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## Green bond developments

As more and more businesses look to become more sustainable and environmentally friendly, we explore how green bonds can finance this transition and what treasurers need to do to issue green bonds.



### The Corporate View

**Eddie Mak**

Group Treasurer  
**Kerry Logistics**



### Is your cash still trapped?

Trapped cash is a common issue for treasury professionals operating in Asia Pacific, but recent regulatory developments have put this back on top of the agenda.

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CrossLend



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|-------------|---------------------------------------|
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| Publishing  | +44 (0)13 0462 9005<br>+852 8199 0351 |
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| Advertising | +44 (0)13 0462 9018                   |
| Editorial   | +44 (0)13 0462 9003                   |
| Production  | +44 (0)13 0462 9019                   |

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# Hong Kong: 20 years since the handover

In July 1997, the United Kingdom transferred sovereignty over Hong Kong to the People's Republic of China after 150 years of British control. The event marked a new era for Hong Kong and the effective end of the British Empire. In his farewell speech, Governor Chris Patten said: "The story of this great city is about the years before this night and the years of success that will surely follow it."

In the 20 years since the handover, 'Asia's World City' has thrived. The population has expanded from 6.5m to 7.4m and its economy has grown from strength to strength as its housing, tourism, trading and finance sectors have boomed.

The latter remains Hong Kong's primary industry. Buoyed by its economic strengths, including a sound banking system, virtually no public debt, a strong legal system, ample foreign exchange reserves and rigorous anti-corruption measures, Hong Kong is home to the highest concentration of banking institutions in the world.

## Two-way relationship

Whilst these attributes have certainly aided Hong Kong's success, it is arguably the territory's role as the gateway to China that has been its most valuable asset since the handover. Its position has seen multinational organisations from around the world flood into Hong Kong, using it as a springboard to take advantage of the boom in China.

This has also turned the territory into one of the world's leading treasury centres. Corporates from the US and Europe with a significant presence in China have set up regional treasury centres in Hong Kong giving a permanent treasury presence in the market and gaining greater visibility and control over their cash flows.

Although remaining a gateway to China, Hong Kong's role is changing. More than simply acting as a springboard for multinationals heading into China, Hong Kong is now a conduit between China and the rest of the world and a base for Chinese corporates going global. And just as international corporates set up regional treasury centres in the territory, Chinese multinationals are doing the same. The Hong Kong Monetary Authority has recognised this opportunity to further enhance Hong Kong's treasury centre credentials. It has revised the taxation rate for locally domiciled treasury centres, making the territory more attractive and staving off its long-time rival, Singapore, and its emerging challenger, Shanghai.

## One country one financial system

Hong Kong's role as the gateway for mainland China's trade, investment and finance only looks set to increase over the coming years. China's ambitious 'Belt and Road' will see the territory become a key financing hub and M&A destination for Chinese corporates.

Elsewhere, initiatives such as the Shanghai-Hong Kong Stock Connect, and the recently launched China-Hong Kong Bond Connect, highlight the important role the Chinese see Hong Kong having as a link to the rest of the financial world. Hong Kong's position as the world's foremost RMB hub also demonstrates that China sees the territory acting as a vital cog in its plans to internationalise the currency.

But the territory's biggest advantage may also be its biggest disadvantage going forward; Hong Kong's fortunes are becoming even more intimately intertwined with what happens in China.

The recent downgrade of China by Moody's, and the subsequent downgrading of Hong Kong, highlights this. Explaining the downgrade, Moody's said that "credit trends in China will continue to have a significant impact on Hong Kong's credit profile due to close and tightening economic, financial and political linkages with the mainland".

Some commentators have also raised questions about what Hong Kong's position will be once China fully opens, making its megacities, such as Shanghai, potential finance centres that will eat into Hong Kong's market share.

A lot needs to happen before this is the case though. Indeed, from a treasury perspective, Shanghai remains a viable treasury centre location for only a handful of foreign corporations. Hong Kong, therefore, remains just as important, if not more so, than it was 20 years ago.

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Around the world, banks are exploring the use of self-service models to support customers in carrying out banking activities without the need for human interaction. Treasury Today Asia explores the most significant areas of development and how corporates could benefit?

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## Crossing borders: transacting in Asia's new reality

Asia has proven to be resilient to recent geopolitical shocks and continues to adapt and thrive. How then can corporations navigate shifting demand patterns and develop short-term tactics and long-term strategies to fit Asia Pacific's new reality?



## The challenges of KYC



For treasurers around the world, the challenges associated with know your customer (KYC) compliance have escalated rapidly in recent years. With corporates increasingly struggling to meet KYC requirements, what specific challenges do they face – and what developments and initiatives could help them to overcome these issues?

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### The treasury of tomorrow, today

In a time of great change, corporate treasury professionals in Asia Pacific need not only a bank, but a banking partner. In this article, Citi outlines how it is supporting its clients in new and imaginative ways across cash, liquidity and trade.



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**Eddie Mak**  
Group Treasurer



Since entering the corporate treasury profession five years ago, Eddie Mak, Group Treasurer at Kerry Logistics, has been on a mission to ensure treasury provides value within his organisation. The key to this mission has been making sure that treasury is not seen as the 'bad guy' by the business units.

### Exercising options: getting back to basics with derivatives

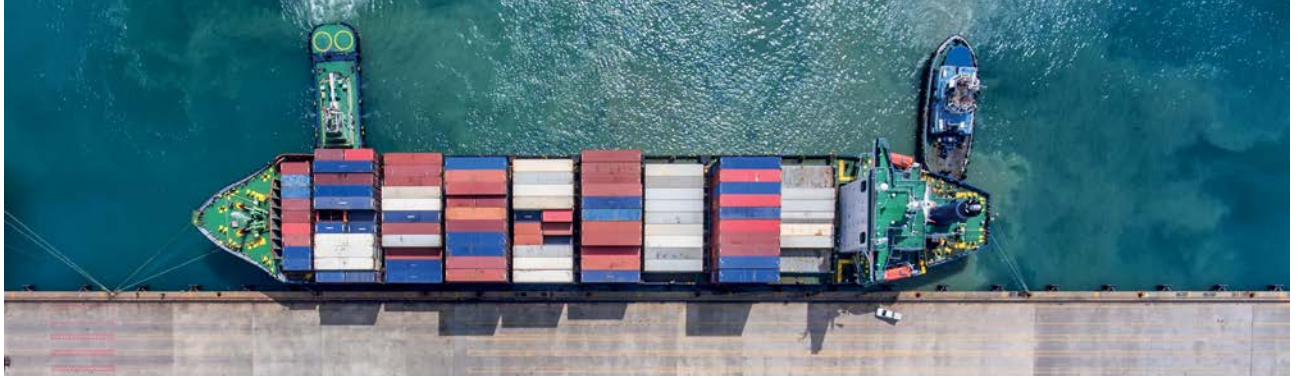
Derivatives have been traded for many years as both a risk mitigation tool in their simplest form, and as an instrument of profit generation in their more exotic incarnation. For corporate treasurers, they can help mitigate risk of future price movements in the underlying commodity, currency or interest rate, allowing for more accurate budgeting and forecasting. To find out more Treasury Today Asia goes back to basics on this multifaceted topic.



### Funding where it is needed

CrossLend believes that the financing space needs a shake-up and has developed a solution that aims to do exactly that.





## Shaping up and shipping out: Maersk expands trade finance offering

Maersk's trade finance offering is part of the company's ambition to simplify and digitise how its customers do business and thus simplify global trade.

"The processes behind global trade are still very cumbersome, time-consuming and expensive," says Vipul Sardana, Global Head – Maersk Trade Finance. "In fact, many of the core processes are completed as they were over a century ago; this doesn't have to be the case anymore."

Maersk is very active in leveraging technology to digitise its processes. For example, 98% of its customers' bookings are made through its electronic channel – just as a seat is booked with a commercial airline.

Although this work is beneficial for both Maersk and its customers, for the company to achieve its ambition of enabling global commerce, it must do more.

### Overcoming financing challenges

Most notably, Maersk's customers cannot always access sufficient and readily-accessible finance. Indeed, the WTO recently reported that access to capital is one of the biggest inhibitors to global trade.

More than that says Sardana, Maersk's customers say that when they use a bank's trade finance product there is always a trade-off between security and simplicity. "A Letter of Credit mitigates risk but it is inefficient, complex and often costly," he explains. "The Open Account, however, provides simplicity but does very little to mitigate the risk."

"It is a shame that this decision has to be made as both security and simplification are critical to the future of global trade," Sardana adds. "But banks are very cautious to make trade finance transactions and their entire product suite is designed to mitigate the underlying risks."

Maersk's offering provides both security and simplicity, says Sardana. "We have a digital platform that our customers use to apply for financing," he explains. "After they apply we can utilise a wealth of data to quickly, but diligently, check their creditworthiness."

Once a credit line is granted and Maersk takes control of the shipment it pays 80% of the purchase order (PO) value to its customer. Upon completion of the shipment and once the consignee pays 100% of the PO value, the shipping documents are exchanged and the process is complete.

### All round benefit

Maersk's customers benefit using this solution by accessing financing quicker, allowing them to do more business sooner. "Banks normally release funds when the Bill of Lading is provided, which is generated two to three days after the ship sets sail," Sardana explains. "Given that cargo is typically handed over to the shipment company well before the ship sets sail, companies may have to wait two to three weeks to get the Bill of Lading and therefore delay financing."

Maersk's customers also do not have to post any additional collateral. "The only thing we dictate is that the goods are shipped with Maersk," says Sardana. "We mitigate the risk because we have ownership of the cargo and know exactly what it is and where it is going."

Sardana says that feedback is good and that Maersk has extended over US\$100m of finance to about 150 customers since the solutions launch in 2016. "Customers want to do more business with us as a result," he says.

WHEN  
THE BIG  
ISSUES  
SURFACE  
ARE YOU  
PREPARED?





## FX code of conduct gets green light

A new set of guidelines that will guide behaviour and best practice in the global FX markets have been released by the Foreign Exchange Working Group (FXWG) under the supervision of the Bank for International Settlements (BIS).

The new guidelines come after a swath of scandals in the FX market – most notably in 2013 when it was revealed that currency dealers had been rigging the foreign exchange benchmark rates.

According to the FXWG, the guidelines are a set of “global principles of good practice in the foreign exchange market” and the code has been “developed to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market”.

### A closer look at the code

The 78-page code is organised around six key pillars with respective leading principles as follows:

1. **Ethics.** Market participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX market.
2. **Governance.** Market participants are expected to have robust and clear policies, procedures, and organisational structures in place to promote responsible engagement in the FX market.
3. **Information sharing.** Market participants are expected to be clear and accurate in their communications and to protect confidential information to promote effective communication that supports a robust, fair, open, liquid and appropriately transparent FX market.
4. **Execution.** Market participants are expected to exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid and appropriately transparent FX market.
5. **Risk management and compliance.** Market participants are expected to promote and maintain a robust control and compliance environment to effectively identify, measure, monitor, manage and report on the risks associated with their engagement in the FX market.
6. **Confirmation and settlement processes.** Market participants are expected to put in place robust, efficient, transparent and risk-mitigating post-trade processes to promote the predictable, smooth and timely settlement of transactions in the FX market.

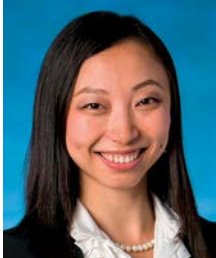
Neill Penney, Managing Director, Trading at Thomson Reuters commenting on the code in a recent webinar said: “The code is not regulation, but it defines conduct expected by regulators and regulators intend widespread adoption. This is the industry’s last chance to write its own rule book.”

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# Short-term investments

“ Aside from bank deposits, what short-term investment options are corporates in Asia Pacific using? ”



**Chinchin Ma**  
Client Advisor, Global Liquidity  
J.P. Morgan  
Asset Management

Corporates in Asia Pacific are placing their short-term cash holdings in a multitude of investments, with constant net asset value (CNAV) money market funds (MMFs) and structured deposits representing the most popular choices outside of traditional bank deposits, according to the latest J.P. Morgan Asset Management Investment PeerView<sup>SM</sup> survey.

MMFs are still the most popular short-term cash option for Asia Pacific corporate investors, with survey respondents in Asia holding 42% of their cash holdings in this category.

## The growing appeal of MMFs

MMFs are still the most popular short-term cash option for Asia Pacific corporate investors, with survey respondents in Asia holding 42% of their cash holdings in this category. This is no surprise, given that the primary goals of MMFs are to preserve capital, offer a high degree of liquidity and diversify investment risk – all priorities that are shared by corporate treasurers – while offering a competitive yield. In addition, 35% of respondents to the study in Asia have also anticipated increasing the allocation of CNAV MMFs within their investment portfolio, based on the future market outlook and interest rate forecast.

The flexibility and liquidity of MMFs are helping treasurers in Asia to meet their unpredictable cash flows. This is particularly useful as only 30% of our survey respondents in Asia can accurately forecast their cash flows quarterly or beyond, compared with 60% of respondents in the US.

In addition, MMFs offer global investment diversification to Chinese financial institutions for their offshore US dollar liquidity management, reducing their reliance on tight domestic funding conditions and limited domestic counterparties.

## Tailored liquidity solutions

Ultra-short duration fixed income strategies catered for reserve cash with a six month to one year investment horizon are also becoming increasingly popular. These strategies typically outperform MMFs in terms of total return, whilst minimising potential negative interest-rate sensitivity compared to longer duration strategies.

As Asian corporates tend to have a home country bias with respect to credit exposure, having a customised separately managed portfolio which invests in Asia-focused US dollar investment-grade issuers not only accommodates this bias, but also presents yield-enhancing opportunities.



**Lauren Oakes**  
Head of International Liquidity  
Solutions Sales  
Goldman Sachs  
Asset Management

We have seen increased interest in alternatives to bank deposits, primarily driven by concerns about low rates on deposits and recognition that deposits are not risk-free due to counterparty exposure to the bank. We see two main trends among corporate treasurers looking to address these concerns.

First, money market funds have become more popular as a short-term cash investment option. Many companies have implemented investment policies for short-term cash that limit counterparty exposure and set minimum credit rating requirements for deposit-taking institutions or funds. High quality money market funds offer a convenient way to comply with these requirements since they are ring-fenced investment vehicles with high degrees of diversification, AAA ratings and intraday liquidity.

Investing strategic cash in a portfolio of highly rated securities with a slightly longer duration compared to money market funds could improve the diversification and risk-return profile of the overall cash balance.

In addition, online investment portals provide a simple and easy subscription and redemption process for money market funds, with added risk management tools and significant operational efficiencies. Finally, in a rising rate environment, banks may not be able to pass higher rates on to depositors as quickly as money market funds can to investors.

The second trend we've seen is that some of the more sophisticated corporates with sizeable cash balances are starting to think of their balance sheet cash in two timeframes: operational capital for day-to-day needs and strategic cash that can have a specific, longer-term duration. By identifying their cash requirements across different timeframes, they can then choose the most appropriate product for each bucket.

Investing strategic cash in a portfolio of highly rated securities with a slightly longer duration compared to money market funds

could improve the diversification and risk-return profile of the overall cash balance. The portfolio can be constructed within the parameters of their investment policy, and could allow for a significant amount of customisation depending on whether it is structured as a separately managed account or in a fund format.

Historically, corporates in Asia have relied on single product strategies for managing cash, however a diversified portfolio approach to cash management is the best practice and most optimal way for corporate liquidity management, as different cash management products are complementary to each other.



**Crystina Hickey**  
Vice President, APAC  
Institutional Cash Sales,  
Trading and Liquidity  
Strategies, BlackRock

It is a unique time for corporate cash investors in Asia Pacific. Historically, most corporates have kept their cash in bank deposit products. More recently however, the convergence of two dynamics are encouraging these investors to seek alternatives to traditional on-balance sheet solutions. On the one hand, globalisation and growth are generating growing cash stockpiles held by in-region multinational and locally headquartered corporates alike. On the other side of the equation however, new regulations such as Basel III and the Liquidity Coverage Ratio are reducing the appetite for client deposits at many global and some regional banks.

As a result, many corporate cash investors are seeking to manage their cash more actively. MMFs are gaining particular popularity as a viable off-balance sheet alternative for this excess cash. For some clients, MMFs have been used to supplement time deposits for some time, but for many the product is new.

MMFs are a logical next step for those who have traditionally used banking products because like time deposits, MMFs' primary objectives are firstly, to seek to preserve principal, and secondly to provide liquidity to meet a client's needs. Thirdly, MMFs aim to provide competitive yield, without sacrificing the first two objectives.

Risk of principal loss has always been the critical concern of cash investors. As growth in Asia Pacific continues, and cash

pools increase in size, it becomes ever harder to achieve the necessary diversification to help insulate a portfolio against credit and counterparty risks. Appropriately diversifying against these risks through laddered time deposits across local banks can be time-consuming and difficult. MMFs can provide an easy way to achieve this because they are governed by strict diversification and credit quality requirements.

Operationally, same day dealing in MMFs allows an investor on-demand access to their cash when needed, under normal circumstances. Active portfolio management and transparency also benefit the liquidity profiles of MMFs, as they are continually adjusted to keep pace with changing market dynamics.

