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# ASIA



## The Korean wave

South Korea's record breaking industrialisation transformed it into a global economic power. As the country's strong growth continues, Korean corporates are looking to further expand their global footprint.



**Women in Treasury**  
**Professor Alyson Warhurst**  
Chief Executive Officer  
Maplecroft



**The Corporate View**  
**Kuldeep Maheshwari**  
Head of Operations – Treasury Centre  
Volkswagen Group India

**Currency trends**  
Dealing with volatility

**Mobile treasury**  
Options and accessibility

**Political risk**  
Assessing turmoil

**Employee morale**  
Keeping spirits high

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# The Sibos jamboree heads for Dubai

Sibos is the annual banking conference organised by SWIFT, the bank owned provider of secure financial messaging services. Sibos has become the 'must-attend' conference for bankers, technology suppliers and consultants who are involved in all aspects of the transactional banking business. The conference is held in different parts of the world each year and there are 6,000+ attendees most years. What do they all do? Well, there are some serious debates at Sibos and informative conference sessions but it is also a big party as banking friends get together and the booze flows from the stands.

The real world also intrudes. Those that attended Sibos in Vienna five years ago will always remember 'Sibos Monday' as attendees learnt of the demise of Lehman Brothers. The lasting and stark image of that event is of massive stands empty of content and people, as well as disappearing keynote speakers.

Last year the empty stand spaces at Sibos in Osaka, Japan reflected a different reality. The Chinese banks, who have had a growing presence at Sibos in recent years, all withdrew from the conference in Osaka over the dispute with Japan over the sovereignty of eight uninhabited islands in the East China Sea.

Nonetheless SWIFT claims to have had 6,250 attendees in Osaka, the largest ever attendance in Asia Pacific. Those that were there are sceptical as to whether they had all turned up but Asia Pacific is still predicted to supply 45% of this year's attendees. This is a clear sign of the growing importance of SWIFT in the region and just as importantly of this region to SWIFT. EMEA is next in significance with 42%.

It is the ME part of EMEA that Sibos is visiting this year, with the conference going to the Middle East for the first time. It will be interesting to see attendance levels in this new location. SWIFT expects more than 6,000 attendees including a few corporate treasurers to descend on Dubai from 16<sup>th</sup>-19<sup>th</sup> September.

To attract corporates Sibos has, for the sixth consecutive year, included a dedicated two-day Corporate Forum as part of its programme, under the main theme of "accelerating innovation in treasury and trade". Anita Prasad, General Manager – Treasury at Microsoft and Alawi Al-Shurafa, Treasurer at Saudi Chevron, will join the opening panel to discuss best practice in centralising treasury functions and there are a few other corporate speakers over the following two days. But Sibos is not really a corporate forum and the corporate attendees will typically be from big companies with the larger and more complex transactional banking requirements who use SWIFT messaging to communicate with their banks.

Sibos is as much about the chats outside the formal sessions as it is about the agenda topics. The conference attracts the main decision-makers in banking and payments. In many ways, that is the secret to Sibos' continuing success – as a networking event for the banking industry, it is unrivalled, allowing participants to meet the people they need to in order to do business.

Treasury Today Asia will be in Dubai, reporting on the conference and uncovering what is going on behind the scenes.



## The storm before the calm

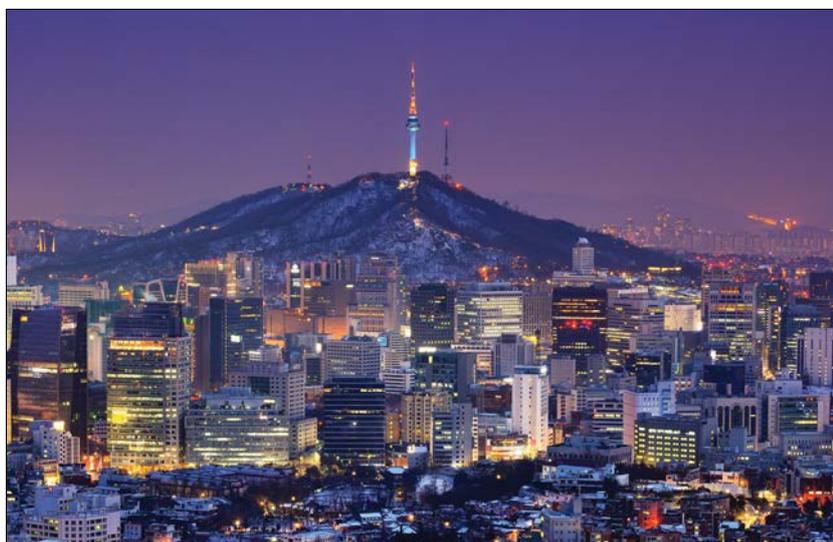
In this economic environment, there can be abrupt and unexpected foreign exchange (FX) fluctuations. This forces treasurers to be sensitive to specific market exposures and cash flows. They need to understand that their ability to trade at a specific level may be short-lived.



## Professor Alyson Warhurst Chief Executive Officer



Professor Alyson Warhurst stresses the importance of academic training and promotes PhDs, particularly for women. She believes that personal success is derived from talent and expertise, luck and a good mentor.



## The Korean wave

The recent volatility in the currency markets has had an impact on one of the region's strongest economies – mainly because South Korea's economy is heavily weighted in favour of exports. However, the government remains optimistic and is prepared to inject domestic stimulus measures to ensure growth.



**TREASURY TRENDS 21**

**Movers and shakers**

Some critics have said that mobile treasury is trying to solve a problem that does not exist, but many would have said the same thing about the motor car. Indeed, a revolution has to start somewhere. If the first faltering steps in a new direction are seen as a gimmick, then so be it.



**ASIA PRACTICE 24**

**The importance of employee morale**

Low morale amongst staff can be a major problem and should never be dismissed lightly. The key challenge for a company is how to recruit, retain and motivate high performance staff by creating a sense of pride and spirit in the organisation.



**TREASURY ESSENTIALS**

Treasury Insights	4
Question Answered	10
Point of View	30
Calculator Corner	35



**27 The Corporate View**

**Kuldeep Maheshwari**  
 Head of Operations – Treasury Centre



Kuldeep Maheshwari, together with two colleagues, took the unique opportunity to create a treasury centre from scratch, which five years on is almost complete. His next goal is to have all of treasury's processes fully automated and in a global standard.

**BACK TO BASICS 32**



**Political risk**

Following recent events in North Africa and the Middle East, political risk is being examined more closely than ever. Political risk cannot be completely avoided in today's increasingly volatile world, but companies can still learn how to manage it effectively. What is political risk? In basic terms, it can be defined as any political event or decision with the potential to impact negatively upon commercial activities.

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

## Cross-border pooling: the Holy Grail for treasurers in China

Robert Yenko, Regional Treasurer, Intel, began his talk at EuroFinance Singapore 2013 with a short story to illustrate the transformation that has occurred in China during the past 20 years. In 1994, as part of a team selected to set up Intel's first factory operations in Pudong, China, he went along with a couple of colleagues to visit the Head of the Capital Accounts Division of State Administration of Foreign Exchange (SAFE). They arrived at the office five minutes early to find a smoke-filled room and the capital accounts manager in his undershirt – he wasn't quite ready for their arrival.

Today, the Chinese authorities are more than ready to do business and are consciously building close relationships with multinational companies (MNCs).

### SAFE engagement

Intel's evolving relationship with the SAFE did not happen overnight, emphasises Yenko. In 2004, SAFE introduced Rule 104, which allowed domestic cash pooling with US dollars, and at the same time it allowed one-way cross-border lending. However, there was a caveat – Rule 104 was specifically targeted at companies with a regional headquarters (RHQ), which Intel didn't have at that time. "Therefore, we explored how we could restructure our legal entities in China so that we could participate in Rule 104," says Yenko. In 2005, it set up an RHQ for its subsidiaries and operations in China.

As a result, in early 2007, Intel was allowed to do its first cross-border loan, which was a significant milestone for the company. "Of course there was a limit – it wasn't a free-for-all," he says. The limit was linked to the level of profits that a company generated in China.

Intel then petitioned SAFE for approval to perform domestic cash pooling in US dollars. "This didn't address trapped cash issues because it is still a domestic cash pool in China. However, it allowed us to effectively manage our domestic liquidity within China, so that we can use our cash wherever we want to in-country."

But in 2009, SAFE suspended Rule 104 (cross-border lending) and replaced it with Rule 49. "Our in-country cash started to balloon over time," says Yenko. That is, until the company caught a "big break" last year.

Since 2004 Intel has always maintained good relations with SAFE. "We don't just approach them when we need something; there is always close collaboration, not just at a working level but at policy level." This was Yenko's key message to the audience in Singapore: it is important to maintain and develop the relationship over time. In Intel's case, this closeness paid off.

In June 2012, the company was invited to participate in a US dollar cross-border cash pooling pilot programme, and in December 2012 received SAFE's approval to become a part of the pilot programme. In January this year, Intel made its first transaction. "This is the Holy Grail for treasurers in China – having the flexibility to move money outside of China and to be able to invest it the way we want to. It is a big win for us," says Yenko.

## Education and awareness key to RMB trade gains, says survey

The results of a new survey reveal that 52% of companies have a limited understanding of the processes behind the progressive internationalisation of the renminbi (RMB), and may be missing out on a competitive advantage as a result.

The study, commissioned by HSBC and conducted by Neilson during May and June 2013, looked at the usage of RMB by more than 700 international businesses across China, Hong Kong, Australia, Singapore, the UK, the US and Germany. Questioned on their reasons for using or not using RMB for trade and investment activities, and the difficulties or barriers they encounter in its use, it seems just 11% of businesses surveyed in Singapore, 11% in the UK, 9% in Germany, 9% in the US and 7% in Australia currently use RMB in their trade activities. Just over half of these (51%) said that their RMB usage would increase if the processes involved were made easier.

The survey does however show that 50% of all international companies in Hong Kong and 30% in mainland China are using RMB to conduct cross-border business. There is, of course, a natural trade flow between China and Hong Kong, notes Simon Constantinides, HSBC's Regional Head of Global Trade and Receivables Finance, Asia Pacific, so one of the main issues to be drawn from the survey regarding cross-border use of RMB is that "awareness and education" are a matter of priority for other potential users.

### Trade

HSBC's economists believe that 30% of all Chinese trade will be settled in RMB by 2015, which equates to around \$2 trillion a year. Much of this will come from beyond the Hong Kong-China trade flow, says Constantinides. The banks' role of educating

businesses and driving up awareness of the benefits of using RMB is therefore seen by him as an opportunity to engage with clients and demonstrate the available options “to enable them to make appropriate business decisions”.

## Payments

One of the key findings of the survey that could influence uptake was that 53% of Chinese businesses surveyed said they would offer discounts of up to 5% for transactions settled in RMB. “We’ve had some customers tell us that they have saved even more than that,” says Constantinides.

He explains that if a Chinese exporter strikes a price knowing it will be paid in six months, it will build into that pricing an assumption as to where the exchange rate will be at that point to try to move the FX risk off its books. Whereas some exporters may retain any additional profit this generates, others may view it as an opportunity to be more competitive by sharing it with their customers. “With a slower economy in China any competitive edge is going to be welcomed,” he says.

## Building a new SCF

One of the results of the growing attention working capital is receiving is the emergence of new supply chain finance (SCF) solutions.

One company, whose nascent concept is already generating considerable excitement amongst working capital experts, believes it has found a workable method for achieving this. Licuos, a Spanish start-up, is a global business-to-business (B2B) payment platform where businesses can pay their commercial debts and access payment and funding services.

But, as Iker de los Ríos, Licuos’s CEO, argues, it is the company’s netting service that is “completely new” and “differentiates Licuos from other payment platforms or banks”.

“If you look at what Licuos is offering, that is exactly the sort of direction that I think SCF should be moving in,” says Enrico Camerinelli, Senior Analyst at Aite Group. Companies today continue to use particular flows and processes for the physical supply chain and separate ones for the financial. But wouldn’t it make more sense to bring both under the same umbrella?

But John Mardle, Managing Director of Cash Perform, strikes a slightly more cautious tone when asked his opinion. “There are several outfits out there that think they have the panacea for the world’s working capital problems,” he says. “But often the problem is that somebody has to carry the costs.” While payment platforms such as Licuos would like to characterise themselves as being something new and different from traditional banks, the reality is that they are likely to be in the business for similar reasons. But Mardle does think that the offering could represent a way forward, “if organisations can afford it and have trust in it. Trust and confidence are vital because one slip and the supply chain can become a major challenge.”

## I’m picking up good migrations

Many people still use the phrase ‘work permit’ to describe the documentary process underpinning the employment of overseas workers, but there has been a fundamental change in recent years and this term no longer applies. Today they must engage with the processes of employee sponsorship under the Tier 2 system which brings with it a new set of responsibilities.

“Before an application for a Tier 2 sponsor licence is even submitted, a business needs to undertake a thorough review of its HR systems,” advises Natasha Chell, a partner with the UK-based specialist immigration law practice, Laura Devine Solicitors. A company signing up to being a Tier 2 sponsor is, after all, agreeing to comply with “quite onerous duties and obligations” and needs to be able to monitor and keep full and robust records of its staff. “They need to submit various corporate documents to evidence that the business is established and trading,” she explains. There is a prescribed list to work from including latest audited accounts, financial statements, VAT registration, and PAYE documents that show the business is genuine and trading.

## The process

The process in the UK is designed to be fair and whilst it is demanding it does possess a degree of flexibility, says Chell. But mistakes can be made. There are no direct financial penalties for administrative errors if good intent is apparent, but the net is tightening on those who flout the law. If an employer is found to have illegally employed a migrant, the civil penalty currently stands at £10,000 per person, which could soon rise to £20,000 under new proposals. Under the same set of proposals, the Home Office warning letter sent to businesses that have inadvertently found themselves on the wrong end of immigration law (and which otherwise have a good track record) may be withdrawn; the process of correction could then go straight to financial penalties. “My advice to businesses,” urges Chell, “is to get it right first time.” ■

Longer versions of these articles are available at [treasurytodayasia.com/treasury-insights](http://treasurytodayasia.com/treasury-insights)

# This much I know

## Professor Alyson Warhurst

Chief Executive Officer



### What is your career-defining moment?

It was when I recognised that risk can and must be brought to life through mapping and measuring complex issues in challenging geographies.

### Which woman in business most inspires you and why?

There are three women that have a broad influence on me: Aung San Suu Kyi, who is an inspiration for standing by her principles, as well as her understanding of the importance of responsible business in rebuilding her country; Hillary Clinton for her understanding of the importance of human rights, especially those affecting women in Africa; and the Body Shop's Founder Anita Roddick for her influential teaching style and product innovation.

### What is the biggest challenge you are facing just now?

Running a business as it grows and moves into second-stage growth is very challenging, especially in today's economic climate. It requires hard work and 24/7 engagement.

### What couldn't you manage without?

I could not be without a brilliant senior team and the loyal and competent employees and colleagues that have been with us from the beginning.

### What is your next major objective?

We are an ambitious business. The next major objective is to realise the goal of becoming the world leader in risk mapping, analysis and political risk advisory services.

