November/December 2013

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India: looking on the bright side

The extreme pessimism seen earlier in the year over the dramatic fall in the rupee has subsided, but the economy is still sluggish. On the bright side, there is now a new breed of Indian companies that are much more global in their outlook.

Women in Treasury

Ping Chen

Director International Treasury
Pfizer

Bank Interview

Mahesh Kini

Asia Pacific Head of Cash Management for Corporates, Global Transaction Banking
Deutsche Bank

Benchmarking
Are you best-in-class?

Cash Management
Avoiding the cash trap

Currency Insight
Indian rupee volatility

Back to Basics
Spotlight on centralisation

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Addressing the issues

India is the main focus of this edition of Treasury Today Asia. 2013 has not been kind to the tenth largest economy by nominal GDP and member of the exclusive BRIC circle. The Federal Reserve's hint at unwinding quantitative easing (QE) early in the year caused the Indian rupee to fluctuate wildly; it hit an all-time low against the US dollar in August. This issue contains a special report on the causes and consequences of the rupee volatility, including an interview with the treasury team at Larsen & Toubro, a technology, engineering, construction and manufacturing company based in Mumbai.

After a protracted rocky patch, the Indian government stepped in to contain imports and placed restrictions on importing gold – both of which are methods to help narrow the country's current account deficit. And its commitment to address structural issues is strong: in October, Indian Finance Minister Shri Chidambaram stated that the government was committed to the path of fiscal consolidation and aimed to bring the fiscal deficit down to 3% by 2016 to 2017.

Encouragingly, the trade deficit has narrowed in recent months, led by slower domestic demand, a weaker currency and policy steps to curb imports. These factors should help narrow the current account deficit this and next year. According to HSBC Global Research, it is important for the government to keep macroeconomic policies tight and step up the implementation of structural reform to further reduce vulnerabilities ahead of Fed tapering and make the current account deficit sustainable over the medium term.

In the Corporate View, Gunjan Dhawan, Treasurer at Hindustan Coca-Cola Beverages Private Limited, India, provides insight into the quick-changing Indian environment, as well as imparting his knowledge with regards to rolling out innovative cash, supply chain finance and risk management solutions. He is undoubtedly one of the new breed of corporate treasurers in India that are developing a more strategic and global approach to treasury.

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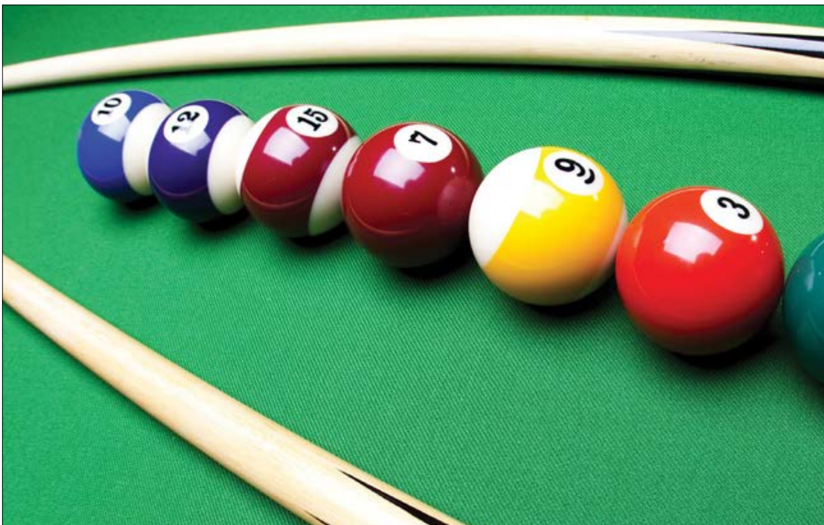

The art of benchmarking

While the corporate treasurer is garnering more Board attention as a consequence of the financial crisis, they are increasingly looking to quantify how well they are performing in their roles compared with their peers. The first step is determining whether you are benchmarking the right things.

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Ping Chen
Director, International Treasury
Pfizer

Ping Chen traded in her aerospace engineer training for a career in corporate treasury. Seeing how international treasury adds a tangible value to business operations validates the change she made in her career.

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India: looking on the bright side

Since late August the rupee has appreciated and remained steady in the low 60s. The central bank is expected to further roll back currency stabilisation measures introduced in the summer. Is the economy turning a corner?

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Managing liquidity through periods of rising interest rates

Managing liquidity through periods of rising interest rates

As the outlook for economic growth in the developed world has improved, investors are increasingly focusing on how much longer central banks will keep interest rates at record lows and when they will change the trajectory of their asset-purchase programmes.

in association with J.P.Morgan Asset Management

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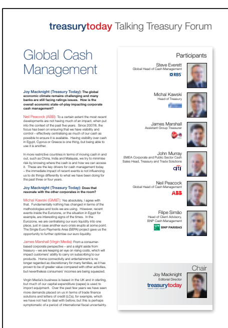
treasurytoday Talking Treasury Forum

Global Cash Management

Participants

Chair

Global Cash Management

With a still-challenging global economic environment, corporates are firmly focused on cash visibility and access. Are corporates finding it easier to attain the desired level of cash visibility, or is there something they need to do in order to get to the next level? How can banks help their clients navigate these challenges and, importantly, are they living up to the corporates' expectations?

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Wrestling with Asian regulations

Despite regulatory restrictions around liquidity and inter-company transactions, many Asian corporate treasurers have been able to extract efficiency by focusing on operational and process benefits.

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Escaping the cash trap

Despite an increased level of regulation across the world, there is also a degree of liberalisation happening, particularly in the historically restrictive Asian markets. But the challenge now is for corporate treasurers to be able to navigate these rapidly changing regulatory environments.

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Gunjan Dhawan

Treasurer

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The Bank Interview

Mahesh Kini

Asia Pacific Head of Cash Management for Corporates
Global Transaction Banking

Mahesh Kini looks at the challenges facing corporates in Asia and how Deutsche Bank can help its clients expand across the region.

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

A stitch in time

As Sri Lanka's largest apparel exporter, Brandix operates 42 facilities across Sri Lanka, India and Bangladesh, employing more than 44,000 people. As a forward-thinking company, it has been credited as the pioneer of 'total solutions' provision in Sri Lanka's apparel industry. As an example of this, its venture into India – in the form of Brandix India Apparel City – is based on the 'fibre-to-store' concept, meaning goods are shipped from its facilities straight to major retail brands in the US and the UK. But it's not just the firm's industrial processes that have benefited from forward thinking – its financial methods have also been influenced. Although Brandix's customer billing is executed centrally through a trading company in Hong Kong, as with many emerging market suppliers, it still faces a significant working capital risk especially around its receivables management.

According to Priyanke Perera, Head of Treasury at Brandix, commercial terms with its customers are predominantly under the 'Free on Board' (FOB) legal structure requiring it to deliver goods on board a vessel designated by the buyer. Under FOB, Brandix has legally fulfilled its obligations to deliver when the goods have literally passed over the ship's rails, where the risk of loss shifts from the seller to buyer. But it is still operating under payment terms broadly ranging from 30 to 90 days. To help ease the pressure, Brandix has opted into the Global Trade Supplier Finance (GTSF) programme provided by International Finance Corporation (IFC), a part of the World Bank Group. The difference between this and other programmes is that the GTSF network is delivered through IFC via modern cloud-based technology provided by GT Nexus. Using this platform, GTSF enables Brandix to collect payment considerably faster than normal through the simple expedient of discounting its receivables.

The broad concept of supplier finance is nothing new to Brandix, the company having been something of a pioneer in Sri Lanka since 2006, using the products offered by international banks operating in the country. "The main drivers for joining the GTSF programme were the need to improve our working capital cycle time, to continue mitigating our receivables risk but also to diversify our counterparty risk with existing financial institutions on similar programmes," explains Perera. But the cloud model offered in this instance by IFC provides connectivity "similar to a social media network that allows collaboration and visibility between all transaction parties," says Bryan Nella, Director Corporate Communications for platform provider, GT Nexus. The platform provides a single venue for all processes and workflows, from purchase order (PO) to invoice to settlement.

BPO: SWIFT's viewpoint in Dubai

Everything is the biggest or tallest in Dubai – and SWIFT's user conference certainly played in this major league. With more than 7,300 registrants (although less actual attendees), Sibos claimed to be the largest banking conference in the Middle East to date. Seventy-two percent of attendees came from Europe, the Middle East and Africa (EMEA), with 12% from the Americas and 16% from Asia. Unlike in Osaka last year, the Chinese banks were also in attendance.

The main themes of the financial messaging consortium's conference were around the changing global dynamics, regulatory reform and operational excellence. But it was the BPO that stole the stage, whether inside or outside the main conference agenda. Maybe that is because it encompasses all three themes: it is proving to be much more popular in the still vibrant Asia region; it may help to mitigate some of the risk surrounding regulatory reforms; and it should make the lives of corporates that much easier through greater efficiency in trade. Or maybe it is because SWIFT decided to make a big push this year to ramp up adoption. To date there are just six banks live on BPO, and these are all Asia-based. Six more banks are ready to go live, and 53 banking groups are said to be adopting BPO. Conversations with a number of banks on the conference floor has indicated a lack of demand for, or understanding of, BPO. Without corporate customers clamouring for this tool, the banks are hesitant to put much effort into rolling it out; however, that leaves the industry waiting for a groundswell of first movers to really push it forward.

Which is the reason why SWIFT has gone on an educational offensive, as much for the banking community's benefit as for the corporates. But BPO is caught between the proverbial rock and a hard place: for corporates, it is a tool that could take away the pain of letters of credit (LCs); whereas the banks, who benefit from LC fees, would prefer to see it replace open account transactions – which accounts for 85% of global trade yet is a space where the banks have no role to play. SWIFT is trying to position it in the middle, claiming that there will be a coexistence of LCs, BPO and open account.

At a Barclays breakfast briefing, 'BPO: reshaping global trade', Andre Casterman, Global Head of Corporate and Supply Chain Markets, SWIFT, was clear that BPO was not a product in itself, but a tool that products can be built upon. "BPO is a decision between two corporates, similar to the LC world. Bankers need to build a commercial value proposition around this tool." He argued that BPO allows supply chain finance (SCF) to start when it should, ie pre-shipment financing and purchase order services.

What do corporates want?

Interestingly, in a session entitled 'Exploring the evolution of SCF', which is part of the dedicated Corporate Forum stream, Gary Slawther, Treasurer, Octal Petrochemicals, was vocal in his support for BPO. "I like BPO for it provides a level of liberation. The

main benefit is that it puts the power into the treasurer's hands. With this new tool, I no longer have to negotiate with the banks." He believes that as soon as there is a critical mass of corporates using BPO, then everyone will follow.

Controversially Slawther went as far as to say that the LC is "dead", effectively arguing that it is possible to take LCs out of the picture, as they only provide "a bank account and credit". However, the LC death toll has been heard many times in the past and yet they continue to be an important risk mitigation tool.

I can see clearly now

"A lot of us saw it coming, but why wasn't anyone prepared to listen?" said Gabriel Stein, Managing Director of the Stein Brothers consultancy. Speaking at one of the plenary sessions of the EuroFinance International Cash and Treasury Management, held in Barcelona, Stein was responding to good-natured accusations that if his industry was any good it would have warned us all that the financial crisis was coming. His was a smart riposte but the damage is done, and now we all have to ensure it does not happen again.

Of course, hindsight is a wonderful thing, but foresight is better – and the strapline for this year's event was 'Forward thinking has never been so critical'. This is very much the case in terms of fending off the threat of another crisis, but preparedness is also the order of the day when it comes to meeting the threat of competition. The Barcelona event was very much geared to putting the voices of experience in front of the 720 or so registered corporate delegates to offer the latest views and methodologies formed with an eye on outpacing the competition, seizing opportunity and growing the business.

Long thinking

The plenary sessions over three days touched on the benefits of 'long thinking'. Steve Weiner, Senior Vice President (SVP) – Tax, Treasury and Pensions, Unilever, talked of the way in which market volatility and the pace of change is creating a new environment, and how those that plan for and embrace this upheaval are those that will make it through, stronger. Weiner talked of the benefits of adopting a "responsible" business model and, of course, how treasury is uniquely placed to support the aspiration of long-term growth. He insisted that any thoughts of success with a sustainability programme mean it must be "embedded in the business, not just be an add-on". In effect it must therefore become "part of the day job" for everyone – indeed, he added, it is not someone's job to manage this, but everyone's job.

George Zinn, Corporate Vice President and Treasurer, Microsoft, espouses a more strategic view of long-term capital, regulatory and economic interplay. As a "powerful revenue machine", Microsoft has a largely cash-based balance sheet, but because this is distributed across the world across multiple banks treasury has created a "lifecycle of the dollar" framework. This, he explained, delivers detailed data on the company's credit services, global cash and investments, and capital markets and corporate finance activity. The whole structure is built around the company's own MS Office 2013 Power View function to deliver key metrics, based on aggregated views by asset type, bank, currency and geography. "It's pretty darn simple," said Zinn somewhat modestly but added that "it supports and provides insight into the business in ways we hadn't anticipated."

It pays to specialise

According to the 2013 Robert Walters biannual market update of treasury vacancies, treasury job levels remained stable during the first half of 2013. However, there has been a notable spike in demand for both front office treasury positions and professionals who have specialist knowledge of fixed income markets, derivative products and hedge accounting.

Last year the number of treasury jobs available dropped amid growing economic uncertainty across the globe. However, according a market update by recruitment specialists Robert Walters, it appears the market is now beginning to stabilise.

The Treasury Market Update 2013 reports that the treasury recruitment market has remained relatively steady across both banking and financial services, as well as commerce and industry, during 2013.

However, with concerns mounting over liquidity management and cost control, the report says that treasurers with front office execution experience have become particularly sought-after in the past year. "Within banking and financial services, treasurers holding front office experience have been in notable demand across the market this year," says Stuart Ridley, Manager of Treasury Recruitment at Robert Walters. "This has been primarily due to organisations making strategic efforts to manage their liquidity asset buffers and implement key frameworks to control liquidity costs."

There has also been a growing demand for treasurers with other specialist skill sets. With companies now looking increasingly towards the capital markets for their funding needs, treasurers with a fixed income background have also found themselves increasingly coveted by recruiters over the past six months. Furthermore, forthcoming regulatory changes to the over-the-counter (OTC) derivatives market, in addition to new hedge accounting standards, have driven demand for treasurers with derivatives experience and specific knowledge of hedge accounting. Due to the strong competition among employers for these candidates, salaries in these positions have remained at a relatively high level. ■

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

This much I know

Ping Chen

Director, International Treasury

What is your career-defining moment?

The moment I made the switch from aerospace engineering to finance. Seeing how international treasury adds a tangible value to our business operations validates the change I made in my career.

Which women in business most inspire you and why?

Two women that I have worked with immediately spring to mind as inspirations: Camilla Uden, Treasurer at Zoetis, and Cecile Guegan, Vice President Finance Oncology at Pfizer Pharmaceuticals. Uden is inspiring because of her integrity, deep knowledge and strategic insights into the business operations; as my mentor, Guegan showed me how a non-American can make a successful career in a US MNC.

What is the biggest challenge you are facing just now?

Overseeing Pfizer's operations in 15 Asian countries from the US. There are many different regulatory constraints in this region and continual changes. I have to make sure I am on top of everything so that our businesses have the support needed to thrive.

What couldn't you manage without?

I couldn't be without the support and mentoring from our treasury leadership, for example Neal Masia, Bob Landry and before them, Richard Passov. They provide me with strategic guidance and inspire me to expand my business acumen.

What is your next major objective?

We are looking into setting up an Asia regional treasury centre (RTC) to provide timely support in the region. In addition, we are focused on retaining talent, which has traditionally been quite difficult in Asia as there is strong demand for talent and usually a high turnover rate. We want to create a culture where employees are motivated, inspired and have a career path within Pfizer.

What advice would you give to other women in treasury?

Find your passion, strengths and unique skill set at an early stage in your career. Once you have established your career, then build up your networks, share knowledge with your peers and benchmark your performance against the best in the industry.

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

I wish I had found my passion earlier and followed a more linear path to where I am now. But, then again, my training in science and engineering increases my logical thinking and analytical skills, so it definitely has not been wasted.

> "When you find your passion and what you really like to do, you will continue moving forward."

ON THE WEB

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

Although many corporate treasurers take unusual paths into the profession, switching from aerospace engineering to treasury puts Pfizer's Director of International Treasury, Ping Chen, in a class of her own. The scientific method and logical thinking she employed when transforming the company's treasury structure across the region is part of what won Pfizer the Asia Pacific Regional Award for Best Practice at the Adam Smith Awards this year.

Chen was following somewhat in her father's footsteps (he was a battleship designer) when she began her undergraduate degree majoring in aerospace engineering in China and then received a scholarship to continue her studies in the US. Following two years analysing production data for a petroleum company in Houston, Texas, she got her first job on Wall Street working for a major global investment bank designing their currency and commodity trading systems.

"I was intrigued by capital market activities, the way the market moved and how it was possible to develop mathematical models to gain a deeper understanding," says Chen. The bank sponsored her MBA (at night) at NYU, which she completed in three years. "I realised then that my passion lay in finance and I was determined to move to the investment banking side," she explains.

She moved to the banking side and worked for two large banks in the capital markets arena. At that time, Pfizer treasury was one of the bank's clients and she saw how her skillset worked better and contributed more on the client side.

"Finance is something I like and am good at, which really prompted me to make the switch," says Chen. "What attracts me is the dynamism of the capital markets, where every day you could be dealing with something completely different. It is always evolving and is very powerful, especially in the US which is the centre of the global financial markets."

The corporate side is where she could observe how financial positions are implemented and the change that the business experiences as it grows. "It fits my personality as well – I enjoy working on products, not just selling them. I want to see the process implemented and the result – and have ownership of the project." She gives the example of the major project she is currently working on at Pfizer. "In Asia we embarked on a seven-year project to centralise the transactional treasury activities – and to date we have implemented the project, which is cross-division, cross-function and cross-region, in four countries. I have been able to see the solution implemented country-by-country and see how international treasury adds a tangible value to our business operations. That satisfaction I don't think I can get anywhere else."

As Director of International Treasury, on a day-to-day basis Chen oversees 15 countries in the Asia Pacific region. She develops and implements treasury strategy, including the subsidiaries' capital structures, oversees cash management, hedging foreign exchange (FX) and financial risk exposure, through to managing all intracompany financing activities.

Much of what she knows, Chen learned on the job, especially in a field where the market changes so much. "I learned the basic foundations during the MBA, but to really add value to your business you have to learn from the market. The daily activities you perform with your peers and the interactions you have with your mentors is where you get new ideas and develop," says Chen. "That is why I feel that when you find your passion and what you really like to do, you will continue moving forward."

Pfizer has a formal mentoring programme available to all employees as well as a special subset of the programme for women mentor/mentee programme, which Chen believes works very well. She met Cecile Guegan, Vice President Finance Oncology at Pfizer Pharmaceuticals, through the formal programme. They decided to continue the mentor/mentee relationship after the formal programme ended and meet at least once every other month.

