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July/August 2022

Could you spot a deepfake?

Deepfakes – synthetic media that use artificial intelligence to imitate a person – are becoming more sophisticated, and are being used to target treasurers.

The Corporate View

Antti Kyyrö

EMEA Treasurer

Bio-Rad

Women in Treasury

Lavender Murray

Manager, Sustainable Finance

TC Energy

Cash Management

Top liquidity management strategies in a climate of rising rates

Regional Focus

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Rising risks

Treasury teams hoping for a quiet summer will look out on the political and economic landscape with a sense of trepidation. As this edition goes to press, UK governing politicians are more focused on a leadership contest following Prime Minister Boris Johnson's resignation than the country's urgent economic travails. All the while rising COVID cases in China threaten more lockdowns and corporates and markets are balancing key unknowns as quantitative tightening ratchets up and Central Banks start to shrink their balance sheets. Elsewhere, Europe's energy crisis grows, and Japan is coming to terms with the assassination of Shinzo Abe.

Still, these occurrences, tragic and shocking, anticipated or unsurprising, are visible and real. This edition's Insight and Analysis feature explores how deepfake technology that uses AI to train a computer to speak and act like a person poses a growing security risk for treasurers. Deep fake videos of Barack Obama have gone viral; the UK's Queen dancing was another. But how this technology is being used to target treasury is no joke as duped treasury teams increasingly report.

In times of uncertainty, liquidity and working capital, the unsung heroes of corporate success, become even more important. We hear how some sectors like shipping are generating huge liquidity but others, especially those with large exposure to China, have worryingly less on hand as sales and revenue dry up. The feature also explores treasurers' liquidity priorities in a climate of rising rates. Strategies include putting money into current accounts in a short-term approach, not committing on tenor but expecting maximum yield and banks to pass on the benefits of higher interest rates.

Our Back to Basics feature explores the potential of digitisation to boost access to trade finance, looking particularly at how digitisation and automation could encourage institutional investors into the asset class, unlocking billions of capital. Sticking with technology, our Regional Focus travels to Canada where payments transformation is gathering momentum as the country phases out an antiquated system dating from the 1970s based on a patchwork of scattered formats. Years in the pipeline, real-time, central payments infrastructure running on a standard model and able to integrate into global jurisdictions and international clearing systems is finally on the way.

Lastly, our Question Answered finds an emphatic response to today's competitive market for talent: the best way to recruit and retrain treasury expertise is to guarantee WFH and integrate robust career development plans.

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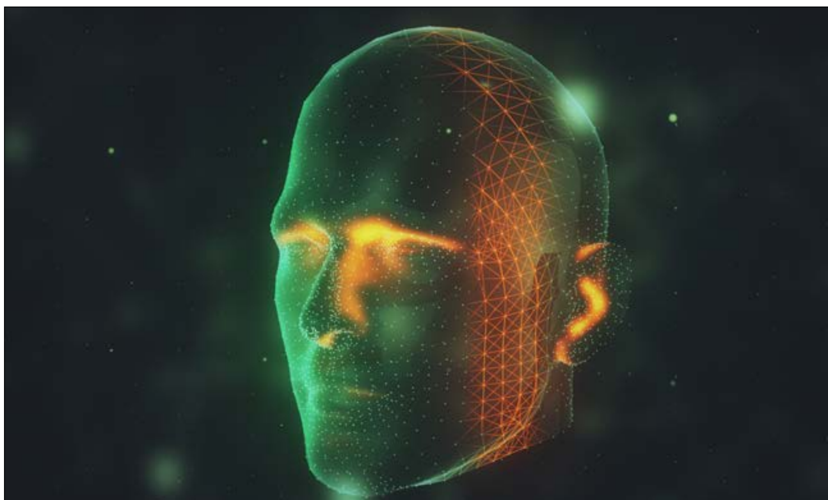

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Deepfake technology poses security risks for treasurers

Deepfakes – synthetic media that use artificial intelligence to imitate a person – are becoming more sophisticated and widespread. Deepfake videos of Barack Obama have gone viral, and the UK's Queen was dancing in one video, but how this technology can be used to target treasurers is no joke.

Imagine you've been accused of doing something, but it wasn't you. It really wasn't, but despite your protests, no one believes you. They may have an audio recording of you saying something, or even compromising video footage.

This reality could soon be coming to a workplace near you, especially as deepfake technology is becoming more sophisticated, and more commonplace. Artificial intelligence and machine learning can train a computer to speak like you, and act like you. And no one may be able to tell the difference between you and the fake you.

Awareness of the potential of this technology is still low, however. "If you do you not realise this can happen you are vulnerable," says Joseph Steinberg, an author and cyber security expert witness and advisor.

For treasurers this has serious implications, especially if you are acting on instructions that you've taken over the phone. Unfortunately, some have already fallen into this trap and have sent massive amounts to the wrong account – all because they were fooled by the voice they were speaking to.

One notable case was from 2020 with a company that is based in the UAE. A bank branch manager in Hong Kong received a call from the director of the company – or so he thought – who relayed good news: his company was buying another and he needed US$35m to complete the transaction, according to news reports. The banker knew this person and had spoken to him before. He took him at his word, and could see that the lawyer the director mentioned, a 'Martin Zelner', had also sent him a number of emails about the deal.

So, the manager started to transfer the money, which soon got routed to accounts all over the world, in a sophisticated money laundering network that had at least 17 people involved – according to court documents related to the case.

And this is not the first time it has happened. In 2019 a UK-based energy company fell victim to a similar scam, and the Washington Post reported how a managing director transferred US$243,000 on the instructions of what he thought was the CEO. The deepfake was so good – he really thought it was him. The company's insurer was reported as saying, "The software was able to imitate the voice, and not only the voice: the tonality, the punctuation, the German accent." It was only when they called back and tried a second transfer that they became suspicious and called the real CEO. The victim was then reportedly in the strange situation of speaking to the real 'Johannes' at the same time as the 'fake Johannes' was making instructions about another transfer.

The cybersecurity company Symantec has also noted there have been similar cases. Previously audio would have been edited together and left as a voicemail, but these days the deepfakes are working in real time. The deepfakes are trained by using audio – or video – footage that is already in the public domain – such as a CEO's conference presentations, earnings calls or media interviews. These are then used as the basis to train the artificial intelligence, and when the criminal calls the victim, they can have a live conversation with them by typing their responses into the computer, which then speaks those sentences in the synthetic voice of the CEO.

For now, however, it is unlikely that corporate treasurers or CFOs would be the target of video technology, or maybe even audio if they don't have a high public profile. Kelley Sayler, a US-based expert in advanced technology, comments, "While deepfakes are growing in sophistication, they're generally unable to consistently fool untrained viewers. Creating a convincing deep fake video, for example, would likely require a tremendous number of image and voice samples on which the systems that create deepfakes can be trained. For that reason, it's usually much easier to create deepfakes of public figures who have been photographed or recorded thousands of times."

Sayler adds that she's not aware of any systems that can currently generate consistently convincing deepfakes of private citizens or even public-facing individuals for which there are limited image and voice samples. Given, this, it's unlikely that corporate treasurers, or perhaps lesser-known CEOs are likely to be the subject of deepfake videos. However, audio technology is much more likely to go undetected. Sayler continues, "It would likely be easier, given the state of today's technology, to fool someone with a social engineering attack such as voice impersonation."

CFOs and corporate treasurers, however, will always be a target for criminals because of the nature of their role. Hank Schless, Senior Manager of security solutions at data-centric cloud security company Lookout, comments that their direct line into an organisation's finances makes them an attractive target. "The majority of cyber attacks are financially motivated, and attackers see people in these roles as the most direct route to their end goal," he says. Schless notes that the common method of attack is by voice communications, and the call will typically have a sense of high urgency.

For treasurers and CFOs, the financial risk is the most obvious with deepfake technology. But, as Joseph Steinberg, an author and cybersecurity expert witness and advisor, comments, "Deepfakes can cause a lot of problems, not just financial."

There are wider issues of how deepfakes can be used as evidence – or fake evidence of crimes. There could be issues, for example if a subordinate has been asked to do something illegal by their (fake) superior, or if a (fake) CEO has done something and the only evidence is that the witnesses who testify that it was him – because they spoke to him. Steinberg argues that this kind of scenario is worse than financial fraud; at least fraudulent transactions can be traced, and hopefully reversed.

But if you have been accused of doing something illegal – when, in fact it was a synthetic version of yourself, your only defense is 'I did not make the call', "What are you going to do?," questions Steinberg. That's quite a question, and one that the law courts are not well-versed in. At the moment, in a court, a person's evidence of 'Yes – it was him, I spoke to him' would be taken at face value. And if the defense is that it was a deepfake, a judge may not believe them because they are not familiar with what the technology can do.

This is just one of the scenarios where deepfake technology can be applied. According to cybersecurity firm Panda Security, there are three main business threats to businesses with deepfake technology. Top of the list is fraud – like with the UAE company or the fake Johannes. Next is fabricated remarks where audio or video can impersonate an executive saying or doing something they didn't say or do, which could massively impact a company's reputation. And thirdly, there is extortion where the executive's image could be grafted onto pornographic material, for example, and used for blackmail.

The technology is becoming more sophisticated, so this kind of threat is becoming more commonplace. "We're all familiar with the deepfake videos that are used for parody across entertainment outlets, but this seemingly harmless technology party trick can actually be used in very malicious ways," says Schless at Lookout.

In terms of the level of the capability, Steinberg explains that at the moment not everyone who wants to do it can do it, but criminals who have resources – access to these capabilities – can launch targeted attacks. "You can do it today with audio. Video is harder, but that will get there," says Steinberg.

Aarti Samani, Senior Vice President Product & Marketing, iProov – which has developed liveness detection technology to combat deepfakes – comments on the rate at which deepfakes are improving. "Firstly, deepfake videos posted online are doubling year-on-year. As deepfakes are AI-based, the more data it has, the smarter it gets. This means deepfakes can generate a more realistic likeness, match mannerisms and expressions in videos. As more deepfakes are being created and posted online, they become more sophisticated."

Samani continues, "This also makes them more scalable. A criminal attempting to impersonate a victim using a physical mask has to go to considerable lengths to be successful. Alternatively, deepfake technology requires a much smaller amount of effort to cause a significant amount of financial damage."

So what can corporate treasurers and CFOs do to protect themselves? The first step is to at least be aware of the problem, something that is lacking at the moment. Steinberg comments that security personnel are aware of the potential

> When it comes to social engineering through deepfakes, phishing, or other tactics, attackers will almost always try to create a high sense of urgency to get their target to act without thinking.
>
> Hank Schless, Senior Manager, Lookout

of this kind of technology, as are senior leaders who manage large transactions, but the average employee isn't aware.

More education is needed to raise awareness of the problem, and to give guidance on how to spot a deepfake. Panda Security notes that 80% of organisations acknowledge the threat of deepfakes, but less than 30% have taken action. The cybersecurity firm gives some tips on the way to detect deepfakes. These include audio with an unnatural cadence, a robotic tone or poor audio quality. And with video the things to look for include lip movements that are out of sync with the voice, unnatural blinking or movement, or unexpected changes in lighting or skin tone. However, given that deepfake technology is getting more sophisticated, more layers are needed to protect corporates and their employees.

"Different things can be done but the bottom line is that the simple thing is awareness," says Steinberg. One action that can be taken is to ensure that specialised approval is needed for any transaction that deviates from the norm. Steinberg suggests there should be a method of communication, say between the CEO and CFO on a dedicated phone line that is only used for that purpose, and only them and the security team know about. "Then if you get a message in the normal way [to complete a high-value transaction], you know it is not good," says Steinberg.

Steinberg notes that the longer you speak to a deepfake, the more likely it is that you'll realise it's not real. There may be some shared past, or inside jokes, that you have with the person that get referenced in a way that doesn't ring true.

Something else that should raise red flags is the sense of urgency. Schless comments, "When it comes to social engineering through deepfakes, phishing, or other tactics, attackers will almost always try to create a high sense of urgency to get their target to act without thinking." He notes that it is best to operate with a high level of scepticism when receiving any sort of communication that asks you to access or make an unusual transfer, share your login information, or access a certain website.

"In addition," says Schless, "organisations need to be sure they're adding an additional layer of protection to any sensitive data, especially financial data." He adds, "By leveraging a security platform that can detect risky behaviour such as anomalous logins, protect data from being exfiltrated, and encrypt any sensitive information as soon as it's copied or moved, organisations can keep themselves safe from a serious financial data breach."

Another precaution is to have a protocol in place for verifying suspicious communications. On the topic of protecting against such attacks, Sayler comments that "Traditional security practices should be in place to ward against both social engineering and deepfake attacks. Financial institutions could agree, for example, that requests to transfer funds are to be made only over pre-approved, encrypted communications channels or that any transfer requests are to be confirmed by a return call to a pre-determined secure line. Corporate treasurers and chief financial officers should be mindful of deepfakes and develop plans and procedures for exchanging authenticated communications with both internal and external audiences."

In the future, it could be possible that those making large transactions will not rely on audio communication, and may have to do video calls, which includes technology that does a 'proof of liveness' test to ensure it is not a deepfake they are speaking to. Samani at iProov comments, "The use of video calls combined with proof of liveness or authentication is definitely something that we may see rolling out in the future to combat deepfakes and ensure the transfer of funds remains secure. After all, as the AI gets smarter, deepfakes are only getting more advanced and trickier to detect."

She adds: "Undoubtedly, the levels of security will differ in line with the risk level of the transaction. A low-risk interaction involving internal colleagues, for example, might just ask a user to authenticate using basic credentials. A higher risk transaction however, where external agencies and/or a large transaction amount are involved, may require more advanced identity verification that compares a user with a trusted identity document, such as a passport or driving licence, for that additional security layer."

And more, Samani continues, "Regardless of the security level deployed, liveness verification solutions are invaluable in ensuring any digital interactions can verify exchanges are happening with the right person, the real person and in real time – not a photo or mask, a bot or a bad actor, or a video replay or image."

Also, Samani has three top tips for treasurers and CFOs about how to protect themselves. Firstly, they need to be vigilant and have a healthy dose of scepticism about new transaction requests. Secondly, "employing the use of multi-factor authentication is a must. Biometrics provide a very high level of assurance as a part of this process as an 'unshareable credential'." And finally, Samani advises to "take an 'always on' approach to monitoring for new risks, and ensure this is acted upon by frequently updating policies and procedures around financial transactions."

Steinberg comments that combating the technology is essentially a human problem. It is after all humans and foolish behaviour that allows them to be tricked by deepfakes. He argues that the more layers companies put in place to protect them – whatever they may be – the more likely the criminals will move on and target someone else, and move onto other low-hanging fruit. ■

STOCK VALUE

A UK-based fintech is offering to help companies unlock working capital based on the value of their inventory – without incurring debt.

