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Treasury Foresights 2016

Inspired by the need for treasurers to stay ahead of the curve in a volatile world, this Special Edition of Treasury Today takes a forward-looking view at the core topics, in the company of some of the best thinkers and doers in the industry.

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J.P. Morgan

Simon Jones
Head of Treasury Solutions for EMEA

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BNP Paribas

Jan Dirk van Beusekom
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What to look out for in 2017

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Thinking about and planning for the future comes with the territory of heightened professional responsibility. It is with this understanding that Treasury Today brings this special publication to you. Treasury Foresights is about delivering to readers clear and concise information on core themes for the next year covering technology, operational models, payments, risk management, banking relationships, funding and investments, career development, and sustainability.

We have talked to a stellar line-up of experts, industry main-stays and renowned thinkers. Based on their experience and knowledge we tease out the issues of the moment. You may not agree with everything we have written but you will be better informed – and this is the point.

There can be no guarantees about the precise nature of what lies ahead and all treasurers know that the unexpected can and will happen. But ignoring or failing to recognise this is not an option for a modern forward-looking business. With the treasury and finance function having secured its position at the helm, whilst we would hesitate to say it is your duty to read this special publication from cover to cover, we would certainly urge you to use it to think about the future.

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Trending today

The world of treasury sits astride multiple corporate functions and is perfectly placed to see trends unfold. We look at some of the key developments of the day.

Oscar Wilde said of fashion that it is a "form of ugliness so intolerable that we have to alter it every six months". Whilst treasurers may not suffer quite the same flightiness foisted upon the denizens of the catwalk, the speculators and manipulators of industry thinking sometimes act like fashion gurus, pushing certain notions far beyond their current actual value in their desire to keep ahead of the trends.

Mobile treasury is a classic example of a lot of hot air from the providers being met by a lukewarm response from the receivers. Treasurers do use the technology, but many – most even – are not conducting their day-to-day business on a smartphone. Supply chain finance (SCF) too receives the kind of coverage that would suggest it is used by most corporates. It isn't. Respected industry pundit, Enrico Camerinelli of the Aite Group has said that whilst there is no question that the principles of SCF are strong and that the correspondent benefits are considerable, "the reality shows that SCF programmes are evolving very slowly and are far from widespread adoption".

It's very easy to get carried away with the hype or to become so involved with a process that it starts to feel like a fully-fledged mainstream movement in its own right. The truth about any treasury trend is that it will be an observable operational or strategic condition that affects some of the people all of the time, or all of the people some of the time but rarely all of the people all of the time.

Of course, unforeseen events of magnitude – such as political uprisings, natural disasters and even financial events such as the 2007/2008 financial crisis, the euro cap by the Swiss National Bank and the fallout following 'Brexit' – will always make an impact on treasury operations and they have to be tackled promptly. But the profession should always be mindful of the direction of the industry and the major themes that are carrying it that way.

Not all trends come to full fruition but awareness of what's out there offers valuable insight for every treasurer, whether they have a domestic or global outlook.

With this very much in mind the following pointers – drawn from Treasury Today's conversations with industry stakeholders over the last few months, should be a useful 'awareness' resource. Some of these are not so obvious but all have gained a lot of ground in recent times as issues that matter.

Currency volatility: not going away

It is impossible to provide a detailed forecast for the monetary situation in each individual country; what happens in one area tends to influence developments elsewhere. In the US, the Fed's tightening bias has serious consequences for the emerging markets. In turn, this will have repercussions for the US economy, which is sensitive to share price movement. Sharp stock market pullbacks will hit the economy hard. Monetary policy divergence between different countries leads to currency fluctuations. This does not matter greatly in good economic times but now that growth is subdued, currency weakness may be a bonus in many places whereas a strong currency can do a lot of damage. The effects of Brexit saw at least in some quarters a welcome scaling back of sterling against the US dollar. The markets, keen to dump GBP, saw yen as a good home, for example. But the attention was most unwelcome by a Japan keen to keep its currency relatively weak.

All central banks will have to tread cautiously when tightening or loosening policy. For currency and interest rates markets, this all means 2016 going into 2017 will see more volatility than seen in say the last quarters of 2015.

Given the ongoing state of global economics, currency volatility is perhaps less a trend than the norm. For treasurers, with every FX hedging strategy (hopefully) being continuously reviewed for effectiveness, Switzerland-based treasury consultant and interim treasurer, Thomas Stahr, says one of the most important concurrent themes for many firms is the implementation of IFRS 9.

The IASB's new reporting structure includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. As such, it offers improvements over the IAS 39 rules it will replace, but also removes aspects such as the 80-125% effectiveness testing bandwidth. Although not due to fully replace IAS 39 until 2018, early adoption is permissible. However, says Stahr, "the tricky thing is that there is almost no experience in the implementation of IFRS 9 in the market and there is no audit firm at the moment who can say with a very high degree of certainty what is right and what is wrong". Keeping ahead of the curve in difficult times is no easy matter.

Technology: virtual accounts easing the flow

Technology trends are prone to being carried on waves of hype. What treasurers need are solutions with substance, that can be used in the real world to their advantage. For many stakeholders, the hot topic around innovation in cash management is the 'virtual account'. The idea has seen widespread adoption by insurance companies, FX brokerages and pension funds for a number of years but banks have been taking up the cause in recent times, offering it as a practical, sensible tool for corporate clients. In short, this is a trend that is delivering.

Virtual accounts are based on bank-issued virtual bank account numbers that re-route payments to the underlying physical bank account they are linked to, ensuring each remitter is uniquely identified. From a remitter perspective, virtual accounts look and function exactly like a real bank account number, and do not require any changes other than ensuring they pay into the new unique account number provided to them.

With companies seeking to use one central location for accounts in a single currency, one of the challenges is reconciliation and understanding precisely who is being paid for what. In a typical virtual account scenario, as the virtual account detail (VA Name and VA Account Identifier) is passed on to the beneficiary, when the beneficiary receives the payment it can see it has come from the 'virtual' account of the subsidiary. Equally, should a payment be rejected, the company paying on behalf of the subsidiary can see straight away which virtual account the payment has come from and return it to the right subsidiary for correction.

The virtual account concept is being adopted in many countries around the world but true global provision is not yet possible. However, progress is being made. In Asia, BNP Paribas' solution is already live in more than ten countries. The bank told Treasury Today last year that it will not be stopping there; the Middle East and the Americas, for example, already in its sights.

For Marek Chruściel, Treasury Director of Polish telco, Play, virtual account technology has without doubt made cash management a great deal more efficient. The company now runs five billing cycles each month and payments are received 365 days a year – running to over 350,000 on peak days. Payment data files are delivered on a daily basis by the bank via secure file transfer protocol (SFTP) or web service every afternoon and they are processed overnight with payments assigned in Play's billing system.

Payments are automatically allocated, with very occasional manual input for any individual payment that requires it. "The biggest benefit is the true automation of incoming payments," says Chruściel. "But it can also help to improve customer satisfaction because you can avoid unnecessary interaction with the clients regarding any payments that you think you didn't receive but did in fact receive. Virtual accounts give us all the information we need the same day as the customer makes the payment."

The biggest challenge in implementing a virtual account system is actually working out technical details, he warns. This includes the structure of the virtual accounts, the composition of the data, and ironing out the service level agreement. "These processes need to be carefully thought through, to ensure maximum automation. Otherwise you might end up with a lot of transactions that still require manual entry and intervention."

Diversity: advancing equality

The treasury profession remains largely male-dominated. If this is to be redressed, women need to be much more visible in their roles, both inside and outside of their organisation. Like currency volatility, this is not so much a trend as an ongoing issue for the profession but at least the movement towards equality is exhibiting an increasingly positive outlook.

As part of the move to address gender diversity in the financial industry, Treasury Today's Women in Treasury initiative creates a platform to enable women to communicate with one another, to learn from each other and to network in order to help each other.

The Women in Treasury Asia Forum, held this year in Singapore, is a testament to the willingness of participants to be forthright in their discussion. A panel of prominent treasurers from the region agreed that whilst progress has

been made regarding gender diversity, women can still do more to advance their careers.

If this can be achieved, it was widely agreed that business would be better placed to succeed. As Jaime Lee, Regional Head, Treasury and Risk Management at Courts explains: "The best teams are always the ones where both men and women work together to achieve something that would otherwise be elusive for an all-male team or an all-female team."

For Deepali Pendse, Head of Corporate Treasury Sales, Southeast Asia, Bank of America Merrill Lynch, it has already been proven that gender equality is more than just an added bonus; it actually provides businesses with a different perspective and a competitive advantage. However, she feels that although quotas are often mooted as a way to build a more equal workplace, they remain a somewhat contentious issue. Structural changes within companies are what's needed to provide a more prudent method of driving sustainable long-term gender equality in the workplace.

A large part of this structural shift will come from removing unconscious bias, which Pendse believes we are all guilty of holding in one form or another. "Unconscious bias can come into play when we are hiring, promoting, or in our day-to-day interactions with other people, so it is important to be aware of these and try to find solutions that are better for the firm." Her advice is to question and evaluate the decisions being made in light of the bias that exists. In doing so, it will help managers to understand their staff better and help them flourish in the workplace.

Whilst business, and society in general, needs to make more changes, Pendse argues that women have a crucial role to play in building an equal and inclusive workplace. "These changes won't happen by themselves. I encourage women to engage their managers should they feel an unconscious bias exists, or if support is lacking."

Market liberalisation: China and India paving the way

China: moving up a gear

In a global market place, the strongest survive. For a country to be able to move successfully into overseas trade, the economic, social and political conditions need to allow businesses to transact in both directions as smoothly as possible. In most western markets, the rules are such that trade flow is relatively unhindered (the ramifications of Brexit aside). In emerging trade nations, where markets have demonstrated far tighter control over financial activities there is a notable trend towards liberalisation, not for internal consumption but as part of a new global outlook. In India and China, the giants of Asia, the two countries are at different stages of this journey.

"In China, the journey of RMB has been long and arduous, taking in three broad stages of development," says Amol Gupte, Head of ASEAN and Citi Country Officer for Singapore. Its arrival as a trade currency has been largely successful (a quarter of all Chinese imports are already denominated in RMB). But its capital convertibility is still at an initial stage and the third phase of becoming a reserve currency is best described as 'just off the starting blocks' – joining the IMF's list of Special Drawing Rights (SDR) was scheduled for October 2016 and this is only the beginning. Becoming a meaningful reserve currency is some way off.

For RMB to gain traction, it must attain the ability to be freely-denominated, it must be easy to transfer in and out of China, and there must be capacity to co-mingle the two expressions of RMB (CNY in China and CNH in Hong Kong). 'Ease of use' also means establishing a regulatory environment conducive to commerce and creating a general setting which market participants are comfortable with.

Many commentators also argue that there is a need for China to open up its capital account, creating and developing its offshore financial markets so investors can hold RMB-denominated assets overseas. China's clearing infrastructure must facilitate easier movement and settlement of RMB across the world too. This is where the multi-bank China International Payment System (CIPS) project has a key role to play, enabling banks to offer their worldwide client-base settlement in RMB. The importance of ensuring deep liquidity in RMB both onshore and offshore must also be attended to. Only a handful of countries (including Hong Kong and Singapore) have so far used the currency swap lines that the Chinese government has opened up to enable market players to indirectly benefit from that liquidity.

Intrinsically linked to the development of China as an economic force is its way of approaching governance, land reforms, income inequality, healthcare, pensions, education, the environment and a host of other internal matters. These will all at some point intersect with and influence the financial flows of the country.

For corporate treasurers with a meaningful portion of their balance sheet in RMB, it will require an understanding of the influence of reform on their supply chain, in terms of their clients and suppliers. At the very least treasurers must understand how to link onshore domestic flows into offshore flows. But if progress was ever doubted, consider that just a couple of years ago money in China was effectively trapped cash. Today, the regulations allow RMB to be moved in and out under certain defined processes. It's a trend that just keeps going.

India: picking up the pace

In 2016, the IMF predict that India will grow faster than any other major emerging economy at 7.5%, eclipsing the 6.3% predicted of China in the same year. This has taken some effort by the incumbent political and banking leaders. Indeed, in the two years since India's Prime Minister Narendra Modi took office, he has taken a number of small but significant steps towards modernisation, liberalisation and opening up the economy to more foreign direct investment (FDI), making India a more business-friendly location. According to a Financial Times study, between January and June 2015, the country attracted $31bn of FDI, surpassing China ($28bn) and the US ($27bn).

The red tape has to an extent been loosened and many permits required to do business can now be obtained online. There has been increased spending on India's infrastructure. Corporate tax is due to be cut an unprecedented 25% during Modi's tenure and FDI reforms now allow up to 100% FDI in areas such as aviation and defence.

With an historical over-reliance on the banking sector for funding, corporate treasurers in India are certainly keeping a close eye on what is happening. "Discussions around development of a proper bond market have been around for quite some time and regulators are trying hard to push through, but the turn of economic cycle and loss of confidence is complicating matters further and shying

investors away," says Harish Barai, Senior Deputy Manager, Corporate Finance – Treasury at Larsen & Toubro.

In an attempt to diversify their funding needs some Indian corporates, in particular the highly rated names, have looked overseas to raise funds due to cost. However, companies can now raise funds overseas using the rupee. The so-called Masala Bonds look set to help internationalise the rupee and also deepen the financial system. The current Reserve Bank of India's (RBI) norms allow an Indian entity to raise a maximum of $750m per year through Masala bonds with a minimum maturity of five years. For corporates, the ability to issue such a bond will not only shield the Indian entity against the risk of currency fluctuation, but also allow for a more diversified range of funding sources and perhaps even lower costs moving forward.

Developments in the payments infrastructure have enabled corporates to develop centralised models facilitated by the use of sweeping and pooling arrangements. Indian multinational engineering firm, Larsen & Toubro, for instance has adopted this model. "Our cash flows back to the head office banks and we utilise technology to ensure that we have high visibility in order to avoid running idle balances," says Barai.

He favours the progressive approach, commenting that the regulators are removing lots of the restrictions for both foreign and domestic companies. "Before the Modi government came in, forms were being submitted to government agencies and they just sat there not being processed. Now we see these move through at much greater speed and it is my belief that in the next year or so India will substantially move up the ease of doing business rankings."

Soft skills: for the benefit of all

Without the right people and the right approach, a business will always struggle to excel at anything. It is an increasingly powerful notion that managing people to get the best from them is a most expedient model. The required skill – often referred to as a 'soft skill' – is not something everyone is born with. "The problem is that nobody teaches you how to identify what you need in human resources, how to manage staff that aren't performing – and how to manage those that are – and how to build good relationships with the banks," says Gary Slawther, Financing Advisor to the CEO at Octal in Oman. It is, he determines, "something that only comes with experience".

Soft skills include the ability to build relationships and to manage people and expectations. In a sales role this is vital, but it is increasingly a management requirement to get the buy-in of all stakeholders when planning change, for example, and on a day-to-day level, handling the peculiarities of people. Companies which overlook the value of soft skills do so at great cost, says Slawther.

But it is not just an individual manager's responsibility to create the right environment. Vivian Peng, Asia Treasurer and VP of Treasury, Flex Group says company culture allows the team to innovate in a complex environment. That same culture fosters "a great team spirit", informing Peng's belief that "their hard work, their ability to work as a team and also their willingness to learn" is the very key to success.

Christine McCarthy, Senior EVP and CFO, The Walt Disney Company says that when it comes to working with her staff, she steers clear of micro-management. "I learnt a long time ago from one of my mentors in banking that when you find someone who has potential, you give them enough rope to hang themselves but hopefully they won't."

> The best teams are always the ones where both men and women work together to achieve something that would otherwise be elusive for an all-male team or an all-female team.
>
> Jaime Lee, Regional Head, Treasury and Risk Management, Courts

As part of her remit to develop talent, McCarthy believes it is essential to keep high-potential people motivated. To do that you have got to give them the ability to make decisions and earn acknowledgement for the work they do. "I want them to be out in front getting the recognition they deserve; the downside risk is that they must perform and succeed. It can be a high-risk strategy on my part so I can't give everyone the same amount of rope; I have to discern who is ready for those challenges." However, she will never just "put them out to pasture; I keep my eye on them. The more they can do and the more they can achieve, the more they will grow as professionals."

When it comes to developing skills and knowledge, it is important to keep in touch with the wider treasury peer group too says Ingmar Bergmann, Corporate Treasurer and Head of Corporate Finance for Dutch real-estate firm, NSI. He is a firm believer that the international community of treasurers can help each other to do a better job. "If you want to take treasury to a higher level then you definitely have to communicate and open up to others, even beyond the company."

The most effective teams combine significant diversity – of personality, background, outlook and skills – but with a shared set of values. This is important, notes Mark Loftus, a Chartered Clinical Psychologist, an Associate Fellow of the British Psychological Society and Managing Director of 'The Thinking Partnership'. Just as shared values without diversity leads to stultifying group-think, so diversity without common values will lead to fragmentation.

Firmly believing that "teams become teams by working together on a common purpose", Loftus comments that it is nonetheless rare for corporates to focus on helping people learn the skills of being in a team. Help is out there but, at his own admission, he says the team-building industry has not always covered itself in glory, prone as it is to "psycho-babble and mumbo jumbo". Don't dismiss it all though, he advises. "People are right to be sceptical but at the same time, do look for the small percentage that is useful."

Dr Travis Bradberry, President at training and coaching services provider, TalentSmart, has a common sense approach. "If managers want their best people to stay, they need to think carefully about how they treat them," he notes. The talent of good employees, he notes "gives them an abundance of options". As such, managers "need to make

people want to work for them". In today's uncertain times, this is a trend that should be encouraged for the sake of all parties.

Blockchain: from abstract to treasury reality

Because the distributed ledger or 'blockchain' concept gets so much coverage it would be churlish not to give it a mention in a piece on trends. Most people want to hear how it can be used in the real world. Here are a few trending possibilities (and remember it is early days).

Supply chain efficiencies

As head of Port of Rotterdam's Strategic Finance & Treasury team, Tim de Knegt sees 'industry' close at hand (it is after all one of the world's business ports). For him an opportunity is being missed to align the logistical, physical and financial supply chains. In respect of finance, he argues that if stakeholders adopt a more "holistic" approach, the advantages could be significant. "Right now, it is very much point-to-point financing but the holistic approach could dramatically cut costs across the full supply chain."

In a manufacturing process that could involve 20 or more suppliers, traditional supply chain finance is wasteful, he believes. "If the whole process could be financed at one point only – so the end customer finances the producers – then multiple individual financing stages are removed." Doing so could save in excess of 10% of the total goods' value. This could be applied to just about any manufacturing process that involves movement of multiple constituents from different suppliers towards a finished product.

However, the biggest challenge in the transition to a holistic model has always been data sharing. Blockchain can allow each data provider to retain full control, indelibly recording the progress of the physical supply chain, the accompanying shipping documentation and the parts of the financial supply chain that confirm receipt and release payments along the way.

Commodities tracking

Tracking assets from production through to delivery is where Nick Weisfeld, Head of Data Practice at software and consultancy firm, GFT, sees real blockchain value being added. Whether that asset is financial (such as a bond) or physical (such as a commodity), he argues that "understanding where treasury's assets are located and who owns them will allow the department to operate in a more streamlined way".

GFT has produced a prototype which allows tracking of multiple physical commodities. With a number of high profile cases of fraud within the commodities market – typically the result of a failure to tightly control physical inventories – Julian Eyre, Commodities Product Owner at GFT says this prototype is intended to showcase blockchain's ability to create a full audit trail for each and every participant in the movement of physical commodities.

It will be of particular interest where proof of ownership and location of the physical commodity are essential for market participants. Warehouse receipt financing, for example, where there may be a number of duplicate and therefore confusing receipts created for a bank's financing of a commodities deal, may well be de-risked by this type of technology. This could be done by digitally capturing, locking down and tracking an underlying physical asset by features such as origination, current location, beneficial owner, certain attributes of its quality or grading, and its provenance.

Tracking is enabled by capturing data held by a unique identifier for each commodity 'parcel' (a consignment of iron ore or wheat, for example) through each stage of its lifecycle. "It would be possible to transfer the parcel ID through the value chain, literally to the ingredients on the packaging of the finished goods," explains Eyre.

A commercial settlement function is not yet included in the GFT prototype but parallel offerings from the likes of Bolero, the DBS/Standard Chartered partnership and others that follow may well solve this part of the commodities trade lifecycle too. Combining it with de Knegt's holistic supplier finance model would make for a compelling solution. Indeed, blockchain is trending now because there are some real-world applications for it that look like offering as yet unimagined benefits to corporates and corporate treasurers.

And bitcoin?

Bitcoin should be mentioned here as the first very public incarnation of blockchain technology, but at what stage of its development is it at today? It is supposed to be a virtual currency, without borders, but this looks like it may be changing, according to Australia's Sydney Morning Herald business section. The paper reported that four Chinese companies, which have invested heavily in bitcoins and the computer technology needed to create ('mine') the currency, now account for more than 70% of the transactions on the bitcoin network. China, it said, has become a market for bitcoin "unlike anything in the West, fuelling huge investments in server farms [or 'mining pools'] as well as enormous speculative trading on Chinese bitcoin exchanges". New York Times analysis further indicated that by mid-2016 these exchanges accounted for 42% of all bitcoin transactions.

The Sydney Morning Herald quoted Bobby Lee, Chief Executive of Shanghai-based bitcoin company BTCC, as saying one of the reasons the Chinese took to bitcoin in such a big way is that the Chinese government "had strictly limited other potential investment avenues, giving citizens a hunger for new assets". When speculative bitcoin activity in China in late 2013 went stratospheric, it pushed the price of a single bitcoin above $1000. A concerned Chinese government intervened, cutting off the flow of money between Chinese banks and bitcoin exchanges. This led to the massive interest in bitcoin mining and technology investments seen in the country today. The vast server farms used to mine the currency are powered by cheap energy sources found in the country (and less likely to be found anywhere else). The bitcoin mining machines in Lee's facilities alone use about 38 megawatts of electricity, enough apparently to power a small city. The Australian paper concluded that the bitcoin concept may now be less decentralised than first hoped. As a currency for global trade, the power it seems may yet lie with China, just not as expected.

As an interesting addendum to the bitcoin story, a survey in June 2016 by corporate networking company Citrix, shows that out of 250 IT and security workers in UK companies with 250 or more employees, a third said they were stockpiling the currency so they can pay cybercriminals in the event ransomware – illicitly deployed to lockdown systems – strikes their network. Some 35% of large firms (those with over 2,000 employees) said they were willing to pay over £50,000 to regain access to important intellectual property (IP) or business critical data.

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Building a treasury structure in the new banking environment

Simon Jones
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Many aspects of the corporate treasury and banking worlds have changed considerably over recent years. But whilst this newness has an aura of threat – we talk daily of crises, volatility, recession and risk – it is also filled with promise, excitement and opportunity like never before.

The best operators will do very well: leading banks will already be ahead of the curve in terms of their product and service offering, and opportunity is undeniably knocking for corporates and their treasury teams who are ready, willing and able to reconsider and optimise their structures. Of course, this begs a number of questions around the most appropriate response to structural reform. Simon Jones, Head of Treasury Solutions for EMEA, J.P. Morgan Treasury Services, takes the test on 'treasury in the new banking environment'.

How is the banking environment changing for treasurers?

One fundamental change affecting the industry, from a liquidity and investing perspective, is the impact of Basel III as it continues to roll out over the next few years. Institutions that have already implemented Basel III will almost certainly be looking for their corporate clients to tie their deposits more closely to the operating business they transact through these banks, and for good reason. As a result, the traditional approach to banking relationships is likely to evolve as banks become increasingly focused on linking deposits to an underlying operating business. Basel III will affect the cost and availability of credit for corporates and this will have a major impact on treasurers.

In addition to regulation, continual innovation in technology is driving huge structural changes in treasury, with companies from all sectors operating in an increasingly digital environment. In particular, there is a dynamic 'real-time' advance taking effect in the payments landscape. New payments providers and systems are coming to market changing expectations. And now even traditional bank clearing systems for both high- and low-value transactions are becoming real-time settlement tools. Faster Payments in the UK, for example – and similar systems from Asia to the US – represent a fundamental shift in attitude that treasurers ought to be bearing in mind. With consumers and end-customers now expecting real-time payments, it is essential that the banks and the corporates they work with can support these immediate transactions; there is clearly a demand on both sides of the relationship.

With Basel III changing the way banks are able to support corporate cash deposits, what strategy to bank relationships should a treasurer take?

The tradition of having a global transaction bank complemented by several different deposit banks is inevitably changing. This means treasurers need to look closely at how they split their operating services business, making sure that they have the right counterparties for depositing cash, whilst ensuring those counterparties have the robust transaction banking capabilities to support the day to day receivables and payables needs of the corporation or institution.

It is unlikely that we have seen the full impact of Basel III in the banking market, due to the different implementation timetables across different countries. It is increasingly likely treasurers will find banks reluctant to take on deposits that are not supporting operating business for a client. This is different to what was seen in the 2008 crisis and we advise treasurers to prepare now for any such eventuality. For the strongest banks, who have taken proactive measures to ensuring Basel III compliance, aligning cash placements with operating businesses is already a priority. These banks are able to support ongoing deposits, provided they are accompanied by underlying operating flows, ensuring their ability to respond efficiently to their clients' deposit requirements in any scenario.

With the continued consolidation and retrenchment of certain transaction banks around the world, treasurers must find the right balance of transactional bank relationships with strong

As the world becomes more digital and increasingly interconnected, the drive to interact more with consumers gains in strength.

counterparties, to create safe havens for their cash. It's worth noting that during the last crisis, corporate investors recognised the need to more closely evaluate their money market fund investments than they perhaps had in the past, resulting in some choosing to simply move money back to deposits with their core bank group. Taking all into consideration, treasurers need to plan not just for the cash they are holding now, but they should also attempt to anticipate the impact of future regulation on their overall investments.

Clearly there are significant implications for investment policies in the new and changing environment. How should treasurers be tackling this?

Treasurers with investment policies that have principal preservation at their core certainly need to address how they can continue to deposit with banks which charge negative rates on some of those deposits. In addition, MMF regulation is undergoing reform – a process that is still evolving in Europe. This too is something that treasurers should give consideration to when revising their investment policy. The new rules that we know are coming into place in the US, and may be coming into place across Europe, may test and challenge that policy notion of principal preservation.

Process digitisation is having a major influence in the new environment, especially in the field of payments. What considerations should a treasurer give to their operations with respect to the adoption of electronic solutions?

This represents an immense opportunity for both corporates and their banking partners as many more aspects of our everyday personal and corporate lives are being digitised. Treasurers need to work with their business units to understand emerging payments needs, for example. Treasurers and cash managers, with their banks, should be aware of changes to clearing systems but they may not be as familiar with all of the consumer-related digital payments initiatives currently gaining ground. There is a huge amount of activity in this space, mostly with the aim of making payments more convenient for consumers by allowing seamless and instant payments through almost any channel. As online direct shopping increases, it gives treasurers the opportunity to digitise more payment processes. This should be welcomed because it affords a potentially very positive working capital impact. Indeed, if a company can enable its customers – business or consumer – to interact and pay directly and in real-time, it can reduce its Days Sales Outstanding (DSO) quite significantly. What's more, it also gives immediate access to key metrics for credit decisions, which can in turn drive increased sales.

Treasurers have a strong role to play in creating awareness of, and navigating a path through, these new technologies. They can then engage with the rest of the business as it starts to support those new consumer habits more readily. But speed of transaction reconciliation also needs to be taken into account. The traditional banking model expects a transaction statement on a prior-day basis, reconciling the following day. This will no longer be satisfactory; businesses need to reconcile intra-day, in a real-time environment, because online consumers now expect to see their payments have been received and that their orders have been processed. And whilst visibility into the logistics flow of purchased goods can be tracked even on a mobile device, there is not necessarily the same ability to see where the payment is in that process. This is something that the banking industry – and certainly J.P. Morgan – is working towards.

With so many processes being digitised, how should a treasurer respond to the increased flow of data?

Data management is another very exciting area of development. As the link between business and the consumer becomes more direct, and payments and other information can be connected digitally, businesses can start collecting data that not only provides treasury with real-time visibility over cash flows, but also the ability to forecast on a real-time basis.

For example, businesses can leverage data from consumer credit or debit cards to harvest considerably more information about consumer habits. By marrying this information with profile data gained through a loyalty programme, for example, they can spot trends and target its consumer base with ever-more bespoke offers, driving more revenue. At J.P. Morgan we are already working with a number of clients and their data flows, helping them to spot trends and put in place initiatives that can steer them towards new sales opportunities, and of course using data to give treasurers real-time visibility in an automated way.

As treasurers become more fluent in new payment instruments and engage further with their business units and their banking partners, it enables them to obtain useful 'big data' derived information and knowledge. The insights afforded by those payment instruments are far richer than was ever available through traditional methods such as wire transfers or cheque payments.

As digital systems become ever more integrated, the question of cybercrime rises further up the agenda. What can treasurers do to ensure security?

As the world becomes more digital and increasingly interconnected, the drive to interact more with consumers gains in strength. While this has advantages making it easier and more efficient to do business, it can also expose the business to an increased cyber security threat. It is something we have to live with every day but it still needs to be top of mind. The treasurer, as a manager of risk, needs to be one of the leaders

within their organisation, ensuring the threats are being addressed and that prevention and detection are being invested in across the organisation, not just in treasury.

Treasurers need to have a robust platform and extremely well-trained employees to avoid fraud and protect the organisation. But equally, they must make sure they are using the new flows of data to provide 'early warning system' visibility into potential threats and breaches. Treasurers have not necessarily had close involvement with the business, particularly as new online initiatives have been launched within that company. In such a case, I recommend treasurers put on their 'good risk management' hat by ensuring that external partners – including fintech companies and banks – are not only providing convenience for consumers, but are doing so in a safe way.

