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Towards a cashless society

Global volumes of non-cash transactions have grown substantially in recent years as new technologies and products have entered the market. In Asia Pacific, cashless solutions are gaining traction, but is the region really ready to say goodbye to cash?

The Corporate View

Antti Kyyro

Head of Regional Treasury, APAC

Nokia

Special SIBOS supplement

Your gateway to SIBOS 2015

Risk Management

Preparing for a crisis

The Bank Interview

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Asia Pacific Sales Head, Treasury and Trade Solutions

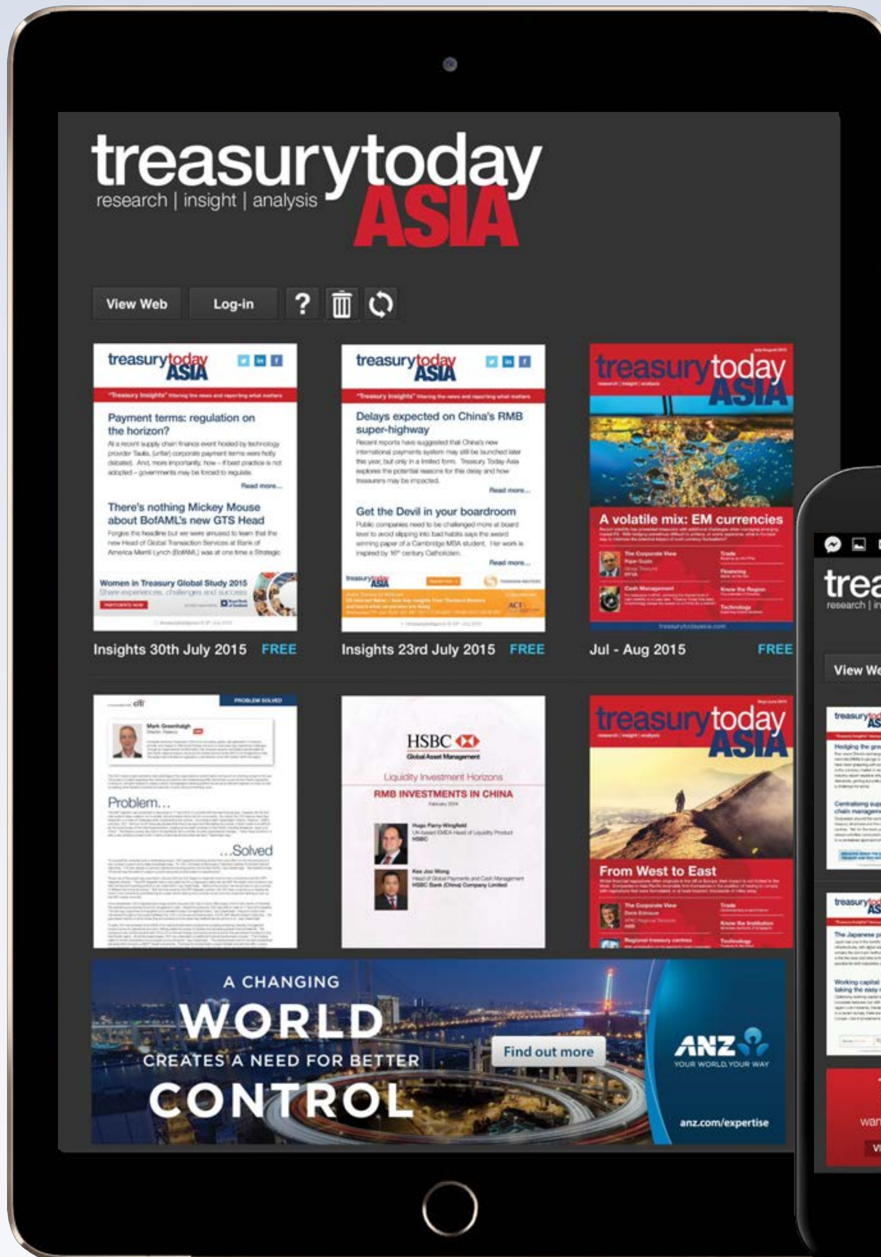
Citi

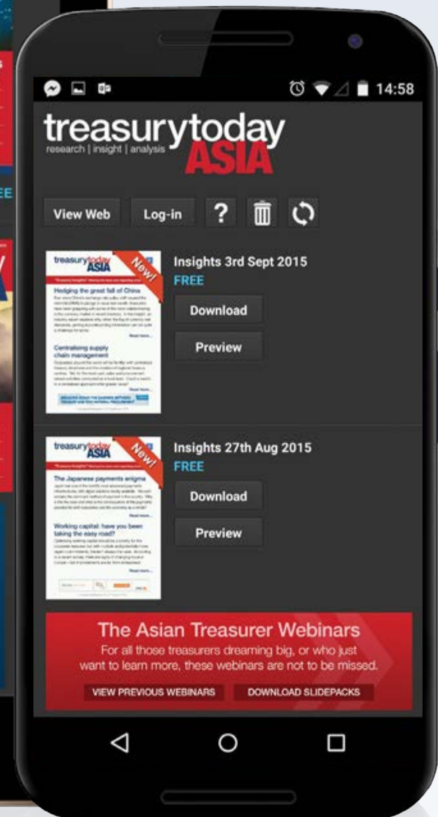
Women in Treasury

Paula Stibbe

Managing Director, Head of Global Liquidity Sales, Asia Pacific

J.P. Morgan Asset Management





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We live in volatile times

As we head to Singapore for SIBOS 2015, the front pages of the financial press are still dominated by China's stock market rout and the impact of the country's decision, on 11th August, to devalue the renminbi by 2%. The statistics paint a sorry picture: since June 2015, China's equity markets have dropped by almost 40% and China's foreign currency reserves shrunk by $93.9bn at the end of August – the largest monthly fall ever recorded.

Many emerging market currencies have depreciated off the back of China's policy regime shift, with the Indian rupee weakening by more than 4.2% against the US dollar during August, the Russian rouble down by over 8.5%, and the Brazilian real weakened by 10.7%. Elsewhere, the Indonesian rupiah has lost 14% against the dollar during the course of 2015, with the Thai baht down 8% over the same period. Whilst in Malaysia, the ringgit recently hit a 17-year low.

Unsurprisingly, rumours of a 'currency war' are rife. Rather than this being seen as a welcome depreciation that will boost exports, analysts are now firmly viewing this as volatility that needs to be stabilised. All eyes are on the central banks in Asia as they work to defend their respective currencies, and seriously reconsider interest rate moves. The effect on these nations' growth assumptions is obvious, and already the downwards revisions are coming in.

There are clear red flags here for corporates around revisiting business models and strategies, and for treasurers, hedging policies and practices should be scrutinised. For some companies, the impact runs much deeper. Spare a thought for ASEAN companies, for instance, who have taken on increasing amounts of foreign-currency debt in recent years.

According to Standard & Poor's' review of credit quality among 100 of the largest companies in the region, currency depreciation has, on aggregate, "added the equivalent of close to $30bn in the local currency debt load of the largest companies in ASEAN since 2010." With a refinancing wall looming for many ASEAN corporates in 2017, the debt challenges only look set to get tougher.

On a more positive note, the formation of the ASEAN Economic Community (AEC) by the end of this year should act as a catalyst for growth. Nevertheless, this is very much a long-term aspiration. In the near-term, with currency market volatility continuing, treasurers would do well to engage closely with their strategic business partners, both within the organisation and externally.

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Cash in Asia: king for now

In Asia Pacific today, cash plays an integral part in many of the region's economies. As new digital solutions begin to enter the market, could cash be on its way out? Here, we look at the arguments against cash, the new solutions that are being developed, and how these can have a positive impact on not just businesses operating in the region, but also society as a whole.

WOMEN IN TREASURY 6

Paula Stibbe

Managing Director, Head of Global Liquidity Sales, Asia Pacific

J.P.Morgan
Asset Management

With over 20 years' experience in asset management, Paula Stibbe, Managing Director, Head of Global Liquidity Sales, Asia Pacific at J.P. Morgan Asset Management is well placed to comment on how to shape a successful career in finance, as well as discussing the important role that senior women have to play in setting an example and inspiring younger generations.

TREASURY IN ASEAN 12

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Treasury in ASEAN: Are you AEC ready?

Melvyn Low, ASEAN and Singapore Country Head, Treasury and Trade Solutions, Citi

All eyes are on Southeast Asian nations as they prepare for the formation of the ASEAN Economic Community (AEC) by 2015. With opinions mixed on the regional integration timeline, companies are generally optimistic about the positive impact AEC is expected to bring. What does this budding new market mean for companies and how can they seize opportunities?

ASEAN presents rich growth potential. With a combined population of over 600 million, the region's GDP is projected to reach $3.2trn by 2019. Significant consumer growth will drive expansion, with GDP expected to increase by 5.4% annually over the next four years[1].

Unlike Africa's growth, which is heavily driven by infrastructure investment, ASEAN's rising middle income classes are expected to spur huge consumer demands. Therefore, multinationals (MNCs) are keen to tap these markets as a major part of their global expansion plans. This is evident in ASEAN's foreign direct investment (FDI) inflows, totaling $122bn in 2013, which soared 25% per year on average[2] over the past 14 years. The inflow of FDI into ASEAN has already surpassed China's.

The AEC's objective is to create a single integrated market across the region's ten countries. This promises to bring significant growth opportunities for ASEAN nations and companies operating in the region – enabling easier movement of goods, services, investment, capital and people. As trade barriers gradually come down with greater regional co-ordination, we expect marked growth in intra-Asia trades, and the emergence of new corridors for ASEAN-China, ASEAN-US, and ASEAN-Japan trades. These opportunities offer new ways for companies to co-ordinate supply chains, or open doors to new markets for established products.

Creating cohesion from diversity

How will the world look with the formation of the AEC? It is early days and questions remain, but the relentless pace of progress continues and new policies brought forward by the AEC will allow nations to reposition themselves by designating investment in certain chosen industries that leverage their expertise and their people's skillsets. An AEC passport will also allow freer flow of human resources, meaning a greater mobility of talents and intra-region knowledge transfer.

ASEAN nations have already committed investments to develop comparative advantages and augment each country's expertise. In the long run, diverse specialisations will play to the region's collective strength as an economic community. For example, Singapore is positioned as the region's biotechnology hub, while Thailand is focused on becoming a world leader in the automobile and information technology (IT) space.

Each country's industry focus will hinge on which multinationals they attract to locate their base there. Samsung has made significant investments to expand its mobile phone production in Vietnam. Moreover, the company's recent investment, making Malaysia its largest offshore base outside Korea, could propel the nation's IT industry developments. Similarly, multinational companies are starting to make strategic assessments for their ASEAN game plan to determine positioning, investments, and resource allocations. Deciding which ASEAN countries to invest in depends on a host of factors. Many US companies with business process outsourcing and call centre services naturally gravitate towards the Philippines, with its large English-speaking domestic labour force.

Building competitive advantage

Many multinational and large companies are making decisions now to invest and grow in the ASEAN markets in the next five years. They tell us they need solutions today, before the dust over AEC settles. Despite the fact that payment and regulatory barriers remain in place for now, Citi has already been working with leading companies in the fast-moving consumer goods, healthcare and insurance sectors to expand their operations and optimise their treasury structures as they grow in ASEAN. In fact, the rise of MNC investments into ASEAN has resulted in a greater need for transactional banking support for their in-country operations to seamlessly connect with their regional treasury centres (RTCs) and global headquarters.

Banking on deep roots

Since opening our first branches in the ASEAN region in 1902, Citi now has 55 branches covering 22 cities across eight countries and has worked with ASEAN governments to develop their financial infrastructure. This head start has enabled us to continuously introduce market-leading solutions and infrastructure ahead of the curve. Citi also operates one of the largest correspondent bank networks across the region, covering key markets such as Indonesia, the Philippines, Thailand and Vietnam. We have set up 8,000 and 6,000 collection points in Thailand and Indonesia, respectively.

