialised technology solutions", including treasury management systems, electronic dealing platforms, payment systems and bank connectivity solutions, as well as best of breed applications for areas such as cash flow forecasting, hedge accounting and risk management. However, as van Tol points out, "many of these applications are very focused on the key treasury function, and the interface to the broader finance function is often the weakest link."

Consequently, he argues it would be beneficial for treasury's integration with the business if this link was strengthened by a better interface between different applications. "A good example of full integration from a technology perspective are those companies who have implemented a data warehouse/data lake, which is used as the single source of truth for both treasury and the business," he says.

That said, van Tol notes, "From an IT function's perspective, we sometimes still come across this treasury vs the rest of the business mentality." He adds that this is due to the very specific functional (and sometimes also technical and security) requirements defined by treasury. "For IT departments, the treasury function is a very specific and demanding internal client," he says. "They use many different systems and have a limited number of users."

Polykrati says that as well as working more closely with areas like procurement and sales, the company's treasury is also more integrated with IT, not least due to the rising threat posed by cybercrime. "They are always afraid of a breach made via phishing mails – which have significantly increased during recent years – so we work closely with IT, exchanging news and real cases to improve the group's awareness," she explains. That said, there is still room for improvement – and

> If treasury sees the relationship with business only as a mere principal-agent relationship, no real value is unlocked and there is not integration. The relationship should be more seen as equal business partners in which both partners (treasury and business) can benefit from the integration.
>
> Sander van Tol, Partner, Zanders

in the future, Polykrati says she hopes to adopt a treasury management system so the treasury can have a more automated system in place.

Managing and forecasting cash flows

Cash forecasting is one area where close collaboration with the rest of the business is particularly important. In order to forecast effectively, treasurers will typically need to obtain information from a variety of sources, such as AP and local business units. However, this may be less than smooth if the people expected to provide information lack a clear understanding of what is needed or why the forecast is important.

Effective communication with the relevant departments is essential if treasurers are to obtain accurate information and therefore build an accurate forecast. Technology also has a role to play in streamlining this process. Nick Armstrong, CEO of Identitii, says that improvements to straight-through processing (STP) and additional functionalities arising from new and existing technologies, mean that "treasurers are able to better forecast cash positions and therefore better support other parts of the business as they play their roles."

George Dessing, Executive Vice President Treasury & Risk at Wolters Kluwer, likewise notes that cash flow management is a complex process – "and increasingly so within the dynamic and continuously changing international environment that we deal with at Wolters Kluwer." He says that implementing one of the company's products, CCH Tagetik, "will help us to receive information from our businesses in a more structured and efficient way", with automated updates and a central repository showing the impact of business changes on the company's cash flow plans.

Blind spots

That's not to say that the integration between treasury and the rest of the business is invariably seamless. For example, Michael Bosacco, Treasury Advisory Executive in Global Transaction Services at Bank of America Merrill Lynch, says that treasury has always been well integrated with certain disciplines, such as tax, legal accounting and, more recently, technology. He notes that these teams "all have logical dependencies and typically are united in their efforts to ensure a company's capital and operations are optimized and the overarching strategy is successfully executed."

However, Bosacco also notes that beyond these core corporate disciplines, it is "uncommon" to find treasury deeply rooted within the business units it supports. "As a result, there's a tendency for blind spots to exist," he says.

What do these blind spots look like in practice? Bosacco explains that in most companies the corporate functions report into the CFO, whereas business unit presidents report to the COO (if one exists) or the CEO, alongside the CFO. "This structure breeds treasury (or other corporate function) blind spots, since the CFO typically cannot effectively faceoff operationally from a treasury standpoint to offer integration opportunities between the businesses and treasury," says Bosacco. "For example, if a company has three major business units, each unit will not have its own treasury function, but the units will have a dedicated finance team."

Where integration is concerned, Bosacco says blind spots can arise both because business unit finance considers treasury to be the group that takes all the cash, and because treasury considers the business unit finance to be the group that makes decisions on how/when to collect from customers and pay vendors.

"Needless to say, the two (cash and receive/pay) converge when considering basic balance sheet management," says Bosacco. "While CFOs and business unit presidents know this, they are rarely familiar with the operational requirements, products or services that can create the convergence" – a situation that Bosacco identifies as another blind spot. "This exists because the silo of corporate functions continues to run alongside the silo of business functions, and so integration fails," he adds.

Eliminating blind spots with technology

Bosacco says that technology "helps break barriers by improving the visibility and awareness of data and workflows across the business and enterprise-wide, breeding openness", noting that this is the opposite of a blind spot. He adds that "tech savvy treasuries" are beginning to use digital tools to achieve a number of goals:

- Eliminating blind spots.
- Rooting treasury into the business.
- Driving convergence across the enterprise.

According to Bosacco, digital adoption – in other words, consuming data and employing technology to support near-time decision making – "provides a reusable pathway for Treasury to connect with the rest of the business. For example, business analysis generated from technology tools used to unlock data from across the enterprise can serve as the foundation to support strategic insights for both the business and company-wide."

Bringing it all together

In conclusion, there's much to be gained by building closer connections between treasury and the rest of the business – and there are many ways in which companies can achieve this. Key to this is approaching the task with the right mindset. As van Tol comments, "If treasury sees the relationship with business only as a mere principal-agent relationship, no real value is unlocked and there is not integration. The relationship should be more seen as equal business partners in which both partners (treasury and business) can benefit from the integration."

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Capital markets: the rules of engagement for volatile times

Extreme volatility, burdensome regulation and growing investor and issuer appetite for private capital are some of the characteristics of today's capital markets. They also offer corporates unprecedented cheap money, but that doesn't come without risk.

The capital markets have been a fraught place in recent months. Uncharacteristic volatility in global fixed income and plummeting investor confidence make a tricky backdrop for corporates navigating their funding needs. With few alternatives to the capital markets for large companies wanting to tap long-term, cheap finance across diverse investors and products, shifting geopolitical and economic tectonic plates, coupled with innovation, regulation and increasing sources of private finance, make for new rules of engagement. These include taking advantage of unprecedented cheap finance, tapping new pockets in private markets that also provide routes around regulation – and going green.

Paid to borrow

Historically low sovereign bond yields and attractive spreads have made the cost of borrowing for corporates in the debt capital markets cheaper than ever. At the beginning of the year, global software solutions group Wolters Kluwer launched a €1bn European Commercial Paper programme from which the company drew €150 million at the end of June. The new short-term borrowing facility diversifies the company's funding sources from its existing long-term bonds, credit facility and private placement programmes, allowing it to tap negative short-term rates so that under this programme the company is actually paid for borrowing money. "There is a lot of money in the market at very attractive pricing," says George Dessing, Executive Vice President in Wolters Kluwer's treasury and risk department. "Negative yields make a very special funding environment. Money is for free and I think it will remain so for quite a while."

Cheap money

Indeed, borrowing conditions seem to be getting even more favourable. In the latest trend, low short-term yields have pushed investors further out on the curve in the hunt for returns, allowing companies to lock-in low borrowing costs for longer. "The deepest pool of investor interest in

the euro market has always been around the six to eight-year part of curve," says Roland Broecheler, Executive Director, Debt Capital Markets at Santander. "Now the deepest pool of investor appetite is around ten to 13 years which is allowing issuers to get much longer-term financing at these record low levels."

Similarly, investors' hunt for yield is opening up other areas of finance for companies seeking to borrow, like the hybrid market, notes Broecheler. This part of the debt/capital structure offers issuers equity content and investors better returns and is also popular with issuers since it supports their credit rating. "The hybrid market has been very busy recently," he explains. "Hybrid issuance comes at a significant premium over senior bonds so offers a way for investors to increase their yield when senior debt is very challenging. It's also a popular option for companies."

Nor does nervous investors' demand for safe-haven fixed income assets, despite low returns, show any sign of tiring. Demand for new European corporate issuance has remained strong even though the entire German bund market dropped below zero in August. "After the whole euro bund curve turned negative, we still saw billions of very well-received new corporate supply across the spectrum from two to 30 years, for highly rated and lower rated companies." says Broecheler.

Risks

Yet today's low yields do come at a price for issuing companies. Challenging macro data and the risky geopolitical backdrop, particularly the US-China trade war and enduring Brexit chaos, have ushered in unprecedented volatility in recent months. Dovish talk, and actions, from the Federal Reserve and European Central Bank hold the markets steady. But any sign of that support waning unleashes extreme volatility – as witnessed in August. It's in marked contrast to recent years when rock-solid central bank support countered macro news and made almost every day in the debt capital markets a good one. "If central banks don't deliver what the markets are expecting the capital markets keep focused on macro data and geopolitics and that means more volatility," says Broechelers.

Navigating day-to-day, and even intra-day volatility, isn't easy. Positive morning indicators can turn negative by the afternoon. "Every syndicate update call on a bond deal at the moment involves lengthy consideration of the Trump-China trade war, Brexit headwinds and the risk of recession in Germany," says James Taylor, a Capital Markets Partner at London-based global law firm Mayer Brown. "It's never been more challenging to find the right pricing that meets the expectations of corporate borrowers and prospective investors alike within set execution windows. The market on a Monday, can look very different come Tuesday."

Wolters Kluwer always taps the market well in advance of needing the money to avoid execution risk and trusts its strong investor base will see beyond day-to-day volatility. "You don't want to be out there on that one nasty day. Don't go when you need the money, go when you can walk away," advises Dessing.

Nor should companies let today's cheap money tempt them away from their funding strategies. At Wolters Kluwer, borrowing has three main objectives: either to finance investment in the business; including selective value-add bolt-on acquisitions – expensive in the current climate, maintain optimal leverage or shareholder renumeration. The company increased its dividend to shareholders by 15% in 2018 and plans an up to €250m share buyback in 2019. "We only go to the market according to our strategic plan. This decides the size, timing and currency we tap. It's great that we can get out money at attractive rates, but it always needs to be allocated effectively."

IPOs

European companies wanting to tap a different part of the capital structure via listing will face just as challenging macro conditions. It's one explanation for the low European issuance of recent years. While the US IPO market has soared thanks to US equities' rally luring companies to list, in Europe dramatic outflows from European equity funds have impacted the IPO market. Recent research from Bank of America Merrill Lynch found 64 weeks of equity outflows out of the last 66 weeks. Brexit has also taken a toll, with investors withdrawing US$4.2bn from UK equity funds since late May, according to data provider EPFR. The number of UK IPOs fell 44% in the first half of 2019 compared with the same period last year, says EY.

"Corporates tend to list in their local market. But European macro, as evidenced by continued equity outflows, has been a headwind," says Andrew Briscoe, head of EMEA syndicate at Bank of America Merrill Lynch. "Sellers who are unable to achieve desired valuations may choose to stay private for longer"

Moreover, European companies grown impatient with lacklustre European equity markets, are increasingly tapping private capital. "We are also seeing more companies, particularly in the tech sector, getting attractive terms from private capital," says Briscoe. Indicative of the trend is long-term investors like pension funds beefing up their private equity allocations in recent years, he says. "Traditional public market investors have wisened up to this and restructured so they can participate in capital raising in the private markets," he says. Asset owners now place an estimated 14% of their assets in private markets (mostly private equity and real estate), up from virtually nothing a couple of decades ago, according to Willis Towers Watson.

Briscoe reassures that like all cycles, IPO doldrums won't last for ever. "Europe has struggled for attention from US investors as a result of poorer macro, but at some stage the valuation disparity will compel them to re-engage, and we have begun to see this change." In one encouraging sign of the tide turning, merger and acquisition financing is increasingly in demand which can feed into the IPO calendar, he says.

In fact, treasury should start to prepare. As soon as the European equity market returns to health, he advises issuers to go for it. It helps to have first mover advantage and there is only so much dry powder to go around – however good the company. IPOs also tend to succeed – or struggle – in sync, so one poorly received IPO can drag down the next. "In many ways IPOs are an asset class. Although IPO companies may be in different sectors and geographies, interest in IPOs does get influenced by performance of other listings," says Briscoe.

Difficult dollars

It's not just macro factors that make the capital markets challenging. Treasurers face structural barriers to entry too, like the challenge European corporates face issuing dollar debt

because of different regulations and disclosure documentation. Whereas euro and sterling issuance involves similar processes, issuing in dollars is complex and burdensome.

Given that Wolters Kluwer derives more than 60% of its revenue from the US, dollar debt makes sense as a natural hedge. But the company has never issued in dollars, and currently accesses its dollar finance needs via a multi-currency credit facility instead. "Dollar financing comes with real challenges. We would have to study a new legal roadmap with potential governance and compliance restrictions," says Dessing.

It's not a burning frustration because euro financing is cheaper than dollars. Today the bond market prices a ten-year euro benchmark issuance with negative interest rates versus the US where corporates are still paying around 1.5%. That's only the market or mid swap rate, so without the credit spreads. "It's still cheaper for us to borrow in euros," says Dessing. Any decision to issue in dollars would also need careful analysis of how much dollar issuance the company needs, its requirement for an internal or natural hedge, and how often it wants to tap the market. "It also means multiple dollar issuance over the number of years of the issue. We are already tapping the euro market and there is a question mark as to whether we have sufficient liquidity needs to have dollar debt issuance too."

Nevertheless, it would be a nice option to have.

Regulatory bind

Post-financial crisis regulation like Market Abuse Regulation (MAR) and the Transparency Directive is also a headache for companies tapping the European debt market. It is starting to trigger new patterns in corporate issuance as some companies move some of their funding needs from European regulated markets to other products and jurisdictions. Growth in unlisted private placements is a key example, evident in Germany's Schuldschein market, a hidden corner of borrowing that doesn't tap bank loans or bonds, and which has tripled in recent years.

These instruments don't require a prospectus or costly documents prepared by lawyers because there is no listing requirement, explains Mayer Brown's Taylor. "Corporate treasurers who have issued benchmark bonds on regulated markets are now deciding that instead of doing repeat deals on listed markets, issuing alternative products such as a Schuldschein saves on costs and offers real liquidity."

In another trend, European corporates are also tapping the US private placement market. Not only is the regulation simpler, it offers alternative maturities allowing companies to slice and dice their issuance in line with their own, and investor base needs. "A US$500m issue could be divided into, for example, five different tranches with different tenors and pricing," says Broecheler. This market also allows delayed drawdown for corporates, meaning they can lock in cheap borrowing for money they won't have to draw for up to two years. "This is impossible in the public bond market but has now become a staple diet for many European corporates," he says.