As the Asia Pacific region continues to grow, corporate cash investors will benefit from flexibility to manage large pools of cash efficiently across various businesses, jurisdictions, currencies and needs. This is particularly true for small treasury departments at local corporates or local branches of MNCs. The standardisation and global applicability of a money market fund can provide familiarity, ease of use and consistency in an otherwise complex environment. It's important to work with a globally experienced asset manager, ideally one which benefits from scale, diversification, a robust credit research team dedicated to short-term investments and meaningful market presence across currencies.

MMFs are a logical next step for those who have traditionally used banking products because like time deposits, MMFs' primary objectives are firstly, to seek to preserve principal, and secondly to provide liquidity to meet a client's needs.

As the landscape in the region continues to change, MMFs can represent a valuable tool for corporate cash investors, but there are other products emerging as well. Separately managed accounts have not yet been fully adopted in the region, but over time could provide corporate treasurers in the region with bespoke off-balance sheet solutions tailored to meet their individual requirements, particularly for those with unique currency needs. Additionally, certain exchange-traded funds are working to meet the settlement needs of cash investors.

As adoption of other off-balance sheet products gathers momentum, MMFs seem poised to continue gaining favour and providing benefits for corporate investors seeking alternatives and enhancements to traditional banking products.

### Next question:

"How should corporate treasurers in Asia be responding to BEPS?"

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





# Is your cash still trapped?

*Capital controls are a function of both political and economic policy over which corporates have little or no say. The growth agendas of certain countries within Asia have loosened these controls to an extent, but recent slowdowns have seen the rules revisited. So, is your cash still trapped?*

In a world where cash visibility, liquidity and sovereign risk remain major themes for international corporates, capital controls are a concern.

Corporates operate across a landscape of complex local and home market regulations where they generate and hold cash overseas. "In countries where inter-company lending, stringent capital frameworks, foreign exchange and taxation are regulated, they become key considerations for the repatriation of cash," notes Kee Joo Wong, Asia Pacific Regional Head of Global Liquidity & Cash Management at HSBC. "This is often misinterpreted as a barrier to repatriation and is commonly referred to as 'restricted cash' or, more commonly, 'trapped cash'."

Whilst moving cash on capital account tends to be troublesome, moving commercial account cash is generally permitted by regulations. 'Trapped' or economic restriction impacts corporates on an intra-day, daily, quarterly or annual

basis and there is a need to have good forecasting processes to counter the inefficiencies. All capital controls exist for good reason. But these reasons are subject to change as domestic, regional and global macro-economic conditions evolve and hence it is extremely important to understand the driving forces for an efficient plan, says Sandip Patil, Managing Director and Region Head, Global Liquidity and Investments, Treasury and Trade Solutions, Citi Asia Pacific.

Their primary purpose in China, for example, has been to encourage inflows but put the brakes on any likelihood of a runaway drawdown of the country's foreign currency reserves, whilst at the same time maintaining a relatively stable RMB/USD exchange rate.

## Market forces

In November 2016, the Financial Times reported that Chinese authorities (PBoC and SAFE) had introduced "stricter vetting

procedures” for China-based companies seeking to remit foreign currency for overseas acquisitions. Dividend payments and shareholder loan repayments by foreign investors were also subjected to tighter scrutiny, it said.

In January 2017, Chinese regulators started preventing banks from shifting RMB out of the country as part of their clampdown on loopholes under the country’s strict new capital controls regime. Not written down but verbally ‘agreed’ with banks, this so-called ‘window guidance’ was not codified in law and so theoretically makes it easier to turn the transfer tap on again as needed.

But RMB, in China’s push for liberalisation and internationalisation, is up against the vagaries of the global market. Since around 2015, the Chinese currency has been facing pressure to depreciate against the US dollar. In 2016, the value of RMB depreciated over 6% against the US currency. This is why the PBoC took steps to slow down and manage that decline by buying RMB. In doing so, it depleted its foreign currency reserve – from US\$4trn to US\$3trn.

Now, as the SEC pushes tentatively forwards with its rate rise cycle in the US, and the PBoC shows unwillingness to tighten monetary policy in the shadow of a Chinese economic slowdown, once more RMB is subject to downward market pressure.

According to Dr Ming Huang, Professor of Finance at the Samuel Curtis Johnson Graduate School of Management, Cornell University, quoted in a report by Trans-Pacific View journalist, Mercy Kuo, the Chinese central bank is “neither willing to let the RMB suffer a drastic decline due to considerations of financial stability and international trade frictions, nor willing to let its foreign currency reserve drop down to dangerous low levels”.

## For the long term?

Such a scenario leaves the macro-economic risks including capital outflow, says Patil. Hence, it is not unexpected to see “precautionary measures”. However, with stronger fundamentals on commercial flows, the restrictions tend to change and hence, need dynamic calibration. With China’s 19<sup>th</sup> National Party Congress anticipated for November this year, Dr Huang expects capital controls to remain in place at least until then, “and possibly for much longer”.

Ong Shiwei, Global Head for Cash Liquidity Management, Standard Chartered, acknowledges that trapped cash has been a long-standing issue in parts of Asia. And whilst there may be regulatory changes that deepen the challenge in individual countries in the short term, she agrees that in the longer term, “this issue is not going away”.

“Countries that have been liberal in the past, such as Australia and Singapore are likely to remain as such, while cash will continue to be trapped in countries such as Vietnam, Sri Lanka and India,” Shiwei opines. Similarly, she does not expect to see any fundamental change in semi-regulated countries, such as Malaysia and Indonesia, where foreign currency can be moved cross-border but local currency is retained in-country.

“Recent trends show that we may be entering an era of protectionism,” comments Shiwei. She recognises that the countries that have been opening up, China being a leading

example, are indeed taking a step back and looking into a long-term path towards liberalisation of their regulations and currencies.

## Working within the rules

In light of volatile market conditions and pressure on emerging markets, protectionist regulations are typically expected to defend the market forces. Although Patil does not necessarily see this sustain for long, there is always a negative impact on trade and commercial flows till the protectionist mindset prevails.

Wong argues that regulations have been influenced by trade and monetary policy, foreign exchange reserves and interest rate differentials. “Understanding these regulations actually provides a window of opportunity for corporates to move funds with conditionality,” he notes.

Of course, the issues of liquidity and restricted cash have always been pertinent considerations for corporates, Wong adds. Treasurers have particularly had to address the issue of restricted cash in circumstances where their cash balances are sizeable, the means of alternate funding for the group are limited, the costs of borrowing are expensive, and of course where repatriation costs are prohibitive.

Indeed, for corporates in Asia, the key markets of China and India are notably high on the agenda for cash repatriation. The size of these markets coupled with prolonged periods of growth have led corporates to build up significant surplus cash balances, says Wong. As a result, he says treasurers are focused on understanding and adapting to evolving local and national regulations such as restrictions on capital accounts, repatriation caps related to ownership equity, and evidencing trade-backed documentation.

## Seeking answers

However, anecdotal evidence, in the form of a frank conversation with Treasury Today Asia, suggest that some banks are less than helpful with their corporate clients when it comes to managing their trapped cash, the reason being that those banks would rather keep that cash on their local balance sheets than shift it into massive pools in regional hubs.

This is just anecdotal evidence but some may say there’s no smoke without fire and if some banks are not making best effort to move corporate cash to where it best serves its owners, then trapped cash really is what it says it is – and corporate treasurers must remain vigilant for optimal solutions.

For the time being, foreign MNCs in particular will be compelled to use traditional methods for capital repatriation to the corporate HQ or elsewhere. These methods, such as creating dividends, royalties and management fees may, in certain circumstances, be augmented by procedures such as intercompany lending. “Interest rate optimisation also remains important to leverage the value of trapped cash,” notes Shiwei, “even if the capital is inaccessible outside of the country in which it was generated.”

It is a slightly different story for Asian MNCs. Here, trapped cash is a lower priority as companies are typically looking to develop a deep regional presence, and therefore are happier to maintain balances in-country for ongoing investment. It is



worth noting that this scenario is less likely with cash trapped in other regions, such as Africa or Latin America, says Shiwei.

## Getting clever

The fundamental risks of trapped cash, referred to at the start of this article, are forcing a corporate response as each jurisdiction takes steps to protect its own interest. “We are seeing increasing demand amongst customers for techniques to reduce trapped cash, not only for liquidity management purposes, but also to reduce sovereign risk,” comments Shiwei. “In addition, treasurers are seeking to simplify their cash management structures and rationalise bank relationships and accounts to optimise visibility and control as far as possible.”

Although remedies for trapped cash are somewhat limited, the creativity of the treasurer has nonetheless driven the implementation of investment policies capable of reaching across the countries of operation, says Wong. Establishing visibility and control of cash through information and data platforms offers clear advantages, whilst adopting formal liquidity and foreign exchange management strategies has enabled treasurers to automate physical sweeping in less regulated markets with yield interest enhancement for residual balances.

Alternate means, through collateralised cross-border funding such as deposit pledged loans, are also now being explored by the market, he adds. It is true to that some businesses are funding their China business from offshore capital, adds Patil. As long as China continues to be a manufacturing engine of the world, he feels such alternate models will always be experimented within the scope of defined regulations.

## Tackling the problem

“The phrase trapped cash has a negative connotation but sometimes, it can be a less material issue financially,” argues Patil. Malaysia is seeking to reposition its economy in the face of current economic climate. With regulatory changes, the movement of cash is not as free as it was, he notes. Exporters are required now to repatriate dollars, partially convert to local currency and hold special accounts to take these actions. “Some of the changes increased trapped cash problems in Asia,” he notes. “It is not that the problem cannot be solved at all. There are flexibilities that the government has allowed ie deserving exceptions.” For corporates, as is the case in China, working with the banks and the Malaysian regulators can facilitate an easing of the flow, “so long as the intentions are clear and trust can be built”.

India is unlikely to see significant change in its status as a trapped cash market, says Patil. Domestically, the market is stable, the country’s financials are improving and it’s a growth market, he notes. From a cross-border perspective cash continues to be trapped: “It was trapped, it is trapped and is likely to be trapped for quite some time.” However, there are always options to use liquidity optimally locally and reduce costs/improve yields.

But thinking laterally, the net profits generated by corporates here can be deployed for the benefit of the local business allowing companies to grow more rapidly. The same growth story is happening in Indonesia, notes Patil. He does not feel companies need to worry too much about trapped cash under such positive circumstances.

## Is it really a problem?

Indeed, if there is no material use for the cash and if it can be used to grow the domestic business faster, then clearly companies are not suffering from “the trapped cash problem as much”, Patil comments. And in certain circumstances, as is the case in Malaysia and China, working with the regulators and convincing them of company’s core objectives with that cash can secure approval for exceptions. Here, even with the likely conditions applied to such easements, more freedom can be enjoyed than would otherwise be available.

Better yet, the experience of trapped cash pushes companies to be more efficient, he argues. This sometimes leads to beneficial structural changes in the organisation. Where, for example, centralisation of treasury at a regional level is not possible because of capital controls, companies presiding over multiple legal entities in-country can bring these together. Clearly this requires flexibility with a consolidated treasury policy but this enables the creation of a single pool of liquidity across participants, and presents a case for consolidating banks in the process.

For Shiwei, techniques such as payments of behalf of (POBO) and receivables on behalf of (ROBO) offer the potential for a new approach to managing cross-border liquidity and even tackling trapped cash.

There are broadly two types of POBO and ROBO, she explains. The more popular approach is the funded scenario, with intercompany positions often implemented in conjunction with virtual accounts. “Realistically, this is only achievable in liberal economies,” she says.

A second approach in this mould is an agency or pre-funded concept which, if applied appropriately, could be a way of alleviating cash being trapped at all. “For example, rather than collecting receipts locally, a company may choose to invoice and instruct the payer to pay into an offshore account,” Shiwei explains. Clearly there may be some tax, documentation and service or management fee implications here, but in her view, such an approach represents a workable strategy for minimising trapped cash, alongside other techniques.

## A wider conversation

The overarching need is for improved visibility, control, yield and, in turn, working capital and forecasting efficiency. The treasurer is in the front and centre of the response to this. However, it is a big ask of one function to drive such sweeping changes.

“The scope for strategic footprint expansion has a wider reach and should also include reference to aspects such as the geopolitical environment, foreign exchange controls, trade policies, inter-company and legal structures,” warns Wong. In such a case, he feels treasury is only one component of the corporate’s consideration when tackling the issue trapped cash.

However, with Patil’s view that the general status of capital controls is “not about to change significantly in Asia in the near future”, treasury’s input is vital. “Just because there is trapped cash, it does not mean a company should give up. There are lots of positive changes they can make and treasury’s role should be front and centre.”



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Any number of solutions can be entered for consideration. A single project can also be nominated in more than one category, where appropriate. Nominations can be made by any corporate, and banks and service





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***Good luck with your submissions and we will look forward to greeting all successful applicants on November 13<sup>th</sup> in Singapore!***

## Award categories for 2017

- Treasury Today Asia's Top Treasury Team 2017
- Best Cash Management Solution
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- Best Card Solution
- Best Funding Solution
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- Best Risk Management Solution
- First Class Relationship Management
- Best Liquidity Management/Short-term Investing Solution
- Harnessing the Power of Technology
- Best Foreign Exchange Solution
- Best SWIFT Solution
- Best Solution in China
- Best Solution in India
- One to Watch
- A Rising Star
- Treasury Today Asia Woman of the Year

# Financing the future of the planet

*The green bond market is flourishing, but there is plenty of room for further growth. In this article, we look at the development of the market and explore why corporates should consider issuing green bonds.*

In his outgoing address, former US President Barack Obama said: “We’ve led the world to an agreement [the Paris Accords] that has the promise to save this planet. But without bolder action, our children won’t have time to debate the existence of climate change. They’ll be busy dealing with its effects. More environmental disasters, more economic disruptions, waves of climate refugees seeking sanctuary.”

Climate change is arguably one of the great issues of our time. And to prevent further environmental damage, significant investment is needed in environmentally friendly projects. Governments around the world have reacted to this need and have committed substantial amounts to green projects. However, this is significantly less than the US\$10.5trn of green investment that the International Energy Authority estimate is required in the coming two decades to halt climate change.

## Shades of green

Channelling the tens of trillions of dollars that exist in the capital market towards climate change solutions is an effective way to achieve this. And core to this is the green bond, a financing product that can be loosely defined as any bond where the proceeds are specifically earmarked for green or environmental purposes.

In an effort to tighten the definition of a green bond, the International Capital Markets Association (ICMA) has created a set of Green Bond Principles (GBPs) – a voluntary framework that looks to add some structure to the green bond market. According to Nicholas Pfaff, Secretary of the GBPs at ICMA, companies that issue green bonds can publicise to investors that they are green by posting them on ICMA’s website and adhering to four key principles:

- The use of proceeds must be put towards projects that provide environmental benefit.
- There must be a clear process to determine how the project fits within the eligible Green Projects categories.
- Proceeds must be segmented and tracked so investors can ensure their money has been used towards green projects.
- A framework must be put in place to show how the company will evaluate and report the impact of the project on the environment.

However, there are some nuances that need to be addressed because not every bond that is green is labelled a green bond. Indeed, statistics from the Climate Bonds Initiative highlight that only 17% of their broader definition of ‘climate aligned bonds’ are labelled green bonds. Sean Kidney, CEO of the Climate Bonds Initiative, explains that a bond issued by a solar wind farm company should be considered green even if it does not register with the GBPs, for instance.

“Ideally companies would abide by the GBPs,” he says. “Investors have expressed that this helps when they are reporting back to their clients and we believe that labelling is key to the overall growth of the market. However, it is important not to get caught up too much in the semantics as this can often detract from what we are all trying to achieve here.”

On the flip side, there is a lot of debate about whether labelled green bonds from traditionally non-green issuers should be considered truly green. In recent months, this debate has been reignited by the green bond issuance by Spanish oil giant Repsol and the first ever sovereign green bond issued by Poland. The Financial Times reported that some investors passed on investing in these bonds because one was from an oil company and the other from a country that was also raising finance for new coal plants as well as green projects.

ICMA’s Pfaff believes that investors criticising such issues on that basis are missing the point slightly. “The green bond market is meant to promote the transition of business models towards being greener and sustainable,” he says. “You can therefore have non-green businesses issue bonds focused on green projects and these bonds will still be classified as green under the GBPs.”

## Exceptional growth

Definitional issues aside, the green bond market has grown markedly since the first issuances by the European Investment Bank and World Bank in 2007. However, in those early years, progress was slow and dominated by multilateral agency issuers. It wasn’t really until the GBPs were first published in 2014 that the market began to take off and corporates began to enter the market, with issuance rising to just over US\$11bn that year, up from US\$3.1bn in 2013.