As MNCs expand across ASEAN's fragmented markets, their treasury management requirements become more sophisticated. Hence, they see value in leveraging Citi's globally consistent, locally compliant capabilities including cross-border payment solutions for imports, customs duties and corporate taxes, supply chain financing programmes, and corporate card solutions. Through our e-banking platforms such as CitiDirect, companies connect with their regional and global treasuries seamlessly.

Citi's ASEAN strategy is to leverage our deep roots in the region, sound understanding of local nuances, and unmatched global banking infrastructure to provide value-added solutions that help companies to grow their business – improving efficiency of their finance operations and driving profitability in an increasingly competitive and volatile environment. The ability to provide country insights, digital solutions and working capital advisory is highly valued by clients.

What's next?

While ASEAN works towards the goal of freer movement of labour and capital, and tighter integration, the free flow of resources will happen gradually, step by step, sector by sector. Nevertheless, the heightened momentum and rhetoric over the AEC has been a catalyst for foreign direct investments.

For companies focused on global expansion, ASEAN has become an increasingly important strategic opportunity. Treasurers need not wait till all business, regulatory and technology frameworks are in place to capitalise on the region's growth potential. Monitor the competition now and explore the potential cost efficiencies of integrating operations across the region. Treasurers can leverage advanced analytics tools to track payment trends and trade flows, gaining industry benchmarking insights for their businesses in ASEAN.

The Asia growth story is about more than China and India – ASEAN's growing economic prowess will add new opportunities for sales, investment and engagement within the wider region, and expand its influence on the world stage.

[1] *Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap, OECD Development Centre and ASEAN Secretariat, 2013.*
[2] *ASEAN Community in Figures (ACIF) – Special Edition: A Closer Look at Trade Performance and Dependency, and Investment, ASEAN Secretariat, 2014.*

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RISK MANAGEMENT 16

Crisis management

A crisis is something that no company wants to experience, but one that every treasurer must prepare for. Crises can come in all manner of guises: be it financial, technological, natural, or otherwise. Treasury Today Asia explores how corporates can look to place themselves in the best position should a crisis occur and highlights the importance of establishing a crisis-ready culture.

REGULATION 21

Regulatory fragmentation

In Western financial sectors, banks have struggled with the weight of regulatory reforms introduced post-crisis, but this has not necessarily been the case in Asia. Indeed, the implementation of these reforms has played out a little bit differently in the region. We ask: what is the current state of play in region and is the long-standing perception of Asia as the world's most strictly regulated region still accurate?

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13 The Corporate View

Antti Kyyro

Head of Regional Treasury, APAC

NOKIA

Much is made of the cultural variation and the nuanced approach to business in the many countries that make up the Asia Pacific region. Moving to Asia from Europe can therefore be a daunting experience. In this interview, Antti Kyyro, Head of Regional Treasury, APAC at Nokia discusses how he has looked to make the most of the opportunity.

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Munir Nanji

Asia Pacific Sales Head, Treasury and Trade Solutions

As the Asia Pacific market continues to transform, corporates of all shapes and sizes are seeking digital tools to take advantage of the new opportunities that will allow the business to reach its full potential. In this article, Citi and client Alipay outline these changes and explain how the bank is well placed to help corporates take advantage of the digital environment.

Bank agnostic models

The bank agnostic model is becoming ever more popular among large Western corporates – but how easily can this be achieved in Asia? Also, what technologies or developments in the region should corporate treasurers be looking out for as a means to foster a bank agnostic operating environment?

Luke Waddington
Head of Global Markets
APAC, e-Business
BNP Paribas

In Asia Pacific (APAC), there is a demand – especially in the MNC space – for bank agnostic offerings. As the region covers a range of different geographies, it's quite expensive from a treasury perspective to be able to deal in all of the countries required. Here, we see a trend for corporates to operate a centralised treasury model (as much as possible), from a regional 'hub' from which they can carry out operations and transactions across all of the different geographies. A bank such as BNP Paribas, with a presence in 14 markets in APAC, can offer quite a lot of the functionality required by corporate centralisation – but not all banks operate with such scope. Therefore, there is a gap in the market which a rising number of multi-dealer platforms are filling. They provide the functionality for a corporate to operate centrally but deal across the region, adhering to local regulations and restrictions.

Despite pick-up in the use of bank agnostic platforms, there remain some regional considerations. In APAC, there are restricted currencies and various regulations around transactions in the payments space, for instance, where the execution of those services has to remain onshore in that particular country. This introduces complexity in terms of the workflow; ensuring compliance, but also trying to give a degree of scale and central management to that process. For BNP Paribas, it is a case of making sure the appropriate technical workflows are in place onshore to deal with regulation and any restrictions. But, for every bank to do that individually, it is quite expensive. A central platform can act almost as a universal utility for both the bank and client in a cost-efficient manner.

Moreover, beneficial for corporates is the competitiveness that platforms bring to the market. By having aggregated services, they get the opportunity of aggregated pricing. Another advantage that corporate treasurers should be looking at is that of desktop 'real estate' considerations. For many companies, they have multiple banks servicing them and the ability to display data from each on one desktop is a challenge. A multi-dealer platform allows everything to be consolidated in one space and easily allows corporates to either work with their banks in aggregate or through an individual correspondent.

The uptake of bank agnostic platforms is somewhat sluggish in Asia. The reasons are understandable as there needs to be improvement in the pre-trade and post-trade areas as bank agnostic platforms are largely geared around execution. Certain abilities are not available on platforms: access to account balances, deposit balances and revaluation statements, the ability to roll deposits and interact with actioned transactions and access to research on certain markets, for instance. So, although there will be a rise in bank agnostic execution, there will always be a place for the banks' delivery of those services.

Adam Boukadida
Deputy Treasurer
Etihad Airways

Bank agnostic operating models may be more widespread in the Western world, but their popularity in Asia is quickly catching up. And, whilst it goes without saying that every region has its own challenges, Asia needn't be seen as such a maze for corporates to operate in any more. This is largely due to technology developments over the last few years: SWIFT service bureaux, and other middleware providers, can assist corporates in ensuring the formatting and regulation requirements for Asia are handled in the same manner as they would be in any other region – whilst simultaneously supporting the adoption of a less bank-reliant operating model. And this is something Asian corporates are embracing: SWIFT reported that APAC is one of the fastest growing regions in terms of payment traffic volumes, experiencing a 12.6% increase in the year to date.

Using our experience as an example, at the moment Etihad Airways is going through a major global connectivity project and is experiencing first-hand the benefits of using a SWIFT bureau, enabling connectivity with multiple banks in multiple parts of the world. Currently, the airline has 50 transactional banking relationships across the globe. The major benefit for

Etihad treasury is, whilst we are gaining end-to-end straight through processing (STP), by employing Fundtech to implement and operate SWIFT in partnership with us and our IT function, the team can focus more on the day-to-day treasury activities and further value-add projects.

Moreover, we do not see progress towards an agnostic model preventing or damaging any of our banking relationships. Rather, the desire for more bank agnostic models is driven by treasurers wanting to be able to exchange information with multiple banks using common standards, eliminating any duplication of effort and minimising counterparty risks. It may also soothe any communication pains that might have existed in the past when dealing with varying cultures and could, in fact, open up more opportunity for relationships with banks in less-developed parts of the world – all because you can have that single communication channel.

Of course, there are many different operating models that a corporate can select to achieve the ultimate end goal. So although for us, it was a clear choice to appoint a SWIFT bureau due to Etihad's global network, I am aware of smaller corporates that have deployed SWIFT Lite2 themselves. It depends on the requirements of the business. However, my advice for other corporates hoping to gain the benefits of adopting a co-operative network, such as SWIFT, would be to avoid looking at technology in a silo but rather how such an agnostic model would work with the overall treasury infrastructure – ERPs and general ledger systems, for instance, and all the way through to a fully centralised treasury.

Marc Vandiepenbeeck
Corporate Treasurer,
Asia Pacific
Johnson Controls

The main drivers for a bank agnostic approach are: the reduced costs when changing banks, the ability to harmonise processes and the potential for improved efficiency. These three drivers are relevant in the context of a multi-bank structure when counterparty and performance risks are a concern. The greater the number of banks (and frequency of change), the larger the value of moving away from the proprietary processes will be.

There are four major treasury processes that can be disconnected from the proprietary environment, namely: payments, cash application, trade finance and foreign exchange trading. I will not cover the latter since online trading platforms already have a broad adoption.

Payment processing is the most advanced of all. File formats have been standardised over time and SWIFT has been offering capabilities to corporates for over a decade now (MT101/103). Assuming a corporate uses its own SWIFT infrastructure, all payment files can easily be ported from one bank to the next, thereby reducing the friction cost of changing bank. The other clear benefits are: allowing standardised connectivity between the ERP and payment factories and better control over users, signatories and approvers. The second process, cash application, mostly involves electronic bank statements. Again, SWIFT formats, like the MT940/942, have helped improve the standardisation of these statements. However, each bank has its own limitations, often driven by legacy systems and slow adoption of SWIFT standards – this is particularly true in Asia with certain markets falling behind because of the complexity of the information that needs to be contained in a statement.

Finally, trade finance has seen some positive recent developments (SWIFT for Trade, TSU and BPO initiatives, for instance). But the adoption rate has not been as rapid as for the first two processes, particularly in Asia. This is mostly due to local regulation and challenges associated with the fact that a lot of economies in Asia are either paper-driven or rely on paper for final goods/payments/custom release. Language, character support and other technical challenges are also forcing corporates to rely on email or bank proprietary platforms for trade finance-related processes.

At Johnson Controls in Asia, payments and cash application processes have been implemented that allow for centralised processing and management of payables and collections in one single shared service centre. For other corporates, there are important factors that would influence such a project: size and volumes. The pursuit of bank independent structures means that an infrastructure needs to be put in place; the initial investment of which can be large and is only recuperated through process efficiencies and increased control over bank fees. These make sense when the organisation is complex enough and when the volumes justify taking control of the transmission channel.

Besides owning the network and systems seeming, at first, an obvious opportunity for a treasurer, the benefits come at the cost of being responsible for it. The major advantage of a bank proprietary platform is that the company shares it with all the other customers of the bank, benefitting from a larger scale infrastructure which, more often than not, is very reliable. Taking ownership of that infrastructure means the treasury team is responsible for the normal downtime that any system can and will face. Managing that new risk, internally, is a challenge in and of itself. ■

The next question:

"As we move into the final quarter of 2015, what should treasurers in the APAC region have on their 'to do' lists in 2016?"

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

This much I know

Paula Stibbe

Managing Director, Head of Global Liquidity Sales, Asia Pacific

J.P.Morgan
Asset Management

How has your career path led you to a role in finance?

After finishing university, finance wasn't an immediate thought for me and – like many others at that time in life – I didn't quite know what I wanted to do. But I've always had a knack for numbers and loved solving problems (my dad is an engineer; maybe it's in my DNA!), so it wasn't surprising that I ended up pursuing a career in banking.

Not far from where I studied, I started off at a local bank in Wisconsin as a personal banker before moving over to a trust department at a larger regional bank. Since then, the rest of my career has been on the investment side of the business, as I ended up loving it. It plays well with my skillset and I enjoy solving clients' problems. Every day brings a different challenge.

Do you feel that women respond to the needs of treasury/finance in the same way that men do – or do they bring something different?

Whilst I definitely think women bring something different to the workplace, having a balance of gender perspectives produces better decision making which in turn leads to better results. For me personally, I think women are more collaborative and better at asking questions, whilst also evaluating the short and longer-term options.

In addition, if you look at many companies – including J.P. Morgan – their customer base is of a diverse nature, so why wouldn't there be an aspiration for teams to be representative of the marketplace?

In terms of balancing professional and family life, is the business world progressing in the right direction?

When you look at where we are today versus where we were ten or more years ago, the programmes that organisations have put (and are putting) in place demonstrate that the business world is progressing in the right direction. For example: flexible work arrangements, job sharing and improved maternity, paternity and adoption leave. Also, firms that have flexible working arrangements (along with the tendency to promote them) generally do a better job of retaining and attracting talent.