Elsewhere, Europe's listed high-yield market is increasingly migrating from EEA regulated markets to locations outside Europe's regulatory reach. For example, the Guernsey-based International Stock Exchange, or TISE, has now become the market of choice for new issuers of high-yield bonds, says Taylor. "Issuers are listing their high-yield bonds away from EEA regulated markets, with consent of the investor base, because they are not subject to the same regulation."

According to TISE's website, its high-yield bond issuers include a mix of public and private European and US companies, some of which are the most internationally recognised brands or global leaders in their industries. "The listings have included both new issuances and migrations from EU exchanges as issuers and their advisers are attracted by our robust and proportionate rules for listing HYBs," it says.

Perfect union

Regulation is also crimping growth in other important corners of Europe's capital market. Deepening and integrating regional markets in accordance with the EU's Capital Markets Union (CMU) initiative has stalled, most notably around efforts to draw retail investors into the bond market to help finance SMEs.

EU regulation around prescriptive bond prospectuses and the need for additional marketing materials are to blame, says Taylor. "This kind of regulation is difficult and complicated for SME issuers to understand. Regulation is actually moving in the opposite direction of where the CMU wants to go," he says, observing that similar challenges befell London's Order book for Retail Bonds (ORB) market which tried to open up the bond market to retail investors in 2012. "The disclosure requirements and prospectus companies needed to list was prescriptive, burdensome and costly for issuers."

Ebb and Flow

New streams of finance are testimony to the constant innovation and competition of the capital markets. If one source wains, new sources quickly appear. For food and catering group Compass, the arrival of green bonds and their growing pricing advantages over browner siblings encapsulates that innovation. "The money is starting to talk," says Deputy Treasurer Ben Walters. "Pretty much every time we talk to a bank about raising finance, this is on the agenda. Investors want to invest in sustainability and there isn't enough supply."

The company doesn't have a date for a green debut yet, but is actively exploring the best approach, looking particularly at which parts of its business it could audit and report sustainability milestones. Issuance focused on water usage or food waste are possible areas Walker enthuses, noting that green issuance is a much bigger undertaking than traditional capital market issuance. "It's not just treasury involved. The whole company, from corporate social responsibility teams to investor relations and the individual parts of the business that are tracking and auditing sustainability, need to be on board."

European companies' dependence on bank financing has fallen during the past decade but remains almost twice as high as in the US, according the ECB. Challenges and barriers remain, none more so than today's whippy markets. But for established and thriving companies, the capital markets is still the easiest way of raising money. "We see good demand in all but the toughest markets," concludes Walters. "The capital markets still give us the most competitive pricing out there."

PAYMENTS FRAUD

HOW TO PROTECT YOUR BUSINESS

Cyber-attacks continue to make headlines around the world, and no matter what defensive measures security professionals put in place, organisations are increasingly at risk of payments fraud. How can treasurers shield their organisations from today's ever-resourceful fraudsters?

According to the Association of Finance Professionals' (AFP) recent Payments Fraud and Control Survey, a record 82% of organisations reported fraud incidents in 2018. Large organisations were particularly vulnerable to payments fraud, with 87% of businesses with revenue greater than US$1bn reporting fraud attempts, up from 80% in the previous year.

This is hardly surprising. Cyber-criminals are constantly adapting and finding new ways to target businesses. While traditional phishing scams, wire transfer and vendor payment fraud remain scammers' preferred methods of choice, they are increasingly exploiting corporates' IT vulnerabilities. These include software that hasn't been properly updated, networks that have security exposures and not encrypting sensitive and personal data.

Should a fraudster's exploits be successful, not only will a business lose out financially, its reputation may also be damaged severely – and the trust of customers, investors and suppliers may be lost.

Reducing the risk

In today's digital world, what can treasurers do to protect their businesses? The following steps can help mitigate the risk of falling victim to payment fraud.

- **Review risks and policies.** The first step should always be to hold regular risk review meetings with every department of the business. By monitoring and stress testing the application of their cyber-security policies, treasurers will be able to improve and adapt them at a moment's notice.
- **Monitor supplier connections.** Should a supplier experience a data breach, any company connected electronically to a supplier should immediately escalate the level of threat it perceives it poses to its network. Any access to said supplier should be either limited or closely monitored, and security controls should be adjusted accordingly.
- **Secure data.** If cash is king, then data is president. As such, corporate treasury departments should always map and maintain the security of every piece of data. This could be anything from information tied to a customer's account to a vendor agreement or company workflow. Any loan payment schedules, lists of professionals approved to authorise payments, investments and other transactions need to be secured, as fraudsters armed with this information could coordinate an attack by inserting themselves into any expected flow of payments.
- **Use alerts.** When it comes to third-party suppliers or contractors, any software purchased or licenced from a third party should always be equipped with some form of alerting system whenever it detects strange behaviour. A typical example could be if two IP addresses log into one individual account over a short period of time.

  Red flags could also be raised if there is a large volume of downloads or failed logins in a day, or if the software recognises irregular patterns in the creation of accounts for use of the software. These indicators are known as 'indications of compromise' or IOCs, and they are usually the first warning sign that your business is under a cyber-attack.
- **Review intelligence.** Finally, regular updates, reviews, and meetings with senior managers are critical. Every executive needs to understand what is at stake and why additional protection may be necessary. Quarterly meetings should be held to review industry-wide threat intelligence and share information about the cyber threats competitors are encountering.

If the lines of communication are kept open with leaders throughout the company, treasurers will be able to share the cyber-security burden in terms of intelligence, labour and other resources – ultimately reducing the cost and the risk of being targeted by today's resourceful fraudsters.

Are you receiving me? Exploring the 'dark side' of the balance sheet

Companies are increasingly finding alternative ways to improve their working capital.

John Murray
EMEA Industrials Sales Head,
Treasury and Trade Solutions
Citi

Today, challenges such as geopolitics, cybercrime and regulation vie for attention with opportunities offered by innovation, collaboration and optimisation. These are interesting times and every business has to find a careful balance because, regardless of sector or specialism, they share one common goal: to survive and thrive.

A big part of the challenge is keeping working capital metrics healthy, says John Murray, EMEA Industrials Sales Head, Treasury and Trade Solutions, Citi. "Analysts often report on the success of balance sheet management, assessing whether a business can deliver the returns that it promises to the market."

Murray notes that companies in the industrials sector are increasingly looking to alternative sources of financing as they manage their balance sheets and generate free cash flow.

At Citi the industrials sector covers six sub-sectors ranging from automotive and airlines through to shipping and logistics. It therefore presents a diverse set of needs and challenges. Automotive, for example, has to respond to the drive for electrification, digital connectivity and in-car payments as well as changing business models of ownership and use. Meanwhile, shipping and logistics companies are having to manage greener fleets and greater digitisation. In each case, delivering on expected returns is vital.

Meeting the challenge

Sustainability and efficiency issues are being tackled by all sectors with "every company focused on improving shareholder return," Murray reports.

Traditionally, companies have used supply chain finance and B2B card solutions to improve their working capital and free cash flow. This gives access to different streams of liquidity and improves quarter and year-end working capital for the buyer and seller, says Murray.

With digitisation and disruption driving change, Citi is enhancing its value proposition to give immediate benefits to buyers and suppliers. Today Citi's corporate card programme is used by buyers to pay suppliers earlier. This protects their working capital flow whilst extending buyer days purchasing outstanding (DPO) and reducing supplier days sales outstanding (DSO). Today, Citi is working with a fintech to extend the solution and allow companies to pay their suppliers who do not accept card payments within the card programme.

Rise of receivables

To be truly effective, both sides of the balance sheet need to be considered, as treasurers look for diversified sources of financing and sales teams seek new ways to unlock revenue growth.

Treasurers are now looking for ways to further improve their metrics and are using their receivables to do so. Increasingly, they are considering sales financing and distribution finance programmes that harness the power of receivables not only to improve working capital but to provide strong sales incentives to customers.

So-called 'sales finance' uses traditional receivables financing structures in a more sophisticated way, allowing companies to offer selected customers and distributors extended payment terms in exchange for increased business. The financing programme mitigates the impact of the extended term and results in better working capital for both buyer and seller – a 'win-win' scenario.

"In the last 12 months there has been a surge of interest from our industrials sector clients to explore alternative financing solutions that tap into the receivables side of the balance sheet and drive sales growth," says Murray.

For example, companies in the paper and packaging and chemicals sectors are aiming to improve their buyers' purchasing power to increase sales volumes and are implementing these solutions to improve and maximise their returns.

Emirates Global Aluminium's recent Highly Commended Working Capital Management award in the Treasury Today Adam Smith Awards, was in recognition of its off-balance sheet funding solution.

This was based on a bespoke Citi receivables purchasing programme which is helping to accelerate free cash flow and ultimately improve return on invested capital (ROIC). The company achieved this through maximising liquidity from a portfolio of its clients, both large and small.

Murray notes that many industrial companies have sought to meet quarter and year end working capital targets through the sale of their receivables whilst achieving off-balance sheet treatment under International Financial Reporting Standards (IFRS). "One client with a diversified customer base recently completed a Distribution Finance Programme to optimise their working capital each quarter and release excess cash."

Regardless of whether global sales, procurement, credit, treasury or another function instigates a receivables financing programme, Murray believes that it is essential for all parts of the business to be aligned with the ultimate goal of delivering expected returns.

"Clients are working with us and exploring these alternative solutions to optimise their balance sheets," he continues. "With solutions on the receivables side of the balance sheet refined and modernised for today's needs we provide detailed support and analysis of each client's unique frame of reference before providing the solution, whether that is for one customer or for a portfolio of hundreds."

When it comes to healthy working capital metrics, treasury is well-placed to discover alternative sources of finance. With payables solutions typically well met, depending on the mix of receivables in any given market, the treasurer can also now play a decisive role in exploring the other side of the balance sheet.

Businesses take considerable risks to enter or expand into new markets. This is why we take considerable care to provide the right support they need to make progress. However far from home that next big opportunity might be, it's our meticulous work around the world that enables our clients to transact with confidence wherever they aspire to succeed.

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A lifetime of learning

Gianluca Gubbini
Director, International Treasury

Viacom

From keeping the books of his parents' food store in Italy as a young lad, to treasurer of a leading global media company, Gianluca Gubbini, Director, International Treasury, Viacom International Media Networks has travelled far. With a passion for communication, technology and hard work, here's a treasurer who knows he was made for the job.

Viacom International Media Networks is the international division of the US$13bn global media business, Viacom. The company is currently split into six regional divisions, overseeing the production, broadcasting and promotion of key Viacom brands outside of the United States. These brands include MTV, VH1, Nickelodeon, Comedy Central, BET, Colors and Telefe. The network's headquarters are located in New York City and London.

"I feel like I have always worked in treasury," says Gianluca Gubbini, Director, International Treasury, Viacom International Media Networks, of his chosen career path. "My parents used to own a food store in Italy, and it was our second home. Since we were kids, my brother and I were always helping in the store and one of the things I remember liking the most was helping with the closure of the tills at the end of the day, which included counting the money, preparing the slip and then going to the bank the next day to deposit the cash."

During that time, Gubbini recalls that he even enjoyed keeping a cashbook and preparing the reconciliation of his father's personal bank account. It was perhaps only to be expected then that after high school he went on to University and studied for a degree in Economic and Banking Science. "Treasury was definitely meant to be my path," he muses.

Long reach of treasury

From an early age, Gubbini learned how to conduct himself in a professional manner. He has made a point of seeking out valuable lessons throughout his working life. Perhaps the key to his success, he suggests, is that whatever he does, he firmly believes that he should do it "as if it was my own business – no wasting of resources, time or money – and work hard to keep your customers happy. I try to apply these rules every day."

Today, his remit is to lead the London and Amsterdam based international cash operations team for Viacom International Media Networks. He is tasked with covering brands outside of the United States: Europe, Asia, Latin America and Canada. His team oversees all aspects of Viacom International cash management and treasury operations. The team also supports a shared services centre (handling AP, AR and T&E) in Budapest.

In addition to the day-to-day activities, the team works very closely with the firm's tax, legal and accounting divisions in respect of treasury transactions that involve international cash, such as dividends, capital contributions and acquisitions.

"We are also responsible for managing bank relationships," adds Gubbini. These relationships play a key role in responding to treasury challenges, whether it is to answer an immediate request or to understand what solutions may be available in the near future. "I meet with our banking partners regularly to review service levels and to discuss new products," he says. "In the last few years, I have been very much involved in implementation projects with them too."

Gubbini regularly meets with his relationship banks and attends treasury seminars and conferences in order to ensure that he is up to date with what is available in the market, what his industry and professional peers are doing, and what products and solutions can be implemented to deliver greater efficiencies, and increase controls and working capital management.

New goals, new tools

When Gubbini first arrived at Viacom some 14 years ago, its treasury operations were spread across approximately 40 banks. Today, it has concentrated cash operations with a handful of core banks.

Viacom has been at the forefront of embracing new treasury solutions. Throughout the last decade, we developed a comprehensive treasury technology solution, which resulted in great visibility, control, automation and the ability to manage and mitigate risks.

"Bank account rationalisation was one of the key steps that allowed us to become so much more efficient," he comments. Fewer cash management banking relationships have allowed Viacom to benefit from economies of scale in terms of pricing and levels of service. It has also enabled more effective deployment of new technologies.

In fact, the effective deployment of technology is very much part of how Gubbini meets challenges in his current role.

"The media landscape is evolving even more rapidly than treasury, and Viacom has made a number of accelerant deals to grow its portfolio and capabilities," Gubbini explains. "From a treasury perspective, the challenge is to integrate these new businesses into our existing core structure seamlessly. Additionally, we will need to ensure that treasury is able to support the different requirements that each acquisition has brought to the table in an efficient and swift manner."

Gubbini makes no secret of the fact that he is a technophile and the extent to which he feels an appreciation of technology is essential to the future of his treasury function. "New technology is very important," he states. "At Viacom, we embrace it, we keep current, we are often willing to pilot new solutions proposed by our banking partners and, at times, we help our partners shape their new products." However, he adds, because regulations do not always keep up with technology, it is important for the business to be very thorough in its due diligence whenever considering an innovative solution.

"Viacom has been at the forefront of embracing new treasury solutions," he explains. "Throughout the last decade, we developed a comprehensive treasury technology solution, which resulted in great visibility, control, automation and the ability to manage and mitigate risks."

In practical terms, as well as rationalising the company's bank account structure, achieving cohesion across the business has been effected by implementing the IT2 treasury management system (TMS), a new ERP system, an in house bank and through SWIFT membership.