Recent growth has been more dramatic. Indeed, 2016 saw US\$93bn of green bonds issued, including domestic Chinese green bonds, a record year and a greater than 100% increase compared to 2015. “All eyes have been on the green bond

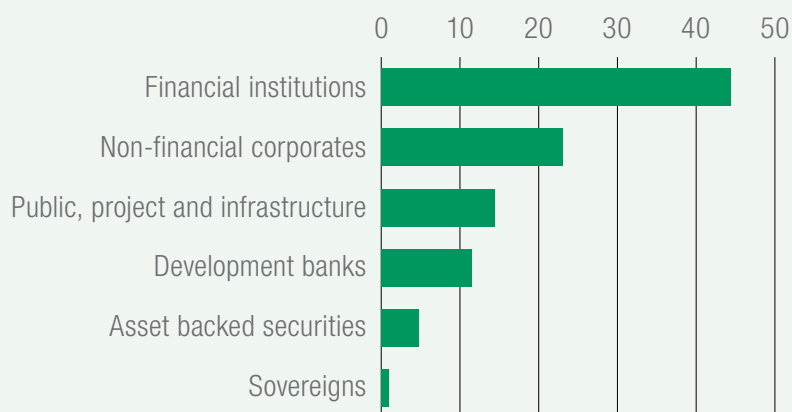
# A green bond

is a bond where the proceeds are earmarked for green projects



## 2016 issuance by type of issuer

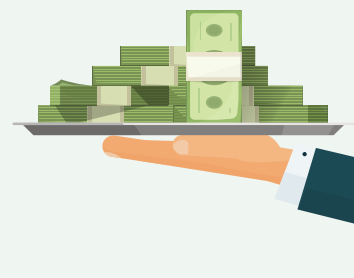
Percent



**Apple's US\$1.5bn green bond** is the **largest** by a US corporate

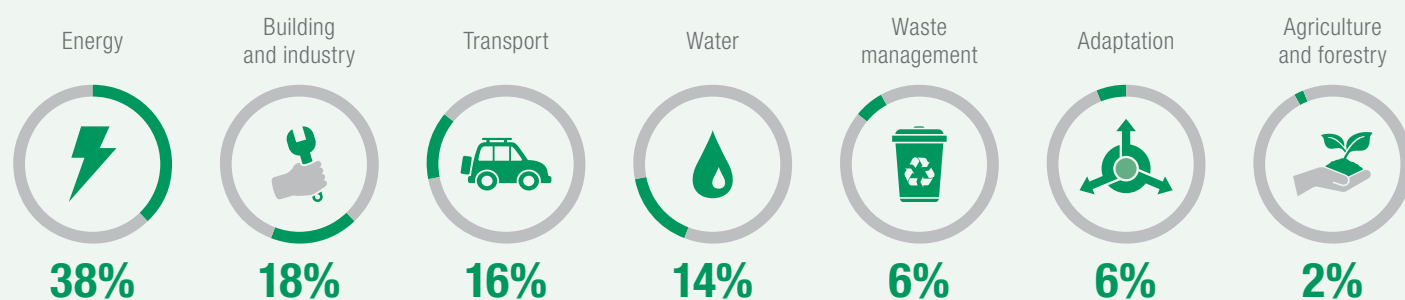
## US\$93bn

Total green bond issuance in 2016



**Green debt** raised by **Chinese entities** rose from less than US\$1bn in 2015 (8<sup>th</sup> place) to over US\$23bn in 2016 (1<sup>st</sup> place)

There was a **broad range** of use of **proceeds** in 2016



**France's €7bn (US\$7.5bn) sovereign green bond** in **January 2017** is the **largest ever**

**Green bonds** have been issued by entities in **24 countries**





If we are to shift our economies at the speed and scale needed to stop the planet becoming uninhabitable in the second half of this century then we need to give it everything we have. This is about survival.

Sean Kidney, CEO, Climate Bonds Initiative

market in the past 12 to 18 months,” explains Beijia Ma, Equity Strategist at Bank of America Merrill Lynch (BofAML). “The market has really begun to take off and this is being driven by China, which is now the world’s biggest green bond market.”

Ma is keen to note that while all eyes are on China, other emerging market countries are also developing green bond markets. “Europe is the most developed market,” she says. “But we can’t overlook the progress being made by the ASEAN countries, India and Brazil where the governments are taking active steps to develop and promote the market.”

Geraint Thomas, Executive Director at MUFG, is also buoyed by the evolution of the green bond structures being used by corporates. “In the last few quarters we have seen the first hybrid structure issued by TenneT. Toyota in the US also completed an asset-backed security deal a few years back,” he says. “These are important developments and I believe in the coming years we will see securitisation grow, with all the other bond structures that we are used to turning green as well.”

Growth in the market is also being driven by investors hungry for green paper. “We have seen significant growth in the amount of money that investors are dedicating to green and ESG investments,” says Thomas. “This has been the other significant driver behind the market and demand is still outstripping supply.”

## What is in it for corporates?

Attracting new investors is precisely the reason why many corporates have issued green bonds. As the Climate Bonds Initiative’s Kidney explains: “The number one reason that corporates issue green bonds is to diversify their investor base. They have realised that there is a huge pool of people (and money) that like to invest in green products, many of whom they might not have dealt with before.” Kidney adds that corporate treasurers have told him that if they are able to get 15-30% of new investors to register for the bond then that is a huge success and will lead to price depreciation in the future.

Kidney is also keen to add that issuing green bonds creates an investor ‘stickiness’ for corporations. “Investors are calling for corporates to do more green bonds and they are genuinely enthusiastic about buying green paper,” he says. “This is a dream scenario for corporate treasurers issuing bonds.”

Off the back of this huge demand and diversified investor base, corporates are also beginning to realise price advantages by issuing green bonds, says Kidney. “Like any market, as it gets larger, prices begin to depress,” he explains. “Issuers are now

realising a five to 15 basis point benefit in the dollar and euro green bond markets over traditional bond markets. This is great news and it will boost issuance next year.”

Elsewhere, BofAML’s Ma notes that there is a marketing benefit to be had from issuing green bonds. “Issuing a green bond can raise a corporate’s overall sustainability profile,” she says. “Apple, for instance, used its green bond last year to highlight all the work it is doing making sure its factories use renewable energy.” Meanwhile, ratings agencies like Moody’s and S&P are actively exploring how CSR commitments might factor into a company’s overall credit rating.

## Straight to market

If these benefits are not enough, treasurers will be pleased to hear that the process of issuing a green bond is not too dissimilar to that of issuing a traditional bond, although there is some extra work required when making the first issuance.

“The bond structure and the terms and conditions will be very similar to a non-green version of the bond,” says MUFG’s Thomas. “The lead-up to issuance, however, is slightly different, beginning with the internal process for identifying the use of proceeds and ensuring this fits into the investors understanding of what is green.” Thomas notes that the issuing team will then need to work to make sure the bond aligns with the GBPs if it is to be labelled. “They may wish to get a second or third opinion on this to further verify the bond. This can, of course, add incremental cost to the first issue,” he adds.

To encourage corporates to issue green bonds, some countries are looking to remove this incremental cost. For instance, the Monetary Authority of Singapore announced earlier this year that it is launching a Green Bond Grant scheme which will cover the costs of external reviews for green bond issuance.

Adam Stam, Director, Secured Funding at Toyota Financial Services, worked on the company’s debut green bond issuance. He notes that while the credit risk associated with green bonds is no different from a traditional bond, there is an extra degree of reputational risk that needs to be managed. In Toyota’s case, it was necessary to ensure that the company could rapidly deploy the funds into investment in green vehicles. “It is important that any company looking to issue a green bond is aware of the reputational risk,” says Stam. “They shouldn’t just jump on the bandwagon, because in doing so they run the risk of damaging their reputation by not being able to deliver on their promises of investing in projects which are considered green.”

## China's flourishing market

To find the world's largest green bond market you need to look towards the world's biggest polluter, China. Almost overnight, the country went from being a minor player in the market to accounting for 40% of the total value of green bonds issued globally last year. So what has been behind this rapid rise?

China is facing some serious environmental issues. The People's Bank of China has estimated that the country needs US\$320bn a year to meet government targets for addressing widespread air, soil and water pollution. Encouraging the financing of a green economy is therefore just one part of a wider plan from the Chinese government to halt or reverse the environmental issues that the country currently faces.

But as Herry Cho, Director, Head of Sustainable Finance Asia at ING, explains, 'greening' the Chinese financial system is crucial if the government is to achieve its objectives. Indeed, China's 13<sup>th</sup> Five-Year Economic Plan states the importance of a "green, open and shared" development and incorporates a strategy for establishing a green financial system into the National Ecological Civilisation Construction Plan.

On the world stage China has also become a leader in the field. "As the G20 Chair, China has really put sustainability right at the forefront of the agenda and is encouraging the rest of the world to follow in its footsteps," says Cho.

## Nuanced 'green'

It must be noted that while China is taking great strides in the green bond space, it is slightly unique in terms of what it qualifies as green. "Despite largely being based around the GBPs, China does have slightly more broader standards around what qualifies as green," says Cho. "This is perhaps most evident around the fact that China permits green bond proceeds to be put towards so-called clean coal projects."

Another nuance is that in other countries all proceeds from a green bond go towards green projects. In China, however, corporate borrowers may use up to half of the proceeds of the bonds for working capital and paying down loans.

To offer some statistics, the latest numbers from the Climate Bonds Initiative show that 61% of the US\$2.47bn in green bonds issued by China in the first quarter of this year failed to meet the international definition of such instruments.

With the country slowly liberalising its bond market and looking to attract outside investment, more transparency and a greater adherence to international standards may be needed before international green investors feel fully comfortable investing in Chinese green bonds.

That being said, the future looks bright for China's green bond market and Bloomberg Business estimates that by the turn of the decade China's green bond market could be worth US\$230bn.

## Green shoots

The green bond market, at the time of writing, is on course for another impressive year. However, despite the recent growth these bonds still only make up about 1% of the total value of the world's capital markets. There is clearly a lot of room for the market to grow, and some would argue that this growth is vital to the future of the planet. What then is needed to help the green bond grow stronger?

For BofAML's Ma, more government support is key. "The long-term trajectory of the market is good, but in the short term government support will be vital," she says. "Governments offering favourable rates or subsidies to green bond issuers, like we have seen in Singapore, is just one way that this can be done. This will attract more and more companies to issue and see the benefits that this can offer."

The need for governments to offer incentives is also cited by ICMA's Pfaff. "We see significant growth in the market again this year and that is encouraging," he says. "But for the market to expand at the rate we need it to, and for it to reach new markets, governments should also consider intelligent incentives to encourage especially corporates to issue green bonds."

For ING's Cho, the need isn't just around more issuers coming to market; it is about ensuring that there are enough bankable green projects, especially in the emerging markets. "It is crystal clear that the amount of funding that is required for sustainable development is huge," she says. "But the key issue that needs to be solved in Asia and other emerging markets is making sure that there is a pipeline of bankable projects available to finance."

MUFG's Thomas agrees and would like to see smaller companies embracing the green bond market. "The biggest constraint to its further development is size," says Thomas. "Most investors are looking for bonds that meet the benchmark liquidity size. Most medium and small enterprises probably do not have green projects that fall into that category so they will struggle when issuing. It is here that securitisation can be an effective tool to grow the market."

The Climate Bond Initiative's Kidney believes that it is vital that the whole financial system comes together to make this market grow. "The market is far too small at present and not flourishing enough in my opinion," he says. "If we are to shift our economies at the speed and scale needed to stop the planet becoming uninhabitable in the second half of this century then we need to give it everything we have. This is about survival."



# Self-service banking

*Banks are increasingly offering consumers ways to carry out banking activities without the need for human interaction. In the world of corporate banking, development may be less advanced – but banks across the region are increasingly turning their attention to the opportunities and benefits of a self-service model, from a reduction in paper to greater transparency and enhanced decision making.*

The rise of digital channels is transforming the way in which banking services are provided. Around the world, banks are exploring the use of self-service models to support customers in carrying out banking activities without the need for human interaction, from in-branch self-service machines to chatbots which can issue financial advice.

As with many innovations in banking, development has so far been focused on the consumer experience, with corporate banking lagging behind. But with banks in Asia increasingly asking how they can offer their corporate clients a self-service experience, what are the most significant areas of development and how could corporates benefit?

## From bricks and mortar to chatbots

The concept of self-service banking has been around for some time – at least in the retail banking domain. Simply put, self-service means that people can carry out activities themselves, without the need for human interaction. ATMs are an early facilitator of this model, but more recently the rise of online banking platforms and mobile apps has provided greater opportunities for people to withdraw cash, check their account balances and send transactions without ever having to set foot in a bricks-and-mortar branch.

Notable developments in this area include the arrival of chatbots, which can perform tasks such as initiating

transactions and providing financial advice. Bank of America Merrill Lynch, for example, is developing a digital assistant called Erica which uses artificial intelligence and predictive analytics to interact with customers via voice or text message and make recommendations about customers' finances. In Asia, meanwhile, DBS has rolled out a chatbot called POSB digibank Virtual Assistant on Facebook Messenger. The service currently provides basic information about the bank's products and services but work is underway to include services such as bill payments.

As self-service models become more common, banks are finding there is less need for the physical branches that have been necessary in the past. Between 2015 and 2016, Bank of America Merrill Lynch, Citi and J.P. Morgan closed a total of 389 branches across America. In Asia, meanwhile, Citi has announced that it will close 80% of its branches in South Korea as part of its move to digitisation, with around 800 workers to be redeployed to "non-face-to-face" channels. However, this trend is not consistent across all markets: HSBC has announced it will close 62 branches in the UK this year, but that it has no plans to close branches in Hong Kong.

Even when banks do retain their physical branches, many are exploring opportunities to enhance these with elements of self-service, for example by introducing self-service machines which allow customers to perform their own teller transactions. As well as enabling customers to withdraw



funds, such machines can also be used to pay in cheques, make payments and manage direct debits. These developments are enabling banks to readjust the roles of staff within their branches, with a greater proportion focused on providing financial advice instead of carrying out transactional activities.

In other cases, cardless ATMs are being introduced which enable people to withdraw cash using their smartphones. Meanwhile, POSB last year piloted a video teller machine (VTM) which allows people to carry out a range of banking activities and carry out live video chats with staff. VTMs have now been installed at nine locations in Singapore.

## The rise of corporate self-service banking

As consumers begin to benefit from these developments, a number of factors are combining to make self-service a higher priority in the corporate banking arena too. "People are talking about self-service banking now for a number of reasons," says Francyn Stuckey, Head of Payments & Cash Management at ANZ. "The maturity of the technology is one. Banks have invested a lot in their key systems – you've got clearing systems moving to XML and becoming more data rich; you've got APIs and apps, so technology has moved on very quickly."

At the same time, Stuckey notes that with millennials coming up through the workforce and consumerisation hitting a critical mass, buying and servicing behaviour is also evolving. "Another consideration is how competitive the space is," she says. "Whether it is the fintechs coming in and looking for opportunities to disrupt, or partner banks keeping up with increasing pressures in terms of regulation and cybercrime, everybody is looking for that opportunity to serve their client in a way that is better, more convenient – and ideally more cost effective."

Manoj Dugar, Head of Core Cash Management Product, Asia Pacific, Treasury Services at J.P. Morgan adds that cross-border expansion is another factor driving development in this area. "As corporates expand their operations especially across borders, they are increasingly looking to connect seamlessly with banking partners for their cash management requirements and self-service banking provides a great platform towards this goal," he adds.

"Other factors driving the trend include the increased need for transparency, end-to-end visibility and information on straight through processing for transactions, as well as the demand for unified banking access as more corporates adopt a more centralised cash management model via shared services centres and treasury centres."

## Which services?

As Dugar points out, there are some key differences between corporate and retail banking which may affect the development of self-service offerings. "For one, clearly corporates and retail differ significantly in both volume and type of transactions," he says. "Also, there is a large number of unbanked retail clients across Asia Pacific, particularly in the developing markets, which contributes to a difference in channels and requirements."

So what does self-service actually include? "Some things are obvious, like how can I click into a transaction and see the

details," says ANZ's Stuckey. "In other cases, it's about asking whether things are really intuitive to customers, not just to the bank. It's also important to ask how many clicks it takes to get through a process and whether people stop before getting the information they wanted."

Dugar says that he sees three types of self-service model emerging: robust real-time decision-making support through analytics and decision-making tools, superior front-end platform for information flow and visibility of transaction and the development of search and investigation modules to digitise query resolution.

Where J.P. Morgan is concerned, Dugar says the bank is continuing to invest heavily to provide innovative solutions for its clients. "As a leader in cash management technology and the digitisation of treasury solutions, we are very active in providing self-service banking solutions," he says, explaining that the bank's key offering in this space is the J.P. Morgan ACCESS Online portal which "integrates the services needed to manage cash balances, liquidity structures, daily transactions and information, instantly."

Dugar adds that as well as being accessible on mobile, the platform also houses the bank's new virtual branch solution which was launched in India in 2015 and which has since gone live in Indonesia, Thailand and China. The virtual branches remove the need for physical visits to traditional bank branches and reduce manual intervention. The platform comprises a suite of banking services that can be accessed from desktops and mobile devices, including digital document submission, initiating and approving transactions online and visibility over cross-border transactions.

## Tearing up paper

Damian Glendinning, Treasurer at Lenovo, argues that when discussing these developments, a key question is why paper continues to be used in banking transactions. "Here, we come to an unresolved problem which is, frankly, shameful: the continued use of paper in corporate banking," he says. "For trade transactions (letters of credit, in particular), we continue to use paper. For know your customer (KYC), paper is, again, often required."