As financial technology evolves it continues to throw up new trade finance models and platforms. The latest example is Supply@Me, an inventory monetisation provider that has just signed up the first funder for a service designed to enable companies with warehoused inventory to free up the value of this stock.

As we have previously reported, many corporates have raised inventory levels as the conflict in Ukraine and lockdowns in China added to the supply chain issues created following the outbreak of Covid.

Increasing stock levels may act as a buffer against future supply chain disruption, but holding more stock comes at a cost. Supply@Me hopes to tap into this through an off-balance sheet solution, which allows firms to recognise inventory monetisation funds as a legal true sale.

The company has secured a commitment of US$10m from the VeChain Foundation for inventory monetisation transactions across two phases, explains Nicola Bonini, Group Head of Origination.

"In phase one we aim to execute a transaction by the end of July for inventory worth up to US$1.5m for a client company we have already selected from our Italian portfolio," says Bonini. "But the alliance with VeChain is just one route for prospective clients and funders to access the platform as we continue to progress our own traditional funding routes."

Supply@Me says it is building a sustainable pipeline of warehoused goods in various sectors, with differing inventory monetisation day one purchase amounts and in various locations across Europe and MENA.

Monetisation transactions can be facilitated for a wide range of inventory types – from vehicle parts to clothing and footwear – providing the goods are stored in a warehouse and are not categorised as 'slow-moving' or 'non-moving'.

"Inventory can be either raw materials or finished goods or a mix of both," adds Bonini. "We generally do not monetise stock which is perishable, unless it has a very long shelf life (canned goods or concentrates, for example) and we do not monetise goods under any licensing agreements."

The transaction level will depend on the appetite of the funder of the transaction and the needs of the company with goods to be monetised. Supply@Me encourages businesses to consider inventory monetisation if they have been trading for more than three years and have an annual turnover of at least £10m and warehoused inventory worth more than £5m. The overall cost to use the platform comprises fixed and variable costs including: an upfront fee for due diligence; a charge for the arrangement of the commercial agreements; an annual service agreement; a fixed margin when a company buys its goods back, which will only be payable when sales are made.

The offering involves a three-year contract where for the first two years, once the client has sold the stock to its end customers, the platform can buy new inventory through a rolling mechanism. Companies do not have any conditional or unconditional obligations to buy back the stock, which is under the control of the platform (which can also sell the related goods to third parties). In year three, instead of refilling with warehoused stock, the facility winds down as the inventory is sold on. This means that companies do not carry the risk for any inventory not sold during the contract period. Stock is refreshed at least twice a year and Supply@Me does not purchase slow-moving stock which takes more than 12 months to be sold, or non-moving and/or obsolete stock.

Bonini says the company is in conversation with a selection of prospective funders, including commercial banks, debt and hedge funds, and asset-based lenders. ■

This much I know

Lavender Murray

Manager, Sustainable Finance

How did you arrive at your current role?

I started my career in finance in 2004 when I joined WestJet as a business analyst, before moving to ATCO Power in 2007 as a project accountant. In 2012 I joined TC Energy as a senior analyst, at first doing energy derivatives accounting, and then after 18 months moving to a cost planning and forecasting role.

Following a reorganisation of the company in 2016, I joined the cash management operation and then took over as Manager in 2018. To ensure that the company can really focus on and advance its environmental, social and governance (ESG) strategies, I have recently moved to a newly created role at TC Energy: Manager of Sustainable Finance.

Would you recommend having a defined career plan or being open and flexible?

Having a definite plan has never worked for me. If someone asks me where I want to be in five years, the answer is – I don't know! Five years ago, I never would have guessed I would be in my current position. So I would say, be open to all possibilities. The most important thing is to know what you like and what you don't like. Then you can have some idea of the areas that you might like to pursue in the future.

How has the conversation around inclusion and diversity evolved over the past few years?

In recent years it has evolved in leaps and bounds. At a company level, it's about measuring where we are at the moment and planning for where we would like to be in the future – TC now has concrete targets for women in leadership and on the Board, and we are making progress against those goals. For those in positions of leadership, it's important that they check their own biases. When people are recruiting and reviewing resumes, it's important to do this in a totally unbiased way – sometimes you have to actively check any unconscious bias you might have, to make sure that you are not discounting someone because of their name or gender.

What advice would you give to women in finance in terms of establishing and developing a career?

Women need to be thoughtful in their approach to building really good networks. I believe the most important thing – and something that I wish I had done sooner – is to establish good relationships, not just with immediate colleagues but with broader groups in the organisation as well.

What is your motto in life or your greatest inspiration?

"Have no regrets." Also, remember that life is lived on the edge of your comfort zone. Don't be afraid to push the boundaries of what you're comfortable with. Rather than stay within the middle of the safe areas, push towards the edges – because that's where the magic happens.

"Sometimes you have to actively check any unconscious bias you might have, to make sure that you are not discounting someone because of their name or gender."

ONLINE

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

Career progression

Lavender had been working for TC Energy as a senior analyst for several years before she was asked to join the cash management operation on a temporary secondment. What began as a short-term arrangement turned into six and a half years. “It was very much the case that treasury found me,” she recalls. “It wasn’t something that I was looking to do. It certainly wasn’t on my radar as a place that I could go to have a great career and be happy.”

Nevertheless, she hit the ground running: shortly after Lavender joined treasury, the company acquired the Columbia Pipeline Group for US$13bn. “This was a huge project for which I was the treasury expert, becoming the de facto treasury leader of CPG until they became fully integrated,” she says. “It was during this period that I learned so much about treasury.”

In 2018, Lavender took over the role of Cash Management Operations Manager. A notable achievement during this time was an initiative to change the company’s main bank, which meant creating a request for proposal (RFP). “The company recognised the need to review and adjust our banking relationship. I knew it would be a lot of hard work to change, and it would be complicated, but it was a necessary thing to do,” Lavender explains. “Overseeing the whole process of selecting the new bank from start to finish was a huge undertaking. I regard it as the pinnacle of my treasury career.”

Challenging times

It was while Lavender was engaged on this mammoth project that the pandemic struck. “I'm an extrovert, and I thrive in interaction with people. Sitting behind a screen for two years was difficult for me,” she explains. “My leadership style is to be present and engaged. It was a challenge learning to do that remotely.”

After separating amicably from her husband before COVID-19 struck, she found herself having to be a single parent to her two daughters, now aged 11 and 13. “The stress of COVID, and working on a major project whilst transitioning to working from home was tough enough,” she recalls, “but added to this was the challenge of having children with changes in schooling and a reduction in their activities.”

During this time it was important to maintain a good team morale and to keep the lines of communication open. Staying connected with the team became not just about the work, but about the person. “To be a good leader – an authentic leader – you have to be transparent,” she cautions. “Sharing my struggles meant that others could be open about the struggles they were also having to face.”

Sharing experiences

Lavender is firm in her opinion that sharing such experiences helps towards reducing the stigma around mental health problems. “We have to be open and honest about this. Nobody is a one-dimensional being. You can be a successful person and have a great career and still struggle. A lot of people are experiencing worse mental health now than before the pandemic,” she says. “Certainly for the first time in my life I developed anxiety. Fortunately, I was able to get help from my doctor and have therapy, and it has really worked for me.”

She is also thankful for the support she enjoyed from her network of family and friends as well as from her colleagues. “I'm grateful that I had a job that kept me busy and happy, at a company where I have been able to talk about my experience and that has such amazing leadership,” Lavender comments.

Looking back at her time in treasury, Lavender believes that for women in the corporate world, it is an exciting time. “I wish more women would consider treasury as a career,” she reflects. “It can be so rewarding for people who love numbers and analytics. And it’s a great way to network with people and build relationships. I’m grateful for all the opportunities it has given me. I came out of it a better person than when I went in.”

Profile

Founded in 1951, TC Energy (formerly known as TransCanada Corporation) is a North American energy company headquartered in Alberta, Canada. It is one of the largest energy infrastructure companies in North America, with pipeline, power and storage assets of over CA$100bn as at end of 2021. Today the company has an extraordinary opportunity to lead the energy transition – developing solutions to move, generate and store the energy North America relies on in an increasingly secure and sustainable way.

Since joining TC Energy in December 2012, Lavender has gained an in-depth knowledge of cash management and all aspects of the treasury function. In May this year she moved from treasury to a newly-created role heading up the company’s sustainable finance initiatives. She is a Chartered Professional Accountant and holds an MBA in Accounting and Finance from the University of Calgary, as well as a Bachelor of Science and Bachelor of Science in Agriculture from the University of Manitoba.

On Tuesday 14th June 2022, the brightest stars from the international treasury universe gathered in central London to celebrate their outstanding achievements at Treasury Today's 15th Adam Smith Awards. Our congratulations to this year's winners.

Designed by Sir Giles Gilbert Scott (whose other masterpieces include Britain's iconic red telephone box), the magnificent rooms of the St. Pancras Renaissance Hotel this year played host to treasury's top talent from around the globe.

In the year when, at long last, the challenges of recent times appear to be giving way to a long-awaited normality, the Adam Smith Awards 2022 celebration dinner marked a return of confidence and a renewal of hope for the industry. More than just a networking opportunity combined with a sumptuous meal, it was a chance for corporate treasurers to receive their awards in person in the company of their peers, colleagues and partners.

Since its launch in 2008, the Adam Smith Awards has been recognised as the premier event in the international treasury calendar, setting the benchmark for the entire industry. With submissions coming from a wide range of global corporates, national companies and government departments, the Adam Smith Awards showcases innovative solutions produced by treasuries both large and small.

Over 230 nominations were received this year, with an impressive 34 countries represented. Attracting the very best and brightest of corporate treasury's innovators, the degree of creativity, endeavour and enthusiasm shown in this year's entries meant that the decisions faced by our judges were more difficult than ever.

Making connections

Guests arrived via Scott's Grand Staircase of iron balustrading and Gothic detailing. In the Ladies Smoking Room (harking back to an era when men and women would retire to separate rooms after dinner), the event began with a lively drinks reception. In this sumptuous space of marble fireplaces and gilded ceilings, winners and their partners took the opportunity to mingle and network. For some, this was the first attendance at such an event in over two years.

Extending a warm welcome to guests, Meg Coates, Treasury Today's Joint Publisher & Head of Operations, gave full acknowledgement to the tremendous upheavals and challenges faced by everyone in recent times. "The landscape has changed so much," she reflected. "The evolving solutions that you are all working on and delivering are true testament to the intellectual strength and innovative thinking driving top treasury teams globally."

Pointing out that the Adam Smith Awards have always been an important milestone for the treasury community, she paid tribute to an industry that has endured many hurdles in recent years, and which has struggled to find opportunities to get together in person.

"We are so thrilled to bring you all together here tonight and to share in your triumphs," she said. "As we move away from the

restrictions of the pandemic, it is important to bear in mind that we are still operating in a time of global upheaval and political instability, as is visible in much of the work that you are all doing at present."

Meg then handed over to Sophie Jackson, Joint Publisher & Head of Strategic Content, who said a few words about the evening's support for Ukraine and introduced special guest speaker Andrei Kirilenko, Professor of Finance, Cambridge Judge Business School and Founding Director of the Cambridge Centre for Finance, Technology & Regulation.

A former Chief Economist of the US Commodity Futures Trading Commission, his research interests centre on the intersection of finance, technology and regulation, including the design of automated financial markets and instruments. In his speech, he talked about the recent events in his homeland and shared his personal experiences, urging everyone in the room to reflect on unfolding events and to consider how personal choices can have far-reaching consequences.

During the speeches, there was a reminder that all the winners of the Adam Smith Awards 2022 will be celebrated throughout this year's Adam Smith Awards season.

The next stop

Following the reception, guests made their way to the Hansom Hall, an event space dating from the golden age of railway travel. This unique and memorable venue saw treasury's best and brightest arriving to collect their awards and enjoy dinner. Some of their achievements are included below – but these represent just a small selection of this year's success stories. Further details of each winning solution or personal award can be found in Treasury Today's case studies, which will be published on our website in July.

Innovation in cards

In the Best Card/E-Cash Solution category, the Overall Winner was Easa Saleh Al Gurg Group. The award was collected by Group Treasury Manager, Lynda Ihenacho.

Easa Saleh Al Gurg Group is a family company with businesses ranging from retail to construction and property. In order to create payment processes that would facilitate the Group's 2025 vision of achieving complete digitisation, the treasury undertook a review of its payment processes. Of particular concern was the approval process, which required original copies of invoices to be approved by each department head – and in some cases by the Group CFO – before being sent to the authorised signatories.

Working with its banking partner, the company designed a process flow for making vendor payments utilising purchase cards (P-cards). Since these P-cards are restricted at the merchant level (ensuring that cards are only used at the agreed merchants), the Group has achieved additional security, while avoiding the need for approval processes. This migration of payments from cheques to P-cards has automated the overall process, enabling staff members to be allocated to more strategic initiatives, and resulting in resource hour savings and lower overall costs.

Harnessing SCF

The Overall Winner of the Best Supply Chain Solution award was Pepco Group. The award was collected by Head of Treasury, Adam Krayevski together with Mateeusz Siwa, Finance Project Manager; Jay Navaratnam, Head of Financial Accounting; Martyna Bobowik, Category Head Buyer, and Agneeshkuh Stefanniak, Liquidity and Treasury Operations Manager.

Pepco is a European chain of discount shops headquartered in Poland with 20,000 employees and 4,000 stores in 16 countries. During the pandemic, with lockdowns forcing stores to stay closed and/or restrictions placed on the merchandise sold, the group decided to extend payment terms to its suppliers from seven-15 days to 30 days, and later 60 days. In order to minimise the impact on its suppliers in Bangladesh, China and India, the company decided to use a supply chain finance (SCF) programme that enabled suppliers to be paid in ten days.

The programme is one of a handful of programmes that offer local currency payment in China, with Bangladesh to follow shortly. In addition, the future extension of the programme to suppliers in Central, Eastern Europe and Turkey is expected to include multilateral agencies like the European Bank for Reconstruction and Development (EBRD).

> "I am incredibly humbled to have won this award. I couldn't have done it without the wonderful team members I've been fortunate to work with at Airbnb over the years and for which I am so grateful."
>
> Lisa Chan
> Director of Global Treasury, Airbnb
>
> **Overall Winner**
> Treasury Today Woman of the Year 2022

Sustainable success

The Overall Winner of Best Sustainable Treasury Solution was Tesco PLC, with the award collected by Alex Ashby, Head of Treasury; Julian Redhead, Treasury Manager, Europe; and Nina Sengupta, Treasury Manager, UK and Ireland.