With the implementation of IT2, all accounts are now managed on a single platform. The system, managed by a dedicated New York treasury technology team, is effectively the centre of treasury, Gubbini stating that "we now do everything through it."

> We no longer rely on bank proprietary file formats for payments or individual transmission connectivity. With such a structure, treasury has been able to support the company throughout its evolution, whether it was relocating functions, launching in new countries or acquiring new companies.

With SWIFT connectivity providing MT940s and MT942s directly into IT2, the treasury function has accurate balance positions across the business. This, he says, aids better decisions on all of Viacom's investments and redemptions.

The effort to connect and control continues with the implementation of a new cash pool, leveraging a virtual account structure and enabling a full OBO structure. The work, in which treasury is very much involved, is seen as critical to Viacom's progress in an extremely competitive environment.

Managing change

Like most media-related businesses, Viacom has undergone several structural changes in the last few years. This has seen treasury's input increasingly called upon. "One of the objectives of our treasury transformation was to create a structure that was flexible and, in a way, bank agnostic," says Gubbini.

When SAP was implemented, SWIFT membership meant ISO 20022 XML coding could be incorporated for payments. Rather than having individual bank-formatted files, treasury now has one standard format for all banks, enabling treasury to switch partners far more easily, should it need to.

"We no longer rely on bank proprietary file formats for payments or individual transmission connectivity," he explains. "With such a structure, treasury has been able to support the company throughout its evolution, whether it was relocating functions, launching in new countries or acquiring new companies."

Strategic role

Having been closely involved in deep structural shifts, the notion of the 'strategic role of the treasurer' is one that Gubbini wholly recognises. There is a strategic element to his job as International Treasury Director that has yielded some fundamental changes within.

For example, he has been a strong advocate for the implementation of the in-house bank for Media Networks and his team's current project of a single entity cash pool with virtual accounts and a full OBO structure for Paramount. Both projects have a material impact on working capital and liquidity management, as well as the ability to generate "significant cost savings."

For a treasurer to reach the position of strategic importance, let alone sustain it, requires a well-developed skillset. These are skills that Gubbini believes every modern professional should harbour. "Good communication is very important. Treasury needs to liaise with many different groups internally. We have daily interactions with tax, legal, accounting and our shared service centres. Treasury needs to be able to explain our actions and strategies to our stakeholders, whilst having a strong understanding of potential impacts on other parts of the organisation."

Highlighting success

With the depth of experience that working in a leading global media operation offers, Gubbini is happy to impart some of his wisdom to young professionals starting on their treasury career. "I have been in treasury for 20 years now, and I can say that it has never been the same. There are always new challenges, new regulations, new systems and a better way of doing things," he says. "It is a very interesting industry, but you need to be passionate, keep yourself informed and have a willingness to embrace constant change."

Of course, in his time at the top, he has managed to accumulate a number of highlights in his own career. One of the projects that he is most proud of is the recent implementation of the in-house bank.

"It all started during the implementation of SAP for the Viacom International division," Gubbini recalls. "I was responsible for the treasury aspect of the roll out, and it was clear that the in-house cash module system was the right solution, not just for Intercompany but for a full POBO structure."

He describes the time as "a great learning experience," not just on the technical side – he even went to a SAP course on in-house cash to learn how to configure the module – but also on the business side. Here, he worked very closely with Viacom's legal and tax groups on creating the right framework for the in-house bank intercompany agreements. The project also saw him connecting with teams from accounting, compliance, internal audit, and local controllers.

"It was definitely a 360-degree experience! It was a lot of work, but very exciting and rewarding. We have now been running the in-house bank successfully for over three years."

Art of balance

Spending a lot of time in the white heat of corporate life demands that the incumbent step outside of it from time to time, to rest and refresh. For Gubbini, it is important to find a suitable work/life balance.

When Gubbini is not working, he says he enjoys spending time with his family, especially his wife and two children. However, in the true spirit of discovery, he has added a new interest to his life. "Even though I am not very good at it, I like playing music. I got myself a guitar a few years ago and I do spend some time during the weekends with it. I find it very relaxing." If his approach to guitar is as focused and accomplished as it is with treasury, expectations should be high.

For banks, the future is a foreign country – but they still speak the same language

Amid all the talk of disruption, disintermediation and 'dumb pipes', the imminent demise of the traditional bank – and its relationship with corporate treasurers – have been greatly exaggerated.

Amara's Law states that the effect of a technology tends to be overestimated in the short run and underestimated in the long run. Advocates of open banking will certainly hope this is the case, since there is little evidence to date that APIs and non-bank competition have made a significant impact on treasury departments.

Fintechs have gained traction among companies with straightforward operating models where their cash account is in a single country. However, they have struggled to win business from multinationals.

"Cheaper cross-border transactions are obviously appealing, but even the largest fintechs have a pretty basic business model that is not sophisticated enough to deal with complex corporate treasury requirements," says Eric Li, Head of Transaction Banking at business intelligence provider Coalition.

There is of course the possibility that consolidation could eventually lead to the emergence of large scale fintechs with the resources to develop sophisticated treasury products. But, Li suggests that fintechs will continue to struggle to take business off incumbents in areas such as supply chain finance, which can be a major overhead for companies making large numbers of payments to suppliers and customers.

Open banking should make the market more competitive as banks allow third parties to explore alternative products and costings. Yet the involvement of third parties adds another layer to the relationship with the bank and creates issues around governance, data privacy and security. Although the concept of a third-party intermediary may be helpful, safeguards and KYC rules need to reflect the role of the third party and whether there would be a conflict in recommending other bank's products. If the objective is to open the market then this should drive down costs, but the reality is that this commoditisation comes at a cost of losing the relationship with one particular bank.

That is the view of Len Jones, a chartered accountant who has worked at senior finance levels in a number of businesses. He warns that banks will have to adapt their existing processes to cope with third-party systems and that open banking does not mean open season on data. "Banks' systems need to be able to respond quicker and be scalable, otherwise we get into a race to the bottom with compromises on service standards – assuming that banks are able to invest in back end systems that will enable access to data," he says.

Banks face technology challenge

Jones suggests that banks will have to significantly invest in their existing IT systems to enable them to be a market leader in service, and expresses doubt as to whether they can keep up with the pace of technological change necessary to provide real time information across multiple platforms. "We have already seen a number of disasters with bank IT initiatives and customers being denied access to their accounts," he continues. "The biggest obstacle to banking innovation is the trade-off between the cost of upgrading legacy systems and the pace of change brought on by fintechs."

While the UK has been the most enthusiastic proponent of open banking, similar initiatives are being explored in a number of countries including Australia, Canada, India, Japan, Mexico, New Zealand, Nigeria, Singapore and the US.

However, the regulatory impetus behind open banking is not the same across the world. In Europe it has been driven by regulators, whereas in Asia regulators have yet to commit to mandating open banking, despite encouraging the banking sector to move in that direction.

There are also nuances in relation to demand. "If we look at the oil and gas sector, there has been a focus on cost savings and improvements in recent years through reducing the cost of payments and liquidity management across subsidiaries," explains Sen Ganesh, Partner at management consulting firm Bain & Company. "For other corporates, interest in open banking may be motivated by growth factors and the need to work with multiple currencies."

The disparity in the pace of open banking implementation has implications for corporates with operations across multiple continents. For example, a treasurer with significant European operations might be looking at leveraging the new payment service providers, whereas in Asia that treasurer would still be reliant on the incumbent banks.

According to Ganesh, if a corporate takes the view that all the banks it works with will be operating in an open banking

environment, it would have to invest in a set of APIs and set aside at least six months to get to the point where it is able to plug into the banks.

Treasurers adopt conservative approach

Then there is the challenge of whom to work with – most of the fintechs in this space are relatively immature and unproven, so would a corporate trust them to manage half a billion dollars of liquidity? In this context, many corporate treasurers could be expected to adopt a conservative, 'wait and see' position.

Ganesh is also unconvinced that multinational companies might be tempted to shift treasury centres from countries where open banking hasn't gained traction to locations like the UK where it has been heavily promoted. "Services are often co-ordinated and executed in different locations," he explains. "A corporate could establish a treasury centre in the UK from which it could co-ordinate its European payments, but for local payments in Asia it would still be necessary to send instructions to a local bank."

Few local banks in Asia – with some exceptions such as DBS in Singapore, which has published some APIs – believe that open banking will be mandated in the near future.

Another barrier to wider adoption of open banking is that there is currently no 'API standard', so corporates have to create multiple APIs for similar solutions. API standards, services and geographic scope differ substantially between banks, which impedes interoperability and creates inefficiency and risk. In essence, each new API requires a lot of implementation work for corporates and licensed third-party providers.

A report released by the Open Data Institute in July noted that the UK's Open Banking Implementation Entity plans to create 'premium' APIs that will sit above the mandatory regulatory APIs, and are expected to provide a commercial incentive for banks to grow the open banking ecosystem and improve the performance of their APIs. These premium APIs would be offered by banks under contract to third-party providers and could be paid for by those providers.

There are other initiatives to improve standardisation, such as the API Standardisation Industry Group founded by NACHA, the non-profit membership association charged with overseeing the automated clearing house (ACH) system. "Partnerships between banks, fintechs and infrastructure providers are a precondition for successful standardisation initiatives and these initiatives offer platforms for such collaboration," says Job Wolters, Director Corporate Clients at treasury consultancy, Zanders. "It is difficult to say how many years it will take for us to arrive at a truly global, standardised set of APIs for corporate banking requirements, although the good news is that we are moving into the right direction."

PSD2 and UK open banking regulations do not require banks to offer APIs for corporate accounts, although many banks supply these APIs for market-driven, competitive reasons.

Platform for the future

Despite the challenges outlined , there is support for the view that API-enabled platforms and ecosystems represent the future of business banking. Non-banks and fintechs have long sold solutions such as treasury management systems, FX brokerage, accounts payable and receivable automation, and supply chain finance directly to corporate treasurers. Connecting to open banking portals via APIs offers the prospect of easier integration with real-time information and transactions. "We are seeing disruptors such as OakNorth Bank and Tide signing up substantial numbers of small and medium-sized enterprises," notes Benjamin Ensor, a Research Director who covers the banking sector for Forrester. "While the absolute number of customers these firms have won won't worry many large established banks, the speed at which credible competitors have not only entered the market but started winning customers should worry them."

Independent of open banking, there are significant cost pressures on transactional activities and corporates' expectations of enriched data are already high and growing, so it is necessary to capture very specific information to secure a mandate. Therefore, banks are experiencing some of the impacts of open banking even where it has not been implemented.

In the middle of this decade the financial media was awash with analysts debating whether banks would become 'dumb pipes' as their services were unbundled. However, the technology budgets that the largest banks have at their disposal are in some cases many multiples of the turnover of the fintechs trying to win business from them, and leave them well placed to grasp the opportunity to become orchestrators of services.

McKinsey describes ecosystems as an attractive play for any service business that can claim ownership of the primary customer relationship. Those entities that have the strongest relationship with the customer enjoy the highest profit margins in ecosystems and thus the most sustainable and lucrative business model. It would be hard to find any bank that would admit to being resigned to a reduced future role in the financial services landscape where it does no more than process payments. Those that fail to adapt risk becoming relegated to the role of capital provider and transaction processor.

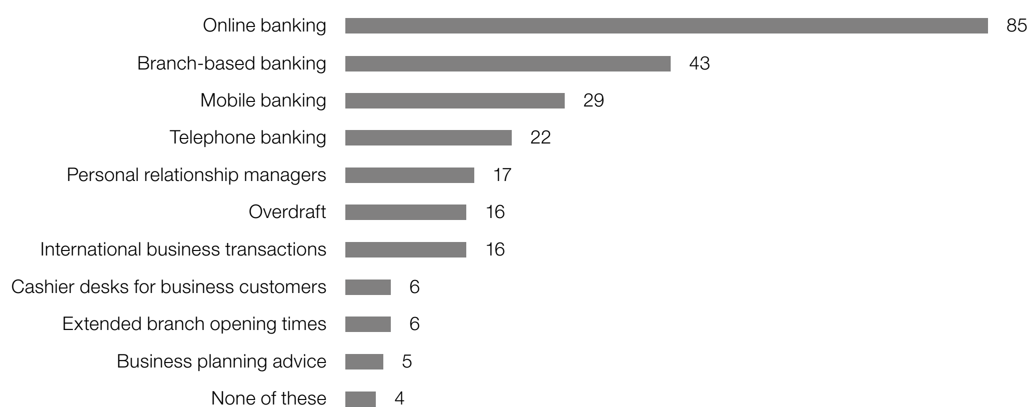
These are not unimportant roles and banks with scale will continue to profit from providing such services. However, banks that don't transform their operations risk losing their advisory relationship with corporate customers who will migrate to providers able to meet their needs faster and more efficiently.

Open banking has already improved access to information and markets, helping corporates get better pricing for banking products and services says Sankar Krishnan, Executive VP of Banking at consulting services provider, Capgemini.

Accelerating digital development

"The world's top banks have a problem with legacy costs of operations and technology," he adds. "With APIs, they are able to change the direction of their operations and technology strategy and enable digital transformation at a more rapid pace."

Digital business ecosystems should provide access to better, faster and cheaper business services that are easier to integrate with other business systems – such as CRM – delivering operational efficiencies for many larger companies.



Source: EY, The Future of SME banking report, December 2018

In this scenario, Ensor believes treasurers, CFOs and their teams will spend less time trying to understand their current positions and cash flows, releasing more time to focus on optimising financial decisions.

Aite Group Senior Analyst, Enrico Camerinelli, says banks can improve their prospects of becoming orchestrators of services if they join forces to create platforms that become marketplaces for banking services empowered by standardised and common APIs. An example of this approach is the Nordic API Gateway, a data sharing utility supported by DNB and Danske Bank that provides unified API access to both personal and business accounts from all Nordic banks.

Lending platforms are one element of the financial ecosystem that is rapidly expanding, although they have a number of limitations compared with conventional bank borrowing. For example, while both banks and lending platforms perform a screening function by acquiring information to facilitate the decision of whether or not to lend, only banks engage in post-lending monitoring of borrowers. This manifests itself in the different kinds of contracts that banks and lending platforms offer. Bank loans are overwhelmingly secured by collateral, while loans extended by lending platforms are usually unsecured.

The main implication is that banks and lending platforms cater for different kinds of borrowers, observes Dr Sonny Biswas, Lecturer in Finance at University of Bristol. "Banks will probably keep lending to safer borrowers who can put up collateral to secure their loans, while the lending platforms will make loans to riskier and more innovative firms."