What can women do to get their voices heard more within an organisation?

Women aren't always prone to voice their ideas; it's something that has personally taken me a while to get comfortable with throughout my career. That's why it's really important for senior women – in order to encourage others to start speaking up earlier on – to set an example and inspire younger generations. It is also why I enjoy supporting up-and-coming talent and being a mentor to both women and men. For men, it means they become increasingly used to seeing women in leadership positions and it will become more of a norm for female voices to be heard.

"It's really important for senior women – in order to encourage others to start speaking up earlier on – to set an example and inspire younger generations."

ON THE WEB

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

J.P. Morgan

With a natural inclination for numbers, Paula Stibbe, Managing Director, Head of Global Liquidity Sales, Asia Pacific at J.P. Morgan Asset Management, specialised in short-term fixed income markets early on – but her experience boasts skills from a much broader spectrum. In this article, Paula shares what she has learnt during an impressive career, as well as the best advice she has been given along the way.

A global and diverse experience

Making the move to Hong Kong two years ago, Paula is a long way from where she started her career in Wisconsin. Having taken deliberate steps throughout her career, Paula has spent time across a number of different roles before moving to Asia. Early on in her career, after finding her passion in the investment side of business, she initially specialised in short-term fixed income markets where she was responsible for relationships that produced over USD 1.2million in new revenue.

Displaying a diverse skillset, Paula has also spent time in various sales and client servicing roles in the U.S., as well as running a product team and working with portfolio management. She gained experience at Goldman Sachs Asset Management, Harris Investment Management and Bank of America Global Capital Management before joining J.P. Morgan Asset Management. Paula has certainly kept to her guiding principle – to take charge of your own career.

So why the change of continent? Paula's move to Asia was partly encouraged by a mentor's advice to gain global experience. "My experience had largely been across different cities within the U.S. and his recommendation was to expand my horizons. It's been invaluable. It gives you an opportunity to experience another area of the world, what their culture is, how they make decisions, and to be able to bring those best practices back to your home country."

Moreover, by entering a different region, Paula has been able to provide both clients and co-workers in Asia with her alternative perspective. In fact, it is something she wished she had done sooner.

The importance of mentoring

Paula believes finding a mentor to help navigate a new company is key – especially in larger corporations where culture is likely to be multifaceted. "It is advice I would give to everybody, to find one or two people in an organisation that you have some commonality with. I would also highly recommend mentors of both genders as we frequently have different views."

Paula continues to be inspired by senior colleagues. Hearing Mary Callahan Erdoes, CEO of J.P. Morgan Asset Management, talk about achieving a work/life balance and seeing the results she has driven, was one of the reasons Paula originally wanted to join the company nearly four years ago. "Strong female leadership of a company can help financial performance," says Paula.

Indeed, many studies have shown that companies with more senior women on their boards and leadership teams generally have strong financial performance. "When you look at the results, they speak for themselves. Boosting diversity not only across genders but also cultures, makes for more rounded decisions which, in the end, result in better performance for a business." In short, encouraging a diverse perspective within an organisation, could bolster growth potential, which would be a huge win for clients and the industry as a whole. ■

Paula Stibbe, Managing Director, is Head of Global Liquidity Sales, Asia Pacific at J.P. Morgan Asset Management. With over 20 years' of experience in global liquidity, Paula joined J.P. Morgan in 2011 and is a member of J.P. Morgan's Global Liquidity Operating Committee, Global Liquidity Liability Subcommittee, Investment Management Asia Operating Committee and Investment Management Asia Risk & Control Committee. The Global Liquidity business in Asia is responsible for product development, sales and service of institutional short-term fixed income investment solutions across the region, with offices in Hong Kong, Tokyo, Shanghai, Beijing and Singapore.

Prior to her current role, Paula was a senior client portfolio manager specializing in short-duration taxable and tax-aware strategies for institutional clients across western United States. Before joining J.P. Morgan, Paula was Managing Director, Head of Product Management at Bank of America's Global Capital Management. She and her team led the strategic and tactical management of all product-related activities, including product development, request for proposals and the contracts office. In addition, Paula spent five years as a senior client portfolio manager at Columbia Management; a former Bank of America affiliate.

Paula obtained a B.S. from the University of Wisconsin-Madison and holds FINRA Series 7, 24 and 63 licenses, as well as SFC Type 1, 4 and 9 licenses.

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Cash in Asia: king for now

The vision of a cashless society has existed for decades, yet physical cash remains an integral part of many, if not most, economies in Asia Pacific (APAC). In this article, we explore the benefits a cashless society can bring, the steps being taken towards this, and ask whether a cashless society in APAC will ever be feasible.

Physical cash has existed in Asia Pacific for a very long time. Records show some of the first coins were created in India and China around 600-700BC. Today, cash is still an integral part of the economies in APAC: in emerging markets (EMs) – such as India, Malaysia and Indonesia – cash accounts for between 95% and 100% of all consumer transaction volume. More surprisingly perhaps, is that even in some of the region's more developed economies, cash remains the most used method of payment, with cash accounting for around 70% of all consumer transaction volumes in Australia and Korea. In Japan this number rises to roughly 85%.

It is worth noting however, that the value of these cash payments is lower than that in the EMs. In Australia for example, cash accounts for just above 10% of the value of all consumer payments, whilst in India this number is just below 70%.

The trouble with cash

Although cash is still widely used across the region, progress is being made towards cashless solutions in both developed markets and EMs. For instance, data from MasterCard highlights that in 2014 the number of unique contactless card users grew by 49% year-on-year compared to 2013 across APAC. This was led by the developed markets of Singapore and Australia primarily, but, in some EMs such as China, the number is also increasing.

A key reason behind this increase is the cost of cash for governments and businesses. In India for instance, the Reserve Bank of India and commercial banks spend roughly $3.5bn per year issuing, collecting, and handling cash. For corporates, there is also a cost, as Indrajeet Maitra, Head of Cash Management – APAC at BNP Paribas explains: "Using cash to make a transaction can cost up to 3% to 5% of its value. It has to be collected, managed, guarded and deposited into a bank, who will then charge to handle it. In addition to this, it can take between three to five days to be converted and reach the ultimate beneficiary – not including any notes that are lost in transit – again creating working capital inefficiencies and thus cost." The payment will also need to be reconciled, which as many treasurers will confess, is tricky with cash, due to its anonymous nature.

Removing cash can bring a raft of other benefits for the economy, businesses and society more broadly too. These include, but are not limited to: ensuring that all money in the economy is counted towards GDP, making taxes easier to collect, providing more control to regulators with regard to monitoring movements of money, and enabling cash to reach the right beneficiaries, something of tremendous value to non-governmental organisations (NGOs) providing aid, for example.

Driving the agenda

With these apparent benefits, some may ask why cash isn't already a thing of the past. Unfortunately, the removal of physical cash from the economy comes at a cost and needs to be driven by governments. As BNP's Maitra explains: "To be able to create a cashless ecosystem you first need to develop the physical infrastructure to accommodate this." This includes building best-in-class domestic payment and clearing systems and having an advanced technological infrastructure utilising new technology such as the cloud. Many countries in APAC have strived to do this, for example, Singapore recently launched its faster payments platform. Countries like India have also now developed such an infrastructure that enables payments to be made readily by electronic means.

Just because you build it, doesn't mean they will come, though – at least not right away. Take Japan for example, a market with advanced payment technology but one that remains extremely cash-intensive, as a report by the Aite Group highlights. A lack of incentives and a low crime rate are offered as the reasons Japanese society hasn't moved away from cash.

Governments therefore must encourage the move towards removing cash by making it an unfavourable instrument to use compared to digital solutions. In Lagos, Nigeria this is exactly what is happening with the Central Bank of Nigeria (CBN) introducing a cash-handling charge on daily cash withdrawals or deposits. In doing so it is hoped that consumers and business will switch to digital payment solutions and thereby reducing the cost of banking services, including the cost of credit, and to drive financial inclusion by providing more efficient transaction options and greater reach.

There is a similar project occurring in Malaysia. As part of the government's ambition to be considered a developed nation by 2020, the government is looking to increase the number of electronic payments per capita from 56 in 2012, to 200 by 2020. To do this, it will be increasing the cost of using cash and cheques and reducing the cost of digital transactions through the introduction of a lowered merchant discount rate (MDR), whilst also introducing more digital payment terminals.

The alternatives

Today, there are many alternatives to cash, in particular given the rise of digital specialist payment services such as PayPal and Alipay. But, in most instances these are similar solutions with nuanced differences to suit particular demographics. For that reason, the alternatives to cash can be largely grouped into three different buckets: cards, digital (and increasingly mobile) solutions and alternative currencies (though the lines between these are now becoming blurred).

Payment cards

Having existed for over 50 years, payment cards are a widely used alternative to cash, allowing the user to make cashless transactions by swiping or using chip-and-pin functionality at a point of sale (POS) terminal, by entering their card details online, or giving them over the phone. These come in many guises including: store cards, rail cards, loyalty cards and prepaid cards, but the most popular are credit and debit cards. According to the World Payments Report 2014, growth in non-cash transactions were driven by debit and credit cards, accounting for $140.7bn and $62.7bn respectively. Although over half of these transactions were made in Europe and North America, there was growth in emerging Asia as consumers became more affluent and electronic payment systems became more readily available.

Despite this, cards are far from ubiquitous. For instance, in the US, 20% of the population have no form of payment card. Across APAC, and in particular in emerging Asia, low card penetration has been a feature of the market (Indonesia and Thailand have credit card penetrations of 6% and 5% respectively). Although in the developed markets, such as Singapore and South Korea, it is estimated that credit card ownership to be as high as 3.3 and 5 cards per person.

So why have cards not proved a successful medium to remove cash? Cost has a significant part in this, especially in regard to credit cards. For instance, when offering card services a merchant usually has to pay 100/200bps depending on the market to make the transaction. Moreover, for a merchant to accept cards, they have purchase the correct POS equipment and maintain this. Although this is not usually a problem for large retailers it may be for a small 'mom and pop shop' in the Philippines.

In addition to this, there is a security aspect. A recent Nilson Report highlighted that fraud losses incurred by banks and merchants on all credit, debit, and prepaid general purpose and private label payment cards issued worldwide reached $16.31bn last year.

Debit and credit cards also require the user to have a bank account. This is a problem for the millions of unbanked that live in the region (across developing Asia only 27% of people are banked). Pre-paid cards which don't require a bank account, however, may be a better solution for the region. These also have potential in more developed economies, as highlighted by the popularity if the Octopus card in Hong Kong. Since its launch in 1997 the card has gained near ubiquitous status with around 95% of people between the ages of 16-65 using the card for transactions amounting to $18m every day. As a result of the medium's convenience, over 60% of Hong Kong consumers prefer to use cards over cash for everyday spending.

Digital (mobile)

Although cards have not yet been able to drive cash out of the system, new solutions are now attempting to do this. For instance, in recent years there has been an emergence of new providers and channels, such as mobile commerce and near field communication (NFC) payment methods have presented a challenge to the banks in the person-to-person (P2P) market.

Companies such as PayPal, Bill Me Later and Travelex are examples of these challengers that have a certain advantage over the banks, in that they are focused purely on payments, and can also be more flexible. This enables them to drive innovation and respond to consumer demands to bring new products to the market more quickly, especially in the world of e-commerce.

The second stage of this digital development has been the rise of mobile payment solutions. These again vary in their nature,

for example, Apple Pay allows credit cards to have a digital wallet on their iPhone 6 or Apple Watch-compatible device, which is scanned at the POS, completing the transaction. Meanwhile, other solutions, such as Kenya's M-Pesa, bypass traditional banking services altogether by storing money in e-wallets and then connecting with beneficiaries directly over mobile networks supported by Safaricom and Vodafone. The success of M-Pesa in Kenya has made countries around the world aware of the benefits offered by mobile solutions, including: driving financial inclusion and removing the need for companies and organisations to ship large quantities of physical cash to remote rural locations – greatly reducing the risks associated with this. In Asia's emerging markets in particular, where more people own a mobile phone than a bank account, the opportunities are abundant.