Aiming to support its many suppliers in the UK and the Republic of Ireland in tackling climate change to access lower funding costs, Tesco became the first UK corporate and retailer to deliver a supply chain finance solution with a sustainability-linked element focussing on the environmental pillar of ESG.

Innovation was needed to develop a balanced ESG scorecard which would not only employ a strong sustainability methodology, but also be accepted by the company's suppliers. In the end, the decision was taken to create an in-house solution using innovative technology elements, such as a middleware with secure file transfer protocol (SFTP) connectivity to the bank for the six interfaces required. The middleware not only enables central automatic reconciliation and posting to Tesco's Oracle Fusion general ledger, but will also enable the roll-out to other Tesco payables platforms in the future.

Worldwide network

In the Best Digitisation Solution category, the Overall Winner was the International Organization for Migration (IOM), represented by Group Treasurer, Malcom Grant.

The IOM is the UN agency tasked with migration and associated projects. It operates a central treasury hub in Geneva, with a back office service centre in Manila. Seeking to overhaul its cash management, payments on behalf of (POBO) and processes around sharing donor receipt data, the agency's main challenge lay in the need to expend funds locally via accounts with approximately 200 banks – not just in major currencies, but also in most of the world's exotic currencies.

In two innovative solutions, several very different platforms were connected in an integrated manner, eliminating substantial re-keying of data, reducing human generated error, and reducing lead times on processes from three-to-five days to one-to-two days. The automation also provides capacity for upscaling in order to cope for predicted future increases in demand, takes account of different time zones to ensure trading for exotic currencies during live trading, and includes additional controls and validations to reduce risk.

Raising debt

The Overall Winner of Best in Class In-Country Treasury Solution, a new category for 2022, was Sun King (Greenlight Planet Kenya Ltd). The award was collected by Krishna Swaroop, Group CFO.

Founded in the USA in 2007 as Greenlight Planet, and recently rebranded as Sun King, the company has been an early pioneer in the off-grid solar industry. Operations in Kenya began in 2014 and since then the company has secured a strong pay-as-you-go market share, selling over 17 million products. By replacing kerosine lanterns with affordable solar products, the company has impacted more than 65 million lives.

A crucial challenge for the business was to be able to raise debt locally in local currency at an affordable rate and on sustainable terms. By arranging a US$75m club facility through its partner bank in local currency, the company has been able to import solar equipment and maintain liquidity by securing a back-stop facility. Financing environmentally friendly solutions for lower income households in an emerging market also helps to address ESG issues such as sustainability and poverty alleviation, as well as other social concerns.

Judges' Choice

The winner of the Judges' Choice award was Masterworks, with the award collected on stage by Francisco Meyo, Controller, Investment Vehicles, and Jason Papadopoulos, Business Intelligence Manager.

The challenge faced by the team was to facilitate multiple payment options for investors, and support timely reconciliation, with an integrated workflow to identify and resolve payment exceptions as they arose. Fittingly for such a ground-breaking company (Masterworks is the first company to allow investors to buy and trade shares in multi-million-dollar masterpieces created by world-renowned artists), the solution submitted was highly innovative.

Given the unique nature of Masterworks' model in managing hundreds of 'micro-securitised' investment vehicles, no outsourced payment operations or administration

options would be cost-effective or able to seamlessly integrate into the investor experience. The solution was to develop an in-house investor payment reconciliation system (called T-Rec) which is able to associate investor subscriptions with corresponding bank payments, while acting as both a data processor and as a visualisation tool. As a result, operators can not only oversee the process, but also perform operations when automation reaches its limits.

Spearheading inclusion and diversity

The well-deserved Highly Commended Woman of the Year was Jayna Bundy, General Manager, Global Treasury & Financial Services, Microsoft.

No stranger to the Adam Smith Awards, over the years Jayna and her colleagues at Microsoft have collected many such awards. Her success in this category is a fitting tribute to Jayna's 22 years in the financial sector, as well as an acknowledgement of her continuing commitment and dedication to helping others in the industry. In her position as General Manager, Global Treasury & Financial Services at Microsoft, Jayna leads the global organisation's financial programmes and analytics, focused on worldwide accounts receivable and delivering innovative credit and payment solutions globally. Drawing on her passion for technology and innovation, she has been instrumental in Microsoft Finance's deployment of automation in major 'invoice-to-cash' processes, and its leveraging of emerging technologies such as machine learning and blockchain.

As someone who cares deeply and passionately about diversity and inclusion, Jayna is involved in many initiatives: she is a senior contributor to Women@Microsoft, an employee resource group driving internal MSFT initiatives designed to embrace and promote women's inclusion and success. Jayna also co-leads Senior Women in Finance, which focuses on providing a global platform and programmes for developing senior women leaders – and as part of Microsoft's Racial Justice Initiative, she contributes to the project, providing black business owners access to capital.

Top Treasury Team 2022

The highlight of the awards ceremony was the presentation of the Overall Winner of Treasury Today's Top Treasury Team 2022 award. This accolade went to the AstraZeneca treasury team: the award was received on stage by Group Treasurer, Jonathan Slade, Assistant Treasurers Kevin Martin and Carlo Reeva, and Owen Kennington, Treasury Reporting and Control Manager.

Open to any corporate treasury team that has made an outstanding contribution to its organisation over the past 12-18 months, Treasury Today's Top Treasury Team award recognises those who have truly stood out. Whether it is in the area of treasury transformation, the integration of a new acquisition, the delivery of a suite of projects in response to new challenges, or by responding to a crisis, Treasury Today's Top Treasury Team award is the most coveted in the industry and focuses on the achievements of a treasury team across a whole range of projects and solutions.

Although the team was supported by a number of relationship banks and treasury system consultants, it was the considerable achievements of the AstraZeneca team itself that impressed the judges. In particular, this included the team's handling of the acquisition of Alexion Pharmaceuticals, a global biopharmaceutical company that would give the Cambridge-based company an enhanced scientific presence in immunology. After securing US$17.5bn of syndicated committed facilities in late 2020, the treasury team set about the task of preparing for the company's largest acquisition to date, which was completed in July 2021. This included raising US$8bn through USD and EUR bond issuances, and drawing US$4bn of term loans under the acquisition facilities.

At the same time, the treasury team's other achievements included upgrading its treasury system, implementing a cross-border cash pool between China and the UK, and adding four new partner banks to the company's relationship group. All this was achieved while the team supported the company as it rolled out its global vaccination programme on a purely not-for-profit basis, while operating in a fully remote working environment for nine months.

Sharing success stories

As the celebrations drew to a close, the winners and their partners reflected on their achievements and successes – an uplifting end to an evening which saw the treasury community come together in person again.

Winners will continue to share their stories and successes throughout the Adam Smith Awards season, beginning in July with the dedicated winner podcast series, and continuing until the opening of nominations for the Adam Smith Awards 2023 next January. ■

"I no longer lead the change. I set the strategy, I set the vision, but what's more pleasing for me is the organic growth, and the organic ideas coming from our team members as to how to make their job more interesting and value accretive. We've all learnt to embrace technology to really catapult what we do to be globally leading."

Toby Shore, Senior Director, Group Treasury, Risk & Insurance
Emirates Global Aluminium

Overall Winner
Corporate Treasurer of the Year 2022

Multi-currency notional pooling: the working capital solution for global corporates

Multi-currency notional pools offer important cost and flexibility benefits to global corporates. Rather than borrowing from the bank, companies can be self-funding while the FX element means treasury can minimise the need for expensive FX transactions to access a particular currency in the spot market.

Amy Eckhoff
APAC Head of Liquidity & Account Solutions Specialist
J.P.Morgan

Tim van Bijsterveldt
Executive Director, Liquidity & Account Solutions Specialist
J.P.Morgan

Take two cash management scenarios for a multinational company with payment obligations around the world. On one hand, the company runs a costly overdraft and prefunds all its obligations. On the other, it sets up a notional multi-currency cash pool covering the US, APAC and EMEA, whereby the surplus cash in the different regions passes from one to another over a 24-hour period to meet working capital needs.

The structure allows the company to leverage idle internal cash, the most cost-efficient source of funding a company has and preferable to short-term credit facilities, freeing up other reserves to target growth strategies. All the while offering the ability to tap different fungible currencies to make payments whenever and wherever needed without a currency conversion.

Multi-currency notional pooling offers an effective and cost-efficient liquidity structure that allows treasury to leverage surpluses hidden in subsidiaries, reduce dependency on overdrafts and play off different currency balances for maximum flexibility. "The solution marks the start of our global treasury reinvention and serves as a foundation for our ambitions to set up a global cash pool and in-house banking structure," says Cecilia Li, Head of Global Treasury at BeiGene Limited, the global biotech company that specialises in the development of drugs for cancer treatment. "By moving away from manual processes towards automation, we have been able to reduce our error rates and minimise risk exposure."

J.P. Morgan suggests two key strategies – multi-currency notional pooling and negative yield optimisation – to complement physical cash concentration tools and FX hedging. Traditional physical cash pooling centralises funds across multiple bank accounts to reduce idle balances and deficits whereas notional pooling achieves a similar result but is accomplished by creating a notional position resulting from an aggregate of all the accounts without physical transfer of funds. Add on the multi-currency element to a notional pool, and treasury teams don't need to carry out FX transactions to access a particular currency, introducing a valuable element of flexibility.

Macro backdrop

Today's uncertain global business environment makes effective liquidity management and FX hedging increasingly important to provide funding stability and cost optimization. But the combination of rising interest rates and volatile stock market valuations creates a demanding debt funding environment. For this reason, rather than tap external funding, it makes sense to leverage internal surpluses built up in the loose credit conditions post-2008 and often held out of sight in idle balances across fragmented global accounts or pushed down into subsidiaries.

"These cash surpluses are often generating optimal returns and are not deployed," says Tim van Bijsterveldt, Executive Director,

Liquidity & Account Solutions Specialist at J.P. Morgan Payments, adding that subsidiaries also often over-forecast their cash needs because they do not have automated processes or sufficient visibility across accounts.

Mobilising internal idle cash for self-funding and working capital purposes also frees up costlier debt finance to drive long-term growth and shareholder return via acquisitions or entering new markets. "The economics of recycling internal cash for operating purposes rather than using external funding really do pay. Rising rates mean raising capital is more expensive than leveraging internal cash for operating purposes," says Amy Eckhoff, APAC Head of Liquidity & Account Solutions Specialist at J.P. Morgan Payments, where analysis of corporate financial statements found global multinationals on average hold at least 30% in idle cash.

Multi-currency notional pooling also provides support and cost benefits for companies facing a mismatch between their forecasts and actual need to access funds like, for example, an unforeseen payment obligation. "Notional pool pricing will almost always be more favourable and beneficial than a spot or overnight swap rates," says van Bijsterveldt.

FX Element

Multi-currency notional pooling enables corporates to decide which currencies they want to keep operating in a surplus balance while running others intentionally negative. If there is a surplus in one currency, say US dollar, and treasury doesn't borrow more in another currency than they have US dollar, corporates can draw down another currency at a preferential rate. This can be done manually or by using the same automated cross-sweeping tool that is commonly used to move out restricted currency balances from the more complex markets in Asia. "It might sometimes be better for treasury to draw down in Japanese Yen rather than keeping that account surplus from an interest rate perspective without impacting underlying business operations," explains van Bijsterveldt who says the strategy allows treasury teams to really look at the currency composition of the pool and run certain positions short on purpose.

It makes for a compelling solution for companies pushing into new regional markets against the backdrop of digitisation and trends in real-time payments, shifts online and the proliferation of wholesale business to business marketplaces. Having local currencies on tap in the regions and keeping the currency in the market where it connects to a local business is increasingly sought-after, explains Eckhoff. For example, a company might be receiving new flows of revenue from online customers in currencies not received before; need to service pay-outs on a rapid basis or apply cash into the business as quickly as possible, all requiring the frictionless ability to fund and have settlement optimisation. "Before, treasury could slightly pre-empt, but today corporates need access to cash quickly in the right place and in the right currency," she says.

Expanding on the idea of the right currency in the right place, Eckhoff and van Bijsterveldt explain that the multi-currency element offers a new, hybrid model. Under notional pool structures, different currencies and country of incorporation of certain entities are unable to participate directly and the common way to move money around is via inter-company loans.

The multi-currency approach not only gives timely access to funds at pace (unless you convert Asian currencies in Asia, it is rarely settled same day) it also allows treasury teams to respond to rising rates when deciding which currency to draw down. "Rising interest rates are good on surplus balances but not so good on negative positions as you are charged more," says van Bijsterveldt.

This FX element also holds real flexibility. Treasury teams are not forced to convert currencies and can be more thoughtful on choosing which tenors to expand and manage: bills will still get paid as long as there is a sufficient balance, as different entities can access funds in the entire ecosystem. It offers companies a way to absorb unhedged flows and an alternative to the short-term FX market to fund the business on an immediate basis in an approach that was particularly useful at Goodyear, explains James Ho, Regional Cash Management Manager & Japan Treasurer at the tyre company. "Together with J.P. Morgan we implemented a flexible, scalable liquidity solution which has helped Goodyear achieve its treasury objectives to lower idle cash and financing costs without adding additional FX exposures or manual work."

Key considerations

Multi-currency notional pools require a few key considerations. Treasury teams need to ensure the accounting principles that lie behind intercompany or commercial flows coming in and out of the pool are robust. This means working with internal advisors and ensuring treasury benefits from the net treatment in their balance sheet – as opposed to gross positions that require capital set against them. Elsewhere, treasury teams should be mindful of the tax considerations around the jurisdiction of the pool. "There is a responsibility to understand how the pool fits with clients' ecosystems and existing infrastructure," says Eckhoff. "Multi-currency pooling entities have more complex accounting standards. If one entity is continuously drawing down and not contributing, then auditors and accounting experts might re-consider if direct participation in a notional pool is appropriate," adds van Bijsterveldt.

Indeed, both Eckhoff and van Bijsterveldt reflect that treasury should be mindful of what the cash is funding, keeping in mind pool funding is only meant as a working capital tool for short-term cash fluctuations or asymmetric demand from different business centres; regulators will quickly distinguish between inter-company loans and capital injections. It is not the right funding mechanism to finance a new factory, for example, and structural loans on a long tenor basis are better handled outside the pool. It also requires cohesion across regions and treasury teams in different jurisdictions need the expertise to manage the pool, handing it on in different time zones.