According to Glendinning, this is often the case because country legislation often does not provide a sufficiently clear legal environment for the use of electronic documents. "Unfortunately, it is also often due to the conservatism of many treasurers," he observes. "In many emerging markets, another obstacle is often the requirement for a paper receipt or chop, which is often driven by the tax system."

Glendinning adds, "the sooner we can all get off this addiction to a medium which is not only less efficient, but also less secure, the better." He notes that banks have made the effort to go electronic in consumer banking "because the economics of doing so are overwhelming: it clearly makes no sense to employ staff to carry out a high volume of low value transactions." However, in the corporate space the economics are different. "The average value of each transaction is significantly higher, so the overhead of using people and paper is much smaller as a percentage – and the tendency of the client to demand a personalised service is much higher."

That said, banks are taking steps to get paper out of the system. As Stuckey explains, in order for banks to provide a

proper self-service experience they first need to lay the groundwork. “The work that banks have been doing with their core systems – plus building out XML and adopting APIs – means that systems are starting to connect together better,” she says.

According to Stuckey, an important element of this is dematerialisation. Whereas in the past there has been a push to get people off paper and onto online systems, this is becoming more structured: “In our business we are very systematically going through and finding out where the paper is, why it is used and whether it needs to be there.”

However, sometime this requires a certain amount of rewiring. Stuckey points out that banks may need to address not only legacy systems but also legacy regulations. “In one case, where we want to remove some paper that our clients fundamentally have told us they don’t want, regulations require us to send it. It’s about trying to work back and find out how to get that portion of the regulation or the payment code changed.”

## Barriers to adoption

While self-service banking may have much to offer corporate clients, there are also some factors which may hinder development and uptake. David Blair, an independent treasury consultant based in Singapore, points out that self-service can be limited by KYC and anti-money laundering (AML) concerns, although he thinks this is “over done” in many cases. “Once the legal entity is known and verified, why not allow self-service for opening new accounts?” he asks.

Blair adds that cross-branch consistency is another issue: “To enable meaningful self-service for multinational corporations requires a consistent back end across bank branches, which is not common in today’s banks.” And he notes that corporates need to be comfortable with the internal control implications of self-service, with many effectively relying on banks’ manual procedures in order to enforce their corporate policies.

According to Blair, other possible obstacles include the opacity of bank pricing. “If complex products are available on self-service platforms, banks will have to show some kind of pricing,” he explains. “Since banks like to be very creative in their pricing, this will be a quandary for them.” He also points out that in some cases, banks may feel the set-up of more complex products cannot safely be left to users.

At the same time, regulatory considerations may hinder development in this area. “From a regulatory perspective, some markets like China, Thailand and Malaysia still require physical documents for certain transactions, creating challenges for self-service banking which by definition should allow users to perform banking transactions whenever they like,” says J.P. Morgan’s Dugar. “Also, certain general banking services like direct debit transaction and account opening still require wet signatures.”

Transparency is another possible concern. Dugar points out that the clearing infrastructure doesn’t always capture all the information about an underlying transaction, which can result in challenges in terms of straight through reconciliation.

However, these issues may not be insurmountable. For one thing, regulatory initiatives in some markets may help to

transform the cash management industry. “China, for instance, has introduced new rules for electronic submission of supporting documents for foreign currency cross-border merchandise transactions,” says Dugar. “India, meanwhile, has moved to digitise certain sections of its cross-border payments infrastructure.”

In addition, Dugar notes that initiatives such as SWIFT global payments innovation (gpi) will significantly improve the customer experience in cross-border payments by increasing the speed, transparency and end-to-end tracking of payments. “Electronic Bank Account Management, or eBAM, is another solution which seeks to unify banks and digitise account management workflow,” he observes.

## The way forward

As this area develops, Stuckey points out that it is important to make sure that self-service is actually serving the customer, and not just serving the bank. “I don’t think the two are mutually exclusive,” she adds. “If I’m running a treasury application, I want information when I need it – I don’t want to have to reach out to someone in another system. So it’s convenient for them that I can access the information, and it’s convenient for me.”

As such, the way in which banks display information to customers has evolved over time, with a growing focus on design based thinking. Stuckey notes that in the past, banks tended to create dashboards and fill up all the available space. “Now there is much more of a bite size mentality,” she comments. “I don’t need to see all the payment screen – I may want just the first line, which is balance trends, and I can click in as needed.” This requires banks to have an accurate understanding of how clients use technology and what they want to be able to achieve, rather than providing more information for information’s sake, and more than people can feasibly digest.

While there are a number of obstacles to overcome, the benefits of self-service banking are considerable – and more is to come. Dugar predicts that this area will become increasingly sophisticated as digitisation continues to transform the cash management industry and platforms become more mobile.

“Corporates will start behaving like consumers, expecting real time information at their fingertips, and banks will have to continuously innovate to meet their needs,” he says. “The use of emerging technologies like blockchain, which increases transparency, is expected to boost the adoption of self-service banking.”

Nevertheless, it is also important to be aware that self-service has its limits: the complexity of certain products and services means there will always come a point at which the need for human interaction becomes essential. As Stuckey points out, “if I’m doing a simple transaction I’m very happy with a chatbot, but if I’m doing something more complex I probably want to talk to a human.”

The goal, then, is to achieve the right balance. “It’s important to highlight that even as self-service banking reduces the need for physical interaction, face to face communication remains critical in maintaining client relationships,” Dugar concludes. “The key would be to maintain the right balance of digital versus in-person interaction.”



# Crossing borders: transacting in Asia's new reality

*Geopolitical issues have dominated the headlines in recent months, but Asia Pacific has proved resilient to these shocks. Corporations doing cross-border business in the region now need to focus on their short-term tactics and long-term strategies to fit Asia Pacific's new reality. In this article, Mark Evans, Managing Director, Transaction Banking at ANZ explains how corporates can navigate shifting demand patterns and how China's policy goals and economic profile are shaping the region.*



Mark Evans  
Managing Director,  
Transaction Banking



The geopolitical shocks of last year – namely Brexit and the election of Donald Trump – dominated global headlines, with businesses understandably concerned about how the new reality of resurgent economic nationalism might affect cross-border trade and capital flows. Despite the heightened volatility and uncertainty, we do not think these events should be a cause for overreaction. Rather, companies should focus on obtaining a more nuanced understanding of Asia Pacific's own new reality, characterised by evolving demand patterns and the changing role of China.

The corporate community tends to agree. They tell us that long-term shifts in demand are more significant than short-term volatility, despite the practical challenges the latter may present in the short term. We also find that businesses seeking to make the most of opportunities in this new reality are realigning their thinking to match China's policy goals and changing economic profile.

## Shifting demand patterns

Much attention has been paid to the potential impact on this part of the world of Donald Trump's trade policies, but we believe that Asia is well placed to withstand the resurgent politics of anti-globalisation. Others agree: the Asian Development Bank recently forecast that Asia-Pacific economies (excluding Japan) would account for 60% of worldwide economic growth this year between them, even with a moderate slowdown expected in China. The prosperity of businesses relies on the extent they can tap into this economic dynamism.

Australia, for instance, is already seeing the impact of shifting demand patterns from Asian economies in this new reality. While resources exports have been subject to some volatility in recent years – and there is little doubt the China-led supercycle is over – other sources of demand from increasingly wealthy Asian populations is catching up, supported in recent months by a softer AUD.

Businesses hoping to tap into these shifting sources of demand need a more nuanced understanding of China's long-term development and the rationale behind its policies and decision-making.

Growth in services exports, in particular tourism, education and financial services, is rapidly compensating for weaker shipments of resources. Recent data shows the value of tourism-related services alone has almost caught up with iron ore. The constraints here are almost exclusively on the supply side, in the form of the number of flights it is possible to run from key markets, China especially. The positive knock-on effects from expanding supply by adding more flights, such as more hotels, tourism jobs and service infrastructure, are considerable and nowhere near reaching their potential.

And, of course, foreign brands still enjoy some crucial advantages within China, especially when it comes to tapping China's growing middle class' demand for quality, trustworthy products. Consumer trust in suppliers is in short supply in China, particularly in the food supply chain, leading to the ever-increasing popularity of daigou sales, where orders are placed online in China for sales agents to pick up produce in physical stores overseas with receipts often required as proof of purchase in the specified location. Reinforcing the message of trust with discerning Chinese consumers is therefore becoming increasingly important.

## Understanding a changing China

This means, of course, that businesses hoping to tap into these shifting sources of demand need a more nuanced understanding of China's long-term development and the rationale behind its policies and decision-making. To say the least, this is not necessarily easy for those outside the country or those doing business across its borders, but it is increasingly important to consider in both long-term strategic planning and short-term tactics.

Taking account of China's "multiple personalities" is a useful way of understanding the tension between broad policy aims and the sometimes-opaque evolution of rules and regulations for companies transacting with the country.

### I China embodies the contradictions between a laissez-faire economy and a centrally planned one.

Look at the country's Five-Year Plans (FYP). They contain detailed blueprints of economic development with measurable targets that cascade from the national to the provincial to the local level—for instance in the 13<sup>th</sup> FYP to roll out 30,000km of new high-speed rail covering 80% of major cities by 2020. They also reveal the commitment to develop strategic new industries, with the goal of making them account for 15% of GDP. So, while on one level they confirm that China's demand for resources is far from over, on another they highlight those strategic sectors that are likely to take over from the old, investment-based economy, and which might well become as important to businesses in the future.

At the same time the FYPs also reveals the tensions between long-term strategy and short-term policy. Take the government's hope for more international business to be conducted in renminbi – reiterated in its commitment in the 13<sup>th</sup> FYP to continue with the internationalisation of the currency. This necessitates exposing China's financial system more fully to global market forces, something that is sometimes hard to square with the government's overriding commitment to promoting stability.

## Awkward positions

Shifts between the two priorities can put foreign companies doing business in China in an awkward position. After taking several steps to liberalise the flow of capital across its borders in recent years, and to allow the market to play a greater role in the fixing of the value of the renminbi, volatility in the value of the currency (down 6.6% against the USD through 2016) and the level of its foreign exchange reserves (which fell by nearly US\$320bn in the same period) made Beijing think more carefully about this process.

### China's multiple personalities

One useful paradigm for interpreting China was explored by Jason Yat-sen Li, CEO of Yatsen Associates and long-time China expert at a recent ANZ client event. He stated that China should be thought of as a country with multiple, sometimes contradictory personalities, rather than as a monolithic entity.

For instance though, the rule of the Chinese Communist Party is strictly linked to the country's geographic boundaries, China's personality as a self-sufficient civilisation stretches across national borders into diaspora populations. Another of China's personality conflicts, Li explained, arises from whether it is a communist or capitalist country: arguably it is the most successful ever of the former and is now one of the most important of the latter, all the while balancing the tensions inherent between political control and market freedom.

This tension is seen in its position as a hotbed of internet innovation while it simultaneously employs the most restrictive internet controls of any country. In commercial terms there is extraordinary freedom, as the successes of Baidu, Alibaba and Tencent have demonstrated.

The country is at least three years ahead of Australia in terms of mobile payments, Li estimated, with full integration of online-to-offline mobile payments for at least the past two years. Meanwhile the most popular messaging app, WeChat (with over 880m monthly users and counting) has full banking integration to facilitate payments and transfers.

China can hardly therefore be described as a copycat economy. In fact it is incumbent on businesses elsewhere to try to harness some of its innovative spirit. To take just one example, the breadth of the online payments ecosystem in China has given rise to many more novel ways to monetise online audiences than just advertising. These include, for instance, the proliferation of live streaming services like Kuaishou, YY and around 100 others, for which collectively revenues are now around US\$3bn (compared to annual box office receipts in China in 2016 of around US\$7bn).

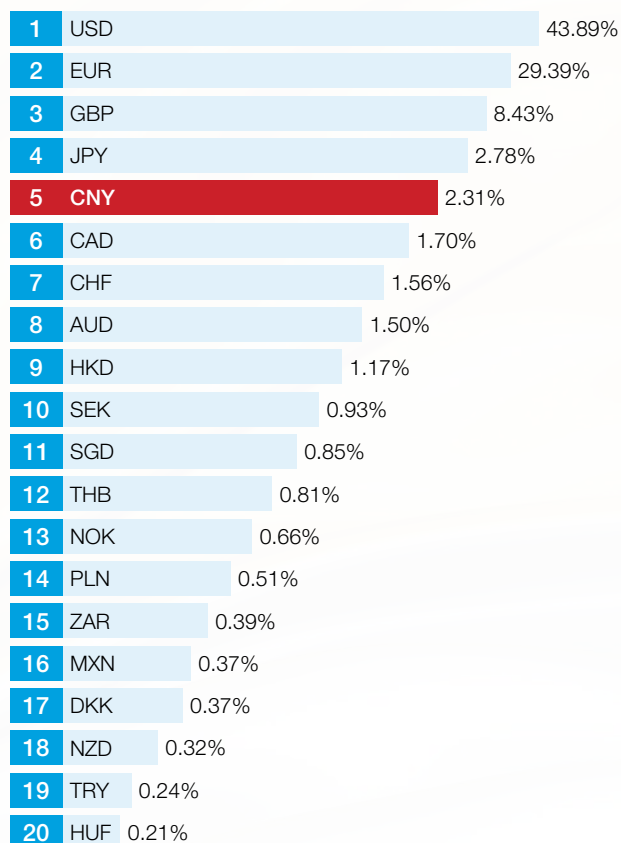
Finally, China embodies the contradictions between a laissez-faire economy and a centrally planned one. The kind of anything-goes innovation that characterises Alibaba's meteoric rise (and crossing of sectoral boundaries) belies the staid progress of reforming China's state-owned enterprises, not to mention the existence of rolling five-year economic plans.



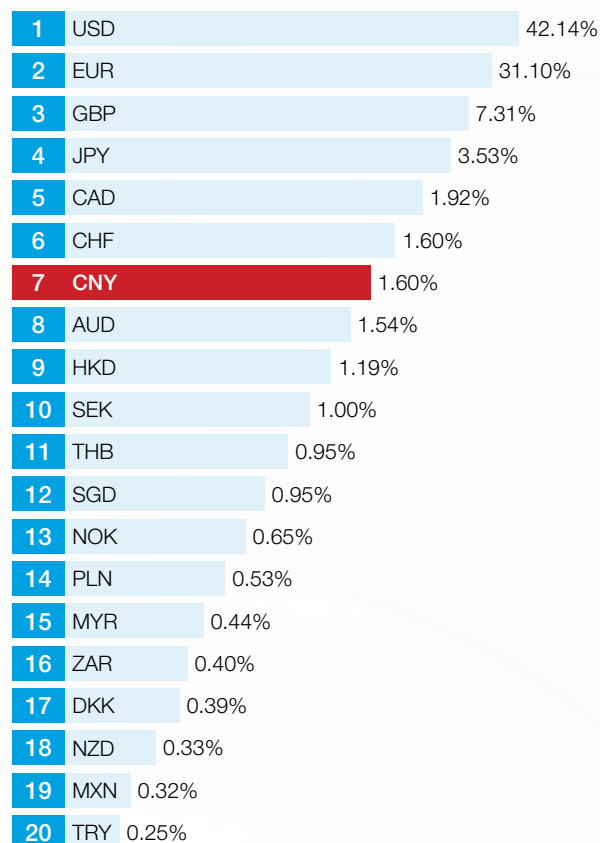
### RMB's share as an international payments currency

Customer initiated and institutional payments.  
Messages exchanged on SWIFT. Based on value.

#### December 2015



#### April 2017



Source: SWIFTWatch

Last November, the authorities took steps to impose certain exchange controls (via its “window guidance”), some of which hit foreign companies’ abilities to remit dividend payments. It looks like these controls have recently been relaxed – but pinning down what is and is not allowed is far from straightforward.

Perhaps unsurprisingly, such measures mean international usage of the RMB has diminished in recent months. But such short-term fluctuations do not change the long-term calculus, or negate the goals set out in the 13<sup>th</sup> FYP. On the capital account, the plan makes clear that the bid to make the RMB an international investment currency will continue. On the current account, pressure to transact more in renminbi across borders will grow, as Chinese exporters and importers seek to reduce the risks of dealing with a third currency – typically USD – in their international contracts.

Ultimately the greater use of the RMB across borders will work to the advantage of businesses transacting with the country, too, since they will be able to deal more often with direct currency cross rates (and pricing) without worrying about the RMB’s value to third-party currencies. In the end, of course, full internationalisation will require allowing the renminbi’s value to float, something that seems unlikely in the short term but necessary in the long term – and so important to plan for.

### Long-term strategy, short-term tactics

One core theme running through all of this is the tension between the need to react tactically to short-term volatility and to devise strategy to capitalise on long-term shifts. In that respect, the tensions in Chinese policymaking appear explicable, while the opportunities from changing demand fundamentals, and structural economic shifts, remain clear.

Too much attention has been paid to political events in recent months, removing the focus from fundamental shifts in Asia Pacific economic relationships that continue to progress, and which businesses can capitalise on. All companies that seek to do cross-border business in the Asia Pacific’s new reality will need to adjust both their short-term tactics and their long-term strategy accordingly.

## Delivering the full package

**Eddie Mak**  
Group Treasurer

**KERRY**  
LOGISTICS

Since entering the corporate treasury profession five years ago, Eddie Mak, Group Treasurer at Kerry Logistics, has been on a mission to ensure treasury provides value within his organisation. The key to this mission has been making sure that treasury is not seen as the 'bad guy' by the business units.