As the banking environment has shifted, we have seen that banking relationships, investment policies and the approach to technology have changed too. What impact does all this have on cash-holding strategies?

Once cash flows have been accelerated, DSO has been improved through the deployment of digital solutions, and the banking structure has taken into account the ongoing regulatory impact, treasurers need to look deeper into that overall structure to be able to optimise cash holding. They need to make sure they are leveraging best practice – and technology – to make sure they can invest cash in the most efficient way.

With many companies sitting on idle cash, account rationalisation is a key consideration. As they progress through their digital strategy, from paper to electronic, we have found that it gives corporates the ability quite easily to reduce the number of bank accounts they hold. For example, as the flow of receipts changes, treasurers can review the role of certain accounts. In many cases it will have been set up for convenience – an account held perhaps just for local cheque deposits. But as the digital agenda rolls out, simplifying the account structure becomes easier and cash holding strategies can be enhanced.

And now we are seeing clients going one step further. Instead of collecting money in the subsidiaries and sweeping this up to the treasury centre, they are using 'on-behalf of' structures to bring that money directly from the receivables instruments to the payment factory or in-house bank. On-behalf of structures have been used for accounts payable – payments on behalf of, or POBO – for some while, particularly in the US and Europe. But we are increasingly seeing corporates move regular customers to direct payment, using a 'receive on-behalf-of' or ROBO approach. The main reluctance to ROBO adoption has been the potential impact to customer relationships. However, as new digital instruments appear, it actually facilitates a rethinking of how to improve those relationships. As more corporates decide they want customers to start sending funds to them in this new way, it aids adoption if, instead of providing new bank details, they also offer customers access to all the new digital payment options.

So as evolving policies and corporate business structures come on stream, what should treasurers be bearing in mind when seeking to adapt, and exploit these changes?

One of the key views that clients are already responding to is that their bank account and liquidity structures need to be flexible. They must be able to adapt to continuously evolving regulations and policies, and meet ongoing changes in their own corporate structure.

We are seeing increased activity with regard to corporate spin-offs, for example. Treasurers are starting to consider how they can put a structure in place that is flexible enough to facilitate this. If there is a need further down the line to spin off a division of the business, then that structure should make it relatively easy to separate it from, for example, the existing global liquidity management or cash management structure. With this in mind, corporate clients are now challenging the banks to provide more flexible account configurations – and certainly there is a greater adoption of virtual accounts that mean changes can be made almost at the flick of a switch.

As treasuries seek to redesign their bank account structures, they must be mindful of providing not only the capability to handle different corporate structures – arising through events such as spin-offs – but also, in response to evolving regulation, quick adaptability to fluid situations as those changes impact the business.

As the UK and Europe transitions into the Brexit environment, there are many unknowns regarding how this will evolve over the next couple of years. Once again, corporates need to think about their banking structure and partners and prepare for a number of potential scenarios. Another key consideration is European and global tax changes coming down the line. The OECD's BEPS initiative, the European Commission's Anti Tax Avoidance Directive, and Section 385 of the IRS tax code in the US, will all provide another level of uncertainty for affected corporates which must be met by a broad suite of options.

The ability to have a banking structure that could easily change from a multi-entity, multi-currency notional pool to a sweeping structure, or vice versa, is something treasurers need to consider as they develop a structure and select partners to support the changing environment. To make the most of the 'new normal' banking environment, and to ensure that the businesses are taking advantage of the digitised environment, treasurers must look at optionality in those structures, making sure they are sufficiently malleable to adapt to changing policy, corporate structure, regulation and legislation.

Key takeaways

- Regulatory, economic and technological drivers are changing the shape of banking.
- Consumer expectations are increasingly driving the corporate response to technology.
- Digitisation and real-time processes are treasury opportunities: closer relationships with internal functions and banking partners help treasury to drive business growth.
- Cybercrime remains a threat: treasurers are vital managers of risk when it comes to new approaches to technology and interconnectivity.
- Treasurers have a role to play in steering the business through the new technology space.
- Flexibility within bank account and liquidity structures is essential to achieve ongoing treasury optimisation.

Taking control: virtual accounts and centralisation

Virtual accounts have been receiving substantial attention lately – and it isn't hard to see why. This solution offers flexibility for corporates to ease reconciliation, improve cash flows and strengthen credit control. But one of the less discussed advantages of virtual accounts is the ability to move all domestic and cross border transactions of the company into one single location. We look at how this capability might help corporates build the treasury models of tomorrow.

Ask almost any leading bank what the hottest innovation in cash management is right now, and you are likely to get the same answer. Virtual accounts have been widely adopted by insurance companies, FX brokerages and pension funds for many years. Now, especially since the harmonisation of the European payments landscape, the solution has been turning more than a few heads in the corporate world too.

At a roundtable discussion hosted in early 2016 by Bank of America Merrill Lynch (BofAML), Matthew Davies, co-head of Product Management, GTS EMEA, noted that the payments solution has been coming up in nearly every client conversation since the beginning of the year.

"This year almost every RFP we have seen has included virtual accounts, either as a core part of the requirement or as a peripheral part that is on their roadmap," says Davies.

Davies is far from being the only banker seeing this trend either. "There is a growing interest, and it is something we are seeing in many RFPs at the moment," says Jean-Francois Denis, Deputy Head of Cash Management, BNP Paribas. "Some clients are already implementing projects and require solutions, while others are simply interested in finding out what we can propose. But overall the trend is there – and it continues to grow."

Anecdotal evidence of the growing popularity of virtual accounts is also supported by survey data. A recent Rabobank Treasury Barometer study found that a majority of treasuries are evolving to a more centralised treasury model, particularly in the area of cash management where 91% of treasurers say their businesses are endeavouring to centralise activities. Virtual accounts appear to be an increasingly popular facilitator for such centralisation projects, with the survey finding that 30% of treasurers are now considering virtual account solutions as an alternative to notional pooling structures.

The SEPA factor

Virtual accounts are actually not especially new or cutting in the corporate world – indeed from the 1990s onwards such structures were offered by certain banks in a number of eastern European countries, used mostly by financial clients. So what accounts for the sudden surge in corporate interest?

Andrew Bateman, Head of Treasury Software Solutions at FIS believes it is the growing sophistication of the solutions banks are now able to offer. Observing the issues that arise when large corporate organisations with multiple entities attempt to centralise, the banks have looked at ways of developing virtual account solutions that can make the endeavour less arduous.

"As companies began to centralise and rationalise their bank accounts, activities like reconciliation became more difficult," says Bateman. "Banks realised that virtual account structures could help by providing them with the information that they need to perform collections on-behalf-of (COBO). When centralising, virtual accounts aid reconciliation allowing corporates to benefit from lower transaction costs and greater visibility but without adding complexity to incoming payment processing."

When a treasury is collapsing multiple accounts down into a single account there is often a challenge around understanding precisely who is being paid for what. As Denis explains: "Treasurers need to be able to allocate the funds to the subsidiary of the group that the funds belong to." This is where virtual accounts come in.

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>
> Jean-Francois Denis, Deputy Head of Cash Management, BNP Paribas

Imagine a company using a payment-on-behalf-of (POBO) solution that uses non-virtual account methods. When the payment beneficiary receives the payment, on their account they will see it is not from the subsidiary it is doing business with but from the account owner (who in many cases is the shared service centre or parent company). This leaves them with the challenge of working out who exactly has paid them. If the payment gets rejected in clearing and is returned, the parent doing the POBO also has to figure out who it is it has been making the payment for, so that it can be returned to the subsidiary.

All of this is solved automatically by virtual accounts. In a virtual account scenario within BofAML, as the actual virtual account detail (VA Name and VA Account Identifier) is passed on to the beneficiary, when the beneficiary receives the payment it can see it has come from the 'virtual' account of the subsidiary. Equally, should a payment be rejected, the company paying on behalf of the subsidiary can see straight away which virtual account the payment has come from and return it to the right subsidiary.

"This is where it gets quite powerful, I think," says Davies. It is also where the advantages of a virtual account solution that uses virtual account numbers, not reference numbers for the underlying account – as some banks still use – are the most apparent. "You can't make a payment from a reference number – it always has to be from a physical account. That is why we think this is the winning virtual account solution for treasurers."

BofAML says that more than half of the client conversations they are currently having about virtual accounts concern centralisation projects. A few years ago, it was a mere two out of every ten clients. "Now even if clients are not looking at centralising their accounts immediately, they are saying that they want to achieve this sometime in the future, and asking what they need to do now."

Dick Oskam, Global Head of Sales for Transaction Services at ING, agrees that the treasury industry is now beginning to look beyond collections to see the centralisation benefits of virtual accounts. By opening virtual accounts for each entity

within a group and appending sub-level virtual accounts to these, he explains, clients of those entities can effectively remit to a central account (whether national, regional or global) using their own unique virtual account identifier. Like notional cash pooling, then, virtual accounts could enable corporates to allocate cash without segregating it physically.

It is a capability that could draw a lot of interest from treasurers at a time when regulatory requirements are raising questions around the future of notional pooling. For now, this form of multi-entity application for virtual accounts remains in its infancy. But with speculation that some banks may withdraw notional pooling altogether by the time Basel III rules are fully implemented in 2018, it is not likely to remain as such for very long. Indeed, if the way the banks are starting to talk about and market solutions is anything to go by, the shift may already be underway.

"We speak of virtual cash management – not just virtual accounts – because ours is a comprehensive offering," says Oskam. The bank claims that the Virtual Cash Management (VCM) solution it formally announced in August 2016, which integrates virtual bank accounts with administrative sub-accounts called virtual ledger accounts (which populate a multi-bank cash management dashboard), is one of the first of the 'next generation' of digital cash management solutions. VCM's liquidity management capabilities are central to this claim. "Whilst we do already see separate virtual account and virtual ledger solutions in certain countries these are usually only domestic," he says. "It is the combination of the two capabilities

The next level of centralisation

In rolling-out POBO and COBO in the Nordics, the treasury team at Roche show how it is possible to take centralisation to the next level by implementing new, more efficient treasury management processes across multiple currencies.

In 2013, Roche's IHB started to implement a full on behalf of setup in the Eurozone. By implementing payments on behalf of (POBO) and introducing virtual accounts for collections on behalf of (COBO), Roche was able to close bank accounts of subsidiaries in various countries. Today the in-house bank (IHB) serves as the only bank partner to 20+ companies in more than ten European countries.

With the expertise gained in these implementations, treasury decided the next step would be to roll-out the full on-behalf-of concept to Denmark, Sweden and Norway.

The base for this concept outside the Eurozone are residential currency cash pools in each country, containing zero-balanced collection accounts per legal (operating) entity and one main account. All accounts in these cash pools are legally owned by and in the name of the IHB and replace the existing bank accounts of the legal entities.

With this the IHB became the single point of contact for the banks, as well as for the affiliates. As Stefan Windisch, Cash Manager at Roche explains: "The affiliates have no need to hold bank accounts with commercial banks anymore; payments, collections, guarantees and all other services are processed or provided on behalf of in the name of our IHB."

This allows Roche to review all current interactions, processes and operations between the current commercial bank and the entities in the respective countries. Inefficiencies were identified and either de-commissioned or streamlined. Processes such as KYC, account opening – and replacement – and payment communication were organised centrally and brought up to the current standard. This included using xml communication for commercial payment instructions (pain.001), bank statements (Camt.53) or credit advices (Camt.54C).

One of the major gains for Roche with this implementation was to have full transparency on all payment and collection processes by providing one banking system to the affiliate in-house.

With this the affiliate has access to the full range of services required locally, but all provided in an efficient way. For example, one daily bank statement, containing all third-party payments, all cash pool movements, intercompany payments/receivables and interest is provided to the affiliate. Instead of relying on an anonymous bank helpdesk, the affiliate can now approach Roche Group treasury for any cash and bank related topics.

No 'copy/paste' exercise

Roche's IHB has reached the next level of centralisation with the implementation of POBO/COBO in Denmark, Sweden and Norway. The project in these distinctly regulated countries has not been a 'copy/paste' exercise. Currency specific requirements needed to be understood, considered and adopted across in the IHB.

Despite being a non-resident in these countries Roche's treasury team has managed to establish all business relevant bank-related processes to fulfil all payment and collection requirements. Hence, the IHB became their only bank partner and serves these Roche affiliates with an increased portfolio of services, such as one electronic statement for all transactions (internal and external), a lean KYC procedure and a globally compliant SOD setup. All this comes with reduced pricing for the affiliate.

This successful model will now be rolled out to Asia with Hong Kong as a pilot. As Windisch explains: "Running subsidiaries without bank accounts has many advantages for the Roche Group with regard to efficiency, transparency, security, standardisation and cost."

– and the fact that it operates cross-border – that makes it a very unique and powerful solution for our customers."

Going virtual

There is little doubt that demand in the market for cash centralisation solutions is strong. Banking services the world over are becoming ever more digitised at a time when treasurers are being asked to do more with less, whilst increasing cash visibility and control. Amid such a powerful concurrence of challenges and opportunities we should perhaps not be overly surprised that virtual accounts have been a recurring theme in the RFPs landing on the desks of banks this year.

But while a virtual account solution is certainly a powerful enabler of centralisation it is not a panacea. As Oskam explains, it is the same with the so-called virtual ledger: "When we were at the drawing board, we realised that virtual ledger accounts already address a lot of the challenges on-behalf-of structures, but not quite all. SEPA promised more centralisation, but it didn't solve the issue of interacting, for example, with local tax authorities. In some countries to get a tax refund companies still needed to have a local bank account to receive the payment."

By pulling together virtual accounts and virtual ledgers this obstacle is removed, allowing full cash concentration and visibility right across the group. Bank account structures can be rationalised, and in-house banks established without any expensive additional software. Straight through processing and reconciliation rates will increase and real-time information will be put at the treasurer's fingertips.

Broader appeal

Since much of the focus has until now been primarily on the receivables reconciliation benefits of virtual accounts many early adopters of virtual accounts have tended to be big billers, like telecommunications companies for example. But Oskam believes that ING's VCM solution could have a much broader appeal.

"If you look at mid-sized companies with a lot of online sales," he says, "rather than opening physical bank accounts when expanding into new countries, they could open virtual accounts with us. With VCM that company would be able to sell in different markets without needing, from an administrative point of view, to be physically present. There are many reasons why treasurers might want this solution and because of that we see it as being not only for large corporates but also mid-sized companies and everything else in between."

There is also a risk management benefit, Oskam adds, comparable to that offered by notional cash pooling. He draws on the recent Greek debt crisis as an example. Ahead of the referendum held by the Greek government on whether to accept or reject the terms of the Troika's new bailout regime, concerns were growing that Greece might leave the euro and return to the drachma. But using VCM, treasurers need not worry about the fate of their balances in Greece because their cash need not reside in the country physically. "So the centralisation we are enabling is also reducing risks for corporate treasurers," he says.

For that and all the above reasons, ING believe that treasurers could turn to VCM to help them continue to meet their liquidity management objectives post implementation of Basel III. ING emphasises that notional pooling is a service they still offer and are committed to, but greater choice for clients cannot be a bad thing in these times of regulatory upheaval. "Treasurers will make a choice depending on their needs and ultimately as to which solution fits best."

New structures, new markets

As banks continue to develop their virtual account offerings, FIS's Bateman is convinced that we will see ever more sophisticated structures being deployed by corporates. "It could be similar to what has happened in the virtual cards space; treasurers could start creating dynamic virtual accounts and, for instance, create a virtual account for a particular invoice. It would be taking the concept to a deeper level than merely having invoices for all a certain entities coming into a virtual account."

With no shortage of innovative applications being dreamt up it seems that virtual accounts are going to remain a hot topic in the treasury community for some time to come. In fact, the recent FIS payments and bank connectivity survey highlights that around 23% of treasurers are not aware of virtual accounts and half of those who are aware of the technology have some concerns about how they may operate in practice. This suggests that interest in the corporate treasury community may not have peaked yet. "There are concerns around what banks are actually able to offer," says Bateman, noting that there remains a huge degree of disparity in capability between the virtual account offerings of many of the leading banks. "If banks are able to satisfy their clients that they can actually deliver these solutions in the way they promise then I think we will continue to see growing interest."

Interest in virtual accounts is also likely to increase with market coverage. Although the availability of virtual account solutions is not yet universal, BofAML's Davies says that there is no reason why the solution cannot be expanded to include other regions. But any future expansion in coverage will ultimately be determined by the appetite of the bank's corporate clients.

"Every bank is now looking at how to take what is evolving out of Europe and deploy it globally, because frankly that is the demand we are getting from our clients," says Davies. "They are saying, 'we love this but we want it everywhere, not just in Europe'."

BNP Paribas' Denis agrees. "The availability in terms of country coverage and payments instruments is very variable on the market today," he says. "For instance we have deployed the solution in more than ten countries today and on both domestic SEPA and international payments. Some banks will have it deployed in fewer counties and some, perhaps, only within SEPA. So the availability is not really equal at the moment, and that is one of the ways I think this will evolve in the years to come."

Progress is already being made by the banks on this front. In Asia, BNP Paribas' solution is already live in 11 countries. Guillaume Flies, Head of Collections at BNP Paribas told Treasury Today back in 2015 that the bank will not be stopping there. "As for other regions – the Middle East and the Americas, for example – we are also considering ways to develop our solution in the countries and markets where we see the strongest demand," he said.

Cornelia Hesse

Head of Cash Management

BASF is the world's leading chemical company. The cash management function in the Germany-based Shared Services Center – BASF Services Europe GmbH – takes responsibility for the European bank account management. Given the scale of the operation, this demands tight control over key tasks such as account opening and closing, managing signatories, and validating year-end closing statements.

Problem…

Although BASF Services Europe is a long-haul SAP user, its core banking data had historically been stored and managed in a series of Excel spreadsheets. With manual processes and even paper-based analysis being executed in support of bank account management (BAM), it was increasingly apparent to Cornelia Hesse, Head of Cash Management, that process tracking, auditability and resource allocation was falling short of her required efficiency and effectiveness targets.

Whilst Hesse admits that aspects of BAM are "not amongst the most interesting tasks in treasury", she absolutely acknowledges the importance of clear and correct record keeping. A call for data from an on-site auditor, for example, must be handled quickly and with precision. The most desirable way to achieve this, she believes, is to automate the entire process, facilitating timely delivery of accurate data "at the push of a button".

Hesse had a clear set of goals to achieve. She was seeking to reduce complexity, paperwork and the time-consuming and risk-laden nature of manual BAM tasks through automation of all BAM processes within SAP. She also sought to create a procedure for heightening BASF Services Europe's audit compliance. This, she felt, would in part be achieved through electronic storage and archiving of all bank account data – including legal forms, terms and conditions and correspondence.

…Solved

Following a full scope of the market for solutions, a timely meeting with an existing provider – the SAP-certified financial technology and consultancy firm, Hanse Orga – revealed the most promising option for Hesse. The vendor had just announced that it was going to market with its own XML-based FS² eBAM (electronic BAM) offering.

Having signed up as an early adopter, the implementation lineup (sourced mainly from Hesse's team and internal IT) was subject to a tight six-month schedule. In order to expedite the project, Hanse Orga worked towards delivering a 'train the trainer' model. Working closely with a key member of Hesse's team during the set-up stage enabled the cascading of information to other BASF Services Europe personnel.

As the project progressed, this model created an exponential flow of knowledge across the whole team. It worked. The project finished one month ahead of schedule. It helped that there were no connectivity issues to report but Hesse's approach was such that the "house-keeping" of all data – ensuring it was de-duped and as clean and normalised as possible pre-migration – was managed to perfection in-house. "We like to be the master of our own data," she states. "It's easy to have a consultant helping but at some stage they will go. You must take responsibility for your own data."

With the solution fully rolled-out to the companies within the service group, and with new entities capable of being brought on-board immediately, Hesse has a clear sense of what has been accomplished. "I had to have a business case for the project application and I have achieved that," she says with justified pride. "Our data is always up to date, we can track all open requests and the documentation is always available. It also means any audit requests, wherever they are issued from, are easily managed. What we expected was met."

But Hesse and the team are not finished yet. Full automation, with end-to-end electronic processes between BASF Services Europe and all of its banks, is not yet a reality. This, she states, is not a reflection on Hanse Orga. "We already have the eBAM solution but we will only have true eBAM when the bank account opening, closing and changing process is fully supported by banks in an electronic manner," she explains. "This is what all corporates and banks need to work on."

The independent SWIFT CGI-MP workgroup (a multi-agency forum dedicated to progressing various corporate-to-bank connectivity topics) continues to engage all stakeholders in achieving this goal through the development of common message standards. In the meantime, having partnered with Hanse Orga in its move towards full automation, BASF Services Europe is very much in an advanced state of readiness for the moment this becomes a reality. And, adds Hesse, with the right tools in place, she is now insisting that all future cash management banking proposals feature the functionality to deliver eBAM.

Technology: standing at the crossroads

Without technology the world of treasury would be very different. It would be a lot more labour-intensive, that is certain. But what else is modern technology doing for today's treasurer – and more importantly what will it be doing tomorrow?

Let's start with a few choice numbers. In a recent survey of more than 600 global finance professionals from a range of sectors, sizes and regions, lack of budget was cited as the number one hold-up for 43% of respondents when it comes to full-on treasury transformation projects and for 61% when seeking a simple adoption of new technology. It looks like treasurers know technology is good for them but sometimes the business case just does not seem to persuade the board to release the funds.

Certainly, technology delivers operational efficiencies and enables treasurers to add value to other functions. It does so in part by providing analysis and reporting capabilities with the kind of depth, speed and accuracy that simple spreadsheets will never quite achieve. Even with this obvious advantage, treasury technology 'spend' suffers from the kind of roadblock that seems to mark it down as a 'nice to have' rather than a necessity.

Despite the grumbles about technology budget, the study (carried out by the consultancy, Treasury Strategies, and technology vendor, Reval) revealed that centralised structures are most prevalent. Some 46% of the survey sample claimed to have adopted this model. It is as well then, given the demands that such structures place on visibility and data management, that the most commonly used technology platform is the TMS (49% saying they own one). However, only 10% have access to an ERP for treasury duties and 27% still rely on spreadsheets (mostly in the mid-market segment).

The survey may have some vendor bias in terms of what questions it asked and how it asked them, but the report is still meaningful because it quantifies the responses of many treasury professionals. It presents a simple 'structure versus risk' conundrum for readers and unsurprisingly the top three strategic challenges (other than obvious regulatory hurdles such as Basel III or Dodd-Frank/EMIR) are cash forecasting (65%), cash visibility (59%) and risk management (47%). Drilling down into the risk perspective further shows that the biggest treasury worry is cash and liquidity risk (79%). This is followed by FX (66%), with counterparty risk, mid to long-term funding risk and interest rate risk reaching over 40% a piece. Commodity risk picks up the rear with 20%.

The bottom line of this analysis is that treasurers know what troubles them and even what can help resolve these issues but the fix – in the form of technology – is not always forthcoming. Despite the advantages that a meticulously selected and properly implemented treasury technology solution can afford its users, such challenges are still managed, in the main, by reviewing policies, processes and structures (a practice cited by 73%). Management by undertaking a review of existing technology or by the implementation of a new technology was cited by just 45% and 41% respectively.

Bright future

If these results are anything to go by – and at Treasury Today we hear similar comments and observations on a regular basis – then companies need to understand that treasurers and other finance professionals must be given the right tools for the job if they are to fulfill the expectations of their increasingly strategic roles with the kind of efficiency and effectiveness that can benefit all. Whilst simply throwing money at an issue and expecting it to go away is a mistaken practice, if the adoption of new technology is undertaken with due diligence then the position of treasurer becomes a far more useful proposition for all stakeholders, not least the boardroom.

> Things changed when the global financial crisis uncovered many areas of corporate treasury that needed to be smarter – and treasury technology vendors listened and responded with a host of solutions to help.
>
> Todd Yoder, Head of Derivatives & Hedging Strategy and Director of Global Treasury, Fluor Corporation

One treasurer who relishes the prospect of a tech-fueled future is Todd Yoder, Head of Derivatives & Hedging Strategy and Director of Global Treasury at Fluor Corporation, a multinational engineering and construction firm. He believes that "now is the most exciting time for corporate treasury in history". What's more, he feels it is only going to get better. "Things changed when the global financial crisis uncovered many areas of corporate treasury that needed to be smarter – and treasury technology vendors listened and responded with a host of solutions to help," he explains. "The rapid provider-consolidations seem to be behind us, and new providers are investing and building some great solutions."

Understanding what you already have

The vendor viewpoint, framed by exposure to many different client scenarios, is slightly more circumspect. "In treasury we still see a technology paradigm shift happening between the old legacy tools and the new cloud technology," notes Phil Pettinato, Chief Technology Officer at Reval. He notes that some companies are still struggling with disparate systems. They are using spreadsheets "in ways that they really weren't intended to be used – as operating applications rather than analytical tools". And although he notes a gradual shift from installed to cloud "some of that shift seems to be towards ASP which is just cloud hosting of legacy software". This leaves treasurers with systems that do not necessarily communicate well, let alone provide a global platform to assist growth and competitiveness.

Fluor Corporation may be amongst the eager exceptions but the status quo "still leaves a lot to be desired for many corporates," comments Pettinato. He does however accept that where systems are operationally embedded it is tough to disrupt that setup. "It's difficult to be innovative when you're stuck with old tools and old ways," he comments. But he offers a cautionary note that when yielding to the temptation to force innovation in such an environment "you don't get much of a return". If, however, the technological environment is replaced with state-of-the-art technology to begin with, he

Strong providers

The adoption of strong technology presupposes that the banks and vendors actually have the right technologies to offer. To this point, Stark (a vendor) argues that "banks do an excellent job of meeting their clients' expectations to support bank services online". Treasury technology vendors, he feels, "complement bank offerings and these providers generally develop functionality that fits the needs of their target markets". A partisan comment maybe, but the opportunity for treasury technology providers – bank and vendor – is to envision what corporate treasurers will require in, say, five years' time and then deliver it – and then keep delivering. This, after all, is their business and failure to deliver puts them in a precarious commercial position (especially with industry consolidation still on the cards). The convergence of cash management, working capital and the supply chain is a great example of how treasury is gaining strategic importance and, states Stark, "it is up to treasury technology to ensure the solutions are ready for these evolving needs".

However, treasurers do have significant influence on the product roadmaps of treasury technology providers. Leveraging social media and collaboration tools, for example, gives treasurers a greater combined voice that makes it very easy for their technology partners to understand the priorities of their client base. Any treasury technology provider that cares about growing with their clients will use these inputs, along with structured client advisory boards and user groups, to ensure that client needs drive a significant portion of the product roadmap (there is an element of pure commercial interest here too of course).

With this in mind, a lot has been done just in the past five years in terms of treasury technology development, says Yoder. He believes that there will continue to be advancement in a variety of areas including risk analytics and visualisation, bank account management, improved integration of core systems, standardisation in formats (especially around ISO 20022), treasury compliance, and ultimately treasury being able to work more creatively with a variety of business functions across the organisation. "I think the providers doing well in this space today are where they are because they have listened and been adaptive to the needs of corporate treasury, legislation and market trends – and I see this trend continuing."

But there is one area of new technology that has risen so far up the agenda in the past year that anyone would be forgiven for believing it was not only the remedy for all commercial misfortunes, but also that it was already in active service.

believes it creates a virtuous circle of innovation, which helps to explain Yoder's positive outlook.

For those stuck in a technological rut, it may even feel like a classic Catch 22 – progress has to be made in order to make progress. But maybe this is more of an excuse than a reason, when what is really needed is one bold step forward to set progress in motion. Whilst some organisations are focused on improving the efficiency of existing cash and treasury processes, driving a limited appetite for treasury automation and integration, other organisations are pushing the boat out more and seeking ways to transform their treasury operations into what Pettinato calls "value centres". These treasurers already see technology as an enabler to achieve their vision and are constantly pushing their boardrooms and the technology providers to deliver the features to drive this change. This, for Pettinato, is evidence of quite a bright light at the end of the tunnel.

But in the quest for optimum performance, simply throwing money at the problem is not necessarily the right approach. From Yoder's perspective, achieving such a goal is not so much about the use of a specific treasury technology per se but instead harnessing the capabilities and connectivity of the systems used. "In general, IT time is getting harder to find, so how efficiently and easily systems plug in is important to ensure optimum performance."

Perhaps one of the great levellers in today's technology space has been the advent of cloud storage and delivery. As Pettinato mentions above, the term is something of a catch-all for any system or application delivered from a remote server where the vendor typically takes the responsibility for its management. Notwithstanding nuanced explanations of what it is, or is not, Bob Stark, VP Strategy, at technology vendor Kyriba, estimates that approximately half of treasury teams leverage cloud technology in some form. As a result, it is missing out on some key benefits.

Indeed, he argues that the absence of cloud technology increases the risk for fraud, adds unnecessary cost to treasury, increases the need for internal IT resources, and restricts the ability for treasury to implement an effective business continuity plan. This may be true to an extent but it is a fact that many treasurers continue to maintain disparate systems across the treasury function and that these do not automatically integrate with each other. As Stark points out, "this impacts visibility into cash and liquidity, as well as risk exposures". This of course harks back to the key issues treasurers say they are faced with as brought to light in the survey results revealed above.

With organisations cognisant of the need to be more analytical and critical of their processes, the urge to fix the problem is perhaps now rising up the agenda. Pettinato sees ready acknowledgement by treasurers that today's cloud systems are capable of meeting the challenge. However, whether it is a TMS, ERP or other core platform that is being considered, engaging with new technology can be viewed as potentially increasing complexity.