Multi-currency notional pooling benefits companies with fragmented bank accounts and supports account minimisation; it helps companies with a large cash burn to leverage internal cash and is an effective way to recycle cash from cash generating parts of the business. The structure also allows companies to extract the currency they like from the notional pool for redeployment if another currency is in surplus. "Multi-currency notional pooling is becoming an increasingly important tool for multi-nationals to lever their cash positions supporting new ecosystems that need to be managed at pace and at scale," concludes Eckhoff. ■

Liquidity management strategies amid rising rates

Liquidity and working capital management is treasury's unsung hero. It is also front of mind as interest rates grind higher. Treasury Today speaks to US corporates Newell Brands and Fluor Corporation, and Japanese car giant Nissan, to get the lowdown on liquidity in a time of rising rates.

At Newell Brands, the US manufacturer and distributor of household brands spanning home appliances to office supplies, liquidity calls come in clear cycles. The company requires most liquidity in the beginning of the year when it is building up its inventory but come the end of the second quarter, that inventory starts to ship, shortly followed by invoicing, and realising cash.

It's an approach that balances cash-on-hand with the rate of received cash, inventory – but not too much lest it tie up too much liquidity – and timely and nimble access to the capital markets, explains Robert Westreich, Senior VP Treasurer and Chief Tax Officer at Newell Brands, speaking to Treasury Today from the company's Atlanta office, just back from a whistlestop tour to Newell's Dublin office. "Liquidity is the lifeblood of the organisation. You must have immediate, short and long-term plans to manage it."

Westreich shapes a proactive strategy around tiers. The company runs a global notional cash pool that effectively deploys cash and minimises the amount of cash on hand; a receivables factoring programme provides cash more quickly than standard traditional collection activity, and the cash conversion cycle effectively manages days payable outstanding and days inventory outstanding.

Elsewhere, liquidity is ensured via a low-cost commercial paper facility providing immediate funding if needed, and a longer-term debt programme managed across maturities and not stacked up in one particular year. Under the cash conversion cycle, Westreich targets a long-term 50-day conversion rate, currently around 70 days but reduced from a high of 120 days. "The lower the cash conversion cycle, the more cash you produce and the greater your liquidity," he says. He also targets a 100% ratio of free cash flow to net income. "If you can convert all your net income to cash, you're doing a great job," he says.

In Asia, liquidity at Japanese car giant Nissan is also front of mind for Rakesh Kochhar, Senior Vice President Global Treasury and Sales Finance, in the car company's Tokyo head office. The working capital requirements of the company rose during the pandemic on a combination of lower sales and higher inventory. Now the ongoing semiconductor shortage, coupled with longer shipping times as global ports remain clogged, has compounded the need to have high inventory levels, lest manufacturing plants are left short of vital components when semiconductors are in stock. "Our working capital requirements have increased, and we have secured high levels of liquidity to fund it," says Kochhar.

Rising rates

Anecdotes from global treasurers reflect the challenges of liquidity management in the current environment. From supply chain issues leading corporates to maintain high inventory levels to demand unknowns coming out of the pandemic, liquidity is front of mind. But perhaps the most pressing and critical component of liquidity and working capital management is the impact of rising interest rates on the cost of servicing and refinancing debt added to corporate balance sheets when money was free. "A recession impacts all businesses differently, some that are long in the short part of the curve with size will be caught in an uncomfortable situation without the notional or yields needed to offset these higher borrowing costs. I'd expect their net interest expense to move unfavourably which is fairly easy to spot by investors," predicts Todd Yodder who heads up global corporate treasury at Fluor Corporation, the Texas-based engineering and construction firm.

Companies with negative cash flows using debt to invest in the business will particularly struggle. But stable companies financing debt at maturity will also feel the pinch. "In the last couple of weeks, a company that was paying 1% on US$5bn is now paying 3% which accounts to some US$150m of additional interest. It's not insignificant," says Kochhar. "Companies are sitting pretty that raised money two to three years ago but when it comes to refinancing it will be much more expensive."

Newell Brands locked in low rates back in 2016 when it issued around US$12bn debt of which around US$1bn notes are due in 2023. Mindful that only the current swathe of rate rises are priced in, Westreich is keenly watching central bank nuance and signs to time refinancing. The company has a split rating with the credit agencies meaning its bonds are a combination of investment grade and high-yield – where the cost of borrowing has risen sharply. As the price of these bonds moves in the opposite direction to their yield it is triggering a different strategy. "Yields are moving dramatically so for our longer-dated bonds the cost of buying them back is actually cheaper because the yields have risen so much."

ESG-linked issuance also offers a route to cheaper borrowing. Nissan raised US$11bn in 2020 in three, five, seven and ten-year tranches and Kochhar doesn't expect to have to return to the market to meet new funding needs, hopeful that supply bottlenecks and inflation will ease. "Our hope is that the supply chain improves, and we will have lower working capital and liquidity needs. I don't anticipate our working capital and

funding needs going up," he says. However, he is contemplating ESG issuance pegged to the company's ongoing transition to electric vehicles enabling a tap of more favourably priced debt should interest rates grind higher. "You can raise money at attractive rates if it is linked to ESG and we may do something in the next couple of years. Not because we need the money, but because we want to tap this market and it is good brand equity – it conveys the fact we are a responsible company."

Nissan also has another strategy in place to counter the impact of rising interest rates on vehicle demand. A so-called captive finance offering, where the company acts like a bank and lends to its customers to finance car purchases, is helping it manage profitability in a rising interest rate environment. Nissan borrows from its banks or the capital markets and lends to customers on a fixed rate. Although there is typically a few months lag between interest rates going up and Nissan charging more to customers, the business offers an important hedge. Even when interest rates were declining it proved profitable since the cost of borrowing for customers reduced with a time lag after Nissan's own costs came down. "It's a very attractive part of the business," explains Kochhar. "Our captive finance business contributes a significant proportion of our total profits."

Borrowing ahead

Some treasurers Treasury Today spoke to regret not having locked in across the curve during the rock bottom borrowing costs of the pandemic and now fear the kind of interest rates not experienced for a decade. Others are adamant the cure cannot be worse than the disease; rates will have to settle down following aggressive hikes by central banks. Indeed, it feels like treasury has fallen into two distinct camps: those that have been anticipating and waiting for rates to go up for years, and those that might have left it too late. "One group, anticipating for years, is finally looking right however we know that being right and early is many times as costly as being wrong," reflects Yoder. "The other group is looking to get long fixed but may be caught late without adequate market appetite. Time always tells who was right. I have always been a believer in balancing rate, duration, and repricing risk on both sides to minimise impacts to net interest income."

Moreover, corporate liquidity needs will be different for different companies in different regions. Some sectors like transport, particularly shipping, are generating huge stockpiles of liquidity, says Frankfurt-based Marion Reuter, Standard Chartered's Regional Head of Transaction Banking Sales UK/Europe. Elsewhere, companies with large exposure to China, still in the grip of lockdown, are burning through their liquidity to keep operations running but generating few sales or revenue. "Companies with large exposures to China are most worried about their liquidity. Few companies operating in China are making any revenue because everyone is sitting at home. It's having a massive impact on liquidity."

New trends

Reuter also notices important new strategies emerging. Before, corporates tended to put cash into structured products with fixed tenors, hunting for the best possible yield. Now, more are putting money into their current accounts in a deliberately short-term approach, not committing on tenor but expecting maximum yield and banks to pass on the benefits of higher interest rates on deposits. It's a challenge for banks, she says. "We are seeing lots of competitive bidding for money to sit in current accounts. From a cash management perspective, we are not traders, and this is not the way we are used to working with clients. What clients are leaving on account is very much linked to yield."

It is feeding into another trend: a swathe of RFPs. Corporates are actively consolidating and paring back on their global and local bank relationships in an approach designed to both shore up liquidity and leverage the most favourable deposit rates. "If a company has liquidity in 20 different bank pockets it's not efficient or visible," says Reuter. "Corporates are reviewing their bank partnerships to better manage their cash and liquidity."

RFP and tender activity are proving an opportunity for Standard Chartered to win new relationships in its core regions Asia, Africa, and the Middle East that don't typically benefit from a high churn of mandate activity. "Our key markets are not typically tendered first because the different currencies mean they are not easily centralised but now we see many tenders across our markets. We are pleased with this development so there is still a lot to win and gain in our markets."

Value creation

Liquidity considerations have also made value creation more important. Share buy backs to take advantage of cheap equities; deleveraging and dividend increases are all on the cards as corporates seek to return value to shareholders and shore up share prices in the volatile equity markets.

Newell has put in place strategies to cut debt since that 2016 issuance, reducing the cost of funding by deleveraging by over 50%. Elsewhere the company has shored up the share price via buybacks, throwing off the proceeds from a recent divestment. The company has a payout ratio of above 50% on its dividend and a dividend yield of 5%. Buoyed by less debt and a healthy share price, when it comes to refinancing, his priority is to remain nimble. Rather than lock in long-term borrowing with no opportunity to call the bond he is considering short-term, variable adjusted rates and exploring cross currency swaps. "There are tools in the box treasury teams can put in place," he says.

Yoder also sees potential for some companies to grow their share price. "If we continue to see risk-off, those companies able to deploy excess capital with favourable return on capital employed (ROCE) and free cash flow (FCF) will have an advantage maintaining, and growing, their share price," he says. "It is the challenge of every treasury to establish and maintain a ROC [return of capital] plan that investors' want to see if you are not going to de-lever or invest in the business, you are going to need the optimal mix of repurchase and dividends."

Nissan has just restarted paying dividends and Kochhar says it is up to the Nissan Board to consider buybacks at the appropriate time. Still, he notes many companies are looking at buying back their stocks in the current environment. "This is a good time to start buybacks because stocks are so attractively priced," he says, pointing to most buyback activity amongst Chinese corporates.

From supply chain priorities and getting inventory levels right, the need for cash on-hand given enduring pandemic unknowns, especially in China, all the while navigating the prospect of higher borrowing and business costs leaves liquidity as much a priority as ever. Treasury's cash operation is an unsung hero. Few people know about it – or want to know about it – but if it breaks down, its impact is profound. ■

Transformational change

Antti Kyyrö
EMEA Treasurer

BIO-RAD

Bio-Rad is a global leader in developing, manufacturing, and marketing a broad range of innovative products for the life science research and clinical diagnostic markets. With a focus on quality and customer service for 70 years, its products advance the discovery process and improve healthcare. Customers include university and research institutions, hospitals, public health and commercial laboratories, biotechnology, pharmaceutical, as well as applied laboratories that include food safety and environmental quality.

In March 2020 Antti Kyyrö and his wife found themselves bundling their young family into a car in the middle of the night. It was the eve of the pandemic and as Europe began to shut its borders, Kyyrö, who spent weekends in London with his family and the working week in Basel as EMEA Treasurer for Bio-Rad Laboratories, a US life science and clinical diagnostic company, realised his next commute could end up cutting him off from his family. "We had planned a less rushed return to Switzerland," laughs Kyyrö whose career has included a seven-year stint in Geneva as well as treasury and banking posts in Singapore and London. As it was, they reached France before the border closed, heading onto Switzerland where they've made a new home in the lakeside-town of Zug close to Zurich.

Challenging months followed as the pandemic swept through Europe and the key footprint markets on Kyyrö's watch, sending demand for the company's products and services, many destined for government entities and private laboratories fighting the virus and developing vaccines, through the roof. "A lot of the work Bio-Rad does on the ground and in laboratories is hard to understand in treasury," says Kyyrö, who dates wanting to work in finance from his early teens growing up in Finland and listening to his mother talk about the family business. "My job was ensuring we remained operational from a treasury perspective and that regional entities had enough financial capacity on-hand to meet accelerated demand. Fighting Covid was, and still is, a big part of what we do, and we are very proud of being part of the effort to contain the virus."

Catalyst

Facilitating Bio-Rad's ability to meet unprecedented demand was a catalyst for change in the company's treasury function. The pandemic exposed some of the department's older, paper heavy, processes at a time when speed and controlled decision making was key. Today, new efficiencies and capability span in-house banking operations across the region to electronic bank account management. Elsewhere, treasury has moved to an electronic platform for transactions across trade finance including letters of credit and guarantees; introduced efficiencies to customer credit assessment processes and continued simplifying the regional legal entity structure. "The pandemic has switched our focus to making sure we have the capability from a business perspective," he says.

Regional treasury

"In three words: busy, diverse and exciting," describes Kyyrö who, like many treasurers, thrives off the variety of his job, further enhanced by a smaller, regional treasury function typically requiring a more hands-on and broader role. Bio-Rad runs a centralised risk management operation and all trading activities out of its head office in California. Kyyrö is responsible for the group's local European operations spanning overseeing funding and liquidity requirements, capital structure decisions and following and advising on regulatory topics for around 40 legal entities. He also works closely with recently founded centralised finance teams in Watford (just outside London) and Budapest on various standardisation initiatives. "As general manager, it is my job to ensure policies are followed, efficiencies created and automation encouraged," he says.

Other day-to-day tasks include managing a project to overhaul global payroll payment processes introducing the latest banking and payment technology and managing Bio-Rad's business through ongoing macro-economic and political uncertainties. Kyyrö is tasked with ensuring that transactions continue to flow and that any changes to the banking environment are dealt with proactively in compliance with local and international rules.

It also involves close contact with head office, just the type of bridging role between the two entities that Kyyrö most enjoys. Ultimate corporate decision-making rests in the US, but regional treasury plays a vital role feeding insights from EMEA into that process, Kyyrö acting as a sparring partner in general discussions with the clout to recommend broad finance and treasury initiatives and provide legal and macro insights. Most

> Automation leaves less room for treasury to hide in an ivory tower.

recently on the strong global investor appetite for a US$1.2bn five and ten year bond issuance, perfectly timed earlier this year before central banks started withdrawing stimulus. "We were looking for cash in 1Q at a good time and got it at optimal price."

Being caught between head office and local divisions isn't always easy, but Kyyrö is passionate that all aspiring Group Treasurers should garner regional treasury experience before climbing the next rung of the ladder. "Understanding the issues frontline business and finance teams face, and tying the inputs to broader treasury strategy, is vital to our success," he says. "Being in the region puts you in the middle of the business, and our task is to act as the deep generalist, providing actionable insights and advisory to the business."

In-house bank

Like many treasurers, Kyyrö's already hectic day-to-day runs in parallel with long-term, complex projects. He has spent the last three years rolling out an in-house bank facility at Bio-Rad, drawing on expertise from ten years in Nokia's treasury function, with a celebrated IHB structure. Bio-Rad's IHB covers all treasury processes including pooling, a netting service, POBO, plus a centralised banking and risk management structure while liquidity management operations are now all automated, ensuring standard, day-to-day liquidity centralisation. Once the intricacies of the scale, framework and functionality were settled, Kyyrö could pass much of the build to IT and accounting teams to structure. "It has been a major focus for us in the last three years," he says.