"I think that it is excellent that the company has this kind of supporting infrastructure to give people career aspirations," says Chen. "Cecile and I found a mutual benefit, which is why we continued on with the relationship outside of the formal programme."

Mentoring and other support programmes are better ways to encourage women in treasury, she believes, than legislating a quota for women, something that has been discussed in Europe to increase the number of female Board members. "Pfizer is doing a great job – it is building the infrastructure through female mentor/mentee programmes. If we can leverage the infrastructure established in our company, for example, we could be on our way to improving diversity within the industry. It might take a while, but eventually we will get to where we want to be.

"A pipeline of women coming into the profession is important, and if you have the infrastructure you will develop the pipeline. But it has to be a merit-based system. If you are good, you will reach the top," Chen says. ■

Ping Chen is Director of International Treasury at Pfizer. She manages capital structure planning, financing, liquidity, financial risk and cash management for Pfizer's subsidiaries in Asia. Chen has worked in the banking industry providing financial services to multinational corporate clients. She holds a Bachelor of Science (BSc) degree from Beijing University of Aeronautics and Astronautics and a Master of Business Administration (MBA) from New York University.

Outsourcing treasury

Tapping our collective knowledge to get better information

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

Heinz Bahni, Group Treasurer, SGS Group Management:

Everything that is of an executional and repetitive nature in treasury can be outsourced. Aspects of treasury which should definitely not be outsourced include strategy, bank relationships, pricing discussions and treasury controlling – all of these services should remain under the purview of the treasury department, not an outsourcing provider.

If you are thinking about outsourcing, it is important to have your own house in order in terms of processes. I do not think that by outsourcing a treasury service you can solve your internal problems. For example if you are considering outsourcing your exposure reporting because your accounting system doesn't allow you, for some reason, to get regular information about your exposure, then outsourcing is not going to help resolve the problem. Before outsourcing, treasury must first correct issues such as these.

The second pitfall could be communication between the company and the outsourcer, such as a bank. In my experience, there can be discrepancies between language spoken by corporate treasury versus language used by the banks.

I think treasurers themselves see less of the value in outsourcing and more of the risks involved – and this could explain why outsourcing is not used more often in corporate treasury.

Eddie Fogarty, Managing Director, FTI Treasury:

If you are outsourcing a manufacturing process you would specify the end result and, whatever the product, you would hope to have returned an exact quantity to match that specification. The difference in the treasury world is that treasury is a process that must be integrated with the core business. That is why in our business we tend to speak more of 'managed treasury' as opposed to outsourcing, so as to differentiate from activity that can be contracted out to third parties.

Without overstating it, I think most or nearly all treasury processes are open to outsourcing. The key issue is: how is that done? When a core treasury process is 'outsourced', it has to stay integrated with the rest of the business. So, while I can certainly say that cash management, inter-company lending, netting, even operational foreign exchange (FX) management and transactions can all be outsourced, I would not suggest that those processes are lifted out of the enterprise and managed remotely by the service provider.

One of the greatest challenges is at the very outset with the decision itself. In my experience, some enterprises are comfortable with the concept but others see risk in going down that route. Clearly it is a significant decision. Everyone realises that treasury is an area of high risk, yet there are benefits to the business if outsourcing is done the right way.

Developing the correct analysis of what is proposed, what is envisaged and how it can be structured so that those risks are taken out of the equation is one of the biggest challenges. In our experience at FTI Treasury, the clients that work with us often say that they don't know why many other companies don't do it when they see how it runs in practice.

Having taken the decision, there will be further challenges but those can be dealt with by ongoing management. If a large US multinational company (MNC) is looking to set up a treasury centre in Europe – for example in Dublin or Brussels – then they are going to recruit people and acquire systems. In a sense, doing that through a managed treasury is not vastly different than doing it 'in-house'. The key difference is that the staff, in that example, are on the payroll of the company itself. But the start-up process itself can be quicker, and you have an easier wind-down option, if necessary.

However, fundamentally the business is going to be conducted in a broadly similar way, albeit with stiffer terms and conditions, and stronger reporting, more contact points, more reviews, reporting and so on. Fundamentally, the management task from a treasurer or CFO perspective is not hugely different in a treasury operation run at a distance from that of one managed on an outsourced basis.

The treasurer has to engage with the service provider and the service provider will have to customise the solution. As each company is different, off-the-shelf products have limited appeal in this area. If the solution is developed properly, it will enable the level of confidence to be built that will allow the decision to go ahead.

At FTI Treasury, we think it is essential that we engage strongly with the parent treasury – that is good for the relationship, it is good for the business and it is good for risk management on both sides. Also, it is important to remember that it is never a question of 'out of sight, out of mind'. The problems are not off your desk if you are the treasurer; all of the same issues are there – the only difference is the work is being done on your behalf by other people.

Brad Maclean, Vice President, Business Development, SunGard AvantGard:

The most frequently cited reasons to outsource include cost savings, technology changes, flexibility of operations, access to skilled talent and scalability of operations especially for growth organisations. The pitfalls and potential dangers are harder to quantify, but from our experience they are centred around several core challenges including loss of control, layers of communication, lack of support from the wider organisation and over-dependence on providers.

Expectations also trip up many major initiatives, with some of the best and brightest firms setting themselves up to fail by building unrealistic expectations.

In making the decision to outsource, key issues include:

- *Be specific*. Understand your exact needs by creating a balanced value/risk proposition mapping out your strengths and weaknesses across the treasury operations. Don't limit the scope of this analysis as this will limit the scope of your perspective – most see outsourcing only for low value transactional operations, but many banks and advisors also provide higher-value services.
- *Set expectations*. Be realistic and set them early on in the planning process. Revisit them often.
- *Be critical and merciless in managing your timelines*. The smallest glitches can have wide-reaching knock-on effects.
- *Set KPIs and measure them religiously*. Continue to refine them throughout the year.
- *Consider the alternatives, including shared services*.
- *Know your exit strategy*. Failure to thoroughly plan your exit leaves you open to being held hostage by your providers.

Outsourcing is really a build or buy choice and, as with any organisational restructure, policy and planning will be crucial but the only opinion that matters is yours. While vendors and advisors will provide countless estimates and ROIs on the value/risk benefits, if you don't consider all of the options fully, mistakes could prove to be costly, if not catastrophic, in the future. ■

The next question:

"What opportunities does the Shanghai Free Trade Zone open up for corporates?"

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

The art of benchmarking

There is an adage in business circles that what cannot be measured cannot be managed. By benchmarking, treasury professionals can measure their performance against their peers and implement improvements if necessary. What sounds straightforward is, in practice, quite complex.

There are two main approaches to benchmarking: firms can compare themselves to their peers, or they can benchmark their performance against internally set key performance indicators (KPIs). Even if firms choose to benchmark themselves against internal KPIs, they should have some knowledge of what other treasuries are doing in order to set realistic KPIs or understand the differences. Across both types of benchmarking only one thing is clear: there is no 'one measure fits all' approach.

The idea of tracking best practice in treasury operations gained popularity following the introduction of the Sarbanes-Oxley Act (SOX) in the US in 2002 along with similar legislation elsewhere in the world. In a 2012 Journal of Corporate Treasury Management paper, 'Monitoring, benchmarking and improving treasury performance: the practical application of KPIs in treasury', Paul Higdon, Chief Technology Officer (CTO) at IT2 Treasury Solutions (now part of Wall Street Systems), stated that these regulations required "a very substantial increase in controls and the scope of documentation requirements in treasury and finance operations". This development in part defined the emerging standards of best practice for corporate treasury operation, he observed.

Another factor driving this change was the devastating losses suffered by companies such as Enron due to fraud or treasury errors. "At the time when the response to the events that led to SOX introduction was being evaluated, one general conclusion was that specific individuals within corporations or institutions were seen to be at fault," stated Higdon. "Therefore tighter regulation of organisations was needed to ensure that the company and shareholders were protected against such rogue employees." This objective was achieved by improving internal processes, reporting and controls.

Fast forward six years and the financial crisis threw another spanner in the works. One of the striking post-crisis changes for treasury is the recognition that once considered routine tasks now carry significant risk and associated overheads. Such tasks included raising cash funds and analysing cash availability. Treasury's role in cash management, funding, financial risk management and other key areas is now seen to be critical to the profitability, smooth operation and even viability of an organisation.

It is understandable in the light of this new environment that corporate treasuries should seek to determine how well they are performing in their roles. However, there is no standard approach or readily available guidance. For some corporate treasuries, external input from consultancies is seen as the key to benchmarking. Others adopt internal measures but, for many benchmarking is simply not undertaken.

"Benchmarking is essential in measuring the performance of the treasury team as a whole and also for measuring individuals' performance," says Paul Stheeman, an independent treasury consultant, based in Germany. "Every company wants to be best-in-class and there is no reason for the treasury function to be excluded from that aim."

Companies should combine the traditional benchmarking of measuring performance against their peers with the internal, KPI approach. "Treasuries have to follow company strategy and adhere to it, but they also should measure their performance versus their peers," Stheeman advises.

Here at Treasury Today we have been conducting benchmarking studies since 2009. More recently we have included a separate section on KPIs and, with the input of our corporate respondents we have developed seven key treasury disciplines against which KPIs are deployed. The table below defines these treasury disciplines and the top three KPIs used against each. In more recent studies we are now identifying the actual measures companies are achieving against the above and allowing respondents to benchmark themselves not only against the whole Study universe but also against their respective industry sector.

Table 1 – Top three KPIs

Treasury discipline	No 1 KPI	No 2 KPI	No 3 KPI
Overall treasury efficiency.	Cash visibility.	Cash pooling structures.	Costs as a percentage of total treasury costs or revenue.
Core cash management efficiency.	Cash flow forecasting accuracy.	Cash pooling structures.	Balance/transaction reporting.
Working capital management.	Days sales outstanding (DSO).	Days payables outstanding (DPO).	Days inventory outstanding (DIO).
Liquidity management.	Cash flow forecasting accuracy.	Short-term investments.	Short-term funding.
Risk management.	Mark-to-market.	Hedging effectiveness.	Value-at-Risk (VaR).
Funding/balance sheet management.	Net debt/EBITDA.	Net interest expense.	Weighted average cost of capital (WACC).

Source: Treasury Today 2012 European Corporate Treasury Benchmarking Study

Benchmarking against peers

One of the most significant challenges of benchmarking how a treasury is performing against its peer group is determining exactly who the company's peers are. Corporate treasuries – like corporates themselves – come in all different shapes and sizes.

Dino Nicolaides, Head of the Corporate Treasury Advisory Team in London for consultancy Deloitte, says benchmarking is about understanding how a company's treasury function compares to those of similar companies. "It is how you define 'similar' that can vary," he says. "This can be based on industry sector, company size irrespective of the industry in which you operate, or based on geographical location. How you define your peer group will determine the value you get out of the benchmarking exercise."

Bas Rebel, Senior Director, treasury advisory at PwC in the Netherlands, says that for "quite some time" benchmarking should have been higher on the agenda of corporate treasurers, but wasn't. "The key problem is that treasurers still believe their situation and company structure is unique and therefore difficult to compare with the outside world," he says. However, recently PwC has been asked more frequently by clients about how other treasuries are organised and what their focus is. "So there is an interest to understand how peers are working. However, that is still not close to formal benchmarking. The one situation where we are involved in a more formal benchmarking against peers is when a business case for change has to be made or approved."

> "Benchmarking gives us the opportunity to identify where we stand and how we develop over time among our peers. The external comparison is essential for the progress of a unique corporate function like treasury."
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> Karsten Kabas, Head of Corporate Treasury, Merz GmbH & Co. KGaA

In order to have meaningful comparisons, treasurers need more than a couple of corporates with whom they are comparing themselves. Once a reasonable sample of peers is established, the next challenge is to recognise that every organisation is different, with its own treasury policy, structure and risk appetite. "You need to flex the statistics in order to ensure you are comparing apples with apples. For example, if you compare two FTSE100 companies, one might be operating in ten countries and the other in 150. The latter will be using very sophisticated cash management techniques in order to concentrate cash and move it around the world. Comparing those cash management procedures with the ones employed by the former company won't be suitable" says Nicolaides.

"Benchmarking gives us the opportunity to identify where we stand and how we develop over time among our peers. The external comparison is essential for the progress of a unique corporate function like treasury." Karsten Kabas, Head of Corporate Treasury, Merz GmbH & Co. KGaA

Setting KPIs

In a February 2012 blog, IT2's Higdon writes that KPIs provide "a structured and objective environment for assessing the effectiveness, accuracy and rate of improvement of critical treasury processes". Treasury KPIs are valuable at all levels of an organisation, potentially enhancing the quality, level of policy compliance and efficiency of treasury.

"Corporate treasurers are increasingly being encouraged to adopt a KPI programme, under the direction of senior management, often at Board level," he writes. "A KPI programme is typically delivered through the implementation of an enhanced treasury policy, and manifests as a new set of mandatory processes, integrated with the treasury workflow."

As with benchmarking against peers, a similar conundrum exists in setting KPIs – which ones are appropriate for a particular treasury operation? The choice of the optimal set of KPIs for a particular treasury can be an exacting exercise as the wide-ranging objectives include streamlining management reporting, improving the quality of all kinds of treasury operations and measuring, analysing and documenting operational compliance with treasury policy. The set of KPIs ultimately selected for a particular treasury will not only reflect the specific treasury policy and workflows that are in place; it must also reflect the business policies and priorities of the whole organisation. The KPI selection that works best for a given treasury will have been chosen through detailed analysis of those features of treasury operations that correspond to the highest levels of risk exposure.

"The treasury employs a variety of KPIs to ensure benchmarking efficiency. These include transaction costs, refinancing risk, covenant ratios and FX hedging amongst others," says Daniele Vecchi, Group Treasurer at Majid Al Futtaim in Dubai.

Intelligence gathering for establishing KPIs is a major challenge. A corporate treasurer can contact their treasury peers and friends, and try to glean information about their practices, but such an approach is fairly ad hoc. Ideally the treasurer needs to get a larger statistical sample. But this sort of benchmarking must be used carefully. A large statistical survey may tell you that 35% of treasuries practice A and 25% do B, etc. But what does that really tell you? Jeff Wallace, Managing Director at US-based Debt Compliance Services comments "economic factors drive different behaviours. Benchmarking should take into account what is driving different behaviours in a particular set of treasury practices. Sometimes it will be volume in terms of the number of transactions, whereas sometimes it is the industry itself."

While many observers believe industry is a big driver of differences in treasury practice, others point out that, at the end of the day, treasuries are pretty much the same. Money goes in and comes out, and there are risks to manage.

Stheeman outlines the main KPIs that companies most often use to measure their performance. These cover:

- Personnel – costs.
- Cycle times – based on regular types of activities such as cash forecasting, bank account reconciliation, cash pooling, etc.
- Cash flow forecasting – balance versus actual.
- Stranded cash reduction – reducing trapped cash or having the amounts at as low a level as possible.
- Counterparty risk – how high losses are over time and how to reduce them.
- FX and interest rate performance – there are several ways to choose a benchmark, but an appropriate one needs to be found and measured against.

- Bank charges – how much are you paying for treasury services and which banks are you using.
- Bank relationships – related to the above. How well are your banks doing and how do they compare with each other?
- Cost of credit – how does this compare to other organisations and internal targets?

"The main focus of our benchmarking processes is related to maintaining relationships with our banks. In essence this means: how we choose the banks; how we manage our FX exposures; and how we manage our finance costs," says Kamal Goyal, CFO at Alumco in the United Arab Emirates (UAE).

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> Daniele Vecchi, Group Treasurer at Majid Al Futtaim in Dubai.

In setting KPIs treasuries should set realistic goals but also ensure these goals are not too easy to achieve. Benchmarking models coming out of spreadsheets that are so complex no-one understands them, are not any use. You need to understand the KPIs and how they are measured or else you will not get a result with which you can be comfortable.

In order to determine the right set of KPIs for any particular situation, the treasurer needs to be very clear about their organisational objectives and about the guidelines defining how those objectives are to be achieved — the treasury policy. When selecting KPIs, the organisation's current or future capability to deliver the required results, at the required levels of accuracy and timeliness, should be considered carefully. The selection of the appropriate KPIs for a given treasury naturally depends on the nature of the company's business, as well as treasury's defined role within it.

Nicolaides says a number of metrics and how they differ between companies should be considered during a benchmarking exercise. These include:

- **Treasury organisational structure.** How are treasury activities around the world organised? Some organisations may centralise at headquarters (HQ), while others have group treasury but delegate to regional treasury centres to take over activity in that continent. In benchmarking, the treasury must compare itself to similar companies of similar size in similar countries and ask "are we falling short of this peer group company?"
- **Quality and skills of key people within the treasury function.** Key individuals that determine treasury policy and strategy at central and regional centres should be compared with the key individuals in similar organisations. Is a company employing people of the same calibre?
- **Governance.** The involvement of the Board in terms of overall treasury strategy and how authorities are delegated within the organisations, from the Board to the CTO, finance, treasury committee or even in regions, should be compared and analysed.
- **Policies.** This can be a difficult area to tackle. You have to isolate the risk appetite of particular organisations. If one organisation has insignificant foreign exchange (FX) risk, their policy will be to ignore it. Another organisation that has extensive FX risk exposures will engage in significant hedging activities. If you compare their treasury policies, you should isolate risk appetite because it is irrelevant.
- **Core treasury activity.** How a treasury identifies, measures and manages risk, including FX, interest rate, counterparty risk, cash management and liquidity risk. Companies should look at procedures and again isolate the risk appetite of other organisations if irrelevant. How do the procedures of one organisation in terms of identifying risk compare with those of another? Does the treasury have a procedure to identify whether there is a risk or whether it has gone undetected? Are there processes over time to manage and observe changes in risk exposures?
- **Operational procedures.** Such procedures include front office dealing activities such as derivatives trading, hedging, confirmation and settlement. How does the treasury compare with similar organisations? Systems and technology also should be considered – how automated are these processes versus the peer group? Where is the technology in terms of the industry practice?
- **Reporting.** This is strongly related to KPIs, on which the treasury report to senior management. Benchmarking should consider how complete the KPIs are and how the reporting on them compares with other organisations.

Getting it right

What is clear is that benchmarking in treasury has to be managed with great care. It is important to measure the right things and it is very easy to measure the wrong things.

For example, a focus on funding costs can overlook the fact that the funding itself may not be required, if the treasury improved its management of working capital. Additionally, a good working capital metric, such as cash conversion cycle (CCC), may push higher costs elsewhere in the business. For example, it can encourage business units to give expensive early payment discounts, or secure longer payment terms from suppliers, who may incorporate a higher funding cost in their base prices. Finally, a focus on bank charges may reduce the bank charges, but will this result in damage to banking relations which causes significant increased cost further down the line?

The main point is that treasury activities, while they need to be monitored for efficiency, also need to be looked at in the context of their overall cost. This is always extremely difficult and it requires a high level of organisational maturity: the organisation as a whole needs to be very clear as to its priorities.