### What advice would you give to other women in treasury?

There is no substitute for hard work and achievement. Criticisms and obstacles are often put in your way, so it is important not to allow those things to tie you up. There is no substitute for putting your head down, working hard and letting the end results speak for themselves. I am a real believer in building careers one brick at a time, ensuring that you move on to the next brick and keep moving upwards. Finding a good mentor is paramount to guide you through this process.

### If there is one thing you could have done differently in your career path so far, what would that be?

If I could have done things differently, I would have written more books. At the pinnacle of my career as a professor, I still had a lot of writing to do which I believe would have had an impact. But I chose to build a business instead and it is difficult to do both at the same time. When I retire from business, I would like to write – but perhaps by then it might be a more creative novel.

“There is no substitute for putting your head down, working hard and letting the end results speak for themselves.”

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#### ON THE WEB

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To read all the interviews in this series go to [treasurytoday.com/women-in-treasury](http://treasurytoday.com/women-in-treasury)



Professor Alyson Warhurst began her career in academia with a geology and geography degree, moving into political science and international relations and completed a PhD with a large amount of field work in Latin America. “The challenge I set myself was exploring why there had been no success in transforming the mineral wealth of the Andes into economic wealth for the countries it touches (Bolivia, Colombia, Venezuela, Ecuador, Peru and Chile), in the same way that Canada and the US transformed the Rockies from natural to national wealth. This main thesis has been something that has intrigued me throughout my academic career,” she explains.

Warhurst distinguished herself as an academic and became the youngest UK business school professor at the time she was appointed Chair of the Bath School of Management in 1994. Five years later, she was awarded a Chair at Warwick Business School where she set up a corporate citizenship unit. She had fairly large teams of researchers who worked on various types of PhDs to understand business influences in emerging markets and what made for business/government/society success in these areas.

At Warwick she taught an MBA module on business and society, which came first out of 92 different modules that were undertaken at Warwick, something which she is extremely proud of. “I received the outstanding teacher award every year and that really mattered to me,” Warhurst says. However, her teaching experience made her realise that when teaching it is critical to bring words to life and in order to learn students have to be enjoying themselves. “I came up with the concept of mapping risk, which builds on my geography background. The concept is based on using visually compelling ways of presenting data in charts and maps to explain risk and a range of different issues relevant to the complex emerging markets business environment,” she explains. She attributes this insight as her “career-defining moment”.

The concept was also based on many years living and working in China, Myanmar, parts of Africa and virtually every country in Latin America. “Words just don’t do that business environment justice, so I developed a visual alternative,” she says.

When Warhurst reached 50 she took early retirement, so she changed course in 2005 and committed to working with business and life partner, Ed Cole, in developing software and mapping applications. She started working full-time as CEO of Maplecroft from 2009. Since then the company has grown by 40% and now employs 100 people. She believes that the company is successful despite the recession because “everyone wants/needs to understand risk in emerging economies”.

In her day-to-day work, Warhurst has worked hard in the last year to build up a senior team of 12 people. Her three key areas of responsibility are:

1. Business development: she still enjoys travelling and meeting new people to expand the business.
2. Maintain quality and ensure career development; peer reviews; and ensuring talent development across the business with a strong emphasis on research quality.
3. Business strategy; ensuring that the strategic aims of the business are met.

“I don’t have my eyes just on revenue but also on valuation,” she says. “It is about ensuring revenues are high and that they keep growing and are sufficient.” She is very comfortable taking risks so the company is not yet in profit because the revenue is invested in building the business and new areas of research and innovation. “I am a strong believer in R&D and maintaining everything so there isn’t a day that goes by that we are not innovating in one way or another.” Valuation is also important to Warhurst, ensuring that the company has long-term contracts, a good senior team and that the business is on sound ground and has all the right indicators.

She believes academic training is important and promotes PhDs, especially for women. “A PhD is a formidable building block in any career and a great accomplishment,” she says and looks for this when recruiting, as well as often suggesting a PhD when giving career advice. “You have to achieve a certain standard in terms of understanding methodology and innovating with respect to methodology after having spent time out in the field. All the ingredients in producing a successful PhD are the ingredients I look for in employees.”

Warhurst is mindful of gender balance in her company and of ensuring that the support is there across the board, taking into account the special situation that women find themselves when they are building their careers. She believes that personal success is derived from talent and expertise, luck and a good mentor. “You need all three – one on its own is not sufficient,” she says.

## Biography

Alyson Warhurst is CEO and Founder of risk analysis and mapping company Maplecroft. Over the past ten years she has built Maplecroft into the leading source of extra-financial risk intelligence for the world’s largest multinational corporations; banks and asset managers; governments and NGOs. Coming from an academic background, she now advises global companies and organisations at board level on issues including: global and political risks, human rights, ethical supply chains, corporate reputation and corporate social responsibility (CSR). Warhurst is a consultant to the World Economic Forum (WEF), where she is also part of the faculty; she is a member of Clinton Global Initiative and on the Board of Trustees at Transparency International UK. From 1999 to 2009 Warhurst was Chair of Strategy and International Development at Warwick Business School, where she won the inaugural Faculty Pioneer ‘Beyond Grey Pinstripes Award’ (called by the FT the “Business School Oscars”), regularly won the ‘Outstanding Teacher Award’ and was made an Honorary Professor in 2010. She is an accomplished speaker at high-level international events and has written several books and more than 100 articles, including a regular column for Business Week. In 2010 Warhurst was a recipient of a Business Insurance Magazine ‘Women to Watch’ award.

# Why some treasurers are more equal than others

*As part of our pioneering new initiative, Treasury Today have launched the first Women in Treasury study. Designed to build an understanding of women's experience in the profession, the insights gathered from this study are set to be an eye opening call to action for all those operating in the treasury field.*

Our Women in Treasury study has been developed to better understand the female treasurer's experience at work. Covering key areas such as salary parity, work/life balance and career aspirations, the response has been both remarkable and shocking. It is only once we understand what the major obstacles for female professionals are that we can begin to combat them. How better to do this than to conduct the largest survey of female treasurers to date on just this issue.

Over 140 female corporates have already completed the study. The results cover the full range of age and experience levels. The survey hasn't yet closed and there is still the opportunity to take part, yet already there are some key themes coming through loud and clear. Echoing the views of those women featured in our Women in Treasury profile series, female treasurers express their fierce commitment and passion for their profession. What resonates from the responses we have gathered so far is that the majority of women in treasury are experiencing inequality in pay and in career prospects and this appears to be exacerbated for those who have children. The two areas of inequality specific to treasury are identified as the predominantly male environment that this industry remains and the fact that the nature of the work of a treasurer does not lend itself well to flexible working arrangements, making life particularly difficult for treasurers who are also mothers.

**Our study results so far reveal that:**

**56% of respondents feel they are paid less than their male counterparts.**

**60% of respondents feel they have lower career prospects than their male counterparts.**

When it comes to professional networking, key to career development, there are very few existing platforms available for women treasurers. Our study only serves to highlight the necessity for women to better promote themselves, to find great mentors and to support one another as careers develop. Although nearly all of the women surveyed stated that they think mentorship is key to career development, over 50% are working for a company that does not offer such a programme. Treasury Today's first Women in Treasury Lunch, on October 31<sup>st</sup> in London, aims to be a place for female treasurers to raise their visibility, learn from each others' experience, and to network amongst each other. It will also be the first opportunity to exclusively hear the full results of the complete study.

In addition, Maeve Robinson, Assistant Treasurer of Omnicom Inc, and the winner of our Treasury Today Adam Smith Awards 2013 Woman Of The Year, along with our highly commended Treasury Today Woman of the Year, Marie-Astrid Dubois, Assistant Treasurer, EMEA and Asia at Honeywell, and Jenny Knott, CEO at Standard Bank, will join us. We look forward to hearing their participation in our panel discussion around the findings of the study, as well as sharing their advice and unique insight with other female corporate treasurers. When asked what advice she would give to women working in treasury, Robinson says; "Be creative, be thoughtful and definitely don't be afraid to speak out even when you are outnumbered. If you do it the right way it will get the reception that it is due."

## Women in Treasury Lunch, 31<sup>st</sup> October 2013

The Women in Treasury Lunch promises to be both inspiring and informative. Do not miss this opportunity to network with like-minded women from a diverse range of industries and geographical locations. The findings of our first Women in Treasury study will be exclusively revealed at the Lunch which takes place at the Four Seasons Hotel in London on 31<sup>st</sup> October.

To reserve your place at this exclusive event please contact [lisa.bigley@treasurytoday.com](mailto:lisa.bigley@treasurytoday.com)

# Commercial card programmes

Tapping our collective knowledge to get better information

“ What are the challenges to rolling out a commercial card programme in Asia? ”

## Coleen Lee, Regional Director for Corporate Procurement, Asia Pacific, Honeywell:

The challenges corporates encounter when rolling out a commercial card programme in Asia will differ considerably between jurisdictions. In a country such as Singapore, for example, it is relatively straightforward. It is a highly competitive market with a large number of providers, and companies tend to be more receptive to the use of commercial cards.

But for a country such as China, the process is much more complex. The regulators have only recently given permission to foreign banks to issue commercial cards. Even now, as the economy begins to open up, foreign issuers in China may not be acquirers or merchants. This situation can be a challenge for banks, as their submissions have to rely on local institutions' network which could potentially impact the merchant's fee for corporates. Therefore when working in China, you have to think very carefully about what you want to achieve from the card programme, and then choose one which is aligned with your company's strategy and direction.

There are also challenges when establishing a corporate card programme in India, although not as extensive as in China. In India, the challenge concerns the management of cards. Although commercial cards are widely accepted, sometimes airlines refuse to accept the merchant's fee, which will then get passed onto the agent and subsequently back to the company.

A tug-of-war between the company, employer and management is often a problem in India, too. Financial executives may not be keen on using the card because of the percentages the company is required to pay. Even 3%, after all, can become quite a substantial figure when you are thinking of 5,000 cards and travel costs totalling millions of dollars. However, with improved working capital and reduced administration hassle with an automated expense payment system and control, using a corporate card is an optimal direction to go in.

Other emerging markets, such as Vietnam and Indonesia, represent a significant challenge for us. Although commercial cards are available, the issuing banks are not where they should be as yet. As a big corporation we need to be able to have confidence in the bank's IT system. Therefore, whether or not the bank has future plans to invest in developing its card products and its IT systems these always are important factors in our considerations when looking for card solutions in those particular countries.

## Jason Tiede, Head of Cards and Emerging Payments, Asia Pacific, Bank of America Merrill Lynch:



Our clients have found that launching a commercial card programme can be one of the more appealing ways to optimise working capital, increase process efficiency, gain visibility into purchasing trends and improve control of employee spend.

Travel and entertainment (T&E) typically accounts for 7%-10% of a company's annual expenses. Building a sound corporate expense policy, and controlling and analysing this spend with an end-to-end corporate card solution, drives significant bottom line benefits for clients. Even more exciting is the continued growth of purchase card (p-card) programmes in Asia Pacific. With real-time card management tools and virtual cards, p-card solutions are extremely effective at eliminating costly and inefficient paper processes related to supplier payments. Besides driving process efficiency, p-card programmes extend days payable outstanding (DPOs) and are widely accepted across many supplier categories such as telecom, shipping and professional services.

Given the maturity of commercial card solutions, there are a surprising number of large, Asia Pacific-headquartered corporations that have not launched a commercial card programme. These companies may still be relying on antiquated spreadsheet-based expense reimbursement processes and personal credit cards. Historically, companies may have been concerned with providing cards with a corporate credit line to employees. But those fears have been alleviated through the formalisation of robust corporate expense policies, insurance programmes offered in parallel with commercial card solutions, and control features such as merchant category blocking and real-time card management tools. Once clients learn about all the benefits and features, they are encouraged, and sometimes surprised, that commercial card solutions actually increase transparency and control when compared to personal credit cards.

Characterised by unique economies and regulatory structures, most challenges for corporate clients in Asia Pacific revolve around delivering a locally relevant and compliant commercial card solution that maintains global consistency, visibility and control. It is important for clients to work with a bank that has a deep understanding of each country and, more importantly, delivers a truly localised product that is 'wrapped' with a global card management tool. Prioritising key countries based on the size of a client's employee base, supplier demographics and the greatest travel and procurement spend is important to rapidly reap the greatest benefits.

Once key markets are selected, card acceptance is the name of the game. With companies and their clients, suppliers and partners rapidly expanding across the globe, a commercial card programme is only as good as the worldwide acceptance of the card itself. This is especially true in Asia Pacific where international travel is standard for employees and cross-border supplier relationships are common. MasterCard and Visa provide unparalleled global acceptance at more than 36 million merchants, as well as enhanced data for many spend categories such as airlines and hotels. The greater the card acceptance, the greater the visibility to global expenses and the significant value that can be derived through negotiating leverage with suppliers and travel partners.

Finally, clients are challenged to ensure the highest level of service for their employees when launching a commercial card programme across multiple Asia Pacific markets. Partnering with a commercial card provider with a passion for service is critical for long-term programme success. After all, a company's employees are their most valuable asset. At Bank of America Merrill Lynch, we believe the greatest return on relationship is to provide not only world-class commercial card solutions but the highest level of service to our clients.

### Deven Somaya, Regional Product Head of Wholesale Cards, Asia Pacific, Citi Transaction Services:



Asia is an amalgamation of diverse geographies, market practices, regulatory regimes and cultures, and developing an understanding these differences is the first challenge for a multinational company (MNC) planning to roll out a commercial cards programme.

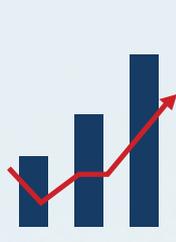
The region's fragmented business landscape means that the majority of corporate payments are transacted in cash. What's more, many countries in the region have their own proprietary networks for commercial cards, making it more difficult for MNCs to have a standardised regional solution. For example, in China, the local cards network, UnionPay, has its own systems, regulations and practices that are significantly different from what companies from other regions would be used to.

In addition, the regulatory situation in Asia is different compared with the rest of the world. Even though Citi offers a corporate liability programme across the region, which is consistent with how we operate as a global provider, the requirements from a documentation and a Know Your Customer (KYC) perspective mean that our clients need to do a lot more in Asia than they typically would in EMEA or North America. Citi's corporate cards solution bridges the gaps for companies by providing a globally consistent, locally compliant programme across the region. ■

#### The next question:

"How much of treasury can be outsourced? What pitfalls are common and how can a treasurer get around them?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)



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# Corporate Treasury Benchmarking

## Survey results for you...

Our Corporate Treasury Benchmarking Study is in full swing again with the findings already being delivered to those corporates who have participated in the Middle East Study.

### Asia Pacific

The Asia Pacific Study is now open – to participate please go to <http://treasurytoday.com/benchmarking/participate>

The section on key performance indicators (KPIs) is really gaining some traction and we are now benchmarking the individual measures being achieved as well as the respondent's industry sector. The KPIs we focus upon are:

- Cash visibility –
  - how you see how much cash you have and where it is?
- Cash pooling structures –
  - how many bank accounts/currencies are included in your cash pools?
- Transaction error rates –
  - how efficient are your and your banks' processes?
- Straight-through-processing (STP) rates –
  - you may have impressive STP rates on your payables processes but how do receivables fair?
- Cycle time –
  - how long does it take you to obtain your cash positions?
- Cash-flow forecasting –
  - how accurate is your forecasting?
- Working capital –
  - are you paying your suppliers too early?
  - What is your DSO measure and how does it compare with your peers?
- Short-term investments –
  - what is your benchmark?