Maintaining control

The key is to have data sources circulating within the same homogenised environment, if at all possible and to this effect, some organisations attempt to leverage the ERP systems they already have in place. Best-of-breed systems are impressive in themselves but if all data sources flow within an ERP, the fabled 'single version of the truth' might seem more probable, says Kevin Grant, Member of the Executive Board at financial software and services firm, Hanse Orga. For him, an ERP gives direct access to a host of functions such as planning,

treasury, accounts payable and accounts receivable, and supplier and customer contract management information, all in one location and available the moment it is updated – "even if it manually keyed".

Digitised data can be used for straight through processing and reporting. Business intelligence (BI) and KPI tools, which also reside with the same ecosystem, may also be auto-populated with this data. From here, it is possible to start building management dashboards to address the issues of the business "in a dynamic and real-time way", says Grant. This can even be viewable in multiple channels, from smartphone to desktop, and be capable of providing group-level information, with resources to drill down into regional, country and even customer level, offering user-insight into various behaviours that impact the company.

The counterpoint to this singular expression of company financial data is that, system-wise, this is asking for a monolithic structure; it will be complex, hideously expensive to build and operate. Installations of SAP or Oracle, for example, have a reputation for being resource-intensive, and criticism has been levelled at the user-friendliness of such colossal systems.

"But things have changed," retorts Grant. "None of the ERP vendors have been sitting back, failing to tackle ugly and unfriendly user interfaces; none have spurned real-time reporting," he states. The change in software user-experience, especially in enterprise software, is something that Pettinato (as a TMS vendor) is also witness to. The shift is driven by the need for business visibility and the need to make optimised decisions. But Pettinato further notes "a human angle" to this, with today's business software users being much more technologically advanced than before. "In using technology in their private lives it is driving the way they want to use technology in their business lives," he explains. Mobile devices in particular are now part of mainstream commercial activity, even if many treasurers still feel uncomfortable executing transactions in this way (despite the deployment of multiple control and security methods that make mobile as safe as a PC).

The aim, of course, for best-of-breed or all-in-one is to allow greater transparency, analysis and control over all business processes. But modern solutions (including mobile) also need to allow global process owners, particularly the treasury function, to respond more quickly to ad hoc requests and to meet the increasingly strategic nature of such enquires. If treasurers are then able to proactively provide information to senior management and the board, then the function raises its standing in the organisation. If senior managers can be provided with 'self-service' access to that information, and receive it in an easily digestible form (Grant suggests a 'dashboard' user-interface), then so much the better for everyone.

Know what you want before asking for it

If the case for a technology upgrade is accepted, Yoder warns that treasurers must be comfortable with what the subsequent implementation looks like, what systems they need and how the systems they select will communicate. In addition, there will be a number of key questions that should be asked of vendors (and of treasurers themselves).

First amongst these should be what their department objectives are and how these sit alongside expectations of treasury by the CFO, CIO, CEO and the board. "Many treasurers miss the opportunity to have strategic influence within their organisation, which corresponds to the requirements they ask of their technology solutions," says Kyriba's Stark. Secondly, and from the experience of one who has engaged with many treasury departments in his time, Stark notes that treasurers are often "misaligned" with internal information security policies when they select treasury technology. In the end, this increases internal compliance costs and creates unnecessary security and business continuity exposures. Preparatory work in this respect is vital.

But this technology article is concerned about tomorrow too and when treasurers are probing vendors, Pettinato urges them to ask the right questions about future viability of the technology and of the vendor itself. The treasury fintech space has seen many mergers and acquisitions over the past decade or so and anecdotal evidence suggests that as some of the VC money invested seeks a change of scenery, more consolidation is anticipated over the coming years. But with new, smaller entrants popping up and vying for business, sometimes in new niche areas, Pettinato says it is important that treasurers continue with appropriate due diligence to minimise vendor risk and technology risk, removing any operational liability.

It's new and exciting

Given that treasury technology spend can face a frustrating roadblock when trying to build a business case, talking about new and exciting developments may seem somewhat insensitive. But, as Yoder asserted above, "now is the most exciting time for corporate treasury in history" and familiarisation with new tools of the trade is an essential part of the remit, not least because the right technology is potentially the difference between surviving and thriving.

It is a well-worn statement of fact that corporate treasury has to do more with less. But it is the analytical capabilities of some of the newer solutions that are making this feat possible, says Yoder. "It is one thing to access information, but a system that can quickly create customised actionable reporting is instrumental in running lean and smart," he explains.
In practical terms, he is "personally really excited" about some of the new solutions that allow supply chain, procurement and treasury to work together to optimise cash utilisation "while reducing a host of different risks and strengthening relationships with clients, suppliers and sub-contractors".

This is clearly technology in action and the convergence of treasury, risk management, and working capital is a strategic direction for corporate finance teams that some vendors are currently committing significant development resources to enable. "Treasurers are increasingly being tasked with expanded responsibilities including financing the supply chain and protecting financial assets from a broader array of internal and external risks," notes Stark. To stay ahead of the curve, he argues that technology solutions are answering that call and that "sooner rather than later", treasurers will need to familiarise themselves with solutions that provide future core requirements such as multi-bank supply chain finance, simplified regulatory compliance for derivative accounting, and payment centralisation models such as ERP-to-bank integration. For Pettinato, the key is in finding where any new technology proposal adds value and not just seeing technology as an end in itself.

It may be that some solutions are viewed as just nice to have and that a cogent business case is to be found wanting. "Necessary versus nice to have is a matter of perspective," says Stark. "For those treasurers that want to be strategic and enable treasury to

deliver more value to the organisation, technology that integrates cash, liquidity, risk, and the supply chain is necessary." As the treasurer of an MNC, Yoder says his business case for new technologies is clean-cut. "If you want to run lean and smart they are necessary. The return on investment is strong, and the protection they provide is invaluable."

The great technological panacea

So, hands up who has not read or heard something about 'blockchain' in the past 12 months. Even if you still don't understand what it is or does or why it might help treasurers, bankers and frankly just about anyone who transacts electronically, the fact is that blockchain is getting massive amounts of coverage. We know many banks are experimenting with it, trying to find a way of seizing first mover advantage and leaping onto an already pretty packed-out exploratory bandwagon. We know too that financial technology vendors and platform providers – including the mighty Microsoft – are wracking their brains to find a way to exploit the multitude of benefits promised by the concept. Even the Bank of England's governor, Mark Carney, hinted that it could have a role to play in widening access and improving the resilience of the UK central bank's real-time gross settlement (RTGS) system and its £500bn of transactions processed each day.

Products are beginning to emerge now, most notably in the trade space. Bolero has an offering based on trade finance documentation as does the DBS/Standard Chartered partnership. And there is an offering from fintech firm, GFT, targeting the movement of physical commodities in the supply chain. But it is early days so the work must continue before useful momentum is achieved.

In a way, this is good news. Not only because something beneficial will eventually come out of all this endeavour but also because when it does, it will have been subjected to so much scrutiny by almost anyone with a passing interest that most if not all of the gremlins will have been ironed out before it starts work. In essence, the weight of expectation generated by the hype, and the sheer determination to make something useful out of it, means that one way or another blockchain will deliver.

Before its adoption in the financial services industry is assured, blockchain has to clear several significant operational and regulatory challenges from its path, suggests a new Standard Chartered report 'Blockchain – the road to mass adoption' (part of its 'Beyond Borders' series). "When it comes to some aspects of the financial services industry, adoption is still a little way off," says the report's author, Margaret Harwood-Jones, Standard Chartered's Singapore-based Head of Investors and Intermediaries, Transaction Banking. But, she continues, "there is no doubt that blockchain's real-time characteristic and ability to act as a public ledger of all transactions could revolutionise many parts of financial services, reducing risks and bringing cost savings among other benefits". These savings, when blockchain is applied to cross-border payments, securities trading and regulatory processes, could be in the order of $15bn to $20bn by 2022, according to estimates from the Santander banking group.

Harwood-Jones further argues that the success of blockchain depends on "smooth integration with legacy technologies". Solutions will face "potentially high costs" if this isn't achieved. She also raises the spectre of cybercrime, noting that blockchain must prove to the market that it is "at least as secure as existing technologies". But there is another more prosaic hurdle to overcome. Blockchain is likely to take years to come to fruition "simply because it will require harmonised standards and regulation agreed by the securities services industry, regulators and governments". The scale of this challenge, comments Harwood-Jones, "should not be underestimated".

Notwithstanding the justifiable caution surrounding the adoption of this ground-breaking approach, it is right that those engaged in the technology sector keep researching and pushing the boundaries of possibility. Even the august institution that is the Bank of England has seen fit to probe its potential, with governor Carney having unveiled a fintech 'accelerator' programme to encourage start-ups to come up with practical solutions to financial problems, amongst which will be consideration of the "disruptive potential" of blockchain.

Hot housing technology

The Bank of England accelerator programme will join established independent players such as Startupbootcamp FinTech and the long-running SWIFT project, Innotribe. These help developers with smart ideas to attract funding and to support and shape their ideas into workable solutions for the modern financial markets.

The Startupbootcamp FinTech programme is funded by industry partners typically with fintech interests (including so-called 'Angel' investors) and is augmented by a pool of 200-plus mentors drawn from multiple sectors and geographies. Nektarios Liolios, its Co-founder and CEO, says applicants either come with a piece of technology that needs a business model built around it, or they have a business idea and basic IT concept but need to understand more about the complexity of the technology required. All are about delivery to the broadest sweep of the financial industry and its customers, and even sector-agnostic tools for areas such as cyber-security. "We sit down with them, try to identify the gaps and work with them to fill those gaps."

The ability to plug those gaps is increasingly important because as complexity grows in the FI and corporate space, so too does the number of potential problem areas. The industry really is in constant need of new solutions – not just a flow of highly visible new consumer payments models but also those less visible to the outside world such as for the capital markets or almost anything back office-related.

The reason banks support accelerator programmes is that often they cannot find or fund development of their own; they want marketable and usable solutions and are prepared to invest in the work of others, but share the risk. A number of banks have 'innovation labs' but the problem here is that it can be difficult for new technologies to gain client acceptance. The bank response is to aim for the "lowest common denominator" just to get buy-in (and quicker ROI), says Liolios. As a result, he argues that often "the vision is lacking". However, if an organisation wants to be a leader and change the way things are done, he believes that projects must be "driven forwards bravely, not put on autopilot".

In practice, innovation is an active process that must engage with as many ideas as possible to test what works and what doesn't. The key to success with all innovative thinking, states Liolios, lies in "never being afraid to fail". This is where experts with new ideas come in, and of course where accelerator programmes and investors with vision take up the mantle of responsibility to get those ideas into the real world and into the working lives of treasurers.

BNP PARIBAS

Taking a flexible approach to centralisation

Centralisation has long been a key objective for corporate treasurers. But advances in technology and an evolving regulatory landscape mean companies today can take their centralisation projects further than ever before. And while centralising a treasury is seldom a smooth or swift undertaking, the prospective efficiency and risk management benefits make the end result worth the effort.

Jean-Francois Caillol
Cash and Forex Manager

Jan Dirk van Beusekom
Executive Director,
Client Advisory

Centralisation is far from being a new concept in the world of treasury management. Yet it is one that remains a key focus as treasurers of companies operating across multiple locations covet even greater efficiency, transparency and access to real-time information.

Although there is no one-size-fits all model for centralising treasury activities, establishing an in-house bank (IHB) has long been viewed as a fundamental first step. With industry research showing that treasuries across both developed and emerging markets are increasingly looking to centralise their operations, interest in IHB structures has naturally increased. "For many centralised treasury structures, an IHB is a prerequisite," says Jan Dirk van Beusekom, Executive Director, Client Advisory, BNP Paribas. "Since more companies are now busy centralising their treasury activities, appetite for in-house banks is growing."

The trend may also be a reflection of the treasury community's evolving priorities. A survey of corporate treasurers conducted in 2015 by BNP Paribas and The Boston Consulting Group, for instance, found that the top three treasury priorities for that year were managing risks effectively, improving process efficiency and improving cash visibility. Perhaps the IHB is becoming an ever more popular model because of a growing realisation in the treasury community that a centralisation project can be a catalyst for improvement in all three of these areas.

Top priorities

The international chemical and advanced materials company Solvay, headquartered in Belgium, attests to this fact. Several decades have passed since the company first implemented an IHB structure in the 1980s, and a lot changed during that time. Like many companies that implement an IHB structure, Solvay opted for a staggered approach: centralising as and when technological and regulatory change opened up new opportunities to do so. Each incremental improvement meant better control over those three areas – risk management, process efficiency and cash visibility – that treasurers say they care most about. It is an approach other companies looking to establish centralised treasury models could learn a lot from.

"Back when we first implemented the IHB there was no Single Euro Payment Area (SEPA), no euros and no internet," Jean-Francois Caillol, Solvay Cash and Forex Manager, notes. "But we wanted to centralise intercompany flows as far as possible. Over the subsequent years we saw the arrival of the internet, the invention of the modern ERP, the birth of the euro and finally SEPA. And because of those developments we were able to realise a number of technical improvements."

The treasury structure Solvay has in place today is based around an IHB that operates as a centralised treasury unit, maintaining control and oversight of the internal accounts of the individual business units across the countries the company is present in. Each business unit has an internal bank account in the books of the IHB and all payment and collection processing is managed by the IHB via SWIFTNet on either an on-behalf-of basis or, where that is not possible, on an in-the-name-of basis. Transactional exchange risk hedging and internal financing are also centralised through the IHB. For payments, treasury decided it was important to utilise SEPA from the overlay account wherever possible.

Assignment of both payables and receivables to the IHB was crucial since assigning only one would be "like trying to walk on one leg" Caillol opines. To do so would generate an imbalance in external and internal bank accounts and leave the company more exposed to FX risk. "We wanted customers to make their payments to the in-house bank and not to the individual companies; and we want suppliers to receive payments from the in-house bank and not from the individual companies."

Centralising cash, foreign exchange and inter-company financing together meant Solvay's exposures could be more easily identified, measured and managed and unnecessary losses reduced. "It's much easier to monitor counterparty risk," says Caillol, "when your cash is not spread across different accounts all around the world." Through having a centralised view on commercial FX exposures by monitoring Accounts Payable (A/P) and Accounts Receivable (A/R) assignments by business units, Solvay's treasury has also attained greater visibility and control. "If you improve your processes on payments and collections, you will also be able to improve your days payable outstanding (DPO) and days sales outstanding (DSO) and hence improve working capital management," says BNPP's van Beusekom.

Overcoming challenges

Seeing the improved transparency and control centralisation supports at Solvay, there is a growing appetite to establish more centralised treasury structures. But treasurers should be under no illusions: challenges inevitably arise in the transition from basic cash and risk management processes to more sophisticated models. Solvay's treasury knows this from hard experience.

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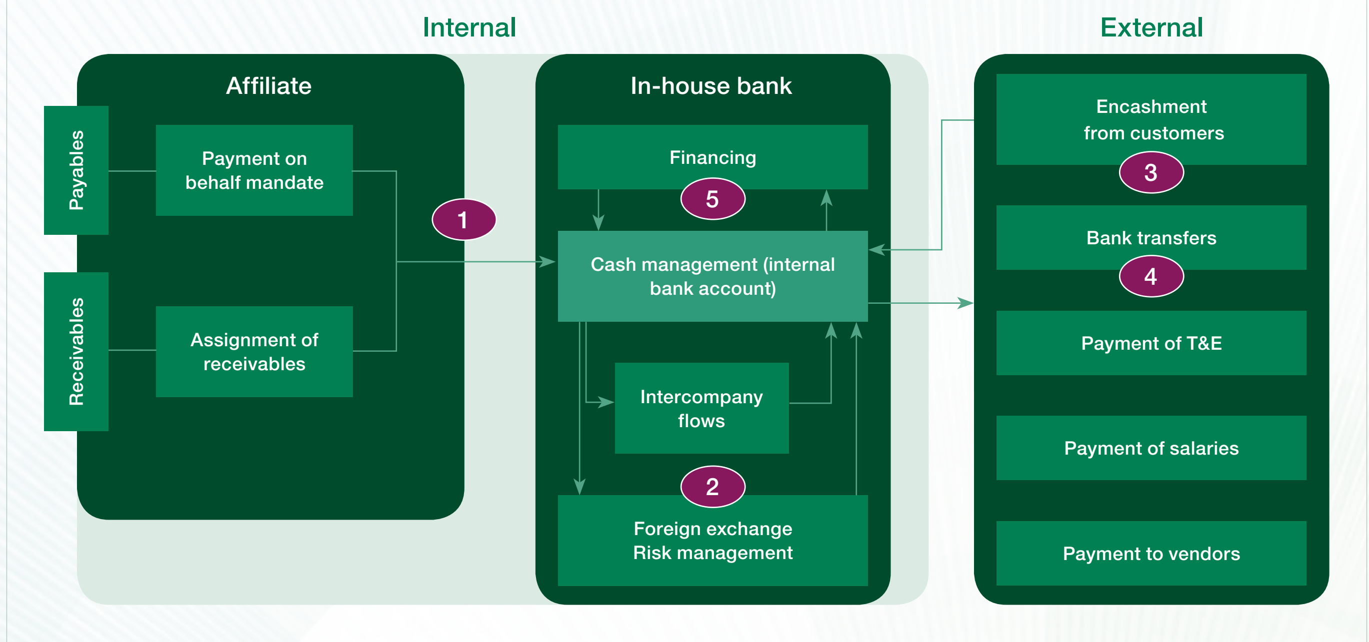


Source: Solvay

"Regulation remains one of the biggest obstacles to centralisation," says Caillol. "Our model works very efficiently in open economies like those of European countries, for example, and the US and Canada. But when it comes to countries like Brazil or South Korea that have currencies that are non-convertible or more tightly regulated, it becomes much more difficult."

Van Beusekom agrees that it is the specific regulations encountered in some of these more challenging markets that makes centralisation difficult for companies. He advises companies seek to adopt a more flexible approach. That indeed was one of the things that van Beusekom views as most impressive about the approach taken by Solvay. "Not all payments can be on-behalf-of," he says. "For that reason, being flexible is so important. For some entities you will be able to have payments on-behalf-of (POBO) and in others it will need to be payments in-the-name-of. Treasury would still be centrally organised, but it would mean using the accounts of local entities when that is required. It should be about integrating the flows as much as possible into the centralised model, but accepting the limitations."

Having a flexible, adaptable model is obviously beneficial in the sense that when regulations change in certain markets, it is relatively straightforward for treasury to respond and take advantage. It was this adaptability that allowed Solvay to increase centralisation after the introduction of the euro and SEPA. Caillol believes it will continue to be of benefit as the different regulatory environments Solvay operates in continue to evolve in the years ahead. "While there are restrictions in certain countries, the picture is constantly evolving. Take the FX reforms we've seen recently in China, for example. We know when countries open their economies we are ready to implement our system there."

Systems and processes must also be ready to adapt to changes within the company, as well as changes in regulatory environment. In the case of M&A, for example, Caillol says there is sometimes a need to use transitory services and develop alternative solutions as treasury carves out existing companies and migrates new entities to a compatible ERP. Such flexibility helped minimise disruption after Solvay completed its acquisition of US based materials technology and speciality chemicals company, Cytec Industries, in 2015. "Today we have a model that has not only demonstrated its effectiveness but also its ability to evolve with both internal and external changes."

A helping hand

Before embarking on a centralisation project of their own, Caillol and van Beusekom would encourage treasurers to consider very carefully what they want to accomplish and what model fits best for their particular company and then bring in the technology and banking expertise to help them reach that goal.

Technology was certainly a critical piece in the puzzle for Solvay. Before the arrival of the modern ERP system, there was a limit to how far the company could take their centralisation initiative. Indeed, the structure the company has in place today would not be possible, Caillol insists, without a very powerful SAP system, SWIFT connectivity and an intranet platform enabling clients to access their statements and perform transactions. "An IT system that is well designed and maintained is an absolute necessity," he says. "For us it is vital to support the complexity of our volumes."

Solvay's story also highlights how successful centralisation rests on true cooperation between banks and their corporate clients. For companies looking to centralise like Solvay, BNP Paribas offers a dedicated implementation project manager who maintains a dialogue with the clients' cash management team throughout the life of the project. On a more general level, the bank additionally provides educational opportunities for clients to learn about different approaches to centralisation and discuss these with the bank and their peers. Van Beusekom says: "We organise regular workshops and Q&A sessions and other events like our Cash Management University where treasurers can meet and discuss projects and share frameworks with corporates thinking about adopting these types of structures."

From the perspective of Solvay's treasury, these services are an invaluable resource for any company endeavouring to centralise.

Welcome to the future of cross-border payments

Wim Grosemans, Head of Product Management International Payments, BNP Paribas
Wim Raymaekers, Global Head of Banking Market, SWIFT

What do you think will be the biggest disruptive force in the payments industry in the coming years? Most treasurers, when they learn about the SWIFT gpi initiative, are left in little doubt: SWIFT gpi will bring a renewed client experience for users of cross-border payments.

At BNP Paribas' Cash Management University in May 2016, a poll was conducted of the 200 corporate treasurers in attendance before and after a presentation on SWIFT's global payments innovation (gpi) initiative. Treasurers were twice asked the question: what do you think will be the biggest disruptive force in the payments landscape in the coming years? Before the presentation, SWIFT gpi polled barely a handful of votes. After the presentation, it was the near unanimous winner.

"At the start, treasurers didn't know precisely what SWIFT gpi was about so they didn't vote for it," says Wim Grosemans, Head of Product Management International Payments, BNP Paribas. "But after we had finished explaining what it means, well, then everyone wanted it." The story shows just how excited treasurers become once they learn what SWIFT gpi is setting out to achieve. So, for the benefit of any treasurers still in the dark, what exactly is SWIFT gpi?

A game changer for cross-border payments

In simple terms, SWIFT gpi is a SWIFT-led initiative gathering 70+ banks across the globe (which represents the vast majority of worldwide payments volume) intended to improve corporate treasurers' experience when making cross-border payments by increasing speed, transparency and end-to-end tracking of transactions. A forerunner to the initiative, BNP Paribas is also a very active member of the panel of 20 leading banks who signed up as SWIFT gpi pilots. Treasurers have long suffered from inefficiencies when making cross-border payments. Unlike domestic payments, the processing of cross-border payments is dependent upon not just the debtor and creditor banks, but also different correspondent banks and, potentially, different clearing systems. The lack of synchronisation is a source of errors and delays that creates more work for the corporate treasurer.

Through collaboration with the banks signed up to the initiative, a new set of strict business rules has been developed to make the process much smoother. It will mean that banks will be able to offer a greatly enhanced payments service to their corporate clients, one that boasts same day use of funds, transparency of fees, end-to-end payments tracking and the certainty to have remittance information transferred unaltered. Each bank will have the responsibility to translate the innovation brought by SWIFT gpi into a value proposition for their customers. Given the opportunities these improvements will present to treasurers to more efficiently manage their cash positions and improve working capital management, it is, perhaps, no wonder that the initiative is causing such a stir in the treasury community. "Ultimately, the initiative is designed for the corporate treasurer," says Wim Raymaekers, Global Head of Banking Market at SWIFT, "and we think it will improve their lives exponentially."

Building on existing technology

Treasurers will be pleased to hear that they will not have long to wait either. Results from the pilot launched earlier this year are to be presented at Sibos, SWIFT's annual financial services conference, with the service set to go live in early 2017. Raymaekers says that one of the key reasons SWIFT has been able to make SWIFT gpi a reality in such a short space of time is the decision to not pin everything on still-nascent technologies – like blockchain – that are going to require a lot more time to develop. While Grosemans and Raymaekers are as excited as everyone else in the industry about blockchain, for the time being SWIFT gpi will focus on the technology banks have in place today. Additional innovations will be incorporated into SWIFT gpi as and when new technologies become ready to deploy. Continuous improvement is a key feature of SWIFT gpi.

"We made a conscious decision at the start of this initiative to first gather banks to design solutions on the existing technology," says Grosemans. "That was the only way we would be able to develop a solution quickly that would have benefits for the corporate treasurer."

As SWIFT and the banks consider how the solution will develop, Grosemans would like to encourage corporate treasurers to join the discussion. "We are extending an open hand to corporate treasurers. We want them to be included in the conversation so that we make sure we are addressing the pain points that are important to them and bringing relevant added-value. Ultimately, we are doing this for them. But the founding fathers are indeed the banks, and it is for us to work together before taking our innovation to the market.

Corporates to join in the conversation

Referring back to BNP Paribas Cash Management University, Grosemans says the need to involve corporate treasurers in the development of SWIFT gpi is one of the reasons why industry events are so important in terms of raising awareness in the treasury community. "After the presentation, SWIFT gpi was what treasurers thought would have the biggest impact on the industry in the coming years. It shows that education and providing information to treasurers is going to be important as we look to progressively include them on this journey." SWIFT gpi will be deployed step by step. Current schemes will continue to coexist with the new SWIFT gpi. This is not a revolution, nor a big bang but rather a smooth and steady transformation of the correspondent banking business with a new standard progressively settling in. But then, even Rome was not built in a day.

First class relationships

It is often said that the quality of your business depends on the quality of the relationships you enjoy with your counterparties. And in recent years, corporate treasury departments around the world have been placing an increasing amount of scrutiny on these relationships as the banking landscape evolves. What then are treasurers looking for in their banking partners today and how can maximum value be extracted from these going forward?

Treasurers have been keeping a keen eye on the financial press of late, and for good reason. It seems that not a week goes by without one of the world's banking institutions announcing either staff cuts, a restructuring, the closure of their business in a certain market or, in some very high-profile cases, a nearly complete exit from certain lines of banking all together.

This is perhaps not that surprising; after all, it has been an especially challenging time for banks around the world. In the wake of the global financial crisis, banks have been bailed out by governments, seen credit ratings decline and also been hit with a glut of regulation. Combined, these factors are limiting the ability to act as they once did.

But banks are not only being pressured by the regulators. In recent years, technology has progressed to the stage where non-traditional players can enter the financial industry, offering products and services that can sometimes go above and beyond those offered by established financial institutions. In the retail space, payments and funding are two prime examples of where these fintech firms are having a big impact and disintermediating banks, and there is no reason why this couldn't happen in the corporate sphere.

Despite all these changes, one statement remains true: corporates need banks, just as much as banks need corporates. A bank remains a critical counterparty to any corporate operation and a key tool in ensuring the business operates smoothly, day-to-day. But the recent changes in the financial services industry has certainly placed a renewed focus on bank relationships and the risk these can pose to the business. And it is very likely that this will only intensify and evolve over the coming years.

Seeing banks differently

It is not an exaggeration to say that the global financial crisis changed everything when it comes to the banking sector and how it is perceived by corporate treasurers.

As Ricky Thirion, Group Treasurer at Etihad Airways outlines, the biggest change for treasury in the wake of the crisis, has been around how Etihad perceives the safety of its counterparties, especially the banks.

"As you enter into a global crisis, you ask yourself fundamental questions about risks you are facing, especially with financial institutions where it profoundly changed people's views on credit risk," he says. "I think for many of us that will, in our lifetimes, be the biggest thing we remember about that time."

Indeed, the crisis provided a severe wake up call to corporates with regards to the over-reliance that many had on their banks for funding. The larger names, almost instantly, began to diversify their funding strategies and other companies soon followed. This point is highlighted by the below chart taken from the 2016 Allen & Overy Corporate Funding Monitor study. As it clearly depicts, during the years of the crisis, bank lending fell dramatically, whilst bond issuances increased. More recently, however, bank lending has increased, returning to pre-crisis levels in 2015 – at the same time bond issuances have also steadily increased.

Yet, Craig Kennedy, Partner at EY, is keen to point out that despite the recent increase in bank led funding this doesn't mean that there has been a return to the status quo. "Corporates are now obtaining their funding from broader, more diverse sources," he says. "Moreover, in many cases, funding isn't provided as traditional loans but rather through alternative products such as supply chain finance." Indeed, this nuance is highlighted in the study which states: "Companies (in 2015) found they could raise money more cheaply and in more ways than ever before. The new normal that is emerging for corporate funding is a lot more complex than it used to be, but it's working."

Evolving expectations

However, it is not just funding dynamics that have changed for corporates. The whole spectrum of what corporates expect from their banks and the price that they are willing to pay for this has also altered.