Learning what your peers are doing always helps in this process and our Treasury Today Benchmarking Studies are proving very popular among the corporate treasury world, particularly the KPI section. As a corporate there is only one way to get the full results of this year's surveys – participate. So if you wish to benchmark your KPIs against the industry and learn what else other companies are doing, please participate in these Studies. ■

India's summer of discontent

After suffering the biggest plunge against the US dollar since the early 1990s during the summer, the Indian rupee began to stabilise again in September. What were the origins of the rupee 'crisis' and how have Indian corporates adapted their hedging practices in order to manage heightened foreign exchange (FX) volatility?

Indian corporates had to adjust to a new reality over the course of the summer. For the best part of a decade, the Indian rupee remained remarkably stable, hovering for the most part at 45 to the US dollar. But that changed dramatically in April this year when the Federal Reserve announced plans to begin tapering its quantitative easing (QE) programme. The announcement from Chairman Ben Bernanke triggered a slide in which the currency fell 17% against the US dollar (see Chart 1).

For India's corporates, the timing of the rupee's slide couldn't have been worse. In the past three years, there has been a significant increase in the dollarisation of debt on the balance sheets of Indian companies, as many looked to take advantage of low interest rates in global bond markets.

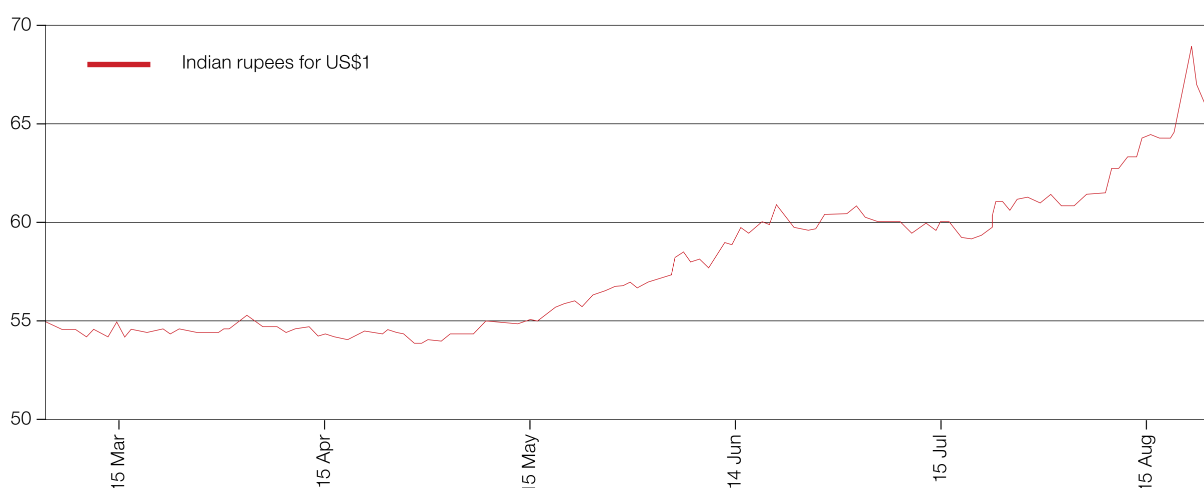
At the last measure, the country's corporate sector now has a total of $48 billion in outstanding US dollar debt. As a consequence, Indian corporates are more vulnerable to currency shocks than at any time in recent history, says Deep Mukherjee, Director, Corporate Ratings at India Ratings and Research, a subsidiary of Fitch. In August, the group's research revealed that the credit ratings of 65 of its 290 investment-grade issuers may come under pressure should the currency remain weaker than INR60/USD – although these specific corporates, contributing to 16% of the investment-grade debt, are unlikely to default in a stressful scenario such as this. If the rupee was to move beyond 65 for a sustained period, an additional 17 corporates would come under ratings pressure.

In this environment, full hedging of exposures becomes imperative. However, the task is complicated by volatility. Three-month implied volatility, a measure of expected moves in exchange rates used to price options, rose 649 basis points in August to 19.1%, making it the highest among the 48 global currencies tracked by Bloomberg. "In this environment, hedging becomes a nightmare," says Mukherjee. "Our corporate clients want a stable rupee at any rate and this historical high in volatility is making it very difficult for them."

Making the right call

Larsen & Toubro (L&T), a technology, engineering, construction and manufacturing company based in Mumbai, was taken by surprise when the rupee began to slide earlier in the year. In the company's risk management policy, treasury is mandated to leave a certain amount of foreign exchange (FX) exposures open, leaving the team with the flexibility to hedge them depending upon how they see market conditions.

In April, prior to Bernanke's indication that the Fed would soon begin to taper bond purchases, the company was relatively bullish on the currency. However, its balance sheet suffered a



Source: Exchange.Rates.org

hit on the unhedged part when nervous investors began to pull their money out of emerging markets. Since then, the company has become much more bearish, making a conscious call to hedge 100% of its exposures, and has made all the correct judgements as the currency continued to slide further against the US dollar.

"Between 50 and 60 we didn't quite catch it right," concedes Harish Barai, Deputy General Manager of Treasury at L&T. "We thought the rupee was stretching a little bit and that it should bounce back. But we were caught out because the assessment on the current account and inflation was wrong."

The volatility has complicated matters. In India, corporates can't fully cancel or de-book on derivatives contracts; therefore, with the rupee moving up and down within a large range on a daily basis, making the right call becomes quite a challenge. "Things change so fast and there is so much commentary and data coming in all the time that it becomes very difficult," says Vijay Kuppa, Treasury Manager, L&T.

Hedging instruments

Options might represent a useful means for corporates to hedge their FX risks in this volatile environment. The decision to use such instruments, however, depends on a number of factors including the size and sophistication of the treasury, the hedging budget, and how confident the risk management team feel about the direction of the market. According to Citibank, which has a market share of 25% of corporate FX transactions in India, the hedging of FX exposures has become a very active topic of discussion for its Indian corporate clients in recent months – a debate which is not just around liabilities on the balance sheet, but export earnings too.

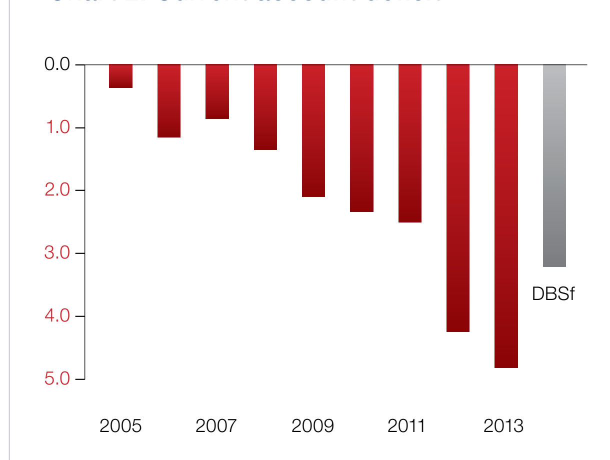
While forwards are relatively simple and inexpensive, Citi India says that more corporates are now looking at other instruments, including options and range forwards. "I think most corporates are pretty savvy and are looking at all the different solutions," says Rahul Shukla, Head of Corporate Bank at Citibank India. "Of course, you have to pay a premium with options, but you can also sell at a level in which you can collect a premium. If two months ago you were selling your exports forward, during the period the rupee was sliding downwards, you may well have thought it would be selling at 75 now – so you would be losing out. Therefore, you have to evaluate each alternative at a given point in time."

Calm after the storm?

L&T's treasury team say they have decided to stick mainly with conventional forwards for the time being. Although using such instruments can be more challenging in a volatile market, Barai and Kuppa believe their team have much more clarity now over the direction in which the market is heading, and therefore see no need to enter into pricey options contracts.

Kuppa is convinced that, thanks to recent interventions by the Reserve Bank of India (RBI), the worst of the volatility is over for the rupee. "In recent weeks we have seen the currencies of most emerging markets appreciating, but the rupee is staying where it is because of intervention. As long as the central bank is intervening in the market and is serious about controlling the currency, we shouldn't see another flare up."

Chart 2: Current account deficit



DBS Group Research, October 2013

Beyond the actions of the RBI, there are also a number of other reasons to believe that the country is turning the corner. Of the main economic challenges influencing the rupee at present – current account deficit, inflation, growth and the fiscal deficit – the prospects are already beginning to look more positive for at least two out of the four challenges. The rupee's movements over this past year largely reflect the economy's ailing fundamentals and, in particular, a current account deficit which widened considerably in the early part of 2013.

In March, many research brokers were forecasting a current account deficit in India around the 5% mark. But thanks to a hike in duties on the import of gold, those same brokers have now revised their projections downwards, towards 3% (see Chart 2). The narrowing of the current account deficit has clearly eased some of the nervousness in forex markets, helping the rupee to recover to around 62 to the US dollar.

The fiscal deficit is also improving, thanks largely to lower current expenditures and higher non-tax revenue. According to recent figures published by the World Bank in October, revised data shows that the central government's fiscal deficit in FY2013 reached 4.9% of GDP, well below last October's target of 5.3% and considerably better than the 5.2% estimate made in March. On the other two fundamentals, the prospects are less certain. In the same report, the World Bank slashed its growth forecast for India, predicting GDP to decelerate to 4.4% in 1Q14, down from the 6.1% it forecast in April. However, there is optimism that next year may see some improvement, with the RBI estimating growth to recover to 6.2% in FY2015.

The report also states that core inflation has fallen to 2.4%, well within the RBI's comfort threshold – this has helped bring Wholesale Price Index (WPI) inflation down to 5.3%. Nevertheless, L&T's Barai says this is the one macroeconomic indicator that he is uncertain about. However, his gut feeling is there may be a small degree of respite in the coming months. And if, as a consequence, the central bank decides to lower the interest rates, it will surely provide further relief to the economy. "In India much concern remains regarding currency depreciation on the back of deteriorating macro parameters," says Barai. "Now, finally, we see that some of them are being sorted out." ■

India: looking on the bright side

The dramatic fall of the Indian rupee made headlines this summer; however, since then it has appreciated and remained steady. Has India's economy turned a corner?

On 28th August, the Indian rupee experienced its biggest single-day fall in more than two decades, plunging by almost 4% to reach a record low of 68.8 against the US dollar. Since US Federal Reserve Chairman Ben Bernanke first hinted at tapering off quantitative easing (QE) back in May, the rupee fell 16% against the US dollar. Paul Mackel, Head of Asian Currency Research at HSBC, stated that caution towards emerging market assets and India's long-running structural problems meant the rupee was one of the first in emerging Asia to face aggressive selling pressure.

During the summer when the rupee was at its lowest levels, markets began to question whether India could fund its high current account deficit. "Pressure on the rupee was brought about by the current account deficit, which is structurally driven largely by oil and gold imports, and the fact that India's export sector remains relatively limited and uncompetitive," explains Anjalika Bardalai, Senior Analyst, Asia, Eurasia Group.

India has witnessed the most rapid increase in its external liabilities relative to assets in Asia, Mackel wrote in a September report on the rupee. Current account and fiscal balances have been in negative territory since 2008, the report states, and in this respect, India stands out even among its peers.

In its October 2013 'Fiscal Monitor' the International Monetary Fund (IMF) stated that fiscal consolidation in India had become more challenging in light of the rupee's devaluation and higher global oil prices. It predicts the fiscal deficit will increase to 8.5% of GDP in the 2013 to 2014 financial year. At October's IMF meetings in Washington, Indian Finance Minister Shri Chidambaram stated that the government was

committed to the path of fiscal consolidation and aimed to bring the fiscal deficit down to 3% by 2016 to 2017.

Structural reforms

When it comes to India's current account deficit, Siddharta Sanyal, Chief Indian Economist, Barclays, says the government has applied pressure to contain imports and has placed restrictions on importing gold. "A depreciated rupee will also help the margins," he says. In a mid-October research note, Leif Eskesen, Chief Economist for India and ASEAN, HSBC, stated that recent trade numbers suggest the Indian government will reach its 2014 current account deficit target of $70 billion, with a chance that the deficit could narrow even further. But he added that the government and India's central bank, the Reserve Bank of India (RBI), needed to stick to tight macroeconomic policies and step up implementation of structural reforms to bring about a sustained improvement in the current account position.

Since late August the rupee has appreciated and remained steady in the low 60s. The RBI is expected to further rollback currency stabilisation measures introduced in the summer. But in order to manage expectations, Eskesen stated that the central bank needed to signal its willingness to reintroduce measures should currency risks return. After all, tapering off of QE has merely been postponed. The bank also needs to demonstrate its seriousness in anchoring inflation expectations, says Eskesen. In this respect, HSBC expects an increase (of at least 25bps) in the repo rate this year.

Within days of assuming his new role as governor of the RBI in September, Raghuram Rajan, a former Chief Economist at the IMF, surprised investors by raising the central bank's key policy rate to 7.5%. His actions left no doubt that Rajan is focused on reining in inflation, which remains stubbornly high. Data published by the Indian Central Statistics Office (ICSO) indicated that the provisional annual inflation rate based on all India general CPI for August 2013 was 9.5% compared to 9.6% for the previous month. "High inflation is a long standing problem in India," says Bardalai of Eurasia Group.

Turning a corner

For now interventions by the RBI appear to have stemmed the rupee's decline. Has India's economy turned a corner? "In terms of the last six months when there was a perception of crisis, I feel a little bit more comfortable," says Sanyal of Barclays. "I wouldn't say that everything is absolutely fine, but from the extreme pessimism that we saw on the currency front, that risk perception has stabilised."

In October, a better current account trend and news of potential portfolio inflows supporting the rupee saw HSBC lower its US dollar/rupee forecast from 65 to 62 for year end, and from 70 to 66 for the end of 2014. But Bardalai of Eurasia Group says the rupee is likely to remain volatile. "The currency is still down 10% to 15% relative to April," she says, "when it was trading around 54 or possibly stronger."

Economic growth also remains sluggish. In September Barclays revised its GDP growth for the 2013/2014 fiscal year down to 4.7%. Citing reasons for its decision, Sanyal says interest rates are still high and the government is constrained on the deficit side in terms of its ability to boost growth in the near term. Industrial growth is also low, which according to S. Gopalakrishnan (Kris), Co-founder and Executive Vice Chairman of Indian IT services company Infosys, and President of the Confederation of Indian Industry (CII), contributed to the slowdown in GDP growth in the past two years.

"Industrial activity is very low," says Kris, "and some months it has been negative, which is a cause for concern as one of the factors for creating jobs is industrial growth." According to data published by the RBI, the sales growth (year-on-year) of more than 2,900 non-government non-financial (NGNF) companies decelerated sharply to 9.1% during 2012-2013 from 18.5% in 2011-2012. "This is the lowest annual growth in the past ten years," the RBI stated.

Kris says India needs to create ten million new jobs each year in order to keep pace with the number of people joining the workforce. But when compared with markets like China, India's manufacturing sector is still relatively weak. "The services sector contributes more to the economy than industry," explains Bardalai of Eurasia Group. Manufacturing generates just 16% of India's GDP compared to the services sector, which is 55%. "What holds it back is restrictive labour laws," says Bardalai. "Land acquisition is also very costly."

Financial inclusion

The Indian government's National Manufacturing Policy (NMP) proposes to increase manufacturing's share of GDP to 25% over the next decade by creating the policy framework and financial instruments to encourage public/private partnerships (PPP) for infrastructure development. Kris of Infosys says India has a fairly robust banking sector and that most companies are able to access financing, but at the moment, he says bank capital is expensive. "That is one of the reasons why the investment ratio to GDP has come down".

Accessing capital is a real problem for small and medium-sized enterprises (SMEs), according to Bardalai. "Given the fiscal deficit, government borrowing is domestically funded, and all of that government borrowing crowds out the private sector." In a speech given to a factoring conference in New Delhi recently, RBI Deputy Governor, Dr. K. Chakrabarty urged more banks to launch factoring services particularly for India's micro-enterprises.

"Delays in settlement of dues adversely affect the recycling of funds and business operations of SME units. It is therefore, critical to ensure that the small entities are able to raise liquidity against their receivables," he stated.

Anjali Mohanty, Managing Director and Head of Global Transaction Banking (GTB), India, Deutsche Bank, says she is seeing huge demand right now in India for payables financing – otherwise known as reverse factoring. "Borrowing costs have gone up by 200 bps to 300 bps, which is impacting SMEs," she says. "Given the local liquidity and risk environment, it can be challenging for SMEs to meet their working capital needs from their existing bank relationships." Although Deutsche Bank does not bank SMEs in India, it does bank large multinationals that do business with them and can leverage the credit rating of these buyers to provide cheaper financing to SMEs in the supply chain.

Growing in sophistication

Nirmal Khaderia, Asia Pacific Head of Corporate Treasury Sales and Head of Global Transaction Services (GTS) India, Bank of America Merrill Lynch (BofAML), says the majority of companies they work with in India are increasingly focused on

working capital management. He talks about "a new breed of Indian companies" that are more global in their outlook backed by large overseas acquisitions and international expansion via the organic route.

"Going global means managing liquidity and working capital at a global level, working with multiple clearing systems, multiple currencies, multiple platforms and ever changing regulations. This is a big challenge for them and is when they start looking at consolidation and centralisation, risk management practices, and learning from the experience of other corporates. They talk to global banks like us who have the experience of working with multinationals and learn from our vast experience in treasury management, bringing efficiencies in working capital management and leveraging the concept of shared service centres (SSCs)."

Indian companies' hedging practices have also grown in sophistication, says Khaderia. "In the past, importers did not do much beyond hedging US dollar payment exposures due in the next 90-120 days.

However, a large number of exporters with long-term contracts actively hedged for periods of 12-24 months to take advantage of the premium. But as the currency market has become more volatile, companies are putting together more robust currency hedging policies." In India companies are only allowed to hedge genuine exposures and interest rate options are not permitted.

Regulations and currency restrictions also makes liquidity management challenging for multinationals with Indian subsidiaries. As the rupee is not fully convertible, Navin Gupta, Head of Cash Management India, HSBC, says cash concentration and notional pooling is not permitted on a cross-border basis. Domestically, cash concentration is possible. Gupta says some companies in India are interested in cash concentration for multi-entity structures. In this respect HSBC is able to provide bespoke solutions, he explains, that are integrated with a company's enterprise resource planning (ERP) system and are more likely to win the support of the company's respective stakeholders. "Only a few banks have the capability to provide this element," says Gupta.

As Indian corporates become more global, Khaderia says they are increasingly getting into strategic treasury management relationships with global banks not only for their global business but also for their treasury needs in India (a space traditionally dominated by the local banks). "Some of the local banks have developed sophisticated processes around collections and payments backed by strong core banking systems implemented in the last two decades. However, global banks still carry the edge when it comes to customisation and the ability to integrate with the client's ERP systems, backed by our global technology platforms and information reporting systems."

Barclays' experience of the Indian market is perhaps somewhat different to that of most foreign banks. Up until two years ago it maintained a retail banking presence in India; but in 2011 it closed its retail business so it could focus on corporate and investment banking. Barclays says it can now offer financial institutions and corporates much wider product coverage across capital markets, debt, risk management and FX, as well as trade finance, working capital and cash management.