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*Kerry Logistics is an Asia-based global third-party logistics (3PL) service provider engaged in integrated logistics, international freight, express and supply chain solutions. Headquartered and listed in Hong Kong, the company has a global footprint spanning six continents and the strongest network in Asia.*

Despite sometimes being classed as a niche profession, corporate treasury offers a breadth of scope that is not found in many finance roles. From funding to investment and from cash management to counterparty credit risk, treasurers do it all.

It was this that attracted Eddie Mak, Group Treasurer at Kerry Logistics, to the profession. And having been given the mandate to build the department in line with his vision, Mak has spent the last five years creating a best in class treasury function. Despite not being anywhere near finished, his efforts are already reaping rewards, both in terms of industry accolades – including a Treasury Today Adam Smith Asia award – and, most importantly, the trust and respect of his peers.

## Front end dealing

Like many treasury professionals in Asia Pacific, Mak's career didn't begin in corporate treasury. After graduating from the University of Hong Kong with a degree in social sciences and an MBA from The Chinese University of Hong Kong, he began working in the banking industry, primarily focusing on project financing.

After a number of successful years, Mak decided to broaden his experience and joined the corporate world, working in numerous corporate finance roles for infrastructure companies such as CLP Power Group. "My focus in these companies was primarily around M&A and sometimes investor relations," says Mak.

Although he enjoyed these roles, Mak notes that he felt that he needed to gain a greater breadth of experience if he was to move up the career ladder. "In all of my previous positions, my focus was largely on the front-end of deals," he says. "Once the deal had been completed, the control and monitoring of the asset were passed onto somebody else and I moved onto the next project."

In 2012, the timing was right for a move – not least because there had been a slowdown in infrastructure development across Asia five years ago. Opportunely, Mak received a call enquiring if he would be interested in taking up the newly created Group Treasurer position at Kerry Logistics. "It was a great opportunity and one that I knew would test my existing skills and force me to learn a whole new set, so I quickly accepted," he says.

## Building blocks

Mak entered the Kerry Logistics treasury department with a blank canvas on which to work, as the role of treasury had previously been bundled in with another finance role. "This was a great opportunity, but also a great challenge," he says. "There were some areas that fell under my purview where I had limited experience. I had to learn about these quickly, as well as about the solutions that can deliver best practice in these areas."

He didn't have much time to adjust to his new surroundings, however. Kerry Logistics was investing in a treasury department not as a cost centre, but as a value-adding function for the business. "My boss told me on my very first day that he wanted treasury to become a profit centre," says Mak.

Mak spent the first six months getting used to his new environment, establishing relationships with the banks and putting in products that would make cash work better in order



Aside from putting in place treasury structures that help drive cost savings and efficiency, Mak's strategy has also included getting to know and working with the business units.

to support the business. "After achieving these first steps we built up the team and began to focus on better protecting the company against risks," he says. "It was then important to spread the message of treasury across the business, get involved in what the business entities were doing and help them become more efficient and cost effective."

## Winning over the business units

Aside from putting in place treasury structures that help drive cost savings and efficiency, Mak's strategy has also included getting to know and working with the business units. This effort has been especially crucial in recent years as economic uncertainty has put pressure on many of Kerry Logistics' customers and thus on the company itself.

"Recent market volatility poses a lot of challenges to the business," explains Mak. "For treasury, this has really manifested itself in the need for a tighter control over accounts receivables. A lot of our customers are impacted by the economic downturn and we therefore need to be sure that they are creditworthy."

Mak has worked to move the credit control process away from a simple checklist to a more thorough analysis of the customer. "We are also trying to standardise the credit terms that we offer our customers and reduce these in many instances," he explains. "The final aspect is placing a greater emphasis on chasing up those customers who are not paying on time."

This focus has created some issues for the treasury. "When we start chasing customers for payment, the business units can often see us as the 'bad guys' and ask us to give the customers some more time," says Mak. "Of course, we don't want to damage their relationship and understand the point they are making. However, if we grant them 30 days credit and they still haven't paid after 45, we are well in our right to chase. The business units care about profit margin and market share, but at the same time, treasury cares about the risk and cost of funds."

For Mak and his team, using soft skills and educating the business units has been key to overcoming this challenge. "We have worked with the business to explain that late payments negatively impact our working capital and can cause significant damage to the [economy], especially in times of economic uncertainty," says Mak. "In doing this, we have improved our working capital. I think that treasury is now seen as a 'good guy' and a partner to the business."





While Mak and his team are working tirelessly to digitise and improve the treasury function, there are other areas that impact treasury which still remain highly manual and burdensome.

## Time for a TMS

The use of dedicated treasury technology, Mak hopes, will enable treasury to monitor the financial health of the business and its customers more closely. Currently the treasury is in the final stages of implementing a dedicated treasury management system (TMS). This has been a big focus of late for Mak and he sees the TMS as the key pillar of the treasury function that he is building.

“The TMS will enable us to monitor our bank balances around the world more closely and provide more accurate cash flow projections,” explains Mak. For Kerry Logistics, with its decentralised operating structure, this is very important. “We operate in 51 countries and territories with over 200 operating units so we need technology in order to be clear about what those units are doing, the cash they hold and to see if they are using it in an efficient manner,” says Mak. “In the next phase of the project we are planning to use some business intelligence tools that will allow us to spot any irregularities quickly and step in, if need be, to ensure that there is no damage to the company.”

Despite all the benefits that the TMS will bring once it is fully installed, Mak admits the journey to this point has been painful. “The implementation process has taken two years to date and we are still not there,” he says. “This is our first system implementation and we do not have the manpower or internal expertise to do this quickly; we are very much learning on the job.”

Another issue is that the company has over 2,000 bank accounts, so collecting all the data associated with these and plugging them into the system has been a slow process for Mak and his team. “Once you have done this, you then need to work with the banks to get the MT940 into the system and then also plug this into the accounting system to create the short-term forecasts,” explains Mak. “This is keeping me very busy right now, but all the work will be worth it.”

## Working with the banks

While Mak and his team are working tirelessly to digitise and improve the treasury function, there are other areas that impact treasury which still remain highly manual and burdensome. Know your customer (KYC) requirements, as many other treasury professionals attest, is perhaps the most frustrating.

With over 2,000 banks accounts, this is a particular issue for Kerry Logistics. “Opening a bank account is not an easy task,” says Mak. “And then once this is open there is a lot of KYC follow up on a regular basis.” Although Mak says that he doesn’t have to deal with this directly a lot of the time, it still causes some issues. “It takes a lot more time to put in place the banking infrastructure for the business units when they expand into new markets or make strategic acquisitions,” he says. “Also, if treasury wants to implement a project it can take a very long time to complete. For example, KYC held us up for almost eight months when we set up our cash pool. This is unacceptable, but is the reality today as banks are increasingly cautious in this area.”

Although this area remains frustrating for Mak, he is keen to add that overall the banks are providing a good service. For instance, bank funding has been crucial to Kerry Logistics of late as the company has been on extending its footprint through M&A around the world. “We have been very happy with the banks and the funding they have provided,” he says. “It helps that we raise funds in Hong Kong, which is a very liquid market with little demand for new funding at present. As a result, the margins have been declining and we have been able to access some fairly cheap funds.”

That said, Mak is seeing a change in the banks’ willingness to participate in revolver facilities. “Basel III is making it a little bit harder for the banks to be as involved in these as they were before,” he says. “In the pre-Basel III days, a bank could offer 50% of your facility limit revolver. Today they only offer one-third of that because of the cost of funding.”

The banks also help in the company’s more complex markets. At present, it is South East Asia that gives Mak the biggest headache. “A lot of the countries we operate in there have currency controls,” he says. “We try to make the company as tax and cash efficient as possible in these geographies but the strict regulations around fund flows mean that we do have some problems. It is here that we really rely on our banking partners to keep us abreast of any changes in regulation and make sure we are in a position to take advantage of any opportunities once they arise.”

In China, another country where currency control poses an issue to many corporates, the issue is not quite as acute for Kerry Logistics. Mak explains that the diversity of the firm in China, and the work it has done with the regulators both at state and provincial level, means that the impact of the recent window guidance – the unwritten rules put in place by the Chinese regulators to limit the cross-border movement of cash – has been limited and “business is able to run as usual”.

## C-suite ambitions

Having achieved his ambition of gaining a more holistic finance experience by working in a treasury department, what is next for the ambitious Mak? “Right now, the Hong Kong government is promoting the treasury profession in the country and it is becoming increasingly important in all businesses,” he says. “I am therefore very happy to continue on my current path and finish my job of building a first-class treasury function at Kerry Logistics.”

Further down the line, however, Mak wants to put his full skillset learnt throughout his various roles into action by becoming a CFO. “This is the ultimate ambition and I hope one day to be able to achieve this,” he concludes.

# The challenges of KYC

*As KYC requirements become increasingly onerous, what initiatives are under way to alleviate the burden – and what role can technology play in enabling treasurers to overcome the challenges?*

For treasurers around the world, the challenges associated with know your customer (KYC) compliance have escalated rapidly in recent years. With banks required to comply with ever more stringent regulatory requirements – and facing the risk of regulatory enforcements and reputational damage if they are not compliant – the burden faced by treasurers in supplying the necessary information has likewise increased.

“If you talk to anybody who is remotely associated with the financial markets, KYC will come up as one of the big areas of focus,” says Sanjeev Chatrath, Managing Director, Region Head – Asia, Financial & Risk at Thomson Reuters. “KYC is the foundation of any kind of banking relationship, in that banks need to understand their customers and what is happening in their businesses. Having said that, KYC has grabbed more attention in recent years because of some of the enforcement actions that have happened.”

Indeed, Kristof Segers, a manager at Zanders, says that “monster fines” imposed due to anti-money laundering (AML) and sanctions control failings have incentivised financial institutions to strengthen their compliance frameworks and related processes.

With corporates increasingly struggling to meet KYC requirements, what specific challenges do they face – and what developments and initiatives could help them to overcome these issues?

## Challenges for corporates

Dubbed a ‘nightmare’ by more than one treasurer, KYC compliance can be challenging for a number of reasons. For one thing, the process of opening a simple bank account is often far from simple. “While in the past a bank account could be opened in a matter of days or in some cases within the very same day, we now hear stories from multinationals who struggled for months to open a single bank account,

especially for those corporates who have operations in developing and/or high-risk countries,” says Segers.

Where specific challenges are concerned, simply getting banks to provide a comprehensive list of the items required can be problematic. “It can be difficult to get a complete list at the inception,” says François Masquelier, Chairman of ATEL, the Association of Corporate Treasurers in Luxembourg. “Sometimes banks follow up with further requests after you deliver. And even if they are satisfied with the information, that doesn’t mean that they won’t come back in two years’ time with additional demands.”

Another issue is the duplication of effort involved in KYC. All too often, treasurers are required to provide the same KYC information again and again – both to different banks and to separate departments within a single institution. As Jack Spitzer, Treasurer of global health and wellness company Isagenix International, remarks: “I can’t count how many times I have told a bank, ‘You already have that’.”

Even once an account is open, corporates may receive recurring requests for KYC information throughout their relationship with a bank. Furthermore, unlike some other regulatory requirements which can be leveraged for the benefit of the company, KYC compliance doesn’t bring any advantages from a treasury point of view. “What makes this annoying is that it has no benefit,” says Masquelier. “You don’t generate any value – it’s a pure compliance issue.”

## Lack of consistency

Compounding the challenge, the type of information requested can vary between banks and from country to country. For companies which work with multiple banks around the world, providing the necessary information can be extremely time consuming. Depending on the jurisdiction, companies may need to provide the passports, utility bills and bank statements of all signatories on a particular account. Requirements may

## KYC challenges in asia

Research published last year by Thomson Reuters explored the challenges faced by banks when conducting KYC and client due diligence (CDD) in Asia Pacific.

According to the Asia Pacific results of the 2016 Know Your Customer survey, which consulted 334 respondents across the region, the average time taken to onboard a new client is 26 days. The survey found that the costs associated with onboarding new clients had increased by an average of 18% over the last year and are expected to increase by another 14% in the coming 12 months.

Where specific challenges are concerned, 39% of the financial institutions surveyed cited a lack of people as the main challenge in conducting CDD/KYC processes. The research also noted inconsistent requests for information and “excessive client contact to the detriment of the client relationship” among the challenges.



If you talk to anybody who is remotely associated with the financial markets, KYC will come up as one of the big areas of focus.

Sanjeev Chatrath, Managing Director,  
Region Head – Asia, Financial & Risk,  
Thomson Reuters

also include directors' information, such as names, addresses and dates of birth, as well as tax and legal documentation.

The lack of consistency between banks is a common challenge. "One issue is that there is no standardisation," says Bart Claeys, Head of KYC Compliance Services at SWIFT. "The regulations are strict and they are continuing to evolve. At the same time, each bank will have its own internal risk appetite and will define its internal policies."

Where specific challenges are concerned, Claeys notes that there is still a lot of physical document exchange involved in the bank to corporate space. "Sometimes these documents will need to be signed or notarised, bringing additional overhead," he says. "This varies from institution to institution. Other banks may require a different format, or may require a certified translation of the document. What this means is that every corporate is having to redo the work with every bank and for every request."

### Escalating requirements

Marianna Polykrati, Group Treasurer of Chipita, a Greek based international food group of companies, points out that some the majority of banks today require corporates to provide details of their shareholding structures up to the individuals who own from 10% to 25%, depending upon either the country's Central Bank policy or the bank's own compliance policy. In some countries, the requirements can be even more arduous. "In Cyprus, there's now a requirement that each relationship manager has a face-to-face meeting with each beneficial owner," says Polykrati.

She notes that the requirements have ramped up considerably in the last two years: "Previously, we didn't have to deal with so many issues – we simply provided a declaration. But now, for example, the National Bank of Serbia requires all the certificates of directors and beneficial owners of all the intermediary companies."

### Impact on bank relationships

These issues can have a significant impact on the relationship between corporate treasurers and their banks – indeed, in some cases KYC-related considerations may limit the pool of banks available to corporate treasurers. Polykrati explains that while providing the required information may not be an issue for public companies, "for a private company belonging to a fund or to wealthy individuals, there can be a reluctance to provide the necessary data such as passport copies and home addresses, primarily due to security issues."

For Chipita, which has 28 banking relationships across countries including India to Mexico, Ukraine and Kazakhstan, Serbia and Cyprus, Polykrati says that this has resulted in some restrictions in terms of the banks the company can work with. "In some cases the attempt to initiate a new co-operation is too bureaucratic, so we decide at the end to work only with banks which already have a relationship with our top level parent company, or a bank that our major shareholder works with," she explains.

### Counting the cost

At the same time, the costs involved in KYC compliance can prompt banks to ask whether some relationships make business sense. Claeys notes that as the costs incurred by banks in doing KYC continue to rise they are, in some cases, becoming prohibitive. "If an institution performing KYC sees the cost go up to tens of thousands of euros, they will be asking whether that justifies the business opportunity," he says. "If it doesn't, they might decide not to onboard the client."

RTL Group's Masquelier says that he has direct experience of this. "In one country, one of our banks took the KYC admin burden as a reason to decline opening an account for us," he explains. "If banks start being selective in this way it will create a difficult situation – particularly for small and medium sized businesses."

All of this comes at a cost. Chatrath notes that a global survey conducted by Thomson Reuters last year found that the costs and complexity of KYC are rising with financial institutions spending on average US\$60m per year on client on-boarding and KYC processes – with that cost continuing to grow around 19% a year. "A lot of financial institutions have invested pretty heavily in terms of technology and hiring," he adds. "They are recognising the need to leverage technology in order to make the customer experience much better."

### Know your bank

Another consideration is that KYC isn't a one-way street. Mark Crowhurst, a Treasury Director at PwC, points out that treasurers should be asking questions about how well banks are able to protect their KYC data once it has been handed over. "Corporates want to know how well their data is being managed – they don't want it to be exposed on the ten o'clock news if someone gets hold of the files," he explains.

But there are also opportunities to benefit from banks' expertise in this area. Crowhurst says that many banks advise their clients about topics such as cyber risk, which can benefit both parties. "There's a reason why KYC and AML are important," he adds. "Treasurers should talk to banks about why the requirements are so stringent and ask how they can help them reinforce their controls."

### Leveraging technology

Despite the many challenges, there are a number of developments and initiatives which may help to alleviate the KYC burden for corporate treasurers. In some locations, regulators themselves may play a part in helping to overcome the challenges. Chatrath notes, "I'm very encouraged with the amount of co-operation I've seen across regulators in Asia. They tend to be very focused around what they can do to be more enabling of the economies they operate in, while fulfilling their responsibility to avoid introducing the



unnecessary risk of contagion within their regulated institutions.” He adds that it is not uncommon to see a number of regulators across Asia talking to each other, learning from each other and sharing information so that they can collectively be better informed.

It is clear that technology can play a role in streamlining KYC compliance for corporates. According to Zanders’ Segers, “The easiest and cheapest way is to be equally stringent towards your banks with regards to the information they request and ideally corporates should aim to agree on a standardised approach across their banking partners to prevent replication of tasks. Some companies store the relevant KYC company data in spreadsheets which they keep up to date and share with all of their banking partners on a predefined schedule.”