A next step in IHB evolution at the company aims to improve visibility and control, he explains. "At the moment, our core treasury processes run in SAP including our in-house bank operations. We would like to have better visibility and control of the transactions and functions treasury manages. We also want to build additional functionality in areas such as cash forecasting and exposure identification, so we are reviewing offerings and scoping options for SaaS TMS."

A critical element of the process has involved liaising with US colleagues for whom IHB structures are often less known. Still, he predicts more US companies, particularly multinationals hunting efficiency and looking to free up resources for their European operations, will go down the IHB route. Moreover, the cost of building IHB solutions falls with every technological leap, reflecting software's deflationary pull. "SaaS TMS solutions are a great example of how technology changes our industry in a democratising way. Latest finance software is no longer for the largest corporates only."

Talking about the project reveals Kyyrö's enthusiasm and passion for automation and his conviction that it lies at the heart of treasury's future. Only by losing paper and manual processes, can treasury focus on ways to add value, provide the services and solutions to help companies compete, and be a true value adding partner to the business. "Automation leaves less room for treasury to hide in an ivory tower," he says.

Treasury's specific value-add will depend on the nature of the business in which the company is involved, he continues. For example, an FMCG or e-commerce business will look to treasury to leverage latest developments in instant payment tech, online sales channels, and mobile wallets. For a B2B business with large bulky cash flows, the focus should be in latest risk management technology or providing API based tools to optimise working capital through better integration of various finance systems.

Bank relationships

Setting up an IHB structure has also enabled Kyyrö to continue to streamline the company's banking group. The process began before the pandemic and aims to centralise all transactions under the umbrella of the company's main cash management bank in Europe. "Managing fragmented banking relationships in a complex region like EMEA is not efficient," he explains. "It's also worth remembering that this complexity manifests in various other finance functions outside treasury like the audit."

Re-organising the company's banking partners has been run alongside moving to a shared service model, handing in-country banking relationships back to regional treasury for management. Only those relationships which are required from a regulation perspective, or if a local bank is providing specific tasks around, say, payroll, tax, or clearing and reporting access for counterparties, will remain. "We only have local bank relationships in case our global providers can't provide a service in the given market; unutilised bank accounts are a cost both for the corporate and the provider."

New hires

For all technology's transformative power, Kyyrö is keenly aware that people are just as fundamental to treasury success. "Treasury is ultimately a people business, and after establishing an operational base through technology, our effectiveness is determined by our ability to connect and communicate effectively with a large set of stakeholders who, more often than not, are from outside treasury." He is currently on the search for a treasury analyst in a quest to build out the company's European team that has so far been thwarted by fierce competition for talent. "It's not an easy market to hire in, but we are getting there," he says.

Career journey

Casting back over his own career, Kyyrö sees a clear pattern. He always seeks the opportunity to travel, and he has mostly chosen to work at companies on a transformation path, getting involved in one of the most exciting phases of corporate life. His focus on technology is a third seam in a career that began in a specialist, risk management role but has since expanded to general management and deep expertise, working up close to the beating heart of the company. His advice to others? "Remain curious throughout your steps in treasury, ask questions and get involved," he concludes. "After looking around and finding your genuine interests, build unique value adding skills that differentiate. Take chances!" ■

SPECTRE OF SOFR TRANSITION LOOMS LARGE

The transition away from the LIBOR [London Interbank Offered Rate] benchmark has picked up pace, but some are still clinging to USD LIBOR ahead of the final deadline next year. Now is the time to take action and finally move to its alternative, the Secured Overnight Financing Rate (SOFR).

It's not like people haven't had plenty of warning that things were going to change. The scandal-tainted LIBOR benchmark has slowly been phased out, but there are still remnants out there – particularly with the USD LIBOR. Those clinging to the old way of doing things – out of a fear of change, perhaps – could actually be creating more risk in the process. Many industry parties are now urging companies to move to SOFR – USD LIBOR's alternative – once and for all.

LIBOR was a benchmark for many currencies, and there have been different timelines for phasing out each of them. There were end dates for certain USD tenors, which passed in December 2021. And for the remainder of the USD LIBOR – for overnight, one, three, six and 12-month tenors – the final deadline is June 2023. The Financial Stability Board has made clear in a statement that firms should have already stopped the use of new USD LIBOR, and they must have plans in place to prepare for its final end.

Rather than being set by a panel of banks who report what they think the rate should be – as was the case with LIBOR, which led to manipulation and an ensuing scandal – the SOFR is calculated based on the actual prices of transactions in the overnight repo market as reported by the Federal Reserve Bank of New York.

Although LIBOR may seem familiar, easy and comfortable, the old way of doing things may actually have the opposite effect. This was the argument of Tal Reback, Director, Credit at KKR Capital Markets, who leads investment company KKR's LIBOR transition across private equity, credit, capital markets and real estate.

She argued in an opinion piece for the Financial Times last year that US companies should stop using LIBOR now, because the risks are rising for those who cling to its use. She writes that borrowing in LIBOR adds complexity and risk. And Silvia Devulder, Head Legal Romandie in Financial Services for EY, also notes that despite key milestones being reached, the transition isn't over and market participants need to prepare now for the end of USD LIBOR.

So far most of the focus on the transition has been on the derivatives market. And there the adoption has been progressing at a steady pace. EY notes that at the end of Q122 the adoption of SOFR was gaining momentum, with most of the use being in both the cash and the derivatives markets. According to data from the ISDA-Clarus RFR Adoption Indicator, in May 2022 more than half of USD derivatives were transacted in SOFR.

J.P. Morgan also notes how derivatives have led the LIBOR transition and that SOFR is the dominant benchmark for new transactions in trading and lending markets, with an accompanying shift in liquidity towards SOFR. Ben Kinney, Global Co-Head of Interest Rate Sales, noted in a piece for J.P. Morgan, "In early March, the notional of SOFR swaps traded in the market was higher than that of LIBOR swaps for the first time."

Also, corporate loans using SOFR are increasing. However, KKR's Reback notes that because most of the focus has been on the over-the-counter derivatives market, the more complex loan market has been left behind. She quotes figures from the S&P LCD database from October last year that showed only US$9.5bn out of US$154bn of loans have been in SOFR.

For smaller companies that don't have access to the capital markets, if they continue to use LIBOR there could be a risk as LIBOR liquidity in the coming months is looking less certain. And, also, if companies use contracts that automatically convert to SOFR there could be cash flow, accounting and reporting risks. J.P. Morgan likewise notes how USD LIBOR will continue to decline and states, "We urge market participants to assess their remaining USD LIBOR referencing portfolios and have a strategy in place for transition as soon as possible." In short, the message is that for anyone still clinging to the past, now is the time to change and move to SOFR once and for all. ■

How to think like a money market fund portfolio manager

In today's rising interest rate environment, it can be tempting to lock-in yield – but making the wrong call can leave companies trapped in an unbreakable bank deposit, or in a difficult-to-unwind treasury position. BlackRock's Beccy Milchem and Matt Clay explain why it's time for treasury teams to adopt the mindset of a money market fund (MMF) portfolio manager.

Beccy Milchem
Head of EMEA
Cash Management

BlackRock.

Matt Clay
Head of International Portfolio Management for Cash Management

BlackRock.

Central bank interest rates are finally on the rise following years of a low/zero interest rate environment. For corporate investors, this is welcome news – but in practice, many treasury professionals have never experienced the current interest rate environment, which can make it challenging to know how best to proceed.

"There's a lot of excitement from clients and investors as we move off the zero-yield environment for cash investing," comments Beccy Milchem, Head of EMEA Cash Management at BlackRock. "But the excitement can sometimes cause people to react very quickly – we've certainly heard from clients that are locking-in seemingly palatable yields on bank deposits." In today's investment environment, she warns, it is "very easy to make the wrong call."

As such, she argues, treasurers have much to gain by understanding how money market fund portfolio managers are looking at the current markets – and that means making the right choices on duration and liquidity, while making every effort to stay close to the markets.

1. Stay short on duration

Matt Clay, Head of International Portfolio Management for Cash Management at BlackRock, says there are two main components to consider when managing portfolios. The first is the way in which the firm manages overnight liquidity that clients can access on a daily basis. The second, more strategic part of the portfolio involves investing cash down the yield curve in investments such as commercial paper and certificates of deposit.

"Whenever we move through periods of uncertainty, we increase the liquidity and decrease the duration," he explains. "When we entered 2022, we were already in a period of relative uncertainty because of the central bank pivots, and the fact that we were now looking at rate hikes after a number of years of policy accommodation through central banks."

In these circumstances, says Clay, "we take an opportunity to invest in shorter-term trades and increase that overnight liquidity" – an approach that builds in flexibility as interest rate hikes are delivered. As well as allowing money market funds to be as nimble as possible when opportunities arise, this approach also ensures that fund yields increase quickly after an interest rate hike.

Dry powder

For treasury teams, the prospect of adding yield by buying a fixed term instrument or adding a fixed term deposit might look appealing in today's market. "But after a rate hike, the yield that they achieved a week or a month ago suddenly doesn't look so good anymore," warns Clay.

MMFs, in contrast, are positioned in short, overnight positions which provide the dry powder needed to capture any central bank or market pricing moves. As Clay notes, "That's the benefit of investing in portfolios like these: the yield evolves over time and rises into the new interest rate environment after a central bank has delivered a rate hike."

Another feature of the current landscape is that in the past, interest rate hikes have been immediately reflected in bank deposits, whereas MMFs – which have some elements with longer duration – can take a few days to catch up. Today, says Milchem, this lag effect has diminished, not least because the bank appetite for deposits has reduced: "One thing we're seeing is that banks are passing on less proportionally as central bank rates rise."

In addition, today's treasury teams are better able to segment cash into different buckets and use the buckets of cash that aren't needed for day-to-day use in a more strategic way, adds Milchem. "Perhaps you've got some capital markets activity coming up in a period of time, and you can afford to lock-in a little bit more from a duration perspective," she observes.

With further rate hikes expected, treasury teams need to assess the implications of adding duration carefully and make sure they understand their breakeven points, particularly if their investments take them beyond a key central bank date. "It's very important to work out which points on the curve you need to invest in to be compensated correctly for the risk that those rate hikes are delivered," says Clay. "These things are bread-and-butter considerations for my team."

2. Don't forget liquidity

Liquidity is, of course, a critical consideration for treasury teams. Term bank deposits are typically unbreakable, particularly with today's current banking regulations – meaning that penalties must be paid if cash is accessed early. As such, it's important that companies consider their liquidity needs, and ask whether they are being fairly compensated for having a concentrated exposure to a single counterparty.

"With the market backdrop regarding the ongoing conflict in Ukraine, we are seeing credit spreads widen more than we have done over the last few years," says Milchem. "That's something that investors need to be mindful of."

In addition, she notes that some clients have been going into highly rated short-term government exposures. These do offer significant liquidity – "we use them as a tool within pretty much all of our portfolios," says Milchem – but spreads on these exposures have also been more volatile due to the recent dynamic market pricing.

Clay cites the example of a US Treasury bill, which is one of the most liquid instruments available in the money markets space. With further rate hikes expected from the Fed and the Bank of England, he says, "There is a possibility that a trade available today won't give you the return you want if you need to sell it to raise liquidity some weeks from now. If yields move higher, the price of this asset will move lower. Whilst a US Treasury bill is almost certain to return you par at maturity, if you need to sell that asset before it matures you will likely lose money. Having a blended fund approach protects you from this single asset exposure and related mark to market risks."

Money market funds, in contrast, are designed to catch up with the new interest rate environment. "We'll be investing into higher yields than were available a few weeks ago," says Clay. "You need a team of experts looking at this day in, day out to be ready to trade when opportunities arise – or not to trade if the timings aren't right." He adds that the scale provided by a large fund manager means that companies can maintain access to liquidity in the event of geopolitical concerns translating into more meaningful risks.

On another note, Clay says that conviction is "incredibly important" for portfolio managers. "While a safety first, liquidity first approach is more important, something that we're always looking at is the level of conviction we have when we place trades. If our conviction rate is low, that's another way of saying we are less certain about future outcomes – so at certain points we'd almost rather see yields fall back a little bit but have a lot more conviction before using more of our risk budget."

3. Stay close to markets

With markets moving quickly, it is all too possible that investors who are tempted to lock-in seemingly attractive yields could rapidly find themselves trapped in an unbreakable bank deposit, or in a treasury position that would be costly to shift.

In this environment, it is more important than ever to stay close to the markets. "The market environment is tricky, and is evolving very rapidly," says Clay. As such, companies need to work with money market specialists who can maximise liquidity and access to cash, while providing the lowest possible level of volatility – "and also enjoy the new yield environment that we are in now."

It's clear that treasurers are paying attention. Milchem says BlackRock is seeing greater demand for market-related content, with higher levels of attendance at the calls the firm provides focusing on cash markets. She adds: "Where viable, treasurers should be focusing on their cash investment strategies on a daily basis – and if that's not possible, consider working with a money market fund manager who has the necessary ability and resources."

Walking a tightrope

In closing, Clay points out that central banks are currently walking something of a tightrope. "You have the growth implications on one side, and inflation on the other, and central bank mandates are pretty clear in managing inflation risks," he notes. "Although at the moment the direction of yields has been one-way, there will come a point where things will change – and that's when having a dedicated resource at your disposal will be critical."

As such, he argues, investors should consider outsourcing to dedicated cash portfolio management teams who have experience of volatile interest rate cycles. Finally, he advises that investors should sign up for market update calls such as those offered by BlackRock Cash Management, "and speak with a relationship manager about our latest portfolio positioning." ■

Canada's treasury teams prepare for payments revolution

Treasury teams in Canada have been clamouring for a real-time, central payments infrastructure run on the global standardised model for years. Finally, it's about to arrive.

Life has returned to normal after the pandemic, and in the height of summer, central Toronto bars, cafes, theatres and sidewalks are filled with people. A less visible re-building, years in the making, is also gathering momentum and spluttering into life. Canada is in the process of modernising its antiquated payments system, dating from the 1970s and based on a patchwork of scattered formats. A new, real-time central payments infrastructure that runs on a standard model and able to integrate into global jurisdictions and international clearing systems in countries like Sweden, the US, UK and Singapore, is beginning to emerge.

Canada's new payment rails will transform treasury processes across the country. From Toronto, home to Canada's largest treasury community and most corporate headquarters, the country's financial hub and largest talent pool. North into French-speaking Quebec and the province's largest city Montreal, also with a significant business presence. West to Calgary in Alberta, where oil and gas groups dominate the business skyline and onto Vancouver, the bustling west coast seaport in British Columbia, amongst Canada's densest, most ethnically diverse cities but with fewer corporate headquarters.