"In India each bank has a particular strategy and particular client segment that it wants to pursue," explains Ashwini Kapila, Managing Director and Head of Financial Institutions Group, Barclays India. "We defined our client segment in terms of where we believe we can add more value. It is about servicing global relationships coming into India, and large Indian companies looking to expand into other geographies such as Africa, the UK or Europe."

The move from cash and cheques to electronic payments in India (see table overleaf) is also levelling the playing field between domestic and foreign banks. In an increasingly electronic world, moving money around India no longer requires banks to maintain an extensive branch network. "Most foreign banks in India have a limited branch network," says Gupta of HSBC. "But in an electronic world you can address every corner of India."

Mohanty of Deutsche Bank says between 65% to 67% of transactions in India are still physical payments, but 70% of the value of transactions is moved electronically. One of the major challenges India faces is ensuring that financial services are accessible even in the remotest parts of the country where large swathes of the population are unbanked.

India's central bank hopes to raise the level of banking penetration by issuing new banking licenses. According to RBI's Chakrabarty, rural India only had seven bank branches per one million adults in 2011, compared with the developed world and other BRIC economies, which had more than 40 branches.

In order to support annual economic growth of 8%, as envisaged by India's 12th Five Year Plan, Chakrabarty says the banking business needs to expand significantly to an estimated INR288 trillion ($4.7 trillion) by 2020 from approximately INR115 trillion in 2012.

"We expect significant growth of the financial services industry in India over the next few years in terms of diversity of products," says Kris of Infosys. "Mobile transactions and e-commerce is a huge opportunity; 150 million people have access to the internet, 800 million people have mobile access."

Despite India's economic and structural challenges, Kris is encouraged by the country's significant opportunities for growth particularly when it comes to trade between India and other emerging markets. In its 'Global Trade Forecast' published in October, HSBC predicts by 2030 India will be the UAE's top export destination accounting for 14% of exports. And as developing economies boost spending on large infrastructure projects, India is tipped to be one of the fastest-growing infrastructure import markets over the medium term.

Kris says India has demographics in its favour. "We have a young working population and are one of the few economies primarily driven by domestic consumption. If we can stimulate domestic activity, we will see growth in GDP." Private consumption is approximately 60% of India's nominal GDP, says Bardalai of Eurasia Group. "That is what has attracted a lot of foreign investors who are enticed not only by the size of the domestic market, but also by increasing private consumption driven by rising incomes and the mythical 'rise of the middle class'."

The Indian government set up a Cabinet Committee on Investment which, according to Bardalai, is supposed to fast-track big-ticket infrastructure investments. "But getting approvals through and starting the investment cycle are two different things," she says. And with elections scheduled for next year, Bardalai does not anticipate any major economic

reforms kick-starting the investment cycle until at least after the election. One major risk to India's growth story could be further political fragmentation as a result of the forthcoming elections.

India's vital statistics

Population

1.2 billion*

GDP per capita 2013 (US dollars)

$1,414.11 (IMF estimate)**

GDP percent change 2013

3.8% (IMF estimate)**

Current account balance 2013 (US dollars/ billions)

-77.601 (IMF estimate)**

Inflation (average consumer prices) percent change

10.9% (2013) (IMF estimate)**

Ease of doing business (2013) rank

132 out of 185 globally*

Corruption perceptions index (2012) rank

94 out of 176 globally***

Sources:
**World Bank*
*** IMF World Economic Outlook October 2013*
****Transparency International*

"People are waiting to see how the election pans out," says Sanyal of Barclays. "In the past 20 years, India has had a fragmented political mandate but it has learned to live with no party having an outright majority. If some of the major political parties can form a government that should be okay in terms of the outlook for the economy." But if the election returns another coalition government that is as fragmented as the current one or even more fragmented, that could lead to continued policy paralysis, says Bardalai.

Evolution of payment systems in India: the journey from paper to electronic

In the last eight to ten years, India's payments infrastructure has undergone somewhat of a revolution or evolution – call it what you will. From a system that was completely paper-driven comprising mostly cash and cheques, India now boasts an electronic payments (e-payments) infrastructure, which is on a par with more developed markets. Although paper still dominates in terms of overall volumes, in terms of value, more payments in India are now made electronically.

India's journey from paper to electronic started with the introduction of a real-time gross settlement (RTGS) payment system by the RBI in 2004. "Since then we have had several waves of mini-revolutions on the clearing side," says Rakesh Garg, Managing Director and Head of Global Finance, Barclays India. "From a payments infrastructure perspective, India wants to be world class and is fast moving toward that goal."

After RTGS came the low value National Electronic Funds Transfer (NEFT) system, which facilitates electronic funds transfers for individuals and companies between NEFT-enabled bank branches across India. More than 100 banks participate in NEFT and transfers can be made to more than 63,000 bank branches across the country.

The National Payments Corporation of India (NPCI), which is charged with developing the country's retail clearing systems, launched an Immediate Payments Service (IMPS) in 2010, which provides instant fund transfers between bank accounts using mobile phones. IMPS operates 24/7. Mobile banking is seen as a way of extending financial inclusion, particularly to remote parts of India; however, Garg says it is up to banks to develop mobile applications off the back of IMPS.

As e-commerce grows in India, the RBI hopes to increase the velocity of money via e-payments. "The focus for the next phase of development in Indian payment infrastructure is providing a thrust to modern e-payments that are safe, simple and low-cost for use by all," writes HSBC and Boston Consulting Group in a report entitled 'Emerging Payments Infrastructure Enabling Efficient Growth in India'. "The changes planned will thus bring to corporate India the benefits of increased efficiency, wider reach and standardisation." The HSBC and BCG report highlighted current happenings in India's payment infrastructure including:

- The RBI's effort to drive usage of electronic channels – measures under consideration include taking electronic mandates in lieu of post-dated cheques, reducing time validity of cheques and levying charges on cheque issuance and use.
- Rollout of image-based clearing using the Cheque Truncation System (CTS) across India in 2013, which will reduce clearing time and risk.
- A new electronic system for repetitive, bulk payments – National Automated Clearing House (NACH) – covering all computerised branches in India and offering faster settlement, will be rolled out across banks in 2013.
- Financial inclusion and access to unbanked population to be supported through measures such as interoperability via banking business correspondents.
- Introduction of the Aadhaar number (ID card) to enable banking of people who are so far outside the realm of formal banking and facilitation of government initiatives, such as direct cash transfers.
- Enhanced controls on existing and new systems to reduce fraud, as well as a shift from proprietary formats to standard and internationally acceptable formats.

The RBI recently announced the launch of a new RTGS system that supports the ISO 20022 XML messaging standard. India's work is far from done though; BofAML's Khaderia says at present, the clearing infrastructure supports push-based settlements and clients need to rely upon distributors/remitters pushing money to them. "A game-changing initiative on the electronic payment is NACH debit facility which enables clients to use pull mechanism for receivables. It is envisaged that the NACH debit facility will gradually eliminate a large number of cheques in the years to come." ■

Wrestling with Asian regulations

Asia is so heterogeneous in terms of regulations and currencies that typical treasury management strategies may not always be effective. Keeping abreast of the many regulatory developments can be mind boggling, but not insurmountable.

The disparity across the various countries that make up the Asian continent can make keeping pace with the barrage of new regulatory measures a challenge. Whether an Asian firm or a western multinational company (MNC) operating in the region, the conflicting stages of regulatory adoption and various practices can cause great difficulty for treasurers when it comes to managing their cash effectively and efficiently.

The Asia Pacific region is a large area with many countries, cultures and business practices and is difficult to assess as just one region, which is often underestimated by foreign finance professionals. According to Mikko Sopanen, Director of Global Finance and Treasury at Liteonmobile, "It cannot be seen as one and therefore it can be called fragmented. Due to the early economic development stage of most of the countries, the banking and those related activities can also be very different and heavily regulated." Therefore, Sopanen explains, this confusion can extend to the banks, as many financial institutions must follow their home country practices and regulations, even when they operate in different countries.

"A Taiwanese bank's trading desk in Singapore, for example, must follow Taiwanese regulations and practices in addition to the Singaporean regulations. So there can be double regulations to follow and those are also impacting the customer with regards to trading limits, transaction alternatives and forms," he says.

There is then a domino effect in terms of regulatory adherence, leaving the corporate more tangled and constrained than ever. As the space is constantly evolving,

this makes it even more difficult for those thinking of establishing or maintaining a hub in this region with its shifting goal posts and crisscross web of rules.

The same, but different

Alain Bridoux, International Business Consultant and former CFO at Asian-based firm, Sandvik, believes that the countries of Australia and New Zealand "belong pretty much to the global treasury systems and thinking modes of western MNCs. Yet China and India are two huge and different markets with specific issues. Then there are Singapore and Hong Kong, which play somewhat similar roles for treasury matters with regional treasury centres," he says.

In one respect, operations in Asia are similar to those applied by firms elsewhere in the globe; cash management projects for corporates based there, like their Western counterparts, are primarily focused on seeking incremental efficiencies through streamlining and optimising their existing processes. However, while adhering to the onslaught of constant regulation, there is also another irritation for the corporate, regardless of the location, Asia is unique in the fact that its 'ghettoisation' adds yet another layer of complexity to this regulatory compliance.

The right solution

Due to currency restrictions and the lack of a single currency for business flows, liquidity management options in Asia remain limited to domestic, in-country structures. Some exceptions to this include US dollar cash concentration structures across some of the more liberal jurisdictions, and, relatively recently, the participation of some Asian currencies in global cross-currency notional pool (CCNP) structures.

Globally, there is growing interest in CCNP solutions amongst companies with substantial liquidity in some parts of the world and the need to borrow in some others. The value of such solutions is impaired in Asia because some of the most relevant currencies, including the Indian rupee (INR) and the Chinese renminbi (RMB), are ineligible to participate in such structures due to regulatory restrictions. Bridoux highlights that the regulation of over-the-counter (OTC) derivatives foreign exchange (FX) controls have been an essential difficulty for China and India thus far. This could present too great an obstacle for some.

"For risk management reasons, decentralisation of derivatives use is not advisable for China or India, but centralisation proves difficult. In my experience, this explains why many MNCs are still leaving China and India aside and do not seek full optimisation," he opines.

Sopanen, on the other hand, disagrees, stating that an MNC's treasury and dealing team can locate anywhere and conduct operations across the Asia Pacific region with some minimal local administrative support, allowing them the best of both worlds.

"The OTC trading without the direct cash flow connection is centralised so it is easy to manage with good counterparties and efficient tax optimising. Therefore, it is pretty easy to change the trading location for an MNC to the most efficient place to avoid, for example, the increasing regulation."

Yet he concedes that "the Asian economy and business landscape are developing and changing rapidly, the governments and regulators have a huge challenge to cope with and to follow this development".

"For this reason, it can to some extent be a juggling act to manage and control the economic development along with the increasingly regulated areas of banking, FX transactions and financing."

Relaxing the rules

Paradoxically, as the landscape is changing at such an incredible rate, some of these developments can actually have a positive impact for western MNCs operating in the region, and for the global economy at large.

The culture gap

Interestingly, Bridoux believes that there is a cultural aspect to the regulatory phenomenon across the Asia Pacific region, and that this adds to the challenge of carrying out efficient operations there.

"In my opinion, few Scandinavian companies have been very successful in China. The regulatory aspect is in itself also a culture issue. In both China and Singapore there are now new regulations that make it more difficult for Westerners to operate in the country. Singapore has imposed new restrictions on the qualifications and degrees that are necessary in order to be eligible to be appointed CFO of companies. Residence permits have also become subject to new restrictions regarding salary and the impossibility of sourcing a local recruit with the same experience."

In China, the application for the Z permanent visa has become more restrictive. There are also indications that the previous policy of rarely indicting Western executives for corruption or breaches of regulations is over. Several Western executives have recently been personally sued with the verdict awaited with some anguish from the expat community. Some state agencies (SAIC) can also decide unilaterally to ban some individuals from exercising certain corporate functions. Practically speaking, this can mean that the person has no other option than to resign and return to their home country if permitted to leave China.

The establishment of free trade zones have been very successful for China, for example, although the long-term benefits remain to be seen. Other countries are now experimenting in the same way, according to Bridoux. "The Shanghai Free Trade Zone (FTZ), inaugurated in September seems to eliminate the concept of restricted or forbidden activities which led MNCs to joint ventures which frequently proved to be highly disappointing. The Shanghai FTZ could potentially wipe out the benefits of having regional treasury centres (RTCs) located in Singapore and Hong Kong. Obviously, the relocation to Shanghai of regional staff might prove lengthy or inconvenient but the profits derived by banks from trading offshore yuan (CNH) might come to an end if the zone proves successful," he continues.

The optimism for a more relaxed business landscape is growing. In August, the Chinese Ministry of Commerce released a policy that aims to take measures to improve cross-border, e-commerce retail and export. The new policy took effect on 1st October and strives to promote growth in

cross-border e-commerce, which is a long overdue development, as e-commerce in the nation has far outgrown existing domestic regulations. Cities including Shanghai, Chongqing, Hangzhou, Ningbo and Zhengzhou were amongst the first to implement the new policy.

Furthermore, in the same month, the Chinese central government and the Hong Kong Special Administrative Region government signed a new supplement to an economic accord to boost trade and economic co-operation and exchanges (CEPA). A US Securities and Exchange Commission (SEC) survey earlier this year demonstrated that the combined fund management business in Hong Kong rebounded significantly to a record high of HKD12,587 billion (about $1,622 billion) as of the end of 2012, representing year-on-year growth of 39.3%.

Sopanen also welcomes the apparent relaxation of 'red tape' rules in the region, as India is reportedly set to discard its global image of being inflexible in cross-border tax negotiations. This is a result of the announcement that New Delhi is to sign bilateral deals with the tax authorities in the US, the UK and Japan. The Indian government intends to accept corporate disclosures of profitability and tax liability of 29 MNCs without dispute for five years, so long as these are computed on the basis of mutually agreed principles.

"In some cases there are reduced documentation requirements related to cash management and payments, especially in India. There are also less tax related issues and regulations, when certain operations in the FTZs are also free of tax," says Sopanen.

The upgrades in the free trade agreement are, perhaps most importantly, being given the stamp of approval from authorities in the region. Singapore's Foreign Minister K. Shanmugam declared at the end of August that all ten members of the Association of South-East Asian Nations (ASEAN) were supportive of enhancing the free trade agreement between China and the ten-nation bloc. With China one of ASEAN's strongest strategic partners, Shanmugam said at the time: "I think as we prosper, as we increase our trading relationship, as we increase our connectivity, we can go much higher ... for the benefit of China and ASEAN, and an enhanced free-trade agreement will help us to achieve that."

Technology aids

Asia is renowned for being quick to adopt innovative banking technology. For example, Asia is leading the world market in the adoption of mobile payment authorisation, internet-based banking and cashless delivery in the retailing industry. The way in which the region embraces technology with such vigour can be quite helpful when it comes to handling the strict regulatory environment, says Bridoux. "Cloud computing and new treasury global systems have definitely been useful to circumvent some regulatory obstacles."

Sopanen agrees that streamlined infrastructure can assist in conquering some of the challenges in operating a treasury system in Asia. "When it comes to fulfilling all of the regulatory reporting requirements, automatic reporting systems are an enormous help in keeping to reporting schedules and decreasing the workload. Furthermore, the reports are now more accurate and less auditing and checking is required.

"Many banks also have e-platforms for documents and confirmation signing, which helps a lot, particularly when the signatory persons are all around Asia and travelling around the world. They can now sign and confirm online, independent of the location," he continues.

Despite the technological advancements, however, Sopanen is surprised to see that many large MNCs are still relying upon Excel spreadsheets for treasury management. He also highlights some concerns about the availability of notional cash pooling for some of the banks' 'best clients'. "This does not benefit their local units and there is a lot of internal resistance," he says.

"It is also true that, from a local standpoint, these offers break some FX rules and that bank executives can become personally liable if the breach is proven."

Has interest waned?

Despite such restrictions around liquidity and inter-company transactions, many corporate treasurers have been able to extract efficiency from Asia through regional strategies, by focusing on operational and process benefits as opposed to liquidity benefits alone. For example, implementing a regional solution for payments and collections, aligned with their shared service center (SSC) and RTC strategies, usually results in significant reductions in operational costs, improved efficiencies, standardisation of practices and better controls.

As a result, according to Bridoux, the number of Western hubs across the Asia Pacific region continues to increase. However, some reticence remains as, "their localisation is subject to a lot of internal politics and self-interest attitudes. Very few Western executives feel like relocating to China and try to prove that the Asia Pacific region should be managed from Singapore or Hong Kong."

Regional hubs far away from the main business units are very often not creating any value and just act as a conduit to the ultimate parent company so a new trend is emerging, with global SSCs opening in China, says Bridoux.

"This would obviously be a major change in the way MNCs operate. Political reasons probably exclude that critical data and services can be totally dependent upon a country where the intervention of the state could paralyse all operations."

Nevertheless, it is certainly an interesting concept. Sopanen feels that the regulatory battlefield across Asia doesn't appear as complex in recent times as the environment on the western side of the world has almost become as complex, in fact in some ways worse.

"Europe and the US are starting to heavily increase their regulation and reporting requirements as Asia has done already in the past. There are also discussions around the transaction taxation in Europe. These trends are actually making it easier for companies to decide to locate in Asia and to deal with the Asian requirements, especially when most business growth for many industries is also on the Asian market," he points out.

It's not going to be straightforward for those doing business in the region to meet all these new requirements, particularly considering that many of the economies and financial markets in the region are still developing. As regulations consume corporates at a global level, many feel the APAC challenges are nowhere near as challenging and off-putting as they can first appear. ■

Global Cash Management

Joy Macknight (Treasury Today): The global economic climate remains challenging and many banks are still facing ratings issues. How is the overall economic state-of-play impacting corporate cash management?

Neil Peacock (ABB): To a certain extent the most recent developments are not having much of an impact, when put into the context of the past five years. Since 2007/8, the focus has been on ensuring that we have visibility and control – effectively centralising as much of our cash as possible to ensure it is available. Having visibility over cash in Egypt, Cyprus or Greece is one thing, but being able to use it is another.

In more restrictive countries in terms of moving cash in and out, such as China, India and Malaysia, we try to minimise risk by knowing where the cash is and how we can access it. These are the key drivers for cash management today – the immediate impact of recent events is not influencing us to do things differently to what we have been doing for the past three or four years.

Joy Macknight (Treasury Today): Does that resonate with the other corporates in the room?

Michal Kawski (GM&T): Yes absolutely, I agree with that. Fundamentally nothing has changed in terms of the methodologies and tools we are using. However, recent events inside the Eurozone, or the situation in Egypt for example, are interesting signs of the times. In the Eurozone, we are centralising our euro liquidity into one place, just in case another euro crisis erupts at some point. The Single Euro Payments Area (SEPA) project gave us the opportunity to further optimise our euro liquidity.

