January/February 2018

research | insight | analysis

APIs and corporate treasury

APIs are the hottest trend in financial technology right now. But what makes APIs so exciting and how are they going to benefit treasury departments? Treasury Today Asia tells you all you need to know.

The Corporate View

Patrick Tai, Finance Director

CNOOC and Shell Petrochemicals Company Limited

Talking Treasury Forum

Treasury Today Group brought together six of the region's most senior transaction bankers and corporate treasurers to discuss the big trends in corporate treasury and more at our most recent Talking Treasury Forum in Singapore.

Insight & Analysis

What does 2018 have in store?

Funding

Loans or bonds?

Trade

Overcoming protectionism

Back to Basics

Building treasury KPIs

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Singapore to drive pan-ASEAN digital agenda

Singapore is taking digitisation seriously. This was evident at its recent fintech festival, which saw over 25,000 attendees from all over the world descend on the city-state to take part in a week of festivities designed to push forward the future of financial services.

At the festival, Ravi Menon, Managing Director at the Monetary Authority of Singapore (MAS) outlined the pillars of Singapore's strategy to become a 'Smart Financial Centre'. Core to this is the creation of an 'open API economy' that will allow financial institutions, corporates and fintechs to build a digital financial ecosystem using standardised APIs.

Spreading the message

As well as its ambitions to become a 'Smart Financial Centre', Singapore is also keen to spread its digital ambitions to neighbouring countries in the ASEAN region. This was made clear in November, when Singapore officially took over the chairmanship of ASEAN at the 31st ASEAN summit.

At the summit, Singaporean officials announced that 'resilience and innovation', with a particular focus on the digital economy and eCommerce, were to be key themes of the country's chairmanship. "We can find new ways to manage and harness digital technologies, and equip our citizens with skills and capabilities and keep ASEAN a vibrant and dynamic place for our people to live, work and play," said Singapore Prime Minister, Lee Hsien Loong.

At the core of Singapore's plans is the ASEAN Financial Innovation Network (AFIN), a joint project of the MAS, IFC and ASEAN Bankers Association (ABA). AFIN is designed to provide an integrated platform for collaboration between ASEAN banks, microfinance institutions, non-banking financial institutions (NBFI) and regional fintechs. The overall aim is to make ASEAN's regulators comfortable with and adopt this new technology, for the benefit of the whole region.

Corporate encouragement

Singapore's desire to digitise will surely come as good news to the corporate treasury community, given the city-state's status as the region's leading location for treasury centres.

Also, its ambitious plans to encourage other countries in ASEAN to digitise at a similar pace will give encouragement to businesses trying to expand their operations in the region. The hope is that this will remove barriers to this growth, namely inefficiency brought on by paper-based processes. This will enable businesses in ASEAN to realise their full potential in the market.

IN THIS ISSUE

INSIGHT & ANALYSIS 8

What does 2018 have in store?

Twelve months ago, the world was still reeling with the impact of unexpected world events in the form of Brexit and the election of President Trump. But what does 2018 have in store? Treasury Today Asia looks into the future to find out.

DIGITISATION 19

Harnessing a new era of growth in APAC

Citi's new Asia Pacific Sales Head, Treasury and Trade Solutions, Ernesto Pittaluga, documents the impact digitisation is having across the entire region and what it means for businesses.

ADAM SMITH AWARDS 12

Celebrating in style

Asia Pacific is truly a dynamic and forward-thinking region when it comes to corporate treasury. This was highlighted once again at the most recent Adam Smith Awards Asia Gala Presentation Lunch when the best and the brightest in the region came together to celebrate their success.

FUNDING 16

Window of opportunity

Raising finance is a key part of the corporate treasurer's job. And, at present, funding conditions around the world are good. We take a tour around the world's debt markets to find out the most attractive funding routes and markets.

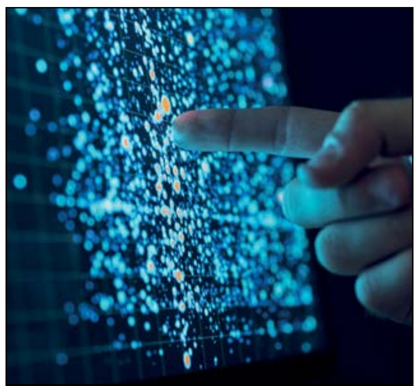
WEBINAR REPORT 48

Control your own KYC

TALKING TREASURY FORUM 31

Charting a course for treasury management in Asia Pacific

Read the views of six of the region's most senior transaction bankers and corporate treasurers from our most recent Talking Treasury Forum in Singapore. They share forthright opinions on the mega-trends impacting the region and how banks and corporates are looking to manage the opportunities and challenges these bring. This is a must-read for any treasury professional operating in Asia Pacific.



TREASURY ESSENTIALS

Treasury Insights 4

Question Answered 6

Point of View 46

TECHNOLOGY 20

APIs: the real game changer

Over the past few years, APIs have received greater attention in financial services and are set to create a revolution in terms of how banks service their customers by facilitating the shift from batch processing to real-time processing. Treasury Today Asia explores the benefits of APIs and discusses how this technology is set to impact treasury.

TRADE 28

Building bridges

Protectionist sentiment has certainly made its mark in Western markets last year. However, initiatives currently gaining momentum in Asia could lead to the development of new trade corridors and opportunities, both within the region and with trading partners further afield.

CHINESE MMFS 26

Raising the standards of Chinese money market funds

China's money fund industry has grown exponentially in a relatively short space of time and the Chinese Securities Regulatory Commission recently published a set of new rules designed to strengthen the industry. We find out what the new rules mean for investors.

J.P.Morgan
Asset Management

23 The Corporate View

Patrick Tai
Finance Director

After working for some of the world's largest projects for over 20 years, there isn't much that Patrick Tai, Finance Director at CNOOC and Shell Petrochemicals Company Limited (CSPC), hasn't seen or done where finance is concerned. Here he outlines the factors that have led to his success and explains how he plans to take CSPC's finance department into the future.

BACK TO BASICS 43

Measuring success

You can't manage what you can't measure and in the world of corporate treasury there is much to measure. In this article, Treasury Today Asia explores the key treasury metrics and finds out how reviewing these on a regular basis can set the treasury department up for future success.

Should you care about ICOs?

A company with no working platform or viable product raised US$185m from investors in just five days in 2017. Block.one did so by launching an initial coin offering (ICO). This is a new fundraising tool that allows investors to purchase digital assets, known as 'tokens', issued by a company using blockchain technology. Block.one is not the only company to do so. Indeed, according to ICO tracker and marketing platform, Coinschedule, companies have raised US$3.6bn using ICOs this year. This is up from US$96.3m in 2016.

An ICO is a fundraising tool that allows companies to issue digital tokens in exchange for an investor's (retail or institutional) cash or cryptocurrency. Raising funds through an ICO enables companies, typically start-ups at present, to bypass banks and traditional underwriters of capital raisings, giving them a quick and low-cost way to raise funds.

Unlike an initial public offering (IPO), the typical ICO fundraising method is more akin to the crowdfunding campaigns offered through websites like Kickstarter.

Underpinning ICOs is the blockchain, which serves as the record of legitimacy, verifying transactions between buyers and sellers of the tokens.

Structural nuances

Investors in an ICO receive tokens as a proof of investment. These grant the holder certain rights or benefits depending on the structure of the ICO. Rocky Mui, Senior Associate at Clifford Chance and an ICO expert, notes that typically there are three structures that companies issuing ICOs use:

1. **Entitlement to income or payment:** this structure gives the holder of a token entitlements similar to shareholders' rights, such as a share of the company's profits, dividends or distribution of surplus assets. The token may also be used to create a debt owed by the issuer akin to a debenture. This is very similar to a securities-style instrument and can fall under securities regulation in certain jurisdictions.
2. **Tokenisation of assets:** this structure gives the token holder part-ownership of certain underlying assets, such as shares or physical goods. Depending on the assets included in the structure and the actual features of the token, these ICOs might also be regulated instruments in certain jurisdictions.
3. **Utility token:** the token could be a simple store of value (like bitcoin and other cryptocurrencies) and/or gives the holder rights to the use of a service, use of goods or access to a platform.

"Right now utility tokens are by far the most popular form of ICO," says Mui. "This is because they most closely match objectives – because in certain jurisdictions they may not be regulated as securities and this avoids the complexity that comes with that."

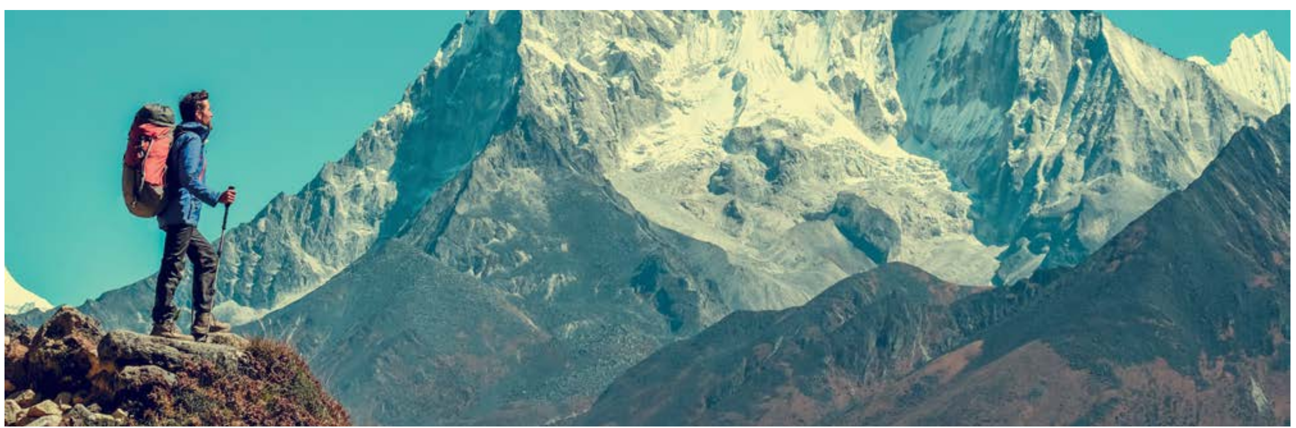
Regulatory standings

The increasing popularity of ICOs and the potential risks that they pose to investors have caught the attention of the regulators. And around the world, they are taking different stances towards ICOs, says Mui.