International connectivity; real time rails

ISO 20022 XML file formats comprise the backbone to the new infrastructure, explains Cal Fryer, Director, Cash Management at TD Securities in Toronto and recent President & Chair of Treasury Management Association of Canada – Toronto. Although the ISO file format still allows country uniqueness, most of its fields are standardised in a global format. "If a Canadian business wants to pay a company overseas it currently needs to prepare a wire using SWIFT. Under ISO 20022 XML framework, alternative electronic payment channels will become available, and the two systems will talk the same language, allowing the delivery of both the financial transaction and electronic remittance data on a near real time basis."

Using ISO file formats will allow treasury teams to see and attach more data to accompany payments, providing a framework to settle multiple invoices in automatic, straight through reconciliation, streamlining payment processes and delivering billions of dollars of savings through operational efficiency. Treasury teams will be able to click on payment and remittance information and see details of the transaction beneath, explains Fryer. "Back office teams have lacked the remittance information that accompanies a receivable and rely on manual processes. Corporations have been wanting to improve their reconciliation processes for decades and this will be one of the key enablers of that goal."

Although corporations have been clamouring for change for years, Canada's banks have often dragged their feet, reluctant to re-configure and disrupt existing processes. But now the country's oligopolistic banking sector where just five banks dominate around 80% of transactions are fully on-board. The

Canadian payments association, Payments Canada, and tech partners including IBM went live with the wire aspect of the modernisation programme in 2021 and are now targeting introducing real-time rails that will allow Canadian banks to exchange instant payments by 2023. "There are no specific pain points other than slow progress and slow implementation," explains Ian Argue, Director, Corporate Treasury Services at PwC in Vancouver. "Payment solutions are hard to pull out and enacting change takes a long time. Because it is an evolution, it always takes time to move to the point where people realise the benefits."

Desperate to benefit from the value-add modernisation promises, treasury teams are pushing ahead with getting their own systems up to speed. Migrating to the new format; adjusting to work on different files and integrating them with their ERP systems and TMS, all the while ensuring consensus to invest from their organisations. "Companies are focused on how to adapt their treasury operations to the changing payments landscape," explains Maureen Jarvis, Managing Director, Head of Global Transaction Services Canada at Bank of America in Toronto. She describes a climate of keen scrutiny and analysis amongst Canada's treasury community of what different treasury teams are doing when it comes to integrating change; what ERP systems they are upgrading and how best to build the agile technology environment that works alongside banking partners to optimise the opportunity for innovation.

Fintech

Travelling west out of Toronto along the Toronto-Waterloo Region Corridor passes through the largest tech cluster in North America outside Silicon Valley. It supports 15,000 tech companies from Google to Shopify; 5,200 start-ups and hosts 200,000 tech workers. The corridor is also gaining a reputation for deep tech, focused on innovations such as AI.

Perhaps one of the most important consequences of Canada's payments modernisation will be its impact on the burgeoning fintech scene housed in the cluster given the fact non-bank payment providers will also have access to the new system of 24-hour, real-time, low value payments. "It will lead to more innovation," enthuses Argue who predicts that alongside more fintech and bank partnerships, a new payments system will catalyse a swathe of new B2B and B2C payment solutions driven by fintech innovators. "Expect more services in support of reconciliation and information flows, or even payments to new market segments."

Open banking

Canada's fintech community will also get a boost from open banking regulation in the pipeline. Although less advanced than payments modernisation, new rules and technology offering secure ways to share financial data with fintech promises far reaching change. It will drive innovation and expand consumer access to the growing variety of financial services such as budgeting and savings tools. It will also benefit small businesses by helping to streamline operations and by providing faster access to credit.

The Canadian government has appointed an open banking lead, tasked with engaging stakeholders to develop an accreditation framework, setting up a common set of rules and technical standards. "The government is moving in the right direction," says Jarvis. "The open banking movement has already introduced a number of innovative consumer solutions globally, and the treasury community can look forward to real-time, market-driven benefits that help improve working capital and customer experience."

Wider picture

Canada's payments revolution and open banking push are part of a wider narrative around technological change that is transforming treasury in Canada and driving efficiency. Manual processes are giving way to automation and AI is providing new insights on data, giving treasury new forecasting capabilities. It is an area where BofA's Jarvis is noticing particularly strong client demand. "Banks are really focused on helping clients use their data appropriately," she explains. "Corporates want to know what the data is signalling, how to make their operations more efficient; they are looking at the data to forecast trends and want to use data to help guide transformational change." She adds that companies are especially looking to their banks to offer insights on the corporate data they hold. "Companies are looking to their banks and saying you hold our data, how do we get insights into that data and make use of it?"

In another trend, many corporate treasury teams are adopting cloud-based technology within their IT environment. "We are seeing significant resources being dedicated to new technology projects for large corporations that involve migrating ERP/TMS platforms to the cloud," says Fryer, who notes treasury's adoption of new technology continues to be driven by three key priorities: centralisation, rationalisation and automation. "Treasury teams are rationalising, working out how they can improve and create efficiencies, exploring where technology is available to automate manual components and introduce robotic elements."

Macro themes

Like treasury the world over, Canadian teams currently have a wary eye on the macro landscape. Historically low interest rates have come to an end as Canada's central bank struggles to keep inflation under control. The benchmark interest rate is now 1.5% and a further 150 basis points are factored in by year end with key implications for treasury. On one hand, investments will do better; on the other it will expose the level of corporate debt companies loaded up on when money was free. "Lots of debt has been added to corporate balance sheets and companies are going to have to think about how they deleverage," says Fryer. "It's an interesting time for corporates to think about where value creation lies."

Share buybacks, deleveraging and dividend increases to shore up stock valuations and return value to shareholders in volatile equity market could be on the cards. "Companies want more certainty around cash forecasting," adds Argue. "Access to liquidity is a priority and corporates are centralising it as much as they can." One group of corporates in a fortunate position are Canada's oil and gas giants in Alberta, buoyed by US$100 a barrel crude oil prices, now able to repair their balance sheets, beef up dividends and invest in production.

Lastly, experts reflected on another pervasive treasury challenge in Canada's post-pandemic economic landscape: scarce and expensive treasury talent. "There are so many job openings; companies must pay up because it's an employees' market," concludes Fryer. ■

Understanding natural capital

While climate change has become an increasingly high-profile topic, less attention has so far been paid to natural capital – in other words, the world's supply of natural resources. So why is natural capital important, how are companies addressing this topic, and what does it mean for treasury?

The focus on ESG and sustainability has never been higher. But while the issue of climate change has gained significant awareness in recent years, less attention has so far been paid to another pressing environmental topic: natural capital.

So what is natural capital? In a nutshell, it describes the world's supply of natural resources, including rivers, forests, geology, air and ecosystems. People derive value from natural capital via ecosystem services, which include the provision of food and water, the flood control service provided by forests, the role played by insects in pollinating crops – and even non-essential cultural services that arise from physical settings, such as recreation, tourism and relaxation.

"Quite simply, natural capital is a way to frame the value of nature in economic terms," explains Marcelo Bacci, Chief Financial and Investor Relations Officer at Brazilian pulp and paper company Suzano. He notes that this includes a variety of renewable and non-renewable resources, such as trees and fish, minerals and fossil fuels. "It also includes ecosystem services, such as the hydrological cycle providing fresh water, renewable energy sources, insects pollinating crops, or fungi and bacteria breaking down organic waste."

Safeguarding natural capital

Bacci explains that natural capital can be spent or managed wisely – or alternatively, it can be squandered and deployed on harmful and unproductive projects. "There is a finite supply, and we need to ensure we think carefully about how we safeguard and use it," he adds.

More broadly, natural capital can be viewed as part of a broader view of society called the 'capitals approach', explains Dr Beccy Wilebore, Chief of Science at Natural Capital Research, a science-based data company which produces a tool for mapping natural capital in the UK. "So we think about natural capital underpinning everything that we have in society, and upon that we can build our social capital, our human capital, our built capital and our financial capital," she says.

In the UK, a notable development was the 25 Year Environment Plan (25YEP) published in 2018, which put natural capital at its core. The report argued that the value of natural capital "is routinely understated", adding that "when we use a natural capital approach, we are more likely to take better and more efficient decisions that can support environmental enhancement and help deliver benefits such as reduced long-term flood risk, increases in wildlife, and a boost to long-term prosperity." This, in turn, has been reflected in the Environment Act 2021 and the 2020 Agriculture Bill.

In 2021, meanwhile, the United Nations (UN) adopted a new framework to ensure that natural capital is recognised in economic reporting. The new framework, the System of Environmental-Economic Accounting – Ecosystem Accounting (SEEA EA), recognises the importance of ecosystems in delivering services that generate benefits for people.

What are companies doing?

The concept of natural capital is already affecting businesses in a number of different ways. In England, for example, the Environment Act will require all new developments to show a 10% net gain in biodiversity from 2023 – a shift that Wilebore says is driving a biodiversity offset market, especially on degraded agricultural land. At the same time, agricultural subsidies are changing towards public money for public goods – "and we're very much seeing carbon markets and the race to net zero as a driver for lots of companies at the moment."

For companies starting to look at this topic, Wilebore recommends companies that own or manage real assets – in other words, land of any kind – should start with a baseline: "Understand what you have now, what condition it's in, and then look at the opportunities you have to enhance that even further. Once you know what those opportunities are, you can align them with available revenue streams such as offset markets for biodiversity, carbon or nutrients."

Natural capital is also increasingly relevant for investors. Eoin Fahy, Head of Responsible Investing, Chief Economist at KBI Global Investors, notes that a concept such as natural capital "is an excellent framework for investors to use when looking at the impact that their portfolios are having on the environment, whether from a climate point of view, or in terms of pollution, biodiversity and a range of related issues."

He adds that companies are approaching the issue of natural capital in myriad ways – "and in our view many companies are taking natural capital into account even if they never use the term at all!" For example, explains Fahy, a company that considers the biodiversity impact of its operations is considering the impact of its operations on natural capital, whether it realises this or not – "as is a company which takes measures to reduce its carbon footprint, or to measure the benefits to the environment of (for example) deforested land with fresh native forest plantations."

Likewise, he says, companies that report to CDP (formerly the Carbon Disclosure Project) "are taking very significant steps towards properly considering natural capital issues, while again they may not necessarily think in those terms at all."

Impact on treasury

So what does natural carbon mean for treasurers? Suzano's Bacci points out that treasurers need to think carefully about

risk management and regulation, and that companies are not turning their attention to natural capital solely due to pressure from stakeholders. "There is a growing acknowledgement that in order to secure the long-term financial health of a business, it must make the connection between natural capital and financial capital and actively implement changes to address this in their strategies and business models," he says. "Governments and regulators around the world are already acting to ensure that these links are enshrined in law."

"For Suzano, taking care of natural resources is not only the right thing to do, but is also critical to the future value of the company," Bacci explains. "Our forest plantations rely on the availability of water and healthy soil and we need to maintain this, from one seven-year planting cycle to the next. If we deplete groundwater levels or strip soil of its nutrients, we will be left with degraded land and diminished future value creation opportunities." Conversely, he says, "the company can increase the stock of natural capital by restoring degraded pastureland, and turning it into productive plantation forests that are comparatively better for biodiversity."

Tesco is one retailer that has been proactive in addressing sustainability, with notable initiatives including the company's sustainability-linked supply chain finance scheme. Alex Ashby, Head of Treasury – Markets, argues that in the last few years, natural capital has come to the forefront of economic and business sentiment with more prominence. He says this follows the growing realisation that the use of fossil fuels needs to decline aggressively – "but also the realisation that our planet's resources really are finite in many more areas than just this, such as marine, soil quality and erosion and British hedgerows – not just carbon emissions and nickel for electric vehicles!"

Ashby notes that treasury is always at the heart of the risk management associated with movements in finite resources, and advising the Board on what these impacts mean to the business, now and in the future. "The ongoing growth of sustainability-linked finance is using financial capital and incentives to encourage the preservation of our planet's natural capital," he adds. "Different companies and industries are rightly focusing on their own natural priorities, but with a strong overhanging banner of climate change and awareness."

Moving forward together

It's clear that there is much to be gained by focusing on natural capital – but what are the risks of failing to address this topic? "Companies that do not take natural capital into account risk being seen as 'laggards' when it comes to this and other ESG issues," comments Fahy. "For listed companies, this could significantly reduce their attractiveness to investors. But it may also raise regulatory issues, as there is no doubt that regulations such as the EU Sustainable Economy, the Corporate Sustainability Reporting Directive and others in the pipeline will increasingly require companies to report on these issues in the not-too-distant future."

Wilebore, likewise, highlights the risk of missing out: "Getting in there early, and getting your assessments done early, will put you in the best position to engage with these markets when they come to fruition." She notes that reputational risk is also a concern for companies that do not engage fully with this topic, citing the negative publicity that can arise for companies that are accused of greenwashing. "So it's important to engage with this – but it's also important to get it right, and to do so in a way that is scientifically robust and verifiable."

Crucially, this is not a topic that companies can address in isolation. As Bacci points out, "Ultimately, business has an important role to play in protecting our natural habitats, but this must be done jointly with governments and society. We must collectively look to promote nature-based solutions to protect, restore and better manage ecosystems." ■

Case Study

Managing natural resources

Marcelo Bacci, Chief Financial and Investor Relations Officer, Suzano

"Suzano is one of Brazil's largest private landowners. We are responsible for millions of hectares of both farmland, which we use to grow our eucalyptus crops, and native forests, which we permanently set aside for conservation. So, it's our responsibility to ensure that we preserve and protect this capital for future generations.

"As a business, we constantly review all stages of our operations to ensure that long-term responsible management of natural resources is our first priority. We are not tempted to pursue short-term financial profits and higher yields at the expense of our natural environment. For instance, we have adopted advanced planting and harvesting technologies, use an integrated pest management approach and optimise the application of fertilizers, all to ensure the long-term health of the soils we harvest.

"Alongside this, we are focused on protecting bodies of water located in our land. Our production model is based on integrating eucalyptus-planted areas with native vegetation in the landscape, to form mosaics which are beneficial for the long-term conservation of soil, water and biodiversity. These mosaics are made up of conservation areas and eucalyptus forests, allowing for the formation of ecological corridors so that fauna and flora can move freely between habitats in harmonious coexistence with the landscape. All of this is beneficial both for biodiversity and for the productivity of the land, demonstrating how business and nature can work hand in hand.

"As well as employing responsible forest management techniques, we see ourselves as active stewards of the native forests surrounding our plantations and we carefully monitor every hectare of the land we own, whether used for farming or reserved for conservation. We closely monitor for biodiversity, maintaining records of over 2,700 records of plant, bird and mammal species, including new and endangered species."