James Marshall (Virgin Media): From a consumer-based corporate perspective – and a slight aside from treasury – we are keeping an eye on rising costs, which will impact customers' ability to carry on subscribing to our products. Home connectivity and entertainment is no longer regarded as discretionary for many families, as it has proven to be of greater value compared with other activities, but nevertheless consumers' incomes are being squeezed.

Virgin Media's business is based in the UK and in sterling, but much of our capital expenditure (capex) is used to import equipment. Over the past few years we have seen more demands placed on us in terms of trade finance solutions and letters of credit (LCs), for example, which we have not had to deal with before; but this is perhaps symptomatic of a period of international fiscal uncertainty.

Participants

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John Murray (Citi): It is important to look at liquidity from a global standpoint, as opposed to solely from a European perspective. By concentrating funds in various currencies in a single location, clients are now challenging their banks to come up with creative solutions, particularly in trapped markets such as China and Russia. They are asking their banks how they can do more to get trapped cash out of these markets and concentrated into a single location.

Steve Everett (RBS): China is at an interesting stage, as it opens up further with renminbi (RMB) internationalisation. However, it is important to remember some of the lessons from other countries in the past, particularly in terms of trapped cash, and think about what could or couldn't happen in China if a slowdown emerges.

Filipe Simão (BNP Paribas): Interestingly, the Chinese word for crisis includes both danger and opportunity – and our customers are increasingly asking for greater flexibility, a word that I will stress. It is flexibility that will ensure that the company remains agile to either postpone opportunities or take advantage of them. Importantly, flexibility is key in the way in which liquidity structures are implemented, electronic banking (e-banking) solutions are chosen and SEPA XML is leveraged.

Neil Peacock (ABB): Although we have said a lot about China, we also need to consider the emerging markets, particularly in Latin America, such as Brazil, Argentina and Venezuela. We had quite high hopes for these countries, both in terms of cash generation and being able to access that cash. But we have seen some worrying signs: economic slowdown, increased controls and inflation. I think you are right, Steve, that we mustn't forget that if things aren't resolved in the short term to everyone's satisfaction, things can change back the other way quite quickly. But I am quite positive about China.

Steve Everett (RBS): Going back two years ago, we were constantly answering questions about the euro and what should people be doing, particularly US clients. However this has abated and we now hear minimal concerns around the Eurozone. Whilst there are lingering problems and occasionally new issues crop up, people are broadly content with what they need to do and feel that they are in control. I agree that it is very much an emerging markets issue now.

Joy Macknight (Treasury Today): Are corporates finding it easier to attain the desired level of cash visibility, or is there something you need to do/have in order to get to the next level?

Neil Peacock (ABB): ABB experienced a crisis in 2002, which forced it to put in place clear, accurate cash forecasting because without that it would not have had support from its banks. So for any company that is thinking about implementing a cash forecasting process, I can recommend having a crisis because there is nothing like it to focus the mind. ABB is now in the position where what was put in place ten years ago is still extremely effective today. Having good visibility and control over cash definitely helped us during the 2008 financial crisis. But it is not one of those things that you put in place and then sit back. It's continually evolving and as markets open up, technology improves and new structures and products become available to be able to centralise cash, then we need to be ready to take advantage of those developments.

James Marshall (Virgin Media): I agree with the sentiment that a crisis galvanises action to generate better cash forecasting. Due to the financial crisis, and to a certain extent our shareholders support for share buybacks, we have been able to drive down our cash balances. We can now manage cash at a much lower level as a result of better forecasting.

Michal Kawski (GM&T): GM&T's formal treasury activities were set up in the summer of 2008, so you really can't think of a better time for setting up a treasury function. This whole situation allows us to build a high profile within the organisation. But it's not only crises that give us this opportunity. Energy or commodity trading is a volatile business today, so without good cash flow forecasting and building provisions against volatility, we wouldn't be able to operate.

Joy Macknight (Treasury Today): There has been a lot of press about corporates holding record levels of cash, yet due to Basel III short-term deposits are not so attractive for banks. Where are corporates placing their cash?

Steve Everett (RBS): There are two dynamics at play here. Firstly, banks need to balance their balance sheets, only taking deposits providing we can lend them out. Currently we have excess cash and if we cannot use it, we need to review our pricing in line with the cost of holding the excess liquidity.

Secondly, Basel III regulations introducing liquidity coverage ratios mean certain deposit types will be fairly punitive to hold. As a result banks will face substantial costs for traditional short-term time deposits, eg those under one month. That will have a knock-on impact on our clients. We have already started thinking about our product propositions and pricing, but the unintended consequences for corporates will put a question mark over where they will be able to place this short-term cash.

John Murray (Citi): I agree with you. I would add, from a banking perspective, it is important that we still support our clients and provide a safe, secure environment where they can leave their funds with a counterparty that they trust. Clients are not necessarily always chasing yield, but because the environment has improved they are starting to seek additional incremental basis points.

Filipe Simão (BNP Paribas): Although Basel III gives us some leeway in reaching those famous liquidity coverage ratio (LCR) levels, many banks want to achieve the ratios ahead of schedule. Therefore, banks are very keen to accept corporate deposits because they are considered more stable than wholesale deposits. As you mentioned John, we see a growing attraction for yield, but counterparty risk is still very important. When you see market turmoil such as recently when the Portuguese stock exchange lost 5% or the events in Egypt, these remind us that risk is still important, be it sovereign or bank risk.

Michal Kawski (GM&T): What we learned in 2008 was that there can be counterparty risk on the banking side, which was a major change in the treasurer's paradigm. Before that, depositing money with an institution that was rated much higher than you was a no-brainer. Since then companies began building up their own investment policy, spreading risk across different institutions and products. This is when money market funds (MMFs) took off because everyone realised that suddenly something which is AAA rated one day could be BBB rated the next, even large European financial institutions.

GM&T now has a wider credit risk assessment policy and has diversified its portfolio across many banks and products, which is similar to other corporates. An interesting question is what will happen to the MMF industry? This will be an interesting debate over the next year or so.

Neil Peacock (ABB): I would just like to add that one alternative is to invest your cash in acquisitions. Could you achieve a better return by acquiring companies and developing your business, which makes sense economically, rather than getting three basis points on a short-term deposit?

From our point of view, it does make sense and we have been very acquisitive. Over two years ago, we had €10 billion in cash and no yield. If you are a shareholder, is that good enough? No. Can you get a better return by acquiring companies in different markets, such as China or North America? Those are some of the decisions that need to be looked at from a strategic business standpoint.

James Marshall (Virgin Media): From a governance perspective, we have an audit committee who provides oversight to many of the company's financial operations, one responsibility of which is to look at our treasury and credit risk policies. Interestingly, their attention has been focused mainly on the products, ratings, funds, security and plans, rather than yield.

To your point Neil, our cash has been used to invest in the business and as a result we were not as leveraged as we could be. We have gone through a deleveraging process over the past few years with the support of our shareholders. But this was a different approach compared with pre-2008.

Joy Macknight (Treasury Today): In the year of SEPA implementation, as we head towards the deadline of 1st February 2014, what challenges still remain and what is your estimation of corporate readiness?

John Murray (Citi): SEPA is proving to be a challenge for corporates throughout 2013. Our main priority is to ensure that our clients have the support they need to become compliant. If you look at the rate of uptake of SEPA Credit Transfers (SCTs), as of August it is about 42%; whereas the rate of uptake of SEPA Direct Debits (SDDs) is only about 2.5%. This illustrates the readiness of the market. A particular challenge, therefore, for corporates is to be ready for SDDs. From a payments

Filipe Simão
BNP Paribas

perspective, you will still be able to send wires; but the concern will be one of confidentiality should you need to make payroll payments. We are focused on ensuring that our clients are aware of the challenges, the benefits, and the risk of doing nothing – what will happen after 1st February 2014?

Neil Peacock (ABB): At the beginning, treasury and shared services were the only ones involved in SEPA compliance. And then someone said 'What about payroll? What about HR?' There was a realisation that getting the other business units involved is quite important – what if we aren't able to pay our employees on time?

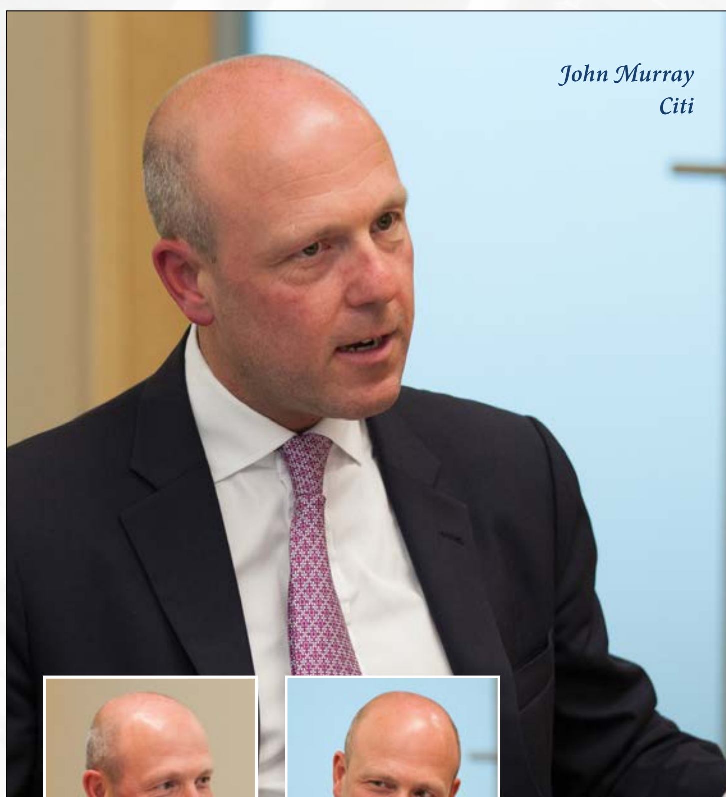
John Murray (Citi): Additionally, are your customers ready? Will you actually receive your receipts? And if you don't, what impact will it have on your business? Payments is a network business and any network is only as good as its weakest node.

Michal Kawski (GM&T): When operating in a number of European countries, you realise that there are plenty of local regulations behind SDDs, which effectively means a slightly different SEPA wherever you go. SDDs may be relatively straightforward in the Netherlands, for example, but in Germany written consent is required from some counterparties, on top of technical challenges and a massive bureaucratic hurdle. We actually started our SDD project with a conference call with one of our banks just to discuss the situation country-by-country. Therefore, I can understand why SDD projects are still behind schedule. We are still not fully migrated but are on track for the deadline.

Filipe Simão (BNP Paribas): We are not too concerned with SCT readiness. The migration rate is relatively high, banks are reachable and clients can easily find software solutions for converting file formats and International Bank Account Numbers (IBANs). However, on the collections side, SDD still has a very low migration rate and the migration effort required can be significant. In most countries, the SDD creditor-driven mandate flow works in the opposite way to the legacy direct debit. One piece of advice is for clients to talk to their IT vendors and banks who have in-depth migration expertise. Either way, action is to be taken now. As we get closer to the end-date, the resources available on the market will become scarce and expensive. Corporates should not assume that the deadline will be pushed back. The regulators in all European countries are committed to maintaining the end-date at 1st February 2014.

Clearly the focus today is regulatory, which is correct. There will be plenty of time to look at leveraging SEPA opportunities next year. This will include cross-border direct debits, payment factories and payments-on-behalf-of (POBO).

Neil Peacock (ABB): Certainly we have taken a country-by-country approach because there are different levels of SEPA readiness. Finland, for example, has been 100% compliant for over a year now and we are using them as a role model, setting them up as the SEPA experts and using them as the consultants for the rest of the group. But we used SEPA not just to be compliant from a regulatory perspective, but actually to drive a pan-European cash management project.


John Murray
Citi

Joy Macknight (Treasury Today): Do you think that corporates will be able to carry the momentum through and leverage the benefits post-deadline?

Neil Peacock (ABB): As long as treasurers start thinking about the rest of 2014 and ensuring that they have a budget available then yes they can do it. But they need to be clear as to what they want to achieve. We are trying to take advantage of the benefits that SEPA will bring in terms of bank account and bank rationalisation, as well as payment processes standardisation. Not doing that now seems like a missed opportunity and a duplication of work.

John Murray (Citi): I agree that it is potentially a missed opportunity, but I think that at the moment corporates are primarily focused on being compliant and will then focus on embracing the opportunity to reduce their bank accounts to maybe one or two per country or even one across the whole of the Eurozone. Our clients are starting to consider the longer-term benefits as we talk to them about the opportunities that SEPA can bring.

Michal Kawski (GM&T): The SEPA topic can be split into two aspects: credits and debits. We addressed the credits side more than two years ago. From the costing perspective, generating those payments is cheaper, which is a fantastic step forward. Debits, on the other hand, are a different story but I agree that there are many areas where corporates can improve their existing cash management structures, such as centralising

collections in one bank and having just one account, for example, based in London.

Neil Peacock (ABB): One of the frustrations I have is the lack of harmonisation within Europe from a tax payment standpoint. So it would be great to have one central bank account, but I will still need to have a bank account in Italy, Portugal and France, for example, in order to make certain types of payments or collections.

Joy Macknight (Treasury Today): What challenges remain in terms of setting up POBO and collections-on-behalf-of (COBO) structures?

Filipe Simão (BNP Paribas): At BNP Paribas, we have seen corporates doing POBOs since 2003, so well before SEPA. The difference is that at the time companies were doing POBO only for cross-border payments or for payments in non-functional currencies. The way the accounting implications work are thus well known and implemented. Globally, the difficulty with POBO is to make sure that the debtor information reaches the beneficiary and that they are able to match it, otherwise the invoice will remain open. Additionally, in some countries such as Poland, it is not possible to make payments through a POBO model. It may also trigger regulatory reporting issues when used on non-resident accounts for some payments. But clearly POBO is something which has been at the heart of the in-house banking (IHB) solutions since the turn of the century; SEPA just makes it much easier.

James Marshall
Virgin Media

James Marshall (Virgin Media): Because of the structure of Virgin Media, POBO is something we have always struggled with. For example, we still need to split out Virgin Mobile from Virgin Media for all employees and capex payables, but the difficulty has always been that if one shared service centre (SSC) is processing bills there is complexity in having them all paid out from the correct entity, which adds to the confusion.

John Murray (Citi): I think technology will be the enabler of POBO – having one ERP system will help facilitate POBO. Having one single instance, with all entities on the same system, will make life a lot easier for the IHB in terms of managing inter-company lending.

Neil Peacock (ABB): The technology is there and corporates need to understand what is available. On the back side of POBO and COBO is the virtual accounts set-up. This is where COBO really makes sense because you can have a million virtual bank accounts and allocate one to each of your customers and business units – it makes the reconciliation process a lot easier. Then you don't necessarily need a single ERP solution, as you can split MT940s based on the virtual account set-up. And if we can do it in Europe, then why not on a global scale?

Filipe Simão (BNP Paribas): Still on the technology front, corporates have started developing XML to do their mandatory technical migration to SCTs, and then discovered that they can leverage the same formats to make payments in other currencies. So XML is not just for SEPA.

Joy Macknight (Treasury Today): Regulations are coming thick and fast; some have a direct impact on corporates and some indirect. How are these new regulations expected to change the treasurer's behaviour and how can banks help their clients best prepare for what is coming down the line?

Steve Everett (RBS): The ultimate knock-on impact for corporates with regards to all of the new regulation is the amount of internal change it means for the banks. A large proportion of every bank's investment budget is now being spent on these regulatory projects, which intuitively must have a knock-on impact in terms of the discretionary value-added spend that we would normally make. As a result innovation in new services and products is either being reduced or is delivered slower than in the past. This problem is the same for all banks.

John Murray (Citi): Banks spend lot of time reviewing and understanding the implications of local regulations to ensure they are aware of how these will impact their business and their clients in all the markets in which they operate. To help our clients, Citi has a knowledge of regulation not just within the Eurozone or North America, but in all the countries where we operate. This helps us to understand the local challenges. So as corporates do business around the world and seek guidance, we have people with local knowledge and experience to help them through the regulatory challenges.

Neil Peacock (ABB): Corporates are a little bit like water – we always find the path of least resistance. If an obstacle is put in

its way, the water finds a way round it. For example, after the financial crisis, when bank funding dried up, the bond markets became much more active. Similarly, if the Financial Transaction Tax (FTT) ever gets imposed, corporates will just deal where it is not implemented.

Filipe Simão (BNP Paribas): The discussions on the FTT are still ongoing, with many banks, officials and economists voicing their concerns as to the dramatic implications if it is implemented as currently proposed by the European Commission (EC).

Michal Kawski (GM&T): All the regulations we've been talking about will impact what we do: Basel affects the funding side of our operations; FTT affects our transactions and the financial products we use; and the European Market Infrastructure Regulation (EMIR) will affect the derivatives side. EMIR has been at the top of our agenda for the past 24 months at least. I know there has been a lot of debate within the treasury industry around what it actually means for corporates. Suddenly companies could be forced to make a choice: are they going to invest money in acquisitions or support the liquidity of a derivative portfolio?

Of course, given the latest rules recently put in place, this is probably of less relevance. However, there remain reporting requirements, which is a fairly new workload for treasurers. A number of my peers have told me that they are not sure about the formats and exactly what they are supposed to be reporting. They have to report positions from the past 18 months, so it means plenty of new challenges and much IT effort as well.

Joy Macknight (Treasury Today): Many corporates are looking to alternative sources of funding. What are the corporates in the room doing?

James Marshall (Virgin Media): Virgin Media had been on a deleveraging path until the Liberty Global merger and we had begun discussions around how to improving working capital with the senior executive team. This year was the first that our senior executives have working capital metrics included in their bonus calculations. The purpose of this was to enable the company to carry on its deleveraging path. The next set of discussions are focusing on supply chain finance (SCF) and other routes to reaping more working capital benefits. Liberty wholeheartedly supports this initiative and is actively pursuing this programme across Europe.

Michal Kawski (GM&T): In terms of alternative sources of funding, I've been observing the development of the retail bond market. There were a number of successful issuances in the London markets, and I also heard about a retail bond issuance in Poland a few months ago where the biggest refinery in Poland issued its bonds and they were sold out in two days – generating a few hundred million zloty. This concept seems to be attracting a new group of investors.

Filipe Simão (BNP Paribas): We see a growing interest in terms of public bonds and private placements as a way for small and medium-sized enterprises (SMEs) to get mid-term financing. We are also teaming up with a treasurers association to see how we can help SMEs tap the commercial paper markets. Obviously these are instruments that are more associated with companies which are publically rated, but an increasing number of SMEs are interested.

Michal Kawski (GM&T): That's interesting because the message we normally receive about the private placement market is that it is long term, for example pension funds.

Filipe Simão (BNP Paribas): They tend to be long term, but we start looking at these types of products for maturities of three years.

Joy Macknight (Treasury Today): Is there a tighter integration happening with cash management and trade finance, and if so, how does that help with cash forecasting?

Michal Kawski (GM&T): I can't even imagine trade finance and treasury working separately in our environment. We have trade finance facilities which involve both issuing letters of credit (LCs) and a funding element, so they are tightly aligned and reporting is done together.