There will be greater transparency on pricing for deposits and loans and this will help treasurers optimise across multiple banks, but that is just one part of the corporate treasurer's relationship with their bank. Long-term financing is crucial and having long-term secured funding or working capital financing is likely to be of more importance than a reduction in some of the day-to-day costs associated with payments. Ganesh notes that banks are still far and away the largest provider of capital to companies, particularly those who are not large enough to issue their own bonds. Banks also provide advisory services to corporate treasurers on how to optimise their working capital and even set up treasury centres.

The power of relationships

Further good news for banks is that corporates continue to value their relationship. A November 2018 report on SME banking published by EY found that 43% of small-to-medium sized businesses had used their branch in their past three months (compared with 29% that had used mobile banking) and 17% had interacted with the relationship manager over the same period.

Corporates still value the stability and security of solid banking relations, particularly when it comes to keeping cash on deposit to provide for funding and processing transactions. This trust factor differentiates corporate banking from consumer banking, where the fintech revolution has proceeded much more rapidly.

The stability of a supplier, and support and development of solutions are of key importance for corporate treasuries, says Wolters. "A bank provides stability and security and is therefore generally considered a more reliable technology partner than a fintech. By teaming up with fintechs, banks have the possibility to offer their clients technology solutions beyond traditional basic cash management services. This is expected to be supportive to maintaining and growing the corporate client relationship."

Patricia Hines, Head of Corporate Banking at financial services technology advisory firm Celent, is also unconvinced that we are moving towards a future where corporate treasurers and Chief Finance Officers conduct all their banking business virtually.

"The primary purchase decision by a treasurer is whether a bank offers its corporation credit lines and facilities," she says. "Credit granting currently requires a lot of traditional interaction as the lender gathers the information required to make a credit decision."

Stephen Lane, Finance Director of mechanical engineering firm Xtrac, says he likes to know that the company's relationship manager understands the business and wouldn't welcome a future where corporate treasurers and CFOs conduct all their banking business virtually. "I want to be able to sit down and talk to a relationship manager across a table about what is happening in our business," he concludes.

J.P.Morgan
Asset Management

Hitting the ultra-short sweet spot: managing cash through macro uncertainty

Is it possible to generate useful returns in the short-term markets while remaining low-risk? Neil Hutchison, Lead Portfolio Manager for Managed Reserves, Europe, J.P. Morgan Asset Management believes so.

Neil Hutchison

Lead Portfolio Manager for Managed Reserves, Europe, J.P. Morgan Asset Management

The dash for yield

Expectations for lower interest rates across the globe has sparked a grab for yield. At the same time, strong technicals in credit markets are supporting spreads despite the late cycle risks that are increasingly prevalent in the market. Even in Europe, where rates are already in negative territory, further easing is expected. In this environment, the yield drag for staying in cash is only likely to increase.

For many cash investors, maintaining an attractive yield means having to increase credit exposure at a time when market risk is greater than it has been in a long time. The question investors must ask themselves is how aggressively they wish to pursue their step-out strategy. In Europe, for example, a strategy designed to achieve a positive yield would require a portfolio that is 100% invested in credit with an average BBB rating out to five years.

But an average BBB rated portfolio obviously contains more risk than a AAA rated portfolio. Therefore, a blind focus on yield, as opposed to total return, could give some investors a wrong steer – particularly with credit risks increasing.

Put cash in its place

Overstretching for yield in the current market environment could present serious hazards. Among the current known market risks – not all of which have been priced in – are ongoing trade disputes, Brexit uncertainty, falling interest rates, changing regulations, and an ageing credit cycle (to name but a few). To this list may be added the threat of one or more key markets slipping into recession in the next 24 months.

At the same time, credit risks are rising. Leverage in investment grade markets, for example, is higher than ever (particularly in the industrials sector). While falling interest rates may help these companies eke out cheaper refinancing, what happens if the major economies do go into recession? Furthermore, while investors would expect a higher yield for investing in BBB rated securities, greater demand for BBB assets is actually causing spreads to tighten.

Find the sweet spot

For investors in the ultra-short space who seek yield in this volatile economic environment, there is a strategy that could help them. Segmenting cash and leveraging solutions across the full ultra-short spectrum can help investors target the cash sweet spot by maximising yields and helping them to prepare for lower rates, without taking on too much risk.

This strategy involves stepping out of the AAA "dead zone" just enough to boost yield, but with a laser-sharp focus on the credit fundamentals of every suitable asset, rather than relying for guidance on today's market pricing, which is dangerously influenced by technical factors (where demand is outstripping supply) instead of a focus on fundamental value. Undertaking the right level of credit research helps to strip out unacceptable volatility and ensure that credit risks are managed in the portfolio.

For most treasurers – those without credit research resources – implementing a cash segmentation strategy that is backed by fundamental credit analysis will mean engaging with a specialist adviser. In today's challenging environment, access to such specialised credit analysis is crucial, allowing investors to account for the kind of "known unknowns" being created by Brexit, for example, and helping them to get on the right side of any market fall-out.

A proven track record

J.P. Morgan Asset Management's active, liquid and diversified Managed Reserve investment model has a decade-plus track record that eschews a dangerous fixation with yield and instead looks to total return, with a deliberately low risk approach to BBB credit.

The focus is on short-term positions, and then only in names that are good enough to make it onto a well-researched buy list built for liquidity-style investors. The result is a credit selection process that is appropriately conservative for treasurers seeking yield in these uncertain times.

To quantify outcomes, J.P. Morgan Asset Management's Sterling Managed Reserves strategy, for example, aims to outperform a typical cash proxy (such as a money market fund) by 20 to 40 basis points (bps).

In a late cycle environment, where fundamentals are deteriorating, spreads are tightening and technical are driving the market, picking up 20 to 40 basis points in yield looks attractive – particularly when the new normal is for zero or negative rates.

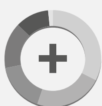
For yield seekers aiming for principal preservation, hitting that ultra-short sweet spot is still possible with the right advice. It's therefore time to put cash in its place.

To find out more, please visit **www.jpmgloballiquidity.com** or contact us at **jpm_global_liquidity@jpmorgan.com**

PUT CASH IN ITS PLACE

Which is why we actively work with you to craft the right cash strategy. Segmenting cash and leveraging solutions across the full ultra-short spectrum to help maximize opportunity.

Visit **jpmgloballiquidity.com** to learn more about how we can help optimize your cash strategy.



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J.P.Morgan
Asset Management

Bringing the deal home: treasury's vital role in M&A success

In a globalised world where value-creation counts, M&A deals are big news. Opportunities abound yet they are potentially complex and resource-intensive, with no guarantee of success. We explore the role that treasurers have in managing the risks and opportunities pre- and post-deal.

The current market buoyancy for M&A deals is a result of increased opportunity and confidence in the global markets. With stock markets performing well, valuations are on the rise. Yet according to EY's Global Vice Chair of Transaction Advisory Services, Steve Krouskos, 2019's global M&A market "is expected to remain at elevated levels while the imperative to manage emerging opportunities and risks boosts M&A appetite".

Indeed, he says in EY's Global Capital Confidence Barometer that, in an age of transformation, "buying rather than building can unlock future value creation at speed". His report notes too that "competitive dynamics as they relate to technology and globalisation make M&A more of an imperative than an option" and that companies are "embracing uncertainty rather than being unsettled by it".

With strategic thinking around competitive advantage, and future market share front of mind (often to access new customers or geographies, to leverage new IP or brand value, or to secure operational advantages), Krouskos further records that executives are expecting to see many peers "targeting the right asset at the right time". He also notes that, in many cases, "the right asset is the same asset". M&A competition, it seems, is intensifying.

Strategic input

The competitive nature of M&A means getting the details of the deal right first time is vital for success. However, the definition of 'successful deal' is subjective, notes Dino Nicolaides, MD, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory.

"In my view, it must deliver the strategic, commercial or operational benefit anticipated at the outset. Under no circumstances should the return on capital (ROC) be below the weighted average cost of capital (WACC), simply because that would mean the deal has failed to add value."

Thus, there is a huge expectation to perform in this respect, and the role of the treasurer in supporting a successful deal has never been more important. Indeed, treasurers, notes Nicolaides, have often been involved in ensuring the swift unlocking of the value of new acquisitions.

This means they will, for example, use their cash, capital markets and FX levers (that are, ideally, already finely-tuned within their own organisation) to ensure there are no impediments when integrating the financial operations of the new organisation.

However, even earlier and more upfront involvement is clearly essential to bring about value-adding success, not least, for example, with regard to optimising the structuring and management of any debt raised for a deal. With M&A movements, the treasurer has genuine strategic importance, with the role being far more aligned with the broader objectives of successful activity in this field.

Ready?

So how ready is treasury to provide the essential data and analysis? "The biggest test in this respect is whether they are meeting all of the CFOs needs, even without the looming idea of an acquisition," says Bob Stark, VP of Strategy at Kyriba.

This, he explains, not only means ensuring currency operations are finely tuned, but also making sure cash forecasts are efficient from a cash flow perspective. It also means making sure there are no concerns around the efficiency of cash and liquidity structures; that there are no questions around the capital markets composition, nor around the ability of the business to use these levers to unlock further cash and liquidity to facilitate acquisitions.

Only when treasury is meeting the CFO's evolving needs and supporting the CEO and board in their financial strategies, Stark says that is when the function is best placed to take a seat at the table, "offering credible opinions in terms of the value of potential acquisitions".

Avoiding the FX trap

One area of particular M&A concern today is the FX side of a deal, says Stark. "With today's currency volatility, it is not just

the purchase price that can be affected by movement; it can also impact the unlocking of value within the acquired entity itself," he warns.

Businesses are facing increased market volatility and, as they compete for the right deals, they are also acquiring in new geographies, so potentially dealing with new operating currencies too. This combination creates the perfect 'FX storm'.

"Treasury has a keen understanding of the impact of currency movements on the balance sheet and cash flows, and is well-positioned to identify opportunities that may arise too," suggests Stark. In practice, treasury knowledge could even give rise to an adjustment of the purchase price or the financing of the deal, and is likely to inform the putting on of appropriate hedges earlier in the process to ensure that risk is mitigated.

This is important. A sudden unprotected FX spike in the wrong direction can prove costly at closure, not just on price but also on the entire composition of the balance sheet. "Currency volatility can completely change the value of an acquisition," warns Stark. "This can be true even when acquiring in the same currency if the acquired enterprise has a significant FX component through its operations."

It should be clear then that the treasurer's earliest involvement in an acquisition is crucial to ensure that the deal is not exposed to a sudden loss of value. It is manifestly suboptimal if treasury is only able to understand what the business is exposed to after the fact. For the deal to be a success, treasury needs to know upfront how the balance sheet and P&L changes, what the cash flow statement looks like globally, what hedges are on or off, and even just the general liquidity structure of the acquired business.

Understanding deals

Understanding the full financial position of the target company going into a deal means treasury is able to prepare the ground for a quick and efficient integration – and any remedial action – if that deal concludes successfully.

Stark argues powerfully that success should not be compromised in any way by something as fundamental as currency exposures. This is why, increasingly, treasurers are invited to take up a seat at the table, not just as part of an operational M&A team ensuring a specific deal is executed, but also as a key part of the evaluation process of opportunities and potential deals.

Pre-deal

Assuming treasury readiness, there is a pre-deal advisory element for treasurers that arises even before a target has been identified, says Didier Philouze, MD, Global Head of Debt Advisory, Redbridge Debt & Treasury Advisory. Treasurers need to analyse the impact of any new strategic change of direction, including any move towards M&A or significant growth, he says.

"If management wants to double the size of the business through multiple acquisitions, clearly this could have a meaningful impact on the way the business generates profits, the volatility of its cash flows and on its credit profile. It could also have an impact on its liquidity requirements," warns Philouze. "If treasury is to have a say in the way M&A is managed, it needs to offer a clear view of the financial effects of the deal; without that view, the business could make a huge mistake in its M&A model in terms of debt quantum or cost of debt."

The treasurer's financial analysis, presented to and discussed with the CFO and CEO, should confirm that they fully understand what could be at stake, in terms of, for example, the company's equity requirements or maximum debt capacity, and especially regarding the timing and sequence of any acquisition.

It may transpire that pre-funding the deal is advantageous. In this instance, part of the financing is secured ahead of the transaction. This gives a bid greater credibility whilst avoiding the need, should progress be unexpectedly rapid, for expensive bridging facilities.

However, if in its analysis, treasury sees evidence that a proposed deal leads to a significant negative effect on key aspects such as credit ratings or covenants, or that it demands that borrowings are ramped up substantially, the pressure these issues add to the acquiring company's existing exposures to credit markets, interest rates and FX, may suggest that the deal is not right and that management should reconsider.

Says Stark: "With its exceptional skillset of understanding capital markets and cash flows, its ability to unlock capital, and to manage currency volatility, treasury is in a unique position to add intelligence capable of demonstrating the value or otherwise of a deal."

Deal time

A pre-financed M&A deal will reduce the treasurer's stress levels, says Philouze. But if not in place, and there is an investment bank mandated on the acquisition finance, then he says treasury may play an important role in ensuring that what is being negotiated with that bank is competitive, compatible with the acquiring corporate's existing financial structure, and will not be overly complicated to manage post-deal.

In one illustration of the latter, Philouze cites a business where the T&Cs of a facility, arranged without CFO and treasury input, ring-fenced the US cash flows of the acquired business, limiting the immediate benefits of the financial integration of the acquisition.

Worse still, the terms did not permit any new debt to be raised in other parts of the group before the reimbursement of the acquisition finance put in place in the US. "It shows big mistakes can be made without treasury involvement," he comments.

The reason for calling upon the treasurer is simple. "When an investment bank is mandated for M&A, financing is just a side-product," explains Philouze. "For the bank, the priority is to secure the execution of the M&A and ensure the financing does not become a problem in that process; it has little interest in trying to optimise the financing that is being put in place. It is the role of the treasurer to have a say in the way new financing will be structured and put in place."

From the moment a deal is struck, to the completion of the deal, the treasurer needs to take account of what needs to be

> Being data-driven is the reality now, and for treasury, it's about understanding how it can build more bridges.
>
> Bob Stark, VP of Strategy, Kyriba

put into place so that on day one, business can run as usual, adds Nicolaides.