Pilot projects demonstrate appetite for trade finance digitisation

Recognising that standing still means falling behind, nothing is off the table for governments, financial institutions, fintechs and corporates looking to technology to improve trade finance processes.

Much of the potential for digitisation to boost access to trade finance remains untapped. In June, the World Economic Forum observed that lack of digitisation and automation means access to trade finance as an asset class by institutional investors remains prohibitively expensive. However, the infrastructure is already in place to enable end-to-end straight through processing of hundreds of thousands of instruments in a low cost way, giving asset managers direct access to trade finance assets and enabling alternative investors to channel more capital into the market.

Last September, XDC Network and Tradeteq launched what they described as the world's first trade finance-based non-fungible token (NFT) transaction with invoice finance company Accelerated Payments as the asset originator.

The transaction used XDC Network's blockchain technology to transform trade finance assets into non-fungible tokens. Institutional investors can buy and sell these tokens – which represent the value of an off-chain asset – giving them legal entitlement to an asset or package of assets.

Ian Duffy, CEO of Accelerated Payments describes token-based fungible and non-fungible blockchain funding options as the future of trade finance. "A token-based, non-fungible financial instrument focuses on ownership and contract specifics," he explains. "It evolves paper based (or electronic) contracts typically held by relevant investors incorporating expensive legal frameworks or compartments with no version control and/or dubious signature pages into cloud-based digital blockchain format that is verifiable, tamper proof, shareable and cost effective."

According to Duffy there is strong demand from both institutional and retail investors for an asset class that is relatively low risk and pays a decent yield which includes receivable books. "The effect of non-fungible and fungible tokens will be to widen the access to such investment instruments as well as lowering the cost considerably with improved audit trail and transparency, similar to what has happened with quoted stocks and shares," he adds.

When asked how many transactions have been performed to date and who has bought these NFTs, Nils Behling, Co-Founder and CFO at Tradeteq says the initial issuances have been placed with a limited number of sophisticated investors on a proof-of-concept basis.

"However, we are very active in the space and the case for real asset-backed crypto remains strong," he adds.

The challenges of gaining traction in trade finance were underlined in June when digital trade platform we.trade closed its operations. But this hasn't deterred other fintechs from exploring the potential of new trade and supply chain finance marketplaces.

In June 2021, the International Chamber of Commerce (ICC) and Finastra commenced a pilot for a trade funding marketplace to provide small businesses in Ecuador with short-term liquidity for their trade operations by allowing bank and non-bank financers to finance their invoices. Iain MacLennan, Head of Trade and Supply Chain Finance at Finastra explains that the ICC TRADECOMM pilot is still running and that the company has been working with a number of partners to expand the proposed marketplace offering from the original proof of concept.

"We plan to announce these partnerships in the near future once we have concluded contractual discussions," he says. "These partners will also offer these additional services outside of the pilot market. We are in commercial negotiation with a number of financiers to provide liquidity to the marketplace."

According to MacLennan, Finastra has already identified the next two markets where it plans to deploy the platform, both of which are in Latin America with the second marketplace expected to launch in the middle of next year.

"In addition to these markets, we have been approached directly in regards to other markets in South East Asia, Africa and the Middle East, which we will investigate," he adds.

The ICC is also behind the UK Centre for Digital Trade and Innovation launched in April, described as the first neutral forum for co-ordinating the efforts of governments and trade sectors to adopt legal and standards frameworks. With the Electronic Trade Documents Bill (expected to enter law later this year or early 2023) putting electronic trade documents on the same legal footing as their paper equivalents in the UK – and the extensive use of English law in bills of lading – the ICC reckons there is an opportunity to tackle bureaucracy on a global level.

Chris Southworth, Secretary-General of the ICC United Kingdom expects Germany to have similar legislation in place

by next year and the rest of the G7 to have followed suit within five years. "We can now begin the process of connecting platforms and systems," he says.

The centre is running live technology agnostic pilot testing of end-to-end supply chain transactions, starting with electronic bills of lading, and similar facilities are expected to emerge in Germany, France, Belgium, and the Netherlands as well as Singapore and Thailand. Two other UK-based fintechs have been developing solutions that they say can help businesses release capital tied up in stock and payroll.

Hi promotes pay asset finance as a way to release working capital by externally financing a company's payroll without adding debt to its balance sheet. The employer is charged a flat fee per employee per month to defer its payroll commitments and repays the amount financed after the two month deferral period plus the fee.

The fee depends on the size of the business, but according to Hi is 'normally very competitive based on their current cost of capital'.

Supply@Me hopes to tap into the trend for companies to hold higher levels of stock that has emerged since the supply chain issues caused by the pandemic started to affect the freight and logistics sectors.

Its service is designed to enable companies with warehoused inventory to free up the value of this stock through an off-balance sheet solution, which allows firms to recognise inventory monetisation funds as a legal true sale.

Monetisation transactions can be facilitated for a wide range of inventory types providing the goods are stored in a warehouse and are not categorised as 'slow moving' or 'non-moving'.

The banks are also keen to get in on the act. In March, Citi announced that it had started working with Stenn, a global platform providing SME funding, as part of the expansion of its global trade payables finance product offering to include deep-tier supplier financing – helping to provide access to funding across global supply chains.

Historically, deep-tier suppliers have had less access to credit as they are typically SMEs. Financing options available in the market have been limited or may come at a high cost.

"We hear first-hand from clients about the challenges their businesses are facing to extend support to manufacturers and second tier suppliers, whilst also having to shift their supply chains due to the current environment to retain continuity in procurement flows," says Parvaiz Dalal, Global Head of Supply Chain Finance at Citi.

"Disruptions at any stage of the supply chain can have a knock-on effect to the upstream parties. Our aim is to reduce these disruptions by improving access to attractive financing at all levels of the supply chain, regardless of whether the supplier sells directly or indirectly to our client."

The benefits include faster access to financing for downstream suppliers, often at a reduced cost compared to other options according to Dalal.

"Stenn's digital onboarding experience helps support and address the working capital needs of both buyers and suppliers," he adds. "As Citi maintains a trade relationship with the anchor buyer, all downstream participants can potentially benefit from this relationship and receive improved pricing."

Other interesting recent developments include the acquisition of digital trade finance platform developer Bolero by logistics software firm WiseTech Global, and embedded business finance platform Liberis entering into a partnership with Barclaycard to offer their small business customers access to personalised revenue-based finance. Also in June, Dutch fintech Factris secured €10m of funding through asset manager NN Investment Partners. The company now offers factoring services in five EU countries after launching in Poland and Belgium in the first quarter of this year and will use the new funding to enter other European markets.

One of the most interesting – and potentially contentious – recent examples of innovation in trade finance is the evolution of buy-now-pay-later (BNPL) into a refined version of invoice factoring. B2B BNPL companies embed themselves in the supplier's sale process and offer quasi-instant net terms to end customers. Suppliers get paid 100% of the invoice up front – minus the fee – with the BNPL company managing credit decisioning, bearing default risk, and managing collections. The platform providers use algorithms and credit checks to onboard customers.

The target audience for the service includes companies that lack assets such as real estate or inventory to put forward as security against loans. German B2B online workshop equipment marketplace Contorion started using Billie's B2B BNPL service in 2018 when it encountered challenges around credit limits, risk identification and prevention.

The company's credit limits were very low and while it paid for all the individual checks and everything was done to the best of its knowledge, technology or even data science was never part of the process explains Andreas Lehmann, SVP Operations.

"Also, customers had to wait for our manual order approval which was an issue for logistics cut-off times," he says. "We realised we needed real time decisions and higher credit limits and were looking to outsource these processes – including managing the risk of customers not paying – as we also managed the dunning and encashment process in-house."

With B2B BNPL, most of the orders Contorion receives are checked in real time. Customers therefore get an immediate decision and the order is ready to be processed immediately (although in rare cases Billie will put the order on hold to perform another check or see if the existing credit limit can be exceeded). Credit limits start at €7,500 but can be extended and customers have 30 days to pay their invoice from the date of shipment.

"Over the last four years our conversion rate has increased by more than half," says Lehmann. "Almost two-thirds of all our customers use the invoice product provided by Billie at the checkout and the acceptance rate is 91%. The average order value for customers using BNPL is 28% higher than the average order value of those who use other payment methods."

Brian Blank, Senior Manager at BNPL business services provider Splitit reckons there is considerable scope for the use of BNPL in B2B, especially among small companies.

"While getting it into mid-market and enterprise business may take a bit longer, there is a faster path in smaller businesses and sectors such as professional services," he says. "Our services can be easily integrated into platforms through an API that can be turned on or off depending on the needs of their customers." ■

Instant payments: understanding the use cases

As the growth of instant payments continues around the world, where are the most interesting use cases, and what do treasurers need to think about when tapping into instant? Citi's Elena Gomez and Declan Hourihan share their views.

Elena Gomez
Global Head of Domestic Payments, TTS

Declan Hourihan
EMEA Head of Domestic Payments

The area of instant payments is developing at a fast pace with adoption growing exponentially across all regions. Elena Gomez, Global Head of Domestic Payments, TTS at Citi, notes that over 60 countries are already live around the world. "It's not just the creation of these high speed and 24/7 payment rails that is important, we're also seeing a lot of innovation around value-add solutions that are arriving on top of these schemes," she adds

While some of these innovations may have started in Asia, other regions are following suit: in Latin America, Brazil has recently introduced the new PIX instant payments solution, which has already started processing over one billion transactions a month. "This is a spectacular ramp-up, and is due to them pushing very good value-add solutions such as QR codes, with compelling use cases that allow the digitisation of many flows and the creation of true frictionless payment experiences," says Gomez.

Turning to developments in EMEA, Declan Hourihan, EMEA Head of Domestic Payments at Citi says there is considerable variety in terms of the maturity of the instant payments landscape, but a clear pattern of growth in real time payment schemes. "The UK's scheme has been in place for 14 years, but there are now multiple schemes across the region – and with SEPA, we have the ability to reach 36 markets." He notes that around one in ten payments in the SEPA zone is now made using instant payments.

In the Middle East and Africa, Hourihan explains that instant payments are acting as a vehicle for financial inclusion. "Traditionally it has been a C2C play, but we are now seeing the adoption of B2C and C2B grow and we expect this to continue to grow exponentially," he says. "We've gone live this year with Jordan and we continue to see new schemes emerge across our network including in Egypt, South Africa and in Morocco."

As development continues – Pay.UK, for example, recently increased the transaction limit from £250,000 to £1m in the United Kingdom – Hourihan predicts that the use of instant payments will change from effectively being a B2C and C2B instrument to something that will become more interesting to treasury teams. "As larger amounts become possible, they can be used for sending supplier payments – obviously not those big treasury payments just yet, but this will really impact B2B and other types of flows as those limits go up," he says.

Innovation and use cases

As more schemes are introduced, and as existing schemes mature, new use cases are arising. Gomez notes that a lot of value-add features are increasingly being rolled out in many markets – and are even being included as part of the launch solution in markets where new schemes are being introduced.

In particular, she cites the importance of QR codes and Request to Pay or instant direct debit functionalities. "And also alias-based payments – this is where you can make payments using an email address or phone number, instead of having to use a bank account," she adds. "These additional features are really enabling a new set of use cases, particularly for consumer-to-business and business-to-consumer payments."

For example, Gomez says that QR codes and Request to Pay present an alternative to online or in-person card and cash payments. "In Asia, the QR code is becoming really prevalent," she says. "Between QR codes and Request to Pay, there's a very significant adoption now of instant payments in these use cases." As an example, merchants are now adding Instant collections as an option during the online checkout process. Some other interesting use cases include digitising cash upon delivery of goods – for example, to pay for food on delivery or custom charges on a package on arrival to your door, 'eliminating the use of cash in these instances is a powerful use case that brings significant value and convenience to corporates and consumers.'

In addition, she argues that many of these use cases are very transferrable to business-to-business payments. "Specifically, I would say that Request to Pay has the ability to solve existing challenges in B2B collections," says Gomez. "It enables the collector to send a request to the payer, the payee retains control to approve/reject this request and upon approval an instant payment is made, meaning that the collector can receive that payment instantly. But it's not just about the speed of that collection – it's the fact that the message you send with a request, and the payment and the confirmation that you receive, all have the same reference end-to-end, which enables straight-through reconciliation with a direct link between the payment and the open receivable."

This, says Gomez, is one of the key use cases which is transferable from C2B and C2C flows into business-to-business payments. Alias-based payments, meanwhile, solve a significant risk, which is the issue of 'fat finger' errors when collecting the information needed to make a payment. "It's much easier for somebody to give their email address or phone number correctly, compared to a credit card number or full IBAN," she points out.

Innovation in EMEA

In EMEA, specifically, Hourihan says some of the most significant areas of innovation include the use of instant payment rails to facilitate digital collections. "The first generation of instant payments was really about making outgoing payments, but now the focus is turning to collections," he says, noting that digital collections are being developed in the UK and Poland, as well as in the SEPA scheme.

Another key trend, says Hourihan, is the growing focus on how to leverage the benefits of instant payments in the cross-border space. "There is certainly regulatory interest in simplifying and streamlining the cross-border payments process," he says.

As such, various industry initiatives are currently underway in this area. Of particular interest is a joint initiative to establish a cross-border channel, which is being developed by SWIFT, EBA Clearing and The Clearing House in the US, together with a number of banks. "At Citi, we use our global network to offer cross-border instant payments in six currency corridors," adds Hourihan.

As Gomez points out, as innovation continues, the focus needs to be squarely on understanding the real-life problems that need to be solved. "A few years ago, it was difficult to imagine being able to make a cross-border payment in real-time," she says. "And today that is a possibility."

Impact for treasurers

So what does all this mean for treasurers? "From a treasury perspective, we've got to look at the future, where instant will be part of everything we do," says Gomez. "At present, one of the highest demand is in a world where the consumer is part of the flow – so businesses that are heavily involved in consumer flows are likely to already be involved in supporting instant payments to some extent, while most digital natives are already leveraging instant payments to create best in class experiences for their clients."

Increasingly, though, instant payments will become a feature of business-to-business payments – "and we are already seeing some indications of this in relation to payments to some smaller-sized businesses," says Gomez. She notes that the benefits for treasurers are significant: as well as the prospect of 24/7 availability, instant payments come with a unique identifier which travels end-to-end with the payment, greatly expediting reconciliation.

"Another thing to remember is that all of these also provide real access to liquidity, compared to other methods of collection, such as credit cards," Gomez adds. "This is a differentiator: as you are looking at outgoing payments, you only have to disperse your liquidity at the moment that the payment is being made. And where collections are concerned, you have real access to liquidity at the moment that that the transaction is received, which will become increasingly important as corporates adopt real time payments." Instant payments also offer the flexibility, as well as the ability to track important payments on an end-to-end basis.