Steve Everett (RBS): That is interesting Michal, because we have regularly put trade people in front of cash people and the general reaction is 'that would be a nice to have'. I think it comes down to the industry you operate in. Personally I find it surprising that cash and trade are still not coming together as there has to be an opportunity around the use of liquidity, supply chain financing and forecasting across the two product sets.

Filipe Simão (BNP Paribas): It depends on the industry, but also geography – cash and trade are more integrated in Asia, but more piecemeal in Europe.

Neil Peacock (ABB): We have two distinct departments and actually sit on different floors, but have become closer together in the last year or so through working on shared projects such as SCF or advanced trade payable finance. We are also working together on reducing the number of bank accounts and banks, as well as centralising and standardising the issuance of guarantees. This is exactly what we are trying to do on the cash management side as well.

John Murray (Citi): At Citi we are constantly seeking innovative ways to further integrate cash and trade, particularly in the purchase-to-pay space, and specifically with regards to enabling our clients to leverage their invoices and pay suppliers.

Neil Peacock (ABB): Adding to John's point, at ABB the purchase-to-pay is part of a different function, in a different building. It is part of the shared accounting services, which is part of finance and controlling. However, in some of the projects we are involved in we are working much closer with them, as well as with order-to-cash.

Michal Kawski (GM&T): Reducing the number of bank accounts is an interesting challenge for us at the moment. Each time we set up a trade finance facility with a bank, we need to open bank accounts for four entities. So if you multiply that by another five facilities, then the number of bank accounts increases significantly. An interesting challenge would be to work with our banks on rationalising the number of bank accounts and thinking about the structures which would allow a simplification. I know that there are difficulties in doing this, as there are many legal constraints that would block this process, but it would be an interesting challenge to take on.

Joy Macknight (Treasury Today): Obviously what is happening in the market place is placing some strain on the corporate-to-bank relationship, but how are banks living up to the corporates' expectations and what could they be doing better?

James Marshall (Virgin Media): Virgin Media has been through a period of leveraging up and back down again, but in all fairness our relationships with our banks have always been very constructive. We have looked to do a lot of business with our lending banks and that has been an important part of our approach. One thing that has been interesting, certainly since 2008, is that we are now having more conversations with banks that maybe wouldn't have been interested in offering us transaction services before, but are now very keen to have that discussion. To a certain extent, we are always happy to chat if it promotes further competition and new ideas in the marketplace.

Steve Everett (RBS): But equally, providing that the core lenders can provide the services and the stability of systems, probably 95 times out of 100 corporates are sticking with the banks they know. A good two-way commitment is crucial, and it is very difficult to gain new clients if you are not in the relationship as a primary lender.

John Murray (Citi): James made a very good point – since the financial crisis, a number of new banks have entered transaction services because they see the benefits of having a long-term relationship with the client and supporting them on a day-to-day basis. Maintaining the bank account provides an opportunity to offer new solutions and services to a client. If you have that account you are able to have a deeper dialogue and more knowledge of the client's needs and subsequently identify new solutions that the client could benefit from. From a bank perspective, it is important to understand the client's needs, to listen and to identify how the bank can help the client achieve its objectives. I think banks are getting better at that.

Joy Macknight (Treasury Today): Do the corporates in the room agree with John?

Neil Peacock (ABB): Yes, I actually think it is a great time to be in a corporate in transaction services because I think there are maybe ten to a dozen banks that are world class in terms of cash management. Since the crisis much more investment has been put into transaction services and there are some very good people involved. Many corporates will stay with their incumbent provider because switching would only deliver an incremental – not a dramatic – improvement in the products and service level. If you are with one of those dozen, you are going to get good service, products and support – and I think we are quite lucky in that respect.

We have been through some very detailed RFPs in Europe and the US in the past six months, and to a certain extent it wouldn't

Neil Peacock
ABB

have mattered which bank we chose because they would all have done a good job. It is really about choosing between the one with rainbow sprinkles and an extra cherry, or the one with chocolate and fudge. We are quite lucky, and the financial crisis actually helped that a bit because banks moved away from investment and equity trading and placed more emphasis on its transaction banking business.

Filipe Simão (BNP Paribas): Do you see a difference between these ten to 12 world class cash management banks or is global transaction banking a commodity? Are there other subsets within the commodity, such as value-added services, flexibility or a long-term relationship commitment, that corporates perceive as differentiators?

Neil Peacock (ABB): They aren't all equal, just slightly different flavours. We looked at nine different categories and 37 different sub-categories, including ratings, service, structure, technology and capability. Geographic reach was also an important criteria – if we have a requirement for a bank account in Italy for collection purposes, does the bank have a full branch service in the country, or is it a rep office, or do they use a partner bank? But this is small stuff compared with the big picture.

James Marshall (Virgin Media): As a consumer business, through our RFPs we evaluate the whole customer experience. From start to finish the customer experience has to be outstanding. Today our bank review meetings are not about problems, but what new technology might look like, for example mobile payments (m-payments). A number of our banks have been invited to make presentations on banking technology to help us get slightly ahead of the curve. We want to make sure that if customers want to pay us via tablets and phones for example, then we have the ability to receive their money in whatever way makes sense for them.

Neil Peacock (ABB): James, you hit upon a pertinent point, which comes back to Filipe's question as well, what is the best fit for the underlying business? If you require m-payments then you might choose the leading bank in m-payments. We make the same decisions: in the US, for example, we were offered one solution that was fantastic, but it didn't fit the business requirements as closely as the one that wasn't quite as good. So we went with the solution that was the best fit for our business.

In addition, we are looking for a long-term commitment – not just two or three years, as I don't think we will continue to do RFPs every two or three years, but more like six or seven years. Therefore, we are also looking at the bank's long-term ambitions and its creditworthiness as well.

Michal Kawski (GM&T): We have a centralised treasury function with global business operations, so it has been quite challenging to find a bank or banks that are able to support this. We wanted a bank that really understands our business – and how it is different to other businesses – and which is proactive enough to address our needs. During the RFP process we learned that some banks have a centralised approach to providing cash management services globally, whereas others are more decentralised. After the process we were absolutely convinced that the solution we decided on was a good choice and fitted well with our business.

Joy Macknight (Treasury Today): And the final question, what are your predictions for hot topics in 2014?

Steve Everett (RBS): The beginning of 2014 is going to be all about SEPA, whether we like it or not. The industry will be trying to cope with preparing for last minute readiness or dealing with the fallout of issues that people hadn't fully thought through. The rest of the year will see a lot of the other regulations coming closer to live dates – Basel III, Dodd-Frank – and as a result I'm afraid there won't be much in the way of new developments happening, as most banks and corporates remain focused on keeping their businesses on the road.

Michal Kawski (GM&T): I agree that regulations will dominate the agenda, unless things heat up in the political sphere. The unwinding of quantitative easing (QE) at some point might prove to be an interesting challenge for all of us, but it is more likely to be regulatory changes in 2014.

John Murray (Citi): I fully agree in terms of regulations, especially SEPA. Additionally, I think that corporates should be exploring what they can do with technology and how they can leverage it to become more efficient. An example here is SAP's Financial Services Network (FSN) and what that will enable in terms of connectivity, security and file format translation.

Neil Peacock (ABB): I will be well into our euro cash concentration project by the start of 2014, so this will be taking up most of my time. We will continue to focus on regulation – we have to be compliant and take advantage of compliance and the change it brings as well. It is pretty boring really and that is a good thing – more of the same.

Filipe Simão (BNP Paribas): You don't need a crystal ball to see that the main topic until early 2014 will be SEPA. But looking a bit beyond the SEPA end-date, we see interesting developments on the retail side, such as e-wallets, mobile acquiring – which will dramatically lower the entry barriers for small merchants – and tablet usage in corporate treasuries. A few of these solutions are already out there, offered by software vendors, payment providers and banks. Inevitably some will fail and some will thrive.

James Marshall (Virgin Media): When I gaze into my crystal ball, my challenge is to change from being a UK-centric cash manager into one that is part of a pan-European operation. Therefore I think it is going to be about the systems for us, to demonstrate a fit with our Liberty colleagues. This is something that we can take a lead on, as well as it being an interesting project for a treasurer to get involved with. The UK treasury team will not shoulder the burden of refinancing because this will be done by Liberty, so we can now turn our attention to supporting the business. Every time treasury assists the UK business, we add value through different payment types and modifying the business methodology.

Joy Macknight (Treasury Today): Many thanks to you all for participating.

Escaping the cash trap

Asia's strict regulatory environment has long been a problem for corporate treasurers seeking to optimise their group's liquidity in the region. But with the pace of regulatory liberalisation increasing, the situation is improving. This article looks at some of the new options available to corporate treasurers trying to tackle the problem.

China is regarded as both the most important and most restrictive market in terms of liquidity management, but this is changing. A few years ago, the options for multinational companies (MNCs) in China wishing to repatriate excess liquidity were limited. Due to various restrictions on renminbi (RMB) conversion imposed by the People's Bank of China (PBoC), companies could either release their trapped cash through dividend, royalty or service payments – which all have withholding tax implications – or through entrustment loans.

But there has been much change since then. Regulatory reforms are easing the cross-border flow of funds and helping companies to strengthen their liquidity management across the whole business.

In line with its long-term objective of improving the convertibility of RMB, the PBoC has relaxed controls on cross-border RMB flows through the introduction of schemes for inter-company lending, in both RMB and foreign currencies, and cross-border netting. Companies are now taking full advantage of the new rules. In early September, Kunshan President Enterprises Food Company Limited successfully completed a two-way cross-border RMB lending transaction. A few days before, Coca-Cola Beverages in Shanghai announced it had made an RMB250m ($40.85m) inter-company loan to a London-based subsidiary.

Incremental reforms are also taking place in other historically restrictive Asian markets. In Malaysia, for example, the capital account restrictions introduced in the wake of the 1997 Asian financial crisis are now being lifted.

India, meanwhile, is now permitting companies to perform lending transactions to their overseas subsidiaries – providing, that is, the transactions do not exceed 400% of the company's net worth.

The trend towards deregulation is an important development for corporates that are holding onto historically high levels of cash. Apple, for example, has built up over $100 billion in excess cash, albeit not all of it is sitting in Asia. Liquidity security is of primary concern for corporates following the financial crisis, which means that cash accumulation and deployment has become their biggest burden.

Cash management in a changing region

Companies are increasingly taking a global approach to liquidity management and want not just visibility and control but, most importantly, access to their cash. They need to be able to consolidate their cash and get their hands on it quickly. The problem is keeping up with the rules in all the countries that a company operates in.

Understanding just how to navigate these rapidly changing regulatory environments is crucial for companies wishing to take advantage of the new opportunities springing up in China and elsewhere, according to Andrew Ong, Asia Head of Liquidity Management at Bank of America Merrill Lynch (BofAML). Banks can help their clients navigate this complexity.

"For companies in Asia, a solid banking relationship characterised by local expertise, product innovation and global platforms is absolutely essential for unlocking trapped cash," he says. "Corporations need to be confident that the organisations they bank with maintain strong relationships with local regulators, and are able to help them understand how and why policy is changing."

Thomas Schickler, Global Head of Liquidity and Investment Products for HSBC's Global Payments and Cash Management Business, agrees that a close banking relationship will be important to companies as the region continues to develop new rules. "We work very closely with our clients to help them to understand the direction of the regulations, plan for how this can impact the way they manage their liquidity and, where relevant, guide them through the process to seek the necessary regulatory approvals. At HSBC, we maintain relationships with regulators at all levels and participate in discussions with them about how the pilots should proceed, including the implications thereof for all of the concerned parties: regulators, banks and corporates."

Due to the potential impact of Basel III on the availability of bank funding and the prospective higher cost thereof, corporates have heightened their focus on identifying diverse sources of liquidity. In a shift from legacy practices, in which liquidity was managed on a regional or single currency basis, treasurers are now focused on globalising their approach to liquidity management, says Schickler.

To that end, they are increasingly willing to trade off operational efficiency in order to be able to maximise the centralisation of their liquidity. "When treasurers look at the situation – particularly at the excess cash which is available to them in markets such as China, and even Indonesia and the Philippines – they will accept a more operational approach to tap the material excess liquidity that otherwise would have remained isolated."

But there is a caveat to cross-border lending which treasurers need to be aware of, says Ong. Companies participating in the schemes are still subject to existing foreign debt quotas. This can be executed by establishing a new foreign currency international header account in a cross-border foreign currency sweep structure, thereby limiting all foreign currency

Key steps to unlocking your trapped cash

Drawing on his 17 years of experience working in treasury and cash management in the Asia Pacific region, ANZ's Global Head of Liquidity Management at ANZ Transaction Banking, Philippe Jaccard, shares with Treasury Today his top tips for managing trapped cash in the region's tightly regulated markets.

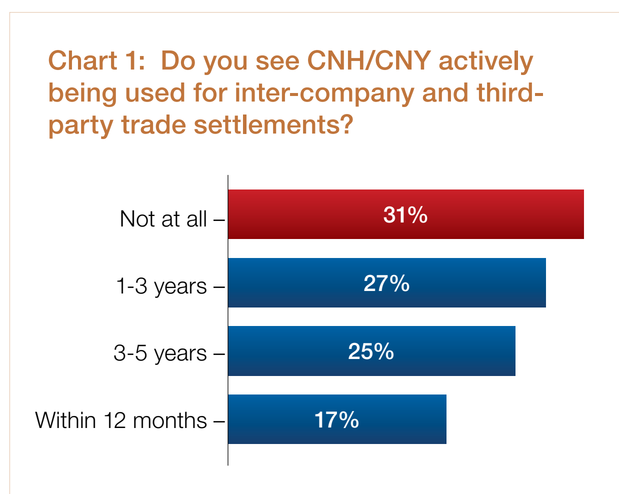
1. Do not underestimate the importance of cash flow forecasting. "First, I think it is important to put in a process to determine the true excess," says Jaccard. A treasurer must know the right amount of cash to keep in a country in a normal business environment and, something which is of increasing relevance in the current climate, the right amount to keep in a stress environment. "There has been a lot of talk lately in the industry that cash flow forecasting is inadequate, which I think is a true assessment," he adds.
2. Look at the options for inter-company lending. Once the true excess has been determined, an investigation can begin into where that excess has come from. If there is a month-on-month accumulation because the company is unable to spend it locally, then inter-company lending might be considered, either through physical or notional pooling.
3. Use 'leading and lagging'. If an MNC has a distributor in China which is consistently long in cash, then the transfer pricing in accordance with country tax regulations could be adjusted so the value China buys at is more appropriate – a process referred to as 'leading'. 'Lagging' is the reverse. "A firm with a manufacturing entity that is chronically long could, instead of collecting payments immediately, give their group buyer longer payment terms so that, in effect, they use their excess to finance operations offshore," he says.
4. Work with your tax planner. If you've tried both cross-border inter-group lending, as well as leading and lagging, but you still have an excess of cash then you should begin looking at how you repatriate. "Once you get to this point, the problem is rarely an inability to do it – but rather the cost of doing it," he says. In the US, for example, repatriation payments are subject to a tax rate of 35%. But this can be made more cost efficient by careful planning. One example would be to pool the equity investments of subsidiaries into a location where the profit and loss positions net each other off, thereby delivering the company a lower effective rate of tax.

movements between the international header account and the domestic foreign currency account to the specified State Administration of Foreign Exchange (SAFE) or PBoC quotas.

A new dawn for Asia?

Despite the advent of limited cross-border lending in China, treasurers are not anticipating cash management within the region to be completely transformed overnight.

For example, in the 2012 Treasury Today Asia Pacific Corporate Treasury Benchmarking Study, almost a third of respondents stated that they do not see CNH/CNY actively being used for inter-company and third-party trade settlements. It will be interesting to see how much this changes in this year's survey.



Source: Treasury Today Asia Pacific Corporate Treasury Benchmarking Study 2012

The 'nirvana' from a treasury perspective is to be able to pool cash in the same way as one can in Europe. "But that is almost impossible at the moment in Asia," says Greenwich Associates' Markus Ohlig. Although no one outside of the PBoC is entirely sure as to the exact timetable for the full internationalisation of the RMB, "the overall direction is now becoming clear. And looking back over the past year, the regulators have moved much quicker than a lot of people initially expected."

Ong thinks that the pace of reform in China over the past year has been encouraging. "What was impossible just a few months ago is now a reality for some companies," he says. Recent moves in Asia's largest and most important economy might also signal the beginning of a wider shift towards currency liberalisation within the region.

The cross-border lending schemes that have been introduced by SAFE and the PBoC over the past year was an important step and one which Ohlig thinks will be followed by similar initiatives in the regions other emerging markets. "Over the past decade there has been a steady blurring of the boundaries between highly and lightly regulated markets. Although the changes in China in recent months have been more dramatic than those in other countries in Asia Pacific, they only serve to highlight the direction regulation is taking in the region."

Good management of trapped cash requires effort

The experts all agree that companies should also focus on what can be done with the cash if it can be centralised and controlled more effectively. With relatively low interest rates persisting globally, cash held can be a drag on the overall return on capital. Therefore, getting hold of cash only resolves part of the problem.

Some companies are looking to invest longer term in an attempt to get yield, whereas others may accept more risk. Is there value in consolidating cash back home or in-region? Reducing or freeing up sovereign exposure may be a driver for others.

The shrewdest companies plan ahead and think about all these issues at the outset before expanding into a new jurisdiction. The way an investment is structured and funded can help lessen the amounts of cash that gets trapped. The objectives and capabilities of the company, as well as the involvement of local partners together with advice from your bankers and tax consultants, will all be needed to make prudent decisions – 20/20 hindsight is not enough. However, any structure will only be partly effective and you will need to be able to manage any amount of cash that is trapped.

Coping with nuanced regulatory regimes takes effort and may involve delving deep into a treasury's workflow. For example, in certain markets such as Indonesia and Thailand, the local currency is not transferrable on a cross-border basis. Thus if a company wants to lend on a cross-border basis, they need to convert the currency, usually into US dollars.

Due to foreign exchange (FX) cost considerations, companies will accumulate a 'normal amount' of at least $1m or more that is truly excess cash before making the conversion, in order to receive more favourable pricing. However, to do this efficiently, a company needs to establish the accuracy of its cash flow forecast in order to truly understand what cash is surplus.

Looking to the future

Most observers agree there is a continuing trend to liberalisation. Countries are trying to protect but not inhibit growth and progress. Some bankers see the introduction of Basel III as providing an opportunity to harmonise approaches – Malaysia, for example, is one of the first adopters. Others are less certain and point out that investor flows out of the region are slowing government and central banks' desire to continue along the path of deregulation.

Given the market stress recently affecting some Asian currencies – the Indian rupee in particular – might there not now be some hesitancy about following China's path? "China has become a role model for other nations in the region. I think others will follow its lead, but each country has its own considerations and therefore its own agenda and schedule," says ANZ's Jaccard.