And there is much more we look at – for example hedging effectiveness and the commonly-used balance sheet management metrics. The Studies provide an invaluable insight into what other corporates are doing and their priorities.

There is also an entirely new section on bank usage and how banks are rated in the areas of cash management, trade, foreign exchange (FX), product innovation, customer service and technology. Some interesting results are here.

Our Asia Pacific Study is currently live and the detailed reports for corporates on the findings will exclusively be made available to those who participate. If you haven't yet participated please visit <http://treasurytoday.com/benchmarking/participate>. Please note your individual response is never disclosed to any third party.

# Survey results for the banks...

In undertaking this research programme we also understand the value it can provide to banks. So reports on the findings and the trends are, for the first time, being made available to the banks to purchase.

Banks are using this research to:

- Understand corporate needs.
- Focus relationship managers and sales executives on the right issues when engaging with their clients.
- Assist the RFP/sales process.
- Validate investment decisions.
- Support internal business cases and product development.

The new section on ranking the banks will be of particular interest.

Our benchmarking programme is totally independent and sources current market intelligence on a regional basis across a broad universe in terms of company size, industry sector and geography. The process uses a set of common questions and structures in all geographies with relevant regional-specific questions. Respondents are senior: FD, CFO and Group/Regional Treasurer.

Initial reports are provided on a regional basis. Additional customised data mining is available to meet specific requests for additional analysis on a regional or global basis.

For more information please contact our Research Director, John Nicholas, [john.nicholas@treasurytoday.com](mailto:john.nicholas@treasurytoday.com)

To participate please go to <http://treasurytoday.com/benchmarking/participate>



# The storm before the calm

*The volatility in the global economic environment has spilled over into the foreign exchange (FX) market, which is experiencing significant moves and liquidity problems. The FX world is very different from a decade ago and therefore so too are FX risk strategies.*

As companies become more global in their operations and outlook, they are exposed to increased levels of foreign exchange (FX) risk. This may be in the form of an obligation to pay a supplier, or a foreign currency payment the company will receive from a customer. These payments are subject to fluctuations in currencies, which have become more volatile and uncertain since the global financial crisis and its consequences.

“There have been powerful forces at work in the global financial system,” says Robert Minikin, Senior FX Strategist at Standard Chartered Bank in Hong Kong. “Investors in specific markets have been heavily deleveraging; outflows from some types of bond funds are the largest on record in terms of weekly data.” Volatility is occurring across all asset classes, including FX, and corporate treasurers need to be alert to market developments and aware of liquidity conditions as well, he adds.

## Recent developments

The internationalisation of China’s currency, the renminbi (RMB), is an important change of the past few years. In July, a survey by Standard Chartered Bank and treasury research company EuroFinance found that 73% of treasurers think the RMB will be the third most important currency (behind the US dollar and euro) within ten years. Of the 307 respondents, optimism was highest among corporates who already use at least one offshore RMB product: 79% think the RMB will be global number three or better. That compares with 70% for those who don’t currently use the currency.

However, the rise of the RMB is not as straightforward as it could be. In June, money market liquidity tightened significantly in China, with inter-bank rates pushing notably higher. This move was much larger than the usual seasonal spike seen in the middle of the year and, in the view of HSBC

Asian FX strategists, could start to have more negative consequences for the RMB.

"We have been turning more cautious towards the RMB, and as liquidity has tightened onshore our caution towards the currency has increased. We expect USD/RMB spot to move higher and think USD/RMB FX forward curves will stay supported," says a research note issued in June.

The sharp move upwards by China's money market rates has been caused by a combination of seasonal factors, tighter regulations, structurally high leverage and a policy focus, which has shifted away from providing seasonal liquidity to make market participants focus on and try to deal with the root causes of this tightness. China's money market liquidity tends to tighten towards the end of June when the China Banking Regulatory Commission (CBRC) checks banks' loan-to-deposit ratios (LDRs). Additionally, says HSBC, corporate tax payments in July and seasonally slower FX inflows contribute to tighter onshore liquidity, as seen in a typical widening in the spread between money market funding costs (seven-day repo) and the one-year benchmark deposit rate in June.

Another contributor to the tighter RMB liquidity picture is a decline in FX inflows. In May, monthly FX purchases by banks and the People's Bank of China (PBoC) slowed significantly, from an average of RMB377 billion in the first four months of 2013 to just RMB67 billion. "This suggests the regulatory changes to curb speculative and hot money inflows booked as real export/trade financing activities are taking effect," says HSBC's research note.

Ivan Wong, Head of Corporate Sales, Greater China at HSBC, says the US dollar rally has been putting significant pressure on Asian currencies in the past few months, with the exception of the RMB. "Corporate customers with operations in China are generally still bullish on the RMB in the long term. There has been some concern of late about a liquidity crunch and economic slowdown, but most companies believe the RMB will pull back a bit but will still be at a good level to enter into hedges," he says.

"The internationalisation of the RMB is a long-term policy and as it gets more traction there will be greater demand for RMB not only for trade settlement but also for investment and as a reserve currency. Our customers recognise that the Chinese government has realised there was an imbalance in the growth in China in the past and that the new government intends to rebalance and channel economic energy into more productive sectors. People are generally very positive about these moves for the long run."

## Dealing with volatility

In addition to the rise of the RMB, there are other, more immediate forces at work in the currency markets. The US dollar, which has been on a downward trend for some years now, seems to be recovering, sending some other currencies into sharp declines.

The US Federal Reserve's policy of quantitative easing (QE) has had a marked effect on some currencies. Before a Congressional panel in July this year, Fed chairman Ben Bernanke said the institution's proposed timetable for tapering its \$85 billion a month bond-buying programme was not "on a pre-set course".

Bernanke said the Fed anticipates it will be appropriate to begin to moderate the pace of the \$85 billion asset-purchase

plan "later this year" and end it "around mid-year" in 2014, if the economy evolves as forecast. If economic conditions were to improve faster than expected, the pace of asset purchases could be reduced "somewhat more quickly". However if market conditions such as employment or inflation were less favourable, easing would continue.

"We are in an unusual market context," says Standard Chartered's Minikin. "There is a question as to how well-equipped treasurers are to deal with this environment." An important issue is to try to understand what type of volatility can be expected from the financial markets going forward. "We have seen a big jump in realised volatility and implied volatility (in the options market). There are extreme moves in particular currency crosses and powerful day-to-day swings."

Minikin says it is difficult to be certain how long such volatility will last. The sudden surges in some currencies were due to the prospect of Fed tapering only shortly after the news surfaced of an aggressive QE programme in Japan.

Rahul Badhwar, Head of Corporate Sales, Asia ex-Greater China at HSBC, agrees that it is a very challenging period for corporate treasurers. "There have been too many forces at play on the FX market. The correlation with various market events is very high and it is tough for corporates if they have exposure to particular currencies," he says. "An event that is unrelated to a certain currency may drive it up or down."

Even corporate treasurers who do not have sophisticated trading networks and FX strategies should understand that "the world is now highly connected". For example, a domestic business in Thailand that does not export goods and borrows only in Thai baht may think that what happens in US Treasuries has no impact on it. However, says Badhwar, US Treasuries have an impact on yields in Asian commercial paper. "Companies that think they have no FX risk have to realise that the market is highly interlinked. US investors, for example, will buy Thai debt. Across the world organisations are investing in each other which has created global flows and is increasing correlations that didn't exist ten years ago."

James Wood-Collins, CEO of Record Currency Management, an independent currency manager, says any hedging decision must be made with "a clear view of the objectives of the programme". Corporates face two types of FX exposures: cash flow versus cost, where a manufacturer, for example, produces goods in one country and sells them in another country that has a different currency; and balance sheet exposure, where the funding structure of the corporate is in a different currency from the denomination of a liability.

"The issues and challenges for treasurers are focused on ensuring that the objectives are understood, rather than how a particular hedging programme should be implemented. Corporates have to decide how much of their revenues they should hedge. Sometimes treasurers can focus too much on the losses that are attributed to a currency hedging programme and fail to see that there is a gain – they are offsetting an underlying exposure." While treasurers are happy when a hedge pays out, they are often uncomfortable with the cost of hedging. "There are times in the market when FX options look historically cheap or expensive, based on how volatility is priced. Treasurers always have to take a view versus the rest of the market."

Corporates have not been confident about the economic outlook for the past three years, says Sean Yokota, Head of Asia Strategy at SEB in Singapore. The stop-and-start nature

of recovery has dampened expectations of growth and heightened uncertainty. “The prospect of a possible change in the US Fed’s QE programme, for example, has led corporate treasurers to become even more conservative.”

## New strategies needed

Those corporates involved in emerging markets (EMs) have even higher levels of currency risk. “If a corporate has money in EMs, compensation for the currency risk would usually come from higher growth and profitability, or from higher yields. But with US rates rising, EMs don’t look as attractive as they once did,” he says. Volatility in EMs is also heightened by redemption pressures from investment funds that are pulling money out of these markets because their performance is declining.

This point is highlighted by HSBC’s Badhwar. With US Treasury yields around 100 basis points (bps) higher than a few months ago, investors are rethinking their EM strategies, he says. “Investors are finding that many of these markets are not very liquid and they cannot get out of them very easily. The capital outflows cause a problem in Asia because in many countries the amount of investment in the stock or bonds markets by overseas investors can be as high as 30%. When that money leaves the country it puts pressure on the currency.”

Companies operating in EMs have substantial currency exposures, says Petter Sandgren, Head of Markets Asia at SEB. “The increased volatility means most corporates understand that they need to hedge their currency exposures in different ways. They have to be strict about financial policies and follow them closely, even if it implies higher hedging costs.”

The problem for many corporates, he adds, is that unless they are very big they don’t have the resources to have competence in FX hedging and treasury management in individual subsidiaries. “There is a growing trend for corporates to manage currency exposures in the head office or regional treasury centres (RTCs), and to do the hedging on behalf of the subsidiaries. Another option is to use the local currency internally, for example the parent company will invoice in its subsidiary’s local currency, which moves the currency exposure from the subsidiary to the head office.”

Much of this trend has been driven by the reforms in China, which have created an offshore yuan, the CNH, to enable companies to accept onshore yuan payments from Chinese importers and then change that into US dollars at a more attractive offshore rate. In markets with high interest rates, corporates need to strongly control risks and take into account the real cost of doing business in these markets. SEB’s Yokota says: “Many corporates are looking to produce goods in the places where they are selling those goods. The easiest way to hedge currency exposure is to move production to the country in which you are selling those goods.”

Most corporates use FX forwards or FX options to hedge currency risk. An FX forward is an agreement to purchase or sell a set amount of foreign currency at a specified price for settlement at a predetermined future date, or within a predetermined window of time. These instruments help the user to manage the risk inherent in currency markets by predetermining the rate and date on which they will purchase or sell a given amount of FX. Treasurers use them to: protect the costs of products and services purchased overseas; protect the profit margins on products sold overseas; and lock in exchange rates as much as a year in advance.

An FX option is a derivative financial instrument that gives the owner the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. Treasurers primarily use FX options to hedge uncertain future cash flows in a foreign currency. The general rule is to hedge certain foreign currency cash flows with forwards, and uncertain foreign cash flows with options.

In 2010 treasury systems supplier SunGard conducted a global study to benchmark FX exposure management practices and FX risk management results. It believed one of the fundamental challenges companies faced as they sought to optimise FX exposure management resulted from a lack of standard processes, uniform policies or other benchmarks to define successful programmes.

The study of 275 finance executives across a diverse set of industries, found that 59% of companies had experienced unexpected, material FX gains or losses over the 12 months to May 2010. It found that difficulty in quantifying exposure data, gaining timely access to data, and achieving data confidence were exacerbating the challenge of forecasting and managing FX risk, driving companies to adopt automated FX management and risk solutions.

Many of the companies surveyed used manual accounting processes to calculate and monitor their FX exposure, thereby increasing their risk for error. “As a result, these companies lack confidence in the data they use to make risk mitigation decisions, increasing their susceptibility to unexpected FX losses or gains,” said the SunGard report. Wide swings in currency and market conditions, which continue today, were compounding these issues. SunGard claimed corporate treasuries should gain more reliable data and increase process automation. FX management solutions would help treasurers achieve this goal by aggregating and modelling data from various sources to identify exposures across the balance sheet, helping them make better hedging decisions and decrease their FX risk.

## Then and now

Wood-Collins says the FX environment is very different from that of the pre-crisis years. “Rather than having steady, long-term moves in a currency we now see relatively little movement followed by sudden dislocations. This is a different environment, but the principal challenges remain the same for corporates – to decide the objectives and expectations of a hedging programme, backed by a large degree of realism.”

Standard Chartered’s Minikin says forward planning is required and that corporate treasurers need to anticipate hedging requirements and understand market exposures. “In this environment there can be very abrupt and unexpected FX swings. This forces treasurers to be very alert to specific market exposures and cash flows. They have to anticipate their hedging requirements and understand that their ability to trade at a specific level may be short-lived.”

Going forward, he says, there should be “more order” in the currency markets. “We have to be aware of the underlying economic volatility behind the volatility we see in the capital markets is not that great. Our forecasts for the US are broadly benign; we think there will be 1.8% growth this year and 2.7% in 2014. The US economy is ticking along and inflation is not a big problem. The volatility in the financial markets is not justified by the economy or economic policy. Over time, I think we will gradually edge into a more orderly market environment.” ■

# The Korean wave

*South Korea may have been one of the hardest hit Asian economies during the global economic crisis, primarily due to a reduction in exports to the EU and US. However, many South Korean MNCs are taking advantage of the crisis to expand outside the country.*

With a population of just under 49 million, South Korea (officially the Republic of Korea) has a gross domestic product (GDP) of \$1.155 trillion. Known as the 'Miracle on the Han', the country's record-breaking industrialisation, technological achievement, education boom and rapid urbanisation turned it from one of the world's poorest states to a global economic power – it was ranked the 15<sup>th</sup> largest economy in 2012, according to the International Monetary Fund (IMF).

## Exports

The performance of South Korea's economy is closely related to the performance of its exports, which contribute to almost 50% of its GDP. Major exports include:

- High tech manufactured products such as semiconductors (9%).
- Machinery (9%).
- Automobiles (9%).
- Ships (7%).

Overall South Korean exports dropped by 1.3% to \$548 billion in 2012.

To promote inward foreign direct investment (FDI), the Korean government offers various incentives including cash grants and tax breaks. In addition, there are two types of foreign investment zones (FIZs) designated for foreign-invested small and medium-sized enterprises (SMEs) and large foreign-invested companies, respectively. The World Bank ranks South Korea eighth in the world for ease of doing business.

## History

Following Japan's surrender in 1945, which ended its occupation of the Korean peninsula, the Republic of Korea was established in the southern half of the Korean peninsula, with the Democratic People's Republic of Korea (North Korea) under communist rule in the north. The two states established an armistice in 1953 following the Korean War. The country's economic development was further halted by the ensuing US occupation (1945 to 1948) and the three-year Korean War, which destroyed around 60% of the country's productive capabilities.