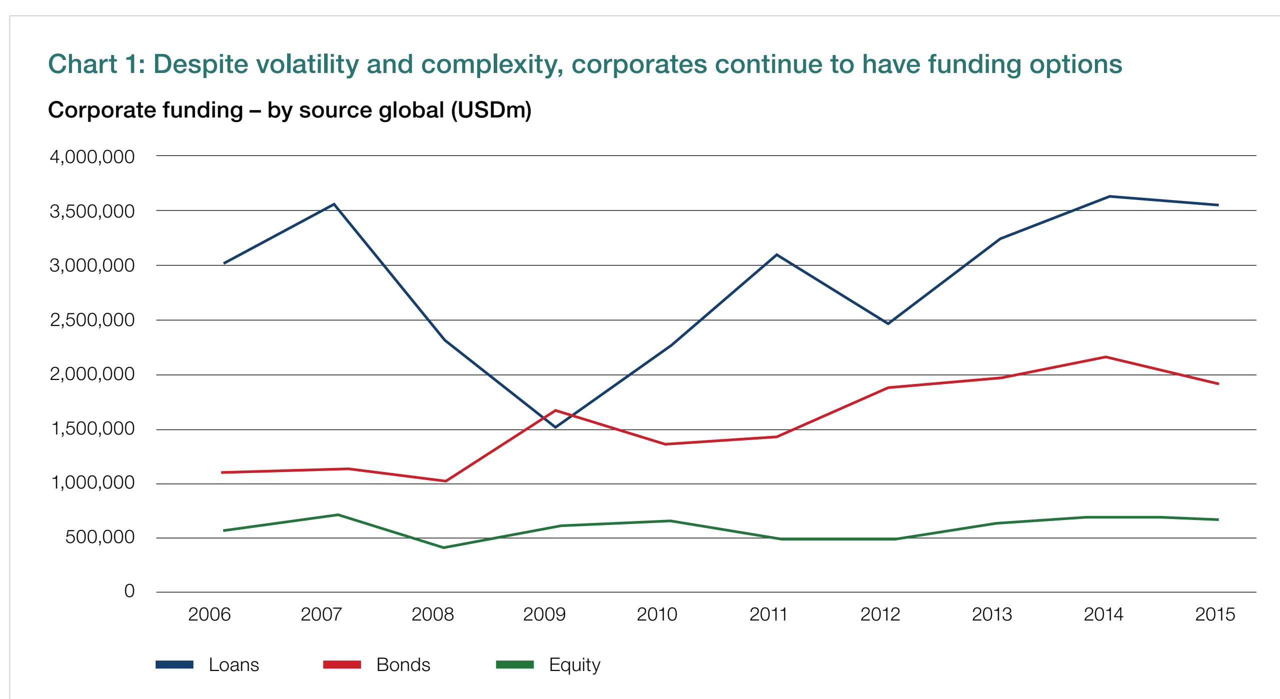
To highlight this, David Kelin, Director, Academy at treasury consulting firm Covarius, outlines how in the days before the crisis the banking sector was largely homogeneous and commoditised, particularly in respect of the global banks and the products and services they offered. Price, therefore, was often the main differentiating factor.

Today, this has changed significantly. "Corporates are using a multitude of different selection criteria that goes much deeper than pricing," says Kelin. "Banks today are quite different from one another in terms of what they can offer, so corporates are looking to see if the banks can provide suitable credit, if the bank has a sophisticated product suite, if it is committed to certain markets and the business more broadly and so forth."

Price, of course, remains important, but there is a willingness to pay more should they excel in the areas important to the corporate. "No corporate will say they will pay more to their banking partner, but I have worked with clients recently who have paid more for a service simply because they thought the bank offered much more in other areas, or was the only bank offering that service," adds Kelin. "This is a complete change from the pre-crisis days."

Michelle Dovey, former Director of Treasury at Informa, echoes this point: "I think that value is important. For those companies outside of the top tier, it is necessary to conduct a robust cost-benefit analysis to ensure that you are getting the best deal for your money. I wouldn't necessarily always select the cheapest provider, if I didn't think their offering could live up to expectations."

What is it therefore that corporates expect? For Dovey, her key expectation is for the bank to be loyal and look to forge a strong working relationship with her company. Making reference to the changing business plans of banks she says: "I want to work with a bank that will be there for us in the



Source: Allen & Overy Corporate Funding Monitor study 2016

long-term and who understands our business and the direction we are heading in. This is an absolute must in today's environment."

Of course, the products and services that the banks offer are also important and Lesley Rogers, Regional Treasury Manager EMEA at AT&T, lists other criteria that must be delivered which include: robust products and offerings, a host to host facility; competitive tariffs and products to help reduce charges; electronic banking capabilities which are secure and have self-administrative offerings; one team for global documentation and customer services that are responsive and act in a timely fashion. Robust digital security has also been noted by treasurers as being an ever important consideration.

Yet, in similar fashion to Dovey, it is a relationship and honest two-way communication that is the key criteria for any bank wanting AT&T's business.

> "I want to work with a bank that will be there for us in the long-term and who understands our business and the direction we are heading in. This is an absolute must in today's environment."
>
> Michelle Dovey, former Director of Treasury, Informa

Relationships or partnerships?

It is clear that corporates are calling for a relationship with their banking partners, but this is a fairly abstract term with multiple meanings. So, on a granular level, what is it that treasurers are expecting from this relationship?

For Chris Donohoe, Assistant Treasurer, Ingersoll Rand Plc. he is expecting the banks to understand his operations and objectives and work with him to meet these. As he highlighted last year at an industry conference, too often banks are coming to him with off-the-shelf products that don't really meet the needs of a complex business. "What I'd like to see," he added, "is banks taking the time to really get to know us." Donohoe hoped that banks would then be in a better positon to offer a more educational approach when interacting with their clients, enabling treasurers to get the most effective use of a solution.

This point was echoed at the conference by Adam Boukadida, Deputy Treasurer at Etihad Airways, who said: "Banks have to understand our business and become a strategic partner rather than just looking at us as a sales opportunity." With Etihad operating in more than 75 countries it has a complex business approach; banks must be able to understand the fundamental processes of their clients' businesses as well as its technical treasury function.

Based on these statements, it seems that corporates are perhaps looking for more than just a relationship and are asking for the bank to be a business partner, almost akin to an extra member of staff in the treasury.

Delivering on expectations

Indeed, banks are recognising this need and in recent years many have pushed forward their advisory capabilities with similar gusto to their products. But market realities can sometimes curb even the best of intentions and the aforementioned regulatory burden under which the banks are currently operating is, in many cases, limiting their ability to offer the necessary products and services, let alone be a strategic partner to the business. As EY's Kennedy points out: "Banks are altering the services they provide to their corporate clients. And some are pulling out of certain services and/or areas even when there is significant client demand."

Kennedy goes on to highlight how, in recent months, he has had conversations with numerous treasurers who have found that no bank is willing to offer them a certain product or support them in a certain area. "This is not because there is something wrong with the corporate client, it is because there is simply nobody providing these services anymore."

This has also been a trend noted by Dovey. "There is less choice for treasurers today," she says. "Banks are retreating into the same products and markets where they make the most money whilst taking on the least risk." She provides US private placements as an example of this trend. "Before the crisis, this was purely the domain of the US banks. Now every bank is pushing this product, whilst, on the other hand, there are very few banks now offering European cash management solutions."

This is, of course, a big issue for corporates. "The treasury and cash management operation is business critical," says Kelin. "And if a bank pulls out, it creates numerous issues around payments and collections, which the business is dependent on. As a result, even rumours of a bank pulling out puts fear into corporates and may make them take a closer look at their banking group."

Managing the relationship

Taking a closer look at banking groups is, in fact, something that many corporate treasury departments are currently doing and many are switching. As a study produced earlier this year found, the key challenge for European treasurers in 2016 has been finding a new banking partner.

If you are a corporate treasurer with a stable banking group at present, you may be the envy of your peers. But, this is not a time to rest on your laurels, as shocks do happen. So how best can corporates and banks come together to create a healthy long-term relationship?

For Covarius' Kelin, the key is communication. "Whilst corporates are demanding that their banks be honest with them, banks are also wanting to have frank and honest discussions with their clients to better understand their strategy. Given the limitations placed on banks at this present time this is important to ensure that they continue to offer the right products and services to each individual client. I don't think banks are afraid to say 'we can no longer help you' anymore."

Also, being open and honest can have additional benefits. Kelin, for instance, has had numerous conversations with

BROCADE

Case study

Brocade Communication Systems – Scoring your banking partners

Being open and forthright with your banking partners can be challenging if the internal mechanisms for evaluating these are not well developed. Here Brocade outlines how it solved this challenge and derived numerous benefits from creating greater effectiveness around evaluating and communicating with its banking partners.

In the past, the relationships between Brocade and its banking partners were less than optimal. The existing process for bank relationship management was not structured, nor was it comprehensive. In fact, the evaluations on banking partners were mainly produced from fragmented feedback among the treasury staff.

Chris Hanson, Assistant Treasurer, explains: "Brocade was not able to effectively assess overall connections between our banking partners and establish meaningful bank relationships." As a consequence, the other business units in Brocade could not properly select the right banking partners for their specific needs because they were lacking an accurate assessment on their banks. The following issues needed to be addressed:

- Lack of systematic tracking of corporate banking expenditures vs revenues received from each banking partner.
- The gap between how treasury views their banks and how business owners view their banks.
- Evaluation's scope was limited to treasury, other stakeholders were not involved.
- Lack of effective communications between Brocade and banks when it comes to performance issues or improvement areas.
- Inconsistent documentation with regard to overall performance of banking relationships.
- Lack of tools to evaluate and enhance bank relationships.

The scorecard solution

In 2014, Brocade's treasury established a bank relationship scorecard – an internal tool to determine strengths and weaknesses of each bank. Within the scorecard, specific cash management services by each banking partner were categorised into groups including bank products and customer services, capital management, administration, pricing, geographical footprint, and banking technology. The treasury staff graded the banks on a sliding scale from one (below expectation) to five (above expectation) and final scores were then calculated. Any time, if a bank rated below satisfactory, detailed reasons were given on a separate summary report. The results were communicated to the banks for follow-ups and improvements. Ultimately, it significantly improved bank services and relationships, resulting in higher customer satisfaction.

Angie Qian, Senior Treasury Analyst, explains: "we used the tool to communicate with our banks regularly. It helped to objectively communicate positive and negative feedback and supporting documents to our banking partners. Our banks appreciate our candid feedback and re-committed when necessary to improve their services and pricing where possible."

Furthermore, treasury developed a wallet distribution model to analyse banking expenditures and revenues with each banking partner. The wallet distribution is an effective tool to provide the company insight into the expense and revenue expectations of a specific banking partner. It facilitates quicker decision making around selecting the right partnership for major services such as debt refinancing and stock repurchases. The company is now confident that the decisions made involving banking partners maximise all of their banking relationships.

Relationship results

The treasury team was able to conduct intensive reviews and evaluations of its banking processes because of this holistic banking relationship solution. The successful rollout of the scorecard and wallet distribution was achieved within a short period of time. The solution enabled Brocade to quickly eliminate one of their domestic banking partners and enhance international bank structures, resulting in $300k annual savings in bank fees. It also played a key role in selecting the right banking partner for a cash management optimisation project.

Treasury's leadership at Brocade in innovating a comprehensive scalable global banking relationship management solution has improved all areas of the organisation. Brocade's treasury is changing the way the company is thinking about the banking relationships, by getting all areas of the company to work together proactively evaluating and managing their banking partners. "Our goal is to implement a creative and efficient solution that leads to optimal decisions and results for the business," notes Hanson.

KERRY

Case study

Kerry Group – The RFP as a relationships tool

While some treasurers may simply see the RFP as a functional tool that allows the treasury to understand its different options and make an informed decision when implementing a new solution, Trevor Horan, Treasurer, Global Cash & Liquidity at Kerry Group, believes it can be more than this – and, in fact, that it can be an effective relationship management tool.

For Horan, the key to achieving this is to make the RFP process open and transparent. The openness derives from ensuring that the tendering process is open to all banks (something which some may argue is ill-advised given the additional workload this creates for the treasury). For Horan, this is misguided. "I believe that all banks the company has a strong relationship with should be offered the opportunity to win the business. By doing so, we demonstrate that we value their support and the relationship we have. We are also not limiting our options."

Of course, like all treasurers, Horan does not want to have to sift through endless RFPs. So instead of not inviting banks to take part in the RFP process, Horan has built in a mechanism that reduces the amount of responses the treasury gets to its RFP. "At the start of the RFP document, just after the index, we include a list of key criteria that has to be matched," he says. "If this criteria cannot be matched then we suggest that the rest of the document is not completed. This is where being transparent about the process prevents the banks from wasting time filling out the document and also reduces our workload when it comes to analysing the responses."

We also make sure that those involved in the tendering process know who else has been invited, who has made the shortlist and who we are moving the process forward with," he adds. "By doing this there are no secrets between us and our key counterparties, something that is appreciated by all involved."

After the RFP process has been carried out each respondent is also given the opportunity of a full de-brief of their proposed solution in due course. "The feedback from banks to this de-brief has been extremely positive, it helps them understand why their solution was not selected and maintains strong relationships, something that is very important to Kerry Group," says Horan.

treasurers from middle-market corporates who are looking to work closer with their banking partners, more so than ever before. "In this Basel III world, there is a real risk that banks may not have as keen an appetite to work with some clients," he says. "Treasurers of these companies want to be proactive in managing the relationship by having a continuous dialogue to ensure the bank will continue to provide them with banking facilities."

The need to have honest communication with banks is a point also noted by AT&T's Rogers. "I think a good bank will understand that if they can't deliver on a specific requirement, the corporate will have to go elsewhere for this, as long as this is correctly communicated." It works both ways, and Rogers highlights that it is only by telling the bank what you need that they will they be able to ensure they deliver.

Aside from simply talking to your banks, there are other steps that corporate treasury teams can take to maintain a healthy relationship. For EY's Kennedy, nothing is more effective than a bank rationalisation project. "This sends a clear message of intent to remaining banking partners that there will be a larger wallet to share across a smaller number of relationship banks, on the basis that the bank continues to deliver exceptional service and products to the client."

Other treasury teams have employed more innovative methods. American multinational, Brocade, for instance, suffered from a poor, unstructured management process with its banking partners that delivered less than adequate results for the treasury department. The company therefore initiated an innovative scorecard project that would allow them to better evaluate their banking partners and improve the relationships (see Brocade case study).

Microsoft is another company that has looked at this area closely after finding out that it met with over 40 banks on a regular basis just for debt capital markets and share buyback work. This equated to four months a year in bank meetings, roughly a third of their working hours. To work out the return on investment (ROI) of all this work, Microsoft have built a solution that enables them to track their bank relationships by recording the time spent working with them and the outcome of these meetings. The bank relationship tracker has delivered many benefits including ensuring that their banking group develop value-add ideas and solutions for the team.

Ebbs and flows

Whilst these strategies may provide corporates with the tools to manage banking relationships as they stand today, there are many changes that continue to happen in the industry. Even some of the most prominent bankers are claiming that the industry will shapeshift and look very different in the years to come. And these are changes that may profoundly impact the relationships corporates have with their banks.

It is technology, and more specifically the rise of fintech, that will pose the biggest threat to banks. Indeed, we have already seen fintech companies picking off the profitable

areas of the banks business in the retail space – is the commercial space next?

Anthony Eldridge, Financial Services Leader at PwC Singapore, certainly thinks that this could be a real possibility. "The question is not can technology companies replace banks, it is, do they want to? These companies are very happy to be picking off the profitable areas of financial services but once you become a fully-fledged bank you step into a quagmire of regulation and compliance."

There may need to be a change in approach, to ensure banks maintain their position. "Banks are often asking the question 'what can fintech do for us?" says Eldridge. "But I am increasingly of the belief that banks need to be asking what can we do for the fintechs." In his view, the landscape is changing so quickly and these firms are developing highly sophisticated technology so readily that a situation could exist where banks end up as simply a utility service behind fintech, providing compliance and risk management.

This is certainly an interesting picture being painted, but do corporates also believe this could happen? Views seemed to be mixed. Dovey, for instance, foresees big changes coming. "I do see banks being disintermediated by technology firms in the future," she says. "Companies like PayPal make it so easy for our customers to make a payment that they force you as a corporate to take that payment method seriously – you don't have any choice. If a fintech company can win the hearts and minds of the general customer, they are everyone's customer. Corporates will have to follow."

AT&T's Rogers is less convinced, but highlights that there is a need for banks to move quickly to avoid being cut out. "I think the banks realise they have to develop and move quickly to offer products for the future; they need to talk to corporates to understand needs and how the future may change and what requirements are needed," she says. Again it is the regulatory environment that may create difficulties for banks in this endeavour.

Either way, it seems certain that we are set for more changes in the financial services industry to take place over the coming years and it will continue to be imperative for the treasury department to stay abreast of these to ensure that the company has a banking group that is fit for purpose. For now, clear and honest communication, both ways, will be key to ensuring that this happens.

The KYC challenge

Recent events have shown that regulators are becoming increasingly serious about KYC. And this is having a detrimental impact on corporates and their banking relationships.

Compliance is a concern for banks, with know your customers (KYC) and anti-money laundering (AML) rules for example requiring constant attention. This is having a knock on effect on their corporate customers.

The growing burden was highlighted in a recent global study conducted by Thomson Reuters, who polled 822 decision makers around KYC related matters. The headline finding: 89% of those corporates surveyed have not had a good KYC experience in recent years.

Perhaps unsurprisingly, it is those corporates with multiple banking relationships who are feeling the most KYC-related strain. The main reason for this being the lack of standards. As a result, banks are asking for differing documents based on their own interpretations of the regulation.

Whilst it is quite understandable that banks are being highly cautious around KYC – as we have seen it is costly to fall foul of the regulators. What is less understandable, from a corporate perspective at least, is that the burden is being added to by the banks own internal shortcomings. To highlight this point, 40% of respondents said that they had to deal with many different people within an individual bank and 34% said they were asked for different documents by different people within that bank.

The result of this being that corporates are spending more time than ever on KYC-related activities, with 63% of respondents saying this has increased over the previous 12 months. 21% of these said it has increased significantly.

Bad experiences

So what does this all equate to in real terms for Christopher Emslie, Singapore Treasurer and his team at ABB? "As a large corporate with multiple banking relationships we spend a large amount of time on KYC, especially when there are changes to our organisations or our banking relationships," he says.

The worst experience for ABB was an account opening process that took a staggering nine months (34 days is the typical average time at present). "The issues were on delays from all sides," he explains. "This biggest was a change in regulations in the banks presiding country which were not communicated effectively.

"A few years ago, I could probably have countered this poor experience with some examples of better ones, but these are very few and far between, even though some banks really do go out of their way to be accommodating they are still bound by their internal rules and things beyond their control."

Despite the best efforts by the banks, corporates are beginning to vote with their feet when they encounter overly complex and burdensome KYC requirements. "In some instances it is easier to walk away than to try and overcome some of the issues, this is not good business practice but in some instances it is just impossible to comply," explains Emslie.

The UK's relationship with Europe: Mapping a new course

Adrian Walker
Head of Global Transaction Banking
Lloyds Bank Commercial Banking

With the UK voting to leave the European Union (EU), it is highly uncertain what the UK's future will look like outside the EU. This makes the UK's decision to leave the EU something of a 'leap in the dark' for many companies. But there are steps businesses can take in the coming weeks and months to manage the uncertainty, tackle the challenges and seize the opportunities that the UK's decision to leave the EU presents. Lloyds Bank's Adrian Walker, Head of Global Transaction Banking, tells us what a good post-outcome trade strategy might look like, and how the Bank plans to support its clients through these testing times.

What general challenges does the EU referendum result create for companies with respect to international trade?

Aside from the sharp fall in Sterling against other major currencies, the main challenge stemming from the referendum outcome for our clients is the considerable level of uncertainty they are now facing. As the political negotiations begin to unfold the picture will gradually become clear. Until we reach that point, there is limited clarity around the UK's future relationship with the EU and its other trading partners. Key questions, including whether the UK will continue to have access to the single market or use the World Trade Organisation's free trade agreements, remain unanswered.

In the meantime, it is important for companies to begin thinking about how they can de-risk their end-to-end value chains in order to manage this uncertainty. Regardless of

> With our long pedigree in supporting international trade, Lloyds Bank is well-placed to help clients mitigate the risks of buying and selling in new markets, and provide them with tools to minimise their working capital cost.

how political negotiations develop, there will always be plenty of new opportunities ahead for UK businesses.

To what extent have you discussed the UK's decision to leave the EU with your corporate clients? What are their key concerns?

As a relationship-led bank we maintain regular dialogue with our clients so it was natural for conversations to turn to the referendum in the days before and after the vote. But we have also approached the issue proactively. Our economists offered their insights into different scenarios prior to the referendum, and we have been in discussion with our clients about their strategies for managing the financial impacts and how we can support them with financial solutions.

Our clients' concerns vary significantly depending on the nature of the underlying business mix, the size of the company in question, its complexity and geographical footprint. If there is one single issue that has been talked about across the board so far, it is the currency impact. The fall in Sterling following the referendum outcome is already giving rise to a wide range of impacts across end-to-end value chains. Companies in the UK that are sourcing goods, services and inputs of production from overseas have been the most heavily impacted, and many are smaller clients who might lack the internal resources to implement a sophisticated currency hedging strategy. Net importers are now looking to understand to what extent rising costs can be passed on to customers and how that might affect their competitiveness domestically and internationally. On the flip side, exporters are becoming more competitive, something equally important to consider.

We also have clients, particularly within the construction and services management sectors, that are worried about how leaving the EU might impact their ability to source skilled labour from the EU. Were the UK to adopt more stringent border controls or, perhaps a points-based system, accessing that labour could become a challenge. These businesses will need to think about adapting their recruitment strategies going forward in order to minimise disruption.

While some specific consequences of the referendum outcome are now beginning to crystallise, it is probably the general uncertainty that is giving companies the biggest challenge at the present time. For those companies that regularly enter multi-year contracts with their buyer and supplier base this could prove more challenging for example. A contract signed today could become very unpalatable in the future, not least because of the underlying currency values.

Such uncertainties may weigh on trade over the long-term, but the immediate impact on trading conditions has so far been rather muted. A lot of our clients are telling us that their buying and selling relationships have returned to normal quite quickly – although we have seen a minor decrease in volumes across the clients we serve, possibly linked to an element of 'wait and see'.

What role can Lloyds Bank play in helping clients face these different challenges and seizing the opportunities presented by the UK's decision to leave the EU?

In the lead up to the referendum, Lloyds Bank focused on understanding the impacts of both possible outcomes for both the bank and our clients. Most important to us was ensuring we would be able to continue serving our clients even in a business environment characterised by considerable uncertainty. From our perspective, nothing fundamental has changed at this point. We are continuing to grow in the UK, but are also following our clients internationally through our overseas offices in the US, Europe and Asia. Lloyds Bank is still there for its clients as a solid banking partner over the long-term; we remain resolute in our determination to help our clients prosper globally.

With our long pedigree in supporting international trade, Lloyds Bank is well-placed to help clients mitigate the risks of buying and selling in new markets, and provide them with tools to minimise their working capital cost. We support a broad range of clients, from small-to-medium sized enterprises through to major global corporates and financial institutions. To meet clients' needs, we have a similarly broad range of products, from simple documentary collections through to bespoke structured trade solutions. A good example of how we can help our clients is through the Letter of Credit (LC), which we are able to offer in over 90 countries through our international network of partner banks. The LC is

At a glance

- DIT have ambitious targets for exports to reach £1 trillion by 2020, with 100,000 more companies exporting by 2020.
- Companies that export are more profitable, more productive and more innovative than those who don't.
- The UK's appeal to global investors has attracted around £18 billion of inward investment since 2010.
- In 2014, foreign direct investment created 84,603 jobs and safeguarded another 23,055.

Source: DIT

a great tool because it can be used by the exporter as a source of risk mitigation and liquidity, but also by the importer to ensure supply performance.

How do you envisage your work with the Department for International Trade and International Chamber of Commerce will prepare businesses to meet possible arrangements for the UK leaving the EU?

In 2015, we became the first UK bank to enter into a strategic partnership with UK Trade and Investment (UKTI), now called the Department for International Trade (DIT). Under the terms of the five-year agreement, we will be supporting an additional 5,000 first-time exporters per year, every year. This target will help contribute to the UK government's goal of helping 100,000 businesses start trading overseas by the end of the decade.

We added to this commitment in July 2016 by signing a memorandum of understanding (MoU) with DIT to work together on the development of a unique online database. This database matches importers and exporters to help UK businesses forge new relationships overseas. With the truly global reach DIT has through the Foreign and Commonwealth Office, the database has the potential to be a really useful tool for UK companies to link to contacts around the world. Another organisation we are also building a relationship with is the International Chamber of Commerce, which has a wide reach across the global economy. This is another resource that importers and exporters can use to support their international trading.

Lloyds Bank is entering into these partnerships principally because we recognise the importance of exporting for the British economy. Post-referendum, large and small UK businesses will increasingly need to look to overseas markets for growth opportunities. Encouraging more businesses to take advantage of the opportunities by looking to export to new markets should help to reverse the UK's current account deficit, and help them to de-risk through accessing new revenue streams. The old adage rings truer than ever: with change comes opportunity.

> Encouraging more businesses to take advantage of the opportunities by looking to export to new markets should help to reverse the UK's widening current account deficit, and help them to de-risk through accessing new revenue streams. The old adage rings truer than ever: with change comes opportunity.

What investments are being made by Lloyds Bank in the trade space – and how will these benefit clients going forward?

Increased investment in our digital capability is a strategic priority for the Bank. We are building a new processing platform which will process traditional trade instruments such as Letters of Credit, Guarantees and Documentary Collections and we are also investing in a new Supplier Finance platform. Recognising that corporate clients are increasingly telling us they want digital platforms that will enable them to operate in a multi-bank fashion, we are exploring how we open up our infrastructure to other multi-bank channel providers.

This year we will also be launching a new International Trade Portal, through which businesses looking to import and export can identify new opportunities across the globe. This will allow a treasurer at a company that is expanding its overseas trading activities to find out exactly what the documentary requirements are, what the country looks like in terms of risk, and who they might be able to trade with in that country. Effectively, what we are doing is using our specialist knowledge and insight to create a rich picture of the business environment for our clients to use. And when one overlays that information with what is available on the DIT platform, we are left with a really powerful end-to-end offering for our clients.

Finally, what key advice would you give to corporates as they look to manage uncertainty created by the UK's decision to leave the EU?

In the short term the UK will remain a member of the EU and will continue to trade business as usual. In our view our clients should use this transitional period to prepare for the future by considering ways to de-risk their value chains. Beyond the borders of the EU there are real opportunities for companies to trade internationally, particularly in some of the high-growth emerging markets. Now is the time for companies to start thinking about these opportunities and how they will manage the risks around importing and exporting into new markets.

How companies adapt to the challenges they now face will be key. For instance, a fall in the value of Sterling presents a significant risk management challenge for companies with international supply chains. However, if the company is also exporting internationally, it might see a net benefit from the fall in Sterling if it were able to find a way of sourcing more of its inputs domestically. Companies outside of the UK may need to be sensitive to the sharp increase in cost for British firms. Negotiating more favourable payment terms for their buyers may help ensure sustainability of the supply chain, and trade instruments are a great way to do this. These are the types of questions companies should be thinking about.

On the whole, our clients are responding positively to the referendum outcome. They are telling us that they are excited about the prospect of building their businesses in this new paradigm. And we will be there to help them on their journey of growth and diversification.

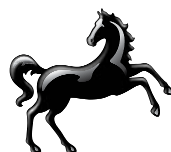
Supporting global business growth

Lloyds Bank has an established history in Europe, with on-the-ground presence in key locations such as Paris, Frankfurt and Amsterdam.

We offer access to the Sterling, Euro, US and Asian fixed income markets, backed up by one of the strongest capital positions* amongst major banks worldwide. From core banking to strategic financing and international trade solutions, we leverage over 250 years of experience to help clients grow, manage risk and allocate capital efficiently.

To find out more about our presence in Europe visit lloydsbank.com/europe

For your next step



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*Source: Lloyds Banking Group Half Year Results 2016. Correct as at 01.08.2016. Lloyds Bank plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Telephone: 0207 626 1500. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under Registration Number 119278.

Putting risk into perspective

Where there is business, there will be risk. That is the nature of the beast. But just like businesses, risks are not static, with some rising to the fore whilst others lay dormant in the background. And then an incident erupts somewhere in the world, and those that were dormant are now very active.

Generally speaking, there will be commonalities in the risks that businesses face. The impact that these risks may have on the business is, however, very dependent on the nature of the business, the markets it is active in and a number of other criteria.

In this article, we use the findings from Treasury Today's 2016 Voice of Corporate Treasury Study to hone in on what the key risks are for treasurers both today and in the future and then take a look at the strategies that can be employed to not only mitigate these risks, but in some instances, turn these into opportunities.

Market risk

These have not been easy times of late for corporate treasurers. Intense volatility and uncertainty across the commodity and currency markets has become the norm, causing many headaches for practitioners. This challenge has been reflected in our recently published Voice of Corporate Treasury Study, which found that currency volatility and commodity prices currently rank amongst the top five risks for treasurers around the world.

Although the management of market risk is certainly not a new area of focus for corporate treasury, new realities are demanding new approaches. Most notably the need to be proactive in the management of these risks.

Treasury challenges

The incessant tide of commodity and currency price fluctuations has created a glut of challenges for the corporate treasury department, especially around accounting and forecasting. If these risks are not managed correctly, then these swings can have a significant impact on the treasury operation, creating losses and perhaps even the potential risk of a ratings downgrade and an increased cost of access to capital. The impact can be even more profound on a company's share price, creating uncertainty in the value of the company and drawing the attention of the boardroom.

But many corporate treasury departments are not in a position to manage these risks sufficiently. "Generally speaking, to manage these risks proactively corporate treasury departments need greater transparency over their asset classes across the business than they currently have," says Mark O'Toole, Vice President, Commodities and Treasury Solutions at OpenLink. "In doing so they will be in a better position to view their cash and risks in real-time which is crucial."

Achieving this, as many treasurers will attest to, is very difficult. As they have expanded, companies have seen departments become autonomous units in their own right, adopting their own technology to meet their specific needs. In the finance function alone it is typical for there to be between three and seven different systems in place just to manage day-to-day operations.

When managing risk, treasury will typically extract all this information and enter this into a spreadsheet. "These processes can take a considerable amount of time depending on the complexity of the organisation and the disparity of systems and data," says O'Toole. "By this point the markets may have changed and treasury will be on the back foot again."

Technology matters

This is beginning to change, albeit slowly. "The pressures to reduce capital expenditure and increase margins have forced the hand of the treasurer," says O'Toole. "Gone are the days of running multiple systems to manage day-to-day business operations. Today, it's all about reducing the number of systems and manpower to operate them, and having the tools to gather detailed insight into activity and gain more predictable outcomes."