The most extreme regulatory approach is in markets like China, South Korea and Vietnam, where the regulators have put in place a complete ban on ICOs. In China, the regulators called them a "form of unapproved illegal public financing behaviour".

On the other hand, some jurisdictions, such as the Isle of Man, the Cayman Islands and Gibraltar have come out in support of ICOs, although it must be noted that both the Isle of Man and Gibraltar have indicated they will launch a regulatory framework surrounding cryptocurrencies this year that will provide greater oversight over ICOs.

Most markets are waiting to see how this space develops. Some, such as Hong Kong and Singapore, have issued warnings to issuers, indicating that, depending on the structure, an ICO might fall under existing securities laws. Investors have also been cautioned about the risks and are encouraged to complete their own due-diligence before backing any ICO.



Corporate KYC woes reach new heights

Despite the banks ploughing significant resources into KYC compliance in an effort to streamline the KYC process for themselves and their clients, the latest Thomson Reuters survey into this area finds that compliance challenges are increasing for corporates.

Demanding consistency

For corporates around the world, a lack of consistency is one of the biggest issues they face when dealing with bank KYC demands. To highlight this, Thomson Reuters' survey finds that 37% of corporates say that different banks ask for different documents.

Perhaps even more frustrating is the lack of internal communication/alignment within banks themselves. For instance, 26% say they were asked for different documentation by different departments within the same bank. A further 37% said they had to deal with many different people within the same bank during the process.

Unsurprisingly, because of these inconsistencies, corporates are spending increasing amounts of time dealing with KYC requests, with 58% reporting such an increase. Eighty-five percent report a poor experience of the KYC process and 12% changed banks as a result. From a regional perspective, it is surprising to see Singapore posing the most KYC issues, with 20% of corporates changing banks due to KYC-related issues.

Time not well spent

Unfortunately, the increased time and effort that corporates are spending on KYC is not resulting in faster onboarding times. Indeed, in 2017 average onboarding times increased from 28 days to 32 days.

When quizzed on how long they had to wait to be onboarded, the average time was 45 days. Just over a quarter said that they have had to wait two months or more. Looking ahead to 2018, corporates are not positive that they will be onboarded more quickly. Indeed, 24% say they expect to see a rise in onboarding times in the next 12 months.

Corporates can do better too

Once a corporate is onboarded, the KYC work does not stop there for the banks, who must ensure they hold adequate and up to date information on their customers. The onus is very much on the corporate to provide this information and Thomson Reuters' survey finds that many are not living up to their side of the bargain, with 30% having not updated their banks with vital information around organisational reviews.

Again, the amount of time it takes corporates to update this information with their banks is holding them back. The survey finds that corporates on average spend 30 days bringing their banks up to date with such material changes and 28% expect the time they spend doing this will increase.

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Corporate payments

There is a lot of talk about payments innovation in Asia Pacific at the moment, but what solutions are corporates actually using?

Lewis Sun

Regional Head of Product, Asia Pacific

HSBC

The payments landscape is undergoing a deep and wide transformation, creating the opportunity for innovation. Successful innovative solutions are those that address specific problems that corporates face in paying and collecting their dues domestically and internationally.

For example – India's large mobile network operator aims to reshape its customers' payment experience by providing a digital way to pay their phone bills and top up their credit. The operator – who has over 100m telecom subscribers, previously facilitated a traditional way of bills payment and purchases of credit, either through branch or distributors. This posed operational challenges, inconvenience, and delayed realisation for the operator.

To address this problem, the operator opted for Unified Payment Interface (UPI) – a digital solution which enables a payment through a smartphone. The solution empowers its customers with a fast, secure and around the clock payment option, with a wide coverage across the country's bank accounts. HSBC created an innovative payment solution by combining UPI with a dynamic virtual payment address, which helps to automate the operator's top-up and bill collections by accurately identifying the payor and the related bill/invoice. The instantaneous transfer of both value and accurate information for millions of users led to significant improvement in operational efficiency, business turnover through faster credit top-up and customer convenience.

On another front, advancing globalisation has enabled corporates to manage a larger base of international suppliers/customers, and this, in turn, has encouraged the growth of cross-border open payments. This can be linked to a real case study, where an Australia-based travel platform found that their supplier payments processes were inefficient and risky. Following significant growth and successful expansion, the customer had to manage several accounts opened in different markets and realised that they were making a higher volume of small payments to suppliers in different countries and currencies, using expensive and error-prone cross-border payment mechanisms.

Recognising that the process was too cumbersome to manage, HSBC proposed an innovative payment solution which simplifies global payments and minimises the cross-border banking fees through direct access to domestic clearing systems, using a product called Global Disbursement.

The solution is aligned to the customer's centralisation strategy, enabling them to make cross-border payments using only one account – one remittance file for multiple payments distributed globally in different currencies. This, in turn, helped the customer to improve efficiency through streamlined payment processes, reducing transaction costs by utilising in-country accounts and giving them greater control over payment flows.

Innovation in payments is rapidly developing, driven by evolving patterns of consumer and corporate needs. As the journey of the payment innovation progresses, the best value will be achieved from solutions that unearth and address the unmet and anticipated needs of corporates.

Stella Lim

Head of Corporates, Asia Pacific

SWIFT

Asia Pacific continues to push the boundaries of technology. The region is fast becoming a hotbed for fintech innovation, including new payments initiatives rolled out by both the public and private sector. McKinsey predicts that by 2020, the global payments industry will generate an estimated US$2.2trn in revenue, over US$400bn more than the figure for 2015 (US$1trn).

While it all seems promising, unfortunately, historically there has been a lack of solutions for today's corporates that address the issues of speed and transparency when it comes to payments. Today, customers are demanding not only faster settlement, but also improved customer service around their international transfers. It's often difficult to track and trace cross-border payments as there is no confirmation or receipt of payment by the beneficiary, and most of the time they are not reflected real-time.

Banks are starting to address this issue by offering an enhanced cross-border payments experience to their corporate customers. Recently, DBS became the first bank in Singapore and Hong Kong to execute cross-border payments with end-to-end corporate payments tracking in these two markets, leveraging on the SWIFT global payments innovation (gpi) service. Gpi is a solution that resulted from a collaboration between SWIFT and the global banking community, which has rapidly become the new standard in cross-border payments. Since January 2017, more than 120 leading transaction banks have signed up, 30 of which are already live and performing real transactions using the service. To-date, over three and a half million payments have been processed using SWIFT gpi.

In the past, corporates and SMEs have struggled to track cross-border payments, as these transactions are routed through multiple banks, with different processing times that can take up to five days. Gpi payments are credited within 24 hours from initiation – mostly within a few hours and even minutes – which means corporates can now track their payments in real-time and get confirmation of that credit directly from their banks. This is made possible by an innovative payments tracker that comes with gpi. The Tracker is a cloud-based application accessible via APIs, and banks are using these APIs to embed the gpi Tracker information into their payments flow applications and front-end platforms.

While the current first phase of gpi focuses on business-to-business payments and helping corporates grow their international business, the second phase will include additional digital services to further transform the cross-border payment experience, such as the ability to immediately stop and recall a payment, no matter where it is in the correspondence banking chain.

The financial industry is facing unprecedented changes, driven by regulation, customer demand and technology evolution. Globalisation and digitalisation have encouraged companies of all sizes and sectors to internationalise their businesses. However, under the current correspondent banking model, banks need to monitor their overseas accounts via debit and credit updates and end-of-day statements, causing inefficiencies and significant costs along the way. Already, gpi banks are exploring how distributed ledger technology could help speed up the reconciliation of their nostro accounts. Innovation is an ongoing process, but to start with, corporates need to be equipped with the right solutions to enable better cash flow management and increased speed and visibility on critical payments.

Shirish Wadivkar

Global Head,
Correspondent Banking
Products, Transaction Banking

Standard Chartered

Payments innovation is a hot topic for discussion due to the following reasons:

- The rise of the platform application based economy – the reality is that the financial supply chain (making payments and receipts) has fallen behind the on-demand/real-time international service models followed by corporates.
- Multi-regional regulatory push for creating 24/7 real-time domestic payment rails and open banking via APIs.
- The potential for a better tomorrow through the technology that made bitcoin possible – distributed ledger technology.

These factors, combined with the lack of significant changes to the incumbent infrastructure for payments since incubation, make it ripe for disruption by fintech firms with a fresh pair of eyes.

Corporates making payments have a need to ensure that solutions provided are reliable and timely. These mission-critical examples of moving money define how an organisation is perceived in terms of ease of doing business with. This explains corporates' inclination towards improving the certainty and timeliness of transactions. The expectation is that primary financial intermediaries, which are predominantly banks, are to improve the way payments are made.

Though a bulk of corporate payments are still going through payments rails with their banking partners, some early adopters are experimenting with new payment technologies directly with fintech firms for both cross-border and domestic payments. As their financial services partner, banks are held accountable to provide tested, reliable and secure connections to new value transfer networks.