Innovative technology is also bringing new opportunities for efficiency, and there is considerable interest in how such developments can be leveraged to streamline the processes associated with KYC and compliance as a whole. For example, the Thomson Reuters Org ID KYC Managed Service enables banks and their customers to exchange KYC related information, thereby reducing onboarding time. Other platforms include KYC.com, a joint venture between Markit and Genpact which enables corporates to upload KYC related documentation and give participating banks permission to access their data.

Aside from solutions specifically designed to improve KYC processes, technology companies are also exploring the use of technology to overcome wider compliance challenges. “We are trying to help as much as we can through our technology solutions and trusted content solutions,” comments Chatrath. “For example, we’ve used machine learning and augmented intelligence to be able to identify fake news from trusted news, which helps us to get to things much faster using social media.” He adds that the company is involved with many proof of concepts around new technologies including digital identity and distributed ledgers.

Meanwhile, Claeys says that other solutions more traditionally adopted by banks, such as sanctions screening and name screening solutions, can also play a role in supporting corporate compliance efforts. “We’re seeing interest from corporate segments in getting more transparency and controls in place in order to avoid any problems later on,” he adds.

## Future developments

Beyond the solutions currently available, other developments could potentially help to address KYC challenges in the future. For one thing, PSD2 may provide more opportunities to make ongoing KYC processes more efficient. “Under PSD2, with a corporate’s permission, a bank could access the corporate’s bank statement from different banks,” explains PwC’s Crowhurst. “This allows the bank to look for unusual patterns in transactions.” He notes that developments such as blockchain and biometrics may present further opportunities for improvements around management of AML/ KYC data and verification.

Another area of interest is the development of industry utilities. SWIFT’s Claeys explains that until now SWIFT has focused on the inter-bank correspondent banking space, developing solutions to increase efficiency and transparency in KYC compliance. Particularly significant is The KYC Registry, a



We are currently running a feasibility exercise and are looking at whether it is possible to define a global standard for bank-to-corporate KYC.

Bart Claeys, Head of KYC Compliance Services, SWIFT

shared platform which enables correspondent banks to manage and exchange standardised KYC data. The Registry was launched in 2014 and is now used by nearly 4,000 banks around the world.

“This is a utility approach with one centralised environment, which means that banks only need to upload their KYC information once,” says Claeys. “We check the information for completeness, accuracy and validity, and banks can then give the relevant institutions access to that data.”

While The KYC Registry is designed for inter-bank rather than corporate use, Claeys says that SWIFT is increasingly receiving requests from corporates who are looking for solutions to their own KYC challenges. As such, this is an avenue which SWIFT is exploring. “We are currently running a feasibility exercise and are looking at whether it is possible to define a global standard for bank-to-corporate KYC,” says Claeys. “We are considering whether a cloud based utility is something we could envisage in the bank-to-corporate segment too.”

Claeys adds that SWIFT is working through some questions before deciding whether to pursue this area. In the meantime, however, he notes that there are certain questions which will need to be addressed before a solution could be developed.

“What we have seen is that it is mostly the large corporate institutions with multiple bank accounts which talk about the challenges and inefficiencies they face,” he says. “But from the banks’ point of view, large multinationals do not necessarily present the most challenges – rather it is the smaller corporates with fewer bank accounts which may present more difficulties in providing the expected level of transparency.” As such, if SWIFT does embark on a solution in this area, decisions will need to be made about where any solution should be focused.

That said, there would be clear benefits to a solution which would enable treasurers to maintain one set of KYC information. Masquelier is an advocate of the utility approach: “Clearly it would be easier to maintain one set of data instead of 15 or 20,” he says. “Any solution that would improve the situation and reduce the burden would be welcomed by corporates.”

Masquelier points out that one potential obstacle is that most corporate treasurers prefer to wait until a finished product is available. “They don’t want to pioneer new solutions – but we do need a few pioneers to push this through,” he concludes.

# The treasury of tomorrow, today

*In a time of great change, corporate treasury professionals in Asia Pacific need not only a bank, but a banking partner. In this article, Citi outlines how it is supporting its clients in new and imaginative ways across cash, liquidity and trade.*

For two decades Asia Pacific has been the world's growth engine and a huge focus for many multinational corporations. However, after two decades of tremendous growth, the region has entered a new phase of its development – one defined by a rapidly changing regulatory, technological and geopolitical environment.

While these changes are creating challenges for businesses operating in the region, they are also fashioning new opportunities for corporates to expand the reach of their businesses and tap into new revenue streams. Asia Pacific, therefore, remains a vital component of many multinational organisations' growth strategies.

In tandem with this shift in the region's landscape, the role of corporate treasury is also changing and becoming increasingly complex and multifaceted. As a result, treasurers often find themselves in uncharted territory as they strive to manage a multitude of risks, whilst also shaping strategies that can facilitate business growth.



**Morgan McKenney**

Asia Pacific Head of  
Core Cash Management,  
Treasury and Trade  
Solutions, Citi

## Real-time banking

The impact of digitisation is arguably most noticeable in the area of payments, where developments are disrupting corporate business models and changing how companies want to be serviced by their banks. Understanding and being proactive in this area is crucial if a corporate treasurer is to support the business in its next stage of growth.

Indeed, the escalation of cashless payment methods in the region has seen the emergence of a host of digitally native eCommerce companies. What is notable about these organisations is the pace at which they move and the scale of their ambition relative to their size. "Digitally native companies expand at an unprecedented pace and want instant market access," says Morgan McKenney, Asia Pacific Head of Core Cash Management, Treasury and Trade Solutions at Citi. "Companies like Uber and Airbnb, for instance, are active in over 80 markets around the world, despite being less than a decade old. The challenge then for banks is to match this speed and enable a broad range of payments and collections capabilities that enable these global digital companies to operate and grow in these markets."

At the same time, more traditional organisations across the full gamut of industries are also now looking to develop their own eCommerce channels in order to grow the business. "This is having a profound impact on business models," notes McKenney. "We are seeing many organisations assessing their distribution models given the opportunity enabled by these newer technologies to sell and market directly to consumers. And just like digitally native companies, they look to us to be a strategic partner and help them utilise the plethora of collections channels that exist across the region."

## Fast and furious

Facilitating these trends is the emergence of faster payment systems across the region. Not only do these systems enable payments to clear and settle in near real time, they also remove a lot of friction from the process and facilitate a host of new data-driven opportunities.

Citi has been an active participant in the development of these systems and has spent a lot of time and investment plugging into the infrastructure. This work is now paying dividends for the bank, which has recently launched a number of solutions which use faster payment rails.

One such example is the launch of Request to Pay in India which leverages the country's Immediate Payment Service (IMPS) infrastructure. "This solution enables consumers to make real-time bank debits from their account using a tokenised address such as an email," says McKenney. "This is particularly powerful for our eCommerce clients, as individuals purchasing from their online marketplace will be able to do so from their bank account in real time without needing to use a card. In India, where card penetration is very low, this is a powerful proposition and enables our institutional clients to reach a broader range of customers." The solution offers further benefits to corporates in India as it is a low-cost collection method.

## From APIs...

Powering this solution – and many others that Citi is building – are Application Programming Interfaces, also known as APIs. Citi is at the forefront when it comes to using APIs to provide new channels for its clients to access the bank.

"APIs enable seamless and real-time data flow," explains McKenney. "And through our CitiConnect platform, we have launched various APIs for payment initiation, payment status and account balance inquiries. These enable us to service our clients in a much more flexible, real time and dynamic way, providing a great client experience."

### ...to AI

Both APIs and new payment infrastructures support the flow of more data, and thus the ability for banks to offer clients more data-driven insights. "We are already offering our clients lots of pre-sales analytics around their flows to develop bespoke solutions," says McKenney. "But this is just scratching the surface of what is possible with all these new technologies."

McKenney adds that there is real interest from the bank's clients around how bleeding edge technology such as robotics and AI will impact their business in the future. Clients are also asking about how Citi is changing and responding to these emerging technologies. "We will continue to invest markedly in these solutions and innovate across a multitude of areas so that we can continue to develop innovative solutions for our clients leveraging these new technologies" comments McKenney.



**Sandip Patil**

Asia Pacific Global Liquidity  
and Investments Head,  
Treasury and Trade  
Solutions, Citi

### Liquidity management in challenging times

As treasurers look to take advantage of these developments to support growth, they have to deliver incremental financial efficiency as well as manage liquidity and funding risks to the improved standards in what Sandip Patil, Asia Pacific Global Liquidity and Investments Head, Treasury and Trade Solutions at Citi calls "times of unprecedented challenges". Patil notes that a combination of increased market volatility and rapidly evolving regulation are creating a new landscape. "If you look at what has happened over the past two years, it is clear that this is one of the most volatile environments that we have seen for some time," he says.

Such volatile markets can cause a host of issues for corporates. For one thing, cash flows become less predictable, making it extremely difficult to forecast ahead with confidence. "If treasurers have little confidence in their forecasts, it makes managing the funding mix and ensuring that liquidity is where it is needed a very difficult task," says Patil. "This can increase the cost of doing business significantly."

The barrage of extra-territorial and in-country regulations is also proving to be challenging. Basel III, for instance, despite being a regulation aimed primarily at the banking system, is having a significant knock-on effect in terms of how banks are able to support their clients. Treasurers are finding that more time and attention needs to be paid to how liquidity is managed as a result. Other than funding cost escalation, this is also calling for new paradigm of treasury and balance sheet risk management in every company.

Elsewhere, in-country regulations in markets such as China, Indonesia and Malaysia have become more rigorous in recent months, hampering companies' ability to move cash out of these markets. "These are familiar issues for treasurers in the region," says Patil. "But what is different is that these regulations are evolving quickly and are at times not as black and white. It is therefore not easy to know what you can and can't do at any point in time."

Patil believes that a bank like Citi leverages deep presence and local market expertise to advise clients to navigate complex landscapes as well as stepping up and providing value to its clients by acting as a bridge between them and the regulators. "We are constantly in dialogue with the regulators," he explains. "We are therefore able to bring opportunities to our clients to take advantage of regulation easing or regulatory exceptions as they occur." Patil remarks, "Our strong footprint in every industry segment helps best practice implementation beyond the advisory domain to realise benefits and deliver efficiency goals."

### Centralise, digitise and compare

While Citi is helping its clients take advantage of these ad hoc opportunities, the bank is also actively involved in helping treasurers shape longer-term strategies to better manage liquidity. For Patil, this can be broken down into three key themes.

The first is centralisation, a topic that has been high on the treasury agenda in Asia for some time. For Patil, however, the conversation has moved on from basic treasury centralisation and is now concentrated around breaking down silos and ensuring that all central units of the business operate in a cohesive and consistent manner. "It starts with a well-structured common treasury policy that brings together people, processes and systems to ensure that the whole business is working towards a collective goal," says Patil. "It is also about ensuring that treasurers across multiple legal entities and countries are working with a rich and consistent data set to enable more accurate funding, liquidity and FX management."

To do this, though, treasurers need to be supported by sophisticated technology – something that many organisations do not currently have in place. "A big focus for many of our clients at the moment is moving up the technology curve and implementing or standardising their technology platforms," says Patil. "Once this is completed, they are looking to integrate these internal systems into those of their counterparties in order to allow for the straight through flow of data. From here, true automation can be established and this will help drive a lot of the risk out of the business."

The final area that treasurers are paying particular attention to is benchmarking. "Treasurers are very keen to understand what the best in class businesses are doing to see what can be applied to their own operations," says Patil. "Citi has developed a



sophisticated suite of tools in its innovation labs. These leverage the bank's data on its clients, allowing treasurers to benchmark themselves against their peers in a highly visceral and dynamic way."

For Citi's clients, this is a powerful tool: it not only highlights what is possible but also shows what is not possible yet, meaning that clients can build a focused and realistic roadmap in order to improve. "This cements the idea of a partnership with our clients," says Patil. "We have not just highlighted the path they should take but also helped them complete the journey together and deliver efficiencies through our network, products and services."



**Vishal Kapoor**  
Asia Pacific Trade  
Head, Treasury and  
Trade Solutions, Citi

## Evolving trading strategies

Alongside developments relating to cash and liquidity management, treasurers are also tackling challenges – and exploring new opportunities – in the area of trade. The recent slump in global trade has created a number of challenges for businesses trading across Asia Pacific, prompting many corporates to review and transform their trading strategies both up and downstream.

## Supporting the supply chain

"The nature of trade in Asia is fundamentally changing," says Vishal Kapoor, Asia Pacific Trade Head, Treasury and Trade Solutions at Citi. "Where once corporates sat at the heart of their supply chains dealing directly with a large number of suppliers, they are now looking to slim down their supply chains by outsourcing the production to a small number of strategic suppliers in low-cost centres like China and Vietnam."

Dealing with strategic partners can significantly reduce counterparty and settlement risks, enabling corporates to forgo traditional trade instruments like letters of credit in favour of open account trading. As a result, treasurers are taking the opportunity to place a renewed focus on optimising working capital and commercial terms with suppliers.

"A large proportion of our clients are looking at pushing out their payment terms in an effort to improve working capital," says Kapoor. "But they want to do this without harming their strategic partners. Our role as a bank is to step in and develop win-win solutions that enable this to happen."

Many corporates are looking to leverage supply chain finance in order to do this, and Kapoor notes that this is a significant growth area for Citi. The reason for this, says Kapoor, is that Citi has invested heavily in its supply chain finance platform over recent years and is a market leader in this space. "Our platform is global and simple to use," he says. "This gives our clients the opportunity to connect with their suppliers in a consistent manner, no matter what market they are in. The ease of use also means that suppliers will want to keep using the platform."

The bank's success in this area is also being driven by the development of diagnostic tools. These enable Citi to leverage client data and highlight opportunities to introduce solutions such as supply chain finance.

## No more barriers to business

Corporates, while taking steps to strengthen and support their supply chains, are also looking to do more business in the region. "Sales financing can be an especially powerful tool to facilitate this," notes Kapoor, adding that Citi is working with a number of its clients on sales financing structures designed to offer competitive financing to clients' customers. "There are various ways we can do this," adds Kapoor. "For example, we can enter into a risk-sharing agreement with our client or offer credit wrapped with some insurance cover. Every deal is different so we focus on developing bespoke solutions in partnership with our suppliers."

This has the added benefit of exposing Citi's Treasury and Trade Solutions business to a much broader range of stakeholders within the client's business. "Often, we are not only working with the treasurer on these deals but also the sales team," says Kapoor. "As we do this we continue to build up our own in-house expertise allowing us to add even more value to our clients. Again, it is really a win-win for all parties involved."

## Driving digital

Finally, digital is also a big theme for Citi in the trade space. Behind the scenes the bank is working hard to streamline its internal trade processes, leveraging a host of cutting-edge digital tools. "We are the leaders using Optical Character Recognition (OCR) technology to digitise the paper-based trade documents that we receive to improve our processing and turnaround times, enabling us to more readily share information and add value for our clients," says Kapoor.

On the front end, Kapoor states that the bank is working hand-in-hand with regulators promoting digital solutions that remove friction for its clients as they trade across the region. To provide an example, the bank has recently launched a pioneering digital solution in partnership with the regulators in India that enables the bank's clients to streamline and drive efficiency when making imports payments in a completely paperless way. It is solutions like this, highlighting the bank's commitment to the region and its desire to be a genuine value-adding partner to its clients, that Kapoor believes sets the bank apart from others and that this strategy will prevail as corporates continue to seek growth in an evolving region.

# Exercising options: getting back to basics with derivatives

*Revered and reviled perhaps in equal measures, derivatives have been traded for many years as both a risk mitigation tool in their simplest form, and as an instrument of profit generation in their more exotic incarnation. Treasury Today goes back to basics on this multifaceted topic.*

Mention derivatives and thoughts often turn to the financial crisis of 2008. Whilst it is hardly fair to blame these admittedly potentially unwieldy financial products for all of the ensuing woes, their misuse by people who either failed to grasp what they were buying into, or worse, knew exactly what they were doing, will resonate throughout the years. Not for nothing did Warren Buffett called derivatives “financial time bombs”.

So, what are they that they can cause so much interest, misunderstanding and chaos? In essence, they are financial instruments where the value is generated over time on the back of the performance of an underlying asset or set of assets (commonly referred to just as the underlying) such as equities, bonds or commodities. Derivatives trade typically involves two parties – counterparties – who submit to a set of pre-agreed terms and conditions that determine individual rights and obligations.

Unless collateralised (guaranteed), the value of a derivative is dependent upon on the credit status of the counterparty. Earnings, said Buffet, are often “wildly overstated” because they are “based on estimates whose inaccuracy may not be exposed for many years”.

Although sometimes highly leveraged instruments (where investment is through borrowed money – a high-risk strategy), it is important to know that derivatives can be either vanilla or exotic. There is no precise definition of either but vanilla instruments are traditionally the simplest form. These are typically used for basic risk mitigation, especially hedging, and are usually based on standard calls and puts found on major exchanges. Exotics are relatively more complex, often using non-standard underlying assets. Although they are generally used to mitigate and manage risk, derivative contracts can also be used to speculate on the price fluctuations of the underlying asset.