"This notion is even more valid during a carve-out because sometimes if a small subsidiary or business unit is acquired, it will most likely not have its own treasury function," he notes. "One will have to be put into place as soon as possible to enable continuity, and that requires planning."

As an additional hurdle, where bank facilities and lines of credit are withdrawn from the acquired business, because they belong to the previous owner, the treasurer of the acquiring entity needs to get out there and start negotiating, making sure the relevant lines and facilities are in place for the acquired. And with each organisation having its own risk appetite, the treasurer also needs to consider how to adapt the newly acquired organisation to this.

Post-deal

Treasury planning should come to fruition post-deal. The to-do list might include operational integration, risk management policies, people and skills, amendments to the overall governance structure if the acquisition is sizeable (the need for treasury committees and sub-committees, for example), reporting processes between the acquired and treasury HQ, and of course systems and technology.

'The first 100 days', as the experience is often known, is a vital part of post-deal transitioning. In reality, this period can extend much longer than this and it may be that only six months later is the treasurer finally in a position to rationalise the business and, for example, deal with the two treasury centres that exist in the same country.

Treasury needs to consider its geographical footprint and start tackling structure sooner rather than later. But it is also important, from a strategic perspective, not to just think about what has been 'inherited', but also to review why the acquisition happened, and what the strategic objectives are, before adapting the longer-term outlook of treasury.

One further aspect with great importance is communication with the ratings agencies, says Philouze, especially where treasury has highlighted a potential impact by the deal on the credit profile of the acquiring company.

During the transaction, the acquiring business will have undertaken a lot of work to show the best credit story possible to the rating agency and the lenders. Now, post-deal, these relationships need to be managed, ensuring all stakeholders understand the benefits of that deal.

Post-deal, the existing debt of the target and the combined debt profile, may require restructuring by treasury. This may see centralisation of debt, but will certainly require action in terms of currency, maturity profiles and hedging. "Treasury may be looking at a lot of work to re-optimise its book of currency swaps and debt location," cautions Philouze.

Role of digital

Of course, having treasury rooted on an island is never the most effective model. To be able to assist the organisation in the successful conclusion of the right deals, it must collaborate and, to an extent, integrate with other functions, allowing the smooth exchange of data. Few now would fail to recognise the increasing importance of technology in achieving this aim.

There is a basic requirement in any acquisition for treasury's collaboration with other parts of the organisation to ensure support of a host of activities, from the supply chain and working capital, to cash flow and payments. But the necessity for treasury to be able to support the rapid and effective integration of acquisitions and larger scale mergers is most pressing.

If this is to happen, technologies from both sides of the deal must be able to communicate, says Stark. To be truly efficient requires what he calls a "holistic approach", in effect, creating a "treasury enterprise system".

The holistic approach he espouses provides an opportunity for treasurers to extract the intelligence and value that may be derived from a newly enlarged enterprise-wide pool of data. "The technology exists to do this; it's now a matter of having the connectivity and processes in place," he advises.

Advantage treasury

From the point of view of treasury's involvement in M&A, "proactivity is the key", advises Stark. "Being data-driven is the reality now, and for treasury, it's about understanding how it can build more bridges."

Nicolaides concurs, believing treasury's involvement should start way before closure. "Initially, it is important for the treasurer to educate the CFO and CEO on what value treasury can add in this situation," he says. "If they leave this until the transaction is well-underway, the time pressure of the deal means many aspects could be missed, with the CFO and CEO not realising that the treasurer is a key individual to have involved."

But it is incumbent upon the treasurer to step beyond the role of 'technical guru', and begin thinking more commercially and strategically. It's essential to explain complex treasury issues in non-technical language, so that all stakeholders within the M&A are successfully on-board and up to speed.

Taking the proactive stance, where the debt and credit profiles, pre-funding plans and integration tactics have already been worked on, should resonate with the CEO, not least because preparation could deliver huge savings.

More importantly, treasury's early involvement indicates maximum credibility and financial firepower for the bid, says Philouze. "It allows the acquiring team to enter the process with a very assertive message to the sellers that they mean business." In this highly competitive arena then, it may well be treasury who brings the deal home.

WHY DATA LINEAGE MATTERS FOR TREASURERS

Data lineage is an increasingly critical capability in data management. What do treasurers need to know as they move closer to the role of data scientist?

Data lineage pinpoints the origins of data, what happens to it during processing and how it evolves over time. For Mark Hermeling, CTO of Asset Control, having an ability to track and visualise data lineage is increasingly important in managing regulatory compliance and financial reporting across a wide range of sectors.

"Data lineage is becoming hard-wired in regulations and in data quality frameworks," he says. "Ultimately this is all related to the need for 'explainability'. If a bank, for example, values a position at US$25m, it might need to explain why it is valued at that amount, how it came to that decision and what data points it used in arriving at that valuation. All this context and more may need to be tracked."

Treasury transparency

Corporate treasurers and finance staff have a major role to play in ensuring that the process of reporting and consolidating financial data is consistently transparent and explainable – and ultimately the ability of the business to achieve visibility of its data will be key to this.

However, says Hermeling, treasury departments and other finance operations can also use data lineage and the related concept of explainability in other contexts. When changes are made to existing processes, for example, data lineage can be used in diagnostics to improve data quality. It can also be key for data licensing. If an organisation is licensing third-party content and therefore has to abide by the associated restrictions, it will need to know what data is a derivative of another piece of data.

Finally, data lineage can be key in achieving better management of client records and ensuring greater care is taken about where client data is moved to and used moving forwards. To do all this efficiently, organisations will need to implement two different kinds of data lineage: horizontal and vertical.

Horizontal data lineage traces the journey of a piece of data as it moves through the system from source to destination. It effectively tracks that journey of a specific item of data – typically across systems and reports.

Vertical data lineage describes the transformations that happen to a piece of data on that journey. It could be an element feeding into a calculation: one of the sources of a bond curve calculation, for example. And the lineage in this case would be to 'go back' from the bond curve and see what individual bonds formed part of the input at a specific point in time.

"In short, horizontal data lineage traces data back to the original source, while vertical data lineage reverse-engineers the transformations that happen along the way, whether they are simple processes like cross-referencing, or tracking the different taxonomies that exist for financial instruments or industry classifications."

To address the data lineage challenge, firms have a need for 'bi-temporality' so they know the value of the data and associated business logic at the time the calculation took place. They need to be able to track metadata and keep cross-reference tables between different taxonomies and classification schemes up-to-date but they also need a clear administrative process, detailing who can access data, where does it go, where did they get it from and what their sources were.

"It's a complex undertaking overall," says Hermeling, "but those organisations that understand the requirement and can put the right combination of processes and technology in place to support it will be best placed both to meet data lineage requirements and gain a competitive edge".

Standard Chartered

Keeping it real: making new technologies and market forces work for you

When it comes to powering real-time business, the power of partnerships to drive innovative thinking matters. Victor Penna, Regional Cash Product Head, Europe & Americas, and Global Head of Structured Solutions Development, Standard Chartered, explores the demands made by new technologies and market forces on the modern treasury.

Victor Penna

Regional Cash Product Head, Europe & Americas, and Global Head of Structured Solutions Development

The rapid development of new technologies and market forces is leading corporates to disrupt their own businesses. For most, staying relevant and competing with new entrants demands action now, because the pressure to perform is mounting.

In our personal lives, digitisation is becoming all-pervasive. We expect to interact with business quickly and efficiently, often through online sites and apps to order goods or services, track delivery, raise service issues or source advice. In our role as consumers we draw upon this experience and are increasingly asking why the same type of real-time and efficient execution cannot be achieved in business to business transactions.

This expectation is also seen inside many organisations. Business managers are all too aware that their business processes are often too complex and disjointed and their own experiences as e-commerce consumers are likely to confirm this state of affairs.

With seven of the world's biggest companies now drawn from the e-commerce sector, traditional companies have a battle on their hands. New players are perfectly positioned to find the niches and exploit them quickly, leaving slow-moving traditional companies in their wake.

Whilst many businesses are evaluating or launching online, real-time business models, the timing is now critical. The response to digital is no longer a matter of 'if' but 'how'. To drive this change, many large corporates have appointed a Chief Innovation Officer to help transform their interaction with customers and suppliers through new channels.

Real-time opportunities

Many traditional companies now have a clear choice of either innovating or being disintermediated by newcomers. Taking positive action now affords an opportunity to reduce the cost of doing business through process simplification, and allows businesses to reach customers in new ways, even segments that previously may not have been accessible.

This could be as simple as launching an online business that reaches small and medium sized customers directly rather than through traditional channels. Alternatively, it could be more sophisticated, like a traditional manufacturing company incorporating Internet of Things (IoT) technology into their machinery, thus enabling their machines to call 'back to base' when parts and consumables need replacing or servicing is due. This provides customer convenience and automated cross-selling opportunities for the manufacturer.

Having a direct and more immediate connection with the customer changes the relationship and the nature of the interaction from reactive to proactive. The same level of interactivity can be applied right across the manufacturer's own supply chain, bringing about a true Just-in-Time supply chain, potentially reducing or removing costly inventory holdings.

Regardless of sector, most businesses today sell to their biggest customers directly. Lower down the scale, sales tend to be through agents or distributor networks. Enabling online real-time commerce cuts out the middleman, facilitating 24/7 direct customer access to products and services by even the smallest customers. Re-engineering the way product-lines are distributed in this way makes it possible to meet business expectations – buying online and in real-time – expectations that consumers are increasingly bringing to the operation of their own businesses.

Indeed, there is strong evidence that these types of buying behaviours and expectations are working their way up from the consumer space to firstly SMEs, and then to the larger corporates. It's a natural evolution. Progress is slower at the large-corporate end of the scale, with legacy infrastructure often presenting an obvious obstacle to selling products and services in a new way. But, by piloting new channels in select markets before rolling out enterprise-wide, even multinationals are able to meet the needs of new market dynamism.

Treasurer's role

There is a significant part to play for treasurers in the roll-out of these new online and real-time business models. The first port of call is to meet with front-line business colleagues. This should be about exploring and understanding how the business interacts with customers, and how subsequent processes flow internally.

It is vital too for treasurers to step outside of established thinking on cash management, at least as far as invoicing, collections, matching, reconciliations, payments and customer

interactions are concerned. Real-time commerce will introduce a completely different toolset. Exploiting it requires re-education; treasurers must understand the applicability of new models and technologies, and firmly grasp how treasury can support and sustain its adoption.

For example, if a large corporate moves to sell online directly to SMEs, it will need payment gateways to process a wide range of payment types used by these customers. This could include instant payments, mobile money or peer to peer payment instruments commonly used by consumers and small businesses alike. Some corporates may also wish to deploy a proprietary business wallet that enables small businesses to buy from them online. Moreover, if these transactions are cross-border and a product is priced in a base currency but sold in a local currency, then real-time FX solutions that enable the dynamic pricing and settlement of these transactions between the base and local currency will also be a requirement.

In building a map of how real-time commerce can be supported, treasury becomes a critical partner for supporting a new way of doing business. Treasurers who do not become closely involved in the roll-out of real-time commerce will eventually have it imposed upon them. The risk for the business – and certainly for treasury – is that systems and processes put in place without consulting with treasury will not function optimally from a risk and liquidity point of view.

Next steps

Shifting towards a real-time operating environment is a huge undertaking. Treasurers should begin by sharing insights with their colleagues about the different models and tools available. This should be about exploring the strengths and weaknesses of the options, and how each might best serve the business.

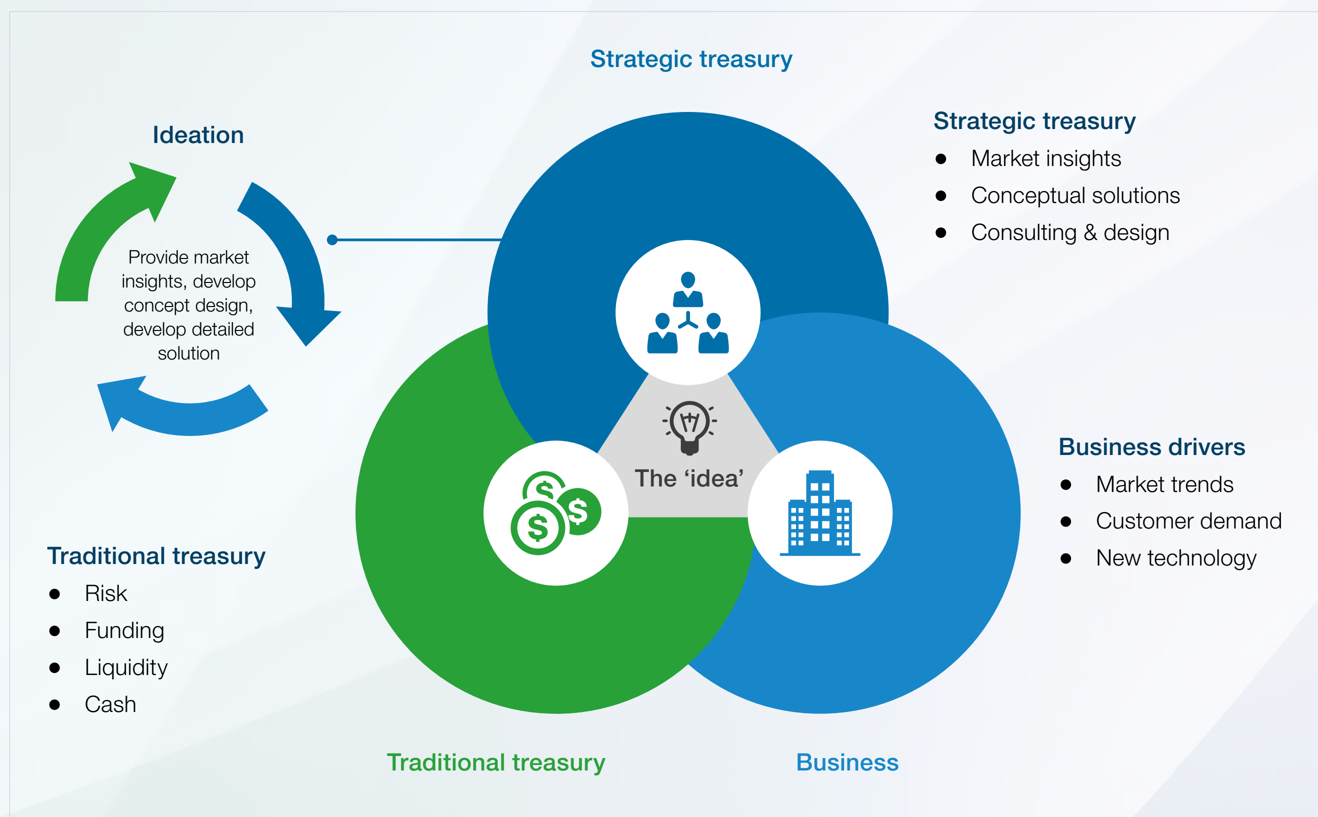
Historically, new systems and services have been acquired through a standard RFP. Whilst this might contain a request for 'innovation', its delivery is typically stilted, failing to take into account the developing needs of the wider business. However, the idea of 'co-creation' in this space can facilitate creativity and the most beneficial outcomes for the corporate.