Change is beginning to occur across the region in this regard and a number of projects are starting to gain traction. In Pakistan, for example, traditional card solutions were not heavily adopted because of the cost associated with the terminals, transaction fees as high as 3.5%, and slow internet connections. Yet mobile is beginning to take off thanks to a collaboration between Habib Bank and card issuer Monet, which has launched the first mobile point-of-sale (mPOS) system in the country, allowing retailers of all sizes to take payments using a mobile phone. What's more, the system can run on a slow GPRS connection. In Myanmar, there is talk of adopting a solution similar to M-Pesa, which is already available in India. Also, in the Philippines, a joint venture between the government and the US is looking to create a single electronic payments platform for all transactions in the country – dubbed the e-peso.

Alternative currencies

In addition to changes in the means of payment, the currencies themselves are also changing. Much has been made of the rise of Bitcoin, a digital currency where encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds. Bitcoin, operating independently of a central bank, is not bound by borders, leaving some observers to believe it has the power to replace fiat currencies.

Although these predictions may seem far-fetched, when correctly harnessed the transformational power of the technology is very interesting. Take, for example, Coins.ph, a Filipino financial services provider. The company was launched in 2014, having seen the need to deliver financial services to the unbanked population in the Philippines. As Scott Si, Product Marketing at Coins.ph explains: "We want to be a bridge between the financial institutions and the people that banks cannot reach. To do this, we've launched a mobile wallet – similar to Paypal – running on Blockchain technology. It only takes 30 seconds to create an account on your mobile phone, after which you could pay bills, top up your phone, and send funds to anyone, anywhere." When a user sends a payment to a beneficiary, the money goes through the Blockchain – the decentralised public ledger that supports Bitcoin – to the recipient's wallet. "This is a much more efficient means of transporting money. You can send and receive money with just an email address or phone number," he adds.

Although the mention of Bitcoin may make some feel uneasy, given its negative press, Si is keen to point out how the Coins.ph solution is different. "What we really want to encourage is Blockchain and Bitcoin as a medium of transfer – it is the financial rails for people to transfer money quickly. We are not suggesting that this should replace fiat currency." In addition, the service also strictly observes KYC and AML regulations.

However, cash still can't be escaped – at least for now. In looking to meet the needs of Filipinos and to be a bridge between the unbanked and the traditional financial sector, Coins.ph allows its users to deposit or cash out across 10,000 locations, covering banks, cash pick-up outlets, ATMs, and even door-to-door delivery. But, there is opportunity for cash to be weaned away through partnerships with retailers in the Philippines allowing users to pay for goods with their phones. "We're currently focused on delivering financial services in a more efficient and accessible way, but we also see a big opportunity in online payments since credit card penetration here is low and there is no dominant payment solution yet," adds Si.

Impact on treasury

So what does all this mean for treasurers? "Today, physical cash is not something you can do without in the world of cash management," says BNP Paribas' Maitra. "Even if a corporate does most of their business electronically, there will still be 10% to 20% of their wallet which is still cash based." That being said, treasurers are always looking at ways to optimise their payments and collections processes and mobile technology is becoming more established – and useful – in this regard.

"More broadly mobile technology has allowed us to live our lives differently but it hasn't yet played a significant role in how corporates manage their cash," says Di Challenor, Head of Transaction Services at J.P. Morgan. "But it does have the potential to." It can make treasury processes much more efficient and lean – allowing treasurers to transact on-the-move. It can also improve cash handling, and help right down to the working capital level, as money collected through mobile channels often comes in before it would through more traditional methods. Treasury functions that collect payments in mobile form could also benefit from mining consumer behaviour data, previously lost through cash transactions. "Security and how comfortable corporates become using mobile will have a big role to play in regard to how quickly this happens," adds Challenor.

Elsewhere, mobile could also transform the way some corporates invoice customers. As an alternative to Direct Debits (DD), invoices with a Quick Response (QR) Code allow mobile payments that are almost instantaneous. Furthermore, these payments have a token embedded in them containing information about the customer and the bill, thus saving the corporate on administration costs, as well as making it easier for the customer to pay. This form of payment could bring particular benefits to regulated utilities in billing customers who are either unable or unwilling to pay by DD.

Despite all of these benefits for governments, society and corporations, the move away from cash is likely to be slow. As J.P. Morgan's Challenor explains: "I think that Asia should move away from cash for the benefit of everyone. But it is not a simple task and there is a lot of work to do around building the correct infrastructure, once this is compete then the next task is changing the behaviour of individuals and business. And as we have seen recently, if these two factors aren't completed correctly then cashless projects can turn into multi-million dollar failures." ■

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Treasury in ASEAN: Are you AEC ready?

Melvyn Low, ASEAN and Singapore Country Head, Treasury and Trade Solutions, Citi

All eyes are on Southeast Asian nations as they prepare for the formation of the ASEAN Economic Community (AEC) by 2015. With opinions mixed on the regional integration timeline, companies are generally optimistic about the positive impact AEC is expected to bring. What does this budding new market mean for companies and how can they seize opportunities?

ASEAN presents rich growth potential. With a combined population of over 600 million, the region's GDP is projected to reach $3.2trn by 2019. Significant consumer growth will drive expansion, with GDP expected to increase by 5.4% annually over the next four years[1].

Unlike Africa's growth, which is heavily driven by infrastructure investment, ASEAN's rising middle income classes are expected to spur huge consumer demands. Therefore, multinationals (MNCs) are keen to tap these markets as a major part of their global expansion plans. This is evident in ASEAN's foreign direct investment (FDI) inflows, totaling $122bn in 2013, which soared 25% per year on average[2] over the past 14 years. The inflow of FDI into ASEAN has already surpassed China's.

The AEC's objective is to create a single integrated market across the region's ten countries. This promises to bring significant growth opportunities for ASEAN nations and companies operating in the region – enabling easier movement of goods, services, investment, capital and people. As trade barriers gradually come down with greater regional co-ordination, we expect marked growth in intra-Asia trades, and the emergence of new corridors for ASEAN-China, ASEAN-US, and ASEAN-Japan trades. These opportunities offer new ways for companies to co-ordinate supply chains, or open doors to new markets for established products.

Creating cohesion from diversity

How will the world look with the formation of the AEC? It is early days and questions remain, but the relentless pace of progress continues and new policies brought forward by the AEC will allow nations to reposition themselves by designating investment in certain chosen industries that leverage their expertise and their people's skillsets. An AEC passport will also allow freer flow of human resources, meaning a greater mobility of talents and intra-region knowledge transfer.

ASEAN nations have already committed investments to develop comparative advantages and augment each country's expertise. In the long run, diverse specialisations will play to the region's collective strength as an economic community. For example, Singapore is positioned as the region's biotechnology hub, while Thailand is focused on becoming a world leader in the automobile and information technology (IT) space.

Each country's industry focus will hinge on which multinationals they attract to locate their base there. Samsung has made significant investments to expand its mobile phone production in Vietnam. Moreover, the company's recent investment, making Malaysia its largest offshore base outside Korea, could propel the nation's IT industry developments. Similarly, multinational companies are starting to make strategic assessments for their ASEAN game plan to determine positioning, investments, and resource allocations. Deciding which ASEAN countries to invest in depends on a host of factors. Many US companies with business process outsourcing and call centre services naturally gravitate towards the Philippines, with its large English-speaking domestic labour force.

Building competitive advantage

Many multinational and large companies are making decisions now to invest and grow in the ASEAN markets in the next five years. They tell us they need solutions today, before the dust over AEC settles. Despite the fact that payment and regulatory barriers remain in place for now, Citi has already been working with leading companies in the fast-moving consumer goods, healthcare and insurance sectors to expand their operations and optimise their treasury structures as they grow in ASEAN. In fact, the rise of MNC investments into ASEAN has resulted in a greater need for transactional banking support for their in-country operations to seamlessly connect with their regional treasury centres (RTCs) and global headquarters.

Banking on deep roots

Since opening our first branches in the ASEAN region in 1902, Citi now has 55 branches covering 22 cities across eight countries and has worked with ASEAN governments to develop their financial infrastructure. This head start has enabled us to continuously introduce market-leading solutions and infrastructure ahead of the curve. Citi also operates one of the largest correspondent bank networks across the region, covering key markets such as Indonesia, the Philippines, Thailand and Vietnam. We have set up 8,000 and 6,000 collection points in Thailand and Indonesia, respectively.

As MNCs expand across ASEAN's fragmented markets, their treasury management requirements become more sophisticated. Hence, they see value in leveraging Citi's globally consistent, locally compliant capabilities including cross-border payment solutions for imports, customs duties and corporate taxes, supply chain financing programmes, and corporate card solutions. Through our e-banking platforms such as CitiDirect, companies connect with their regional and global treasuries seamlessly.

Citi's ASEAN strategy is to leverage our deep roots in the region, sound understanding of local nuances, and unmatched global banking infrastructure to provide value-added solutions that help companies to grow their business – improving efficiency of their finance operations and driving profitability in an increasingly competitive and volatile environment. The ability to provide country insights, digital solutions and working capital advisory is highly valued by clients.

What's next?

While ASEAN works towards the goal of freer movement of labour and capital, and tighter integration, the free flow of resources will happen gradually, step by step, sector by sector. Nevertheless, the heightened momentum and rhetoric over the AEC has been a catalyst for foreign direct investments.

For companies focused on global expansion, ASEAN has become an increasingly important strategic opportunity. Treasurers need not wait till all business, regulatory and technology frameworks are in place to capitalise on the region's growth potential. Monitor the competition now and explore the potential cost efficiencies of integrating operations across the region. Treasurers can leverage advanced analytics tools to track payment trends and trade flows, gaining industry benchmarking insights for their businesses in ASEAN.

The Asia growth story is about more than China and India – ASEAN's growing economic prowess will add new opportunities for sales, investment and engagement within the wider region, and expand its influence on the world stage.

[1] *Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap, OECD Development Centre and ASEAN Secretariat, 2013.*
[2] *ASEAN Community in Figures (ACIF) – Special Edition: A Closer Look at Trade Performance and Dependency, and Investment, ASEAN Secretariat, 2014.*

Dialling into the network

Antti Kyyro
Head of Regional Treasury, APAC
NOKIA

Beginning a new role or moving to an unfamiliar country can be a daunting experience. If these two steps are made simultaneously then it can be particularly formidable. If the opportunity is taken with both hands it can be very rewarding as Antti Kyyro, Head of Regional Treasury, APAC at Nokia found when he decided to make the move from Europe to Asia Pacific.

Headquartered in Espoo, Finland, Nokia is a leader in the fields of network infrastructure, location-based technologies and advanced technologies. The company has a global presence, employing around 64,000 people, and strongly invests in R&D with investment through the three businesses, Nokia Networks, HERE and Nokia Technologies, amounting to more than €2.5bn in 2014.

The distinctiveness of APAC is often well covered in the media. Much is made of the cultural variations across the region and the nuanced approaches to business in the various countries. But, it is only once you land in the region and begin experiencing its uniqueness first hand that the differences become truly apparent.

This was certainly true for Antti Kyyro, Head of Regional Treasury, APAC at Nokia who moved to Singapore late last year, having worked in Europe his whole career. "In Asia, the variance across the region runs deep. Not only is there a distinct difference between the region as a whole from Europe, but each country has a unique culture, behaviour, way of life and also approach to business."

Taking the leap into Asia from Europe has therefore required Kyyro to do more than just get to grips with his new role (his most senior appointment to date); he has also had to adapt to his new environment. As he explains: "There is a period of adjustment that is required after making any move, but in

moving from Europe to Asia this is much more profound. There is a need to constantly remember that things may be done differently – even something as small as how to exchange business cards – and that this may impact how you are perceived." While a challenge, Kyyro believes that ultimately it is worth it. "Asia has a unique energy to it with fascinating people, and remains as the growth engine of the world, by making the move I am no longer watching what is happening from the outside looking in, but have a chance to be a small part of it."