Using derivatives to speculate on price movements gives price exposure to an underlying asset such as a commodity, index or exchange rate or even something ‘exotic’ such as weather conditions in a region. Such derivative contracts – especially futures and options – are often settled in cash. Cash is just a more convenient method of executing these contracts. In a commodities deal, cash is used to pay the difference between the spot and futures price, rather than taking ownership of the physical commodity.

## Corporate use of derivatives

If using derivatives to mitigate risk of future price movements in the underlying commodity, currency or interest rate,

treasurers can achieve more accurate budgeting and forecasting. Fixing prices for a period also means monitoring price fluctuations of the underlying is redundant, allowing treasury to focus on more value-added tasks. Of course, derivatives are eminently tradable so treasurers are not tied in to them unnecessarily.

## Trading options

Derivatives can be traded either on or off exchange. Exchange-traded derivatives (ETDs), traded through exchanges such as the Chicago Mercantile Exchange and the New York Mercantile Exchange, offer publicly available pricing. Contract terms, using standardised contracts, are non-negotiable.

However, off-exchange derivatives trades made over-the-counter (OTC) use tailored contracts with specific terms and conditions pre-agreed by the counterparties. The lack of standardisation means OTC derivatives are less liquid (because terms may not suit other buyers).

Today, most buying and selling is conducted over electronic trading networks.

## Frequently used derivatives

The most common types of derivatives are options, swaps and swaptions, forwards and futures.

## Options

Exchange-traded options are based on standardised contracts whereby one party has a right to purchase an agreed quantity and class of underlying at a future date at a pre-agreed ‘strike’ price. The right, however, is not an obligation as the buyer can allow the contract to simply expire. There are two types of option contracts that can be either bought or sold:

- **Call options** give the right but not the obligation to buy the asset at the strike price either before or on the future date. The seller is obliged to sell the asset at the strike price if the buyer exercises the option.
- **Put options** give buyers the right but not the obligation to sell the asset at the strike price either on or before the agreed expiration date. Sellers are obliged to repurchase at the strike price if the buyer exercises their option.

The nature of options means the greatest loss a treasurer will face is the cost of the premium paid to buy that option: if the market goes against them, the option is not exercised.



Using derivatives to speculate on price movements gives price exposure to an underlying asset such as a commodity, index or exchange rate or even something 'exotic' such as weather conditions in a region.

## Swaps

Swaps allow treasurers to exchange one series of future cash flows for another. The value of underlying assets, which do not need to be the same, will usually be sourced from publicly available data. Swaps are often used by treasurers to hedge against movements in interest rates. A company with a fixed interest rate may wish to swap it for a floating rate if it believes the reference rate will fall. It may also seek to fix an interest rate of a payment to eliminate some uncertainty around its cash outflows, or to hedge against an anticipated interest rate rise.

## Swaptions

A non-standard method of protecting against interest movements is through a swaption. In exchange for an option premium, the buyer secures the right but not the obligation to enter into an underlying swap. A buyer securing the right to pay fixed rate and receive floating rate takes a 'payers swaption'. The right to exercise a swap where the buyer receives fixed and pays floating has a 'receivers swaption'.

## Forwards

Another non-standardised derivative contract is the forward. Here, counterparties agree privately to buy or sell an asset at a specified future date at a price agreed at the time the deal is transacted. Popular types of forward contracts are currency forwards and commodity forwards. The former may be used to hedge an FX exposure when the company has a known future payable or receivable in a foreign currency.

The party agreeing to buy the underlying asset in the future assumes a long position, and the party agreeing to sell the asset in the future assumes a short position.

## Futures

Futures are similar to forwards. Both give the holder the right to buy or sell an asset/commodity at a future date, although futures are exchange-traded not private agreements as per forwards. A futures contract may also require physical delivery of the underlying asset or be settled in cash. Either way, futures can be risk-laden because both counterparties are gambling on winning (when clearly only one can). At least counterparty risk is reduced because the clearing house of the exchange used to trade acts as the third party to the deal.

An account with a brokerage firm is required to buy and sell futures contracts. Having agreed a futures contract, the buyer and seller must deliver an initial margin (typically 1% to 5%) of the total purchase price of the futures contract. The profit or loss of the contract for each party is calculated on a daily basis, this being added to or subtracted from the relevant margin account. This reduces counterparty default risk.

## The key regulations

### Dodd-Frank Act

The Dodd-Frank Act was signed into US law in 2010. This established a new framework for regulatory and supervisory framework for the OTC derivatives market. Derivatives subject to regulation under Title VII of the Dodd-Frank Act include interest rate, credit default and equity swaps.

In meeting G20 objectives of increasing transparency and reducing systemic risk in the derivative markets, Dodd-Frank has moved all OTC derivatives onto exchanges and swap execution facilities (SEFs). This ensures most derivatives are processed through clearing houses and central counterparties.

The main requirements include reporting swap transactions to a swap data repository, clearing sufficiently liquid and standardised swaps on central counterparties, trading standardised swaps on trading platforms, and establishing higher capital and minimum margin requirements for uncleared swaps.

### EMIR

The EU's European Markets and Infrastructure Regulation (EMIR) came into force in August 2012. The European Securities and Markets Authority (ESMA) drafted its Regulatory Technical Standards (RTS). These provide the detailed specifications of the regulation. EMIR applies to all OTC derivatives even when an EEA-based company is trading with a non-EEA counterparty.

The main objective of EMIR is to reduce the risks and large credit exposures seen in OTC derivative transactions. Other than some additional reporting requirements, exchange traded derivatives are less of a focus as these are already subject to rules around central clearing.

EMIR's headline requirements are for central clearing and margining of standardised OTC derivatives, the reporting of all derivative transactions to a trade repository, and risk mitigation measures for all uncleared derivatives (including collateral exchange and confirmation and reconciliation procedures).

Given their heightened importance under EMIR, firms providing central clearing services (known as central counterparties or CCPs) were subject to additional requirements around their structures and procedures.

Most non-financial companies using derivatives for hedging purposes are not expected to put their OTC derivative transactions through central clearing. This means they will not have to put up margin to cover the daily mark-to-market valuation (the most recent market price) of their derivatives.

### FRS 102

For many years, derivatives non-balance sheet items. Organisations entering into OTC products recorded the impact of these instruments in their books only when settlements occurred or when they reached maturity. FRS 102, applicable to accounting periods commencing on or after 1<sup>st</sup> January 2015, changes all that.

Derivatives now have to be presented on the balance sheet at their fair value, and the credit risk to both counterparties in the transaction needs to be reflected in the calculation. This usually requires a valuation, provided by the counterparty



bank, or external advisors, deploying relatively complex derivative valuation models. Additionally, changes in the derivatives' fair value now have to be recorded in the income statement.

Under FRS 102 the derivative is accounted for independently from the hedged transaction, which can be an unrecognised cash flow – for instance, a highly probable forecast transaction, sale, or purchase in foreign currency, or future variable interest rate payments.

This means the impact of the derivative on the income statement may not occur at the same time as the underlying hedged transaction, nor in fact be represented in the same line item (that is, it not being part of EBITDA or interest expense).

Organisations can reduce or eliminate income statement volatility arising from derivatives by applying hedge accounting. But they can only do so providing they can meet certain requirements, and then actively elect to do so. These requirements are:

- To document the existence of a hedging relationship between derivative and hedged transactions.
- To demonstrate an economic relationship (that derivative and hedged transactions are expected to move in opposite ways), usually by the coincidence of the critical terms of both transactions or by undertaking a quantitative analysis of their correlation.
- To specify and quantify causes of ineffectiveness – possible mismatches between the derivative and the hedged transaction – by modelling the hedged transaction, usually using a 'hypothetical derivative' (the best possible hedge, being a proxy for the hedged risk and transaction).

### Margin rules

On 1<sup>st</sup> September 2016, new initial margin (IM) and variation margin (VM) rules for non-centrally cleared OTC derivatives were introduced globally. The rules ensure appropriate collateral (such as cash, various debt securities and corporate bonds) is available to offset losses caused by the default of a counterparty.

Although only financial firms and systemically important non-financial entities are covered, each jurisdiction is able to set out its own definition of in-scope, out-of-scope and exempt entities. Most jurisdictions' rules do not yet require the exchange of margin with certain types of non-financial entity, such as those trading below the EMIR clearing threshold (ranging between €1bn and €3bn, depending on class of OTC derivative). For now, at least, threshold value alone will exclude corporate contracts.

### Asia expanding derivatives

Exchange-traded equity and commodity derivatives trading is a developing market in Asia. Hong Kong and Singapore are of course the leading trading hubs, being fourth and fifth largest globally in turnover of OTC interest rate derivatives (behind the US, the UK and France).

China is now opening up overseas investors access to its foreign-exchange derivatives market. Access is limited to the hedging needs of private-sector investors' onshore bond positions. According to the State Administration of Foreign



If using derivatives to mitigate risk of future price movements in the underlying commodity, currency or interest rate, treasurers can achieve more accurate budgeting and forecasting.

Exchange, the move in early 2017 enables hedging of bond positions and is seen as a means of driving greater investment inflow. China's interbank bond market was opened up in 2016 and can trade products including forwards, swaps, cross-currency swaps and options using domestic settlement agents. Whilst there are no specific restrictions on the notional amount of FX exposure, steps such as market access, liquidity, reporting rules, settlement dates are anticipated a future point to bring the market in line with international access.

The key to securing the investment of international institutions in any new jurisdiction is the establishment of rules around close-out netting (the payment of a final sum in the event of insolvency). In this respect, Malaysia is a prime example how a framework can be used to good effect. In March 2015, the Netting of Financial Agreements Act 2015 came into force, providing legal enforceability of close-out netting provisions under Malaysian law.

In seeking to encourage derivatives market trading, Indonesia has sought to improve local banking knowledge and is now allowing international institutions to establish operations in the country in exchange for market training and guidance.

The Securities and Exchange Board of India (SEBI) also allows foreign portfolio investors to trade commodity options and equity derivatives through International Financial Services Centres. SEBI has also set up a risk-based supervision framework for brokers.

At the start of the year, Pakistan's Securities and Exchange Commission talked about developing new regulations to allow the country's stock exchange (and supported by Chinese investor cash) to issue a wider range of derivatives. This could open up the market to hedge fund trading. Cash-settled futures and single stock options were on the starting list. And in April this year, Vietnam's Hanoi Stock Exchange published listing, trading, settlement and membership rules for derivatives trade.

### Global acceptance

Asia-Pacific jurisdictions seem not to be diverging too far from existing international standards and have notably been establishing processes, including confirmations timings and reporting fields, that are mostly aligned with more established trading hubs in other regions. This should serve to make market development a more cost-effective process.

But it also demonstrates that whilst emerging markets see the value of derivatives, they also heed the lessons from previous errors of judgement. The market, despite what the likes of Buffett say, is here to stay.

# Funding where it is needed

*CrossLend believes that the financing space needs a shake-up and has developed a solution that aims to do exactly that.*



**Oliver Schimek**  
CEO & Founder



I like to think that CrossLend is quite unique because we are not a competitor for banks; we consider ourselves very much as a partner to the banks thus generating a true value for the existing ecosystem.

## Tell us a bit about yourself and your background. How did you get into fintech and why did you want to build a cross-border marketplace lending platform?

After studying Physics and Economics at the Freie Universität Berlin, I went on to found my first company, Quantea, in 2010. This company specialised in the development of trading algorithms and currency trading IT infrastructure.

Three years later, I joined Kreditech Holding – a company which leverages technology to enable people with little or no credit history to access finance – as Chief Financial & Investment Officer. It was in this role that I became exposed to the European lending economy and it was when I developed the idea behind CrossLend.

CrossLend was founded in June 2014 and began operating officially in September 2015. Initially, we were focused on the business to consumer (B2C) lending market, but we have since moved into the business to business (B2B) space. As a result of this work and expansion the business has grown markedly in a few years and today we have roughly 50 employees.

## What were the biggest challenges getting the company off the ground?

The complexity of a highly regulated product in the B2B segment is significant. There are a lot of things that need to be developed at the same time. We're not selling clothes via an online shop. We are engaging with highly regulated entities and regulators, developing new solutions for an economy that is not particularly fast or reactive when it comes to change driven by cutting-edge technology. However, at the same time this of course is also the basis for a great opportunity. With our innovative platform we can really change something in the financial ecosystem.

## What makes fintech such an exciting space and what do you find most interesting about it?

The pace of change and the solutions that are being created are what makes fintech an exciting space to work in. But I like to think that we are different to most fintechs who have decided to focus on a niche area of financial services. In some respects, these companies are competing with the banks for a finite amount of business. I like to think that CrossLend is quite unique because we are not a competitor for banks; we consider ourselves very much as a partner to the banks, thus generating a true value for the existing ecosystem.

## How do you expect fintech to develop, especially in the corporate space, in the years to come?

I expect a clear consolidation in the fintech market in the next few years. Fintechs need to have a clear value proposition towards corporates in the B2B space. If you just improve single parts of the value chain of a corporate it will copy or acquire you. On the other hand, if you act as missing link or enabler for new products, you create a true value to the overall economy and create something scalable.

## In corporate treasury, few are feeling the impacts of fintech as yet. Where do you think that fintech can have a real impact on the day-to-day operations of corporate treasurers?

Most fintechs so far are targeting the B2C space since many of the founders are coming from the eCommerce space. This has changed recently, however, and we are seeing more and more native fintech founders tackling B2B problems. Corporate treasurers will benefit from that development, but the ecosystem is young and needs to grow.

July 2014



Founding CrossLend

September 2015



CrossLend platform goes live

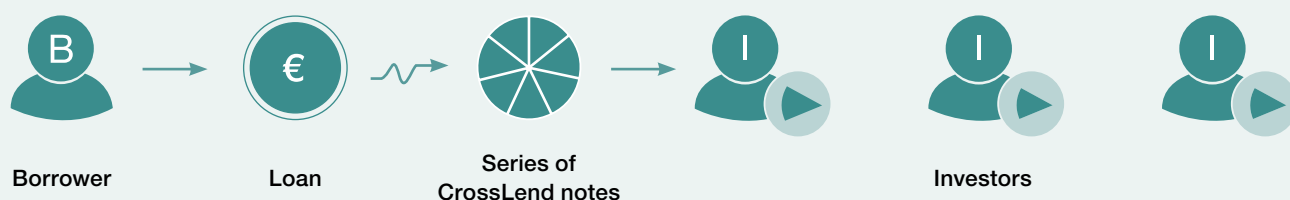
September 2015



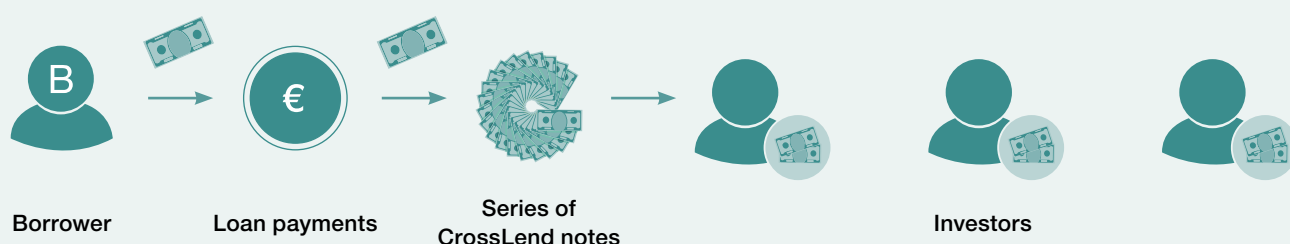
Series A Financing Round  
with Lakestar

## How it works

The solution works by CrossLend purchasing loans that have been granted by banks and issuing a series of notes – debt securities that can be purchased by investors.



When a borrower makes their loan repayments, CrossLend makes the corresponding payments of interest and principal pro rata to the holders of the notes. Insofar as a borrower neglects to make their loan instalment payments, CrossLend owes the holders of the notes no payments. Costs for the collection of overdue loan amounts may arise, which may be deducted from any payments to the noteholders.



## Transforming the credit market

CrossLend connects originators such as banks with investors such as insurance companies and pension funds. Originators can offload loans on a single loan basis from their balance sheets. CrossLend makes these available as a flexible asset to investors via 1:1 securitisation (one loan – one security, no pooling). “We have created a new European bridge between banks and investors to help bring the European Capital Markets Union to life,” says Oliver Schimek, Founder and CEO at CrossLend.

## Changing direction

Established in 2014, CrossLend’s founders originally set about developing a European cross-border, peer-to-peer lending platform for private investors to access consumer loans. However, Europe’s changing economic fortunes and the regulatory pressure on banks that is forcing them to shrink their balance sheets, seeing them able to lend less, gave Schimek and his team an opportunity to push the company in a new direction.

This new direction would see CrossLend introduce its peer-to-peer model directly to the back offices of banks, giving them a flexible instrument for refinancing their lending operations. “Our concept lets them keep the customer relationship, monetise it and

service the loan without the full balance sheet implications. In that sense we make banks peer to peer capable,” explains Schimek. “At the core of our approach is a new way of securitising loans where instead of issuing a bond against pools of loans, CrossLend securitises single loans with single bonds, translating the loan receivable into tradable securities with the advantage of full transparency.”

“Our original idea alleviated a symptom of the sub-optimal lending environment that existed in Europe,” says Schimek. “Our new idea reflects the times and we think that our new solution can solve the root of the problem.”