There are numerous players in the market offering holistic risk management solutions that can help corporates achieve this. "The existing base of best-of-breed treasury management system (TMS) and enterprise resource planning (ERP) vendors are continuously developing their products," says Tobias Westermaier, Manager at Zanders. "On top of that we have seen a recent rise in specialist vendors addressing a specific element of the treasury process."

Of course, all of these solutions will offer varying levels of functionality so it is important that one is selected which meets the specific needs of the company. But, no matter which solution is selected, it must give treasury access to reliable, complete and consistent data, available on a timely basis. Then, from this base, risk can start being analysed more proactively and holistically, perhaps providing the business a competitive advantage.

Changes in process

Bringing all this siloed and inconsistent data together however, so that it can be viewed through a single window, not only requires a change in technology. It also demands a change in thinking across the company and the need for silos to be eliminated, fostering a cross-functional and holistic approach to risk management.

According to O'Toole, the companies that manage risk best have done this by centralising their processes and appointing a Chief Risk Officer (CRO) who will help drive a concentrated focus on risk across the company. "A CRO, who will have an intimate knowledge of risk fostered over many years, can help create a risk framework, shape the policies and then help all the various business departments understand risk holistically," says O'Toole. "Typically, risk specialists were once few and far between, often concentrated within the banking sector. However, since the banks have begun deleveraging we have started to see a lot of these risk experts jump to the corporate side."

The treasury department, with its intimate knowledge of financial risks could be seen as a candidate to take on this role. O'Toole advises however, that whilst this could work theoretically, a CRO typically will dive further into risk than a treasurer typically would, using a raft of complex tools to measure items such as Value-at-Risk (VAR) and potential future exposure. That being said, the treasury should be aligned very closely to the CRO and be a key ally in the management of risk.

With risk centralised at C-suite level, the CRO can work hand-in-hand with other executives within the business to create more sophisticated risk management policies and guidelines than perhaps existed before. Mark van Ommen, Director at Zanders highlights that this is a trend at present: "We are seeing many of our clients creating much more sophisticated policies. They are also looking to leverage outside expertise in order to understand what other companies are doing and the lessons that can be learnt from this."

However, the creation of policies is one thing; these also need to be closely adhered to for them to be effective. To do this, van Ommen is seeing many corporates building dashboards

to track risk performance. "In doing so they are not only tracking traditional key performance indicators (KPIs) but specific key risk indicators, directly related to the risk-bearing capacity of the company."

Fit for the future

In bringing the processes and technology pieces together, a corporate should end up with a single centralised system that highlights the risk across the entire enterprise in real-time. This will be controlled at a central level by a CRO, but utilised by various departments across the business, all of whom are aware not only of the risk faced by their function, but also that faced by others. And it is from this position that a business can truly begin to proactively manage risk.

"To do this companies can begin looking at stress testing and scenario analysis," says Zanders' Westermaier. "In doing so they will be able to see how their business reacts in different scenarios and put in place strategies and processes should these manifest in reality."

For O'Toole this point is especially important. "Take the example of sterling in light of the Brexit referendum result, there is no telling what level it will be trading at over the coming months," he says. "But by being in a position to proactively manage risk, you will be able to use scenario testing to see what the impact will be on the business and proactively manage that, no matter which way the currency moves."

Ultimately, corporate treasurers should be a leading voice in the organisation over the coming years, developing and driving long-term strategic plans based on latest developments and thinking about what the future disrupting factors on the business will be. The risk management policies and procedures should reflect this and be integrated with, embedded in and understood by the wider finance organisation and business as a whole.

Geopolitical risk

Deeply entwined with market risk is geopolitical risk. Indeed, as the world awoke on the morning of Friday 24th June, the British, European and even global political landscape had changed. The (arguably) shock decision made by the British people to leave the EU had opened up a Pandora's Box of what ifs and maybes.

Brexit immediately sent shockwaves through financial markets across the globe. The pound fell to a 31-year low against the dollar, the world's major stock markets plunged in volatile trading and bond yields soared in safe-haven government debt.

In the months since then we have seen further financial impact, including a number of investors rushing to pull money out of commercial property, the Bank of England adjusting capital ratios to free up more funding to individuals and businesses and the pound and stock markets continuing to show high levels of volatility. All the while, in the wake of the decision a political vacuum had appeared in British politics, at a time when the Isle was calling out for strong leadership.

Yet, for the corporate treasurer, this was just one of many incidents that have occurred in recent months and years that have required careful attention. Indeed, few would disagree that the world has entered a new stage of political and economic uncertainty, leaving the fortunes of businesses on a knife edge and putting corporate treasurers at the sharp end.

Understanding geopolitical risk

Geopolitical risk is somewhat of a 'catchall' phrase that seeks to encompass all risks that are generated as a result of political decisions. These risks may appear in a variety of guises and can impact either individual businesses, specific sectors or the economy as a whole. Some prominent examples of actions that can create geopolitical risk include: war and conflict; changes in governments; regulatory changes; changes in the tax code; currency revaluations; trade tariffs; labour laws; environment regulation; and changes in government spending.

Yet, in some respects, even this definition is unhelpful because incidents such as terrorism, which is not necessarily committed by state actors, also falls under the purview of geopolitical risk. Geopolitical risk may therefore just be one of those 'you know it when you see it' issues.

But just because geopolitical risk is hard to define, it doesn't mean that it is not vital to understand. "The impact of geopolitical risk on corporates is vast," says Charlotte Ingham, a Principal Political Risk Analyst at risk and strategic consulting firm Verisk Maplecroft. "This risk can be operational in nature, in terms of the physical security of their facilities and staff or the potential disruption to their logistics, or legal, if you look at things like corruption risk and the potential ramifications of violating the US Foreign Practices Act or the UK Bribery Act, as well as financial."

Beyond the operational and financial consequences, political risk can damage a corporate's image as well. "There are big potential reputational risks for corporates with operations in countries which have poor records on democratic governance, political violence, or human rights," adds Ingham.

A changing world

So what are the key geopolitical risks that corporates and their treasury departments need to keep at least one eye on over the coming few years? Unfortunately, no business has access to a crystal ball. The past, therefore, has to be used as an indicator for the future. And there are a handful of megatrends that currently exist in the geopolitical space that are having a large impact on business operations and will continue to do so in the short term at least.

Checklist – Zanders' tips for successful risk management

- Ensure risk management policies are up to date and fit for the future.
- Ensure the risk management framework supports these policies and is well embedded in the organisation.
- Ensure timely and accurate risk data collection at centralised level.
- Incorporate advanced risk measurement and management models.
- Include non-business risk evaluation into strategic decision making process.

"More than five years since it began, we are very much living in a post-Arab Spring world," explains Ingham. "While the obvious consequences of this are the greatly increased levels of political violence in Egypt and Libya – to say nothing of Syria – its consequences are being felt far beyond the MENA region."

Indeed, as we have witnessed there has been a massive outflow of refugees and the significant rise in political violence in Europe and the US due to an increase in the frequency and intensity of terrorist attacks. "These changing conditions not only have implications for the security environment for business, but also for the policy environment," she adds. "If you look at the extent to which security and immigration have been key themes highlighted in the debate around Brexit, and the way in which increased migration has exacerbated political polarisation elsewhere in Europe, you can see how this issue is creating increased uncertainty for companies operating across Europe."

Yet, whilst organisations have evidently been impacted by these events, the actions of businesses themselves has also increased their exposure to new geopolitical risks. As Ingham explains: "At the same time as all these events have been unfolding, we've seen companies venture further out from home markets and rely on increasingly diffuse supply chains. As a consequence, they face an increasingly complex interplay of political risks."

For the corporate treasury department regulatory risk is always front of mind given the impact changes in financial regulation can have on its operations. And, globally speaking, the regulatory environment is only increasing in complexity. Indeed, data from Thomson Reuters highlights that in 2015 there were roughly 50,000 regulatory changes made by 600 different regulators around the world. That is 150 regulatory changes every single day. Of course, it is extremely unlikely that all of these impacted the corporate treasury function directly, or even the organisation more broadly. But they may impact another party in the ecosystem, which may then have a knock-on effect.

It is highly likely that this trend will continue. Indeed, Verisk Maplecroft's Regulatory Risk Index, highlights that 45% of countries are host to extreme or high risk regulatory environment. "The quality, stability and predictability of the regulatory environment is the most significant challenge facing business," she adds. "Onerous regulation increases both the time and cost of doing business, while ill-defined, poorly targeted and unevenly enforced legislation creates significant uncertainty around compliance requirements."

One notable example, from a cast of many, where the corporate treasury was directly impacted comes from a move taken this year by the Chinese regulators to limit the cross-border flow of currency through sweeping arrangements. The 'window guidance,' (an uncodified regulatory change) put a halt to the cross-border RMB flow, leaving many treasury teams scrambling for answers around what this meant and how it would impact their global cash management operations.

Managing geopolitical risk

Geopolitical risk, in whichever form it manifests, looks set to continue to be a key area of focus for corporate treasury departments and the corporate operation more broadly. So how can this be best managed?

Having an awareness of geopolitical events and 'hotspots' that may impact operation either directly or indirectly (ie through the supply chain) is a key starting point. Much of this knowledge can come through keeping up to date with global news and also through an appreciation of the markets the business is operating in. Treasurers operating in China for instance, will be well accustomed to such incidents as the 'window guidance' and whilst this was a shock, it did not pose an insurmountable risk to operations.

However, sometimes conditions change very quickly, as was the case during the Arab Spring. These events are more difficult to plan for but there can be tell-tale macroeconomic signs – even in jurisdictions where political risk is not currently high – that can help predict regions where problems may erupt in future. One such example of this is a macroeconomic downturn, in instances such as these governments may become unpredictable and, in extreme cases, become hostile towards foreign businesses potentially impacting their supply chains or even seeing assets seized with little to no compensation.

It must be remembered that corporates are not alone in this endeavour and should look to obtain sound advice, from numerous sources including banks and political risk experts. When matched with the businesses own evaluation it can help to create a robust holistic risk-profile for each market. Moreover, in those higher risk countries, further steps may have to be taken, including: implementing appropriate security measures, engaging with local communities, and selecting lower-risk parts of the country to do business.

No matter what the level of risk however, it is important to have a resiliency plan in place should trouble occur. Here it would be prudent for businesses to identify its essential functions and address the impact geopolitical risk, of varying degrees, could have on customers, employees, and other stakeholders. For the treasury, this may be simply ensuring that payments and collections can continue as normal in the country.

Insurance

In more recent years, geopolitical risk insurance products have become more popular as a means to protect shareholder value, support growth in foreign markets, and help secure financing from lenders. But some companies are reluctant to discuss such risks until they pose an immediate threat; it is after all a cost that may not be needed. As with all insurance products though, it plays on the fear that by the time an event has escalated, it may be too late.

Credit risk insurance may also be a prudent tool to mitigate geopolitical risk. After all, in times of difficulty and geopolitical risk, risk of non-payment typically follows. This means that not only are the physical assets of the company at risk, so is the balance sheet.

Indeed, a recent report by French credit insurance company, Coface, highlighted how this is a current issue for companies operating in China due to the reforms taking place in the country's economy and the actions taken by the Chinese government to tackle overcapacity and 'zombie' companies. The study highlighted that 80.6% of companies experienced overdue payments in 2015. For the treasury departments of these organisations a cash flow risk is created, which may manifest in late payments being passed down the supply chain, or seeing the need to obtain expensive credit from the banks, both of which cause further risks for the business.

Turning risk into an opportunity

It is also worth noting that where there is risk, there is also opportunity. "There are a lot of challenges, there are also a lot of opportunities if the risks are managed well," says Ingham. Indeed, those companies who take the risk and begin operating

in difficult countries may gain a reputational advantage, should conditions improve, due to their association with the country.

Also, volatility and instability can create market opportunities. Adam Smith Awards Asia winners Larsen & Toubro perfectly highlight this point. 2013-2014 was one of the most challenging periods in recent memory for the Indian economy, but it was one of the most profitable for the Indian conglomerate. Driven by its investment philosophy and an acute understanding of the country's political and economic standing the treasury was able to generate an alpha of approximately 2.5% on investments worth US$1bn. An increase from the two previous years when markets in emerging economies, such as India, were relatively calmer.

It achieved this by proactively analysing the political and economic landscape in India and using this information to reinforce the company's short-term investment philosophy. In doing so the treasury team were able to make informed decisions that saw it outperform its expected rate of return and largely avoid any adverse impact from the turbulence affecting the Indian economy.

Ultimately, given the impact that geopolitical risk can have on businesses operations, it would seem wise for executives across the company, including treasury to keep geopolitical risk at the front of mind. In doing so, strategies can be put in place should events take a turn for the worse. And although this may not be enough to insulate the business fully from geopolitical shocks, it will put organisations in a positon to either mitigate the risk as best it can, or take advantage of any opportunities that present themselves.

Cyber: the greatest risk

At the same time that geopolitical risk has become a key concern for business leaders, so has cyber risk. In fact, cybercrime has been described by some as the greatest threat to every company on the planet.

Undeniably the risk to businesses is increasing. For example, in 2015 there were 38% more security incidents detected by businesses than in 2014, according to the latest PwC Global State of Information Security Survey. And it is likely that there will be even more the next time the study is conducted.

Successful attacks can cause significant financial loss to organisations. Although, there are no conclusive numbers, British insurer Lloyds estimate that in 2014 as much as $400bn was lost by businesses through cyber-attacks – including the attack itself, the subsequent disruption to the normal course of business and also fines. And as the number of attacks increases this number is set to swell, with Juniper Research predicting that by 2019 the cost of data breaches will be $2.1trn globally.

For a period of time, many organisations viewed cybercrime as something that would happen to others; this is no longer the case. It is a real risk for all businesses, in every country around the world. And the treasury department, which holds the keys to the company's financial assets – a key target for cybercriminals – has an important role to play in ensuring it does it's bit as the caretaker of these assets.

What are the threats?

A prudent place to start for any treasury department concerned about cybercrime is to learn about cybercriminals and their methods. Where once cybercrime was committed by nation states, tech-savvy individuals and hacktivists, today cybercriminals are highly organised and committing cybercrime on an industrial scale. KPMG use the phrase 'shadow corporations' to depict this and to illustrate how they operate in much the same way as any other company – albeit illegally and unethically.

As cybercriminals have evolved, so has the data that they are targeting. "For the most part cybercriminals used to target intellectual property, state secrets or financial data such as credit card numbers, for instance," explains Joshua Goldfarb, VP, CTO – Emerging Technologies at FireEye. "Although they still do this, their focus has shifted towards targeting personably identifiable information such as customer data, partner data, employer data and so forth, which can be more valuable."

How the attackers seek to obtain this information is also ever changing. Cybercriminals have moved away from the 'smash and grab' approach where they would use malicious code bundled in malware in an attempt to breach the company's cyber-security and extract the required information – which they still do to a certain degree. "Today they are far more sophisticated and are looking to steal a user's credentials, enabling them to operate inside the company's internal IT systems masquerading as a legitimate user, prolonging the attack and allowing a greater amount of damage to be done," explains Goldfarb.

No matter which method cybercriminals use to attack a company, if they are successful in targeting the financial assets there are numerous issues which may occur for the treasury department, including: the severe disruption of operations, stolen data and of course, potential losses from fraudulent payments. Moreover, even if the financial assets are not targeted, then treasury may still potentially be called to

Checklist: fending off cyber-threats

In order to align treasury procedures with the most efficient security standards, the following outline some of the fundamental procedures to check you have the best chance to mitigate the risk of cyber-attacks:

- Do you have a security programme in place, either with treasury's own IT department or a provider?
- Are they working to ensure the correct security frameworks are in place for defining policies, procedures and controls?
- Have you engaged with all relevant security teams (your company's and any providers)?
- Are they proactively minimising threats posed by cyber-criminality?
- Are regular audits and tests being carried out?
- Is the department aware of the latest security technologies and continually updating security procedures to maintain effectiveness?
- When changing legacy technologies, are security measures being adapted to integrate new solutions (mobile devices, for example)?
- Should the worst happen do you have business continuity plan in place?

action should the business receive a fine due to the loss of personal data – the European Parliament have proposed that businesses that do so are to be fined 100m euros or 5% of their global annual turnover.

If the direct financial consequences of poor cybersecurity are not enough to make businesses sit up and take notice, the reputational damage that may also be incurred just might. British telecoms group, TalkTalk, for instance, were victim of a cyber-attack that saw hackers steal the personal data of 20,000 customers. In the week following the attack over 200,000 tweets were made on the topic and a great deal of negative sentiment was built up. Customers also voted with their feet, losing 101,000 customers.

On the defensive

Having a robust cybersecurity strategy in 2016 is clearly a must. But in the view of Goldfarb, the changing dynamics of cybercrime is presenting a significant challenge to organisations. "The attackers and their methods have changed, but organisations haven't and many still approach cybersecurity no differently from how they did 20 years ago," he says. "Companies think that by using advanced firewalls and locking everything down they will be able to keep people out. This is not the case, even the best defences can be broken down if somebody is fully determined to get in."

As a result, companies need to pivot their thinking and whilst it is recommended that they keep doing all they can to keep malicious actors out, they should also accept that intrusions will occur. "Organisations have to approach cyber risk strategically and be able to quickly recognise when cybercriminals have entered into the company's systems and act prominently to stop the intrusion before it becomes a breach," adds Goldfarb. "A robust detection and response process is vital to achieve this."

For the treasury department this is especially important as recognising a cyber breach in good time can potentially prevent a significant financial loss. For instance, if malicious payments are being made and these are spotted early by the treasury team, the bank can be contacted and there will be a good chance that these can be reversed. The longer this process takes however, the less chance the bank has to reverse the payment. Best practice reconciliation is vital here. If a company can reconcile intra-day, or even daily, the better chance it will have of noticing these illegitimate payments.

The banks are also beginning to offer solutions that help mitigate the risk of payment fraud being committed by malicious actors. Typically, these solutions work by utilising a corporate's historical payment data and a number of predefined rules that work together in order to flag up any irregularities in the payment being made. Therefore, if a fraudulent payment slips through the corporate's own due-diligence work, it will be flagged up as soon as it hits the bank's system should there be any irregularities such as a changed account number, beneficiary name, or a significant increase in the value of the payment in comparison to historical equivalents, for instance.

Cyber insurance

Whilst not a strategy to mitigate the risk of cybercriminals causing damage to the company, cyber insurance can be a way to limit the losses incurred. Typically, cyber insurance works by covering the losses relating to damage to, or loss of information from, IT systems and networks. According to the

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>
> Joshua Goldfarb, VP, CTO – Emerging Technologies, FireEye

Association of British Insurers these policies can cover first-party risks, shielding the businesses own assets such as cash, or third-party risks, which covers the assets of others (customers, for instance) including the investigation, defence costs and civil damages associated with cyber-breaches.

Demand for cyber insurance has grown in recent years, according to Inga Beale, CEO of insurance firm Lloyd's, who told Fortune magazine that in 2014 "the insurance industry took in $2.5bn in premiums on policies to protect companies from losses resulting from hacks. That was up from around $2bn a year before, and less than $1bn two years before that."

People factor

It must be remembered, however, that although these products and strategies can help to mitigate cyber risk, it is people that are a businesses' first and last line of defence. The aforementioned PwC survey, for instance, indicates that in 2015 two-thirds of incidents occurred because of the actions of current or former employees.

And cybercriminals are only becoming more sophisticated in how they pray on human frailty to breach a company's defences. Phishing emails, for example, are now more realistic and often are construed after careful investigation of the target through social media and other channels. As a result, these traps may only become more difficult to avoid in the future.

Education about the risks and how they materialise is therefore vital. A company can do all it can with technology, but ultimately if a member of staff falls foul of such an attack there is not much this technology can do. Companies therefore need to start working to build a cyber conscious culture across the entire organisation. This should be led from the top down and ensure that all members of staff, no matter what level, have the ability and means to question anything they feel is suspicious.

It is only when a company employs the right mixture of people, processes and technology that it will have the best chance of warding off any unwanted cyber activity. And if your company hasn't started doing this yet, it should start before it is too late.

European MMF regulation: five key talking points

Companies that depend upon money market funds (MMFs) for cash management may need to overhaul their approach once new regulation has been agreed by the European Union. Although the final rules are still to be decided, industry experts have highlighted a number of consequential trends that could become key talking points should we get the regulation many people are anticipating.

After much wrangling, it would appear a regulatory saga that has now dragged on for three years is finally drawing to an end. Under a plan agreed by European Union (EU) finance ministers in June this year, constant net asset value (CNAV) MMFs would, like in the US, be able to continue to operate only by investing in public debt. Alternatively, funds could – as proposed by the European Parliament (EP) – convert to a new product named the low volatility (LVNAV) MMF, which can retain a constant share price as long as shares do not deviate from the actual NAV by more than 20 basis points.

Corporate treasurers anxious for final clarity over the new rules will have to wait just a little bit longer, however. The policy process has now entered the 'trialogue' stage in which the EU ministers' proposals will be negotiated with the other two parties in this, the European Commission (EC) and the EP, and it would be mistaken to conclude that, just because aspects of the Council's proposal line up with the EP text, those proposals will be included in the final text negotiated in trialogue.

After all, a common agreement still needs to be found between the three positions. The elephant in the room is that the EP wants a five-year sunset clause applied to LVNAV MMFs, a provision opposed by much of the asset management industry. And as Carey Evans, Director, Public Policy at BlackRock, explains, that raises the question of what the EP will receive in order to give up that position. "If you started this discussion on the premise that you did not want CNAV MMFs persisting, then ruling out government CNAV MMFs altogether might seem like a more politically-attractive trade," he says. "Whereas our opinion would be that a

workable government CNAV MMF should be off limits in the discussion on the LVNAV."

There is still very much everything to play for then. Whatever the eventual outcome of the regulatory process, though, we can be fairly certain that there are some big changes for MMFs just around the corner. Here we look at five developments industry experts expect to be key talking points in the year ahead.

Brexit uncertainty

The final outcome of the regulatory negotiations could very well be contingent upon how the politics of Brexit play out. For example, Nina Gill, the lawmaker responsible for overseeing the regulation in the EP is a UK MEP. Understandably, this has raised a few questions in Brussels in the wake of the EU referendum result in the UK.

"The politics of Brexit will almost certainly come into play somehow," says BlackRock's Evans. "The UK has been a very strong voice at the negotiating table to date, and the loss of influence will undoubtedly be felt. Equally, UK MEPs have played a very central role, and prolonged uncertainty over their position in the Parliament and within their political groups may change the dynamic of the trilogue's discussions considerably." Some in Brussels have predicted that legislative negotiations featuring so-called 'third country issues' (access to the Single Market by firms in non-EU countries) could become politically-charged and difficult to progress until the direction of the Brexit negotiations become clearer. While the MMF regulation does not have obvious third country issues, the concept of a government CNAV MMF, as it is constituted in the EP text, is restricted to only EU currencies – a classification that may not capture sterling in the future. While this restriction is not present in the Council text, it could become more politically charged depending on the political dynamics of Brexit.

The pivotal moment could come when the UK finally triggers Article 50 of the Lisbon Treaty, thereby officially beginning exit negotiations with the EU. At that point, there would obviously be legitimate reasons to ask UK MEPs like Gill to stand down from negotiation, given that they would be negotiating rules that, in theory, the UK would not itself be implementing.

More consolidation

The new rules that do eventually come out of these politically charged negotiations are going to – regardless of their form – almost certainly bring their associated compliance costs. These costs combined with the negative interest rate environment, will in all likelihood cause further consolidation in an already concentrated industry.

Fund managers will have to bolster their credit research and compliance oversight capabilities, and new investment will be required to comply with new operational, portfolio stress testing and disclosure requirements. All this favours scaled players that are better positioned to stomach increasing costs and can leverage the liquidity business as part of a broader strategy.

We have already seen a reduction in the number of funds, both in the US and Europe. Part of this decline can be attributed to large asset managers consolidating existing offerings, but a significant chunk has also come through acquisitions. In the past few years we have seen Federated Investors agree to acquire $1.1bn in assets from Huntington Asset Advisors, Aberdeen Asset Management purchase Scottish Widows Investment Partnership (SWIP) from Lloyds and RBS selling its MMF business to Goldman Sachs. Now in the US, the number of providers offering CNAV funds has fallen to 70 from 133 in 2008; in Europe, meanwhile, 38 fund complexes offering CNAV products have been reduced to 25 over the same period.

> "The politics of Brexit will almost certainly come into play somehow. The UK has been a very strong voice at the negotiating table to date, and the loss of influence will undoubtedly be felt."
>
> Carey Evans, Director, Public Policy, BlackRock

Once the EU has agreed the new rules, we could see more money fund-managers decide to exit the business rather than make the expensive adjustments required to their offerings. "Regulation is a key factor," Vanessa Robert, VP, Senior Credit Officer, Moody's says. "It is weighing heavily on the already challenging landscape for money funds and it might accelerate this trend. The ability for mid-tier sponsors to thrive has been materially reduced."

Product innovation

At the same time as corporate investors' choice of asset manager becomes narrower, the range of short-term investment products they have to choose from may be about to get a lot bigger. First of all, a number of asset managers have already stated for the record their interest in establishing LVNAV MMFs, should the final regulation include these products as an option, of course.

"That is something we might be interested in adding to our product portfolio," Paul Mueller, Senior Portfolio Manager, Sterling and Euro MMFs at Invesco, said in a recent interview with Treasury Today. "In principle, it could have a lot of appeal to clients, not least because of the fact it can still trade at a share price of one. But there are some practical operational details that could have a meaningful impact on how viable this product might ultimately be, for example, what investment securities will be allowable in the liquidity bucket. Also it is crucial that the five-year 'sunset clause' set-out in the EP's proposal is not in the final text because we do not think that this product would be viable if that were to be included."

Applying similar caveats, J.P. Morgan Asset Management also expects to see an evolution in its portfolio of funds once the new rules have been implemented. "When we finally see the details of the forthcoming regulatory changes in Europe it is very likely that we will need to look again at the funds we offer to investors in the region. That could include the proposed LVNAV MMF. Should LVNAV MMFs indeed become a reality, we could look at launching or even converting our existing funds to be able to offer the product."

The changes are unlikely to stop with the introduction of LVNAV MMFs either. Even now, while the new rules are still

being negotiated, we are seeing an ongoing evolution in asset managers' portfolio of products, driven by the negative interest rate environment and clients searching for additional yield. Both Invesco and J.P. Morgan Asset Management, for instance, note a growing interest in products with longer investment relative to MMFs, such as managed reserve funds (MRFs) and, especially, separately managed accounts (SMAs).

New policies

Given the likely emergence of more new investment products in the coming years, evaluating and updating existing investment policies to better reflect such market trends might be a necessary exercise. In fact, such exercises are already on the agenda for many treasurers. Last year's, J.P. Morgan Global Investment PeerView℠ survey, for example, found that just under half (46%) of the treasurers surveyed in Europe plan to make changes to their investment policies, an unsurprising finding given that the same survey also discovered that only 44% of the same group of companies allowing for the use of variable net asset value (VNAV) MMFs.

"Upcoming US MMF reforms and eventual updates in Europe are prompting many corporate clients to review their investment policies," says Beccy Milchem, Director, BlackRock Cash Management, noting the growing demand for alternatives to MMFs amongst the client base. "Those that are able to bucket stickier portions of operational and core cash balances have looked for additional solutions to add to their investment toolkit."

Treasurers need to work closely with the Board to build an updated policy document detailing a full list of permissible instruments and counterparties. This could mean minor tweaks or a total revamp, depending obviously on the nature of the existing policy and the investment objectives of the corporate in question. For most companies, though, the undertaking would appear to be closer to the latter. Of those respondents in J.P. Morgan's PeerView℠ survey that said they were planning changes to investment policies, only 18% said the changes would require a minimal level of effort. Meanwhile, 82% described the effort involved in making the necessary policy amendments as 'moderate' or 'significant'.

Time on your side

Given the time consuming nature of identifying the changes that need to be made and then seeking board level approval, it is therefore advisable that treasurers – especially those at corporates that rely heavily on MMFs – to begin the process of review at the earliest opportune moment.

Many treasurers may, of course, want to wait until a final agreement is reached by European policymakers on the future regulation of MMFs before setting anything in stone. That would mean holding off until early 2017, at the earliest and, after the point of agreement, there should be an interim period (anywhere between six months and two years, based on the current proposals). However, it might be sensible to work ahead of that schedule. Indeed, many corporate treasurers have, sensing the general direction of regulation in both Europe and the US, already made the necessary policy changes in order that they can begin familiarising themselves with the new products gradually and at their own pace. That way, once this protracted regulatory saga is eventually concluded – which it surely will be in the coming months – they will be as prepared as they possibly can be.

Best practice: investment policies

All of a company's investments should be governed by pre-determined criteria, designed to balance risk and return in a way which meets the company's risk appetite: in other words, by an investment policy.

The investment policy sets out who has permissions to carry out certain investments, which funds, banks and other counterparties are permissible and in what amounts (percentage limits can be set), the credit ratings, returns and maturity lengths which are acceptable and how the policy may be updated in future as the company's risk profile changes, new investment products become available or counterparties change. Rules like Sarbanes-Oxley (SOX) and IFRS place responsibility for internal controls on the senior management team. In line with this, the board, CFO or a specially constituted treasury committee may have roles in determining the investment policy and keeping it up-to-date. It is generally approved at a senior or board level.