Companies are well advised to keep watching new developments closely, concentrate on their biggest amounts of surplus cash and stay abreast of what can be done now and in the future. ■

THE REAL THING

Gunjan Dhawan
Treasurer

Volatility in the market, whether commodities, currencies or interest rates, regulations and counterparty risk are three things that might keep Gunjan Dhawan, Coca-Cola's India Treasurer, awake at night. "As the saying goes: 'I sleep like a baby'. But babies do wake up almost every hour," he jokes.

Coca-Cola in India refreshes millions of consumers with a range of beverages including Coca-Cola, Diet Coke, Thums Up, Fanta, Sprite, Limca, Schweppes, Maaza and Minute Maid brands through a network of more than 2.2 million outlets. The company provides extensive support for community programmes across the country, with a focus on education, health and water conservation, and has already undertaken over 500 rainwater harvesting structures in 22 states of the country. It also runs its flagship programme – Support My School – which aims at creating happy, healthy and active schools. So far this programme has created 200 such model schools in the country.

When Gunjan Dhawan joined Coca-Cola India in August 2006, the company's balance sheet was awash with cash. "It was very exciting to join a cash-rich company, but quickly I realised that we were running a seasonal business. The cash levels would vary depending on the time of the year," says Dhawan. The off-season is the time when the company invests in capital equipment and expanding the business.

Before joining Coca-Cola, Dhawan oversaw business planning and treasury at Yamaha Corporation. It was an interesting

move in two ways: firstly, from the automotive to beverages industry; and secondly from an Eastern to American company. He applied his experience from the automotive industry to guide automation at Coca-Cola. "The business environment was changing in India and banks were launching a number of new corporate products. The central bank Reserve Bank of India (RBI) had introduced a number of automated instruments for corporates. As a result we were able to demonstrate, slowly with each small success, that it is possible to automate treasury," explains Dhawan. He began by sweeping, using zero balance account (ZBA), and then moved onto automating collections, which is an ongoing project.

The treasury team plays a critical role in engaging with their bankers and also making the stakeholders aware of the pace of change in India, as banking and payments systems in emerging markets (EMs) are evolving quickly. Some changes, which maybe took ten years in the US or Europe, are coming to fruition in only three years in the EMs. "If a corporate is keeping track of all the things coming over the horizon and engaging with the banks, then it is much easier to be prepared," he says. "In the past seven years we have completely changed the way we work – it's almost all electronic now."

When he first arrived at Coca-Cola India, the treasury function was mostly transactional – overseeing basic roles such as daily fund transfers from more than 100 different bank accounts. "We have worked to transform treasury into a more analytical function," he explains. "We are now seen as a strategic business partner, with other parts of the business looking to us to find innovative solutions for their issues."

Treasury performs a wide array of functions, including cash management, liquidity planning and control, corporate finance, manages foreign exchange (FX) intra-stage and helps the commodity team. It manages surplus cash, as well as interacts with banks and credit rating agencies (CRAs). It also deals with the insurance companies and manages the pension funds and schemes. Treasury is responsible for debtors and credit management, and oversees the supply chain finance (SCF) programme.

He believes that the treasurer's prestige has risen since the global financial crisis, when CEOs and CFOs started to look towards treasury to add more value to the business. "The key critical functions of treasury are to help create, grow and protect value," he explains. "The role of treasurer has become more strategic and important in terms of decision-making to ensure that growth is sustainable and the company is not losing market value."

The pull of the profession

After doing an MBA and a Masters in Finance and Control, Dhawan joined Yamaha as a trainee. At the time, he was "fortunate enough" to be asked what role he wanted to take. He said he wanted a role in which he could: do something new almost every day; engage with people who actually do the business; go right to the basic process of the company, which is procurement, planning, supply chain and manufacturing; and work with service functions such as legal and HR, or go out into the field. The CFO at the time said: "The only function in which you can do all this is treasury." So Dhawan decided to give it a try.

Since then he has been with treasury "enjoying each and every day". "During the past decade, India – and the region as a whole – has experienced major change, and the treasury team has been at the forefront of rolling out innovative cash management solutions, whether that is mobile banking (m-banking), mobile payment (m-payments) platforms or a 24-hour National Electronic Funds Transfer (NEFT). We've ensured that treasury can implement platforms and solutions which not only benefit treasury but can make a difference to the business.

> "We are now seen as a strategic business partner, with other parts of the business looking to us to find innovative solutions for their issues."

"For example, if a corporate has a collection system which is state-of-the-art and ahead of its time, it can support the sales function to perform much more efficiently. Sales doesn't need to be concerned about whether or not the money was collected from goods sold the night before. Treasury can also work with purchasing to ensure that the right materials are purchased at the right time. Then purchasing doesn't have to worry whether or not treasury will be able to make timely payments."

Dhawan firmly believes that improving communication with the other stakeholders is the key to success. He gives the example of procurement, who may be working with a strategic vendor to price a deal which could help a corporate buy six months of stock at an attractive rate; whereas treasury is working on optimising working capital and ensuring that the company does not carry extra inventory in its balance sheet. Even though both are working towards optimising value for the company, they are using opposing metrics. "If we talk together, we can ensure that we synergise our efforts. Treasury can bring to the table the expertise of cash forecasting and better pricing through the banks, and procurement can add negotiation skills and expertise on that particular product."

If it is not a new challenge within the organisation, then treasury spends its time addressing external issues, such as regulatory change and volatility in currencies and commodities. "No two days are the same – that's the exciting part of the job," says Dhawan.

Riding the crisis wave

Every company has been adversely affected by the global financial crisis, according to Dhawan. "Even if not directly, then probably it has affected a company's high growth expectations, in the situation where they are still growing but not at the same rate; some, on the other hand, are not growing at all."

Close to three years ago, treasury led the implementation of an enterprise risk management (ERM) programme, which engaged with senior management, the Board and all the functional heads. Treasury ran a five-day workshop to identify the company's top risks. Obviously, the global financial crisis and volatile markets were identified as key risks to business's profitability. "We started with risk awareness and mitigation,

and then moved on to drawing up long-term contracts with a number of strategic vendors to avoid being subject to price hikes. We also worked with HQ to put in place an adequate hedging programme."

Regulatory changes, specifically around tax, remain an area of concern for Dhawan, as does currency and commodity volatility. "Many of our ingredients are agricultural commodities, eg sugar cane or corn, and if these prices start rising then it is not easy for us to increase the end product price. The consumer is not going to pay the price for a hike in the price of our commodities or currencies.

"If the China slow down eventually occurs, then commodities might decrease in price, or at least become less volatile, which could help us in the long-term," he says. "But as a strategic treasury, we can't base our plans on macro events; instead we take certain steps to mitigate these risks, such as hedging, long-term contracts for certain commodities, etc. If we expect the prices to go up, then we will try to purchase materials six or nine months in advance."

Sustainable relationships

Treasury deals with seven global partner banks, and the number has remained stable over the past seven years that Dhawan has been with the company. Working with banks as business partners has always ensured that the company is better off than taking an opportunistic approach and changing banks whenever it sees a small benefit with another bank. "We expect them to profit from the relationship as well because only then will it be sustainable."

He expects these banks to play a major role in the company's SCF programme. "Many of our vendors in the mid-market segment can't gain access to banking facilities, whereas as a group we are well provided for. If mid- and small-market vendors struggle, then ultimately that becomes a problem for us because their sustainability is key to our future growth."

He also wants the banks to continually develop cheaper and alternative sources of funding, as well as provide guidance in managing FX volatility.

Over the past two years, treasury has started generating cash from operations, which has reduced its dependency on bank credit. This will put the company in good stead in a rising interest rate scenario.

Despite this, treasury has to ensure that the cash flow forecasting is robust and needs to maximise results, even with a cash surplus. "We work with 25 operating units in the field, who are the ones either generating cash or using the cash for purchases, to develop a rolling estimate for a 12-month cycle. We then break this up into a detailed three-month cash flow cycle, which is again broken up into a monthly and then a weekly forecast. We check the rolling estimates accordingly, which helps us either place more deposits because we know cash is coming in, or we use shorter-term bank deposits because we aren't generating a lot of excess cash at that time."

In India, companies are restricted to physical pooling, as notional pooling is not allowed. Dhawan expects that within a year, treasury will have a physical cash pooling structure in place. However, "physical pooling is not operationally convenient because we actually have to move funds in and out of accounts on a daily basis."

Technology and innovation

Because Coca-Cola India has grown at a rapid rate, treasury is keen to move away from spreadsheets due to the issues associated with manual input, resources, etc. Nirvana for Dhawan, as with most treasurers, is to remove all manual processes and become 100% automated. However, although Dhawan would like to implement a treasury management system (TMS), there is a cost attached to it and treasury would need to do a cost/benefit analysis in order to vindicate the investment.

"At the moment, the way we are structured, I don't think we can justify a TMS. We are using our banks' technology and data linkages with our corporate system. For many banks, we have a host-to-host connectivity." Treasury also has specific modules plugged into its enterprise resource planning (ERP) system.

Coca-Cola's global treasury has recently implemented a TMS, based on SunGard and Reval, so Dhawan is hopeful that the Indian operations can make use of some of the learnings and possibly gain from the benefits of automation and at the same time minimise the cost.

Currently, treasury spends most of its time focused on automating collections, which is spread across 300,000 retail outlets and 5000 distributors. The second area of focus, as mentioned above, is the SCF programme dealing with small and medium-sized enterprise (SME) suppliers.

In terms of collections automation, Coca-Cola's India treasury is working on a mobile solution to eliminate collecting cash from 300,000 outlets. In partnership with its banks, the company is engaging with the RBI to ensure that over the next three to five years most of its cash can then be moved through mobile and not be physically collected in the marketplace. "Why is it so critical for us? In India, there are more than 900 million mobile phones compared with 400 million bank accounts. Therefore the one thing that connects everyone in the country is a mobile phone," explains Dhawan.

The treasury team has been working on this project for the past three years and received help through the Immediate Payment Service (IMPS) platform, launched by the National Payments Corporation of India (NPCI). This platform allows customers to transfer money instantly within banks across India. Today, instead of collecting cash from its retailers, treasury asks them to pay through a mobile phone and their bank account. "As the system works 24/7, we don't have to worry about whether the banks are open, nor carry cash late at night, which eliminates security risk. The cost of handling cash goes down and we can cover more outlets in the same number of working hours."

Coca-Cola India is also gaining traction with its online payment portals for its distributors, and is planning to route almost 80% of its collections through this channel. The portal works 24/7 and distributors can sit in the comfort of their air-conditioned offices, log-on to a website and make a payment using their existing bank.

These are the two big areas of innovation: automating collections and SCF. "As the Canadian hockey player, Wayne Gretzky, said a great hockey player is where the puck is going to be. The Indian treasury team has been performing like a great hockey player and is ahead of the times. It is a challenging place to be, but we are reaping significant benefits," says Dhawan. ■

THE BANK INTERVIEW

Mahesh Kini
Asia Pacific Head of Cash Management for Corporates
Global Transaction Banking

Cash application and reconciliation is a widely discussed and debated topic amongst corporate treasurers. Mahesh Kini, Asia Pacific Head of Cash Management for Corporates Global Transaction Banking at Deutsche Bank, looks at the challenges facing corporates in Asia and how the Bank can help its clients expand across the region.

What are the main challenges that treasurers face when trying to gain more control/insight into their company's order-to-cash (O2C) cycle?

Managing an efficient O2C cycle is of utmost importance to corporates today. However, there are two key challenges to gaining better insight into the O2C cycle: disorderly data and controls; and the lack of an effective reconciliation process.

With regards to the former, the key issue clients are facing is how to manage in-house data. This is due, for example, to errors in vendor data and material difficulties in managing credit limits, complex products or discounts.

Typically, a corporate may start out with efficient and effective master vendor data and vendor sales data, but over time – due to multiple edits and limited controls on the modifications, as well as a lack of regular updates – the data

tends to become flawed. As a result, the corporate has problems with creating the correct orders and managing the process.

The compounding factor affecting O2C cycles is the inability of most corporates to effectively reconcile transactions. This is caused by the lack of an effective way to automate the posting of transactions and closing out the cycles. Many corporates still use manual processes and work flows to identify payments and can mistakenly close out open items on their books due to errors in the reconciliation process.

What are the main cash application challenges facing corporates in Asia today?

A fully-automated cash application is still not a complete reality, because there are gaps in the payment ecosystem. Even in this day and age, best-in-class cash application processes only achieve approximately 70%-80% automation, leaving a considerable portion of payments still requiring manual intervention to confirm a match. This is a result of incomplete payment data, which is caused either by a lack of discipline from payers to include the necessary details or due to different channels used by payers to communicate what they are paying for. Both issues curtail the amount of information that can be transmitted in a payment, thereby limiting the level of automation possible.

> "Even in this day and age, best-in-class cash application processes only achieve approximately 70%-80% automation."

In Asia, the extensive use of paper instruments and vouchers adds further complexity. The challenge is compounded by the need to factor in discounts, bank charge deductions and the use of multiple currencies and languages.

What are the main challenges to improving accounts receivable (AR) efficiency?

The basic challenge is the lack of data on who is paying and what is being paid for. Even when the data is available, the decentralised way in which customers communicate this information, for example by phone, e-mail or fax, can create another challenge. Bringing such disparate – yet valuable – information together can be quite a difficult exercise for most corporates.

Another challenge is managing the variation in payment amounts. Effectively recognising a partial, discounted or disputed payment is a substantial challenge, potentially leading to open items being held on the books for a considerable period. Corporates, which have centralised shared service centres also have to deal with the challenge of operating in multiple languages.

What are the drawbacks of a highly manual reconciliation process?

A manual reconciliation process is highly laborious and time-consuming, leading to unnecessarily extended days sales outstanding and slower clearance of credit limits, thus resulting in a slower sales cycle for the company and thereby increased operational cost. As the risk of mistakes is high, the need for extended controls and monitoring also increases. Another drawback of manual reconciliation is that it takes significant effort to keep a team motivated to consistently perform this repetitive task. In a shared service environment, manual processes lead to increased cost, hence diluting the gains or benefits envisaged from such a centralised set up.

How can banks help their corporate clients with this process?

Deutsche Bank, for example, has attempted to assist its corporate clients in improving the level of automation and accuracy of the cash application process in a number of ways. The solutions can be grouped into two main categories:

1. Customer identification.
2. Cash application.

In the first category, banks can offer solutions that clearly identify the payer (for example, Deutsche Bank's Payer ID) or more sophisticated solutions – such as Accounts Receivable Manager - which was launched by Deutsche Bank in April 2013 and is currently being used by a number of customers, including some large business-to-consumer (B2C) customers who effectively manage payments from thousands of retail customers.

In the second category, Deutsche Bank has developed a sophisticated matching engine solution that is able to draw information from multiple sources into a single consistent file format, and then uses an algorithm to match outstanding invoices with the information received by the bank. In this way, we are able to automate, to a large extent, the cash application process by delivering to our clients a matched/unmatched report of their invoices. In addition, we have been able to cater to paper-based collections through the use of sophisticated lockbox solutions.

Deutsche Bank also provides customers with an electronic platform for their payers to conveniently log-in and declare the invoices they are paying for, as well as match payments to the data coming from the payers. These components come together to form a streamlined Management Information Solution (MIS) for clients, including the ability to manage discounts and disputes as well as partial payments.

As corporates expand into new markets, how can banks support them?

Venturing into the realms of a new market is a very important and strategic decision for any organisation. With a direct presence for many decades in all the key Asian markets and a rich client experience in each one, banks like Deutsche Bank have the expertise, local knowledge and know-how on both the banking and corporate side to help customers in their expansion. Providing support for corporates that plan to venture further afield starts with giving them the correct and timely guidance and insights into the new market. This includes sharing our insights and connecting them with our existing customers – as well as regulators – to help them with the process.

Deutsche Bank is able to assist its clients with a quick and easy enablement of accounts and banking services in the new market. Through globally-consistent operating procedures, the

bank is also able to translate the corporate's global policies and procedures into the new environment. Thereafter, Deutsche Bank continues to support its clients in the new market by providing the necessary market research and regulatory updates on an ongoing basis. At the same time, the Bank takes a consultative approach to understanding clients and their situation by recommending the best solutions most suited to their needs across our wide range of banking solutions.

What does partnering with local banks in Asia really mean? What is the key to success?

Partnering is an often misunderstood term in the context of how global and local banks co-operate with each other, and is very loosely defined in the context of Asia. A true partnership between a global and local bank should mean a mutually beneficial, sustainable and integrated solution that helps meet a client's need with minimal incremental effort and no additional counterparty exposures.

There are three key aspects that make a partnership with a local bank successful:

1. Partners should not be direct competitors.
2. Both partners should benefit from the solution.
3. There should be a significant barrier to entry for each partner to offer the solution independently.

Deutsche Bank, for example, actively leverages partner banks in Asia to enhance its service proposition. Its business model in Asia complements the strategy of local banks in the region. This is key to providing potential partners with the comfort that it is not a direct competitor for their business.

As a leading clearer of global currencies including euro, US dollar and sterling, Deutsche Bank often has a client relationship already established with local banks, which helps to build a trusted relationship. In addition, the volumes generated through providing transactional services – particularly on collections – gives the local banks access to a new revenue stream, and effectively forges a relationship with its customer's customer as well.

As such, Deutsche Bank strives to achieve the best of both worlds: enjoying tremendous support and co-operation from local banks, while creating solutions that allow its customers to benefit from locally-specific services or enhanced collection reach, without the need to open accounts or deal directly with a local bank (where regulations allow).

Are Asian corporates looking for greater standardisation in their relationships with their banks?

Standardisation is an increasing trend among Asian corporates. To illustrate, Deutsche Bank has been receiving a growing number of request for proposals (RFPs) from Asian corporates, which are turning to international banks to provide streamlined solutions across multiple markets, or use bank-agnostic solutions such as SWIFT connectivity and standardised formats – like XML version 3 and MT series messages for payments and reporting – to communicate with multiple banks through the same file.

Asian corporates, in this case, seem to be following the lead set in Europe, where the Single Euro Payments Area (SEPA) migration has led corporates to review their banking relationships and streamline their operating models by adopting a single SEPA bank. Besides the obvious advantages of SEPA and cheaper transaction costs, the streamlining of banking relationships has also led to ample advantages for corporates through the standardisation of reporting and banking platforms, as well as cash application processes.

How will this help Asian corporates looking to expand, whether in-region or internationally?

The move towards standardisation in formats, communication and documentation makes it easier and faster for corporates to set up in a new market, which helps to execute their business expansion plans. Deutsche Bank promotes standardisation through the use of a single legal framework, as well as terms and conditions, for its transaction banking services across the markets in which it operates.

What challenges remain?

While there are fewer challenges than before, some still remain. Clearing system infrastructures and bank account architecture, as well as regulatory frameworks for banking in various markets, are still not unified. If, for example, a client moves to Thailand, they need to cater to the local withholding tax certificate requirements. In China or Japan, they have to use local languages for both payments and cash application. The continued prevalence of paper-based collections through cheques and promissory notes in certain countries also remains a challenge. But over time, the complexities have been steadily diminishing and, hopefully, will continue to lessen.