Standard Chartered is helping its clients, corporates and institutions alike, by providing multiple payment methods given the nature of the supply chains they transact in. The drive to provide a wider payment optionality, via our payment connections, is a key component to becoming the core bank for our corporate client relationships. This need led to the development of the bank's proprietary connections to over 17 mobile wallet partners in 14 markets as these services have become more relevant and significant for commercial B2B, C2B and B2C payments.

Understanding the importance of collaboration and co-creation, we are also working along with the corporates and third-party providers. For example, the bank is integrating its existing infrastructure to enable payments through social networks payments networks such as WeChat and 24/7 real-time payment channels like UPI.

Two other initiatives that Standard Chartered is involved in are our collaboration with SWIFT gpi and RippleNet. SWIFT gpi through its existing infrastructure has a much wider industry adoption, RippleNet is a redesign of the existing cross-border payments infrastructure.

Next question:

"Can treasury live without Excel spreadsheets?"

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

What does 2018 have in store?

Compared to the major political and economic upheaval of 2016, 2017 was relatively calm. But what will the next 12 months bring? And how can treasurers begin to take advantage of new and emerging technologies in the year ahead?

Twelve months ago, the world was still reeling with the impact of unexpected world events in the form of Brexit and the election of President Trump in the US. Many were concerned that further shocks could dominate the headlines in 2017 – and consequently caution and uncertainty were uppermost in treasurers' minds.

Another year on, has this changed? "In some ways, geopolitical risk is less front and centre of mind today than it was a year ago," says John Feeney, Head of Global Corporates at Lloyds Bank. "One of the great concerns for 2017 was European risk, with quite a few key elections on the horizon. We've moved through that period – and broadly it's a calmer European political landscape today, and a much stronger European economic picture as well."

That said, Feeney points out that whereas a year ago President Trump was a concept, "he is now a reality. There was a lot of uncertainty about whether President Trump would be different from candidate Trump, but we've now seen that the two are very consistent in terms of the approach taken by the United States administration. The expectation that comes from that is that there will be surprises through the course of the year."

Brexit, meanwhile, continues to dominate headlines. With continuing uncertainty around the process and the ongoing relationship between the UK and the EU, Feeney notes that Brexit is still "front and centre of treasurers' minds". Consequently, 2018 will see a "huge focus" on the progress of the political and economic settlement with the EU, and the ongoing trade relationship.

Rising rates

Also significant is the question of how the interest rate environment will develop in 2018. Last year saw the Bank of England finally raise interest rates for the first time in a decade, albeit by only 0.25%. In the US, meanwhile, the Federal Reserve increased rates in March, June and December, with three further increases expected this year. And in Europe, the ECB has begun the process of scaling down its quantitative easing programme.

"We have had a decade of ultra loose monetary policy, and indeed there are many people in treasury teams who have never seen an increasing interest rate cycle," comments Feeney. "They are used to funding being ample and diverse and, in many cases, have never experienced difficulties in managing access to liquidity." Consequently, Feeney says that if interest rates rise above and beyond the market's expectations, "it may ask new questions of treasury teams which may not have been through this before."

Feeney says that a combination of factors – such as access to relatively cheap longer dated funding, the apparent turn in the interest rate cycle and the likelihood of further geopolitical drama on the horizon – means there is currently an interesting window for treasurers who may wish to take advantage of very supportive conditions while they last. He adds, "we've seen quite a few clients take advantage of this."

Developments in Asia

In Asia, meanwhile, "currencies have stabilised – in fact, some of them have appreciated against USD – and emerging markets have performed better than people were expecting last year," notes Gourang Shah, Head of Treasury Services Solutions for Asia Pacific at J.P. Morgan. "So for me that was the biggest change in terms of people's expectations at the beginning of 2017 versus what happened, which in a way was a positive surprise for many people."

> One of the great concerns for 2017 was European risk, with quite a few key elections on the horizon. We've moved through that period – and broadly it's a calmer European political landscape today, and a much stronger European economic picture as well.
>
> John Feeney, Head of Global Corporates, Lloyds Bank

At the same time, however, companies have had to take more restrictions into account when moving money out of China or Malaysia. In November 2016, Bank Negara Malaysia re-enforced rules prohibiting offshore ringgit trading – a move which Shah says had a continuing impact on treasurers in 2017. In China, meanwhile, regulators took steps at the beginning of the year to restrict the movement of renminbi offshore, although this was later relaxed in April.

"Treasurers have certainly had to adapt to these changes," said Shah. "Of course, these changes have made cash more trapped in certain markets – but at the same time, with negative rates in Europe and dollar rates not very high, people have started sweeping less from Asia into Europe. Yield in the developing world is low compared to historical standards, but it's high on a relative basis compared to the developed world. This I think has played a role in keeping more liquidity in Asia."

Shah adds that this could change if tax incentives make it more attractive for companies to move surplus funds to developed markets. "But the operating liquidity in Asia is growing: most companies have got a higher revenue share here, and they'll have to keep that money here for managing their businesses. Everybody is looking for growth, and it's coming from Asia."

Technology

Geopolitical risk continues to be a concern for treasurers around the world – so how can treasurers make sure they are fully equipped to manage the challenges that lie ahead?

"Geopolitical risk is and has been a part of the world we live in," comments Peter Seward, ION Treasury's VP of Product Strategy for Reval. "Clearly there are ongoing developments in areas such as North Korea, the Middle East, Britain and the EU that can have meaningful effects on FX, interest rates, the availability of funding and overall government policy and regulation." But while it is always difficult to assess the impact of geopolitical events as they are happening or in advance,

Looking forward

Three treasurers share their plans and priorities for the year ahead:

Rick Martin, Group Treasurer, GasLog

"Being in shipping, we are always mindful of any trends towards protectionism," comments Rick Martin, Group Treasurer of GasLog Ltd, which specialises in the transportation of liquified natural gas. "So far, it would seem that it is more talk than action, which is good news – and not just for us, either."

Also key for the company is the continuing growth in demand for natural gas (methane). Martin explains that trends in China and India towards cleaner fuels are helpful, as is Korea's move away from nuclear power. He adds, "we welcome the opportunity not only to grow our business, but to help reduce the global carbon footprint as well."

Combined with the supply/demand balance for LNG shipping moving into more favourable territory, Martin says "we are looking forward to 2018 – albeit without ever letting down our guard in what can be a quite volatile market."

Marianna Polykrati, Group Treasurer, Chipita

As the Group Treasurer of Greek food company Chipita, Marianna Polykrati has been paying close attention to geopolitical risk in recent years. She notes that 2018 is a year that will probably be "quite vulnerable to geopolitical developments, with a main focus on the Brexit finalisation and the effects on the European Union."

Nevertheless, she has plenty of plans for advancing treasury in the year ahead. As in 2017, she says the top priorities include the automation of treasury, "since we consider that the treasury digitalisation era has started, and the IT landscape shall be materially changed in the near future." She notes that a side effect of this automation will be the increasingly higher levels of fraud and the safety measures that need to be taken as a result – a concern which is another priority for Chipita's treasury.

"And as always, we are investigating solutions to make the treasury function more effective within our Group, focusing on in-house bank set ups, cash flow management and seeking alternative funding sources," she says.

George Dessing, Senior Vice President Treasury & Risk, Wolters Kluwer

George Dessing says that with the world becoming more 'global', complex, connected and volatile – and therefore more uncertain – the information, software and services provider is "translating these projected trends and possible risks into opportunities."

For example, he says that Wolters Kluwer is protecting its people, environment, assets and reputation by investing in programmes such as a cyber risk governance framework and incident management and crisis communications. "Furthermore, proactively we translate these risks into new and innovative ways to help our customers," he notes, adding that digital and services now represent 88% of the company's total revenues.

Where priorities for this year are concerned, Dessing plans to "stay ahead of the curve by being closely connected to our business, whereby we are further building on our internal treasury and risk communities as a key enabler for integration and adding value to our business." He adds that other upcoming challenges include US tax reform, GDPR, and new IFRS regulations relating to leasing and derivatives.

Seward says that treasurers always need to be proactive and prepared – and that technology "can really help codify information in real time and model possible outcomes and their impacts to treasury".

For example, Seward points out that treasurers will need to be ready to comply with new leasing and hedge accounting regulations coming into effect across North America, EMEA and Asia Pacific. Likewise, treasurers will need to understand the impact of increasing interest rates in the US and the end of quantitative easing in Europe. "Scenario planning and simulation tools are key in assessing the impact events may have on treasury," he comments, adding that treasurers "need time to assess and implement system changes to comply with any new regulations that will impact their organisation."

With an eye on market developments and upcoming regulatory changes, it may be an opportune moment for treasurers who rely on spreadsheets to consider how more sophisticated technology could help them manage their risks and operate more effectively.

"FX exposure and cash forecasting is still often performed via a series of spreadsheets and manually pieced together through reports," comments Andrew Marshall, Managing Director of consulting and technology solutions provider Covarius, pointing out that these manual processes can be slow and inherently prone to significant errors. "By turning to data lakes and outsourcing the analysis of this kind of data to machine and predictive learning services, treasurers can begin to realise some incredible insights around cash forecasting and FX exposure."

New and emerging technologies

Treasurers may also be paying close attention to new and emerging technologies, from APIs to AI. Meanwhile, development continues in the area of blockchain: notable

> Clearly there are ongoing developments in areas such as North Korea, the Middle East, Britain and the EU that can have meaningful effects on FX, interest rates, the availability of funding and overall government policy and regulation.
>
> Peter Seward, ION Treasury's VP of Product Strategy, Reval

projects include the Digital Trade Chain initiative, a trade finance project which is being built by a consortium of seven banks. But from a treasury point of view, real progress is still some way off. "There is still a lot of hype," comments Sven Lindemann, CEO of Hanse Orga. "We have connectivity to a payment service provider who is also offering blockchain payments, but we do not really have existing customers with existing use cases today. From a technology standpoint we are ready to receive files and pay files via blockchain – but when it comes to interesting use cases, I think that's what everybody is waiting for."