The road to Singapore

Kyyro began his treasury career in 2007 when he joined the Nokia treasury team as a financial markets analyst following graduation from the Erasmus University Rotterdam with a Masters in financial economics – Kyyro had previously received a degree in economics from the University of Kent in the UK. Five months into his tenure with Nokia, however, the company entered into a joint-venture with German-based multinational Siemens, creating a new company; Nokia Siemens Networks (NSN).

He soon found himself propelled into the new NSN treasury team, something Kyyro admits was a steep learning curve. "I continued as a treasury financial markets analyst at the new company and the infancy of the treasury and the fact that the company was a creation of two large global organisations with very different backgrounds and cultures made the role a great learning opportunity." For instance, Kyyro was expected to go above and beyond and spend time looking at various treasury processes from the two companies and selecting and developing processes to suit the new business. "The Nokia treasury was, and still is centralised, but Siemens was decentralised, so we spent a lot of time understanding the business as a whole and in educating the group companies on the new treasury operating model of the combined entity."

Although the way events transpired meant that Kyyro had to learn quickly – and on the job – he is very grateful for the experience. "Being able to look at different treasury models and evaluate them meant that I was exposed to all four corners of the treasury, allowing me to understand these and develop a feel for what worked and what didn't," he says. "These are skills that I wouldn't have been able to learn – at least so quickly – had I been working in an established treasury."

As the NSN treasury matured, developing regional treasury centres (RTCs) around the world, so did Kyyro's career. He moved through the ranks at NSN eventually becoming Manager, Financial Markets. In this senior role, Kyyro worked on a number of high-profile projects including a full scale treasury transformation which saw all of NSN's processes redesigned end-to-end. He also worked closely on the Group's EMIR project.

Asia calling

In 2013 however, it was all change at Nokia. Firstly it bought-out Siemens and acquired 100% ownership of NSN, and later phased out the brand name. In the same year, Nokia announced plans to sell its mobile phone business to Microsoft, reshaping the company to focus more on networks, mapping and advanced technologies. Change was also on the horizon for Kyyro, who in 2014 was offered the chance to head up Nokia's RTC in Asia Pacific, something he was keen to take full advantage of.

"On a professional level the move has presented a brilliant opportunity to enter such a key region and acquire first-hand experience of how the business operates and how treasury can support it to grow in a sustainable manner," he says. Moreover, as the key contact point for the business on all treasury matters it has also offered the chance for Kyyro's team to be responsible for a wider range of treasury activities such as; regional cash management, risk management, and external financial and regulatory relationships.

The ability to run a department and leave your mark on the operation is high on most treasurers' career wish lists and Kyyro is no different in this respect. "We all adhere to a global treasury policy, but there is flexibility within this to accommodate for the specific regional requirements." This flexibility has allowed Kyyro to apply his own philosophy to regional operations around areas such as management of liquidity and working capital, financial risk advisory and the development of funding structures that suit the requirements of particular countries: "We are largely trusted as on-the-ground-experts to make the right decisions for the region."

Aside from the daily treasury activities mentioned above, Kyyro has also been able to leave his mark on the company through his work as a strategic business partner to Nokia's entities on the ground. As he explains: "The centralised structure of the Nokia treasury means that the RTC acts as a centre of financial excellence for the whole Nokia group in the region. The entities on the ground come to us with all manner of financial issues and questions to which we seek solutions within the RTC and through our central team." Going beyond this, the RTC also proactively monitors the entities' activities and the team uses their expertise to track trends, spot possible risks and develop solutions for them to become more efficient.

Leave your assumptions at the door

Asia, from a treasury perspective, certainly has a lot to offer a professional, including the chance to prove yourself in arguably the world's most complex region. But there is a steep learning curve, as Kyyro explains: "The biggest challenge I have faced since moving to Asia is simply being new to the region. You have to start with the basics and understand what the treasury landscape is for each of the countries in the region. More often than not treasury solutions need to be tweaked and tailored to meet various local nuances. In Europe, for example, funding an entity is a simple entry in the system but in most of the countries in APAC it requires planning and thorough understanding of regulations and business cash flows to control for risks such as trapped cash."

Understanding the different levels of maturity and sophistication across the various countries has therefore been a big task for Kyyro in his first few months and something he has not been able to achieve in a silo. "I have looked to leverage the expertise that is available across the region at every turn," he says. "In addition to our business finance teams across the markets and our key banking partners which have been a great help I have spent time talking to our peers and attended finance seminars in order to gain a deeper understanding of the limitations and opportunities within the region."

Kyyro has also made a conscious effort to learn more from the regulators and central banks in the countries where Nokia operates. "These are ultimately the key policy makers and the ones who define the corporate finance framework of a country," he says. "Many of the recent regulations that are coming out of these countries impact corporates directly so it is vital to understand their impact." Kyyro highlights Indonesia as one country in particular that he has focused on heavily because of the myriad of recent rules targeting non-financial companies specifically (including banning the use of foreign currency for domestic transactions). "It is essential to have these conversations in order to obtain an understanding of the direction a country is moving towards."

A look to the future

Of course, understanding the direction the region is heading in is currently a big priority for all treasurers. Recent currency volatility in emerging markets, China's slowing growth, its stock market uncertainty and, of course, frequently changing regulations are providing a number of external threats to corporates across all industries and requiring treasurers more than ever to anticipate the future.

> "We, as finance professionals, need to do our best in helping our management to understand the financial implications of their decisions. In order to get to this we need to have an effective two-way dialogue with the business where treasury is seen as a value adding partner providing solutions."

Nokia is no different in this respect and Kyyro is very aware of the threats that exist to the business. "Recent events show the economic risk across the region is currently high," he says. "This has been caused by softer than expected regional economic data and the uncertainty related to the impact of monetary policy normalisation in the US to emerging markets."

Nokia is closely watching events; its revenue stream is dominated by its network business (88% in 2014) and the company enters into multi-year infrastructure contracts in emerging markets. For instance, the company has recently entered Myanmar, a country that is just opening up to foreign companies. "Entry into a country such as Myanmar presents both a great opportunity as well as a challenge to everyone in the business and requires a lot of hands-on involvement. It is up to treasury to respond to different requirements and work together with the business to ensure that possible risks or uncertainties are managed in the best possible way."

To anticipate and react to these developments, Kyyro draws from his economics degree. "Having a degree in economics has proved invaluable in my treasury career with regard to being able to understand the markets, how and why they are moving and how Nokia fits into this," he says. Kyyro believes that this skill has become particularly valuable in today's post financial crisis world.

In Kyyro's opinion, treasury also has an important role to play in shaping the business decisions of the company. He explains that: "We, as finance professionals, need to do our best in helping our management to understand the financial implications of their decisions. In order to get to this we need to have an effective two-way dialogue with the business where treasury is seen as a value adding partner providing solutions."

Technology

To aid the treasury team in meeting the challenges Nokia has in APAC, and to ensure it has the correct information to feed to senior management the treasury team, has over the years, implemented a robust technological infrastructure. "As a technology company we understand and value the benefits which can be obtained by using the latest innovations. We therefore look to use technology where we can to help us become as efficient as possible," he says.

One particular technology project that the Nokia treasury team is very proud of, and something that has become an integral part of its operations globally, is its payment factory that connects to the in-house bank based in Geneva. "This tool is very effective in allowing us to process our payments centrally, quickly and efficiently, with minimum manual intervention," he adds, "it is just one example of how we are using technology to reduce the work required around day-to-day processes allowing us to focus on assisting the business to move forward strategically."

As the case with many topics regarding corporate treasury, Kyyro is acutely aware that technology does not stand still. "You can never think that your system or processes are perfect or complete, treasury technology space moves forward rapidly so we look to improvements constantly." In his opinion, technology will play a greater role in all treasury departments moving forward as innovative tools to analyse big data, for example, become increasingly available.

From the mountains to the sea

Away from the office, the move to Asia has been enriching personally for Kyyro. "Having the chance to live and work outside of Europe is a great opportunity and one that cannot be missed," he explains. "Asia is a fantastic region and we try to make the most of every opportunity to explore what it has to offer."

However, just as he has had to adapt to meet the different working environment he has also had to adapt what he does in his spare time. In his native Finland, Kyyro is a keen skier. "Singapore's climate and landscape is not ideal for skiing," he jokes. "I have therefore had to make the most of what Singapore is ideal for: surfing and other water sports. I aim to spend as much time as I can with my family doing water sports and trying to apply my skiing skills to the water – sometimes successfully and sometimes not so much!"

However, for many in Finland, skiing is in the blood and it didn't take long for Kyyro to hear the mountains call. Kyyro and his family therefore visited Japan on his first holiday in the region, to sample its mountains, skiing and of course its culture. "Singapore is a great city but it is also a perfect hub for travelling the region. We aim to take full advantage of this during our time in Asia." ■

Are you prepared for the worst?

Whilst a crisis may not happen to every company, if minimal preparation is the route a corporate opts for, then, in terms of being able to best manage a recovery, they are inevitably placing themselves in a vulnerable position. Treasury is no place for finger-crossing or complacency when it comes to risk management and putting in the groundwork is key for business continuity.

A lot is at stake when a crisis hits – which, as recent times testify, can happen to even the most competent and unexpected of organisations. When an Australian cloud-based software provider got into financial trouble recently, administration bore the responsibility of telling all of the company's clients that the treasury systems they had in place would be turned off in a month!

Whilst this may seem like an uncommon occurrence, it is one that illustrates a point around keeping alert to any potential source of disruption – including one of your key business partners experiencing a crisis: "You've got to challenge the status quo and continue to look at your assumptions," says Glen Giffen, Head of Sales for Visual Risk. It may be a case of 'once bitten, twice shy' for those particular corporates who were on the receiving end of the software vendor's own crisis but, for others who are yet to experience such misfortune, to assume that it probably won't happen to you, and therefore avoid preparation, is a dangerous move.

While it is true that crises sometimes cannot be avoided, it is also true that the outcome can be influenced. The nature of a crisis (which specialist consultancy firm Steelhenge defines as an inherently abnormal, unstable and complex situation that represents a threat to the operations, strategic objectives, reputation or survival of an organisation) is best countered by having procedures already in place. Crises may also not be as uncommon as you think and include: natural crises, causing the loss of workplace accessibility or even total loss of real estate, for instance; technological crises involving single or multiple system failures; and crises of malevolence.

Prefer to prepare

Corporates should be looking to place themselves in the best position should a crisis – natural, financial or otherwise – occur. As Dominic Cockram, Managing Director of Steelhenge Consulting, explains: "When a crisis arises, it is a complex and chaotic environment – usually fast moving. Because the time to respond is precious, you therefore need to have planned beforehand and be prepared so you can react quickly, effectively and decisively."

Business continuity and disaster recovery (BC/DR) plans are – although most companies hope they will never need to use them – the best course of action in terms of preparing for seemingly random yet potentially disastrous events. Of course, there is a thin line between preparedness and paranoia when it comes to planning, but a business continuity plan should help minimise the latter. It is a means of enabling companies to help themselves prepare for the worst and be able to recover, as well as sustain operations during and after an event as quickly and cost-effectively as possible. Essentially, a BC plan is a fully-documented agreement between management and key personnel (with the buy-in of all staff) that is taken in advance and which covers the steps the organisation, and particular individuals, must take to ensure critical operations are protected.

At its most fundamental level, a BC plan could be the difference between survival and failure. Even in purely commercial terms, being prepared limits the possibility of having to call for (expensive) assistance in a state of desperation. Moreover, "those that are prepared tend to be seen in a very positive light by their investors, and the business is seen as being well led. Those that fail to prepare instead show a lack of foresight and share prices suffer accordingly," says Cockram.