Prototyping and piloting concepts with technology vendors and banks, using agile development techniques, can enable a business to build solutions that meet the changing market dynamics. This process is based on a true partnership and understanding between the provider, the treasury, and the rest of the business.

Having engaged with and understood the needs of the business, treasury should start a conversation with its proposed external banking or technology partners. Asking each to meet and take part in an innovation workshop should reveal levels of awareness and understanding of new technologies and appropriate business models. The process should also expose the individual bank or vendor's commitment, capability and readiness to helping the business reach the right outcome.

This often becomes a self-selecting exercise as the banks or vendors that really understand the issues become quickly apparent. It's then a matter of how well teams on each side gel; co-creation is a close partnership that requires honesty, integrity and flexibility.

Of course, if the best outcome requires more than one partner, so be it. After all, thriving in the real-time world is all about making the right connections, both digital and human.



Source: Standard Chartered

Zero-based budgeting: a precise model for an unpredictable world

Cost management is vital for every business and for most, setting budgets is based largely on what happened last year. But in the current business environment, where volatility and unpredictability are the watchwords, a more accurate method seems appropriate. We go back to basics with the concept of zero-based budgeting.

A 2018 Accenture report showed that over 91% of zero-based budgeting (ZBB) programmes met or exceeded their targets. Before 2011, only 2% of surveyed companies had initiated a ZBB programme but between 2013 and 2017, Accenture notes that ZBB adoption grew by 57% every year amongst the world's 85 largest companies. ZBB, it seems, has arrived, at least on the big stage.

Does it work? McKinsey reports that "when properly implemented, ZBB can reduce selling, general and administrative (SG&A) costs by 10% to 25%, often within as little as six months".

But it is not a silver bullet for cash management difficulties nor is it an easy fix, warns Accenture. Indeed, companies reported some serious obstacles to overcome before finally reaping the rewards: 67% said cultural buy-in was the hardest, followed by change management problems (41%) and the perennial issue of data visibility (33%).

Perhaps one of the key difficulties in getting buy-in is that ZBB is an ongoing process that represents, for some, both a cultural and business process about turn.

Accenture now advocates a far wider use case for the 'zero-based mind-set' (or ZBx, as it calls it), with potential, it argues, to tackle the entire P&L, including general and administrative expenses, direct and indirect labour costs, sales and marketing, logistics, and cost of goods sold. For now though, we'll focus on its original target.

Basics

The 'zero-based' concept was the brainchild of Peter Pyhrr, an account manager at US technology firm, Texas Instruments. Pyhrr developed his concept in the 1960s and wrote about his success with it in a 1970 article for the Harvard Business Review. The Accenture report referred to earlier shows that it has since met with favour at many a large corporate and has been advocated for use by small businesses too because of its inherent accuracy.

ZBB requires a company's income less its expenses to equal zero. In other words, its expenses need to match what comes in during the budgetary period. The idea is that every single unit of currency (euro, pound, dollar, yen, rupee et al) has a well-defined function, so that everything the company spends, saves, gives or invests is equal to that period's income.

ZBB means there are no balances to be carried forward from prior periods and no expenses that are pre-committed. It is literally a zero-balance for each period. But it is more than just 'a new budget from scratch'. It is, as McKinsey has argued, a way to "build cultures of cost management throughout the organisation by using a structured approach to facilitate cost visibility, cost governance, cost accountability, and aligned incentives."

Indeed, by connecting the budgeting processes to the different business functions – production, sales and marketing, logistics and so on – it allows the grouping of diverse cost bases. Current but rather more granular expectations of expenditure across the business can then be analysed, giving a far more strategic view.

The ZBB model is a means of banishing arbitrary and potentially inaccurate and costly blanket increases or decreases over the previous period's budget. It means that it

is now possible to create an accurate and detailed rolling budget over an extended period. Here, reviews can be called from small groups of managers from different functions at different times, rather than imposing them en masse, and still maintain accuracy.

The fundamental process demands a re-evaluation of every line item of a cash flow statement, justifying every expenditure that is to be incurred by each department. Every expense for each new period is thus calculated on the basis of actual expenses that are to be incurred and not the rather less accurate assumption (as is the case with traditional budgeting) that previous incomings and outgoings will continue.

Good practice

The idea that arbitrary incremental spending increases over previous budgets is somehow appropriate when costs and market conditions are as volatile as they are today seems wide of the mark. Whereas traditional budgeting seeks to justify only new expenditures, using the last period's actuals as the template, ZBB wipes the slate clean for each new period.

The main aim of the ZBB model is to lower business unit costs by pinpointing where these can be sensibly cut. By knowing precisely where every dollar (euro, pound, etcetera) is going, the vagaries of the market can be more effectively managed. As McKinsey has pointed out: "A world-class ZBB process is based on developing deep visibility into cost drivers and using that visibility to set aggressive yet credible budget targets."

The basic principles encourage:

- Identifying specific business goals and/or tasks for each function.
- Analysing and developing new ways of achieving these tasks.
- Exploring new sources of funding for these.
- Setting the budget numbers and prioritising the direction of funding.

Buy-in

The creation of a ZBB demands the buy-in and involvement of relevant employees. Department managers need to think about how every dollar (or pound, euro) is spent in every single budgeting period. This requires that they describe and justify all old, recurring and new expenditures before they can be included within a new budgetary period. Only that way, argue ZBB's proponents, can a business optimise both its costs and revenues.

This is in contrast to the potential over- or under-funding that comes from blanket incremental increases. With traditional budgeting, managers typically need to spend their budgetary allowances in each period to ensure they do not lose it, regardless of need. With ZBB, every expense is accounted for and so there is no loss of budget, only access to what is needed, when it is needed.

Advantages

Managers must justify all expenses, so it is not an issue if their new budget is higher or lower than the previous one; they will receive what they can justify. Because justified expenditures are in their budgets, ZBB helps to drive the allocation of resources directly toward activities which benefit the organisation most and remove those that offer little or no value.

Here are some further plus points for ZBB:

Improves accuracy: by ensuring every function revisits every item of its cash flow and calculates its true operational costs, it helps give an accurate set of figures for the whole business in terms of cost versus expected performance.

Drives efficiency: the ZBB process creates a set of flexible budgets that have at their heart a deep understanding of current costs, and a far more disciplined approach to budget execution and distribution. Allocation of budget and resources need not be based on historical numbers where actuals are available. By using actuals, ZBB aims most resources at activities which generate most revenue and/or are most critical to the survival of the business.

Removes waste: by seeking repeated justification, ZBB stops any resource being diverted to activities that no longer offer value, either from a risk-reward ratio perspective or from a cost-benefit analysis. This helps to optimise all current activities and avoids wasteful expenditure by wiping out any legacy expenses or misallocation of resources that have crept

ZBB in action 1

ZBB requires close and granular scrutiny of all departmental expenses each period. A company making widgets uses this process to identify that the cost of a part that it has been buying in to make these widgets increases by 7% every year. Instead of increasing the budget for this part, and either absorbing the cost or passing it on to the customer, it uses departmental cost analysis to work out that it could make the part for less in-house. Having weighed up the positives and negatives of in-house manufacturing, and the costs of ZBB itself (as a more involved process), it decides to manufacture in-house.

ZBB in action 2

The budget for a manufacturing unit is set for US$12m. The decision to award this figure is based on a traditional model of last year +10%. All things being equal, management could have used ZBB, whereby the manufacturing budget disregards all previous figures and instead calculates the expected expenses of the unit, then justifies each of these. Once agreed, the figure may turn out to be slightly higher or lower than the incremental model, but either way, the ZBB figure reflects the actual cost for manufacturing to function effectively, neither being wasteful nor underfunding the operation.

upwards over time without any real understanding of why these costs are as they are (see ZBB in action 1, on previous page).

Stops budget inflation: justification of every expenditure counters the inefficiency and waste of incremental budgetary inflation.

Improves co-operation and communication: McKinsey has said that ZBB "is very detailed, structured, and interactive in order to facilitate meaningful financial debate among managers and executives".

Encourages innovation: ZBB encourages managers to be more innovative in how they reduce costs or raise output as they seek to justify their allocation of resources.

Disadvantages

Resource intensive: the 'from-scratch' process that characterises ZBB is its main downside. There is no escaping the fact that it is more time-consuming and resource-intensive than traditional budgeting methods. Indeed, it takes a lot more time and effort to closely review and justify every budget element; building a whole new budget from the ground up could require the input of many more employees.

It may be that certain functions or departments do not have the resources to comply and this will clearly hinder any attempt to deploy ZBB across the organisation. Whether the benefits of ZBB outweigh the far heavier demand on resources than traditional methodologies require is a call that the individual business must make. That said, McKinsey suggests that initial rollout of a new ZBB programme can be led by a central team and completed in four to ten months.

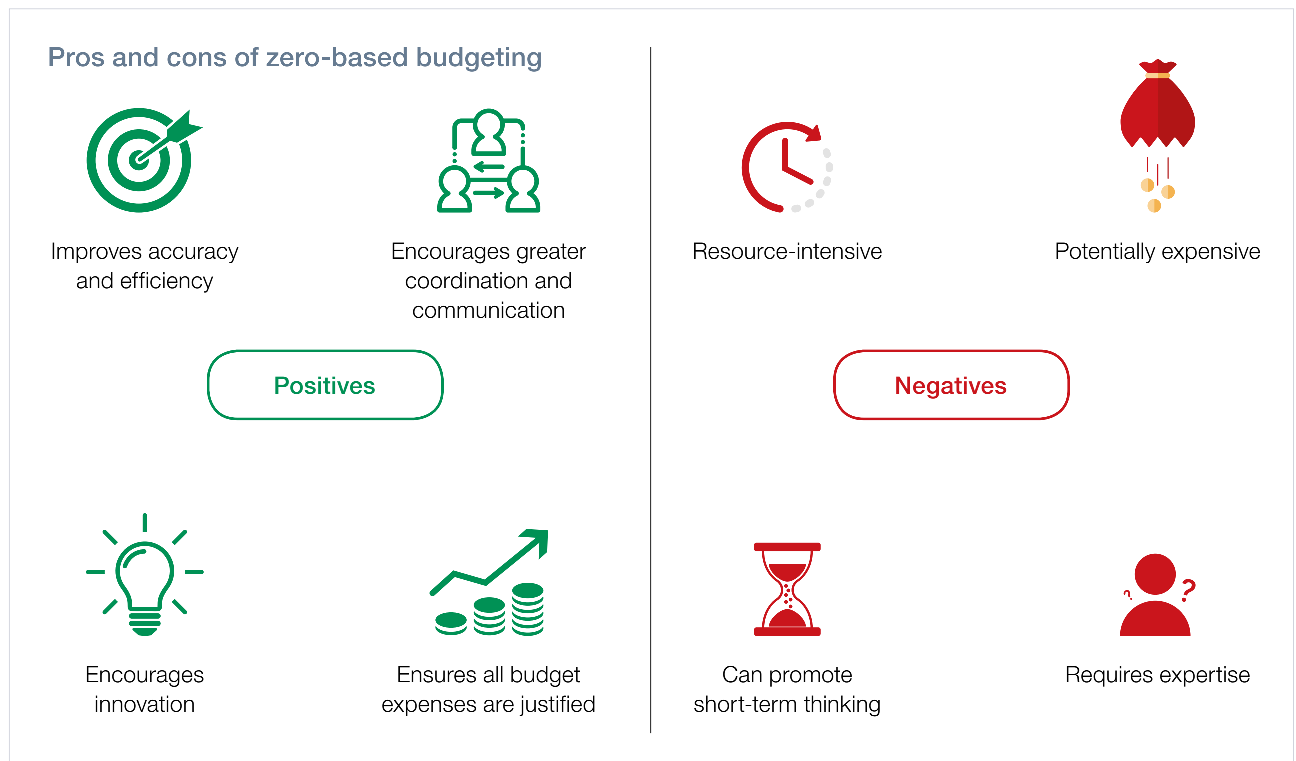
Can promote short-termism: ZBB is easier to practice within functions generating direct revenues (such as sales) because their contribution is easier to measure, and therefore justify, than indirect sources such as training, customer services and R&D.

By focusing the direction of resources on areas that the company knows will be profitable in the next budgetary period, there is a risk that that longer-term investments, especially those that do not directly deliver revenue (such as the aforementioned training, customer services or R&D), could lose out on budget. Obviously, this would be damaging for the long-term prospects of the business, and thus must be managed.

Exposes lack of expertise: ZBB requires a qualified professional skillset to undertake and thus demands serious commitment. There will almost certainly be a requirement for training of managers to be able to understand and use the process effectively and extract the most benefit for their respective functions and for the business as a whole.

Is ZBB a winner?

ZBB is a means of reflecting the actual expenses that a department may incur in going about its business. It requires time, skill and understanding and the buy-in of managers for it to work. However, it is also a means of creating a rigorous culture of cost management across the enterprise. It can offer what McKinsey describes as "unprecedented cost visibility, a unique governance model, accountability at all levels of the organisation, aligned incentives, and a rigorous and routine process". If used sensibly, ZBB removes unproductive costs, enabling the business to divert funding to areas that can ensure future growth. In an unpredictable and volatile world, anything that can do that must surely be worthy of consideration.



Commercial cards: harnessing the opportunities

Brian Tomkins
Global Head of Commercial Cards

The commercial cards market continues to grow briskly, with new opportunities for businesses looking to optimise their existing card programme and those starting one alike. HSBC's Brian Tomkins, Global Head of Commercial Cards, explains.

How much growth are you currently seeing in the commercial cards market?

The market is growing at a compound annual growth rate of about 7%. A lot of this growth is from digitisation and simplified users' experiences, plus the constant growth in businesses accepting card payments – underpinning commercial cards is 60 years of experience, real-time data flow, 24/7 reliability and a global network.