It may be a while before some of these developments translate into viable opportunities for corporate treasurers – but it's never too early for companies to begin exploring the potential benefits. "Everybody has been talking about the technology revolution and we are hearing a lot from people who are talking about data analytics, APIs and robotics," says J.P. Morgan's Shah. "However, most treasurers are actually a few steps away from this: they hear about the developments, but they don't know what the value is to their own organisations. Many companies have therefore created a digitisation expert whose job it is to figure out what makes sense of these technologies and how to implement them in their own ecosystem."

Questioning assumptions

In light of all these developments, there are plenty of opportunities to pay attention to this year – alongside the numerous challenges. "I think 2018 is going to be an exciting year," concludes Feeney. "I suspect change will come and there will be moments of drama. From a treasury perspective, the key thing is to expect the unexpected, keep appropriate flexibility of funding and keep plenty of healthy banking relationships. At the same time, this cultural evolution is a very important point – it is a time when we're going to have to question some of our long-held assumptions and innovate more than we are seeing now."

Embracing innovation

Andrew Bateman, Head of Corporate Liquidity and Bank Treasury at FIS, predicts that 2018 will bring continued innovation across all areas of treasury and risk, "but especially within the areas of payments, fraud mitigation and artificial intelligence," noting that demand for advanced fraud mitigation technology has never been higher.

Meanwhile, as a result of continuing cyber threats, Bateman says that treasurers have been "tasked with playing a greater role, in co-operation with the CTO, in understanding and mitigating cyber risks, and have therefore pushed technology vendors to strengthen their security offerings." He predicts that increased need in the market will result in improvements in preventative, detective and machine learning security.

APIs

Where other developments are concerned, Bateman predicts that advances will be made in payments automation and simplicity. "FIS recently worked with Citi to enable real-time payments for corporate treasurers through Citi application programming interfaces (APIs)," he notes, adding that the increased availability of API technology will transform how financial services are going to be both consumed and provided.

Artificial intelligence

Bateman also predicts that artificial intelligence (AI) will begin to have strong, practical benefits for treasurers in 2018, "as organisations seek solutions which can not only process data, but learn from that data in order to improve analytical output and reduce human intervention in decision making."

He adds that liquidity management and payments processing are two areas which could lend themselves to AI improvement. "On the payments side, there is an opportunity for systems to better learn from payment histories, using counterparty and value data in order to improve the identification of potential fraud, or to identify opportunities for lower cost channels, or payment types," he says. "Liquidity management, specifically cash forecasting, on the other hand, should be able to use a history of data in order to better predict future cash flows.

As a result, Bateman says that treasurers "should expect an AI-enabled world to introduce itself over the next several years, within individual functional components of their software."

Celebrating in style

Asia Pacific is a truly dynamic and forward-thinking region when it comes to corporate treasury. This was highlighted once again at the Adam Smith Awards Asia 2017 Gala Presentation Lunch when the best and the brightest in the region came together to celebrate their success.

Recent years have been especially challenging for treasury professionals around the world. Unpredictable political events, market volatility, rapid technological change and evolving regulatory regimes are just a few of the trials that treasurers have had to overcome. And all of this is taking place against a backdrop of increasing cost pressure and an ever-expanding role.

Those teams that picked up an Overall Winner or Highly Commended Winner award this year should therefore be especially proud of their achievements. And what is particularly notable is that many treasury teams in Asia are moving beyond simply trying to drive efficiency gains and process improvements within the silo of the treasury department; instead, they are reaching out into the business, acting strategically and helping increase profitability.

The Adam Smith Awards Asia recognises this work and over the past four years has gained a reputation for being the leading treasury awards programme in the region. This year we received over 200 submissions and the quality of the nominations was the highest that we have seen, showing remarkable creativity, resilience, collaboration, determination, teamwork, innovation and sheer hard work.

Commenting on the awards and the success of our winners, Sophie Jackson, Associate Group Publisher, Treasury Today Group says: “The 2017 Adam Smith Awards Asia Gala Presentation Lunch was a fine display of the region’s best and brightest corporate finance talent. It is wonderful to see that within the four years that the programme has been launched in Asia, it has become the regional industry benchmark for corporate excellence. I would like to offer my sincere congratulations to all of this year’s winners and to thank everybody who has been involved in the programme to date.”

Time to celebrate

To celebrate their success, all the winning corporates and their banking and technology partners were invited to the prestigious Four Seasons Hotel in Singapore for the 2017 Adam Smith Awards Asia Gala Presentation Lunch on Monday November 13th.

The record number of attendees who had travelled from right across the region filled the venue and there was a distinct excitement in the air as old friends and colleagues reconnected and shared stories of their success.

After a vibrant networking session, John Nicholas, Research Director at Treasury Today Group formally opened the event by welcoming all attendees and commenting on the great work of the corporate winners. "2017 really has showcased the Asia Pacific region's ability to overcome ever-increasing challenges and an Adam Smith Award is justifiably recognised as the ultimate industry benchmark for corporate treasury best practice," he said.

Following lunch, it was time for the crystal awards to be presented by Associate Group Publisher, Sophie Jackson, and Editorial Manager, James Hayward. The pride that accompanies such recognition was clearly visible on the faces of each winner and images of their awards were quickly being shared with colleagues, friends and family via social media.

Exceptional work

It was Chinese technology giant, Lenovo, that took home the prestigious and highly-coveted Top Treasury Team Award for overall excellence. Lenovo's multi-year project has seen it create a unique global treasury based out of Singapore to handle the complex operating model across its global footprint. The results are outstanding, resulting in significant cost savings, efficiency gains and a treasury well placed to better support Lenovo's business both now and in the years ahead.

In more detail, Lenovo has worked hard across four key pillars:

Liquidity management: Lenovo wanted instant visibility over its cash flows and to be able to deploy its cash efficiently. To do this it has built a strong automated infrastructure for management of liberal currencies through an "against the sun" global sweep structure involving 16 countries and eight currencies. In emerging markets, more bespoke structures were put in place. Additionally, Lenovo has worked to enhance the return on cash by actively managing the global pool header account and deploying long-term cash for debt repayments and short-term cash in liquid money market schemes via an online tool. These structures have helped Lenovo in counterparty risk management, liquidity optimisation and added profit and loss of US$28m of interest income for the US$3bn cash under management.

Treasury integration: Lenovo has been working to restructure its business offering and internal organisation, including corporate spin-off, diversification and ownership reform. These changes required the restructuring of all treasury touch points from new account opening, setting parallel liquidity structures, payment infrastructure, collections framework, cash flow reporting and many others. Lenovo underwent a vertical and horizontal integration with a sense of urgency, requiring front-to-back reorganisation from policy, process and systems perspectives. An important element of its success was the company's model of being highly centralised, controlled and having a fully digitised execution.

Working capital efficiency: as Lenovo continues its global expansion and focus on restructuring, its need for working capital to support its business growth and deleveraging has grown considerably. Lenovo's working capital management team adopted a targeted approach to focus on both sides of their balance sheet, reducing the sales cycle (DSO) and extending the payments cycle (DPO). These goals required tailored solutions to fund Lenovo's working capital goals. Key

> Winning this award is my greatest achievement in my career to date.
>
> Ariel Liu, Treasury Manager, Johnson Controls

solutions implemented in the last 18 months have resulted in incremental working capital efficiency of US$925m.

Capital structure and debt management: Lenovo's team has been able to take advantage of its strong understanding of capital structure analysis and forecasting and an intimate knowledge of the capital markets to raise innovative and timely financing over the years. They currently manage a debt book of around US$3-4bn and tap various kinds of market instruments for financing the group's funding and hedging requirements. Lenovo's keen understanding of capital structure, funding requirements and capital markets, coupled with its ability to make quick decisions to take advantage of market conditions, have resulted in successive timely and successful capital market fundraisings.

All in all, the Lenovo team displays an art of distinctive change management with agility and speed. Their progress over the last 18 months, deploying complex solutions for working capital efficiency, has resulted in a net opportunity interest saving of US$60m and added to cash flow of US$2bn.

Similarly, their drive for liquidity efficiency has resulted in US$28m of additional savings.

"It is a huge compliment and a fantastic achievement," says Damian Glendinning, Group Treasurer at Lenovo. "I am especially pleased because it is for the team, I am very fortunate to have a great team that has been doing fantastic work for a long time and I am incredibly pleased that they are being recognised."

Game-changing technology

Elsewhere, AIA Group collected the hotly contested Harnessing the Power of Technology Overall Winner award for its all-encompassing technology upgrade that has given it the ability to fundamentally alter how it manages its cash, allowing treasury to add increased value to the organisation and give it a competitive advantage in the region.

To do this, AIA has deployed SAP Cash and Liquidity Management and SAP Bank Communication Management, both of which have enabled it to replace legacy paper-based transactions and approvals with a modern system while improving the overall control environment. The adoption of SWIFT has also given AIA the ability to deploy best practice security and bank connectivity standards throughout Asia Pacific while retaining multiple global and local banking partners.

"Being an Adam Smith Awards Asia winner gives external legitimacy to what we have achieved and allows us to engage with our peers in the insurance industry and others on best practice sharing and further strengthens AIA as a leader in Asia," says Gary Gray, Head of Treasury Operations at AIA.

Revolutionising trade finance

The Judges' Choice award looks for something a little bit different and this year the award went to Maersk Trade Finance.