In 1953 the total industrial production of South Korea was estimated to be a third of that in 1940, yet following significant political changes, South Korea experienced a strong economic recovery. The country experienced growth for 27 continuous years, beginning with its first five-year plan implemented in 1962.

The rapid economic progress during the Park Chung-hee regime resulted in a rise of per capita income to 17 times that of North Korea. South Korea ended its military rule in 1993 and Kim Young-sam became the country's first civilian president.

Today the country is a modern democracy. Previous president Lee Myung-bak, in office from 2008 to 2012, promoted his country's role in global affairs, which was highlighted by South Korea's hosting of the G20 Summit in 2010.

## First female president

On 25<sup>th</sup> February 2013, Park Geun-hye became the 11<sup>th</sup> and current president. She is also the country's first woman to hold this post.

## Economic overview

Since the global financial crisis, South Korea has followed the international trend towards macro-prudential tools. At the Korea International Conference 2012, 'Monetary and Macro-prudential Policies in the Aftermath of the Crisis', Head of the Bank of Korea (BOK), Kim Choongsoo, stated:

"For emerging economies with highly liberalised capital accounts, it is of utmost importance from a macro-prudential perspective to guard against adverse shocks of external origin and associated capital flows. In this regard, Korea has recently implemented macro-prudential tools such as adjustable caps on banks' foreign currency derivative positions and a macro-prudential levy on their foreign currency liabilities. I hope that Korea's policy experience could be a good reference for other emerging countries."

## Recent developments

Recent economic policy developments include the government's announcement in April of a KRW17.3 trillion (\$15.3 billion) stimulus plan, which was an attempt to boost domestic consumption to offset the slowing demand for the country's exports. This effort was considered to be the third-largest supplementary budget ever in South Korea, exceeded only by the efforts approved after the 1997/8 Asia financial crisis and the 2008 global financial turmoil.

In August, the BOK held its policy rate at 2.50% for the third consecutive month. The central bank was cautiously optimistic on growth, citing benefits from domestic stimulus measures. However, many analysts believe that the immediate economic outlook remains challenging, as demand at home and abroad remains weak. The BOK itself expects a negative output gap to be sustained for a considerable time, although it forecasts that the gap will gradually narrow.

## Integrated into the global economy

South Korea is truly integrated into the global economy, and as such must be aware of external threats and opportunities. In a recent statement, the BOK outlined the potential influences:

"In terms of the future growth path, however, there are both upside risks, due for instance to the possibility of an acceleration in US and Japanese economic growth, and downside risks related for example to the possibility of an economic slowdown in China and to a heightening of uncertainties surrounding the exit strategy of the US Federal Reserve."

In a separate statement on current economic developments, the central bank stated that consumption and investment was also increasing "helped by the base rate cut and the stimulus measures taken by the government", and is expecting GDP to grow by 2.8% this year. Last year, South Korea's economy expanded by 2%, the slowest rate in three years, because of weak global recovery and trade.

## Regulation changes

Global banks operating in the country are being adversely affected by recent regulatory changes that let customers restructure their debts and forces banks to write off 30% to 40% of what they are owed, as well as the slowing domestic economic situation. Standard Chartered, for example, took a \$1 billion write-down on its business in South Korea and is considering selling two consumer finance units, while HSBC announced in July that it will close its retail branch network, highlighting some of the difficulties such banks are experiencing.

## Regional free trade

One effect of the 2008 global financial crisis was to pull East Asian countries together, for the region as a whole wasn't as badly affected by the turmoil as the US or Europe. In particular, China, Japan and South Korea have been working together to liberalise trade and encourage economic co-operation across the region.

## Free Trade Agreement

Over the past decade China and South Korea have worked towards a bilateral trade relationship. In 2003, China became South Korea's largest trade partner, replacing the US. The trade volume between China and South Korea then reached \$160 billion in 2007, some 32 times what it had been in 1992 when diplomatic ties were formally established between the two countries.

China has pressed to establish a Free Trade Agreement (FTA) with South Korea since 2006. However, South Korea hesitated, mainly due to fears that the low price of agricultural products in China would potentially hurt its domestic market. However, South Korea has looked more favourably at the idea following the global crisis. In October 2009, the Chinese Minister of Commerce, Chen Deming, and the South Korean Minister for Trade, Kim Jong-noon, signed an agreement to increase economic co-operation between the two countries.

## China/South Korea relationship

Currently, South Korea holds a relative advantage over China in that it has more skilled labourers, however this may be at risk due to the recent downward trend in the South Korean population (similar to, but not as severe as, the problems faced by Japan's shrinking population). Additionally, as China catches up in technology and research development this will further lessen South Korea's advantage. China is firmly focused on creating an educated and highly skilled workforce, with many Chinese students encouraged to spend time at the best international institutions before returning to strengthen their country's economy.

In addition to the China-South Korea relationship, there are strong ties developing across all East Asian countries post-economic crisis. In 2009, the six major trading partners of the Association of South-East Asian Nations (ASEAN) –

- China.
- Japan.
- South Korea.
- India.
- Australia.
- New Zealand.

– affirmed their commitment to establishing an East Asian Free Trade Agreement (EAFTA) and Comprehensive Economic Partnership in East Asia (CEPEA) within the next 15 years. If this is to occur, the EAFTA would create the world's largest economic region, ahead of the US and EU, with its countries' total population of three billion people (49% of the world's population).

## Tripartite

More recently, China and South Korea have invited Japan to join a tripartite FTA discussion. Negotiations on the agreement were set in motion in May 2012, with the first official talks on the matter held in Seoul from 26<sup>th</sup>–28<sup>th</sup> March 2013. The second round of talks kicked off in Shanghai on 30<sup>th</sup> July and focused on proposals to remove substantive tariffs, and address areas relating to services and competition. It also touched on issues regarding intellectual property and e-business. However, this meeting followed the 24<sup>th</sup> June reduction in the currency swap agreement between Japan and South Korea to its lowest level since 2006, amid a deterioration in diplomatic relations.

It will likely take some time for these countries to come to any conclusive agreement framework. However, it is a sign of a core strengthening in the region which will encourage growth and investment further in South Korea with its impressive agreements with Europe, the US and at some stage in the future China and Japan.

## Payments infrastructure

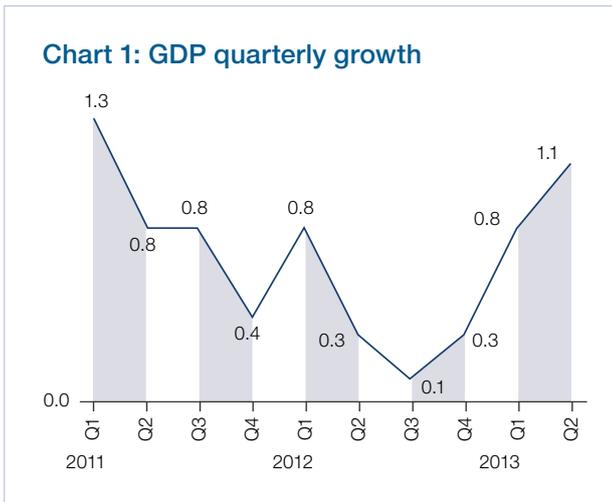
The payment and settlement system of Korea consists mainly of a large-value payment system, various retail payment systems, securities settlement systems and foreign exchange (FX) settlement systems. The main large-value payment system is the BOK Financial Wire Network (BOK-Wire+), which is a hybrid settlement system that began operating in April 2009. The new functionality helps to save participants' settlement liquidity through such features as a continuous bilateral and multilateral offsetting mechanism.

## Securities settlement system

Korea's securities settlement system (SSS) has grown exponentially since its inception in 1975, with the average daily settlement volume reaching approximately KRW28 trillion last year. The Korea Securities Depository (KSD), together with the BOK and Korea Exchange (KRX), began revamping the SSS in 2009 and the new system was successfully implemented for equity (16<sup>th</sup> January) and bonds (20<sup>th</sup> February) in 2012. The new enhancements largely consist of: for equity, reorganisation of the stock exchange settlement and institutional settlement; and for bonds, reorganisation of the inter-dealer market and introduction of intraday repo.

Additionally, in March this year, the Financial Services Commission (FSC) passed a revised bill on the Capital Markets

Chart 1: GDP quarterly growth



Source: BOK

Act that will allow the establishment of central counterparties (CCPs) for the clearing of over-the-counter (OTC) financial derivatives. Derivatives, such as interest rate swaps (IRS), are now forced to settle contracts through the registered CCPs, which is expected to reduce counterparty and systemic risk. The size of South Korea's OTC derivatives market reached KRW6,904 trillion (\$6.32 trillion) as of the end of 2011, around 100 times the size of listed derivatives market. The IRS market accounted for almost two-thirds of the total OTC products.

## Treasury challenges

When operating in South Korea, corporate treasury problems will be slightly different depending on the corporate specifics. Large South Korean multinational companies (MNCs) who are expanding overseas, and particularly those entering emerging markets, will face different challenges compared with large global clients coming into the country.

Sunil Veetil, Head of Global Payments and Cash Management Korea at HSBC, explains:

"Corporates who are trying to move beyond South Korea and expand globally are facing multiple issues. One issue may be due to the fact that they are expanding very quickly and setting up manufacturing units in many emerging markets. These corporates are finding it difficult to manage such a large group from a treasury perspective. They need their banks to help them improve their visibility over cash to allow them to see what is happening in each one of these countries."

As Veetil indicates, many South Korean MNCs are looking to establish manufacturing units abroad. China, Indonesia, Vietnam and India are the favoured destinations, chosen for their strong domestic potential, low labour costs and also as key locations to export products to the West. Some MNCs are also establishing production facilities in Egypt and Brazil: Egypt is used as a base from which to focus on Africa and the Middle East; whereas Brazil is a strong location for tapping into the Latin America markets. The US and Europe are also important locations, but for sales offices as opposed to production bases.

As they expand globally South Korean corporates are realising just how important efficient cash management is. As their success in other countries grows, so does the amount of cash being generated in different currencies. "In some countries, cash flows in and out are restricted by foreign

exchange (FX) rules," says Veetil. "This means a corporate can't move the money out very easily; instead they have to wait for the end of the year to issue a dividend or instigate an intracompany loan. Some corporates have huge amounts of cash lying idle in some countries, which are not part of a global or regional cash pool so they are not able to use it efficiently. Trapped cash is a big issue."

Currency volatility has been a main issue for corporate treasurers operating in a country so heavily dependent on exports. According to data compiled by the Samsung Economic Research Institute (SERI), the South Korean won has been the most volatile among Asian currencies over the past three years. The won's volatility index came in at 10.4% from January 2010 to December 2012, well above the 5% average tallied for the ten major Asian currencies. The currency volatility spiked further in July, as concerns emerged over an early exit of US quantitative easing (QE).

Recently, the won has depreciated against both the US dollar and Japanese yen. This is a conscious government objective, as a weaker won boosts the price competitiveness of Korean-made goods in overseas markets. A stronger won makes Korean goods expensive on overseas markets and erodes exporters' earnings.

FX risk is just one of many risks that companies face when moving into new countries. "As they expand into other countries, risk management becomes an issue in terms of operational and counterparty risk," explains Veetil.

## Treasury structures

Similar to the situation in Japan, South Korean corporates often want to retain a centralised and highly controlled structure, with headquarters having direct oversight over their country operations or regional operations. In addition, they are understandably hesitant to compromise on quality control. This makes it difficult for them to manage the various treasuries due to the costs and practicalities.

Establishing a regional treasury centre (RTC) or shared service centre (SSC) is not a widespread practice as yet, despite interest and engagement with the concept. According to Veetil: "Some of our clients have already set up RTCs in Asia, Europe and the US, for example, so they are moving in the right direction and are decentralising at least on a regional basis. A few have done it and others are asking about how they can do it. They understand the importance of control but also realise that they cannot have control over operations in more than 100 countries direct from Seoul."

Of the primary countries that South Korean MNCs are investing in, the most important by far is China. Many corporates have set up RTCs that are entirely devoted to covering China, with Beijing being the location of choice.

MNCs who are trying to enter the South Korean market, on the other hand, have a different set of obstacles to overcome. There is a unique market practice in South Korea, Veetil explains. "Many MNCs entering South Korea already have high quality treasury frameworks in place and don't want to increase the number of bank accounts they currently have. Yet within the country, standard market practice is to have an account with every bank where your customers have accounts. Therefore, MNCs may have to open six to eight bank accounts, which can become

expensive. Visibility over cash also becomes an issue, as cash is lying about in all these different banks which can be a struggle to consolidate.”

## Looking ahead

Many South Korean companies are taking advantage of the crisis to expand outside the country, particularly in terms of manufacturing. “The amount of manufacturing moving outside of South Korea has increased substantially and that trend will continue,” says Veetil. “They have cash and are willing to invest. Importantly, they are also willing to take risks and move into new markets in Africa, for example, which is proving to be a great opportunity for these companies. As they expand, both control and risk become important issues. Many are trying to reduce the number of counterparties that they deal with, which leads to another trend we are seeing: the move to more bank-agnostic connectivity, such as SWIFTNet.”

But South Korean companies will not adopt SWIFT overnight. The process of information gathering and decision-making is a slow one in many Asian countries, yet some are seriously considering SWIFT. Veetil says: “We are seeing more clients using SWIFTNet and implementing it very aggressively. Once the corporate community makes the decision to adopt SWIFT, the move will tend to be very uniform amongst South Korean companies.”

Geopolitical spats, as well as issues around currency volatility, will remain top of mind for many treasurers operating in South Korea in 2014. Aside from these two issues, Veetil’s bet is on technology as a hot topic for 2014. “We see increasing penetration on the mobile front. The smartphone penetration in South Korea is 80%-85%, which is amongst the highest in the world, but banking through a smartphone is only just picking up (currently up 10.2% in 2Q13 – valued at KRW1.35 trillion per day). From a technology perspective, this is a big area of opportunity for banks to take advantage of.” ■



## Q&A with Brown Lee Account Director, Japan and Korea



### Could you describe the SWIFT take-up in South Korea recently?

Since 2007, we have been introducing SWIFT to most of the large corporate groups in the country. Today, one of the largest corporates in South Korea has moved its many subsidiaries to SWIFT. This has demonstrated the value proposition of SWIFT to the group as a whole and encouraged greater adoption by other large South Korean corporates as well.

Every year, the number of corporates joining SWIFT has been increasing and our market awareness has also been rising. The main driver for joining SWIFT is to increase cash visibility for better transparency and lower total cost of ownership (TCO) among corporates doing business with their overseas entities. Most corporates see SWIFT as the best financial messaging services provider for cross-border transactions with one secure, standardised gateway to all banks.

### Do you notice an acceleration in the rates of companies moving to SWIFTNet, and what do you anticipate for 2014?

Market awareness of SWIFT has increased among corporate treasurers and relevant players such as treasury and enterprise resource planning (ERP) consultants in South Korea. We expect more corporates will move to SWIFT in 2014 and beyond. However, we do not anticipate a dramatic uptake due to the lead time before decision-making. We believe that market awareness is the key to our success – so we will try to organise more customer events for sharing knowledge and providing up-to-date information, such as global industry trends and corporate case studies.