The attitude towards crisis planning, however, is mixed. "Many businesses operate in high risk industries and take crisis management seriously, partly because regulation may require them to. On the other hand, some corporates are complacent and end up suffering pain when something does go wrong," explains Cockram. It is important to understand what would constitute a crisis for your business and to ensure the core of your BC plan is sufficiently flexible to cover a multitude of unpredictable scenarios, offering sufficient protection against internal impacts across multiple geographies from local to global, as appropriate.

BC must also consider the external impact, including the likely effect on key business partners and the ramifications of their failure to operate on your own business and the impact of your failure on theirs. A BC plan therefore is best seen as a living, evolving and regularly tested strategy that will give a business the best chance of survival – should the worst happen. Disaster recovery (DR) plans fit into the picture typically as IT-driven procedures that focus on the recovery of software, hardware and data within the BC plan. The aim: to, at least, allow resumption of critical business functions following an event.

Overcoming stumbling blocks

Properly executed, these stages can provide a business with reassurance that it is prepared for the worst. However, a common problem is that within a company there is often no clear ownership of DR. There is a tendency for business operations people – including those in treasury – to assume that another department will take care of it, typically IT. Even if this is the case, colleagues in IT may not always fully understand how critical each business operation is. Thus, no operation should work in isolation when it comes to BC/DR plans. Of course, SaaS-based TMS providers would also have a duty to its clients to provide DR as part of the deal, but

it is ultimately the clients' responsibility to know what to do in the event of a disaster.

So, what is best practice? Wherever possible corporates should be looking to bring BC/DR processes into daily operations, rather than drafting an impressive plan which is subsequently forgotten about. Indeed, a recent report by the International Federation of Accountants (IFAC), 'From Bolt-on to Built-in: Managing Risk as an Integral Part of Managing an Organisation', advises against a stand-alone risk management function, citing the poorest risk management as "characterised by reactive crisis management once something has gone wrong."

Proactive then, is the way for corporates to be. For Steelhenge, development of a crisis management capability is best described as a three-phase cycle involving: pre-crisis planning and preparation, crisis response and post-crisis recovery. The consultancy firm believes pre-crisis preparation should include:

- Horizon scanning and risk assessment. Ongoing processes to develop systems that gather, monitor and interpret information that will give early warning of the potential problems.
- Response structure. The structure of response staff should be based around the need to provide strategic guidance. Transparency in role assignment and responsibilities is required and the documentation of BC/DR should have a clear 'lead of governance'.
- Gaining experience and validation through rehearsal. Rehearsing the actual response processes within a realistic environment is, according to Steelhenge, "the only real validation of an organisation's crisis response capability."

Should the worst happen, crisis response involves the following (all of which are made significantly easier with the existence of a plan):

- Information management and situational awareness. Initially, there may be confusion surrounding the details of the event. Therefore, the team must quickly gain a clear understanding of what has happened and what could happen next.
- Strategic thinking. Intrinsically linked to the aforementioned point, those who are responsible for business critical decisions need to have the best and most up-to-date information at their fingertips.
- Leadership. There must be an identified leader with recognised decision-making authority and accountability. But remember: not everyone is cut out to be a leader in a time of crisis.
- Crisis communications. Although the media spotlight is not directly relevant to the treasury function, key players have to inform and update the relevant people on developing financial and operational impacts. Where crisis communication is key for treasury, however, is in the information they provide to shareholders and relevant parties.

The recovery phase involves dealing with the longer-term impacts, taking the crisis as a learning curve and driving any necessary change to avoid mistakes being repeated in the future. This stage should not be underestimated in its complexity and, depending on the nature of the crisis, could take longer than expected.

Best practice regularity

You've got a plan in place and the company has spent significant time running through the simulation; you could reasonably assume you've done all you can to prepare for a crisis. But, as is well documented, the corporate world is continually evolving, as are threats to its stability. In order to avoid your crisis management capability getting left behind, Giffen reminds corporates "to have a regularly scheduled review of the parameters and stress test uses to see if they are still relevant. There is an onus to continue to re-test the assumptions you're using."

To this end, Visual Risk offers its clients the capability to run 'what if' scenarios and, according to Giffen, this is an absolutely crucial part of the process, to stress test your positions and understand what would happen in the case of a crisis. "For example, in a financially-driven crisis, you can use a statistical based measure – such as cash flow or Value at Risk (VaR) – to see what would happen in a number of scenarios (if interest rates moved in a particular way or a certain currency collapsed in value, for instance). This will effectively tell you what would happen with 99% confidence, after which you can overlay a scenario in a complementary way which sits outside that 99% and pushes the envelope." Whereas statistical measures have boundary conditions, these 'what if' scenarios can test beyond what you would typically expect to see. "Try and come up with situations perhaps you thought may never occur," adds Giffen.

Crisis-ready culture

Whoever is entrusted with BC/DR, internally and externally, it is essential for all concerned to have the required skills to be able to execute the plan in an emergency. An assessment of suitable third-party providers must be carried prior to engagement, but to ensure readiness of all concerned internally, the plan – and how to best realise it – must become part of company culture. As Cockram concludes, "after a crisis, you want to be able to say (and evidence) that every effort was made to prepare beforehand." ■

The cloud and crisis management

Cloud computing technology, where a large number of computers are connected through an internet-based communications network, has begun impacting the treasury function in a number of ways, including (and increasingly so) in BC/DR. The cloud allows companies to keep their backed-up data in several different locations and offers the benefits of both reduced cost and recovery time compared with some traditional solutions. But it is still important for solutions to be tailored to clients' needs. Visual Risk, for instance, offers local backups carried out on a regular basis (something clients previously with the Australian cloud-based solution provider that ran into financial trouble requested). "Ideally you would have a combination. That is, if your BC/DR is cloud-based, you should also look at having local backups being made or backups to another site being made periodically," says Giffen.

Channels of opportunity

Munir Nanji
Asia Pacific Sales Head,
Treasury and Trade Solutions

The Asia Pacific (APAC) market has transformed exponentially in recent years given the rise of e-commerce and digitisation more broadly. As a result of this, corporate treasurers have looked to take advantage of the new opportunities offered to them by using digital tools to drive business intelligence and help the business reach its full potential. In this article, Munir Nanji, Asia Pacific Sales Head, Treasury and Trade Solutions, at Citi outlines how e-commerce and digitisation have impacted markets in Asia and how Citi is well placed to help corporates take advantage of the new digital environment.

How has the rise of technology, and in particular e-commerce, transformed the Asian market, not only with regards to business-to-consumer (B2C), but also business-to-business (B2B)?

The evolution of technology has had an extraordinary effect on how business is conducted globally. For instance, in the B2C world a large proportion of transactions are now completed online – worth up to $4trn a year.

This is a huge number that has been growing exponentially year-on-year and we expect it to continue increasing for the foreseeable future. In APAC in particular, there is lots of room for growth in this space. Today, the region accounts for roughly 30% of these flows, but 60% of the world's population resides in the region, as do 55% of the world's mobile devices. Moreover, 50% of the world's internet users are based in Asia – creating a colossal market for corporates to tap into.

> The escalation of digital channels has fostered the rise of some of Asia's biggest companies and also led other companies in the region to alter their business models.

There have also been changes in the B2B space. For example, a farmer in China would traditionally look to sell their produce to a co-operative, which would then sell this on at a profit by leveraging economies of scale. Today, however, the rise of digitisation and e-commerce has allowed farmers to use an online portal to immediately connect to a buyer, disintermediating the co-operative and giving the farmer the opportunity to negotiate the price they want directly with the buyer.

More broadly, the escalation of digital channels has fostered the rise of some of Asia's biggest companies and also led other companies in the region to alter their business models. Digital marketplaces are perhaps the prime example of this and also most synonymous today with the term e-commerce. These companies act as a conduit between the buyer and merchant, allowing a wide variety of goods to be sold to a local or global consumer base. Some companies, especially in the technology space, as well as selling their merchandise on these global marketplaces have also established their own proprietary stores that allow the user to customise the products – frequently these online stores are replacing bricks and mortar shops, especially for Western brand names operating in Asia.

Moving away from B2C, we have recently seen the growth of a number of digital aggregators, offering a wide variety of cloud based solutions including: websites, software and data storage. These companies have become very popular because their solutions are flexible and allow businesses to scale up (or down) their operations, making it easier for companies to grow and expand.

The growth of e-commerce and digitisation have also given rise to a new breed of payment service providers (PSPs), for example Alipay. These provide online merchants and consumers with a variety of digital financial services including; e-wallets, collection services, merchant acquiring and money transfers to name a few. Companies such as these are becoming increasingly popular

and are constantly innovating, looking to provide easier and more efficient ways to pay and collect. Given the wide reach of mobiles in Asia, telecommunications companies have also begun to move into this space providing services such as direct carrier billing.

What new opportunities has this created for corporate treasurers?

The internal and external impacts of e-commerce and digitisation have had a profound impact on corporate treasury. Typically, the treasuries of companies in the region go through a natural progression. Firstly, they begin by simply responding to the demands of the company during its early stages and ensuring that the business can function financially.

Once the business has established itself, the second stage commences. This is when treasurers begin to act proactively and look for efficiencies in their processes. At this stage, improvements will be made to fundamental areas of the operation such as making sure payments are made efficiently, ensuring that the right information is collected for reconciliation, and better management of working capital and liquidity. Once the treasury completes this, it can begin to better respond to the needs of the business and become a more active business partner.

Stage three is where e-commerce and digitisation come to the fore. As the company shifts more-and-more of its business onto digital channels, the treasurer is able to begin thinking strategically by utilising tools such as big data. This is something that we have seen occur in the treasury departments of many of our North American and European clients, and we are now beginning to see this happen in Asia as well.

In leveraging these new tools the treasury is able to analyse information around consumer behaviour, how the supply chain is evolving, the direction of trade flows and the various payment solutions customers utilise. By having this information, the treasury can go above and beyond and channel this into insights for the C-suite, transforming the department into a strategic business partner and helping the business maximise its opportunities.

Given these developments what are the key requirements that corporates are now seeking from banks?

By their very nature, e-commerce and digitisation are global. For instance, a company can be created, build an online marketplace using a cloud-based web service provider and then sell globally in a matter of weeks. In reaction to this, corporates of all shapes and sizes are requiring a core banking partner with a global network.

I believe this is where Citi positions itself well, particularly in Asia, as we have a wide and deep presence across the region. Furthermore, with direct memberships to 232 cash clearing systems across the globe, we are well placed to represent client interests in various country organisations and committees. As a result of our embedded presence, Citi has a fantastic track record of helping companies overcome regulatory challenges when expanding into new, and often complex markets. Successes include regulatory approvals for clients to participate in pilot programmes and implementing innovative, first-to-market solutions in countries such as India and China.

Our reach also enables us to solve challenges corporates face around payments, collections and in particular foreign exchange (FX). When selling, online companies often like to price in domestic currency and then convert this back into their functional currency. However, in e-commerce there are frequent refunds that often need to be made for various reasons, requiring the merchant to convert their cash back into the local currency. Consequently, there is an increased FX risk for the merchant. We have therefore worked closely with both merchants and payment providers to build structures for corporates that not only mitigate this risk, but also ensure that the refund occurs seamlessly, with minimal human intervention and also quickly – speed is imperative in the digital space.

When a corporate expands into new markets with its e-commerce platform, they like to offer the local payment instruments that are most used in the country. These could be cash, cards or even specialist domestic instruments. When offering this service it is important to partner with a bank that can support treasury across multiple collection streams. Citi's network again gives us the advantage in this space as we are able to collect, move and manage cash for our clients, allowing them to focus on the core business of selling their products.

Looking to the future, how do you expect the Asian market to further develop, will e-commerce become the main method of conducting business? What does this mean for corporate treasurers and what can their banks do to support them?

As I mentioned earlier, APAC is a market made for e-commerce and digitisation in both B2C and B2B. Great strides have been taken towards digital by many different players in the ecosystem and a large number of our corporate clients are already at the cutting-edge.

There is still more to do, however. The regulatory environment and bureaucracy that exist in some Asian markets, for example, have made it difficult for certain companies to move at such speed. But, I do expect this to change, because for these countries to remain competitive they will need to facilitate more digital innovation and accept e-commerce as the new norm.