In terms of where the growth is focused, virtual cards are our fastest growing product for customers. Virtual cards use the same network as the ones in your pocket, but they are effectively a tokenised number that looks and feels like a credit card and can be used in exactly the same way – but with a series of additional controls that can be set around it. For example:

- A card that is going be used for a new product launch event can be locked down so it can only be used for certain types of transactions, such as lighting, engineering and exhibition space. It could also have a fixed budget for the event.
- We can interface with other systems and a business using a virtual card solution can generate card details over API link. A great example of using this is with an e-procurement catalogue loaded with goods and services

offered by our clients' own suppliers. Our client may have their own internal approval processes and, at the point of payment, the e-procurement tool connects with HSBC via API, checks for approval and generates tokenised card details with set parameters; populating the details within the portal to process the payment – all fully automated.

Another driver is business-to-business (B2B) procurement. We're increasingly seeing cards being used by businesses to pay suppliers – and there are a number of benefits to both parties in doing that, including cash flow improvements, increased security and controls and access to rich transaction data, including what has been purchased, from which type of supplier, when, and by whom.

And a third driver is mobile wallets, whereby you can have cards loaded onto your mobile wallet and pick the right card for your purchase. We're investing in our mobile app which will allow things like taking a photo of an expense receipt, coding it on the fly and automating steps in the expense process.

Is growth mostly coming from people who haven't had a card scheme before, or from customers with existing schemes who are looking to take advantage of these new opportunities?

It's a good mix of both. The UK is the biggest commercial cards market in Europe, but we're currently issuing cards across continental Europe in nine currencies. Some of these markets have historically been less cards-focused, but this is rapidly changing.

Most of our customers stay with us a long time. Some growth happens organically as the programme gets further embraced within the organisation, but one of the keys to the success of a card programme is the ongoing consultation we provide.

Why do your clients typically use commercial cards?

If a customer doesn't have a commercial cards programme today, the only real choice for an individual who is travelling on business is to use their own card – which provides zero information to the company and little control over what they buy at the time of purchase, where they stayed and who they flew with. And of course, it's a cash-based expense which is open to some risk and significant inefficiency driven by the complexity of expense management and reconciliation when using this approach for a large community of travelling employees.

With a cards programme, treasury can see exactly how much expense is coming out at any time, planned in advance because it is centralised on a cards programme. On the procurement side, you can complete the purchase on order or on invoice, yet the business pays later – and if you buy something that doesn't materialise into a delivery of goods or services, you are protected from that and get an immediate credit – just like when you use a personal credit card.

Historically HSBC has focused on corporates, but we are increasingly doing more business in the public sector space, which often has edicts to pay suppliers within a set period of time. In Europe, for example, there are initiatives to pay small businesses in days rather than weeks or months. That's a tough ask if you're receiving a paper invoice that needs to be sent to the right people, get the appropriate coding and be approved before it is put on a payment run system and settled. Compare that to paying by card at the point of transaction – the supplier knows it is paid immediately, gets the cash in their account within a day or two and our customer can still benefit from up to 56 days before funds are debited from their account.

Other uses include lodge cards or central travel accounts. If you book your travel through the registered travel agent, your flight will be centrally billed to your own cost centre and matched with the invoice details including: who travelled, who approved the travel, when it was booked and what class of travel it was, before being posted straight to the general ledger.

And to give a further example, our fuel cards can be used to log each trip as business mileage or personal mileage, with HMRC approved VAT reporting included. Many new vehicles now capture data analytics – so we've done some work integrating with a fintech which can collect data directly from connected vehicles and automatically validate associate details of a trip when it has been made.

How does the use of commercial cards benefit suppliers?

Early or guaranteed payment is a major benefit. I think it wouldn't be remiss to say that some large organisations can take a while to pay, because getting the invoice and approvals from the right people at the right time can be difficult. That causes a real headache for small businesses in terms of the cost of chasing up payments and effectively being out of pocket for a period of time.

A great example would be media companies and marketing agencies where people have outlays for advertising and copywriters, and then bill their client for the work. If the organisation takes a long time to pay because of their own inefficiencies, this can have a material impact on a smaller business. So, accepting card payments upfront and getting that money the next business day is extremely attractive.

There are also costs and risks involved in handling cash – you have to reconcile it, count it, package it up and bank it. If everything is done by card, these issues are avoided. Also suppliers can benefit from information about their customers, as well as giving them a very automated way of doing their own accounting.

At the same time, accepting card payments can make it very easy for a buyer to do business with a particular supplier, compared to having to send purchase orders and requisitions back and forth. Once this is understood by both buyer and supplier, they typically promote card payments and see them as a robust alternative to more traditional payment methods.

How can different stakeholders within the business, such as treasury, finance, and HR, leverage the benefits of a card programme?

What treasurers are really looking for is predictability in their cycle. The product or service they are selling may be seasonal, but when expenses are haphazard, that can cause a cash flow squeeze. So, knowing 30 or 60 days in advance what is coming out – because it's all carded – is very attractive to a treasurer. With the ability to have a single card programme in many local currencies a business can also reduce the exposure to foreign exchange fees.

From a finance, CFO and accounts payable perspective, card programmes can bring a lot of process efficiency, and in turn cost savings, as well as increasing visibility and control by turning everything digital. We have a front-end card management tool called MiVision which captures all this data, allows reporting, and provides a real-time view of card expenditure. If you can compare how much you are spending with different London hotels, this can help with negotiation – which then comes into play with procurement.

Then there's HR. By restricting a programme to suppliers that are within the policy of that company, it means that card can't be used with certain providers, which can minimise potential risk in the organisation. There's also an element of safeguarding here. With a card you know where it's being used, which to some degree lets you know where your employees are – so that in itself is helpful.

With so many stakeholders, it's important to get everyone around the table. When we receive an RFP that is led by one function in isolation – perhaps a procurement exercise – that typically doesn't lend itself to the benefits everyone can get from a programme. So I think stakeholder engagement is absolutely critical at the very earliest part of the process.

What factors are typically driving the adoption of card payments?

On the fintech side, we work with companies that provide data analytics and a digital customer experience as part of our MiVision tool; all of which drive adoption and helps with speed of integration. Having a large bank integrating with a large corporate hasn't always been the fastest of processes, so having these players in the middle is something that we warmly embrace.

Having real-time access to information and controls can also give the CFO more confidence. In the past, there may have been a perception that giving card programmes with large limits to employees could introduce possible risk of misuse – but in reality, it means showing that you can see everything that is happening at any given time. So I think our front-end reporting and card management tool is really helping with that.

Another thing we are working on is taking the friction out of card acceptance. Once the supplier and buyer have agreed that they are going to use a card programme for a particular settlement type, we can then use a third party to integrate with the supplier. So, upon authorisation from our system the supplier just gets the money in their account. That's something we are very excited about.

Are there any other barriers to adoption that companies may need to overcome?

Card acceptance is one. Some companies may think their suppliers don't accept cards. What we can do is analyse their accounts payable file to show which of their suppliers is card-accepting.

Supplier acceptance of cards is constantly growing – for example, some coffee shops and bars are now completely cashless, so the only way to use them is by paying with a card. But when cards aren't accepted we can help with that as well. One of the things HSBC provides is a supplier onboarding programme, whereby we work with a partner who does an outreach programme with suppliers to get them signed up to accept card payments.

Likewise, we are integrated with Amazon Business and can take a client's invoice data, broken down by line item, and share that through MiVision. Often clients will tell us they don't buy anything from Amazon – but if we carry out an analysis with Amazon, we usually find that employees are actually using Amazon a lot, because it's an efficient and easy service for them to use. So there's an opportunity for clients to put in controls around that and collect the data they need.

There's an older view that if employees are putting in a cash expense it can limit them, whereas giving them a card means they could potentially spend on something you don't want them to. But we can clearly show that a card programme can be used to apply limits and adjust up or down as needed. For example, if employees are stuck in a particular location due to an airline strike or hurricane, you can help them by increasing their card limit in real-time through our web or mobile service.

Another consideration is that large companies may be looking for centralised programmes, covering multiple countries and currencies in a consistent way. With HSBC now issuing in 43 countries our clients can have the same experience; data and reporting all centralised in one place for their employees and subsidiaries around the world.

How else does HSBC support clients in making the best use of commercial cards?

We have card account managers who are experts in our clients' businesses. Their job is to work with clients who have large cards programmes and improve or grow those programmes. We provide an industry expert who works with those clients, with an individual point of contact who understands that client's business, runs initiatives and campaigns and shares best practice.

For example, a company might have a mandated cards programme, but find that there are still a lot of cash expenses coming through – our experts can help to analyse that data and identify the best approach to achieve greater policy compliance.

How do you see this market developing over the coming years?

I think we will continue to see a convergence of payment types. Today you have card payments that are made to card accepting suppliers. Then there are traditional payments, such as BACS and Faster Payments.

I think with the continuing development of fintech, and the ability to bring AI into the mix, it will be increasingly possible to look at the customer's cash position and make recommendations on payment types. For example, if the company is a bit low on cash and is coming to a reporting period, they could choose to make more payments via the cards programme. I think we will see that kind of intelligent use of cards programmes, even as the physical card increasingly disappears from the mix, with customers using cards to influence their own cash positions.

Finally, we focus a lot on user experience in the cards world, and this will continue to drive development. The easier we make life for the CFO, procurement, HR and the end user, the more they will embrace and use the product.

End of bank monopoly?

How much longer will banks have the monopoly on treasury services?

Lionel Taylor
Co-Founder
Trade Advisory Network

There is much debate around the threats that banks are facing with the advent of fintech and the disruption this will cause to their businesses.

There is no doubt that the aftermath of the global financial crisis damaged the reputation of the banking world and led to a period of introspection, coupled with increased regulatory resilience measures. As a result, banks must hold more capital to cover the perceived risks of their activities as a requirement.

In the meantime, fintechs were able to exploit the weaknesses in the banking system with the promise that new technologies would transform the provision of banking services, whether or not the banks were ready to play.

> Open banking and the increased availability of real-time data have created further opportunities and competition, and with treasurers being more attuned to the efficiency gains that can be achieved through these new service providers, further growth is expected.

In the last few years, banks have repositioned themselves, with some deciding to focus activity on specific countries, product areas, or the servicing of particular customer segments. Much of this has affected their provision of services to the SME market rather than the major and global corporate companies. Banks have also begun to embrace the world of fintech by adopting the new technologies, and joining transformation programmes to change some of the paper driven and commoditised services into digitised and streamlined processes.

However, there is much evidence to show that fintechs and other companies that provide complimentary services to banks, or hold and manage mass amounts of data, are nibbling around the edges of what was once the preserve of the banks. For example, foreign exchange services, payments, and cash management are becoming readily available through non-bank service providers. Open banking and the increased availability of real-time data have created further opportunities and competition, and with treasurers being more attuned to the efficiency gains that can be achieved through these new service providers, further growth is expected.

While the non-bank sector can claim to be more flexible and innovative, they do not have the history and long-standing relationships that banks and corporate companies maintain. Banks have more experience and knowledge of the treasury support required by corporates and so remain their trusted partner, despite not being able to deliver services as efficiently as some of the new players.

Banks cannot rest on their laurels. As fintechs gain more experience and traction, there are now more receptive treasurers who are open to learning about their advancements and offerings. In the meantime, banks are reacting through increased collaboration with the fintech world, and, for some banking services, maintain the risk appetite and balance sheet that cannot be matched by a fintech or non-bank player.

Therefore, it is my view that while the banks will not have a future monopoly on treasury services, they will retain a dominant position in the servicing of the major corporate sector.

Warrick Carey
MBF, Manager
Actualize

If one were to cast their mind back ten years ago, from a corporate treasurer's perspective, all financial services required to effect cash and risk management were largely enabled through the offerings of their organisation's banking partners. For a long time, banks enjoyed a dominating monopoly on treasury services offered to corporates. This was before the financial crisis. When it came time for the

surviving banks to dust themselves off and pick up the pieces, their focus was on getting their core operations back up and running, and attention to technological progress and advancement was relegated to the back of the queue.

It was at that point that the mantle of innovation in IT and financial services was taken up by financial technology firms (fintechs) who were able to develop new products with the pace and agility that banks were unable to replicate. It was the fintechs who first championed and encouraged the use of application programming interfaces (API) in banking and finance.

An API is a set of functions, communication protocols, and procedures that enable the communication between two applications or systems and facilitate the exchange of data rapidly and at a reduced cost allowing for increased operational efficiencies. These relatively new advances in technology, coupled with recent changes in banking regulations, have altered the industry landscape quite significantly and in favour of the fintechs who, up until recently, weren't able to compete effectively with the banks without the equivalent means of product and services distribution.

In March 2015, HM Treasury announced in its Budget Report that the UK government was keen to drive increased competition in the banking market to enable banks, alternative providers of financial services, and fintechs to be able to compete on even terms in winning new and retaining existing customers.

Fast forward to today and the revised Payment Services Directive (PSD2) throughout the EU as well as in the UK via the Competition and Markets Authority mandated roll out of the Open Banking Standards has lowered the drawbridge on customer data held by the banks and enabled the fintechs and other enterprising third parties to harness APIs that could potentially, in the very near future, benefit treasurers immensely.

APIs work at much faster speeds than batch processing or host-to-host bank connections, and as a result a corporate can obtain real-time views of their cash. They could utilise an API to go out to all their banking partners, collecting the latest view of their transactions and balances, thereby enhancing

Instant payment capabilities have also come about through the use of APIs offered by fintechs with benefits, including instant feedback on payment status and notifications of successful submission or errors. These are just a few examples of the possibilities that fintechs are developing, leveraging the open playing field.

their cash management and reporting abilities, all from one platform developed by a fintech. This is instead of needing to go through individual banking portals or waiting for prior day or intraday statements to be pulled in.

Instant payment capabilities have also come about through the use of APIs offered by fintechs with benefits, including instant feedback on payment status and notifications of successful submission or errors. These are just a few examples of the possibilities that fintechs are developing, leveraging the open playing field.

Banks have not ignored this fact and have started building out their data strategy to include collaborations with fintechs and increasingly leverage APIs to not lose market share or the customer experience. But one thing is for certain: the current situation is vastly different and large banks may not hold the upper hand in the treasury services arena for too much longer unless they can begin to evolve as quickly as their more agile fintech competition.

Next question:

Steve Jobs: "Innovation distinguishes between a leader and a follower." Discuss.