### What do you think are South Korean corporates’ biggest issues/worries?

The South Korean economy is mainly export-driven, so many corporates have been expanding their businesses overseas, and for most the turnover from overseas is larger than from their domestic operations. This drives corporate CFOs and treasurers to look for similar payment and cash management processes, based on a single channel, as they have domestically. Such solutions offer better cash visibility and enable close monitoring.

One of the biggest concerns/worries for CFOs is how to achieve a day-to-day level of transparency over their overseas cash. Some corporates have tried different solutions offered by other vendors, but these solutions did not meet their business needs, mainly because they could only provide a limited level of cash visibility.



# Movers and shakers

*Mobile devices have reached every corner of the globe and yet in the world of treasury operations they have yet to make any real impact. Why might that be and, more importantly, what are the service providers doing about it?*

"It's about options and accessibility," says Paul Taylor, Head of Regional Sales, Global Transaction Services (GTS), EMEA, Bank of America Merrill Lynch (BAML), describing the essentials of a mobile treasury solution. Taylor is keen to point out that making available an alternative to desktop treasury is not about replacing one channel with another, but about augmenting the existing model. It is a laudable goal, yet 82% of respondents to Treasury Today's European Corporate Treasury Benchmarking Study 2012 said they had not adopted mobile and only 12% said they would consider using it somewhere down the line.

Enabling financial professionals to access and use company data whilst away from their desktops can, admits Taylor, be seen as "trying to solve a problem that does not exist". In defence of mobile treasury, critics probably said the same thing about the motor car. Indeed, a revolution has to start somewhere. If the first faltering steps in a new direction are seen as a gimmick then so be it.

Indrajeet Maitra, Head of International Cash Management, Asia at BNP Paribas, is an advocate. He notes that the advent of global supply chains with high interdependence has added "another level of managerial complexity" and that on this basis, the industry is looking at every opportunity to "build bridges" between different functions like purchase, inventory management, payments and foreign exchange. "And mobile treasury nicely fits into this new environment."

The wholesale adoption of mobile devices in the consumer space – smartphones, PDAs, tablets et al – has seen the technology shift from a 'want' to a 'need'. This gives it two distinct advantages, if and when it moves more fully into the treasury sector: rapid development of the underlying technology is assured; and there is a user base that has already bought into the basic concept of doing things on the move. Maitra feels that in the Asian markets there is already a "willingness, ability and need to take decisions on the go", the option largely being taken up by the so-called Gen Y age group.

## Generations and geographies

Nick Diamond, Head of Cash and Payment Sales, Commercial Banking, Lloyds Bank, believes in the slow but inevitable shift within the treasury sector towards mobile operations. He too sees a new generation of people coming into treasury that are “comfortable working with mobile because it is the way they lead their personal lives”.

Diamond reasons that if mobile devices are used to make consumer transactions on a day-to-day basis, why wouldn't they eventually appear in business life? There may be a gap between the slick presentation and user-friendliness of a consumer mobile app and that of a business-dedicated portal, but that gap is narrowing. “There is often an overlap between what people do in the personal and business space, and eventually they tend to influence each other,” agrees Maha El Dimachki, Head of Corporate Sales, GTS, EMEA, BAML. Transferring the consumer experience to the working space will be the way forward; it's what people are used to and they need to feel comfortable using this technology if it is to take off in any meaningful way.

Whilst El Dimachki observes that many treasurers are already happy to carry out certain limited functions on a tablet-style device, some geographic markets are more receptive to the overall concept of mobile transactions than others. As ever, it starts with the consumer segment. Asian countries such as India, Korea and Japan are, she notes, extremely well-disposed to mobile activity. Providers are willing to deliver the necessary solutions to take it further too. Indian mobile payment (m-payment) solutions vendor, iKaaZ, for example, launched its own ‘Tap & Pay’ reader in July this year, enabling cashless transactions based on near field communication (NFC) technology. Earlier, in April, DBS became the first bank to offer an NFC-based virtual credit card to customers of all three mobile network operators in Singapore with its DBS One.Tap.

China too is moving rapidly forward with NFC technology, announcing in April this year its proposed specification for a national m-payment standard. China Mobile, which is the world's largest mobile network operator, and the domestic bank card association, China UnionPay, went live in June with an NFC payments service supported by eight banks, including some of the country's largest such as Bank of China, Shanghai Pudong Development Bank and China CITIC Bank. Others connected to the platform so far include China Everbright Bank, China Minsheng Banking Corp, GF Securities, Bank of Shanghai and Bank of Beijing.

There is undoubtedly a very healthy appetite for consumer m-payment services in some Asian markets. A June 2012 survey of the sector across China, India, Indonesia and Malaysia by the Asia Pacific office of consulting and research firm, Analysys Mason, revealed that 65% of those who used their phones for non-voice services claimed to use mobile banking (m-banking), 51% used m-payments and 47% used mobile commerce (m-commerce) services.

The dominance of consumer payment devices such as cash, cards and especially cheques is slowly being eroded by m-payment concepts such as ‘tap and pay’ in some countries. But, says a March 2013 KPMG report, ‘tap and pay’ NFC solutions have generally failed to spark consumer interest. “Until silos are broken down, and there is collaboration across the value chain between merchants, mobile phone companies and financial services organisations, the mass audience will remain unconvinced,” says its author,

Mark Guinibert, KPMG UK Head of Customer and Channel Management. Recent research by TNS Global shows that 11.9% of UK consumers use their mobiles to make payments and just over 20% use m-banking – a fraction of current levels of Asian uptake, but nonetheless a sizeable chunk of business.

## Retail therapy

With this in mind, Diamond warns that businesses – certainly retail and utilities-based operations – need to understand how consumers are behaving differently in the sales cycle. The smart ones have been re-designing their business model to accommodate these shifts in behaviour. As Taylor says at the beginning of this article, it is about presenting options.

What does this have to do with treasury? Well, the progress of technology from consumer-user to business-user is self-evident, but if consumer behaviour changes to the point where people take their mobile device shopping with them – not just to make payments but also to research prices, order remotely, receive and respond to context-specific targeted offers and so on – the speed of movement and change of payment traffic has more immediate implications around cash flow, cash forecasting and even funding requirements. “More so than ever, the treasury group cannot act in isolation,” warns Diamond. “It will have to get much closer to its commercial departments.” When a payment is made electronically there is always a data footprint attached. This data can be used to steer the business in its response to buying and payment behaviours, as well as product and service delivery models.

But there is a direct potential use of the mobile device for treasurers, and that is in cash management processes – checking balances and exposures, authorising trades or confirming payments and receiving updates for example.

## Treasury resistance

Diamond notes that although many system providers have already created mobile versions of what they do, there has been “some reluctance” within treasury to adopt. Part of the reason, he believes, centres on the “very much office-based” sensibility of many treasury operations; it's all about history and habit. A major concern, he observes, “is in taking the cycle of treasury processes out of the office environment and in doing so stepping outside of the comfort zone”. A similar reluctance to “embrace the new” can be seen in the persistence of use amongst treasurers of the spreadsheet, even though newer, more efficient technologies may be available.

Perhaps the most commonly cited discomfort is security. “Corporate treasurers still have the perception that mobile technology is not secure, which is a concern consumers also hold,” says Singapore-based Amit Sharma, Director and Head of eCommerce and Channels, Asia Pacific for BAML. “Consumer behaviour drives corporate behaviour, as it is the same person whether they are using personal or corporate access. This perceived security concern is the biggest hindrance to uptake, and something that can be seen on a global basis.”

“The viewpoint is that, if you step outside the ring-fence of office security by using a mobile device, you may be compromising that security by offering more opportunity for criminals to hack into the system,” says Diamond. “The fact is that all electronic technologies are open to hacking as criminals become more sophisticated.” Banks invest vast

sums to protect clients (and their reputations) against cyber criminals. The authentication and validation tools deployed on a trusted banking partner's mobile channel will be as robust as that of its normal treasury offering, so even if your tablet computer gets into the wrong hands it should still be safe.

Barclays' Managing Director and Head of eChannels, Jon Ashton, does not feel that identity and password security is sufficient to safeguard mobile for corporate clients. The bank's corporate banking unit is focusing on providing information services first, with payments and payments approval to follow once it has the security operating on a mobile device to a level that can support key commercial needs like non-repudiation. "Barclays is very rigid around using smartcards and readers to protect transactions. We haven't really found a way of doing that on mobile, so we recognise there is a slightly lower bar there when it came to security."

For BAML's Sharma, as consumers and corporates become more confident in the security of mobile devices, the advent of bigger screen sizes in tablet computers will mean that navigation will become easier and the whole user experience will change. "On-the-go treasurers are likely to embrace non-critical activities first, for example accessing current balances or removing a signatory if that employee resigns," he says. "I don't believe that treasurers want to bring their whole bank onto their mobile devices – no one would want to initiate mass payments via mobile – but they probably will want to make time-sensitive, critical payments."

### The providers' problem

"The underlying principle is to what extent is the channel being used to achieve business goals and, more importantly, to what extent it simplifies the process," notes Maitra. Aware of the reticence to adopt mobile solutions, the response from some banks and vendors, adds Taylor, has been to deliver the "logical on-the-move extension" of existing treasury services which means smartphone and tablet access to an existing cash management portal, rather than attempting to provide something new from scratch. Mobile treasury as it stands today is not, and never has been, a means of phasing out all other channels, he explains, but instead is a way of giving clients access to data "wherever they are and on a device they already have with them".

However, Diamond takes a different stance, believing that the current lack of appetite has dissuaded many banks and technology vendors from venturing as fully into the mobile environment as they might like. As such, not all functions are available on mobile and so, he feels, the user experience can appear to be a pale imitation of the traditional office-based system. "We are in stalemate at the moment: there is not really the demand for the industry to go the whole way with this and make it the same experience treasurers have in the office; but, on the other side, until the treasurer sees all of the functionality to enable the true remote working experience few will take it on with any real enthusiasm. It is a Catch-22 situation."

In terms of presentation, most banks accept that if they make their mobile offering a mirror image of what is on the desktop "it's not going to work", notes Barclays' Ashton. This awareness applies to core technology vendors too. An adaptive approach has been used by TMS vendor IT2 which currently offers "fluid movement between desktops, tablets

and phones", with full functionality at hand, using an "automatic adaptive interface" which configures the view according to the device being used, rather than shoe-horning the same view into every format.

### Now for something completely different

For Ashton, the big problem for banks has been that unless they can come up with something that treasurers can do on a mobile device that they might not be able to do on their desktop, "then there isn't really a reason to use mobile". Whilst many providers are merely replicating their desktop cash management services in the mobile environment, he fails to see the point, arguing that treasurers can and will use their desktop for this purpose.

"We have made a conscious decision to structure our mobile application very differently to our desktop environment," he says. "When you look at how the iPad, for example, presents data it is very different to how you would present it on a desktop. For a start, we have to make it very simple so that the small screen can represent everything they want to see," explains Ashton. "The amount of data you can put on a desktop is much greater than you could ever put on mobile." The idea, he adds, is that users neither have to read nor enter a lot of data.

The key to success may be for treasurers to use mobile treasury as a channel in its own right. If it is seen in this light, different products will start to evolve, steering it away from mere desktop replication but retaining its position to complement the other treasury channels.

Currently, the structure of a treasury operation, the segregation of duties within the team and the actual mobility of the treasurer will dictate the usefulness or otherwise of mobile treasury, says BAML's El Dimachki. Anyone engaged in intensive number crunching, for example, will not want to work on a tablet, for obvious practical reasons. But as mobile functionality and practicality improve and adoption rates rise (looking to Asia as the most likely leader in this space), it could naturally start to change treasury practices just as the PC and the internet changed how we work and how mobile devices are currently changing norms within the retail sector.

"There is a lot that corporate treasurers can expect from mobile solutions," comments Maitra. Convergence of platforms and systems will give a single gateway to various applications that "obviate the need to access applications through different channels". Mobile used as a security token will eliminate the need to carry physical tokens for electronic applications, "and faster, concise, customised analytics will truly aid the decision making process".

Talk of mobile treasury is more than just background noise but it is yet to make a real impact. It may be necessary to 'consumerise' the mobile treasury experience – bringing the same level of service as consumer offerings, with instant access and frequent updates – before users feel at home with it. BAML's Taylor sums up the essentials of the current approach well by stating that a solution should answer a specific treasury need without harbouring "distractions that detract from the usefulness of the device". And, he adds, it should never be seen as a means of replacing an entire existing traditional platform. At least for now. ■



## It's not about the money

*Employee morale is directly tied to productivity and thus companies ignore it at their peril. It makes no sense to wait until there is an issue before tackling employee morale, but how can you spot a potential problem and what can you do about it?*

The benefits of keeping a happy ship when it comes to the working environment are clear: if people are happy they will work more efficiently, are more positive in their outlook towards their role and their colleagues, and will strive to achieve the best they can, all of which ultimately benefits the company. But things can go wrong and companies are misguided if they think they can buy their way out of trouble.

In the UK, for example, the government-run Employment Tribunals Service (ETS) publishes statistics on the number and nature of employment tribunal claims. During the 12-month period between April 2011 and March 2012 ETS received 186,300 claims covering areas such as unfair dismissal and age and sex discrimination, all of which impact on employee engagement and morale.

Low morale amongst staff can be a major problem and should never be dismissed lightly. According to a recent Gallup poll, 70% of workers in the US say they are either not engaged or are actively disengaged from their companies. The cost of

disengagement to businesses in terms of lost productivity is estimated by the research firm to be up to \$550 billion a year.

It need not be like this. In his book, 'Conscious Capitalism', Professor Raj Sisodia claims "conscious companies" outperformed S&P's 500-stock index from 1996 to 2011 by 10.5 to one. In their bid to be more aware of their relationship with the world, these companies have actively adopted 'conscious leadership' which means mentoring, motivating, developing, and inspiring people, rather than deploying models of command-and-control or carrot-and-stick.

### What problem?

In order to improve and maintain employee morale, it is first essential to identify the roots of the problem. Maslow's hierarchy of needs, a theory of human motivation, says we all must meet the basic physiological demands before moving to the next level which is security. This is followed by belonging, self-esteem and finally self-actualisation. The hierarchy is

dynamic but humans typically must satisfy the lower order needs before moving to the next level.

As one of life's necessities, money, is seemingly an obvious starting point for work-place satisfaction (or otherwise), but Mike Richards, Managing Director of treasury recruitment specialists, MR Recruitment, which publishes an annual salary survey, says it may not be so. "We have found that lack of pay isn't a major cause of low morale; it is a contributing factor, but certainly never the only factor," he states.

However, one of the most common causes of low employee morale is lack of career development, says Adam Scurr, Business Manager at Hays Financial Markets. "This can leave people feeling they are in a rut, with nowhere to go," he notes. This observation is refined by Richards who notes that aside from poor job content and leadership, lack of control over day-to-day work, often as a direct result of an authoritarian management style, will cause tension. "For instance, as a treasury analyst you are often following the directions of those above you for the majority of the day and frustration can build. Even as a global or group treasurer you have to agree the strategic direction that treasury should follow with your FD or CFO before being given the powers to carry it out."