## A sign of the times

“Europe is in trouble and we want to stabilise its backbone, which is the financial system,” says Schimek. “Politicians and regulators have been working on the concept of a Capital Markets Union (CMU), linking savings and growth to improve conditions for savers and investors. Their action plan says we need to connect institutional and retail capital to the lending side of the economy, preferably via securitisation. Compare that to our business plan and it’s basically a one-to-one match. Banks would need many years to start such a platform and it would not be independent. We are the speedboat in this market.”

August 2016

February 2017

April 2017

Reorganisation: service for banks, insurance companies and other credit marketplaces

Investment of Luxembourg Future Fund

New investors: CME Ventures, Fund Promus Ventures



# Ripple vs SWIFT: payment (r)evolution

*Cross-border payments are currently slow, expensive and opaque. Ripple offers sub second efficiently priced payments using a variant of blockchain technology. In response, SWIFT has launched GPII, same day credit of funds, up front pricing and payment tracking. This article explores the two solutions, and what they mean for treasurers.*

Currently, cross-border payments go through the 600-year-old correspondent banking system (much constrained by regulators clamping down on KYC and AML), facilitated by SWIFT messages like MT101 and ISO 20022 payment instruction (pain).

This requires getting six players linked up – payer, payer's bank, payer's bank's correspondent, beneficiary bank's correspondent, beneficiary bank, beneficiary.

Since the messages (generally) flow sequentially, and not all banks do straight through processing (STP), this takes a while. Worse, over time banks have got into the habit of sitting on our money for arbitrary lengths of time – this is called float which is a euphemism for regulator sanctioned theft. Even worse, the banks along the chain also help themselves to arbitrary and often material deductions, with confusing names like lifting fees and in lieu fees. So, when the money finally arrives, we should be grateful some of it got through the system at better than walking pace.

I exaggerate a little here. I do see cross-border payments going through current channels with only one (or two) fee deductions and within 24 hours. But that feels lucky. All elements of my exaggeration remain regrettably common practice.

And in these times of Venmo and PayPal and instant everything, this feels antediluvian. How is it that Amazon can deliver physical goods faster than banks can deliver a credit entry, which is basically a secure email – only bits and bytes?

In fintech parlance, this looks like a market ripe for disruption.

## Ripple

Ripple is disrupting this model with sub second cross-border payments with automated best pricing from its network. Since Ripple payments are nearly instant, their model removes credit and liquidity risk from the process, thus lowering bank (and societal) costs considerably. Since the network finds the best price for exchange and liquidity, pricing is optimised and customers are no longer locked in to the wide spreads currently reflected in bank board rates.

The benefits for corporates are clear in terms of price and speed. Corporates will also appreciate the elimination of settlement risk. Further, Ripple uses industry standard ISO and MT messaging, and because participants are both

directly and multilaterally connected there is no loss of corporate data in the payment messages. Known fees and complete messages make for much higher auto reconciliation rates.

Unlike some other fintechs, Ripple is bank centric. Banks, rather than their customers, connect to the Ripple network. This has two big benefits. First, customers are used to trusting banks – which is better than having to get comfortable with entrusting your money to some fintech you have never heard of. Second, regulators are comfortable with banks – which means they will not pull the plug on Ripple as they might with non-bank fintechs.

## Ripple technology

Although Ripple is also a blockchain company, and has its own currency code XRP, the cross-border payments are using a subset of blockchain technology. Ripple uses the consensual validation of encrypted hashes to secure the messages across the Ripple network, but does not hold the ledger. Ripple calls this Inter Ledger Protocol (ILP) and they have open sourced it to public domain.

ILP allows Ripple to connect existing bank ledgers. This lowers barriers to entry. In effect, banks connect their core systems to the Ripple network – analogous to how they currently connect their core systems to the SWIFT network.

## Ripple process

Although it happens within seconds, the Ripple process is holistic, including rich information exchange, liquidity provision and currency conversion. By contrast, the traditional method provides minimal information, liquidity through correspondents, and no conversion (and takes hours or days, and costs more).

Instead of using fixed correspondents, Ripple implements an automated instant auction for liquidity provision and FX, thus assuring best price execution. Banks can restrict their requests for quotation to counterparties matching specific requirements like rating and regulatory standing. KYC and AML compliance is of course covered.

From a corporate treasury perspective, this is analogous to using an eFX platform to get quotes from multiple banks (except that it is purely bank to bank).

#### There are four key stages:

1. Get quote: the originating bank sends out a request for quotation across the Ripple network for the payment in question. Quotes received in reply include FX rates and fees as well as compliance requirements.
2. Accept quote: the originating bank accepts the best quote for which they can meet the compliance requirements. The beneficiary bank can then lock the quote. At this point Ripple blocks funds in the two banks' ledgers – something like a sub second escrow arrangement (without transfer of title at this point).
3. Submit sending payment: the originating bank transfers the funds out of the payer's account and through ILP to the FX or beneficiary bank.
4. Submit receiving payment: the beneficiary bank confirms that funds have been credited to the beneficiary's account.

The submit receiving payment signifies that funds have been credited to the beneficiary's account. All of this happens within one or two seconds. As noted above, this is both more holistic and less complicated than the current process, not to mention much faster and cheaper.

## GPII

In response to the challenge from Ripple, SWIFT have launched their Global Payments Innovation Initiative (GPII). Leveraging the current SWIFT messaging and correspondent banking that are the backbone of old cross-border payments, GPII is basically a set of rules to commit banks to behave more reasonably in cross-border payments, supported by payment tracking and data to monitor adherence to these new rules.

The rules are encapsulated in the service level agreement (SLA) that banks must sign to join GPII. This SLA discourages banks from float (theft of value days), opaque charging and delays.

To support this SLA, SWIFT have built an "observer" system so that partner banks can monitor the SLA compliance of their partners across the system.



Logically, regulators should prefer Ripple because near instant transfers vastly reduce liquidity and credit risks.

To entertain the payment originators, SWIFT have developed a payment tracker, on which the payment's progress can be viewed in near real time. This will be white labelled by banks for their clients.

The SLA is essentially a commercial challenge for banks. The increased transparency will limit their rent extraction (some banks' internal processes may be so weak that they genuinely have trouble complying with the SLA, but most corporate cash management banks can do same day reasonably priced cross-border payments when they want to).

The tracker is more of a technical problem. First, some banks may have difficulty tracking payments through their systems at all. Second, it requires the creative use of MT199 free format messages to achieve the requisite updates (trade for corporates similarly uses MT798 free format messages to send L/C related messages). Although it is notionally good old-fashioned SWIFT messaging (MT was designed for telex in the 1970s), implementation is akin to a new system.

SWIFT's 10,000 bank members would appear to give GPII a big head start, it is far from clear how many banks will end up joining GPII. The take up rate amongst banks for SWIFT for Corporates has been agonisingly slow; ditto for trade.

## Ripple vs GPII

It should be clear by now that Ripple offers a faster, cheaper and more complete process. The inclusion of FX gets

#### Comparison between Ripple and GPII:

|             | RIPPLE          | GPII                          |
|-------------|-----------------|-------------------------------|
| Speed       | Seconds         | Hours or days                 |
| Fees        | Lowest possible | Disclosed                     |
| FX          | Best possible   | Determined by bank board rate |
| Data        | Full delivery   | (Planned for version 2)       |
| Tracking    | Not needed      | Yes                           |
| Technology  | Ripple and ILP  | SWIFT + new messages          |
| No of banks | 45              | 80                            |
| Difficulty  | Roughly equal   | Roughly equal                 |



The good news for treasurers is that whoever prevails (or if they co-exist), cross-border payments will get faster and cheaper – and that is worth celebrating and encouraging.

customers away from the exorbitant “board rates” that banks currently apply for cross-border payments. The auction process will result in better rates and fees for both banks and their customers.

The speed and upfront fees facilitate auto reconciliation and will open up new ways of doing business. It could even eat into credit card flows.

GPII is clearly an improvement on the status quo. Since it is just a SLA with a tracker layered on top of existing correspondent banking arrangements, it does not fundamentally change cross-border payments. There is a risk for banks that sticking to GPII instead of opting for Ripple exposes them to even greater disruption (and possibly complete disintermediation) in the future. At least Ripple is bank centric. Other disruptors may be more aggressive.

### Caveat emptor

A word of caution about the current state of cross-border payments. Current generation cross-border payments are too often slow and expensive, as described above. Bank pricing is opaque and often exorbitant. Here are some tips:

- Cross-border payments should cost US\$5-10 (or less for high volumes).
- Percentage fees are unacceptable.
- So-called “lifting fees” are unacceptable.
- Correspondent banking fees taken by intermediary banks are unacceptable (your bank has commercial relations with its correspondent that ensure their remuneration; there is no need for additional fees).
- Float is theft – the payer account should be debited on the same value date as the beneficiary account is credited; the payment may take time to execute, but there should be no loss of value.
- Board rates (for FX conversion) can be negotiated, and banks can apply pre-agreed spreads on live market rates when motivated to do so.

If you have large volumes of low value cross-border payments, ask your bank about cross-border ACH. This is a solution to reduce cross-border payment costs (though it may be slower to execute) whereby the bank arranges a local low value payment in the beneficiary’s country. Some ACH systems cap the maximum value of payments they accept; this may limit their use for large commercial payments.

### Rationality v incumbency

In a rational world, because it is faster and cheaper and no more difficult to implement, I would expect Ripple to grow faster than GPII. Logically, regulators should prefer Ripple because near instant transfers vastly reduce liquidity and credit risks.

But we do not live in a rational world, and GPII has the benefit of incumbency. Being driven by SWIFT and based on existing correspondent banking arrangements, GPII may seem less frightening to banks.

The good news for treasurers is that whoever prevails (or if they co-exist), cross-border payments will get faster and cheaper – and that is worth celebrating and encouraging.



#### 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 eCommerce 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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david.blair@acarate.com

www.acarate.com







## INSIGHT &amp; ANALYSIS

## What does eCommerce mean for treasury?

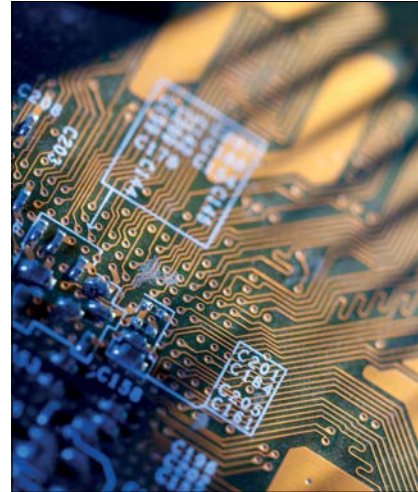
Global eCommerce continues to grow, giving rise to a host of new businesses and forcing more traditional businesses to transform business models. These then are exciting times for corporate treasurers who will need to ensure the business is ready to operate in the eCommerce space. What then is driving the eCommerce boom and what do treasurers need to do to get the business eCommerce ready?



## RISK MANAGEMENT

## Managing counterparty risk

Since the crisis, the focus on counterparty risk within corporate treasury departments has increased substantially and many treasury professionals have reassessed a variety of their old assumptions about how best to measure and manage their company's exposure to counterparties. What then are the risks that corporate treasurers must watch out for today and how should you go about mitigating these exposures?



## TECHNOLOGY

## Blockchain: the story so far

The work that banks are putting into blockchain means that it is going to impact corporate treasury departments in some shape or form. How and where this will happen remains to be seen, however. In this feature, Treasury Today Asia analyses the history of blockchain, where the technology stands today and what impact it may have on corporate treasury in the future.

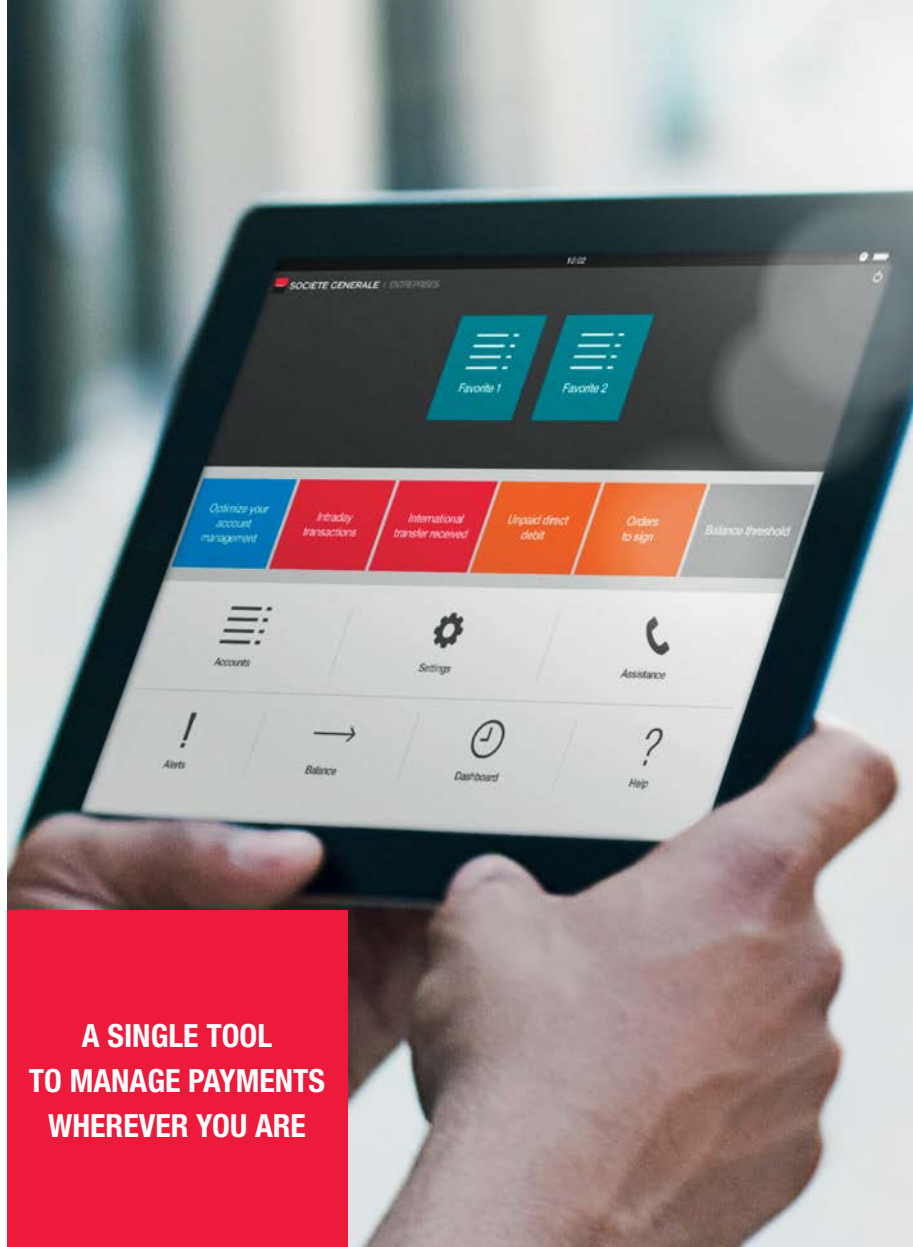
### We always speak to a number of industry figures for background research on our articles. Among them this month:

Sanjeev Chatrath, Managing Director, Region Head – Asia, Financial & Risk at Thomson Reuters; Herry Cho, Director, Head of Sustainable Finance Asia, ING; Bart Claey's, Head of KYC Compliance Services, SWIFT; Mark Crowhurst, Treasury Director, PwC; Manoj Dugar, Head of Core Cash Management Product, Asia Pacific, Treasury Services, J.P. Morgan; Mark Evans, Managing Director, Transaction Banking, ANZ; Damian Glendinning, Treasurer, Lenovo; Crystina Hickey, Vice President, APAC Institutional Cash Sales, Trading and Liquidity Strategies, BlackRock; Vishal Kapoor, Head, Treasury and Trade Solutions, Citi; Sean Kidney, CEO, Climate Bonds Initiative; Beijia Ma, Equity Strategist, Bank of America Merrill Lynch; Chinchin Ma, Client Advisor, Global Liquidity, J.P. Morgan Asset Management; Eddie Mak, Group Treasurer, Kerry Logistics; François Masquelier, Treasurer, RTL Group; Morgan McKenney, Asia Pacific Head of Core Cash Management, Treasury and Trade Solutions, Citi; Lauren Oakes, Head of International Liquidity Solutions Sales, Goldman Sachs Asset Management; Sandip Patil, Asia Pacific Global Liquidity and Investments Head, Treasury and Trade Solutions, Citi; Nicholas Pfaff, Secretary of the Green Bond Principles, International Capital Markets Association; Marianna Polykrati, Group Treasurer, Chipita; Oliver Schimek, CEO & Founder, CrossLend; Kristof Segers, Manager, Zanders; Ong Shiwei, Global Head for Cash Liquidity Management, Standard Chartered; Adam Stam, Director, Secured Funding at Toyota Financial Services; Francyn Stuckey, Head of Payments & Cash Management, ANZ; Geraint Thomas, Executive Director, MUFG; Kee Joo Wong, Asia Pacific Regional Head of Global Liquidity & Cash Management at HSBC.

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