Getting the most out of instant payments

When it comes to taking advantage of instant payments, Gomez cites liquidity management and automation as two key areas that treasurers need to look at closely. Where liquidity is concerned, treasurers need to adapt to a world in which there are no cut-offs and 24/7 availability, which may have implications for how treasurers manage liquidity. "Now that there isn't a real end of day, and they may need to have liquidity available for transactions to be processed outside traditional business hours, that's a very important consideration," she observes.

Likewise, companies need to have efficient processes if they are to maximise the value of instant payments. "For example, when we're looking at payments on demand, the end-to-end process needs to be frictionless so that it can happen in real-time," says Gomez. "This is very different from how batch payments are approached. And as payments become smaller and more frequent, any manual intervention will be difficult to sustain from an operational perspective and will interfere in the client experience."

So where should companies start? Hourihan suggests starting with one use case in one market in the first instance, and focusing on realising the benefits available. "For example, we've got a large client that has decided to use instant payments to digitise their dividend framework – shareholders are receiving funds quicker, and it's saved them a large overhead, while creating a positive buzz in the market."

On another note, Hourihan says that companies should not overlook the importance of technical integration with the bank – but this doesn't mean that the use of APIs is essential. "Some companies say they are not ready to do APIs, so they're not ready for instant," he comments. "If you have a very integrated instant use case, where you want somebody to touch an app and make a payment, API is certainly one way to go – but it's not the only way to go."

As Hourihan explains, using instant payments can still bring multiple benefits without using APIs, including data enrichment and the ability to receive funds quickly. "File based instant payments can deliver significant benefits and can be a good starting point for an established treasury looking to move into 'real-time'." ■

Recruiting and retaining talent

> *How is the competition for talent affecting treasury and what are the best strategies for recruiting and retaining talent?*

Kemi Bolarin
Head of Treasury – Europe
GXO

There is a great deal of talk about the Great Resignation which was triggered by the COVID-19 pandemic. It is more the great re-think or the great re-awakening! The lockdown was an opportunity for most to rethink and re-prioritise work-life balance. I was part of the great resignation, changing roles twice last year, including leaving a role I had for only a few weeks before moving to GXO. It was then and still is an employee-centred job market.

My first task at GXO was to set up a new treasury team based in Europe. I have filled most of the open positions and have two open roles left. One of the two open roles was filled last year, and the individual has since decided to move on. Testimony to a very active job market. While we speak to the impacts of the lockdown and the Great Resignation, treasury is fast evolving as a profession, and role requirements are changing.

As the treasury profession disentangles from pure operational treasury and transforms to a centre of excellence, we are looking beyond technical abilities in FX and cash management and expanding skills requirements to include data analysis and data science. I am looking for individuals that can think outside the box and help us use technology to elevate our treasury to world class. Individuals that are passionate about the application of AI, machine learning and robotics. To compound the recruitment challenges, fintechs are also in the same job market seeking these 'tech-savvy' talents.

So, the question is: how can we be attractive to the talents out there and retain them when hired?

Pre-pandemic recruitment process needs to be tweaked to attract the highly sought after 'new wave talents'.

Organisations need to think creatively about pay packages that combine good market base rate and benefits, career growth opportunities and flexible working arrangements. ESG performance and reporting is also a recurring topic with applicants.

How do we achieve getting talents through the door? A close working partnership with good quality recruitment agencies that offer bespoke services is vital. This is no longer a one-size-fits-all-DIY-job advert job market. It is important to work together with reputable recruitment agencies in developing relevant job descriptions that will appeal to the modern-day applicants out there in the job market.

Talent secured, tick.

What next? Retain hired talent.

There is a list of considerations here – organisations need to adopt the human approach; it is foremost about people, mental health and wellbeing. Review work culture, train managers in how to maintain high team engagement and be aware of staff burnout; improve and promote a healthy work-life balance.

The lockdown has shown us that remote working is possible, and it is top of the list of applicants' requests. At GXO, I recently interviewed a brilliant lady who demanded that full-time remote working be written into her contract. While we offer flexible working arrangements, I couldn't commit the company to such a contract because circumstances change. Though the elements of the role appealed to the lady, and she was keen to join the team, 100% remote working was her top priority, so she gave up the offer. The lady accepted another role the next day at another organisation that offered her 100% remote working.

Managing a remote team comes with its challenges especially given the importance of retaining and keeping staff engaged. It is now more important than ever to ensure that managers are trained and equipped with the right tools to successfully manage remote teams.

At GXO, career development is very important to our executives; our Group Treasurer takes a keen interest in team members' individual development plan. Once people know their employer is appreciative of enhanced knowledge, there is a high chance that they will stay motivated and engaged.

Recruitment is made more complicated with wage inflation, pay is all over the place. It's challenging to benchmark talent and near impossible to assess upfront if the successful applicant has the right skills. Recruitment is expensive in fees and time, hence the importance of engaging good quality and experienced recruitment agencies in the field.

In my opinion, pay levels will eventually adjust but remote working is here to stay, and leaders need to embrace it.

Mike Richards
CEO and Founder
The Treasury Recruitment Company

We are a global treasury recruitment firm recruiting at all levels from Treasury Analyst to Global Treasurer for large multinational corporates and consultancies.

Initially at the start of the pandemic you might have 100 people applying for a job. Then it dropped down to 50 and then it was ten and now it's two. And it might be a perfect role and everything else, but the fact is people don't need to move now. And that's the thing employers must realise, they need to present an irresistible proposition if they want to attract the best talent.

I was talking to a client from a large global automotive company, famous brand, and everything else. He was saying to me that he was trying to recruit, and he showed me two or three different adverts that they were placing. And they were just a copy and paste of job descriptions and duties. And that's the difference.

The most successful employers will get in the heads of a candidate and the ones that are able to sell themselves and present themselves in a way where people want to join them.

It's a fact that you don't need to work five days a week in the office now. No one does. The pandemic has proved that. It's about working out how many days you think is your preference/needed and then reaching an agreement between the employee/employer to suit everyone.

I know that there's a couple of my clients in the US who have found it quite difficult. They have found it hard because some of the older members of the team, for instance, the CFO who lives near the office, wants everyone in the team back in the office 100% of the time.

That's starting to cause a problem for others who have long commutes and feel the pressure to return to the office. Employers need to work out their future policy and what's going to happen in the world of work and flexibility, because if you're not flexible you may lose out on top talent. Being able to be flexible in this area is where you are going to gain a competitive advantage or disadvantage in the market. The minute you can get past that is when you gain a competitive advantage.

And it's not about you anymore. Now, candidates will vote with their feet, they won't necessarily decide they want to come back for your second interview. And in terms of your current staff, if people don't enjoy working with you and you don't give them the flexibility and you can't work together in partnership, then they will simply leave.

A client asked me the other day why would we use you?

I explained, because I'm not talking to candidates who are actively seeking new roles, I spend my time talking to candidates who aren't seeking new roles. Ninety five percent of the people we speak to are passive candidates.

Wei Kher Wong

Manger

Michael Page, Singapore

I have been with Michael Page in Singapore for four years where my clients largely comprise banks and MAS-licensed companies based in Singapore. We are a team of nine specialist recruiters working in the financial services industry to fill all positions from mid to senior levels, including treasury.

In contrast to other regions, the treasury employment market in Singapore is relatively flat at the moment. Mostly because the supply of professionals in front and back office treasury jobs is slow and movement is limited. Because there is a limited pool of treasury roles in Singapore, it makes for an element of musical chairs. This situation contrasts with sectors such as accountancy where we are seeing an abundance of new positions.

Movement and churn are also slow because most corporate treasury functions in Singapore are already lean. Treasury teams in Singapore are typically part of bigger APAC offices for example Hong Kong. However, when Hong Kong treasury teams struggle to recruit, we have noticed a shift to move those positions into Singapore. Although the treasury roles are relatively less here, the employment market has been very busy. As evident in our annual salary survey report, average salary increment has increased over the past two years.

During COVID we observed a churn in traditional banking and financial services roles. Virtual interviews led to a trend of candidates being offered two or three job, driving up competition and salaries. It was also not uncommon to see treasury candidates using these offers from different companies to drive their salaries higher and ask for increments.

It's interesting to see the different ways companies are trying to retain staff. At Michael Page we have adopted a methodology that we share with our clients to help reduce attrition rates which have evolved around the work from home culture. WFH reduces human interaction and increases stress; we advise Wellness Days and that companies review their benefit packages. Candidates don't just look at their salary anymore; they look at corporate culture and how well companies treat their staff. This also includes levels of inclusivity and how involved they are within the company. Pay is no longer the only factor. ■

Next question:

"As the threat of recession becomes increasingly real, what should treasury prioritise?"

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

America's rock and a hard place: given Fed limitations will policymakers rise to the occasion?

Consumers, many economists, banks and asset managers have become distinctly more pessimistic about the US economy as the Fed closes the money tap, wide open for many years. The White House has desperately launched an offensive via a wide media palette to assure the public that "a recession is not inevitable," in the words of Joe Biden himself. It doesn't come across very convincingly.

America has been on the central bank's drip for years. This has kept the economy going, and in particular the asset markets: shares, property, cryptos, etc soared to exceedingly high levels. The economy was manipulated in such a way that Wall Street and Main Street ended up increasingly detached from each other. As Financial Times columnist Rana Foroohar phrased it: "Since the end of the Bretton Woods system in 1971, policymakers from both sides of the aisle, Democrats and Republicans, have been able to shift the tough process of what we might call guns and butter decisions."

For the Fed – with its dual mandate of keeping inflation in check and maintaining employment levels – it was relatively easy to keep the party going due to decades of structural downward forces on inflation. However, supply side problems – caused by corona and subsequently by the Ukraine war – threw a spanner in the works; it was no longer possible to have it both ways: holding inflation low and, at the same time, being able to keep pumping dollars into the economy.

Many experts have long been warning about the risks of the imbalance between the real and the financial economy with, among other factors, sky-high stock valuations, lagging productivity, enormous debt piles, skewed rises in income and relatively low growth. Additional effects included work being far less profitable than investment, and companies sometimes making more money playing asset manager than manufacturing products or providing services that actually form the core of the business. In 2017, the Wall Street Journal was already joking that Harvard is a hedge fund that happens to have a university.

This model has entered the danger zone because inflation has risen rapidly. The Fed will have to turn the music down, limit alcohol sales and remove the garlands because the party has come to an end. Central banks – and not just the Fed – have long almost begged policymakers to jump through the window of opportunity for structural reforms afforded by monetary policy in order to make economies more resilient and productive, but these pleas have generally fallen on deaf ears. With inflation rampant, there is little that the Fed can do to keep the US economy running (in a sustainable manner); it is up to policymakers to rise to the occasion.

The Biden administration's top priority is taming inflation. Exploding petrol prices in particular have been a thorn in the side of the White House. Record prices have been on the front pages all the time and have increased the already high likelihood of the Democrats being crushed in the midterm elections in November. Unfortunately for Biden and his party, there are few adequate tools available to rein in prices at the pump without unpleasant side effects. For example, waiving the excise duty on petrol and diesel makes for a nice PR moment, but such a measure offers temporary relief at best – if at all – and it entails drawbacks:

- A reduction in the price will boost demand for a product that is already very scarce.
- A reduction in excise duty is a very generic tool in the sense that it is the biggest fuel consumers who benefit the most. These are usually people who are generally already well off and do not necessarily need the reductions.
- The excise duties on fuel are used to fill an infrastructure fund. American roads are definitely not the best, so they could use every extra dollar for improvement.

Other measures to lower fuel prices or to prevent further increases are also not ideal. For example, a form of export controls would further exacerbate already existing fears of a new era of protectionism. If it were to trigger a chain reaction, it could prove to be counterproductive.

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The administration has also been considering other options to alleviate financial burdens on households. For example, by lowering tariffs on Chinese imports. However, even economists within the administration believe it might only shave a quarter of a percentage point off inflation. Moreover, such a decision would come at a sensitive time, with escalating tensions between the US and China in several important areas.

Biden has limited scope to pass major measures to boost the economy and/or curb inflation. His Build Back Better plans have largely floundered, and little can be done for the housing market in the period ahead. The political clout is likely to diminish further following the midterms in November. Everything points to defeat for the Democrats, which will severely restrict Biden's scope for manoeuvring during the second part of his term.

In addition, Trump is still considering stepping back into the ring in 2024. His first round in the political arena did not result in a self-inflicted knockout for America but as Democratic Representative Adam Schiff said during the Capitol storming hearings: "The system held, but barely."

The most striking aspect so far, is that very few Republicans openly abandon Trump (and those who do have often become pariahs within their own party). This is not even that surprising, as a very large proportion of Republican voters still believe Biden stole the election. Moreover, the Trumpists are doing quite well so far in the run-up to the midterms.

All this points to an uncertain political climate in the coming years, in which economic reforms are likely to be very slow in getting off the ground, and in which American democracy will come under even more pressure. Already, the US has been a flawed democracy for more than half a decade on the Democracy Index by the Economist Intelligence Unit. Last year, the US achieved the lowest score since the first publication in 2006.

The above led us to the following expectations:

- The previously quoted Foroohar recently said: "The Fed can't do what policymakers can do, it can't change the story on Main Street. It can't build a new factory. It can't re-skill all of us to do better jobs that are higher up the food chain." However, policymakers also fail here. This points to persistent low growth, if not a recession.
- The likelihood of a fiscal stimulus package seems low. First of all, there is broad consensus that the last major package has contributed to the current excessively high inflation. Secondly, Republicans will not allow Biden a victory in the run-up to the midterms. And thirdly, debts are soaring, and it will prove increasingly hard to sustain them as interest rates rise to higher levels.
- The strong dollar will now be regarded mainly as something positive, as it depresses inflation because imports are cheaper. This is why we do not expect any attempts to devalue the dollar. But keep in mind, this inflation-depressing impact of the strong dollar is relatively low, as imports expressed as a percentage of US GDP only amount to 13%.
- Two-thirds of Americans own their own home and the percentage of Americans owning shares and other assets has increased tremendously. The Fed, and especially politicians, will be very wary of pulling the tablecloth from under the crockery of this vast number of voters. This is why we certainly do not rule out that the central bank, the White House and Congress will still pull out all the stops if the stock and/or housing markets decline considerably (further). However, this will only make the foundations of the US economy more brittle, and one day things will have to get back into balance. The decoupling of the real economy and financial markets will undergo a correction at some point. To quote Faroohar one last time: "Once Main Street starts to meet Wall Street, you're going to get that asset price correction. It's going to be painful." ■

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