The list of potential threats to employee morale also includes poorly managed change, job uncertainty caused by restructures, mergers, downsizing and relocations, lack of employer appreciation, personal or domestic issues, bullying and even gossip and rumours within the workplace. But perhaps one of the most destructive causes of low employee morale is stress. It may be caused by overwork, boredom or the breakdown of a working relationship with a line manager; each of these may have roots in other factors such as lack of training, poor management technique or just simply selecting the wrong person for the job.

The causes may be many but the effect is dramatic. A survey from the UK Office for National Statistics (ONS) has shown that work-related stress was cited in over 40% of work-related illnesses. On average, people suffering from depression, anxiety or stress take about 24 days off work a year, a figure that translated to 10.4 million working days lost in 2011/2012 in the UK alone.

Stress at work can be costly for businesses financially, but it also has a negative influence on staff relationships, poor performance, staff turnover and leads to more management time being spent on resolving the issues arising from stress.

## Asset or cost?

According to Vijay Kapur, a Malaysia-based Senior Corporate Social Responsibility (CSR) Consultant, the damage that low morale (whether caused by stress or not) can do within a business is self-evident but the key question an employer must ask itself is "are employees an asset or a cost?" Costs, he writes in his blog for the Indian CSR consultancy, Kohana, "need to be minimised and controlled; assets are expected to produce a return over the long term and are worth investing in." If a business sees employees only as a cost it will have a high turnover of staff, almost certainly will not be getting the best out of them and will be spending far more on recruitment, training and lost productivity than a business that values and retains its staff.

If employees are genuinely seen as an asset, Kapur's view is that the key challenge for the company is how to "recruit, retain and motivate high performance staff by creating a

sense of pride and spirit in the organisation". The most effective means of achieving this, he argues, is through attention to the fundamental needs of every employee which include a safe workplace, proper rewards, employee personal growth, and good work/life balance: in other words, the hierarchy of needs. "The more satisfied workers are with their jobs, the better the company is likely to perform in terms of profitability and particularly productivity," he writes.

## Staff survey

Richard Lambert, Director of employee engagement consultancy, Morale Solutions, notes that many organisations carry out 'exit interviews' in an attempt to uncover the true thoughts of departing employees. Clearly not all reasons for leaving are negative (someone may just seek a change of lifestyle or location). But where organisational negatives are apparent – particularly amongst professional staff – Lambert confirms that lack of career progression, a poor relationship with a line manager and wage stagnation often surface.

As part of Morale Solutions' remit it carries out employee surveys. An organisation will often conduct a survey if it perceives there is a problem with staff morale. The first time a survey is used it is natural for staff to suspect motives, Lambert notes. Genuine anonymity is therefore a key issue as without it survey results may be worthless. Good communication is essential to ensure employees are at ease with the process but it is also essential for the company to use the research results to make positive changes. If this is done, Lambert says there will be "a massive upturn in levels of morale and employee engagement". Of course, if no action is taken it will serve quite the opposite purpose and any future promises will sound hollow.

Conducting a survey of this kind will incur costs and building a business case may be necessary. But finding business metrics that correlate well with the concept of employee morale is not easy, warns Lambert. However, it may be enough to know intuitively that spotting signs of dissatisfaction early on enables an employer to tackle the issue before it becomes a major problem.

## Reading the signs

There are many signs of deterioration in employee engagement. Some common signs of dissatisfaction are:

- Increased absence from work.
- Lack of motivation.
- Low and/or poor quality productivity.
- Constant complaints and a focus on the negatives of the job.
- A general distancing from colleagues and withdrawal of cooperation.
- Clock-watching.

It should always be borne in mind that such behaviours may not be job-related and instead may arise out of personal or domestic issues; if so it becomes a more sensitive issue to handle and may require professional guidance from HR. It should also be noted that changing behaviour in the workplace is never clear-cut and must be taken on a case-by-case basis.

For most employees, the feeling of being valued, and being of value, is important in working life and thus many employees need to understand how their work fits into the general scheme of things. It is therefore also necessary to regularly give constructive feedback (positive and negative) but, says

Lambert, the rule is “praise in public and chastise in private”. However, failure to confront poor performance is potentially disastrous, not just for the individual who will not know they are performing badly or feel they can get away with it, but also for colleagues who may see the lack of action as tacit management approval of poor performance and hence begin to question the validity of their own efforts.

## Taking action

Regardless of how low morale manifests itself, Richards advocates a “360 degree view” to help managers understand how employees may be feeling. “The best managers are those who listen and react to those above, below and on the same level and who can balance the needs of all,” he says. A little empathy goes a long way: “If you are the senior treasury professional in the department and you are frustrated by the current environment or company ethos, you can be sure those below you are feeling the same at least to some degree.”

The responsibility for creating a positive working environment rests with all parties but much rests on the ability of line managers in this capacity. “If there are any major changes going on in a business, employees need to be kept informed as much as possible, preferably in person,” states Scurr. “When people are kept in the dark, people start guessing and that’s when rumours circulate.”

A manager’s responsibility for staff welfare goes “as far as they feel comfortable going”, notes Richards. “Some staff members will be comfortable with an equal exchange – they will bring their personal problems or issues to the work place – whilst others will feel uncomfortable doing this.” Regardless of the depth of discussion, communication is clearly one of the most important aspects of a managerial role and getting it wrong can destabilise an otherwise good working environment.

Managing people is a skill but many managers are promoted because they have the skills, understanding and experience of the actual job, not necessarily the equally important communicative skills. In a commercial environment managing should be about building relationships with employees based on mutual trust and respect. The authoritarian model may benefit some environments (military for example) but quite often serves only to create an ‘us and them’ divide. This can impact severely on productivity, staff retention and, as we have seen above, the bottom line.

Managers should:

- Be open to communication.
- Take grievances seriously.
- Accept responsibility for mistakes.
- Be truthful with the team.
- Set realistic targets.
- Never treat employees like a commodity.
- Be explicit with instructions.
- Avoid micro-management where possible.
- Offer praise and thanks where due.
- Encourage employee initiative and development for all.

## The right person for the job

The concept of a ‘job for life’ is a thing of the past not just because the way we work has changed but also the range of opportunities and the desire to progress has increased: people

can move from job to job so they do (albeit less so during an economic downturn). As a driver for moving on, there is a clear link between level of job satisfaction and length of employment.

According to Lambert, there is always a “honeymoon period” when people start a new job. “Our research identifies morale as tending to peak when people have been in a role between three to five years; they know how everything works, they feel that their career is progressing and that they are valued.”

The common ‘danger zone’ is around the one to two year period. From exit interview data gathered by Morale Solutions, those leaving at this stage tend to be highly negative about specific issues. If a company can identify and tackle those issues beforehand it might be able to retain staff longer, reducing losses caused by under-performance as well as the significant cost of recruitment and bringing new staff up to speed.

There is a common plateau after the three- to five-year period where for many employees the challenge may have gone. If the employer cannot find a way of reinvigorating these individuals it is likely they will part ways. Five years’ or so service may be considered a good run by both parties, says Lambert, “but what is difficult to swallow is when a company spends lots on recruiting someone and they leave after one or two years”.

When it comes to recruitment, the interview should be a two-way conversation devoted to getting the right match of skills, Richards advises. Questions should:

- Draw out the actual skills and achievements of the candidate.
- Find out how capable the candidate is at managing and working in teams or alone.
- Assess the candidate for fit with the culture and values of the organisation.

It is essential to ensure balance between these elements and to consider the value of building a team with a diverse set of backgrounds, experiences, ideas and working styles, rather than being swayed by one outstanding feature.

## Keep it going

Building and maintaining internal relationships can be approached in a number of ways and Scurr believes that the so-called ‘away-day’ or off-site team-building exercise can be useful. “It is very easy to become focused on your own role within your own team and not really venture out to find out how each team plays its part,” he explains. “With an away-day you get to meet people in other departments and this is vital to understanding the business better.”

Maintenance of morale can also come from stepping aside from day-to-day responsibilities and being invited to participate in project work, notes Richards. A break from regular duties adds a challenge to working life and can similarly expand the participants’ circle of colleagues and understanding of other functions.

The importance attached to pay varies, but a reward beyond basic remuneration, such as a bonus, can go some way to creating satisfaction, Richards notes. Be warned though that if employees start to see a bonus as a right, subsequent failure to meet that expectation can create the opposite of the desired effect – which shows how difficult it is to create the right balance. ■



# For the love of das auto

## Kuldeep Maheshwari

Head of Operations, Treasury Centre



After qualifying as a Chartered Accountant at the Institute of Chartered Accountants of India (ICAI), Kuldeep Maheshwari, Head of Operations – Treasury Centre, Volkswagen Group India, began his career in 2006 with the second largest petroleum company in India, Bharat Petroleum Corporation Limited (BPCL), first in funds management and then foreign exchange (FX). In 2008, Maheshwari moved to Volkswagen Group Sales India Private Limited, which is a wholly owned subsidiary of Volkswagen AG, as Treasury Specialist, Operations and was promoted to his current position in 2010.

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*Volkswagen became number one in the European car market decades ago and continues to do so through exceptional value for money and premium products, which are reliable and of high quality.*

**About Volkswagen Group India:** *With its headquarters in Pune, Maharashtra, the Volkswagen Group is represented by five brands in India: Audi, Lamborghini, Porsche, ŠKODA and Volkswagen. The Volkswagen Group has been present in India for the last 12 years and began its India journey with the entry of the ŠKODA brand in 2001, Audi brand and Volkswagen brand in 2007, Porsche brand and Lamborghini brand in 2012. Each brand has its own character and operates as an independent entity in the market. Volkswagen Group India has over 25 models in India and 262 dealerships and operates through two plants – Pune and Aurangabad.*

When Kuldeep Maheshwari first joined Volkswagen Group Sales India in 2008, there were three Volkswagen subsidiaries in the country, each with its own treasury function. Group Treasury Volkswagen AG in Germany decided to centralise treasury operations across India, which had only been in operation for one year at the time. When asked whether they could manage all three companies, the Indian treasury team responded with a resounding “yes”.

Maheshwari and two colleagues set out to create a treasury centre from scratch, which is almost complete five years on. The team was instrumental in establishing the structure of TC-India, which is now responsible for the treasury activities of VW India Group. In 2010, Maheshwari was promoted to Head of Operations for all Volkswagen Group India companies and the treasury centre, and currently oversees a treasury team of five.

“There are certain processes which remain manual because of specific regulations in India, but this situation is slowly improving.”

Maheshwari clearly articulates the strategic role of treasury within the company, which is what drives his passion for the job. “The events over the past few years, with the global financial crisis and increased risk levels – whether that is foreign exchange (FX), market or operational risk – prove that treasury is one of the main pillars of the corporate structure. Ultimately, the decisions treasury make go to the bottom line of the business. We have the responsibility to ensure adequate funds to the business at the right price and put in place safe, robust and secure payment processes, as well as to mitigate financial risk for the business.”

He positions treasury as a service centre, whose main motive is not to earn a profit but “to serve the needs of all the departments across the company”. The treasury team has regular meetings with procurement, controlling, accounts payable (AP) and business, for example, to determine if there are areas of improvement that need addressing. “It is similar to a customer satisfaction survey to define expectations and find out how satisfied our internal clients are with our services. In these meetings, we also explain our treasury policies so that they understand what we can do and how we can work together to solve a problem.”

For example, when Maheshwari first joined the company, the AP department’s payment process was inefficient and issues were cropping up almost on a daily basis. Through dialogue, treasury discovered that the payment process was completely manual and Excel-based. It took a lot of time to process payments and then required manual reconciliation, which made it very frustrating and time-consuming for the AP department. Treasury supported AP by putting in place a fully automated payment process in SAP, and now the company’s payment factory is running smoothly.

## Effects of the global financial crisis

When the global financial crisis began to bite in late 2008, mainly affecting US banks, Indian banks proved to be more resilient and there was little or no effect on the country’s

banking system. However, when the second wave of the global crisis hit Europe, Volkswagen Group India was directly impacted because its counterparty currency risk is in euro, as a result of its parent company, Volkswagen AG, operating in euro. In addition, as global economic growth slowed down, so did the Indian economy – previously growing at 8%-9% per annum, it is now predicted to grow by only 6%.

The automobile industry is one of the first sectors to suffer when an economy is in decline. In the past two to three years, the Indian automobile industry was experiencing double-digit growth, as was Volkswagen India. However, this year the Indian automobile market is expecting negative growth and this will, to some extent, impact Volkswagen as well.

The second major impact of the crisis has increased currency volatility. After a period of relative stability from mid-2012, the Indian rupee began to lurch higher (depreciate) against the US dollar from early May. Since then, it has lost more than 11% of its value and is likely to weaken further. “This is a big risk for us,” says Maheshwari. “Although the US economy is growing – albeit weakly – and most currencies in the world also suffered depreciation, the Indian currency has been affected the most.”

Volkswagen Group India responded to these two challenges in a number of ways. In order to maintain growth considering sluggish Indian market, Volkswagen Group India has now started to focus on the export market, which would mean earning foreign currency for the company. This would act as a natural hedge to the existing imports of the company.

In terms of the Indian economy, Maheshwari is doubtful that further improvements will occur until after the national elections in 2014 – and even then it depends on the outcome. “If there is a decisive victory in the elections, then the country will most likely experience economic growth. However, if a minority government comes to power, they will have a difficult time taking decisions on growth projections. So let’s hope for the best outcome in the 2014 elections.”

## Banking relationships

Volkswagen Group India deals with a mix of foreign and Indian banks for its needs and services. TC-India works under broad guidelines set up by Group Treasury Volkswagen AG Germany.

Interestingly, since the financial crisis, the number of banks that Volkswagen Group India deals with has increased. When Maheshwari first joined, the company only dealt with three to four global banks, but gradually it started working with more global banks and also added a couple of regional banks.

The banks are segregated into two segments: lenders and operating/transactional banks. In terms of evaluating the company’s banking partners, Maheshwari views the global banks as “quite similar” in terms of systems and products on offer; fundamentally, it’s the relationship manager that is the differentiating factor for him. In contrast, when choosing its regional banking partners, cost is the highest priority, as the company is predominantly looking to these banks for funding. Therefore, treasury performs a quarterly analysis on these banks to evaluate their rates (first) and service (second).

The operating banks, on the other hand, cannot be changed as frequently as lending institutions. Volkswagen Group India uses a mix of global banks for day-to-day transactions, such as collections and payments. These banks are reviewed on a more ad hoc basis than its regional partners, but Maheshwari

is not shy in voicing his opinions as to where he would like to see improvement. "There are certain processes which remain manual because of specific regulations in India, but this situation is slowly improving," he says. "I generally ask all our banks about further optimisation possibilities, and Citi for one has come to us with solutions on the reconciliation side, which has helped us a lot."

According to Maheshwari, the company borrows both on a long- and short-term basis and all its funding is a mix of equity, external commercial borrowings, and long- and short-term rupee loans. The working capital short-term loans are arranged from the banks. Until now, Volkswagen Group India has not tapped the bond market for alternative sources of funding.

## Technology

Volkswagen Group India's treasury department, like so many other treasuries, remains reliant on spreadsheets, and currently it doesn't use a treasury management system (TMS). However, Group Treasury Germany plans to roll out its fully-fledged global treasury platform (GTP) to the subsidiary instead of investing in a small local TMS. Most likely this extension will happen in 2014-15. In the meantime, Maheshwari will continue using SAP – accounting software and spreadsheets.