In an era marked by instant gratification through interfaces enabling immediate procurement of services (iTunes, Amazon and Uber), the world of global trade remains paper-heavy and procedure-intensive, characterised by disconnected processes. Maersk, however, has a unique position in the heart of the supply chain of many organisations and has built a digital solution that removes friction for its customers and provides them with new financing options when shipping with the company.

The ability to secure working capital alongside a logistics solution is imperative for global trade, so with this solution, Maersk brings to its customers the first ever single window for container logistics and trade finance. The overall aim for Maersk is to drag the world of trade into the 21st century for the benefit of all market participants.

"The true success of any start-up business is measured by hearing positive things from your customers and also receiving external recognition from something as prestigious as the Adam Smith Awards Asia," says Vipul Sardana, Global Director of Trade Finance at Maersk.

Individual achievement

Ariel Liu, Senior Treasury Analyst, Johnson Controls (JCI) was this year's Rising Star. Within a short space of time, Ariel has become a pivotal part of the JCI treasury team. This is despite having to learn many treasury skills on the job.

Ariel's most notable achievement to date has been her work leading the creation of a world-class cash management structure for a new multi-billion-dollar global joint venture with Hitachi. To assist her on this project, Ariel proactively began learning Japanese with the aim to communicate better with her Japanese counterparts from Hitachi. Elsewhere, Ariel led the integration work following JCI's acquisition of Tyco. She also completed the request for proposal process for the JCH JV global banking relationship.

Commenting on her win, Ariel says that: "Winning this award is my greatest achievement in my career to date."

Another chance to shine

As always, we challenge the treasury community in Asia to do better. This is what the Adam Smith Awards are all about: recognising the creativity and ingenuity of the treasury community, and in doing so, inspiring treasurers (and their banking and technology partners) to think creatively and develop even better and more innovative solutions.

The Adam Smith Awards Asia will be running again in 2018, with nominations opening in mid-June. We once again invite corporates of all shapes and sizes from across the region to take part and we look forward to receiving your submissions. In the meantime, you can read case studies from the Overall Winners and Highly Commended Winners in our yearbook and on our website.

Window of opportunity

Treasurers are taking advantage of favourable market conditions for debt financing – but which funding routes are most attractive in the current market? Treasury Today Asia takes a tour of the world's debt markets to find out.

Raising finance is a key part of the treasurer's job – and the good news is that despite potential headwinds such as the geopolitical instability, funding conditions continue to be favourable. Published in October, the Q317 Deloitte CFO Survey found that large corporates have easy access to credit, with 80% stating that new credit is somewhat available or easily available and 90% saying that new credit is cheap.

Corporates are making the most of these favourable conditions. Indeed, this has seen corporates push overall corporate and sovereign borrowing past US$6.8trn in 2017. Data from Dealogic shows that companies accounted for more than 55% of the $6.8tn raised in 2017 via syndicated bond sales, or those organised by banks. Notable names such as AT&T and Microsoft have been leading the way.

Impact of M&A

In some cases, issuance has been driven by M&A activity: high profile deals in 2017 included Cosco Shipping Holdings US6.3bn acquisition of OOCL and BAT's US$49bn purchase of Reynolds American.

Conditions are set for corporates to look seriously at M&A this year, says Fenton Burgin, Head of Deloitte's Debt Advisory Team. "With very high cash balances sitting on corporate balance sheets, there is going to be a lot of pressure from shareholders to grow – and growing organically, when compared to M&A, looks quite a slow proposition," he notes.

At the same time, Burgin predicts that larger corporates will expand the range of M&A that they are looking at in order to drive shareholder return. This is leading to a growing focus on corporate venturing, whereby corporates invest directly into startup companies. "Essentially, when large corporates are sitting on cash in a low interest rate environment, the return on that cash is low," says Burgin. "We think there will be an increase in corporates participating in M&A processes where they are essentially looking at investments in the same way that a private equity firm would."

Pre-emptive action

In other cases, corporates have been pre-emptively raising finance while conditions remain favourable. For example, Richard King, Head of UK&I, Nordic and Benelux Corporate Banking at Bank of America Merrill Lynch, says that many of the bank's clients have been raising funding from the debt capital markets in order to increase their liquidity levels, or to pre-fund debt maturities that are coming up over the next two years.

This may be at least partly driven by a sense that there is a window of opportunity which will not remain open indefinitely. "With interest rate expectations starting to tick up, and likely to do so through 2018 certainly in the US, corporates who need additional liquidity are looking to raise it now, before the rates go up further and while markets are strong," says King.

As a result, he explains, some corporates have been raising more liquidity than they actually need: "Since the financial crisis, corporates have learnt that you can never have too much liquidity. They've spent the last few years tidying up

Choosing the right funding source

Bank loans and bonds naturally have different characteristics, so corporates have to factor in a number of considerations when deciding which route to choose. King points out that the bank term loan market provides a certain amount of flexibility. A bond is raised for a specific period, with a breakage cost typically payable if a company wishes to change the maturity. A bank loan, meanwhile, has more flexibility when it comes to early repayment.

In practice, King points out that companies are likely to make use of a number of different funding routes. "They may have a revolving credit facility for general liquidity. They may have a term loan to help their short-to-medium term financing, which they can repay depending on cash flow over the next few years. And they may have longer dated bonds for more permanent capital requirements. It's possible to build a nicely mixed funding profile between those markets."

Another point that treasurers need to consider is what the right currency mix is for their businesses, particularly in light of the impact of Brexit on sterling rates. "Considering what is the right currency mix of your debt to provide a natural currency hedge for your international business is definitely more important in this different FX world," comments Karlien Porre, who leads Deloitte's Corporate Treasury Advisory team.

King adds that while treasurers can enter into swaps in order to match the currency they are looking for – for example, by raising financing in the dollar market and then swapping it to euros – they are increasingly trying to match their underlying currency to their financing needs. "They will still do swaps, because some markets will be cheaper than others at any particular time, but they are trying to provide a more natural hedge when they can," he explains.

their balance sheets, so their leverage levels are very low and they have plenty of debt capacity, but they are also ensuring that they continue to increase their liquidity levels."

Indeed, George Dessing, Senior Vice President Treasury & Risk at Wolters Kluwer, says that in early 2017 the company refinanced a €750m bond, due to mature in 2018 at approximately 6.4%, with a new €500m ten-year Eurobond at 1.5%. He adds, "This allowed us to use the attractive rate environment to lock in long-term funding."

John Feeney, Head of Global Corporates at Lloyds, agrees that corporates currently have plenty of access to liquidity, with funding models which provide a certain amount of flexibility in case of future uncertainty. "We don't see corporates locking themselves into one specific approach," he says. "It's much more a case of keeping the appropriate level of flexibility in their funding models and ensuring there's ample access to liquidity, to be well prepared for the uncertainty that people are expecting."

Funding options

For corporates looking to raise finance this year, a number of different funding routes are available, from bank loans and bond issuance to direct lending:

Bank borrowing

Deloitte's Q317 CFO Survey found that 85% of respondents rated bank borrowing as very or somewhat attractive as a source of external funding for corporates, whereas corporate debt was rated attractive by 80%. Indeed, the survey shows that bank borrowing has largely been seen as more attractive than bond issuance for the last three years – whereas corporate debt had the edge earlier in the decade.

King says that bank term funding has seen something of a comeback in the bank market over the last 12 months. "After the financial crisis, we went through a phase where clients were mostly doing bridge-to-bonds," he says. "Meanwhile banks have been more stretched in terms of their own balance sheets over the last few years. That's now starting to stabilise, and we're seeing a re-emergence of bank term funding." King adds that there is no shortage of supply: "Aside from some particularly large M&A financings last year, M&A activity was fairly subdued overall, so there is something of a pent-up demand on the bank side to provide loan financing to clients."

Again, some corporates are taking advantage of the current window of opportunity by refinancing their existing revolving credit facilities in order to extend their maturity profile. "A lot of refinancing activity was done two or three years ago, and generally the revolving credit facilities have maturities of five years," King explains. "So a lot of clients are now looking to extend those maturities with two or three years to go – partly because they are being conservative in terms of their debt maturity profile, and partly because they are taking advantage of strong market conditions."

Bond markets – a global perspective

According to the Deloitte survey, 86% of respondents said that now is a good time to issue corporate bonds. Looking ahead to the coming year, Burgin says key questions for the bond markets will focus on the pace of inflation and how quickly interest rates rise. "Generally, as interest rates rise, bond prices fall to increase yields," he explains. "In a rising interest rate environment, you will typically see bond yields rise to match that rise in underlying interest rates."

Consequently, he says, the last six months have seen a pick up in terms of companies using index-linked bonds to shield themselves from the impact of inflation. "We think that trend will continue as people perceive that inflationary pressure might build back into the European economic landscape," he adds.

Another factor is the ECB's plan to wind back its quantitative easing programme. Burgin points out that while bond markets are strongly driven by the QE programme at present, the unwinding process is expected to be gradual – so "that mass of liquidity is going to continue to prop up the European

bond markets, making them highly attractive for issuers and keeping rates at close to record lows".

Conversely, in the US Burgin predicts that yields will continue to move slowly upwards off the back of the US economic recovery and anticipated interest rate rises, which will "inevitably widen out the gap between US and European rates". He notes that this is a somewhat unusual situation: "Traditionally US markets are lower cost than Europe, so the fact that the ECB is continuing with its quantitative easing programme is actually going to keep the window of cheap finance open in Europe for the next nine to 12 months."

Drivers in of funding in Asia

In Asia, meanwhile, different trends and catalysts are coming into play. "Historically, Asian companies are bank funded," says Gourang Shah, Head of Treasury Services Solutions for Asia Pacific at J.P. Morgan. "So if you want to get a better distribution, it may be important to add bonds to the capital structure. As Asian companies grow, they are getting more exposure to best practice in capital structure and are raising more money."