For banks, the drive to digital means that we will need to strive to develop more solutions that continue to support our clients as their needs evolve. These will need to be scalable and agile providing treasurers with the ability to drive efficiencies at every turn. It is also imperative that we continue to offer new and innovative ways to serve up data to our clients, leveraging new and highly visual technology, further facilitating the growth of the treasury into a strategic business partner.

citi

Chen Zhiyu

Head of Product

Established in 2004, Alipay is the world's largest third-party payment provider, offering both online and mobile payment services. The company has more than 300 million users worldwide and handles over 80 million transactions daily totalling RMB 2bn.

In 2014, the value of e-commerce in China grew by 31.4% from the previous year totalling over RMB 13.4trn. The figures highlight the proliferation of e-commerce in the country, a space that has grown exponentially over the past decade. At the heart of this growth has been the Alibaba Group and its various online services, such as its online marketplaces. But, behind every online transaction there is a payment and third-party payment processor. Alipay has played a vital role in facilitating the growth of Alibaba, and e-commerce more broadly, by providing secure, trustworthy and convenient online and mobile payment solutions.

In its formative years, Alipay was primarily focused on serving the domestic Chinese market. Yet, recently its operations are becoming global as the company expands into new overseas markets such as the US, UK and Australia. To support these new business flows, the company has bolstered its international teams to serve: Chinese exporters with their cross-border collection and working capital management; importers who are trying to tap into the Chinese market; and Alipay account holders outside of China.

Whilst expanding into overseas markets, the company was presented with a number of challenges – most notably understanding how these markets operate. As Chen Zhiyu, Head of Product at Alipay explains: "Given our historical focus on the Chinese market most of our staff have been based domestically. We therefore have an intimate understanding of the market and our customer base. This is not always the case however when we move into new markets."

> "Our methodology is conflicting to this approach and we require a particular set of attributes from our financial partners – primarily dedication and flexibility in order to adapt to the pace of change we have at Alipay."

Given the pace of Alipay's global expansion the businesses needed to plug this knowledge gap quickly. To do this, the company has hired local experts in these markets, as well as relocating some of its Chinese staff overseas. In doing so, the company has been able to obtain domestic expertise while also ensuring that the company's culture is sustained in these overseas outposts.

Aside from hiring local staff, Alipay has also leaned on its partners to assist in filling the knowledge gap. "Citi is a financial partner with an extensive global network and deep presence in many markets and has provided us with detailed information and advice on a number of areas including; market practice, commonly used instruments and regulation to name but a few," says Chen Zhiyu. "To gain this information without their help would have been a time-consuming and resource-intensive process, something we cannot afford given the pace that is needed in the e-commerce space."

Speed is also imperative for Alipay when it comes to implementing new solutions. As a result of this, the company acts differently to most corporates, adopting a trial and error methodology. As Chen Zhiyu explains: "We begin a number of projects simultaneously, evaluate their effectiveness within a short space of time (typically three to six months) and then cut those that are not successful and continue with those that are." In doing so the company is able to match the expanding needs of its customers, minimise the impact of mistakes and also foster internal focus and competition that ensure the ongoing success of the company.

This approach does however create some unique challenges for Alipay's financial partners. "Banks typically work on one or two solutions at a time for a corporate client and these are usually long-term projects that will be seen through to their conclusion," says Chen Zhiyu. "Our methodology is conflicting to this approach and we require a particular set of attributes from our financial partners – primarily dedication and flexibility in order to adapt to the pace of change we have at Alipay. Consequently, especially given the increasingly conservative nature of banks in the post-crisis era, our financial partners are limited and selected carefully."

Just as Alipay is crucial in facilitating the growth of e-commerce both domestically, and increasingly overseas, Citi has been a vital partner to Alipay since 2010 – providing knowledge, advice, solutions and support to facilitate the rapid growth of the company. "We have built a strong relationship with Citi that is based on mutual understanding and trust," adds Chen Zhiyu. "They have the attributes that we require from a financial partner allowing us to develop and expand our business at the pace we require." ■

A region playing by its own rules

The implementation of post-crisis financial regulation has played out a little bit differently in Asia compared to other regions. In this article, we evaluate the progress the region has made towards compliance with new banking regulations under Basel III, as well as the current state of play with respect to implementation of the G20 OTC derivatives reforms. Is the long-standing characterisation of Asia as the world's most strictly regulated region still accurate?

If the financial sectors of the US and Europe have struggled with the weight of regulatory reforms introduced post-crisis, that has not been the case in Asia. While the CEOs and other senior executives of big Wall Street banks lament about the one-size-fits-all approach regulators are attempting to impose on them, in Asia things have been a little different. 'Regulatory burden?' some of the regional banks have been heard to remark in recent years, 'what regulatory burden?'

The region's recent history has somewhat helped their hand. "Asia had its own crisis in the 1990s, and learned from it," says Ruth Wandhöfer, Global Head of Regulatory and Market Policy at Citi Treasury and Trade Services. "Asia feels that some of the measures being executed to the extreme in the US and Europe – ring-fencing, predispositioning of capital and leverage ratios – are not really necessary to the same extent."

Of course, banks across Asia have had to comply with Basel III capital and liquidity requirements as has been the case in other regions. And, in some jurisdictions, these have actually been even more stringent than those imposed on their peers in the US and Europe. The common consensus, though, is that Asia's banks have coped a great deal better with the transition.

Perhaps one of the reasons they have managed better is that they have not had such a distance to travel to reach the end goal. Basel III proved a struggle for many of the large global banks headquartered in the US and Europe. But while those institutions were still finding their feet in the aftermath of Lehman Brothers and the unfolding the Eurozone crisis, banks in Asia were busy boosting their already robust core capital ratios through retained earnings and common stock issuances.

Ultimately it meant reaching those new balance sheet requirements was not quite as onerous a task as it proved to be elsewhere. "European banks have quite a hard task to obtain those capital ratios," says Wandhöfer. "Most achieved it, but it has come at a cost."

> "A multinational with business in 60-70 countries always needs to think about the bigger picture though. Sure it might be possible to get better rates with a regional bank in certain countries, but there are other aspects that give you a view on whether the bank you are with is giving you a good deal or not."
>
> Ruth Wandhöfer, Global Head of Regulatory and Market Policy, Citi Treasury and Trade Services

This is why, when one looks at the rates offered on liquidity deposits they tend (depending on the currency, of course) to be much more competitive at some Asian banks. Similarly, while in the West it is now widely accepted that trade finance will become more expensive as capital costs are priced in, that is not what has happened in Asia. On the contrary, there is almost an overflow of liquidity. That may be down to the region still being in reasonably good shape economically (notwithstanding the recent slowdown in China) and, as such, the commercial need to borrow is simply not there. It could also be explained, however, by the fact that Asian banks are not feeling quite so constrained by regulation. Either way, if a corporate can be satisfied that a regional Asian bank has the right capabilities and the footprint to service their needs – never exactly a given – they might find the rates that Asian banks can provide very attractive indeed.

"That is something we've been hearing from clients for some time," Wandhöfer notes. "A multinational with business in 60-70 countries always needs to think about the bigger picture though. Sure it might be possible to get better rates with a regional bank in certain countries, but there are other aspects that give you a view on whether the bank you are with is giving you a good deal or not."

Watch and learn

The journey to meeting the G20 objectives for establishing more transparency in OTC derivatives markets has also been smoother relative to the disruption we saw in the US and EU with the introduction of Dodd-Frank and the European Markets Infrastructure Regulation (EMIR).

This might be accounted for, on the one hand, by the fact that derivative markets in the Asia region are comparatively small, comprising a mere 8% of the current global turnover. But some credit must also be given to the approach taken by the region's national regulatory authorities who, having carefully scrutinised how the G20 commitments were effected elsewhere, opted to take a more phased implementation unlike the 'big bang' approach favoured by Europe, for example.

Since implementation began several years ago, regulators have moved step-by-step to bringing trade reporting across different markets segments, asset classes. Last year, trade reporting was live for interest rates and credit only in Singapore. Five asset classes were live in Australia, meanwhile, but only for large institutions. Since then what we have seen is the asset classes and market participants subject to trade reporting slowly expand. Singapore went live, for example, with FX products in May of this year. In Australia, the regulators have changed their OTC derivatives requirements to include a much larger community of reporters.

So while banks, corporates and institutions faced a steep challenge in becoming compliant across all of their OTC derivatives activities in Europe, market participants in Asia have been somewhat less encumbered by the changes taking place. "Regulators in Asia have watched the European Securities and Markets Authority (ESMA), and the big bang approach taken by them where all segments, all sizes, all asset classes had to start reporting on the same day. I think the first lesson they learned is that it is an enormous universe, and a huge task by any measure," says Peter Tierney, Regional Head, Asia at DTCC. "That phased implementation in Asia is a direct learning from global experience."

A different approach to implementation notwithstanding, with respect to data the Asian regulators have been very careful to adopt any measure that looks like it is evolving as a global standard. Already, DTCC estimates that, across the nine jurisdictions they are live in, there are some 40m open positions in its database, accounting for around 70% of the global OTC derivatives market. This provides a strong incentive for Asia's national regulators to look at the data standards being developed by other regulators such as ESMA. "Asia's regulators realise that a lot of what they want to see has probably been reported somewhere in some shape or form. So they are seeing what they can leverage, looking at the fields reported by ESMA – a large share of the reported volume. The regulators are very pragmatic about adhering to global standards."

If there is one major obstacle hampering the region in its journey towards the G20 objectives on the regulation of OTC derivatives, though, it is the region's diversity. At the end of the day, the whole rationale behind the G20 accord to begin with was to bring transparency to a global market that had become notorious for its opaqueness. But in a fragmented, diverse region with each jurisdiction deeming it necessary to establish its own in-country rules, this has not been straightforward.

There is cause for optimism that this will not end up being the end-state for the region, however, says Tierney. "Two years ago it was difficult to discuss the importance of standards because none of the trade repositories were live. We simply couldn't articulate, therefore, what the world was doing," he explains. "But we've found over the past year that it has

become a lot easier to go and visit jurisdictions and explain how firms are reporting their positions and what positions are probably already on our database."

The next wave

Asia's relatively smooth transition to meeting the Basel III capital and liquidity targets and the G20 OTC derivatives requirements makes what we are beginning to see now in the region all the more intriguing. Although the region largely escaped the same regulatory disruption witnessed in the US and Europe, there are signs that the overall regulatory burden – on financial institutions in particular – is now beginning to weigh down a bit more on market participants.

Every year, the information provider and technology firm Thomson Reuters publishes its Cost of Compliance Survey which assesses the impact of regulation on financial services in Asia. According to Thomson Reuters Annual Cost of Compliance Survey, compliance officers express regulatory fatigue and overload in the face of snowballing regulations. Seventy percent of firms are expecting regulators to publish even more regulatory information in the next year, with 28% expecting significantly more.

If neither capital adequacy nor derivatives reporting requirements have been especially troubling Asia's financial services sector then what is? Sanjeev Chatrath, Managing Director and Head of Financial & Risk, Asia Pacific at Thomson Reuters, identifies two key factors. The first of these comes not from inside the region but from the activities of overseas bodies. "Over the past year, corporates in Asia have been extremely busy addressing some of these far-reaching, extra-territorial regulations that have been introduced; FATCA and the UK Bribery Act being two notable examples," he says. "There are many US/UK headquartered or affiliated institutions operating here, of course, and they are trying to balance their compliance with regard to home country and host country regulations."

Secondly, the region's own regulators have also stepped up a gear, but are focusing on different issues to what we have seen in other regions. "I think there are different nuances in every part of Asia," says Chatrath. "Korea has introduced significant changes around data privacy, driven by some of its experiences last year. In India and other Asian countries, there is a lot of focus now around corruption reforms. And China too has been making substantial changes allowing foreign investors to invest in China. In Australia, we are seeing a lot more personal liability initiatives that financial executives have to undertake."