In terms of process automation, Maheshwari tells a mixed story. For local currency payments and sales collections from car dealers, 100% are fully automated. "We have host-to-host connectivity with our banks. For collections, we automatically upload the banks' SWIFT MT940 statements on a daily basis, which are already customised for our enterprise resource planning (ERP) system, SAP, so the large numbers of collection entries are automatically posted to SAP," he says.

However, manual processes are still a large part of money market deals. "When we take quotes from three to four banks, we have to manually create deal tickets and record the deals in our Excel spreadsheets, and then prepare letters to send to the banks. We also have to send letter copies to our accounting department to book the entry in SAP FI," Maheshwari explains. "But this problem will be solved once the TMS is rolled out. A deal will be captured in the ERP system and automatically an approval will go back to accounting and be put in SAP FI – hopefully it will be 100% automatic."

Although FX portals are well-known in India, mainly because almost every bank is offering a type of FX portal, Maheshwari is not sold on them. "If you go with one bank's portals it will only offer that bank's rates and we are not able to compare them with another bank's rates," he explains. "Therefore, we are not using an FX portal but we use Reuters for all types of FX deals."

He is also not a great fan of mobile technology. "Banks have approached us to trial mobile technology, such as authorising payments. However, our transactions are not as frequent as, let's say, corporates in the retail sector. I am not fully convinced that this is useful for us because we do not have any urgent transactions and furthermore we like to initiate payments in our ERP system."

But Maheshwari is unequivocal in his view that technology is a vital part of treasury, not just an enabler. "When I joined the treasury department, it was very time-intensive working on Excel spreadsheets and issuing paper cheques. But by using technology, such as ERP systems and host-to-host connectivity, to make numerous payments, what used to take

one day is now completed in ten minutes. This technology plays a vital role in my day-to-day job – it reduces processing times, increases efficiency and enforces controls and limits."

## Tasking treasury processes

Foreign currency payments is one process which takes up a fair amount of his team's time. Because the Indian rupee is not fully convertible, in order to make a payment a company has to submit to the bank original, hard copy documents, including invoices, custom duty receipts, bill of lading and regulatory forms. The automotive industry faces a heavier burden than many other industries because of the hundreds of different parts imported to construct a vehicle, each one needing its own custom duty receipt. "Sometimes we have to submit the documents in boxes," Maheshwari says. The bank then needs to check the documents, which can take four to five days, to make sure everything is in order before the payment is made.

But there have been some recent advances. He explains: "Banks have come with a number of solutions, such as Import Warehouse, in which they warehouse all the documents and regularly provide different types of management information systems (MIS), which help to manage the bulk payments. Now the regulatory forms are also digitalised, which has automated this process to some extent. Once the documents have been checked and approved, the same are uploaded onto the bank's website and the payment is processed as soon as it is authorised. Citibank is working towards further automation of this process."

Another tasking function is cash flow forecasting, the bane of many treasurers' existence. The company performs a cash flow forecast on a day-to-day basis for a three-month period, based on data from controlling and planning, as well as the AP and AR departments. Further daily cash flow analyses are also made. "On that basis, we estimate how many payments will need to be made on that day and what our sales collection will be, which means there will be either a surplus or we will need to borrow from the market," says Maheshwari.

## Next challenges

Maheshwari's next goal is to have all of treasury's processes fully automated and in a global standard, instead of manually preparing hard copies and letters. This pain will be alleviated to some degree by rolling out the company's GTP, hopefully from next year.

Maheshwari would also like to have SWIFT access, so that treasury uses a single format type used for every bank. "Right now our main transactional banks have different payment formats, so we have had to customise our ERP system to accommodate these formats. Suppose that one of those banks closes its doors and we have to go to another bank, for example HSBC, then we will have to make even more changes to our ERP system according to HSBC's requirements," he says.

Currently, Volkswagen India's treasury centre uses FTP like all other Indian corporates, which doesn't incur bank or third-party costs on a regular basis. "SWIFT will definitely be more expensive, but it will be helpful to have the same formats, it won't incur extra cost for customisations and we will have greater flexibility. Additionally, managing the host-to-host connectivity with our banks will be a lot easier compared to the current set-up," he explains. ■

# Point of View

*Independent industry analysis from our corporate treasury insider.*

## Death of notional pooling?

A number of recent articles on cash concentration seem to be sounding the death knell for notional pooling. Their main line of argument is that regulatory, tax and accounting issues are making notional pooling increasingly difficult.

I disagree. In my opinion, notional pooling remains the most elegant and cost-effective way to concentrate cash for most corporates. Before I explain why, let's clarify some terminology.

Sweeping (also known as zero balance account (ZBA) and physical pooling) involves moving money from subsidiary accounts to a designated master account. Basically, treasurers outsource to banks the daily money transfers that they might otherwise do manually.

And just like manual money transfers, sweeping creates inter-company loans. Inter-company loans create accounting requirements (they must be booked in the general ledger (GL)) and tax consequences (withholding tax, thin cap rules, etc).

In contrast, notional pooling – as its name implies – is purely notional. No actual money moves between accounts and each participant's bank balance remains untouched, which means that there are no inter-company loans.

Notional pooling is basically an agreement that your bank will not charge interest on gross debit balances nor pay interest on gross credit balances. Instead, the bank agrees to pay interest on the net credit balance only (notional pools are normally run in a net credit balance). This saves the spread between the bank's debit and credit interest rates, which is normally the sum of market spreads plus the bank's cost of capital and the corporate's credit spread.

Of course the bank needs to be able to avoid the cost of capital on the gross balances, which means that regulators (who decide capital allocation) drive the rules of notional pooling. In many countries, regulators require banks to obtain a cross guarantee whereby each notional pool participant is liable to the extent of its credit balances for the debit balances of its fellow participants. Other techniques such as pledges are also possible.

Sweeping and notional pooling are not mutually exclusive. They can, and often are, combined in an overlay structure. A cash concentration or liquidity management overlay structure normally sweeps from operating accounts at different banks and different locations to an account owned by the same legal entity (so no inter-company loans) with the notional pooling bank.

There are some things that simply don't work with sweeping. For example, the plethora of overnight currency swaps required to do multicurrency cash concentration with sweeping are not cost effective. Multicurrency notional pools (MCNP), on the other hand, provide an elegant and easy to operate solution – allowing cross-currency balance offset without conversion.

## Tightening requirements

What is driving the alleged demise of notional pooling? The first issue is the wave of regulation hitting banks, notably Dodd-Frank and Basel III. Regulators in some countries are tightening their requirements for allowing banks to report net balances rather than gross balances (which is required to make notional pooling cost effective). In some cases, they are requiring sweeping cross guarantees and aren't accepting

“Notional pooling remains the most elegant and cost-effective way to concentrate cash for most corporates.”

guarantees limited to participants' credit balances. Some regulators are also asking for parent company guarantees.

The topic also extends beyond bank regulation per se to, for example, bankruptcy law (ie what is the liability of a participant in a bankruptcy situation?) The situation is compounded by regulatory vagueness in many countries. To avoid liability, some regulators refuse to specify exactly what is permitted. This leaves bank compliance departments in a difficult position and often makes them choose differing and conservative interpretations, to avoid regulatory liability.

But 'some regulators' is not the same as 'all regulators'. Some regulators allow non-guarantee support for notional pooling arrangements, and are willing to be explicit and even give written opinions on capital arrangements. As a result, the old maxim that all global banks offer pretty much the same cash management services is no longer true.

Therefore, it is crucial that treasurers understand the nuances of different notional pooling techniques and dive deeply into bank capabilities with appropriate legal and tax support.

## Tax issues

A second issue driving the alleged demise of notional pooling is tax. The logic is that since many tax authorities deem third-party loans covered by related party guarantee as inter-company and since notional pools need cross guarantees, as a result notional pooling is not tax effective.

The error here lies in the second assumption. As you now know, notional pools do not need cross guarantees, or any guarantees at all. Some banks need cross guarantees to meet their regulatory requirements, whereas other banks can use other techniques, such as pledges.

Compounding the issue, it is obvious that few tax advisers really understand notional pooling. They therefore tend to take a conservative view and pronounce it as tax ineffective. I have seen tax partners within the same office disagree on this.

Therefore, it is critical to have good advice and robust support for your notional pooling project – and even to find tax

advisers who have already approved notional pooling to explain it to their peers.

The bottom line is that hundreds of multinational companies (MNCs) are happily using notional pooling for cash concentration and tax effective subsidiary funding. (Of course, I am not a tax adviser, so you need to do your own due diligence on this.)

## Accounting

A third issue driving the alleged demise of notional pooling is accounting rules. The idea here is that International Financial Reporting Standards (IFRS) (specifically International Accounting Standards (IAS) 32) and US-Generally Accepted Accounting Principles (GAAP) require periodic physical offset of balances if you want to net pool balances in your financial reporting. Again it is a matter of choosing the right bank – market leaders provide a service to physically offset balances (with a two-way sweep) whenever required by your auditors. The requirement varies because this is another issue on which individual auditors differ.

## Conclusion

Therefore, when we look closer, all three issues are not intrinsic issues with notional pooling, but rather they are issues that specific banks may have because of the regulatory and/or system limitations.

The first regulatory problem is specific to banks whose regulator requires cross guarantees or more.

The second tax problem is specific to banks whose regulator requires cross guarantees. The third accounting problem is specific to banks whose systems do not support periodic physical offset by two-way sweep.

Hence, I maintain my opinion that notional pooling remains an elegant and effective solution for cash concentration, subsidiary funding and, in the case of MNCs, for foreign exchange (FX) risk management as well.

Beware of bankers sounding the death knell for notional pooling. Their arguments might be based more on their own constraints than on what works best for their corporate customers. ■



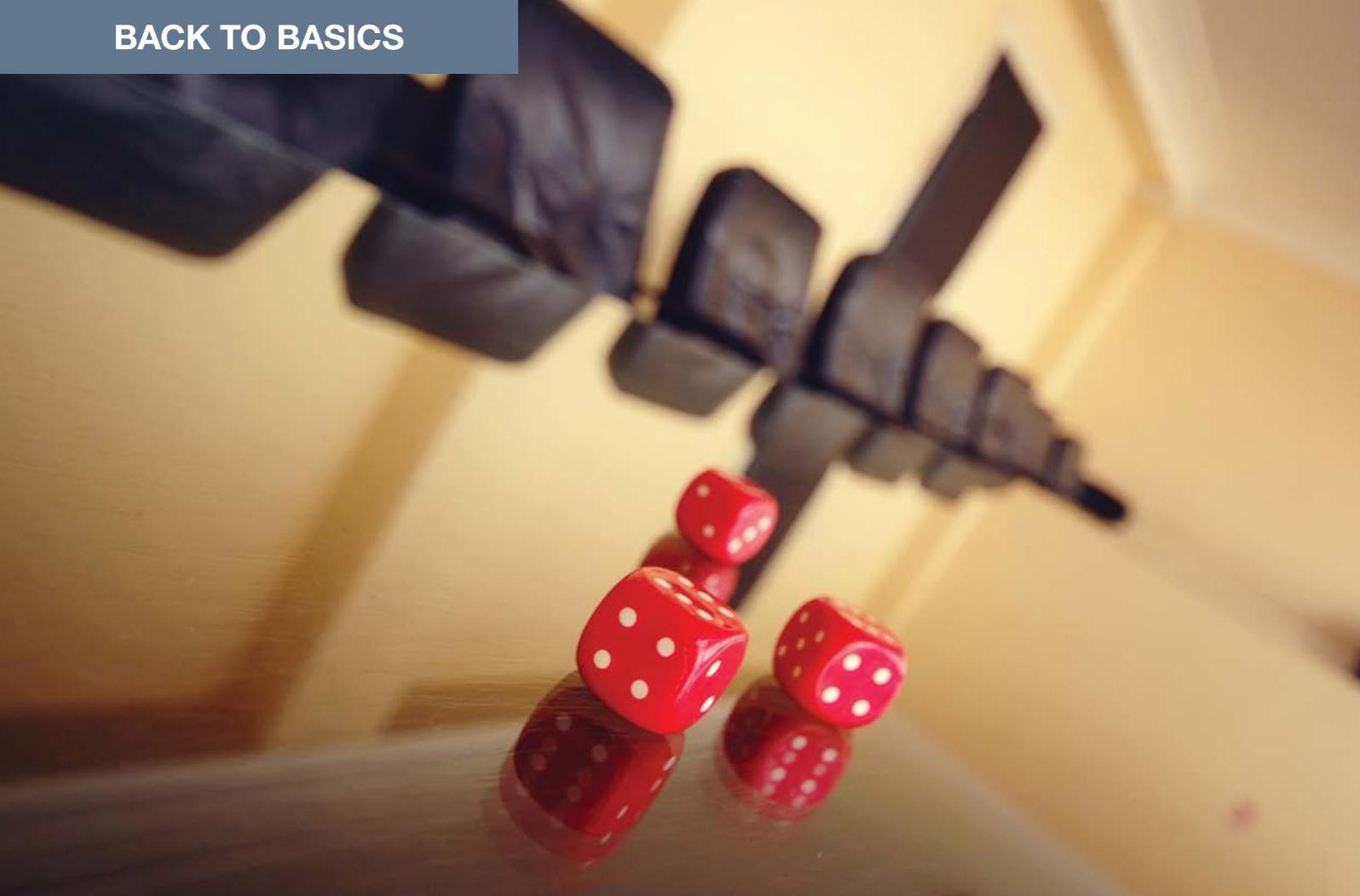
David Blair was formerly Vice President Treasury at Huawei and Group Treasurer of Nokia. He also has previous experience with ABB, PriceWaterhouse and Cargill. With his extensive experience of managing global and diverse treasury teams, as well as playing a leading role in e-commerce standard development and in professional associations, Blair has counselled corporations and banks as well as governments.

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# Political risk

*Following recent events in North Africa and the Middle East, political risk is being examined more closely than ever. Political risk cannot be completely avoided in today's increasingly volatile world, yet companies can still learn how to manage it effectively.*

Political risk is a salient issue in international business, with the ongoing turmoil in the Middle East and North Africa; the recent spate of nationalisations in Latin America; and diplomatic incidents, such as the Iranian government's threats to close the Straits of Hormuz, which negatively impacted a number of large energy multinationals earlier in the year. What is political risk? In basic terms, it can be defined as any political event or decision with the potential to impact negatively upon commercial activities. The risk is often grouped and analysed on macro and micro levels:

- Macro-level risks are those which impact all businesses operating within a specific region. Such risks are widely discussed in the media, and include political and civil unrest, energy-price volatility, terrorism, and civil or cross-border conflict.
- Micro-level risks are firm or industry-specific risks. These types of risks are, by their very nature, discriminatory. The

category includes the risk of a government nullifying a contract with a certain business, or that a terrorist group will target a certain company's operations.

## Why manage political risk?

Most successful multinational companies (MNCs) now recognise that the way in which political risks are managed can have a substantial impact upon performance. This awareness is particularly acute amongst businesses that have had their fingers burnt by political events in the past.