How is Deutsche Bank helping to facilitate adoption of XML?

Deutsche Bank has been an early and active participant in, and contributor to, the Common Global Implementation (CGI) initiative. The Bank has also been a promoter of the XML ISO 20022 format, which it considers to be the best solution currently available for a globally-consistent payment and reporting format. As a result, it has been spearheading harmonisation efforts in co-ordination with other banks on behalf of its clients, in order to achieve a commonly accepted XML file format for deployment. Deutsche Bank is fully ready with XML version 3 across the markets and has been supporting its clients in the implementation of the format to achieve better standardisation.

There are still some differences that exist between the banks on the definition of certain formats – mainly due to the country-specific nature of some services and value-added solutions – but Deutsche Bank is committed to continuing to engage in these discussions around the CGI. ■

Spotlight on centralisation

For many treasurers, embarking on a centralisation project is a white-knuckle ride, with many points to potentially derail it along the way. But the prospective efficiency and cost benefits make the end result worth the ride. Treasury Today Asia provides some tips for ensuring a smooth journey.

Centralising treasury operations is sometimes like riding a rollercoaster, according to Michael Spiegel, Global Head of Trade Finance and Cash Management Corporates, Deutsche Bank, speaking on a Corporate Forum panel entitled 'Best practices in the centralisation of treasury functions: are corporates and banks aligned?' at Sibos 2013 in Dubai. "And that is fine if, by the end of the ride, there is a smile on your face and the only thing you remember is that it was very exciting."

Industry research shows that treasuries across both the developed and emerging markets are increasingly looking to centralise their operations. Based on the results from its Treasury Diagnostics Benchmarking Survey, Citi identified three key trends that reflect the growth in scope and influence of the corporate treasury, the second being an increased adoption of centralisation structures. The report, entitled 'Navigating headwinds in 2013: top priorities for corporate treasurers', stated: "The rise of emerging market multinational companies (MNCs) and expansion of their Western counterparts into these markets has accelerated treasury centralisation: 66% of respondents operate a centralised treasury, 60% use netting structures and 48% use an in-house bank (IHB). Of the companies with a centralised treasury, 72% use a TMS."

Yet many treasurers are sympathetic to Spiegel's analogy because the fear factor is very high in such projects. The act of pulling together the many different strands of treasury activity across a multitude of subsidiaries worldwide is daunting to say the least – "Where to start?" is the first question that comes to mind. It takes a lot of time and effort to design a plan and map out the path to centralisation.

A number of barriers are thrown up from the outset. Often local operations put up resistance out of fear of losing control over their cash flows. Then there is the material issue of losing local knowledge and expertise. In addition, as Spiegel pointed out in the Sibos discussion, the decentralisation of the

regulatory environment is not supporting the centralisation effort, as jurisdictions implement their own interpretation of global regulations. The 'spaghetti junction' of technology systems that most corporates have inherited through mergers and acquisitions (M&As) can also be a barrier to effective centralisation.

The biggest and most overwhelming issue, however, is the right strategy and cost consideration. Anita Prasad, General Manager – Treasury, Microsoft, speaking on the same panel as Spiegel, said: "We have gone through a few of these projects and the cost can be sizeable given the size and complexity of what we are trying to achieve."

For Microsoft, the expense was well worth it. "As a treasury professional, I look at the return on investment (ROI) which has been tremendous – after the first wave of implementation, a third party was brought in to do an assessment and they estimated that we were reaping benefits that were approximately 45 times the initial outlay," said Prasad.

Satisfying its main objective, treasury is able to tell the Corporate Vice President and Treasurer, George Zinn, exactly how much cash the company has, which allows senior management to make the right strategic decision in the moment. "That ability to drive strategic decisions pays for itself and is where the value is," she said, adding that it is not just about driving the data but also about business intelligence.

Also speaking on the Corporate Forum panel, Alawi Alshurafa, Treasurer, Saudi Chevron Phillips, a Certified Treasury Professional, said that he thinks of centralisation as an operational necessity. "Cost may be an issue for some companies, but this is the nature of your business. It is a critical project because at that point in time you just can't run in the same old way anymore – you need to get out from under your legacy systems," he said. "It is also a project where you can't completely quantify how much benefit you will receive; but in terms of a qualitative difference, it was an easy sell for me."

In an interview with Treasury Today Asia, Tatiana Nikitina, Senior Cash and Banking Analyst, British American Tobacco (BAT), says that some of the biggest benefits of centralisation from a treasury perspective is greater process consistency and efficiency, which in turn gives treasury greater control. "In addition, through centralisation you also achieve benefits and savings due to economies of scale. This is probably one of the driving factors in any treasury transformation project because you need to have a business case behind any change or project proposal."

Centralisation is not for every treasury, thinks Nikitina, and depends on each company's structure, systems, business model, geographical mix and internal culture. There is also the option to centralise selected parts of treasury. For example, although she would centralise most processes, such as bank account maintenance, payments and receivables processing, Nikitina would not think of centralising strategic decisions such as bank relationships, projects and risk management.

Prasad similarly believes that centralisation is not necessarily the end game for every company. During the panel session, she made the point: "It may or may not make sense for you. There is centralisation of policies, compliance and processes, but then there is centralisation of cash management, such as how we pool or bring the cash together, and those are two distinct areas. Having a dialogue with your peers or banks, those which are willing to share with you what other companies have done and what they can offer, is a great place to start."

Microsoft's story

Microsoft has long operated a centralised treasury – the entire infrastructure, which includes more than 80 banking relationships, 190 countries, 45 currencies and 98 employees, is managed through Redmond, Washington. The only team that is not part of its centralised infrastructure is the credit services team because they support the sales team; as a result they are based in the same locations as the sales teams. In a separate interview with Treasury Today Asia, Prasad said that the credit services staff also serve as treasury's eyes and ears and can provide insights with local regulators and banks, retaining that local knowledge needed to understand changes in domestic regulations.

The trigger for an increased level of automation within this centralisation framework was when the treasurer asked his direct reports a simple, but which in reality turned out to be, difficult question – how much cash does the company have? With a global footprint, treasury needed to have information as to where the cash is, what currency it is in and what Microsoft entity owns it. "Each one of us went back to him with a very different answer; the answers reflected the functional area of his directs. For example, the portfolio team looked at total investments, while the cash management team came back with a number that reflected total cash in bank accounts," Prasad explained during the Corporate Forum. "Because we couldn't come back with a single answer, we started searching into how to attain consistency in defining cash, and how to automate and ensure we can put a finger on the exact number." This was the beginning of treasury's journey towards business intelligence capability within the centralised treasury, so that today it can answer the question in real-time.

As part of this process that involved ensuring all its banking partners are on SWIFT's ISO 20022 XML format, Microsoft treasury wanted to rationalise its banking relationships. It has now consolidated with approximately 80 that have strong commitment to SWIFT roadmap and have migrated to bank-agnostic connectivity through SWIFT, using a common implementation methodology with all its banking partners. Prasad believes that having a common implementation has created a win-win for both sides. "It has helped the corporate side in terms of ease of use, cost and efficiencies. It has also helped the banks employ the same methodology with all their corporate clients, which allows them to bring value-add activity to the fore."

Electronic bank account management (eBAM) is the next big step for Microsoft because it will enable the centralisation of all bank account management processes. "I know we have all been talking about eBAM at Sibos for the past three years, so it is now about making it a reality and working on the digital identity and authentication," she said.

Saudi Chevron Phillips' journey

SCP's Alshurafa told a similar story about centralising bank connectivity. SCP's treasury and shared service centre (SSC) supports five Chevron-Phillips ventures in Saudi Arabia and UAE and effectively looks after of all aspects of cash management for the group.

Its centralisation programme was driven by the need for greater efficiency. Throughout the history of different ventures, treasury had various offshore and onshore banking relationships, with bank accounts in London, Saudi Arabia and UAE. "In the past, we were managing each relationship separately through a dedicated platform with each bank,

which wasn't efficient. Therefore, we needed to develop a solution, which is a payments factory concept," Alshurafa explained to the audience in Dubai.

Two years ago SCP treasury began searching for a solution to increase its efficiency and help it to streamline the cash management processes across the whole group, as well as the day-to-day payments plus the liquidity needs of separate ventures. SCP decided to go with SWIFT in order to have greater visibility over its cash and went live in January this year.

Despite many banks leaning towards host-to-host connectivity, Alshurafa, like Microsoft's Prasad, wanted to be bank-agnostic. "With the devolvement in the credit market, you need to look holistically at your bank relationship. You want to have the flexibility of delinking if and when you need to."

He agrees that centralisation is "a wild ride". "Banks have different technical capabilities. With some banks we went smoothly through the SWIFT implementation in a couple of weeks, but with others we really struggled.

"One of the problems we encountered, and it could have been our fault as well, is that we didn't include enough technical people from the bank side in our initial planning meetings – and this is very important. If you only talk to a relationship manager, you wouldn't necessarily get enough details about what the bank is or isn't capable of – for example, specific interfaces with SWIFT. You need to put together a checklist and go through implementation and planning with the technical people on both sides," said Alshurafa.

BAT's transformation

BAT's centralisation project touched many more areas than solely banking relationships and like SCP went down the SSC route. In her presentation entitled 'Treasury transformation: a way towards centralised treasury' at the EuroFinance International Cash and Treasury Management conference in Barcelona, Nikitina detailed BAT's decision in 2005 to move from a partly decentralised treasury structure to a centralised treasury operation with streamlined and integrated processes, which is "fit for servicing our global business". BAT decided to consolidate treasury transaction processes into financial shared service centres (FSSCs).

According to Nikitina, treasury wanted greater effectiveness through:

- Full overview of group funding and foreign exchange (FX) exposures.
- One view of global treasury risk profile.
- Optimisation of cash management across the group.
- Automation to reduce manual treasury controls.

The aim was to reduce financing costs through leveraging bank relationships and infrastructure, cash mobilisation, improved multi-currency cash flow forecasting and reduced funding lines.

The project was rolled out in four phases:

- Phase 1: included standardising treasury processes, banking standards and master data; facilitating FSSC migrations; and building new key systems enablers, such as multi-currency cash flow forecasting (MCFF).
- Phase 2: involved implementing key system enablers, such as MCFF and SAP Treasury; rationalise bank relationships and infrastructure; and transform skills and capabilities.
- Phase 3: implementing treasury line organisation.
- Phase 4: embedding transformation and drive continuous improvement.

The company completed seven request for proposals (RFPs) over the past five years resulting in:

- Facilitation of the move to FSSCs in Romania, Kuala Lumpur, South Africa and Costa Rica.
- Standardised and simplified banking processes.
- Improved control and security around banking.
- Reduction in the number of banks globally by approximately 80 (33%).
- Significant reduction of group banking fees.

In the future, the company plans to roll out SAP ECC6, move to one format (XML) and SWIFT, take advantage of the new opportunities for centralisation that the Single Euro Payments Area (SEPA) opens up, migrate more markets and processes to FSSC and continue bank rationalisation.

Tips for success

Before embarking on a treasury centralisation project, both Spiegel and Prasad encourage treasurers to identify what they want to accomplish and what the end business goal is, and then bring in the technology and resources to help reach that goal. In answer to Alshurafa's problem, Prasad explained how they brought their banking partners together for a three-day workshop. "Ten banks came with their relationship managers and cash management and IT experts. We also had a SWIFT team as our neutral 'Switzerland' in the room. Because of this, we could agree a single implementation of the connectivity via SWIFTNet, as well as message formats."

Nikitina's advice includes getting stakeholder buy-in, which is true for any change management programme, and beginning with some system consistency, because a SSC can't efficiently process payments coming from hundreds of different small systems. "In addition, I think that it is important to challenge everything that has been done from the very beginning. Ask why it has been done this way and if there is a better way of doing it, because this will enable a much bigger step forward. Centralisation is a huge project and it is more worthwhile doing that when the end game provides more benefits than incremental ones."

She believes that SEPA has shown many treasurers just how many ways of doing the same thing exists, even within a centralised treasury – for example different file formats and ways of processing payments. "Once they have overcome the initial technical problems, there is a huge opportunity to centralise much more and make all payments from one euro account for example, or move to one format for payroll. During the SEPA migration, many treasurers discovered a lot of inefficiencies that could be eliminated or streamlined in future."

Before the centralisation project begins, Alshurafa suggested starting with original research, including market study and visits with vendors, to see what is available; once the research is complete, conceptualise a plan and then shortlist preferred vendors or service providers. Scorecards and a RFP process based on company requirements and compliance are both useful. "It can be a tedious process but I encourage anyone who is embarking on a centralisation project to spend time researching and planning, because it is critical to get this right and any mistake in this process will be very expensive in the future," he warns. ■

WACC

Weighted average cost of capital (WACC) is a calculation used as a standard of comparison for a number of different business decisions. As it is based on rates of return that are determined by the market or observable from published data, it provides a useful measure of how well a company is creating shareholder value and its current value.

The weighted average cost of capital (WACC) is a method used to calculate the average cost of capital to a company, weighted according to the proportion of equity, debt and other types of capital. This cost of capital represents the discount rate that should be used for capital budgeting calculations to determine whether a given project or activity generates a sufficient expected return to compensate for its risks.

A company producing a return of 20% with a WACC of 11% is creating ₹0.09 of value for every Indian rupee of capital. On the other hand, a company returning less than its WACC is destroying value – even if it is profitable. WACC is also used as the discount rate applied to future cash flows for deriving a business's net present value. All else being equal, the WACC of a firm increases as the beta and rate of return on equity increases, as an increase in WACC notes a decrease in valuation and a higher risk. The WACC equation is the cost of each capital component multiplied by its proportional weight and then summing:

$$WACC = (E/V) \times Re + (D/V) \times Rd \times (1 - Tc)$$

Where:

- Re = cost of equity.
- Rd = cost of debt.
- E = market value of the firm's equity.
- D = market value of the firm's debt.
- V = E + D.
- E/V = percentage of financing that is equity.
- D/V = percentage of financing that is debt.
- Tc = corporate tax rate.

Calculating WACC

So, if a company has an enterprise value that was weighted 2:1 in favour of equity and cost of debt was 4%, then WACC would be 8%, the weighted average of 4% and 10% on a one-third: two-thirds basis. This means though that to calculate WACC, investors need to determine the company's cost of equity and cost of debt. Calculating the latter is straightforward; calculating the former is not and this gives rise to significant variations in the WACC for companies when calculated by different analysts.

Cost of equity

The cost of equity is the equity holders' required rate of return. This is not immediately observable and must be derived from those market variables that can be observed. The capital asset pricing model is the most commonly accepted method for calculating cost of equity. This expresses the cost of equity as the opportunity cost of investing in the equity, taking account of the risks involved. It adds the risk free rate of return that investors are giving up and which they could earn simply by buying medium-term government bonds, to the overall market equity risk premium plus an adjustment for the riskiness of this particular company's shares.

Cost of debt

If a company raised all of its capital from debt then the cost of that capital would be relatively straightforward to calculate. It would essentially be the rate of interest paid by the company on bank loans, overdrafts and bonds. The rate applied to determine the cost of debt (Rd) should be the current market rate the company is paying on its debt. If the company is not paying market rates, an appropriate market rate payable by the company should be estimated. As companies benefit from the tax deductions available on interest paid, the net cost of the debt is actually the interest paid less the tax savings resulting from the tax-deductible interest payment. Therefore, the after-tax cost of debt is Rd (1 – corporate tax rate). ■

COUNTRY FOCUS

Vietnam

With the advancement of the Trans-Pacific Partnership (TPP), a US-led free trade agreement, the question is not whether economic reform will happen in Vietnam, but how fast. Foreign direct investment is up by 36% year-on-year and GDP is growing at a solid 5%. However, many challenges still remain for corporates operating in the country.

CORPORATE FINANCE

Best practices in refinancing

Refinancing a company's debt can create greater operating flexibility and also give a company a longer time to successfully execute its business strategy. What is the current state of the refinancing market? How can companies get the best out of refinancing?

RISK MANAGEMENT

Mitigating FX volatility

The high instability that occurred in emerging market currencies during 2013 was of great concern for corporate treasurers across the globe. A sudden shift in exchange rates and a profitable deal can lose value, or in an extreme case, turn into a loss-maker. How can corporates mitigate this risk?

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

Alawi Alshurafa, Treasurer, Saudi Chevron Phillips; **Heinz Bähni**, Group Treasurer, SGS Group Management; **Harish Barai**, Deputy General Manager of Treasury, Larsen & Toubro; **Anjalika Bardalai**, Senior Analyst, Asia, Eurasia Group; **Alain Bridoux**, International Business Consultant; **Ping Chen**, Director International Treasury, Pfizer; **Gunjan Dhawan**, Treasurer, Hindustan Coca-Cola Beverages Private Limited, India; **Eddie Fogarty**, Managing Director, FTI Treasury; **Rakesh Garg**, Managing Director and Head of Global Finance, Barclays India; **S. Gopalakrishnan**, Co-Founder and Executive Vice Chairman, Infosys; **Kamal Goyal**, CFO, Alumco; **Navin Gupta**, Head of Cash Management India, HSBC; **Karsten Kabas**, Head of Corporate Treasury, Merz GmbH & Co. KGaA; **Ashwini Kapila**, Managing Director and Head of Financial Institutions Group, Barclays India; **Nirmal Khaderia**, Asia Pacific Head of Corporate Treasury Sales and Head of Global Transaction Services India, Bank of America Merrill Lynch; **Mahesh Kini**, Asia Pacific Head of Cash Management for Corporates, Global Transaction Banking, Deutsche Bank; **Vijay Kuppa**, Treasury Manager, Larsen & Toubro; **Philippe Jaccard**, Global Head of Liquidity Management, ANZ Transaction Banking; **Brad Maclean**, Vice President, Business Development, SunGard AvantGard; **Anjali Mohanty**, Head of Global Transaction Banking (GTB), India, Deutsche Bank; **Deep Mukherjee**, Director, Corporate Ratings at India Ratings and Research, Fitch; **Dino Nicolaides**, Head of the Corporate Treasury Advisory Team, London, Deloitte; **Tatiana Nikitina**, Cash and Banking Analyst, British American Tobacco; **Marcus Ohlig**, Managing Director, Head of Asia, Greenwich Associates; **Andrew Ong**, Asia Head of Liquidity Management, Bank of America Merrill Lynch; **Anita Prasad**, General Manager – Treasury, Microsoft; **Bas Rebel**, Senior Director, Treasury Advisory, PwC; **Siddharta Sanyal**, Chief Indian Economist, Barclays; **Thomas Schickler**, Global Head of Liquidity and Investment Products, HSBC; **Rahul Shukla**, Head of Corporate Bank, Citibank India; **Mikko Sopanen**, Director of Global Finance and Treasury, Liteonmobile; **Michael Spiegel**, Global Head of Trade Finance and Cash Management Corporates, Deutsche Bank; **Paul Stheeman**, Independent Treasury Consultant; **Daniele Vecchi**, Group Treasurer, Majid Al Futtaim; **Jeff Wallace**, Managing Director, Debt Compliance Services.

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