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

Monetary policy is losing its effectiveness and there's a risk of a dollar squeeze

For many years, the West has been trying to compensate for the decline in its competitiveness by pursuing ever more macroeconomic stimulus. In the US, Trump is trying to encourage the Fed to lower interest rates considerably faster (partly to absorb the impact of the trade war), while Boris Johnson plans to implement robust fiscal stimulus in the UK, in order to absorb the impact of Brexit. This is why it is currently crucial to assess whether even more stimulus will indeed provide the required compensation. There are a number of reasons to be sceptical.

First, more and more economists are concluding that further stimulus leads to less and less additional economic growth. They point out, for example, that the tax cuts implemented in the US at the end of 2017 have boosted profits and share buybacks considerably but this has not led to far higher wage increases or higher economic growth. In 2018, growth was around 3%, but it has since fallen back to approximately 2%.

Second, EMU interest rates have been reduced to -0.4%, and a growing number of bonds are yielding negative interest rates. In spite of this very loose monetary policy, Europe has closely approached a recession and deflation.

Third, debt/GDP ratios have almost reached record levels virtually everywhere in the world. It is essential that asset prices stay high if stimulus is to boost the economy. (This concerns prices of shares, bonds, and property, et cetera.) Failing this, the value of assets will be too low in relation to the debts, as a result of which the debt mountain will collapse.

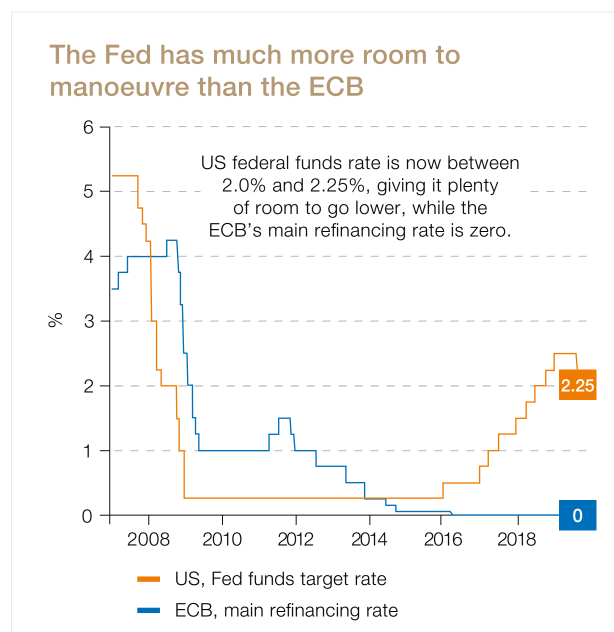
It is generally believed that the central banks are able to control this via monetary policy. If asset prices threaten to decline too much, the central bank will be able to turn on the money tap and boost asset prices. However, share prices in Europe and Japan have failed to reach former highs for a long period of time, despite the fact that an ultra-loose monetary policy has been pursued in these territories. It therefore appears that a very loose monetary policy can be overshadowed by poor underlying fundamentals.
The question is whether this will happen now as a result of the trade war.

Furthermore, there are many doubts about the potential of further monetary easing, as outside the US and China, the scope for further monetary stimulus is very limited. This makes the situation very risky for investors, as it will be much harder for central banks to absorb the impact of any negative shocks; if one or more shocks lead to a rapid increase in credit spreads and leveraged companies experience difficulties to refinance, default rates will go up as a result. A loose monetary policy will barely have any impact here.

The dollar squeeze

In addition to the previous points that cast doubt as to whether a looser monetary policy will boost asset prices to far higher levels, there is a risk of a dollar squeeze. The dollar is subject to a number of downward forces.

- It is generally argued that the dollar will weaken once the Fed lowers its rates. Interest rates either cannot or have barely any room to decline further in many other countries, as a result of which the interest rate differential shrinks, which is negative for the dollar exchange rate.



Source: Refinitiv Datastream/ECR Research

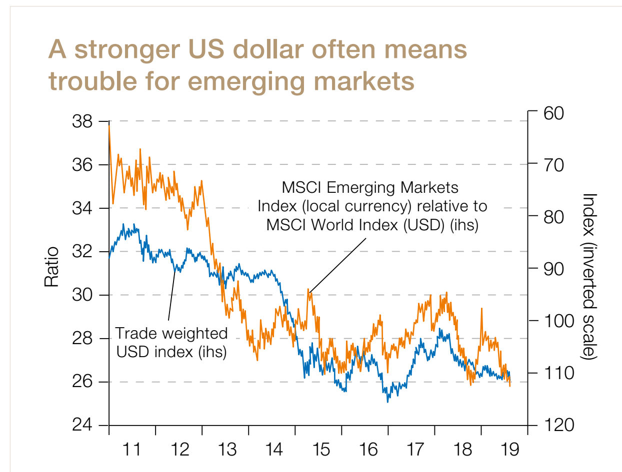
ecr research

- More and more countries mistrust Washington, in the sense that they are concerned that the US will block their dollar assets if they do something that displeases the US. This is why they reduce their dollar reserves. This, in turn, increases the supply of dollars on the foreign exchange market.
- The US could intervene in the foreign exchange market to push down the dollar. Concerns about this alone limit the demand for dollars somewhat. However, we do not want to attach too much weight to this argument, as the government can only sell dollars to a limited extent. The Fed is able to sell far more dollars, but is unlikely to decide to sell dollars any time soon because history shows that interventions will only work if the fundamentals change in tandem and other central banks intervene as well. Both factors are not at issue (at this point).

Upward forces

We believe that these downward forces are eclipsed by upward forces.

- It is not the case that other countries do not effect rate cuts or only effect limited rate cuts because their economies are doing well. Their economies generally perform considerably worse than the US economy. However, these countries can no longer counter this effectively because interest rates cannot be reduced any further in practical terms. In a scenario where the US has this scope, the US economy will perform increasingly better than the rest. This means that the highest returns can be achieved in the US. This largely compensates for a shrinking interest rate differential.
- China has lowered the yuan as a result of the import tariffs. In addition, production chains are at risk. For many emerging markets, this comes down to a deterioration of their competitive position and therefore downward pressure on their currencies. However, said markets cannot allow their currencies to decline extensively because they generally have massive dollar debts. The more their currencies decline against the dollar, the more the dollar debts will bear down on their economies. This is why they generally have no option but to keep their interest rates relatively high. It also means that they can barely compensate for the negative impact of the trade war on their economies. This is currently clearly reflected in stagnating global trade. The emerging markets and Europe rely more on this than the US. This makes it even more appealing to hold dollars, and so on. Once this becomes evident and the dollar exchange rate goes up rather than down, more and more parties outside the US with dollar loans will be inclined to repay their loans ahead of schedule. This, in turn, creates even more demand for dollars.



Source: Refinitiv Datastream/ECR Research

- This brings us to what is perhaps the most important issue: where should investors with a great deal of money consider putting their funds at present? Ultra-low interest rates have made bonds unappealing in many countries, whilst the trade war makes it riskier to invest in shares. The US is the only place where a considerable return can still be achieved. If the dollar also has a good chance of rising, then this is the safest investment at present.

In conclusion, we foresee financial market volatility continuing in the stock and bond markets, with rising credit spreads as one of the likely outcomes. Additionally, we believe that the dollar will stay a strong currency for the time being and that it will rise against many currencies, possibly resulting in a dollar squeeze. This is unlikely to be changed significantly by a looser monetary policy inside and outside the US.

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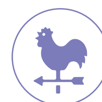

MORNING BRIEFINGS

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The rise of the well-connected treasurer

In challenging times the role of the treasury professional body comes into its own, as Dympna Donnelly, VP Treasury at SAP, and current President of the Irish Association of Corporate Treasurers (IACT), explains.

Dympna Donnelly
VP Treasury
SAP

When financial and economic challenges seem insurmountable, the role of the treasurer comes to the fore. But to enable the treasurer to remain calm and collected a network of support is required. The work of Ireland's professional treasury body, IACT, helps provide this support, bringing together peers from across the sectors, raising awareness of the big issues and exploring solutions.

Two of the biggest externally-driven issues of the day for IACT's membership (and for many more besides) are the impact of Brexit, and the replacement of LIBOR. With the precise nature of their impact yet to unfold, strong elements of the unknown prevail, notes Dympna Donnelly, VP Treasury at SAP, and current President of IACT.

Brexit is likely to cause issues around disruption to the supply chain and the financing thereof. "Ongoing uncertainty means that Brexit planning is somewhat vague and limited in scope; there are still so many unanswered questions," says Donnelly. "But regardless of how Brexit unfolds over the next 12 months, treasurers must remain engaged."

The shift from LIBOR and EONIA to SONIA and €STR has a more direct treasury impact. Uncertainty still abounds here, the outcome of the ECB's paper on €STR, due in October, hopefully quelling this for businesses using LIBOR-indexed floating rates.

Before the switch in 2021, treasurers must review, possibly amend, and certainly secure agreement on all associated internal documentation and external contracts with banks and other third parties. Many questions remain unanswered but, notes Donnelly, the sheer volume of work involved in probing legal documentation, talking to banks and understanding LIBOR's replacement, should not be underestimated.

Helping hands

Brexit remains a series of unknowns whereas LIBOR has a more defined process around it, albeit one that places a heavy demand on treasury resources. However, these events are just part of a wider series of treasury concerns over the coming months and years.

IACT plays an important supporting role for members. It runs regular breakfast briefings and roundtables on all the hot topics, calling upon independent experts to deliver a treasury slant to the ensuing discussions.

IACT also organises an annual conference in Dublin (this year held on 20th November), curating an impressive international speaker list, this year featuring Holger Neuhaus, ECB's Head of Division, Money Market & Liquidity, on interest rate benchmark reform.

The 2019 event, notes Donnelly, is "very timely", following (all being well) both the publication of the ECB's guidance documentation on LIBOR, and Brexit conclusion. Treasurers may at last be able discuss and respond to these events with some certainty.

Notwithstanding the outcomes here, the ongoing facilitation of highly interactive networking opportunities are a key part of IACT's remit as a professional body. On a personal level, Donnelly, having progressed from accountancy into treasury, knows first-hand of the benefits of meeting peers, face-to-face.

"There was a huge learning curve for me moving into treasury. I found the IACT, and the whole networking experience, an excellent way to learn about the hot topics and how to deal with them," she comments. "I would encourage all treasurers to get involved with the IACT to keep themselves fully informed in a constantly and rapidly changing economic, technical and regulatory environment."

As a means of talking to, learning from, and sharing with other treasurers, IACT is a vital source of information on everything from day-to-day matters to extraordinary macroeconomic events such as Brexit. Acting as a conduit for expertise from diverse sources, such as banking, legal, taxation, accounting, and technology, it channels relevant information to keep treasurers up to speed.

The benefits extend far and wide. Indeed, by liaising with national agencies such as IDA (which is targeted with boosting inward foreign direct investment into Ireland), Donnelly says IACT is well-positioned to knowledge-share with the world's corporate community, an added attraction for corporates considering investing into Ireland.

Combined with Ireland's pro-business stance, it's easy to see why the number of specialist treasury operations in Ireland is increasing. With IACT enabling treasurers to leverage the country's professional network, it is fostering an improved understanding of the key domestic and macro issues.

With the help of IACT, treasurers with the right connections are helping to create a greater level of expertise amongst the community, and an increased awareness of the importance of the role at the wider organisational level.
In the current environment of uncertainty, every business stands to benefit.

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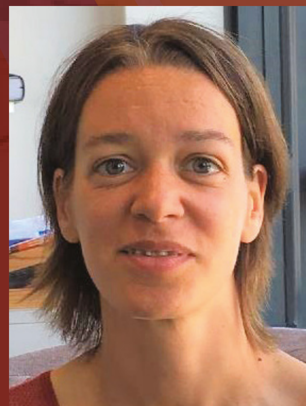

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INSIGHT & ANALYSIS

Cyber-security: where next?

Cyber-security continues to be a major concern for corporations around the world. What types of threat do treasurers need to be aware of; how are the strategies used by cybercriminals evolving – and how can fintech play a role in helping companies mitigate the risks?

RISK MANAGEMENT

Treasury and climate change

Few could have escaped the mounting need to take action to halt and possibly reverse the damaging effects of climate change. In this article we look at the part that corporate treasurers can play in this call to action, exploring the kind of affirmative actions and preventative measures that can make a difference from the perspective of risk management and funding choices.

TREASURY TALENT

Learning to listen

One of the most important 'soft' skills a treasurer can develop is the art of listening. Whether with colleagues in treasury or other functions, or with external parties such as banks or vendors, failing to listen properly can result in big mistakes being made both from an operational and career perspective. We ask experts in the field for their advice.

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

Marianna Polykrati, Group Treasurer, Chipata; Peter Cunningham, EMEA Head of Consumer & Healthcare, Citi; Sander van Tol, partner, Zanders; Andrew Briscoe, Head of EMEA Syndicate, Bank of America Merrill Lynch; George Dessing, Executive Vice President Treasury & Risk, Wolters Kluwer; James Taylor, Partner, Mayer Brown; Ben Walters, Deputy Treasurer, Compass; Roland Broecheler, Executive Director, Debt Capital Markets, Santander; Michael Bosacco, Treasury Advisory Executive, Bank of America Merrill Lynch; John Murray, EMEA Industrials Sales Head, Treasury and Trade Solutions, Citi; Gianluca Gubbini, Director, International Treasury, Viacom; Eric Li, Head of Transaction Banking, Coalition; Len Jones, Chartered Accountant; Sen Ganesh, Partner, Bain & Company; Job Wolters, Director Corporate Clients, Zanders; Benjamin Ensor, Research Director, Forrester; Sankar Krishnan, Executive VP of Banking, Capgemini; Enrico Camerinelli, Senior Analyst, Aite Group; Dr Sonny Biswas, Lecturer in Finance, University of Bristol; Patricia Hines, Head of Corporate Banking, Celent; Stephen Lane, Finance Director, Xtrac; Neil Hutchison, Lead Portfolio Manager for Managed Reserves, Europe, J.P. Morgan Asset Management; Steve Krouskos, Global Vice Chair of Transaction Advisory Services, EY; Dino Nicolaides, MD, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory; Bob Stark, VP of Strategy, Kyriba; Didier Philouze, Managing Director, Global Head of Debt Advisory, Redbridge Debt & Treasury Advisory; Mark Hermeling, CTO of Asset Control; Victor Penna, Regional Cash Product Head, Europe & Americas, and Global Head of Structured Solutions Development, Standard Chartered; Brian Tomkins, European Head of Commercial Cards, HSBC; Dympna Donnelly, VP Treasury, SAP.

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