At the same time, Shah says that Hong Kong is trying to position itself as a viable option for Asian companies to look at in addition to the UK or New York. "Historically, IT companies in India have tended to raise money in Europe or New York – these locations may come with more liquidity and a better regulatory environment." More recently, Shah says that the arrival of dim sum bonds has proved to be a good step towards creating a market in Asia for RMB. He adds that progress is also being made in the regulatory environment and in making sure investors feel comfortable with the jurisdiction.

Corporate India's debt binge

One country that proved especially popular with bond issuers and investors alike in recent times is India. From March 2016 to March 2017 corporate bond sales in India were valued at US$51.5bn – a 40% increase from the previous year – according to data from Prime Database.

Driving this trend has been Prime Minister Modi's progressive economic reform, which has opened the domestic market and attracted more investors, especially from overseas, to buy Indian corporate debt. The increasing demand for this debt has seen spreads tighten, making bonds a cheaper source of financing for corporates able to tap the market.

The attractive 7% average yields on India corporate bonds saw international investors flood the market. By the end of July, foreign ownership of corporate debt surpassed 92% of the US$38.1bn quota permitted by the government. This led regulators to suspend issuances of offshore rupee-denominated bonds to stem the inflow for a short-time.

It seems, however, that if the demand is their corporates will continue to issue. This is especially true given that the Indian banking sector is currently facing a multitude of issues limiting its ability to lend to corporates.

Panda bonds on the rise?

Another exciting bond market in Asia is the panda Bond market – RMB denominated bonds issued by international companies or sovereigns in China. After the first Panda bonds were issued in October 2005 by the IFC and the Asian Development Bank, the nascent market failed to live up to the initial hype with very few foreign corporates issuing bonds.

In more recent years interest has grown, especially because of some high-profile issuances from companies like Daimler. Yet, despite this the panda bond market still only accounts for a tiny fraction of China's US$3bn onshore debt market, meaning that there is still plenty of room for it to grow.

By the end of August 2017, 42 panda bond issuers had entered the Chinese interbank market, including international development institutions, sovereign governments, financial institutions, and non-financial enterprises, from North America, Europe and Hong Kong, according to the International Capital Market Association (ICMA). This accounted for total of RMB11bn panda bonds through 57 transactions.

The ICMA believe that panda bonds may become increasingly attractive to corporate borrowers in the coming years because:

- **Funding onshore operations:** raising RMB directly onshore can simplify cash flow operations and reduce potential currency risk to match their RMB funding needs for foreign corporates with operations in China.
- **Investor diversification:** the large Chinese bond market investor base presents a significant opportunity to expand the base of creditors.
- **Liquidity:** the onshore bond market is perceived to be generally more liquid than the offshore dim sum market.
- **Marketing considerations:** issuance of panda bonds by foreign institutions helps domestic market participants to develop a better understanding of how these institutions operate, builds trust between the two sides, and ultimately fosters the sustainable and efficient operation of foreign institutions in China.
- **Global funding:** the Chinese onshore bond market, like other international markets, may present an opportunity for foreign issuers to obtain funding in their primary currency (usually USD, EUR or GBP) at attractive rates by issuing in RMB and entering into a cross-currency swap for their primary currency.
- **Market innovation:** The issue of some panda bonds to date has been motivated at least in part by a desire to be one of the first to market with an innovative transaction.

Continued opportunity

As we move into 2018, the outlook for corporate funding remains positive. Indeed, no matter what part of the world the company is looking at, there are lots of opportunity out there to raise reasonably priced debt.

For corporate treasurers, the advice is to begin reviewing their options now and perhaps take advantage of the favourable conditions whilst they exist. Indeed, Patrick Tai, Finance Director, CNOOC and Shell Petrochemicals Company Limited, who features in this editions Corporate View and whom has built a career on raising finance to fund some of the world's largest petrochemical projects says: "One issue that I see many companies have is that they only focus on debt when they need it. We work on this even when times are good so that we can call on it when we need to."

Harnessing a new era of growth in Asia Pacific

China is digitising at a rapid rate and has become the hotbed for innovation in Asia. Here, Ernesto Pittaluga, Citi's Asia Pacific Sales Head, Treasury and Trade Solutions, details what is behind this and how digitisation is also sweeping across the whole Asia Pacific region.

Ernesto Pittaluga
Asia Pacific Sales Head, Treasury and Trade Solutions

The pace of digital evolution in China is nothing short of remarkable. In an exceptionally short time, the country has transformed from being behind in the technological stakes to one at the forefront of innovation. It is now blazing a path for other markets around the world to follow. This is especially true for China's financial services sector, where fintech is booming. Indeed, data from Oliver Wyman shows that in 2016, venture capital investment in Chinese fintech firms topped US$6.4bn, representing 47% of global fintech investment[1].

A variety of forces are driving the growth of China's digitised economy. One of the most important is the regulator's 'light-touch' approach to fintech firms, which allows them to experiment and quickly bring new solutions to market. This regulatory approach has been especially beneficial for China's internet giants, Baidu, Alibaba and Tencent (often referred to as BAT) who have been able to develop a host of innovative financial solutions, such as WeChat Pay and Yu'e Bao.

These products have become widely popular in China because of the country's expanding internet user base – in 2016, China had more internet users than the United States and the European Union combined. What is more, the majority of these internet users are tech-savvy and primarily use mobile devices, which have become vital tools in their day-to-day life.

Beyond China

Although China is leading the way with regards to digitisation in Asia Pacific, digitisation activity across the entire region is vibrant. In Singapore, for instance, regulators are focusing on creating a pan-Asian digital ecosystem, especially around trade and payments. The city state's aim is to solidify its position as one of the region's leading financial centres.

India is another market taking notable strides forward. Comparably, India's digitisation efforts are largely focused on removing friction in the domestic economy and enabling the country's vast unbanked population to gain access to financial services. However, in India, it is the government, not private enterprise, leading the charge. This is evidenced through Modi's Digitise India initiative that has given launch to Aadhaar – a unique identification number based on biometric information issued to residents of India – and a new Immediate Payment Service (IMPS). Banks and fintech firms are now leveraging these platforms to bring a wealth of innovative digital financial services to individuals and business in the country.

Elsewhere, all other countries in the region are pressing ahead and building faster payment rails. Indeed, by 2020, every country in the region, bar Bangladesh, will have a faster payments platform in place. These payment platforms will act as the backbone for further innovation from banks and fintechs.

The payment experience

As well as revolutionising the financial services industry, the rise of digitisation across Asia is transforming the business landscape. This has seen the emergence of a variety of businesses who solely operate online. These businesses are disrupting well-established industries such as transportation, hospitality and commerce. Likewise, more traditional businesses are also evolving their own offerings, building eCommerce business models to scale up, drive revenue growth and remain competitive.

To achieve this, companies are thinking through how they can market themselves to reach a wider customer base, chiefly by removing any friction when accessing products and/or services. Core to this is the payment experience. It is here that treasury plays a crucial role in understanding how consumers want to pay and then working to enable the business to collect using these preferred methods.

Accepting a wide variety of different payment methods can create challenges for treasury, potentially increasing internal complexity and costs. It is here that a bank such as Citi, which is deeply integrated into core markets across Asia Pacific, can add value by working with treasury teams to seamlessly embed these different payment types into their operations.

Once the efficiency is in place, treasury can leverage the wealth of data that flows through these digital payment rails. By harnessing this data, treasury can begin to build a rich understanding of customer behaviour. The business can then leverage this information to develop more refined and targeted sales strategies, potentially creating a competitive advantage for them.

Stay nimble

Over the coming years, the opportunities for businesses to grow through digitisation in Asia Pacific will continue to emerge. Indeed, in China, McKinsey & Co predict that internet applications will account for between 7% to 22% of incremental GDP growth through 2025 – this translates into RMB4trn to RMB14trn in annual GDP in 2025[2]. Treasury departments must therefore ensure that they stay abreast of the changes that are coming and be ready to make any necessary changes to their operations for the business to thrive.

[1]www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2017/aug/FintechInChina_Hitting-theMoving-Target.PDF
[2]www.mckinsey.com/industries/high-tech/our-insights/chinas-digital-transformation

APIs: the real game changer

Over the past few years, APIs have received greater attention in financial services. Treasury Today Asia explores the benefits of APIs and discusses how this technology is set to impact treasury.

Before the advent of digital forms of communication, correspondence involved sending physical letters that took a day – or longer – to arrive. Today, using digital communication channels such as email and WeChat, individuals and businesses can communicate in a standardised way in near-real time whenever they need to.

The introduction of open application service interfaces (APIs) into financial services is set to create a similar revolution in terms of how banks service their customers by facilitating the shift from batch processing to real-time processing. To provide an illustrative example, today corporates may receive details about their account balances at set times through SWIFT MT940 messages. In an API enabled world, there would be no need to wait: corporates would be able to access up-to-date balance information via their TMS, ERP or online banking portal in near real-time.