If a treasury investment policy has not recently changed to reflect the 'new normal' of regulatory reform, market volatility and low interest rates, then it will almost certainly need to in the near future. There are three areas treasurers may wish to focus on when revising policy, says Hugo Parry-Wingfield, EMEA Head of Liquidity Product at HSBC Global Asset Management. These are:

- Are policies still fit for purpose? Companies should not simply adjust their criteria downward in response to ratings agencies reviewing – and downgrading – banks, says Parry-Wingfield. "Rather there should be a deep analysis to decide whether they have the right – and sufficient – counterparties."
- Are new investment instruments needed? If the ability to place some short-term deposits with banks is becoming limited, then perhaps treasury needs to explore if other instruments are needed, such as those listed above.
- How much liquidity is needed to run the business? In light of Basel III and the introduction of the LCR, corporates should also be thinking about how their investment policies define their liquidity profile. "The treasurer should now be reviewing what liquidity they really need to run the business. There is always an opportunity cost to holding too much liquidity but we believe that is going to be accentuated in the months to come," says Parry-Wingfield.

Source: Treasury Today Short-Term Investments and Money Market Funds 2016

Assessing the alternatives

Jason Straker
Client Portfolio Manager,
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J.P.Morgan
Asset Management

With regulatory reforms expected in the money market fund industry, negative interest rates, and Basel-pressured banks becoming ever more selective about the deposits they accommodate, treasurers are having to rethink short-term investment strategies. But what alternative investment opportunities are being explored by corporate cash investors? Jason Straker, Client Portfolio Manager, Global Liquidity Group, J.P. Morgan Asset Management, talks about how investment portfolios are changing and what clients need to know before using alternative investment vehicles.

What does J.P. Morgan's Global Liquidity Investment PeerView℠ Survey tell us about the way in which corporate investment portfolios have been changing over recent years? How are your corporate clients adjusting in the face of recent regulatory and market changes?

One of the most telling responses we had in the Global Liquidity PeerView℠ Survey came when we asked what changes respondents are likely to make to their investment portfolio in the next year. For each type of cash investment made by corporate treasurers, we saw a high number of increases and decreases in the cash that treasurers plan to invest. Significantly, that includes bank deposits and stable Net Asset Value (CNAV) MMFs, which are obviously important instruments for European treasurers in particular.

So treasurers are evidently thinking about their investment policies; thinking about what to add and what to remove, much more than they have ever done in the past. I think that is a positive development. Given that there is so much happening at the moment, in the market and around regulation and the emergence of new investment products, I would recommend that investors look at and review their policies on an annual basis at the very least. They should not be updated too often, of course, but we are seeing some large corporates updating their policies more frequently in reaction to deteriorating credit ratings, particularly in the financial sector.

What alternatives to MMFs are treasurers now showing greater interest in?

The use of separately managed accounts (SMAs) is definitely on the increase. If we look again at the survey responses, nearly a quarter of respondents with considerable cash on balance sheet are considering an increased use of SMAs in the next year. The growing appetite for SMAs is really a reflection of the fact that investors are searching for yield. They are giving more attention to cash segmentation, so that a portion of their cash can be allocated to products – like SMAs – with longer investment horizons. This ensures that they are not paying for liquidity they do not need.

As an investment vehicle, SMAs represent a good first step beyond MMFs. I think the trend also demonstrates the fact that investors are becoming more sophisticated. After all, SMAs do require a higher level of understanding of the risk-return relationship and the different types of individual investment within a given portfolio. That requires thinking about what specific guidelines make sense. As investors become more

accustomed to those investment types they can then take a view on what they feel is appropriate for their own portfolio.

Although the key objectives of preservation of principle, liquidity and then yield remain intact – and rightly so – we feel that the realities of today's short-term investment environment require some new thinking around what these objectives should mean.

How is J.P. Morgan Asset Management's own product portfolio evolving to meet the needs of investors in this new short-term investment environment?

Our aim is to offer our clients a range of investment products that sit across the risk and return spectrum. In addition to SMAs, we offer products such as Managed Reserve Funds (MRF) that can work for clients as they continue to move out of MMFs in the search for additional yield.

And our portfolio of products is constantly evolving. For example, in August we launched a new Sterling MRF[1]; this is a bond fund which will invest exclusively in short-term investment grade sterling securities. So for sterling investors the launch of this product really comes at quite an opportune time, given that post-Brexit we are now facing the prospect of lower interest rates in the UK. We will certainly be continuing to talk to our clients about alternatives like MRFs and help them better understand what it means to move into such products away from more familiar instruments like MMFs.

We also expect to see an evolution in our portfolio of MMF products. When we finally see the details of the forthcoming regulatory changes in Europe it is very likely that we will need to look again at the funds we offer to investors in the region. That could include the proposed Low Volatility (LVNAV) MMF. Should LVNAV MMFs indeed become a reality, we could look at launching or even converting our existing funds to be able to offer the product.

The short-term universe is certainly growing and it is not just the European and US regulatory changes driving this – it is also factors like Basel III and interest rate environment. Of course, this means greater choice for the investor, but the downside is that investors will need to pay more attention to due diligence when using some of these new products as there will be marked differences between them. MMFs are heavily regulated and mostly AAA-rated, so the differences between them from a portfolio standpoint are typically quite small. But when we look at ultra-short bond funds, for example, we see much larger differences between providers, and for investors who wish to use these products it is absolutely necessary for them to understand precisely how they differ.

So what should a treasurer do differently when evaluating potential alternative investment products relative to how they would traditionally go about evaluating a MMF investment?

I think it is important to look at the history of the provider, the resources that are available to the firm and the management of the particular product, including portfolio managers, traders and, perhaps most importantly, credit analysts (who, after all, are responsible for managing the most important type of risk within these products, the credit risk). A good RFP questionnaire, will request information around the track record of the fund, the ability of the team, and the approach to risk management.

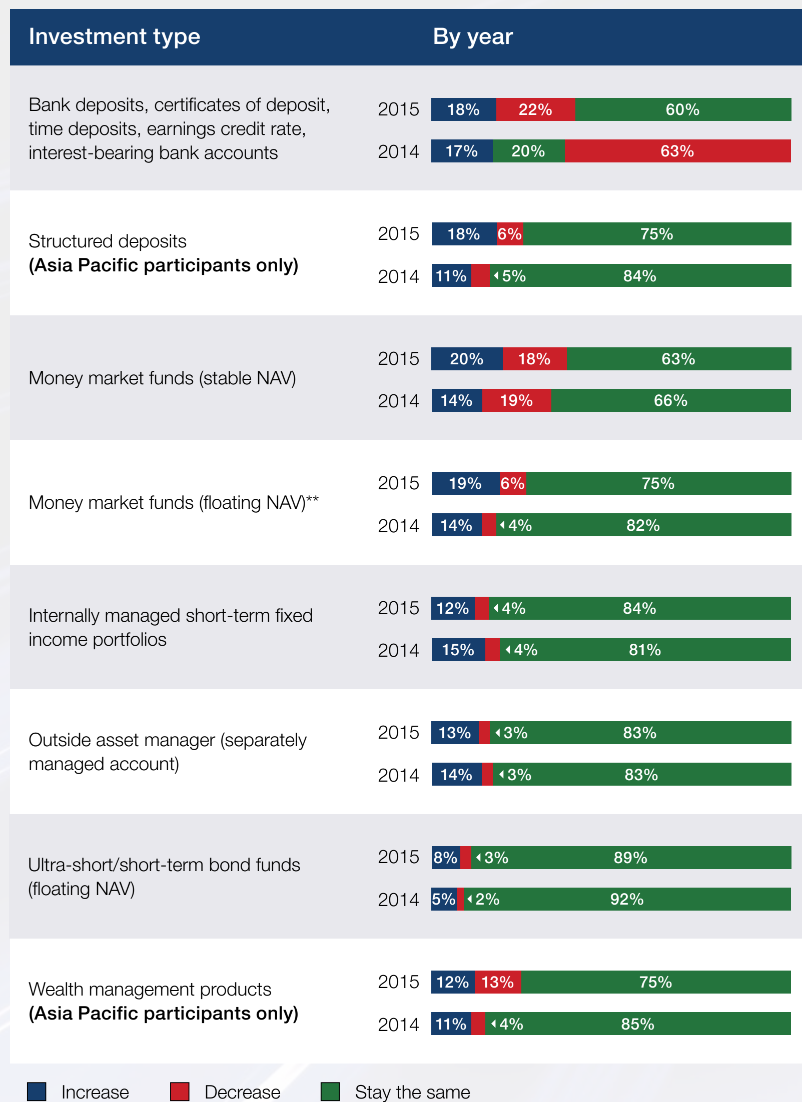
With respect to evaluating track records, it is important to look at how different funds have reacted in times of stress. That is often a key differentiator: how a fund manager acted in times when the effective management of risk is critical. When the markets are calm, there will be only a slight difference in returns between managers, but when the markets become more volatile, that is when differences in performance become more apparent. Whether changes were made to the portfolio to avoid credit or liquidity issues is an item that should be of particular interest. Even though one should not simply extrapolate past performance and expect it going forward, it is certainly informative to look at how managers have reacted to different market conditions throughout the interest rate and credit cycle. This sort of analysis can also be performed before investing in SMAs, with investors looking at a composite that represents all the portfolios managed to a particular investment strategy.

Investors should also be cognisant of differences in the way alternative products are treated by the ratings agencies. The rating on a MMF is unique as there is a liquidity component. Ratings agencies will look at some aspects of the fund such as shareholder concentration and the amount of overnight liquidity. That is different to a bond fund rating, which has a much larger subjective or qualitative component. For bond funds, the ratings agencies consider factors such as the stability of the team, the resources and the credit research track record. So it is important to understand how the ratings differ. Typically, MMFs will have a AAA-rating, whilst ultra-short bond funds, like the AA-rated sterling MRF we recently launched, will have a rating based on slightly different criteria.

Outside of the asset management industry, what other short-term investments are being considered by treasurers? What would you say are the main attractions for investors of these products?

One of the investment vehicles treasurers with very large cash balances are taking a lot more interest in lately is reverse repurchase agreements or repo. The first benefit of trading repo is that, because it is not a security or a fund, the accounting of the value of the investment can be stable. There is no need to mark-to-market repo, as the value does not change from one day to the next. That makes life a bit easier

[1] JPMorgan Funds – Sterling Managed Reserves Fund is only registered in Austria, Belgium, Germany, Ireland, Jersey, Netherlands, Sweden, Switzerland, United Kingdom and Singapore.



Source: J.P. Morgan Global Liquidity Investment PeerView[SM]

for treasurers, from an accounting perspective. The treasurer can simply book the investment and book the interest or yield received at maturity.

There are a number of drawbacks to trading repo for corporate treasurers though. Firstly, they will not normally be offered overnight repo since most counterparties would prefer longer-term deposits. In the post-Basel III world, less than three months is not especially attractive to banks. A second disadvantage is the ever diminishing availability of high quality collateral. Even though central banks around the world have been issuing more debt, the demand for sovereign debt has increased to the extent that the availability of those securities for repo has reduced significantly. Consequently, what tends to happen is treasurers will be offered other types of collateral instead, such as corporate bonds, or what we would call 'non-traditional' collateral.

Direct investment into securities, meanwhile, is less in vogue. Five years or so ago, perhaps, it was fairly common to see treasurers buying commercial paper directly themselves. But our Global Liquidity PeerView[SM] Survey shows that respondents expect to be reducing, rather than increasing, the use of these instruments. In the current environment, where credit events do occur, that is becoming less popular.

What are asset managers such as J.P. Morgan doing to help clients better understand alternative short-term investment products – what advice would you give treasurers around using such products?

One of the things we do at J.P. Morgan Asset Management to help our clients better understand the differences between various investment products is provide discussions around how each vehicle performs in different market conditions. We demonstrate how the products have performed during periods of market stress, for example, or in an environment where interest rates are rising. And on top of that we provide forward looking analysis to discuss with the client how we believe different products will perform going forward in different market outlooks.

Supplementing that, we also provide a large amount of educational material detailing the different investment types particular funds make. It is not always obvious to cash investors what particular investments a cash fund makes, and therefore such material can be very useful in terms of helping the investor understand why we believe that type of investment is suitable for a low-risk fund.

Finally, in our conversations with clients we are encouraging them to rethink how they define their investment objectives. Although the key objectives of preservation of principle, liquidity and then yield remain intact – and rightly so – we feel that the realities of today's short-term investment environment require some new thinking around what these objectives should mean. Take, for example, the objective of preserving principle. Should that mean preserving principle from one day to the next or, perhaps, over one week or one month? Similarly, when thinking about liquidity, treasurers might wish to consider whether they require liquidity on any given day or over a period of, say, one month.

This approach allows the treasurer to alter those two measures of risk, to drive the level of yield that they feel is appropriate. That is something we are seeing more of and it is an approach we would certainly urge our clients to consider taking.

Pick and mix funding

Corporate cash reserves are at record levels yet for many companies seeking funding, the world has changed to one with less certainty but more options. Why has this happened and what does this mean for treasurers?

It is well-understood that some corporates are sitting on vast stockpiles of cash. But the truth behind this is that the list of the super cash-rich includes mainly the largest companies – to the extent that the Pareto Principle (the 80/20 law) almost fits to a 'T'. Deloitte has reported that 75% of cash reserves in EMEA (in the region of €1trn) are held by just 17% of the region's corporates.

This trend broadly replicates corporate cash concentration worldwide, with approximately one third of the world's companies holding 80% of its $3.5trn corporate cash reserves. That the cash is held in such imbalance explains why most corporates still have to worry about their funding mix rather than self-financing projects, acquisitions and growth plans.

Where are we now?

"Since the financial crisis, companies have generally been more conservative in funding themselves," Richard King, Head of UK Corporates and Debt Capital Markets at Bank of America Merrill Lynch (BofAML) recently told Treasury Today. "They saw what happened during the crisis, with credit markets grinding to a halt, and there has since been an increasing desire among corporates to boost their liquidity, even to the extent where they're sometimes overfunding themselves."

Caution, it seems, is now the name of the game for most corporates anxious to avoid the pitfalls of a funding crisis. With banks constrained by regulation (notably the capital adequacy measures that are part of Basel III) and the continuing low- and even negative-yield environment showing no signs of abating, they have every right to feel on edge. As Sean Hanafin, Head of Corporate Coverage, UK & Europe at Standard Chartered says, the current flow of regulation is "a direction of travel rather than the final destination".

The wariness displayed by some corporates has manifested itself in the nervous pre-funding of maturities, for example. Where companies know they have a maturity of a bond or loan coming up, in the past they might have waited only 12 months before the maturity, whereas now they're typically going to the markets and funding them a lot earlier. With debt costs low, management at the very least will silently approve the

cost of carry of pre-funding. It is seen as a 'better safe than sorry' approach in an environment where, since the crisis, most – if not all – of the banking sector has been downgraded, and absolute guarantees of funding no longer exist unless a business pays heavily for the privilege.

The banking industry is facing long-term structural changes through regulatory initiatives. The industry as a whole is certainly benefitting from additional governance as banks are required to put aside significantly more capital for every pound they lend. "Banks are seeing the impact of Basel III in terms of shareholder and client relationship returns. This is impacting banks' behaviour in terms of how they work with corporate clients." Regulation is therefore likely to act as a floor on loan pricing and an appetite ceiling in terms of the amount of credit that banks will be prepared to provide for customers.

This view is supported by Clive Gregory, Head of Strategic Finance at Bank of Tokyo-Mitsubishi UFJ (a member of global financial group, MUFG). "In short, the requirement for banks to hold more capital results in a cost that, if not passed on, will reduce returns," he says. Indeed, Gregory notes that the rules regarding the tightening of regulatory capital have impacted some businesses more than others – for example companies further down the rating scale and for long-term derivative positions. This, says Gregory, may result in the increased 'Americanisation' of the provision of funding for BB lending, driven by funds, some of whom are not regulated. To date, strong competition and excess liquidity in the bank market has meant that in the lending business these increased costs are largely not yet being fully reflected in loan pricing. For banks to achieve their hurdle returns, it is necessary to have non-lending ancillary business, for example transaction banking, DCM and cash management. The focus on multi-product relationship banking for clients is potentially a good thing for treasurers but, warns Gregory, it will place the emphasis on corporate share of wallet, of that there is no doubt.

In this respect some corporates operate with quite sophisticated analysis models to ensure they are apportioning the right level of business (or at least allowing the opportunity to pitch for that business) based on each bank's capabilities, keeping everyone happy. Conversely, there are those who have adopted a 'legacy' model based largely on habit. These companies might not necessarily be forging working relationships with a broader selection of providers which can either be seen as commitment to the few, or adding risk by not seeking diversification.

Us and them

There is, of course, a fundamental difference in corporate funding between the US and Europe that sees European companies rely "far more heavily" on bank lending, says Kira Brecht writing on CME Group's Open Markets resource. Overall, she notes, "some 80% of corporate debt in Europe is in the form of bank lending, with just 20% coming from the corporate bond markets – almost the inverse of the US."

The gap is explained through deep-seated cultural "suspicion" of risk-taking entrepreneurialism and "Anglo-Saxon capital markets", and structural differences between the banking systems of the US and Europe (Europe being driven by a series of national "champion banks" and a strong local network). In the US banks are more than willing to securitise or sell on their loans to the ("much better developed") institutional loan market whereas European banks tend to keep loans on the balance sheet. Cross-border fragmentation of capital markets in Europe also saw the US gain much ground here, although that gap is closing fast, says Brecht.

Differences aside, the reality is that banks are still prepared to underwrite large loan transactions for the right clients (harking back to Gregory's point about share of wallet). In fact, loans remain a staple source of funding for European businesses. Their share of total financing may have fallen since 2008, but volumes have remained far more stable over the past seven years than other types of funding. Given their inherent flexibility and private nature – and the cultural emphasis on this form of borrowing – loans will likely remain a strategically core funding component for European businesses for some time to come.

But mounting uncertainty, prudent counterparty risk analysis and the subsequent desire to diversify funding sources has seen a shift on the corporate side. Corporate treasurers have effectively been obliged to investigate and re-evaluate their own capital structure – for day-to-day and strategic business – as a result of funding market changes (not least as some major relationship banks have withdrawn their presence from certain regions). The SME end of the spectrum is having to adjust and become more responsive to banks because of the pressure on cost and availability of funding (and relative lack of alternatives), says Hanafin. But he notes the larger corporate player, with its broader wallet placed with its banks, its existing access to the alternative markets and, by and large, its higher rating, "as seeing a lessened regulatory capital impact".

A moving target

Of course, there is a difference between the relative weights of a typical US mid-cap and its European counterpart, explains Hanafin. The US mid-cap is often a larger concern and more likely to access the DCM for its term debt needs and use the banks for working capital. "What we see in the US, we will increasingly see in Europe, albeit over the medium term."

To find the optimal capital structure, it is helpful for treasurers to have an understanding of available debt instruments and their relative capital consumption, says Gregory. Similarly, understanding how banks assess their share of the overall wallet – now seemingly a vital constituent in safeguarding funding in the first place – will help treasurers in their assessment of bank relationships. The market is constantly changing and in that context capital structures should be re-evaluated on an ongoing basis. This will include decision-making regarding corporates' desire to increasingly diversify funding sources where needs are large, and decisions regarding their holdings of cash – in spite of the low yield – because of the value of liquidity."

With low interest rates causing investors to search for higher returns, additional liquidity is readily apparent in the alternative markets. Where previously bank lending was the default (in Europe at least), companies are now edging towards options such as bond issuance, equity, private placements (mostly the US but with a growing European scene) and direct investments as their funding pathway.

For corporates with a solid credit profile, access to funding from the bank, public and private markets is strong, and

available at historically low rates. Not all corporates are strongly rated or rated at all though and a broad spectrum of funding sources should be considered. In fact, diversification of funding to ensure an optimal balance sheet is or should be part of the natural evolution for all corporates as they develop and grow, again, not least because sometimes a particular market for borrowing may not be available or suitably priced at the time the money is required.

Corporates need to be constantly up to date regarding what the relative benefits of different funding sources are – and these change from day-to-day, warns Gregory. Consideration must be given to the optimal structures at a particular time in the market and questions must be asked regarding execution to ensure financing deal success.

Be flexible

There is clearly more corporate flexibility in terms of funding sources and the funding mix has changed over time as options increase. It is difficult to generalise on the extent of this change, but for high grade corporates the public debt capital markets have developed to be the market of choice for longer-term financing, notes Gregory. The bank market still plays an important role in providing RCFs, medium-term debt and bridge financing but the treasurer's funding toolbox may develop to include, amongst other things, secured, unsecured, syndicated, private placement, unrated, rated, CP, local and international debt markets, hybrid capital and convertibles (vanilla, synthetic and mandatory), as well as sukuk (Islamic bonds), and M&A focused sponsor-backed deals. The key is to understand the available products, that each will be relevant at different times for different purposes and what the market is doing at any given time.

The pools of capital and the structures that are available are constantly changing. Banking partners should be able to demonstrate an understanding of current market trends by making appropriate loan products available for their clients. Every bank should have a market where it is bringing something different to its clients. By way of example, Gregory comments that just as a Germany-based bank will present the case for Schuldschein, MUFG – as a global bank with Japanese heritage – has had considerable success developing the 'Samurai loan' market for its EMEA clients. The total market has tripled in volume since 2010.

Here, yen-denominated cross-border syndicated loans are made accessible to non-Japanese firms, in essence bringing corporates together with the deep pool of financing from regional Japanese banks. Deep pools mean relatively lower costs and an investor base more willing to consider lending to unrated or unlisted borrowers. Aside from being a source of funding diversity, although there will be a cost involved, it could even be cheaper to access finance from the Japanese domestic banks and then swap it back into the preferred major currency.

The Asian capital markets are seen by Hanafin as a more interesting and active space for corporates. Most notable for him are onshore Renminbi (RMB) bond issuances (colloquially known as Panda bonds). The first date back to 2005 but with market liberalisation (starting in 2010) lifting the restriction of the movement of funds raised, more activity has been noted. It is now worth around $7trn and is the world's third largest bond market. "If you look at funding costs on a swap basis – swapping back to euro, for example – it is actually cheaper today for many corporates to borrow in RMB than it is to borrow in euros," he says, adding that although corporate access from the West is currently "minimal", this is changing.

Hanafin notes that once accessed, the onshore market becomes more amenable. Indeed, he points out that automotive firm, Daimler, has been back at least twice (its first in 2014 was a RMB500m issuance at 5.2% – the first non-financial to access this market) and now has a name that Chinese investors know and like. What's more, he states that the Chinese authorities are "very keen" to have more Western multinationals issue, and have made a firm policy decision to open up their bond market to European and US corporates. He feels that onshore RMB issuance for general corporate purposes is now "becoming a more straightforward path", with offshore repatriation of funds no longer a stumbling block. With "significant pockets of liquidity" available, Hanafin sees a Chinese, and in fact a wider Asian private placement market, as an entirely feasible next step – with all the benefits of funding diversification that this brings to the corporate community.

However it develops, there may not necessarily be any first-mover advantage in a market such as China. Hanafin suggests that there will be a lot of attention focused on newcomers because all parties will be keen to ensure a smooth process. What's more, both investors and issuers will be seeking solid reference points for future pricing.

At the more leveraged end of the market, structures have developed in the last year. For example, the growth in EMEA of TLB or term loan 'B' (long-term loans made by institutional investors) and so-called 'cov-lite' (covenant light) deals (minus the usual lender's covenants). These structures generally are safe and rational. "The challenge is to make sure the investor base or banks supporting the instruments understand them," says Gregory. "With cov-lite B notes, for example, investors have less protection in the form of covenants, but as there is a removal of the trigger that a covenant provides, the likelihood of default falls. As a result, investors are buying better-rated paper but the paper has less protection."

Banking on alternatives

"It is increasingly important for corporate treasurers to consider multiple funding sources," says Hanafin. Of course, post Lehman, the market regulators are focused on preventing financing structures that are considered overly aggressive. If investors start to doubt the integrity of what they have, it could lead to a systemic loss of confidence. What is important for treasurers in this light is that their banking partners are able to advise on, and execute, the optimum product-agnostic financing solution.

The sophisticated corporate treasurer should be constantly assessing optimal financing solutions as they become available. This quest must not be limited to the bank market solutions – discussions should cover a broad range to ensure companies are achieving lower costs of funding, funding diversity, duration and the appropriate matching of cash flows to liabilities. This means keeping a weather eye on market changes and seeking out new sources – as the vast Chinese bond market opens up, it would be remiss not to at least investigate such a deep pool of liquidity. As Hanafin observes, "it is not something that needs to develop, it is something that needs to open up to Western corporates and this decision has now been made".

A private view: Port of Rotterdam

New regulations may have changed the funding space forever, but for Tim De Knegt, Treasurer for the Port of Rotterdam, the banks have always included terms in any contract stating that, should any regulatory issue incur any expense, then they reserve the right to increase financing fees and push those through to the client. "Up until a few years ago that never actually happened." However, with the advent of Basel III liquidity ratios, the banks are finding "all sorts of reasons" to increase their pricing.

In this respect de Knegt is not entirely cynical. "I believe that they are simply pushing through the costs rather than 'cost plus'. But they are all so opaque about pricing, so it is very difficult to know what they are really doing." The banks' lack of transparency, he notes, also makes it very difficult to have a sensible conversation about it. Although he suggests that banks lack clearness about all their pricing, in terms of the regulatory pressure he argues that if he knows why prices increase he can make a point to the regulator about the effect of their actions on the corporate community. "But there is no way for me to help them if there is no transparency."

Whilst at the hands of regulatory change funding accessibility issues may have arisen for certain corporates, De Knegt notes that even for a major corporate it can now be more difficult to secure any sort of committed funding, but then relying on uncommitted lines is a big risk as it is not easy to know which banks will have the funds available when they are needed.

Re-evaluate

In light of this, Port of Rotterdam has continually re-evaluated its funding structure for the past few years. With several financing options taking it through to early next decade, De Knegt's treasury is currently making sure it is ready for different markets so that by the time his current financing matures and he is looking for the next round, he is ready to move. To assist this process, De Knegt has presided over some policy alterations to allow not just for different forms of financing but also, given the wider impact of Basel III, different liquidity and cash management products.

Funding used to be quite straightforward for Port of Rotterdam. As a major global port it requires massive investment to sustain its position in the market. Historically, it would head straight to the European Investment Bank or a Dutch commercial bank and quite easily raise up to €1bn just from one institution, recalls De Knegt. The credit crisis and the subsequent regulatory response stopped that and, aside from the fact that it is now much more expensive to get a committed line for a longer period, it is also "incredibly difficult" to get the volume as well, he comments.

Even with its strong credit quality (Port of Rotterdam is unrated but about 70% owned by the Municipality of Rotterdam and about 30% by the Dutch government), securing more than €150m per bank, especially from a European bank, is today "almost impossible". And for most corporates, unless they are prepared to have a large consortium of banks syndicate a major funding requirement, then other sources will be necessary.

Seek other sources

But even with ten banks providing him with a current €1.5bn of outstanding debt, De Knegt looks to other sources. Until recently, he says he would only use syndicated and direct bank lending. But now he is able to look to alternative sources. These include the bond markets and private placements in the US or anywhere else he feels is appropriate. "I have completely broadened the scope of potential sources to be able to go into any market so as not to restrict my options," he states. "You never know which market will be open and attractive at the right moment so I need to give myself every opportunity to make sure I can give the company the best deal, knowing that right now the banks are not necessarily offering optimal funding solutions."

Although Port of Rotterdam remains unrated, it has been through the analysis process for its own benefit. This, De Knegt thinks, gives it a head start when the time comes for it to consider an independent rating. Indeed, from a bond issuance perspective, it already has all the facts and figures in place explaining its story and enabling the credit rating agencies, banks and other stakeholders to know what to compare it with. "It is better to carry out this preparatory work at least a couple of years ahead of time, than to be forced to do it three or four months prior to a first issue."

Having done the preparatory work, the ratings project is on the back-burner for a while, at least until it is needed. It is, says De Knegt, an expensive process that commits the business to a whole new structure of information provision. Whereas currently the business is sharing this information privately with trusted banking partners as part of a relatively simple discussion, a rating requires him to give that information to the rating agency and allow it to sit in judgement over certain processes and even contracts, for example.

Furthermore, the company needs to ensure all senior executives understand exactly what is expected of them, whereas bank financing does not require such 'en masse' involvement. Additionally, there is some internal concern that the business will start to be "steered by the rating agency instead of being guided by the shareholder perspective". Nonetheless, with a private rating of sorts in the bag, he feels that Port of Rotterdam is ready to strike when the moment is right.

> The bond market has significantly matured over the last few years and this development has made it more flexible and accessible for companies.
>
> Richard King, Head of UK Corporates and Debt Capital Markets, Bank of America Merrill Lynch

Generally, there is competition between banks and the alternative funding sources but in the high grade space, the available financing solutions are often broad, complex and mutually complementary. A typical M&A financing structure, for example, may involve a bank bridge-loan being refinanced through the public capital markets. For more leveraged businesses, there has been an increase in both the TLB market and a significant increase in non-bank lending. Again, these should be seen as complementary to traditional bank lending and it is important that banks structure deals around all these developing markets. There is a kind of cross-feed between markets too. Acquisition financing is capital-friendly for banks given that it is short-term, and as such they display a willingness to lend into M&A situations. Corporate 'takeouts' can drive bond volumes. Indeed, the FT said earlier this year that M&A have become "a significant driver of corporate bond supply since deal activity accelerated in 2013".

Of course, the bond market never stands still. "The bond market has significantly matured over the last few years and this development has made it more flexible and accessible for companies," says BofAML's King. The Euro Medium Term Note (EMTN) programme, for example, facilitates the raising of relatively small amounts of money at very different tenors with individual investors or a group of investors on a regular basis. This allows companies to be more targeted and flexible in their financing – they don't have to go out and raise €1bn from the bond market; they can raise €100m or €200m via a private placement.