Chatrath's observations are supported by Thomson Reuters 2015 Cost of Compliance Survey. The report reveals that compliance officers at financial institutions are increasingly concerned about Conduct Risk (67% of respondents citing this as the biggest driver of managing regulatory risk) as well as new data protection and anti-money laundering (AML) requirements based on the 2012 FATF recommendations.

Good listeners

The regulatory burden may well, as many financial services professionals believe, continue to increase in Asia over the coming years. Yet the traditional characterisation of Asia as a very strictly regulated region, relative to that of liberally managed economies in the US and Europe, has, as we have seen, been somewhat turned on its head in recent years.

Of course, as treasurers will point out, strict foreign exchange controls remain a liquidity management headache in many jurisdictions (even if, crucially, China has begun to liberalise its policies in this area). And in some countries, as noted earlier, banking regulation with respect to capital and liquidity ratios is even stricter than what has been introduced in many western countries.

An important difference though, say industry experts, is that regulators here in Asia have been more considered and thoughtful in the way they have planned and implemented there reforms. Unlike in the US or Europe where financial institutions and corporates alike have lamented time and time again that regulatory bodies have pressed ahead with regulatory changes with little consideration to the 'unintended consequences' those in the industry believe may emerge as a consequence of reform, Asia's regulators have paused, and listened carefully to the views of all affected parties. Even when specific regulations – like the Basel capital ratios – have been set at a high level, they have, consciously, not been set so high as to be out of reach of those subjected to them. Likewise the recent amendments to Singapore's AML legislation was only implemented after the Monetary Authority of Singapore went through a ten-month consultation phase. Financial services professionals in other regions could be forgiven, perhaps, with looking at how things have unfolded with a degree of envy.

> The regulatory burden may well, as many financial services professionals believe, continue to increase in Asia over the coming years. Yet the traditional characterisation of Asia as a very strictly regulated region, relative to that of liberally managed economies in the US and Europe, has, as we have seen, been somewhat turned on its head in recent years.

"I think we are seeing an increasingly collaborative approach between the regulators and the regulated," says Chatrath. "Regulators are very keen to have an open conversation with the regulated to understand their business challenges and what can be done to address the risk involved in the business so that you do not expose the financial markets to regulatory uncertainty."

It is also evident that the regulators have learned from the mistakes – and successes – of their global peers. "They are very much interested to gain knowledge from the other regions as to what is best practice and what is not," says Citi's Wandhöfer. "Generally the approach taken has been a sophisticated one; it's not about mirroring what has been done in Europe or America, but looking at all the issues and considering what makes sense for their markets and what is economically proportionate. It is a highly researched approach to doing the right thing, rather than being overly political." ■

ISO 20022: an update

It is not just for Europe; it is used globally including countries like China, Japan and Russia that use non-roman character sets. It is not exotic; it is built on XML which is the lingua franca of corporate systems. It is not just for large companies; half of SWIFT corporate members are smaller companies. So what is holding ISO 20022 back? Largely misinformation and change aversion, says our Treasury Insider.

There has been a lot of coverage in the treasury press about new standards for immediate payments using ISO 20022. The immediate trigger was a recent announcement by Payments UK that said: "The landmark first draft announced today (10th August 2015) is the result of work by the ISO Real-Time Payments Group (RTPG), made up of over 50 global experts facilitated by Payments UK, which has been tasked with driving forward the project of developing the ISO 20022 messages required."

This is good news for corporate treasurers indeed. Whilst we may be satisfied with same day value, immediate payments will encourage the move away from multi-day settlement that remains common in many low-value clearing systems, and will reduce costs as well as delays and float. Less positive has been the implication in much of the press that ISO 20022 is itself a new innovation.

> "Corporates, including my old employers, have been using ISO 20022 to communicate with banks for a decade."

A trusted standard

ISO 20022 XML (eXtensible Markup Language) was started in 2004, and the first messages for payments went live in 2006. So whilst this is not novel, it may be perceived as such since the standards keep advancing to handle new needs like immediate payments. Moreover, the breadth of ISO 20022 has also expanded from payments to cover areas including: securities, trade, cards and FX.

Corporates, including my old employers, have been using ISO 20022 to communicate with banks for a decade. It is famously the basis for SEPA (Single European Payment Area) the pan European payment system. People are less aware that ISO 20022 is also used for clearing in China (CNAPS2), Japan (Zengin and BoJNet) and Russia (CMPG) and too many countries to list all over the world.

XML is simply the machine-to-machine counterparty for the more familiar HTML (Hyper Text Markup Language) which we know and love on our internet browsers. You are already using XML – although possibly without knowing it – it is the glue that holds corporate systems together. For example, internal messaging within SAP – called iDOCs – is XML.

The gold standard

ISO 20022 has standards for every conceivable message a corporate treasurer would want, and in fact a lot more for other financial purposes. SWIFT's FIN MT standards were designed only for cross border high-value flows like FX settlement. ISO 20022 on the other hand, covers cheques, bank drafts, local low-value (like payroll), bulk payments, cross border and trade.

A group of bankers, corporates, and system vendors called the CGI-MP (Common Global Implementation – Market Practices group) has standardised most payment instruments in most countries, and is working on the rest. This means there is one standard way to get each type of payment executed regardless of which bank you use.

Your systems therefore need only one standard for all kinds of flows, in all geographies, in all languages, and so on. FIN was 'patched' to handle some of these needs, but each bank created their own workarounds – causing nightmares for treasury interconnections – and major operational risks as market infrastructures around the world upgrade to offer new services like immediate payments.

Future-proof

Global adoption by market infrastructures and rapid standardisation of corporate connectivity by GCI-MP mean that ISO 20022 is effectively future-proof. Whatever new payment technologies come along, they will most likely be cleared in ISO 20022. Even if they are not cleared in ISO 20022, the global breath and coverage of CGI-MP mean that

corporate connectivity standards will be developed at the same time as any new payment systems are rolled out. This means that treasurers using ISO 20022 effectively hedge themselves against the operational risk and cost of future developments in payment technologies and services.

Moreover, being a global standard developed by corporates and banks and system vendors means that ISO 20022 is extremely well supported by corporate systems – almost all ERPs and TMSs have ISO 20022 functionality built in. This means that treasurers using ISO 20022 lower their costs and operational risks by using established and well known standards (as opposed to implementing bank proprietary standards, Excel interfaces, etc).

Double byte means truly global

There is a persistent myth in treasury circles that 'SWIFT does not do Chinese'. This error is based on the limitations of the legacy SWIFT standard FIN, which dates from the 1970s when bandwidth was limited, and uses eight bit bytes (computer letters) which allows only 256 characters, which in turn limits FIN to the Roman alphabet. In fact, FIN started in the days of telex, which had only six bit letters, which is why everything had to be in upper case with no punctuation.

ISO 20022 is based on 16 bit double bytes, which allows 65,536 characters, which is enough to handle all known writing systems. And sure enough, ISO 20022 has been adopted by many non-Roman market infrastructures including China, Japan and Russia.

Market infrastructure vs corporate connectivity

It is important to be clear that ISO 20022 is used both for market infrastructures and for corporate connectivity. Market infrastructures means bank-to-bank execution of payments via the central bank for most RTGS or a local central bank approved clearing house for most local low value payments. Corporate connectivity described corporate-to-bank communications; like sending payment instructions to your bank and receiving bank statements from your bank. Most central banks and clearing houses – in almost every major country around the globe – have concluded that ISO 20022 is the best way for them to manage local clearing.

It is not necessary for corporates to use ISO 20022 to instruct their banks to make payments through ISO 20022 market infrastructures – you can use bank legacy formats, or BAI, or UN-EDIFACT, or even Excel. But the more market infrastructures move to ISO 20022, the more compelling it is for corporate connectivity. Conversely, you can use ISO 20022 to instruct your bank to pay over legacy market infrastructures like ACH and FIN or even cheque – and CGI-MP have standardised exactly how to do that for each case.

Global harmonisation

Another persistent myth is that ISO 20022 is not globally standardised, despite the noble efforts of CGI-MP. In most cases, this stems from treasurers perception that ISO 20022 does not take away local requirements like withholding tax in Thailand, boletos in Brazil, purpose codes in China, and so forth. While I understand these frustrations, harmonising local laws across the planet is beyond the remit of CGI-MP.

What CGI-MP can and does do is to standardise the way local nuances should be coded in ISO 20022 messages, so that you only need to figure it out once and it will work with all your banks. In some cases, complaining treasurers may be dealing with countries that have not yet been standardised by CGI-MP. If this is your problem, step up and join CGI-MP.

High value payments

Yet another persistent myth is that ISO 20022 is only for bulk payments and that you have to use FIN for high value payments. This is based on the misunderstanding that because FIN is the de facto standard for things like FX settlements, you need to send a FIN message to your bank to instruct such a payment. I repeat what I said above – ISO 20022 covers all payment types including cross border high value, bulk payments, payroll, bankers' drafts, etc.

A subtler misconception is that ISO 20022 is slower than FIN payments. When this concern came up at the most recent implementation I managed, we tested the latency of ISO 20022 messages vs FIN messages as well as checking their non-repudiation statuses. As SWIFT told us, there was no difference. So save yourself the trouble – ISO 20022 is the only message set you need. ■

David Blair, Managing Director

Twenty five years of management and treasury experience in global companies. David Blair was formerly Vice-President Treasury at Huawei where he drove a treasury transformation for this fast-growing Chinese infocomm equipment supplier. Before that Blair was Group Treasurer of Nokia, where he built one of the most respected treasury organisations in the world. He has previous experience with ABB, PriceWaterhouse and Cargill. Blair has extensive experience managing global and diverse treasury teams, as well as playing a leading role in e-commerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

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The views and opinions expressed in this article are those of the authors

INSIGHT AND ANALYSIS

Payments innovation: instruments and infrastructure

Across the globe, there are a number of initiatives underway to implement faster, or immediate payment systems. In Asia Pacific in particular much is being done to either upgrade the payment systems in developed markets, or implement best-in-class technology in emerging markets. We investigate what is happening and what this means to corporates operating across the region.

CAREER PROSPECTS

Climbing the career ladder

As the role of the treasury department has moved away from a siloed, faceless function to a strategic business partner to the board, the skills of the treasurer have had to evolve. In many cases, being an excellent (technical) treasurer is not enough; soft skills are increasingly required in order to stand out from the crowd. This article explores what steps treasurers can take in order to get ahead.

KNOW THE REGION

ASEAN

With a combined population of around 600 million, and a GDP of $2.4trn, the arrival of the ASEAN Economic Community (AEC) at the end of 2015 looks set to create a regional powerhouse. Treasury Today Asia traces the history of ASEAN and analyses what impact the AEC will have on the local and wider business landscape, exploring how corporates and banks can take full advantage of the developments.

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

Adam Boukadida, Deputy Treasurer, Etihad Airways; **Di Challenor**, Head of Transaction Services, J.P. Morgan; **Sanjeev Chatrath**, Managing Director and Head of Financial & Risk, Asia Pacific, Thomson Reuters; **Dominic Cockram**, Managing Director, Steelhenge Consulting; **Glen Giffen**, Head of Sales, Visual Risk; **Antti Kyyro**, Head of Regional Treasury, APAC, Nokia; **Indrajeet Maitra**, Head of Cash Management APAC, BNP Paribas; **Munir Nanji**, Managing Director APAC Sales Head, Citi; **Scott Si**, Product Marketing, Coins.ph; **Paula Stibbe**, Managing Director, Head of Global Liquidity Sales, Asia Pacific, J.P. Morgan Asset Management; **Peter Tierney**, Regional Head, Asia, DTCC; **Marc Vandiepenbeeck**, Corporate Treasurer, Asia Pacific, Johnson Controls; **Luke Waddington**, Head of Global Markets APAS, E-Business, BNP Paribas; **Ruth Wandhöfer**, Global Head of Regulatory and Market Policy, Citi Treasury and Trade Services; **Chen Zhiyu**, Head of Product, Alipay.

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