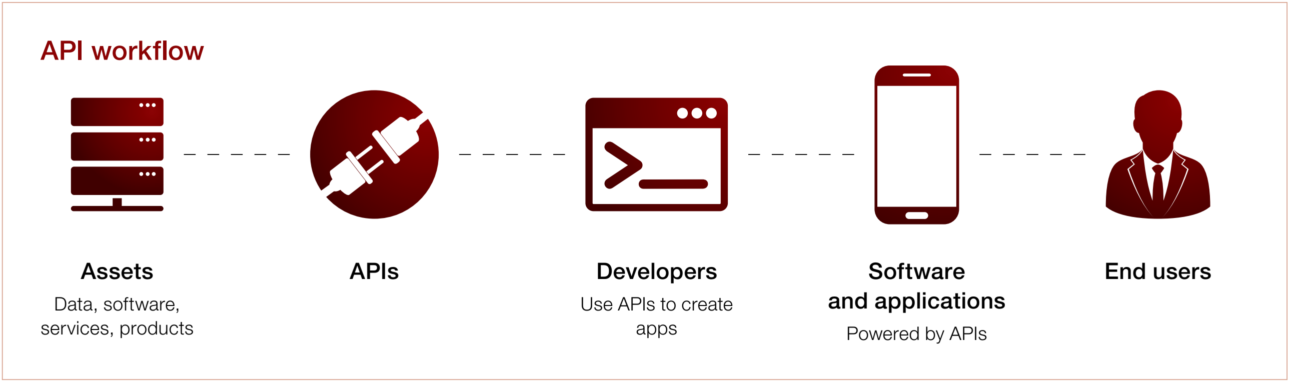
This is just one application of APIs that will benefit treasury departments. However, the transformative power of APIs will not only change how treasurers consume banking services – it will also give treasurers the chance to change the role that they play within the organisation.

APIs 101

Before diving into the transformational impact of APIs, it is worth spending some time explaining what they are, how they work and where they come from. In brief, howstuffworks.com says that an API is "a set of programming instructions and standards for accessing a web-based software application or web tool".

To expand on this, APIs essentially enable different applications to speak to each other without any user knowledge or action. In doing so, they allow an application to be programmed so that it can seamlessly access a host of different services. The aim is to add value and provide a better experience for the end user.

ProgrammableWeb – a magazine that covers APIs – compares the technology to a plug socket. It explains that around the world, a plug socket acts as an interface to a



Source: upwork.com

service (such as electricity). The plug socket can then be used to power all manner of different applications. Likewise, aside from a few differences around the world, plug sockets look and behave the same. Consequently, they provide a standardised way for applications to connect to the electrical grid – just like APIs.

While it may seem that APIs are a completely new concept – especially when used in discussions around financial services – they have actually been around for quite some time. Indeed, forms of APIs first existed in the '60s. Over time APIs have evolved, become more robust and found more use cases. Today they are synonymous with internet-based services.

As a result, many of us use APIs every day – often without realising. For example, Uber connects to several different APIs, such as Google Maps, a digital wallet and a communications platform, to deliver its services. In doing so, Uber does not have to develop its own maps, payment service and communication platform and can instead access best of breed solutions that have made their APIs open to consumption. For the end user, this means they never have to leave the app, can interact with it in real-time and ultimately, receive a good customer experience.

Gateway to the real-time revolution

Within financial services, APIs have become more prominent in recent years. A few factors are forcing this to happen, but the most powerful is arguably the regulatory pressure in Europe from PSD2. The new regulation mandates that banks publish open APIs to allow application service providers (ASPs) and payment service providers (PSPs) to offer overlay services.

Whilst there is not a similar regulatory mandate in Asia, the regulators are closely watching what is happening in Europe and are developing their own API strategies. As Morgan McKenney, Head of Core Cash Asia, Treasury and Trade Solutions at Citi, explains: "Regulators across Asia Pacific are promoting digitisation and developing real-time payment infrastructures for lower value domestic bank account payments and collections. By 2020, most countries in the region will have some form of real-time payment infrastructure. These payment systems are all API enabled and designed so that market players can plug into them and build services that benefit the end-users of financial services in those countries."

The most advanced country in Asia in this respect is India, where the government has built a host of advanced API enabled financial systems that banks can plug into. This has enabled banks such as Citi and others to create new and exciting value propositions for their clients. "Citi's Request to Pay solution for institutional clients in India is one of the most obvious examples of how APIs can help banks offer real-time services for seamless digital collections from bank accounts," says McKenney.

The solution leverages India's Immediate Payment Service (IMPS) infrastructure and enables consumers to make real-time bank debits from their account using a tokenised address, such as an email. For eCommerce companies selling in India, where card penetration is low, this solution opens the door to a much broader range of customers and gives them a low-cost collection method.

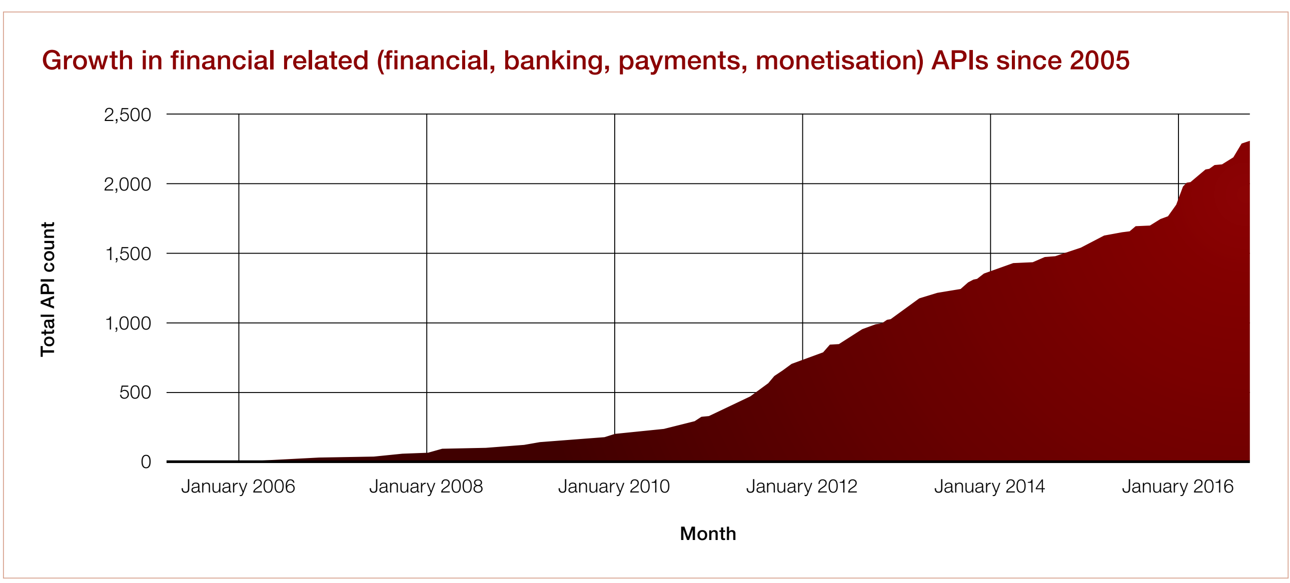
Delivering better services

In Asia, many banks are not waiting for the regulators to mandate APIs and instead are charging ahead with their own API strategies and enabled solutions. Citi, for example, has published its own Treasury and Trade Solutions suite of APIs, which enables developers to build services that can be consumed by Citi's clients. Meanwhile, HSBC will soon be rolling out a solution to SMEs in Hong Kong that will enable them to see their account balances across all their API enabled banks through HSBC's web portal.

HSBC is also working with a host of API enabled service providers to offer these services to its clients. "APIs are giving banks the opportunity to be more collaborative with the wider financial ecosystem and quickly leverage services created by third parties that can offer genuine value to our clients," says Jennifer Doherty, Asia Head of Innovation for Global Liquidity and Cash Management at HSBC.

As well as pushing banks to be more collaborative, APIs are also helping to highlight the fact that banks cannot be the best at everything. "As a bank, our core strength is in finance, not necessarily technology," says Doherty. "Once we realise this, the barriers go down and we become more willing to work with others and offer their services through APIs to our clients – it is a win-win for everyone."

This point is echoed by Gautam Jain, MD and Global Head, Digitisation & Client Access, Transaction Banking at Standard Chartered. "It is about delivering services that offer convenience, efficiency and a good experience for our customers," he says. "And if that means we have to leverage third-party solutions and offer these through APIs, then so be it."



Source: programmableweb.com

Innovative thinking

For Imad Abou Haidar, Managing Director, APAC at Finastra, the emergence of APIs is also allowing banks to become more innovative. Finastra, which provides technology solutions to banks, has been progressive with its own API strategy, making its entire suite of products API enabled and allowing third parties to build services on top of its offerings to drive innovation.

"It is about breaking down financial services into small consumable chunks that can be upgraded without impacting the rest of the technology stack," he says. "This allows banks to focus in on the areas that matter for their customers and innovate more effectively by leveraging third-party solutions or building their own solutions in house."

The ultimate beneficiary of this will be the end user of financial services. "APIs will give banks the ability to offer much more flexible and customisable services to their customers," says Abou Haidar. "For instance, at a basic level, the banks will be able to deliver better bespoke information – like the current price of crude for an oil company – through their client's banking portal. That will be useful for them in their day-to-day work."

At a more advanced level, Abou Haidar sees programmable APIs as the facilitators of an even greater experience for corporate treasurers. "Using APIs to stitch together a host of other technologies and services means that the banks could offer bespoke advice around where to invest cash, what cash might be needed later in the week and so forth," he says. "This is a genuine value-added service and those banks that offer it will put themselves ahead of the rest."

Banks will undoubtedly move at different paces and in different directions when it comes down to their use of APIs. However, it is clear that it is the direction all will have to move in. "In our personal lives we hold the providers we use very accountable for the service they provide and expect high standards," says HSBC's Doherty. "This hasn't always been the case in the institutional space. However, corporate treasurers are human and as they experience improved services in their personal life they are demanding an improved service at work as well. If they do not receive this from their current providers, they will simply find a provider that can."

Taking the lead

While many of the API services they consume will be delivered by banks, treasurers should not be passive consumers of the API revolution. Citi's McKenney says that treasurers should begin to understand how this technology might aid their business, and that they should begin to develop their own internal API strategies.