The US private placement market has also come into its own over the past few years – it has become incredibly stable, and it remained open throughout the crisis, which is not always the case in the public bond market. Similarly the Schuldschein bond market, with claimed low cost and quick issuances (because they cannot be listed on stock exchanges) is gaining more traction as a debt-financing instrument even beyond its German heartland for mostly medium-sized companies. Although not strictly a debt security, the floating or fixed debt instruments typically have a two- to five-year lifetime with lending volumes ranging between €10m and €100m.

This flexibility helps corporates tailor their funding needs to their specific circumstances, with the competitive pricing and long-dated maturities these markets offer. Many corporates need a quantum of debt that can no longer be supported by the bank market, or they want the higher flexibility that bond markets give them. In the past couple of years, with pricing so low, corporates are thinking if there's ever a time to start financing in bond markets, it's now. Low-cost air carrier Ryanair's debut unsecured Eurobond in 2014 is a good example of this. For an airline to do a senior unsecured issue was ground-breaking in itself. The 1.875% fixed-rate coupon it achieved for €850m of BBB+ debt was even more impressive.

Besides this evolution of the bond market, the low-yield environment tends to make bond financing more attractive than bank financing in many cases. Interest rates are extraordinarily low and will probably remain low for the foreseeable future, and as a result companies can raise funding very cheaply and for very long tenors. Corporates can get 10-20+ year money at very low rates with all-in coupons of 1-4% depending on the credit rating. This is much better than getting shorter-dated money from the bank market, which is generally a five-year market. Bond financing gives corporates much longer-dated money, allowing them to lock in longer-term rates at very cheap levels. This is clearly an appealing proposition that has boosted the corporate hybrid debt market which, in the current low-yield environment, could be seen as a form of cheap equity.

In the shorter term, low interest-rates are also stimulating the commercial paper (CP) market, which, though flagging previously, reached an 11-month high in the US in November 2014. "In the current low-yield environment, the Group can issue CPs at very low rates," said Brice Zimmerman, Head Treasury Control and Reporting at Novartis. "Also, reflecting the high liquidity in this market, CPs are an attractive source of short-term liquidity that offers a high degree of flexibility as it can be repaid quickly."

Stay alert

Despite the increasing popularity of debt capital market financing, bank loans remain a core part of most corporates' funding mix, and the competition between banks (and others) to lend to corporates is intense. It is clear that there are a number of banks from across Western Europe, Asia and the US that have been keen to grow their loan books, and as a consequence, the broader loan market has become increasingly competitive. This is seen not only in price or terms, but also in the amounts each bank is prepared to hold in an individual transaction.

In the coming months, the financing markets of EMEA are expected to remain open, liquid and competitive but they will be subject to change. It is well documented that the region's lenders face numerous headwinds – the slowdown in China, the aftermath of the Brexit vote, ECB liquidity, negative interest rates, and so on. In reality, such headwinds have always been there in one form or another and the industry is well-versed in adapting to the challenges they present. Corporate treasurers should not wait until they need funding but instead regularly take advantage of this experience to really find out which way the market is headed. No two corporates are facing exactly the same circumstances and as policies and sensitivities vary, Hanafin is keen to reiterate the paramount importance for all treasurers of managing their funding risk. "Banks will remain a core part of any capital structure but I think we will increasingly see alternative forms of capital be adopted." The bottom line is that all treasurers need to be fully aware of their financial alternatives.

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A sustainable future

Sustainability is an evolving issue and one that can't be ignored. Treasuries have a role in helping to fulfil the company's corporate social responsibility – but it isn't always clear how they can help. Here, we take a look at some of the options available to embrace 'greener' business, without impacting profits.

The impact of sustainability issues on treasury may not be immediately obvious. But when you consider the following examples, it becomes clear that it is in every department's best interest to engage in the company's corporate social responsibility (CSR) programme:

- An increasing number of consumers look to make informed choices about companies on the methods used to source materials and manufacture, as well as the company's own sustainability performance.
- International banks are, in some instances, encouraging clients to maintain stricter standards of environment protection to ensure they receive finance (for example, producers of palm oil).
- Carbon-intensive sectors may face an increase in the cost of capital and environmentally damaging practices in general are coming under fire from the regulators and public alike.
- The risks that natural disasters, ones which occur as a result of the world's rising temperature, pose to the continued operation of business are on the rise.

Indeed, looking after CSR concerns is part of an effective risk management strategy. But sometimes organisations have difficultly navigating the vast, and potentially daunting, range of sustainability initiatives, investments and agendas that companies can be engaged in. Against this backdrop, Treasury Today explores some of the key developments in the industry and the areas where treasury can look to 'do its bit': circular supply chains and paperless treasury.

Circular economy

Currently, in a predominantly linear economy, the world's manufacturers extract raw materials, using fossil fuels to ship and process these in order to make products that are disposed of in landfills after use. One way of tackling such excessive waste is to change the structure of business models, so that products maintain their quality and usefulness for a much longer duration.

Advocates of a circular economy propose that products should be designed to be disassembled and regenerated; where the goods of today become the resources of tomorrow. But it's more than just a CSR 'plug-in': the Ellen MacArthur Foundation, SUN and McKinsey have identified that by adopting circular economy principles, Europe can create a net economic benefit in 2030 of €1.8trn compared to today, double that offered by the current linear development path.

"Remanufacturing, for instance, could imply savings in terms of production costs that range from 30% to 90% of the cost of producing a new product from virgin materials," says Dr Donato Masi, Assistant Professor, Supply Chain Management, University of Warwick.

From supply chains to supply circles

This, of course, would be a huge change for the supply chains of today. "For companies to capitalise on this opportunity, business models as well as collaboration across the supply chain need to be reconsidered," says Jocelyn Blériot, Executive Officer, Ellen MacArthur Foundation. He provides the example of La Place – 100 of the company's restaurants in the Netherlands provide waste coffee grounds to GRO-Holland, a company that uses them as a growth substrate for oyster mushrooms. The mushrooms are then sold back to the same restaurants to be used as ingredients. The supply chain is therefore made symbiotic or 'circular' by turning one player's by-products into feedstock for the other.

As a result of such business models, there are, Blériot says, some effects on companies' working capital and financing needs. "In the symbiotic 'circular supply chain' model there is a potential reduction in non-payment risk. Players become both buyers and suppliers and so possess a more equal balance of economic power, likely formalised by contracts that incentivise the continuation of the relationship."

Pay-per-use

Another example of a circular business model is pay-per-use. Blériot uses the example of Philips, a company that in addition to selling lightbulbs now signs contracts to provide light by the lux (a measure of light produced). "The company keeps ownership of the lighting system, taking care of maintenance and remanufacture during the contract. When compared to traditional sales models, this can be more profitable for the manufacturer and cheaper for the user."

Such innovative business models, which are based on services rather than product ownership, and innovative consumption patterns are gaining an increasing importance, says Masi. "Current trends suggest there will be rising prices and an increasing competition for raw materials." Therefore, he believes, the circular economy represents an answer to these challenges and an opportunity to find synergies between the protection of the environment and the growth of profit.

But if corporates want to truly exploit the potential of the circular economy, Masi says, the principles of the circular economy need to be embedded at the strategic level of business model innovation. This cannot be done "by simply trying to make a production process green, or a closed loop supply chain more efficient. These principles should be

Sharing economy

Another disruptive business model comes in the form of asset sharing. Your meeting rooms, printing facilities, and production staff – can you imagine sharing them?

When businesses have overcapacity of equipment, knowledge and skilled personnel, it can be seen as wasted revenue. For example, FLOOW2 was founded based on the idea that companies can rent out any equipment or personnel not being deployed at capacity. For those companies that rent, the benefits are the convenience offered without having to invest substantially themselves. It represents a change in mind-set from ownership to access and the founders see a sharing economy being an integral part of the future.

Slock.it offers a similar business proposition based on blockchain technology, claiming it can provide the future infrastructure of the sharing economy.

embedded at the very early stages of product design, supply chain design, and definition of the commercial strategy."

Paperless treasury

Whilst embracing sustainability in treasury may seem like a major overhaul, it is important not to miss opportunities that already exist in current projects. Improving CSR may not require the extensive effort that some may assume. Although originally submitted for other categories (including Best Working Capital Management), Amway India's implementation of a virtual card accounts (VCA) solution – the first of its kind in India – was recognised by the Adam Smith Awards Asia 2015 as the winner for Best Corporate and Social Responsibility Initiative.

Amway India offers Indian citizens an unparalleled opportunity to own and operate their own business selling more than 140 high quality consumer products. Despite its exponential growth in India, the company's payments and reconciliation processes have remained largely manual, which consumed considerable manpower.

Therefore, the treasury set out to tackle invoice processing costs and inefficiencies, increase the interest earned on cash surplus and extend the days payables outstanding (DPO) without additional cost. But the results in changing the paper-intensive workflow highlights that projects run by treasury can often have additional advantages.

The solution was a paperless supplier finance programme from Citi with no requirement for specific transaction documents or frequent invoice audits. Unlike traditional supplier finance programmes, the VCA scheme requires no documentation-intensive on-boarding process. Suppliers can use their existing credit card processing terminals to process the VCA payments and no additional equipment is needed.

As a scalable and sustainable process implemented in an aggressive timeline of four months, the solution has been instrumental in extending Amway's DPO by 45 days, and increasing its profit before tax by an estimated $425,000 in the first year.

> If corporates want to truly exploit the potential of the circular economy, the principles of the circular economy need to be embedded at the strategic level of business model innovation.
>
> Donato Masi, Assistant Professor, Supply Chain Management, University of Warwick

Combining robust payment security, enhanced data through the setup of internal controls and approval workflows, the solution has improved compliance, efficiency and visibility of Amway India's sourcing and purchasing processes. Currently, 12 vendors are enrolled in the VCA programme. The number of participating vendors is expected to increase to 30 with the gradual rollout of the scheme.

What's more, with no requirement for specific transaction documents or frequent invoice audits, coupled with their aggressive growth targets, the solution can only remove more paper going forward and has set out the environmental standard for the future.

This award demonstrates that it is worth investigating, when carrying out projects, whether additional improvements can be made in terms of the department's reliance on paper and energy resources. Combining CSR priorities with one's treasury are more familiar with may be a good stepping stone to a sustainable future – see our top tips for some ideas.

Top tips for paper reduction

Make the most of your bank's online offering. Logging into your bank's online platform to view bank accounts will surely be much quicker than digging out the relevant file. It also provides added security controls and keeps an easily accessible record of reviewing and approval processes.

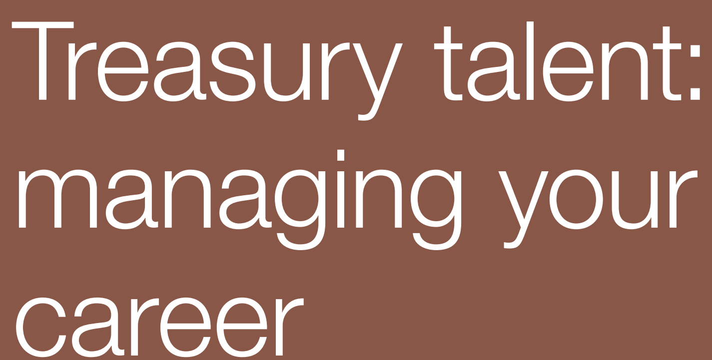
Embrace e-invoicing. In addition to the cost benefits that have been so widely reported, e-invoicing leads to greater consistency and standardisation, which in turn helps to reduce organisational complexity.

Say goodbye to cheques. Using electronic payments instruments improves visibility, reduces the risk of fraud and can significantly reduce costs. Consider wire payments, cards programmes and mobile solutions. Where customers persist in paying you by cheque, discount incentives for signing up to direct debit may be useful.

Consider electronic bank account management (eBAM). Do away with paper-intensive account opening and maintenance procedures to really improve efficiency and control.

Set up digital treasury workspaces. Whether in a secure cloud environment, or protected on your work server, archive reports and other documentation electronically. The search functionalities this provides can prove invaluable.

Printer etiquette. If you or your team really do have to print, make sure it's double-sided and on recycled paper. Any non-confidential documents should be put in a recycling bin after use and a sustainable confidential document destruction programme implemented.



Treasury talent: managing your career

The world of corporate treasury is full of talented people. But how can treasury departments make the most of their teams and what can individuals do to progress? In this article, we propose some tips for climbing the career ladder, as well as highlighting the benefits of embracing, and supporting, a diverse, ambitious treasury team.

Diversity and equality

Diversity is a topic close to Treasury Today's heart having run the successful Women in Treasury initiative for four years now. The motivations are simple: despite concrete evidence that having more women in senior roles is good for business, equal opportunities are still a long way off. For example, Treasury Today's Women in Treasury Global Study 2015 found that 33% of female respondents believe they are paid less than their male counterparts and 45% did not feel their career prospects are the same as male colleagues.

Yet evidence has proven that gender-diverse companies perform better. In fact, companies in the top quartile for gender diversity are 15% more likely to outperform other companies, a report, titled 'Diversity Matters', from McKinsey & Company indicated. But diversity isn't limited to gender – the same research showed that companies in the top quartile for racial and ethnic diversity were 35% more likely to have financial returns above their national industry medians.

What's more, it's not just that bottom-quartile companies are not leading – they are lagging. For both gender and ethnicity and race, the least diverse companies are statistically less likely to achieve above-average returns.

Diversity in terms of age, gender, ethnicity, sexuality, background and so on creates diversity of thought which is a strength in business because it ensures different ways of approaching the same problem are suggested. "Alternative ideas allow us to come up with the best solutions," says Debra Todd, VP, Global Treasury Services, BP.

Therefore, when corporates are hiring they should consider the dynamic of their existing treasury team – and consider which aspects could need more prominence. As Todd says: "It's important that we look at whole teams, rather than just at individuals. If you consider six people that are the same and have similar strengths, that team would be a lot weaker than six very different people who boast diverse strengths."

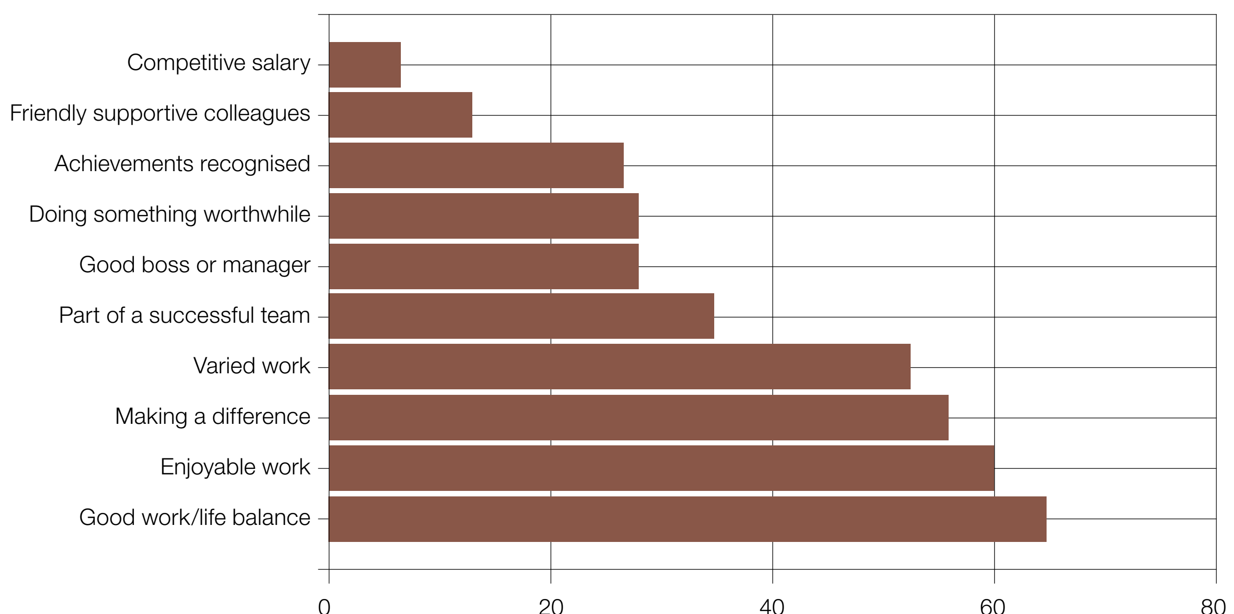
Talent management tools and techniques

In order to develop such strengths, talent needs to be nurtured. As corporate employers reap the rewards of a successful treasury team, it is in their favour to support the progression of individuals' careers. Internal and external training programmes are beneficial, as well as supporting those who are studying for additional qualifications. Ones of note include: the Association of Corporate Treasurers (ACT) qualifications, the Certified Treasury Professional (CTP) or the Association of Chartered Certified Accountants (ACCA). Some professionals also look into the Chartered Institute of Management Accountants (CIMA), but it is important to be aware, as the title suggests, this is not as treasury focused as the first two.

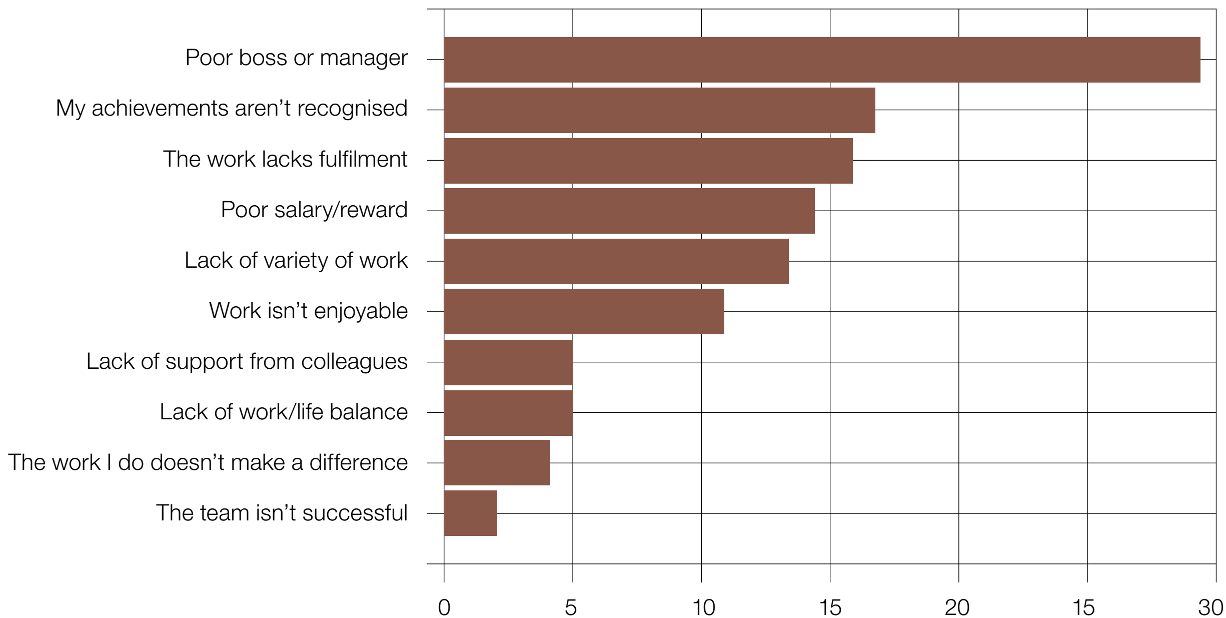
In terms of encouraging a team who want to succeed, senior executives are responsible for providing a good example. The CEB Corporate Leadership Council™ analysed data from more than 150,000 employees and identified that senior executives acting as good role models for developing employees is the single most important factor for driving leadership quality. What's more, excellence here increases an organisation's probability of being a top-tier leadership organisation by 84.1%.

Top-tier leadership, the CEB Corporate Leadership Council™ says, is characterised by managers who prioritise and act on employee development needs. Whether this is further training, support for flexible working or backing for a career change perhaps, these are some of the areas good managers keep an eye on. Not only that, but it is often recognised that professionals don't leave jobs, they leave managers. A Gallup poll claimed that 75% of workers who voluntarily left their jobs did so because of their bosses and not the position itself. As the graphs below confirm, a competitive salary is rated as the least influential factor in a treasurers' happiness (Chart 1), whereas a poor boss or manager is the most influential factor in their unhappiness (Chart 2).

Whilst it may have become somewhat of a cliché, the most important company resource is its people. Supportive



Source: MR Treasury Recruitment Global Treasury Salary Survey



Source: MR Treasury Recruitment Global Treasury Salary Survey

working environments and the opportunity for career progression are key to attracting and retaining great talent.

Formal mentoring, informal mentoring and sponsorship

Mentoring frequently comes up as a springboard for success; many corporates cite mentoring programmes as critical in helping them navigate new organisations and supporting them with different perspectives throughout a career. Mentees can gain a lot from the experience of those around them, picking up new skills and knowledge. It is an opportunity to have conversations in a risk-free way as a key aspect of mentoring is confidentiality.

There are some myths to debunk, however. Mentoring isn't necessarily restricted by gender. Males can mentor females and vice versa. Also, mentoring doesn't have to be formally 'set up' by a programme or organisation. What is perhaps less emphasised is informal mentoring. Rather than going through an established mentor programme (as not all companies have them), similar relationships can evolve in a more natural way, within the same company or from outside. Senior executives have a wealth of knowledge others can tap into and the recurring thoughts Treasury Today hears suggest that most professionals are more than willing to share their understanding – and time – with others.

For informal or formal mentoring to be successful though, mentee and mentor must have commonalities, meet regularly and have areas of experience identified which the mentee wants to gain from. For the mentor, it can be hugely rewarding to see someone develop and progress. Fifty-eight percent of respondents to Treasury Today's Women in Treasury Global Study said they would be interested in being a mentor to others.

Moreover, successfully leveraging networks is a great way of meeting other professionals, making friends and learning. You may also hear of suitable vacancies and are more likely to receive recommendations from those who have worked alongside you in the industry.

Indeed, sponsorship is said to be another – potentially more lucrative – way of progressing your career. It is a case of 'who knows you, not who you know' as a sponsor is essentially an ally who will be your advocate when it comes to staffing decisions. It is worth noting that employees of all seniorities can champion colleagues.

To attract sponsors, Catalyst, an organisation with a mission to expand opportunities for women and business, recommends the following:

- **Be seen.** You – and your work – must be visible. If your achievements aren't seen, how can colleagues or managers champion you?
- **Take risks.** Sometimes you need to go outside of your comfort zone to progress – for instance, applying for positions you don't yet possess the entire skill set for.
- **Ask for what you want.** So long as you have a clear understanding of what you want, don't hold back on articulating these career ambitions.

More than anything, though, your work should speak for itself.

Preparing for career success

Indeed, it is the responsibility of individuals to manage their careers. Seeking out an informal mentor or attracting a sponsor could be part of this. According to Singapore-based recruiter Megha Khare, Manager, Accounting & Finance, Page Personnel: "For somebody who is very keen and passionate about treasury, if they plan it well, they can have a good career ahead of them."

But don't run before you can walk. The emphasis here is on planning – knowing where you'd like to progress to and the best methods to help you get there. A career road map can help to boost your mobility.

A common piece of advice Treasury Today hears from the industry is to put yourself in the right place at the right time so that you are having the right conversations with the right people. Martha Pierce, Senior Consultant at UK-based recruitment firm Hays Treasury says that a common gripe made by candidates to recruiters is that there aren't sufficient opportunities within their current company. "But I will be having a conversation from the other side and line managers will say 'they are great at their job, but are not showing much eagerness to learn'."

It is the responsibility of all employees and managers to start having conversations which ensure staff know their employers are willing to invest in them. "In my experience, it's difficult to recruit at the moment so businesses, most of the time, are going to give you that opportunity to gain more experience," Pierce adds.

C-suite ambitions

For some treasurers, the ultimate goal is to become a member of the C-suite. There are, of course, certain things a treasurer can do to improve their chances of this happening. Making themselves more visible (for the right reasons), getting closer to the operational side of the business and expanding their scope of responsibilities, for example.

Chief Financial Officer

The CFO role necessitates the capability of translating business decisions into numbers and explaining the impact on the company's bottom line. Looking into the future – and all the time translating reality into numbers and numbers into reality – is a vital part of the job. As Maciej Müldner, Finance Director, Skanska Property Poland says: "There is no 'safe haven' for a CFO, so whilst many talk about it, the role isn't for everybody."

Typical financial qualifications are good to have, as well as a Master of Business Administration (MBA) or alternative forms of management study. Working in the treasurers' advantage is the fact that they are already, in their current role, exposed to some of the most critical contacts within the CFO's reach – financial institutions (FIs) and suppliers, for instance.

Additionally, it is "second nature for a treasurer to look for financial risk; they understand how operational, financial and strategic risks are all linked and can trigger each other", says Mustafa Kilic, CFO and Member of the Board of Directors, Candy Group Turkey. "In their existing roles, treasurers have already built up a good perspective of credit and market risks too." All of which are key components for a CFO.

Indeed, the skills valued in the role are all within the reach of the corporate treasurer who can "add these abilities to their current skillset and maximise their chances of becoming a CFO", says Kilic. Desirable skills, he says, include an in-depth understanding of an individual company's business operating environment, risk management skills, and the ability to communicate well with people from governments, banks and also local populations.

Chief Executive Officer

According to the ninth annual Robert Half FTSE 100 CEO Tracker survey, more than half (55%) of today's FTSE 100 CEOs have a background in finance and accounting or financial services, compared to just 21% in retail, 15% in engineering and 14% in technology. Almost one in four (23%) CEOs are qualified chartered accountants.

Although formal qualifications are not usually specified for the CEO role, having a university degree and even a post-graduate qualification helps. The majority of FTSE 100 CEOs have at least one university degree, and more than a quarter have either an MBA or a PhD. Nevertheless, it is worth noting that some very high profile chief executives either dropped out or never went to college. This list includes luminaries such as Richard Branson, founder and CEO of Virgin Group, Michael Dell, founder and CEO of Dell Computer and Bill Gates, co-founder and former CEO and Chairman of Microsoft.

Communication skills

CFOs and senior treasurers will be far ahead of their bosses in financial acumen, and at least on par in terms of decision-making, thinking strategically and taking a global perspective,

Ten top tips for climbing the career ladder

1. Don't be afraid to ask for help or advice.
2. Experience may not be found where you expect. Taking on roles or projects outside of the department can give you fresh and valuable perspectives.
3. Try and make sure you stand out by going the extra mile for colleagues.
4. Plan where you'd like to be, and how best to get there – but don't expect it to always be a straightforward route. You can learn from bumps in the road.
5. Know where your strengths lie, and keep a record of accomplishments.
6. Maintain a healthy balance between your work and home life.
7. Don't expect your colleagues or bosses to be telepathic. You've got to communicate well in order to achieve common goals.
8. Keep up-to-date with current trends, technology and industry developments.
9. Avoid getting dragged into finger pointing and blaming. It is important to keep your integrity, even in challenging times.
10. Understand the manual processes behind the treasury systems you use. If – or when – they break, you will be in the best position to cope.

The recruiters' perspective

In working at the 'coalface', recruiters have a unique view on what the treasury jobs market will look like in 2017 and beyond. Treasury Today talks to Martha Pierce, Principal Recruitment Consultant, Hays Treasury and Mike Richards, Managing Director, MR Recruitment, about what to expect:

Current state of play. Although the pace has slowed down somewhat of late, Pierce says, "the treasury recruitment market has become increasingly busy over the last couple of years". This has been largely driven by transformation projects within treasury functions requiring corporates to bring in project people or increase headcount and it is a trend she sees continuing into 2017.

SMEs have been increasingly realising the value of a treasury function too, she adds. "In general, treasury has been improving in terms of vocalising the value it can add to a business. As such, organisations are just more aware of the value-add it can provide, even in cases where a dedicated role didn't previously exist."

Brexit. For Richards, Brexit and the volatility it has helped to create will put treasury in the spotlight again and, as such, the recruitment market will get busier, he predicts. "On Thursday 23rd June, there was only a remote chance of stormy times but as soon as the results [of the UK EU referendum] were announced, treasury was placed in the eye of the storm," he says.

In demand. In fact, candidates are in the driving seat at the moment. As Richards says: "Two years ago, companies were in charge but the balance is more in favour of treasury professionals now." For corporates in the process of recruiting, this means focusing on what the role offers and communicating the reasons why candidates would enjoy coming to work for you. "Do not put obstacles in their way – such as tests – before they have even walked in the door."

Qualifications. Nonetheless, according to Pierce, qualifications are "hugely important" because "businesses are more risk-averse and they want those qualifications to confirm what level that individual sits at". A Hays survey, titled 'DNA of a Head of Treasury', surveyed over 100 senior treasurers across the UK and found that 38% held the ACT qualification, 21% the ACA and 20% CIMA.

Cross-training on the job. In addition to qualifications, professionals will need to expand their "toolboxes" in order to progress in the future, says Richards. "Those who would like to move into slightly different roles can look at shadowing others to learn new skills on the job. This is a great way of getting different tools in their toolbox to be able to then apply for different roles."

Salaries. Whilst salaries have stagnated in recent years, says Richards, the treasury community might finally see increases as the demand for their specialist skills "will increase in these tough times".

Communication skills. It seems whether you are in a junior or senior role, the way you communicate is a factor that drives progression. Both Pierce and Richards agree that softer skills will continue to be valuable in 2017. "Understanding the core workings of an organisation and how treasury benefits the company's objectives as early on in a treasury career as possible is advised," says Pierce. "In the process, individuals will increase their visibility too."

It is that visibility, and being able to communicate what value you add in your role, which enables treasurers to command higher salaries too, adds Richards.