"I think there is a discrepancy between companies who have been operating in highly volatile, highly opaque markets for a long time and those who have not," says James Smither, Head of Political Risk at global risk analytics company, Maplecroft. Predicting the types of companies that are going to be good at managing political risks is not always straightforward, Smither cautions, but there does seem to be a strong association

**Table 1: Different types of political risk**

Risk types	Examples
<b>Bribery.</b>	<ul style="list-style-type: none"> <li>Forced hiring of third-party consultants for contract bids.</li> <li>Unforeseen border 'taxes'.</li> </ul>
<b>Capital controls.</b>	<ul style="list-style-type: none"> <li>Limits on profit repatriation.</li> <li>Administrative delays in approving capital transfers.</li> </ul>
<b>Contract default.</b>	<ul style="list-style-type: none"> <li>Politically-driven debt default.</li> <li>Politically-driven failure to deliver on a contract.</li> </ul>
<b>Expropriation/nationalisation.</b>	<ul style="list-style-type: none"> <li>Confiscation of a plant due to 'unpaid' taxes.</li> <li>Forced sale of asset(s) to government buyer at below-market prices.</li> <li>Politically-driven increase in state ownership of joint ventures.</li> </ul>
<b>License cancellation.</b>	<ul style="list-style-type: none"> <li>Change to organisation's license to operate (LTO) ahead of an election.</li> <li>Loss of social LTO ahead of an election.</li> </ul>
<b>Protests/strikes.</b>	<ul style="list-style-type: none"> <li>Industrial action and work stoppages at key supplier(s).</li> <li>Anti-government or anti-company protests and road-blocks.</li> </ul>
<b>Regulatory change.</b>	<ul style="list-style-type: none"> <li>Complex new environmental or labour standards.</li> <li>Regulatory enforcement authority handed to a state-owned company.</li> </ul>
<b>Taxation.</b>	<ul style="list-style-type: none"> <li>Windfall taxes levied over 'excessively high' profits.</li> <li>Duplicate tax claims by/between central and local governments.</li> </ul>
<b>War on terrorism.</b>	<ul style="list-style-type: none"> <li>Border and road closures due to inter-state fighting.</li> <li>Politically motivated terrorist attacks against foreign investors.</li> </ul>

Source: Accenture 2012

between those that pay most attention and those who have had negative experiences in the past. "If you went through a very traumatic expropriation in Iran or Latin America during the 1970s, then you will most likely have very rigorous systems in place to make sure that it doesn't happen again," says Smither.

For most companies, managing political risk to avoid the types of negative experience is the priority. But effective risk management can also help businesses to seize new opportunities which otherwise may have passed them by. Anticipating policy developments, for example, might provide a window to gain first-mover advantage in a particular region.

## Political risk assessment and analysis

Before a company can begin to manage political risk, first it must find a way of identifying and quantifying the different threats it faces, and then analyse how these threats might impact upon strategy and its ability to access and operate in different markets.

A combination of political risk assessment and analysis is typically used for this objective. On the macro-level, quantitative risk assessment considers the general attributes and variables of different political environments. Data from specific countries is aggregated to generate an overall score, allowing them to be comparatively assessed and assigned a graded risk level. A number of risk consultancies offer such indices including the Economist Intelligence Unit (EIU), Political Risk Services and Aon.

Maplecroft's annual Political Risk Atlas (PRA) includes 50 risk indices for 197 countries which are embedded in interactive maps. The atlas includes short-term risks, such as the rule of law, political violence, and regime stability, in addition to longer-term factors such as economic diversification, resource scarcity and human rights.

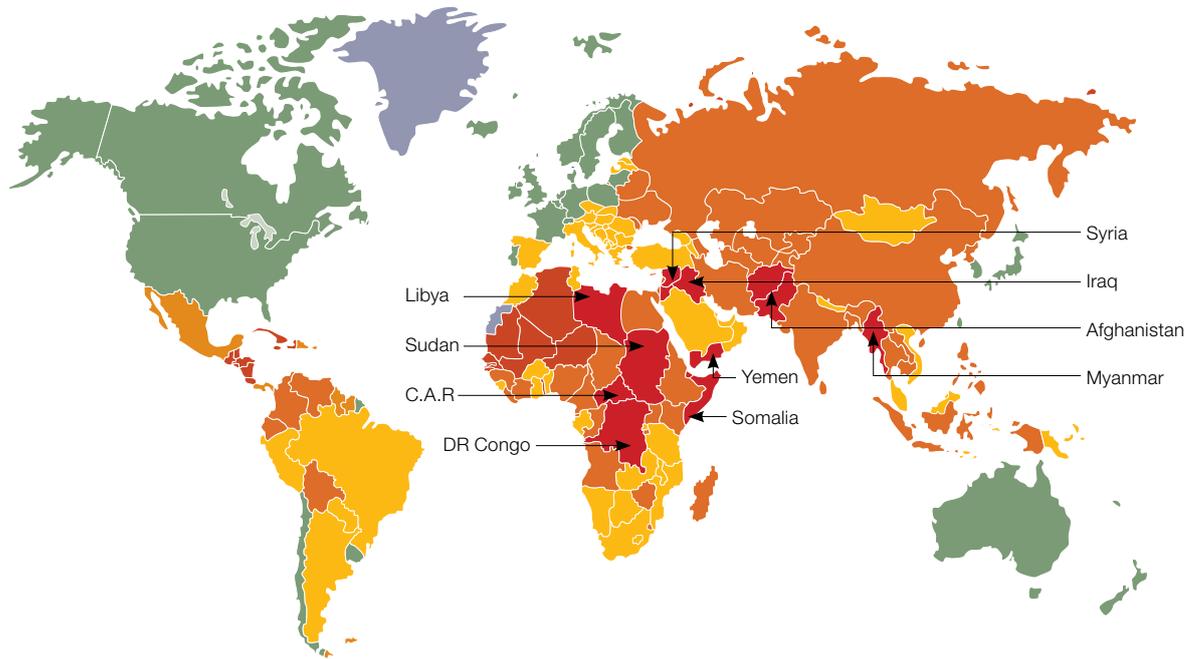
For the risk manager or CFO, the changing values of such indices can provide a useful starting point for identifying future risk events. For example, if one wished to look at the probability of large-scale social unrest breaking out in a particular country, you might look at indicators such as youth unemployment or the level of government oppression, where any change could indicate a rise or a fall in the level of risk.

## Managing political risk: the four Ts

Now that the risk has been identified and evaluated, companies can begin the process of managing it. As is the case with other types of exposure, there are four main ways for a company to manage political risk:

- One option is to tolerate the risk – companies may conclude that the level of risk they face is acceptable and decide to proceed as normal, while monitoring it to make sure that it does not increase in the future.
- On the other hand, if a company decides that the level of risk they face is too high, but wish to continue operating in a particular region or country, then an alternative approach would be to transfer the risk by taking out political risk insurance (PRI) in order to provide a form of financial recourse should the worst happen.
- The third pillar is treatment. Treatment involves taking actions that will reduce the likelihood of the risk occurring in the first place. That could mean lobbying a government in the hope of achieving a more favourable legislative outcome or, alternatively, taking certain steps to mitigate the impact of a damaging policy decision.
- In cases where the level of risk is deemed to be unacceptable a decision may be made to terminate a certain activity. What is determined to be an acceptable

## Maplecroft's political risk (dynamic) index 2013



Legend	Rank	Country	Rating	Rank	Country	Rating
<b>Extreme risk</b>	1	Somalia	Extreme	6	Iraq	Extreme
<b>High risk</b>	2	DR Congo	Extreme	7	Libya	Extreme
<b>Medium risk</b>	3	Sudan	Extreme	8	C.A.R.	Extreme
<b>Low risk</b>	4	Afghanistan	Extreme	9	Syria	Extreme
<b>No data</b>	5	Myanmar	Extreme	10	Yemen	Extreme

Source: Maplecroft™

level of risk may vary between industries and companies. For instance, companies in extractive industries such as mining often have little choice regarding the countries or regions in which they operate. A company which mines for platinum has to go wherever the deposits are, leading them sometimes into more volatile environments.

### A growing concern

The ongoing social and political unrest in the Middle East and North Africa has begun to reshape the way companies and investors consider political risk. “The Arab Spring was a sort of ‘9/11 moment’ for political risk,” says Maplecroft’s Smither. “It was a seminal event for companies because even if you were not investing in Egypt or Tunisia, the chances are that your supply chain passes through the Middle East and you would have experienced some form of disruption.” Many of those countries, Smither points out, had been stable for extremely long periods. Their leaders – the likes of Mubarak, Ben Ali, and al-Assad – had in many cases been in power for decades and, furthermore, were seen as friends of the West.

“So that proved to be a big wake-up call for everyone,” says Smither. “People began to realise that just because they know the president of a country and have a good relationship with the administration doesn’t necessarily mean that they are politically safe. What it showed was that even long-standing governments can fall suddenly, leaving companies to deal with a bunch of new faces.”

Lee Garvey, Vice President at Marsh’s Political Risk Practice, agrees with Smither that there has been an upsurge of corporate concern around political risk in recent years. “It is an age-old problem – like with all insurance – people tend to come to market once the house is already on fire.”

Garvey does note signs of a more conscious approach to political risk emerging, with an increasing number of clients now considering the product for all of their investments and projects going forward. “We are seeing clients address political risk in a more proactive rather than reactive way. I think historically that was the case – companies, banks and investors would consider PRI as an afterthought. Now companies are thinking about it as a way to actually enhance the proposition internally with their own credit committees and due diligence process.” ■

# Enterprise value multiple

The enterprise value multiple (EVM) is a ratio used in finance to measure the value of a company. Because it takes the debts of companies into account, it is considered to be a more comprehensive indication of a company's worth than other multiples such as the price/earnings (P/E) ratio. It is often used by companies to evaluate potential acquisitions.

## Calculating EVM

$$\text{EVM} = (\text{Enterprise value})/\text{EBITA}$$

- **Enterprise value** = (market capitalisation + debt + minority interest + preferred shares) – (total cash and cash equivalents).
- **EBITA** (Earnings before interest, taxes, depreciation and amortisation) = operating income + depreciation + amortisation.

EV is a useful metric to use when discussing a company's valuation because it represents the real value of a business. For example, if a business is sold for a sum of ¥100 billion, but had debts totalling ¥100 billion, then the EV would be zero. By dividing a company's EV by its EBITDA, we can calculate the EVM, taking into account the business's value, including stock price and debt levels, and relates that value to its cash profitability.

### Example

Company ABC	
Market capitalisation	¥90 trillion
Debt	¥1.5 trillion
Minority interest	¥3.5 trillion
Preferred shares	¥4 trillion
Cash/cash equivalents	¥2 trillion
EBITA	¥10 trillion

Using these figures, company ABC's EV is:  $\text{¥99 trillion} - \text{¥2 trillion} = \text{¥97 trillion}$

The company's EVM can therefore be calculated as follows:  $\text{¥97 trillion} / \text{¥10 trillion} = \text{¥9.7 trillion}$

## Using EVM

The EVM is popular with investors as, unlike other calculations such as the P/E ratio, it is unaffected by differences in depreciation policy or changes in capital structure. Lower earnings per share, and hence a higher P/E ratio, would result if a company chose to raise equity finance and used the funds to repay loans. But the EVM would not be affected by this change in capital structure, and using it means it is possible to draw comparisons between companies with different capital structures.

A second benefit of the EVM is that it eliminates the effects of all the non-cash expenses, such as depreciation and amortisation, and focuses instead upon the thing which investors are really interested in: cash flow.

## Limitations and caveats

One significant limitation of the EVM is that it should only be used with caution when comparing businesses across the same industry. Capital requirements can vary considerably between industries, and whether an industry is characterised by high or low growth will often determine the EVM. Several other limitations can also be identified:

- EVM is useful for comparing companies that have a similar level of capital intensity. Higher capital intensity results in a lower EVM which could mislead investors.
- EVM cannot be used when cash flow is negative – typically, a normalised EBITDA or a forward multiple are used instead.

When using the EVM it is important to ensure that EV and EBITDA are calculated for the same business. If a company has part-owned subsidiaries, for example, one must ensure that only the proportion of EBITDA in a subsidiary owned by the company in question is included in the calculation. Alternatively, adjusting the enterprise value multiple to include the shares not owned by the company will give the EVM for the whole group. Finally, the EVM should not be applied as a standalone measure. Prudent companies and investors will always look to achieve the most comprehensive analysis possible by using the measure along with a wide variety of other statistics. ■



ASIA PRACTICE

### The challenge of trapped cash

In an ideal world, a treasurer would be able to sweep all their cash back to the corporate's treasury centre and maximise its utility; but today country-specific regulations and practical considerations hinder that exercise. In these instances, corporate investors must weigh up the investment alternatives which are locally available versus what's typically required (and accepted) by their investment policies.



TREASURY TRENDS

### Regulation, regulation, regulation

Coping with the ever-increasing burden of regulation is turning into a time-consuming chore for corporate treasurers. How can they keep abreast of regulatory changes in multiple jurisdictions? Are banks shouldering some of this burden for their corporate clients? If not, is there anyone else to turn to?



INSIGHT & ANALYSIS

### Are you benchmarking the right things?

Benchmarking identifies what other companies are measuring, trends in the industry and also highlights best practices in various treasury disciplines. It also encourages a corporate to be open to new methods, processes, ideas and practices to improve effectiveness, efficiency and performance. Which metrics are most important in treasury?

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

**Jon Ashton**, Managing Director and Head of eChannels, Barclays; **Rahul Badhwar**, Head of Corporate Sales, Asia ex-Greater China, HSBC; **David Blair**, Managing Director, Acarate; **Nick Diamond**, Head of Cash and Payment Sales, Commercial Banking, Lloyds Bank; **Maha El Dimachki**, Head of Corporate Sales, GTS, EMEA, Bank of America Merrill Lynch; **Lee Garvey**, Vice President, Political Risk Practice, Marsh; **Brown Lee**, Account Director, Japan and Korea, SWIFT; **Richard Lambert**, Director, Morale Solutions; **Coleen Lee**, Regional Director for Corporate Procurement, Asia Pacific, Honeywell; **Kuldeep Maheshwari**, Head of Operations – Treasury Centre, Volkswagen Group India; **Indrajeet Maitra**, Head, International Cash Management, Asia, BNP Paribas; **Robert Minikin**, Senior FX Strategist, Standard Chartered Bank; **Mike Richards**, Managing Director, MR Recruitment; **Petter Sandgren**, Head of Markets Asia, SEB; **Adam Scurr**, Business Manager, Hays Financial Markets; **Amit Sharma**, Director and Head of eCommerce and Channels, Asia Pacific, Bank of America Merrill Lynch; **James Smither**, Head of Political Risk, Maplecroft; **Deven Somaya**, Regional Product Head of Wholesale Cards, Asia Pacific, Citi Transaction Services; **Paul Taylor**, Head of Regional Sales, Global Transaction Services (GTS), EMEA, Bank of America Merrill Lynch; **Jason Tiede**, Head of Cards and Emerging Payments, Asia Pacific, Bank of America Merrill Lynch; **Sunil Veetil**, Head of Global Payments and Cash Management Korea, HSBC; **Ivan Wong**, Head of Corporate Sales, Greater China, HSBC; **James Wood-Collins**, CEO, Record Currency Management; **Robert Yenko**, Regional Treasurer, Intel; **Sean Yokota**, Head of Asia Strategy, SEB.

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