Keep in touch. Whether looking for a new role in 2017 or not, it is important for treasurers to keep an eye on the recruitment market and think about long-term career paths. Few professionals are better placed to help with this than recruiters – so keep in touch. "After all, treasury professionals at any stages of their career will have similar concerns about where best to go next to benefit their careers," concludes Richards.

wrote Gary Burnison, CEO of executive recruitment firm, Korn Ferry, in a recent white paper. However, he says CEOs "have a clear right-brain advantage that wins the day on the leadership front". This, he argues, means they are "better at building relationships and at influencing, engaging, and inspiring others; they are more courageous and optimistic; and they have a stronger customer focus".

The firm's analysis of current CEOs in the global Forbes 2000 list 2015 reveals that only 13% moved into that position from the CFO role – somewhat at odds with the Robert Half UK observation. In addition, Forbes 2000 CEOs who previously held senior-level financial officer positions (controller, treasurer, chief accounting officer, senior vice president/vice president of finance, chief tax officer, vice president of investor relations, or CFO) accounted for only 18% of the total. It adds that little has changed in the past few years. The most noticeable gap for CFOs seeking to take the CEO chair is in their 'people skills'. The need, says Burnison, is to develop "more social leadership skills to influence, engage, and inspire others".

Similarly, Pratibha Advani, CFO of Tata Communications, told Treasury Today that for a financial executive to succeed in leadership it requires balancing the responsibilities of stewardship with those of business partnerships. "We cannot just be number-crunchers; we should also be able to communicate the logic behind those numbers. Today's finance professionals are not like old-fashioned bean counters – we have a much more proactive role to play as business partners in drafting and implementing business strategy." From this point, the well-rounded treasurer has every chance of becoming CEO.

Snakes and ladders: the outlook for corporate treasury in 2017

What will be the big issues for corporate treasurers in the year ahead? We examine a number of key economic, regulatory and market trends and consider how each of these might influence treasurers' decisions around raising finance, risk management and short-term investments in the future.

Christine Lagarde, the IMF's Managing Director, rather succinctly summed up the economic predicament we now find ourselves in during a speech earlier this year in Germany. "The good news," she told the audience, "is that the recovery continues; we have growth; we are not in a crisis. The not-so-good news is that the recovery remains slow, too fragile, and risks to its durability are increasing."

Some of those risks alluded to by Lagarde certainly became manifest over the summer of 2016. Economic sentiment, which had been on a moderate upward trend earlier in the year, ground to a halt in nearly all regions as concerns over the UK's vote to leave the European Union (EU) and the slowdown in Asia weighed on international markets. Overall, confidence in the global economic outlook is now at its lowest level in three years, according to an August 2016 survey by the Munich-based Ifo Institute.

One small comfort to corporate treasurers as they begin planning for 2017 might be that not every economist believes the cloudy post-Brexit economic outlook will necessarily prove long-lasting. The US economy, still the world's largest in nominal terms, continues to grow steadily. Concerns that the US might be nearing a downturn have now abated after a string of positive economic data. "Before the good job numbers came out I was quite worried about the outlook for the global economy," Mike Bell, Global Market Strategist at J.P. Morgan, tells Treasury Today. "Profits were weak, and typically when there's weak profit growth companies will look to cut back on hiring. But with the numbers we saw in June, it looks like the US economy is still in a relatively healthy condition. That gives me a lot of confidence that – in the short term – the global economy is not going to be in too bad shape."

Over the other side of the Atlantic, the consensus is that the UK vote to leave the EU should not derail the Eurozone's economic recovery. Indeed, it would appear that the slow economic recovery has at least weathered the initial shock of the Brexit vote, with recent data showing business activity reaching its highest level in seven months. "It is likely to shave up to half a percent off European GDP, which will take growth down to about 1.3%," says Bell. "That's pretty weak, but it's not a recession."

But the Brexit negotiations will certainly be headwind for the EU economy in the years ahead, even if the near-term and medium-term macroeconomic impacts are largely contained. The UK is the EU's single largest export market in goods, if we treat the UK as if it were already outside the union. Any post-Brexit downturn in the UK will inevitably have consequences for the EU and UK economic outlook, therefore. But Bell believes the business impact will not be as severe as some commentators fear. "Our view is that the uncertainty around Brexit is going to hit the UK economy quite hard, and that in turn will affect European growth via the trade channel," says Bell. "It doesn't necessarily play too bad for large cap corporates however. If you look at the FTSE 100, many of those companies earn a majority of their revenues outside of the UK, and they could even benefit if we see sterling fall further."

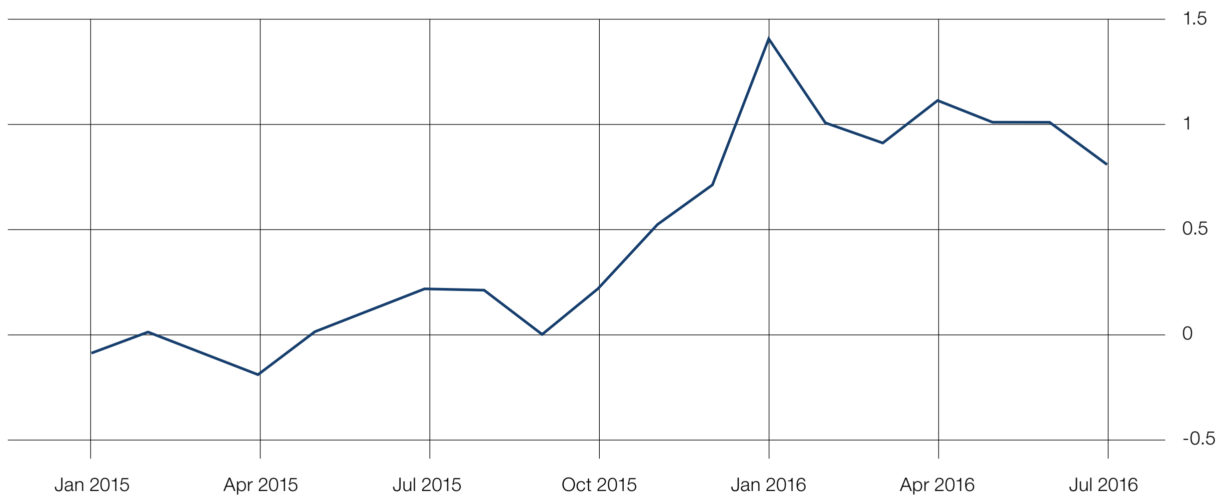
Of course, the revenues those companies are earning outside of the UK might come under pressure too. Brexit has brought a fresh spell of economic turmoil about, not only in Europe, but throughout the world. China, where a downturn raises the prospect of much weaker growth across the world, is no exception. The Shanghai Stock Exchange Composite Index fell and the Chinese yuan depreciated against the US dollar in the immediate aftermath of the UK referendum result. But while Brexit certainly presents an additional headwind for an economy already slowing down, treasurers will be relieved to hear that Bell believes the gloom around the prospects for China has been overdone somewhat.

The Chinese economy, he says, has stabilised in 2016. If anything, growth and other economic figures have actually surprised on the upside. "That is the result of the stimulus: the government is spending to support the economy and that, combined with interest rate cuts, has helped to stabilise the economy," says Bell. "But since that stimulus is likely to be pulled back slightly now, China GDP may be a bit weaker over the next few months. Nevertheless, the growth we expect to see – around 6% – is nowhere near the scare scenarios some would have you believe."

Lower for longer

That the global economy appears to still be recovering at a steady pace does not mean markets are expecting any imminent changes in monetary policy. With the fragility of the recovery and the risks to its durability that Lagarde spoke of, it would appear unlikely the world's central banks will opt to take a radically new course in the immediate future.

In the US, the benign price pressures that have allowed the Federal Reserve to postpone a further rate rise all year remain unchanged. In July, the Consumer Price Index came in at 0.8% on a non-seasonally adjusted basis, still some way off the level that would precipitate a further rate rise from the Fed. However, Bell's view is that inflation could pick up sufficiently



Source: www.tradingeconomics.com | US Bureau of Labor Statistics

in the fourth quarter to put a rate hike by the end of the year on the cards, albeit a very cautious rise. "We think inflation is going to start to pick up, almost on a national basis. So long as the dollar doesn't strengthen dramatically, then the fact that the oil price is up from its $28 should translate into higher inflation. At that point, if the labour market is still looking healthy, then the Fed starts to run out of excuses."

Elsewhere, however, 'lower for longer' seems likely. Following its historic decision in August 2016 to lower rates to 0.25%, the Bank of England (BoE) is expected to cut interest rates again this year. Alongside the first interest rate cut in seven years, the BoE also unveiled a package of other stimulus measures, including restarting its quantitative easing programme to buy government and corporate debt. Policymakers at the central bank have signalled that this could be just the beginning. "If the economy proves to have turned down in line with the initial survey signals, I believe that more easing is likely to be required, but that can easily be delivered in the coming months," Ian McCafferty, an external member of the BoE's Monetary Policy Committee wrote in an Op-Ed for The Times newspaper in August 2016.

The BoE's decision to cut UK interest rates to a record low has put the European Central Bank (ECB) under pressure to follow suit with more monetary easing of its own. Yet many economists are of the view that the ECB has much monetary policy firepower left to bring inflation back to its target level. Although ECB President Mario Draghi has hinted that the bank is ready to ease policy again if needed, the consensus that emerged from a recent Reuters poll of economists is that the negative policy rate will remain unchanged until the end of 2017. Only a handful of the economists surveyed said they were expecting a further cut into negative territory. However, the central bank is widely expected to extend its monthly asset purchases programme beyond its original termination date of March 2017.

Financing outlook

Given that it is likely to be a very long time before we see interest rates approaching anywhere near the pre-crisis levels, financing conditions for most corporates – especially investment-grade – should remain fairly benign over the course of the medium term at least.

That is perhaps just as well when one considers the size of the maturity wall coming further down the line. In the US, a record $947bn of high-yield debt is scheduled to mature in the next five years, a recent report by Moody's estimates. Of that total, $400bn is set to come due in 2020 alone, the highest amount of rated debt to ever mature in a single year in the history of the credit markets. The telecommunications, technology and media sectors are currently carrying the heaviest debt burdens. However, the recent collapse in oil prices has damaged the refinancing prospects of companies across the energy sector, especially upstream exploration and production companies. Energy-related issuers in the Baa3 band – just one notch above junk – are of particular concern to the ratings agency, and are said to have around $34bn in debt maturing in the next five years.

European borrowers are facing their own enormous maturity wall. There is currently €345bn worth of European leveraged loans and high-yield bonds up for refinancing between now and 2022. Although much has been made of previous maturity walls which have subsequently been overcome through amend and extend, some market experts believe that is unlikely to happen this time around given the volatility we are seeing in the market. "We still expect some borrowers may end up requiring a more fundamental restructuring given the level of leverage, which has been perpetuated by the benign credit conditions of the last few years," PwC wrote in a recent research note.

Diverging monetary policy could make the 'reverse Yankee' – a US company issuing euro-denominated debt – yet more attractive for companies that require financing. American companies have already flocked to Europe's bond markets to borrow at rock bottom rates, and with the ECB now engaged in the purchase of corporate bonds, pulling down costs even more, others may yet join them. A stronger dollar does add, of course, some cost to converting euros back to dollars. But companies with significant euro denominated cash flows have a natural hedge against such unfavourable exchange rate movements. No wonder, then, that foreign companies have

been the biggest issuers of euro-denominated corporate bonds, with a 21.3% share, according to data from Dealogic.

Corporate bond issuance is also surging in sterling following the BoE's recent stimulus package. Since the stimulus was unveiled, sterling corporate bond yields have fallen to a record low of 2.06%, according to Bank of America Merrill Lynch indices. This has led to a flurry of companies – including the likes of Vodafone, BP and BMW – to issue in the currency given the reduction we have seen in the sterling premium over euro-denominated investment grade corporate credit since the EU referendum.

Foreign exchange outlook

Currency strategists drawing up their predictions of the year ahead largely agree on some broad themes – the US dollar will get stronger, emerging market currencies will – despite recent gains – remain fragile, and the sterling exchange rate will continue to be very volatile as the Brexit negotiations proceed.

On the latter, Sam Hewson, MD and Northern Europe Head of Corporate FX sales at CitiFX, notes that amid all the current macroeconomic and political uncertainty, a top priority for corporates will be mitigating the impact of sterling volatility on the predictability of their cash flows. Switching hedging instruments used for sterling exposures might be helpful in that respect.

"We have seen an increasing use of options," Hewson says. "There is a lot of uncertainty around the future trade deal that the UK is going to negotiate with the EU. That is going to have implications for a lot of corporates cash flows from an export and import perspective. So you are going to have some degree of uncertainty of cash flow and, if you have uncertainty of cash flows, then forwards become less favourable as a hedging tool. Treasurers could end up in a situation – as per 2008 – when they are having to unwind forwards at significant cost against a cash flow that never occurred."

Hewson says options strategies might also be useful for hedgers at risk of exhausting their maximum available credit lines with their banks as exposures increase. "Options don't require any credit," he says. "So for treasurers who are having challenges from a credit line perspective, options are a way they can continue their hedging. We have definitely seen more of that."

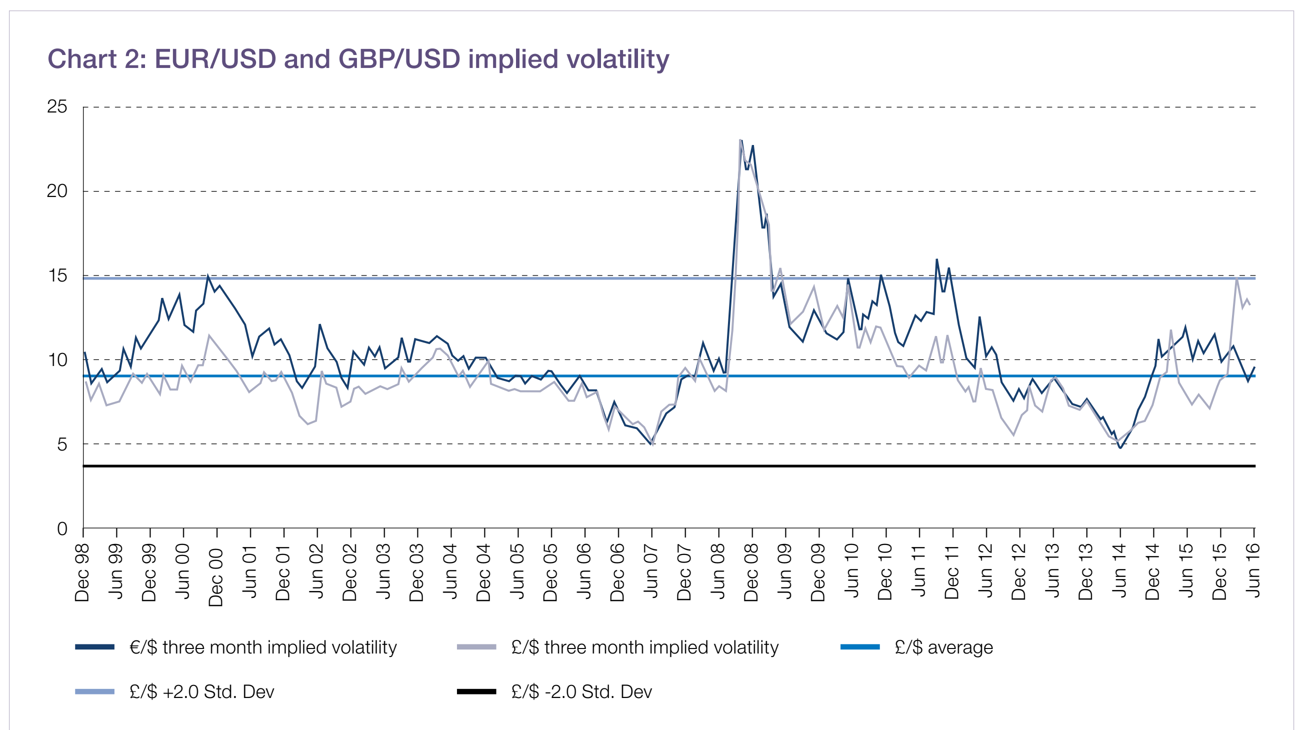
Although CitiFX was engaged in many discussions with clients in the run up to the referendum, FX activity on the actual day of the vote was rather muted. Many treasurers proactively moved settlements so that they would not be executing in an illiquid market close to the date of the referendum. But while that proved a very effective strategy for some, more fundamental changes may need to be made given that market conditions are expected to remain challenging for the foreseeable future.

"We are talking to our clients about their hedge ratios and asking them to consider whether their risk management policies are fit for purpose in this volatile environment," Hewson adds. "Liquidity is low right now, so we are also encouraging treasurers to look at their execution methodologies. We regularly have these types of discussions with clients, but they have been brought to the fore more since the referendum, given the magnitude of the move we saw."

Investment outlook

Industry experts believe that conditions in liquidity markets will remain challenged in the year ahead, for both regulatory and market reasons. In the US, reforms to Rule 2a-7, approved in 2014, mean that come October 2016 prime institutional MMFs must abandon the practice of fixing share prices to $1 and move to a variable net asset value (VNAV) model, be subject to liquidity gates and redemption fees at the Board's discretion. Government funds, meanwhile, will be able to continue using a stable net asset value (CNAV) model.

With the new rules due to take effect in October, there has been much speculation on the small matter of whether



Source: Citi

corporate treasurers – many of whom prefer CNAV MMFs – will opt to abandon prime MMFs in favour of government CNAV MMFs. That is not a baseless claim. Indeed, all the latest survey data, together with what we are already seeing in the market, suggests many treasurers are planning – and indeed doing – exactly that.

A majority of the finance professionals (62%) recently surveyed in the AFP 2016 Liquidity Survey, for instance, said they are anticipating their organisations to make significant changes in their approach to investing as a result of the new rules, with nearly half (47%) expecting their companies to discontinue or reduce holdings in prime funds. The exodus appears to already be underway. In June Moody's observed signs of a spike in outflows from MMFs driven, it says, by investors "voting with their feet". It is a trend that they expect to continue between now and the October deadline for funds to comply with the new SEC rules.

But Bob Stark, Vice President of Strategy at treasury software providers Kyriba is not convinced that this shift away from prime to government funds will be especially long-lived. Stark points out that the two most commonly cited priorities for institutional investors in MMFs – security and liquidity – should not be materially affected by the new rules. Although prime MMFs will henceforth be subject to redemption fees and liquidity gates he thinks it is doubtful that we will ever see these implemented.

"Many fund providers argue that gates temporarily halting fund redemptions would not have been required in 2008," he says. "If there was a time in recent history that one would expect to see such behaviour it would have been during the onset of the credit crisis."

The security element of the value proposition for prime MMFs will not be diminished as a result of the reforms. Actually, we could see the opposite. "The composition of prime funds won't suddenly become riskier on 15th October than the days leading up to it," he says. "In fact, an argument could be made that fund companies may choose even more conservative underlying assets to smooth the movement of the fund's net asset value."

Though the EU began drafting its new rules at broadly the same time as the SEC, procedural differences between the two regulators has meant that progress in Europe has been less expedient than in the US. In June 2016, the Council of the EU agreed its position on MMF regulation, building upon both the original proposal of European Commission (EC), and the position of the European Parliament (EP). This latest text retained some notable aspects of the EP's position. The text proposes that CNAV MMFs can continue to operate only by investing in public debt or – as proposed by the EP – by converting to a new, still hypothetical product, called a low volatility (LVNAV) MMF. Whereas the EP's text included a five-year 'sunset clause' for LVNAV MMFs, the Council instead proposed an open-ended review of the product within five years. Also in accordance with the EP, the Council chose not to back the EC's widely criticised proposal of a 3% capital buffer for CNAV MMFs.

The other tectonic force affecting the MMF industry in Europe at the moment is the rate environment. Accommodative monetary policies pursued by central banks – not least the ECB – have pushed down yields on the short-term debt instruments that MMFs purchase, making it increasingly difficult for fund managers to generate positive returns for their investors. With no directional change in policy at the ECB appearing to be on the cards in the near future, and still more central banks like the BoE now believed to be considering following suit, it would seem that negative yields are here to stay.

The risk of large redemptions by corporate treasurers unwilling to stomach 'paying' a fund to hold their assets would appear to be minimal though. "Uncertainties around Brexit and the lack of comparable investment alternatives have kept investors in money market funds," says Vanessa Robert, Senior Credit Officer at Moody's. "Lower investor confidence and higher risk aversion could cause corporate investments to be postponed, leading to inflows into low-risk, highly liquid assets such as MMFs."

Uncertainties around Brexit and the lack of comparable investment alternatives have kept investors in money market funds. Lower investor confidence and higher risk aversion could cause corporate investments to be postponed, leading to inflows into low-risk, highly liquid assets such as MMFs.

Vanessa Robert, Senior Credit Officer, Moody's

More of the same?

Many corporate finance departments are likely to continue to be challenged by the rapidly evolving macroeconomic climate in the year ahead. Beyond the reaction to the Fed's expected rate decision later this year, there are a host of external developments that will continue to shape the world that treasurers have to operate in over the coming years.

While corporate treasurers can draw some comfort from the fact that the recovery is continuing, they should also be wary of the fact that it remains, as the IMF's Christine Lagarde highlighted in her speech, in an extremely 'fragile' condition. Lagarde spoke that day of how the "risks to [the recovery's] durability are increasing" and, indeed, since then we have seen just how vulnerable the economic outlook currently is to political shocks such as the Brexit vote.

For corporate treasurers, that most probably means they can expect more of the same in terms of an ultra-low to negative interest rate environment. On the one hand, then, the favourable borrowing conditions treasurers have enjoyed through the post-crisis years will continue. But on the other, a difficult short-term investment climate characterised by a dearth of yield will also persist. "For every snake, there is a ladder," as Salman Rushdie once wrote, and "for every ladder, a snake."

What’s on the agenda?

Treasury Foresights has explored some of the dominant issues on the treasurers’ agenda in the year ahead. Here we ask a selection of industry experts to run through what they believe will be the big talking points of 2017 and what will be their primary areas of focus.

Damian Glendinning, Treasurer, Lenovo

“I actually don’t believe in special focus areas. If you have the right basic structure and approach, your system should be able to deal with most things which life throws at it. But I am concerned that currency hedging will become more difficult and expensive, as some of the new regulations start to have an impact. This can take the form of non-deliverable forwards (NDFs) becoming even more expensive and harder to price, or it can be a lack of liquidity in the deliverable market. I hope we will see progress on pain points such as know your customer (KYC), and some exciting new progress in fintech. I do not expect boredom to be an issue…”

Guillermo Gualino, Vice President and Treasurer, Agilent

“Similar to last year, Agilent Treasury will continue aligning its priorities to those of the business to support growth, geography expansion and profitability in 2017. However, our main focus will be on re-positioning the group’s risk management activities for elevated economic and political uncertainty. Specifically, we will improve hedging performance by increasing natural hedges, expand visibility of cash and exposures by achieving further centralisation, and improve our agility to deal with volatility spikes through further team cross-functionality.

Our ultimate objective will be to increase flexibility across functions because it has become increasingly challenging to forecast and quantify risk as the current uncertainties are driven by the breakage of long-established economic and financial relationships. We have been preparing by streamlining treasury operations, upgrading banking technology, reducing exposures, restructuring FX programmes, and training more team members as generalists in multiple treasury disciplines.”

Simon Jones, Managing Director, Head of Treasury Solutions, Treasury Services EMEA, J.P. Morgan

“Regulatory, economic and technological drivers are changing the shape of banking. As we move into 2017, traditional foundations will continue to shift. To thrive in this new environment, treasurers should particularly focus on:

1. *Understanding the regulatory drivers that are necessitating change.*
2. *Shaping an investment policy that is adaptable and fit for purpose.*
3. *Working more closely with internal functions and banking partners to understand the evolving payments landscape and to drive business growth.*
4. *Ensuring flexibility and scalability within their bank account and liquidity structures.”*

François Masquelier, Senior Vice President, Head of Treasury and Enterprise Risk Management, RTL Group

“My department has finalised its annual treasury roadmap for next year. The main focuses will be on Treasury Business Intelligence and how to best automate reporting and aggregate (big) treasury data coming from multiple IT (and non IT) sources into usable dashboards and KPI’s to measure our performances. Another objective would be to finalise the review of Transfer Pricing (TP) to comply with BEPS’ new provisions and to assess IFRS 9 impacts and more specifically the Expected Credit Loss (ECL) aspect of this.

Eventually, we will also keep rolling-out our Bank Single Gateway project, including a few major eBAM messages, wallet sizing and new e-payment methods. We still have as major objective to enhance internal controls by further automating tasks and reports, by revisiting processes (eg EMIR, payments and portfolio reconciliations) and fulfilling IT general control reviews on main IT systems. The current economic context and volatile markets, combined with pressure on costs and limited (human) resources make our task even more complicated. On the soft skills side, we have worked on the team agility to be able to cope with the fast coming challenges in the treasury function."

Tim de Knegt, Manager Strategic Finance & Treasury, Havenbedrijf Rotterdam

"The treasury function in general should become more aligned with business operations and objectives; given the current climate around financing, interest rates, other economic indicators and monetary policies, this is even more apparent than it was just a few years ago.

Our view of risk has fundamentally shifted. From being focused on transaction and counterparty credit risk, we must now also consider how long an industry will last, in particular, sectors based on traditional energy sources. This is something that has not been on the radar until now. In general, the lifespan of markets has become less predictable and, given the current speed of technological development, are expected to be rather shorter going forward. This has an effect on risk appetite. Until recently we were able to predict quite well for at least the next two or three decades. But now, with changing government policies, volatile markets and the commitments of last year's UN Climate Change Conference and the recent G20 summit in Hangzhou, the outlook is continuously changing.

The Port of Rotterdam is still expanding and as the type of parties interested in the port area is necessarily changing, so too is the type of financial support clients are looking for, both from our side as well as from financial institutions. Treasury will play an important role here as we have a good overview and appreciation of port activities from an economic perspective enabling us to help financial institutions understand the risks involved. We can also use our knowledge of financial products to help enhance the commercial proposition.

The focus on energy transition, innovation – and the digitisation of industries – means we are adopting new business models too. As a port, our current business is fully dependent on volume-driven supply chains, but we are moving towards a more value-driven business model. Today, we have a pilot project, running to the end of this year, based on transparent, holistic trade finance. If the entire trade cycle is financed as a single project, not as individual components, and all parties in the chain have access to each other's data, it could make huge savings for our clients. If we get the right results from the pilot, we hope to open it up to overseas trade in the coming year."

Kate Smedley, Group Treasurer, 2 Sisters Food Group

"The main focus for 2017 is where the debt capital markets are post Brexit and continued focus on cash flow forecasting as a key tool for the Board and developing staff within the team."

Jean-François Denis, Deputy Head of Cash Management, BNP Paribas

"The ever-more intertwined relationship between finance and technology will be the top focus area for the corporate treasurer in 2017. Having made a disruptive entry in the retail space, fintechs are all set to enter the complex, transactional banking market, albeit in collaborations with banks. Transaction banks themselves are cooperating with each other in initiatives like SWIFT Global Payments Initiative (GPI), which in 2017 is likely to focus on business-to-business payments. Increasing cyber-criminality will likewise require special attention from corporate treasurers. Along with enhanced compliance and staff training regimes, big data and Artificial Intelligence should be seriously considered as deterrence mechanisms against cybercrime."

Charley Edwards, Assistant Treasurer, Informa

Next year our main focus will be to implement a new TMS. We are currently undergoing a global implementation of a single instance of SAP across the group and when this has gone live we want to implement a new TMS that can support us as we become a more efficient and sophisticated treasury function. A second focus will be to repatriate 'trapped' cash from regions such as China and other emerging markets. Our operations in China generate cash flow and we're keen to access this and bring it back to the centre.

Matt Cornwall, Deputy Treasurer, Capita

"At Capita we have an entrepreneurial philosophy that is focused on developing ideas that will enable us to perform our duties quicker and with more accuracy. As such our focus has been and will continue to be based around driving continuous improvement throughout the treasury department.

This is especially important at Capita as part of the culture within the company is very M&A focussed and growing in size overseas bringing in new complexities and risk. Streamlining processes, standardisation and straight through processing is therefore something that we will continue to place a high emphasis on to ensure that these risks are mitigated and to free up resources within the team to focus on more value-added work.

External help is needed to do this, of course, and we will be continuing to push our banking partners to provide us with the technology and services that we require to meet our objectives.."

Karen Van den Driessche, Treasury Director EMEA, Avnet

"The Avnet treasury organisation will continue to partner with our business divisions to support them in their growth targets, efficiency improvement and M&A integration while maintaining our focus on unparalleled execution.

Treasury's focus will be on stabilising the recently implemented Treasury Management System and Asia Pacific (APAC) in-house bank structure, reaping the benefits from it through centralised execution, increased cash visibility and the publishing and tracking of key metrics to support better business decisions and execution.

Additionally, we will be working on improved risk management, specifically our APAC foreign exchange, further standardisation and centralisation while executing cross regional and functional training to ensure we are a truly, effective global team to support the increased challenges that lay ahead of us brought on by increased globalisation of our business."

Royston Da Costa, Group Assistant Treasurer, Treasury Systems and Development, Wolseley

Wolseley treasury is committed to supporting its diverse businesses globally, and as part of this service, we are currently rolling out a cloud based treasury management solution (TMS), Bellin. We expect this to not only provide our group with the tools to enhance their treasury processes like regulatory reporting and cash visibility, but also enable us to have greater oversight of the whole group's treasury activity in one system eg bank accounts, facilities and guarantees.

The focus, as we move into 2017, will be on developing the use of our system to improve cash forecasting, automating payment connectivity, and continuing to increase the support we can offer our group. There are a few areas aside from the TMS, that we will also be focussing on like working capital optimisation, merchant card acquiring, and liquidity management.

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