"What is happening through APIs and real-time infrastructures is that banks are laying down the platform for corporates to leverage in multiple different use cases," says McKenney. "As a result, treasurers need to work with their businesses to understand how APIs and real-time payments can benefit their own companies' product offerings and drive business growth, as well as increase treasury efficiency.

"We have one client, for instance, that worked with the business to launch a real-time collections programme using APIs that connected to a popular e-wallet solution," adds McKenney. "In a few months, the solution digitised 50% of the company's cash, creating huge cost savings. It also gave the company a lot more data that it could use to better understand its customer's behaviour and build solutions that enhance revenue. This solution was treasury-led and only made possible because of the emergence of APIs."

An API future for all

Ultimately, it is clear that the future of banking will be API enabled. What this future will look like and what it means for those that consume financial services remains up for debate. Many believe that the future of banks and financial services will look very different.

No matter what, it will be good news for treasurers. If customer-centricity really is the aim of the banks, as they often claim, then the collaborative model will not only help bring the best possible solutions to market, but will also encourage banks to be the best they can be in terms of service delivery. From this perspective, APIs are well positioned to kick-start the next generation of corporate banking services.

Fuelling a passion for finance

Patrick Tai
Finance Director

中海壳牌石油化工有限公司
CNOOC and Shell Petrochemicals Company Limited

CNOOC and Shell Petrochemicals Company Limited (CSPC) was established in late 2000 as a 50:50 joint venture between Royal Dutch Shell Group and its Chinese partner, CNOOC. It has built and now operates a world-scale petrochemical complex in the Daya Bay Economic and Technological Development Zone, Huizhou, Guangdong Province.

After working for some of the world's largest projects for over 20 years, there isn't much that Patrick Tai, Finance Director at CNOOC and Shell Petrochemicals Company Limited (CSPC), hasn't seen or done where finance is concerned. Here he outlines the factors that have led to his success and explains how he plans to take CSPC's finance department into the future.

There isn't much that Patrick Tai, Finance Director at CNOOC and Shell Petrochemicals Company Limited (CSPC), hasn't seen or done in over 20 years of working in finance for some of the world's largest projects ran by petrochemical companies. Throughout his career, Tai has worked in a variety of roles at different stages of the business cycle, gaining a complete view of the impact finance has on an organisation.

However, Tai notes that one experience he was lacking until recently was the opportunity to work in the start-up phase of a company where the focus is on vision, change management and laying the foundations of future success. The "golden opportunity" to work in this environment came in 2015 when CNOOC and Shell announced an expansion of its already sizeable joint venture in China. This saw CSPC's plant in Guangdong Province double in size, making it the biggest single site ethylene cracker in Asia. It will also become the largest petrochemical facility within Shell group.

Because of the expansion, Tai's job changed overnight. He explains that prior to the announcement he had been managing the ongoing operations of a stable business, "keeping it ticking over". Then, almost straight away, the focus was on sourcing new funding and reviewing all of the existing processes in finance. "It was like working for a completely new company," he says.

This gear change could not have come at a better time for Tai, who was seeking a new challenge. "After hearing everything that was required to deliver the project I was happy to stay after being asked by Shell to continue working as Finance Director as CSPC," he says.

Business enabler

Today, Tai is a crucial member of staff at CSPC, leading the six divisions – Treasury, Financial Control, Corporate Planning and Budgeting, Contracting and Procurement, Taxation, and Internal Audit – and 80 staff that constitute the finance function. More than just a "finance guy", Tai is also part of CSPC's overall management team, overseeing company strategy, operations and corporate governance.

Tai notes that whilst such a wide scope of responsibilities is rewarding, it does bring its challenges, most notably finding enough hours in the day to do everything. To overcome this, Tai has worked hard to build a finance team that is more than capable of handling the day-to-day operations, headed by highly competent managers who run the six divisions.

With the routine operations under control, Tai can spend most of his time looking at the bigger picture and driving the strategic direction of the finance function. "Currently, I am working out how we can upgrade and expand the usage our ERP system to improve workflow across the organisation," he says. "Other big areas of focus include streamlining our procurement processes and building a robust credit management framework so that we can facilitate commercial efforts in selling to new customers while keeping the risk at bay once the expansion of the plant is completed."

Tai is also aware that CSPC's expansion gives him a unique opportunity to review the overall impact that finance has on the organisation. Reflecting his belief that finance should be an enabler of business, rather than an inhibitor, Tai is looking to remove certain control points in such a way as to allow the business to operate more efficiently without taking on additional risk. "This is a way that finance can add genuine value to the business and be an enabler of business growth, rather than just a gate keeper," he says.

Gaining credibility

Tai's management philosophy has been tightly honed over a career spanning more than 20 years. He started his career in Hopewell Holdings Limited which was the pioneer in China's infrastructure projects. Then Tai moved to the Project Finance desk at ANZ in Hong Kong and Singapore. In this role, Tai was largely responsible for the execution and origination of advisory, with a primary focus on China.

The China project development exposure and his banking experience saw Tai gain a reputation as a structured finance guru. As a result, Shell approached him for a short-term project in 2001 that would see him lead the finance team in its negotiations with banks in China. The award winning landmark deal was the largest private sector financing in Asia. As is often the way, one opportunity led to another and 18 months later Tai was still with Shell, working in Beijing and then London as a Senior Advisor in the global M&A and Financing team.

In 2005, Tai moved back to Hong Kong, managing the group's M&A and portfolio projects in the region as Shell's Asia Downstream Portfolio General Manager. "I enjoyed this business role," says Tai. "While my previous finance roles tend to provide finance advice, in this role I worked with teams of in-house experts from across the organisation and I was fully accountable for the success or failure of a particular deal." It was at this stage that Tai began to take a keen interest in areas of the business beyond finance, realising that this could offer him the chance to continue his climb up the career ladder.

This desire to learn about the business was one of the catalysts for assuming the corporate treasury role for CSPC in 2008. "Having been largely focused on transactions my whole career, the move to treasury was appealing because it gave me the opportunity to see the real business and the impact I was having on the bottom line," he explains.

However, before Tai could learn more about the business, there was a more pressing matter – managing the impact of the global financial crisis. "Petrochemicals was badly impacted by the crisis," he says. "I was barely in the treasury role before I was having to put together a finance response plan and negotiate with banks on various financing and refinancing efforts to guide CSPC through the turbulent days. It was an interesting introduction to the world of corporate treasury!"

Shattering silos

Tai has fond memories of his time working in corporate treasury, especially because it went beyond day-to-day cash management and exposed him to areas such as insurance and risk management. This, Tai believes, helped him make the step up to Finance Director. "Any role in finance requires strong fundamentals," he says. "However, to be considered for those strategic finance roles you have to think beyond your departmental boundaries and transcend the business.

"Whilst I was working in treasury, I looked for opportunities to participate in several cross-functional projects unrelated to finance, like people strategy," he says. "The management

> Whilst I was working in treasury, I looked for opportunities to participate in several cross-functional projects unrelated to finance, like people strategy. The management committees were pleasantly surprised to see 'finance people' taking an enterprise-first mind set to deliver value to the business as a whole, not just to one department.

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Tai believes this is not always second nature for corporate treasurers – especially when they have a lot of work to do in their own departments. He therefore encourages treasury professionals who wish to become Finance Director or CFO to put their head above the parapet and stretch beyond their comfort zones.

Award-winning work

Whilst Tai has become a bit of a financial all-rounder, his speciality is fundraising. This is exemplified by the work that he began as treasurer and has since carried on as Finance Director in partnership with the new treasurer. Tai led a small core team to close a non-recourse project finance deal within record speed of four months from RFP to signing – most notably the deal was concluded without any external financial advisor. This work has not only seen CSPC achieve the most competitive commercial terms amongst any corporate in China, but has also seen it receive external recognition, in the form of an Adam Smith Award from Treasury Today Asia in 2016.

Tai explains that CSPC's exceptional operational record has helped finance achieve these results because it "makes the company a desirable investment opportunity for the banks". He also stresses that treasury must be pragmatic and create optionality by diversifying funding sources. "It would be very risky for us to rely on one tranche of funding," he says. "We have therefore worked hard to make sure that we have several competitively priced debt facilities at our fingertips when we need them."

This is an ongoing job for the finance team. "One issue that I see many companies have is that they only focus on debt when they need it," Tai adds. "We work on this even when times are good so that we can call on it when we need to."

This work has proved especially crucial in recent years as China undergoes its great shift from a manufacturing hub to a consumer and service-based economy. "This has created a lot of volatility in the market," says Tai. "As a result, some tranches of funding have dried up or become costly. This hasn't been an issue for us, however, because of the work that we have put in over the past eight years to diversify our funding sources."

For a company as capital thirsty as CSPC, the cost of borrowing can be the difference between boom and bust – so Tai is not complacent. "We continue to benchmark ourselves against our peers to ensure we are staying competitive," he says. "Internally, there is also still plenty of room to optimise and ensure that we are getting value for every dollar."

Value-adding technology

Tai's desire to get value for every dollar extends to his views on how finance teams should adopt technology. Indeed, with so much activity happening in the market, he feels that it can be easy to adopt technology that does not necessarily fit the business. "We are not overly adventurous in our use of financial technology," he says.

That said, Tai notes that in 2018 he wants to begin to learn more about the growing fintech ecosystem and join communities so that he can keep track of the latest developments. "We are probably never going to be first movers," he says. "We will only try something once it has been proven, otherwise it might do more harm than good. I am conscious, though, that this is the direction the industry is moving. It is therefore the job of a good Finance Director to stay abreast of these trends and ensure the business doesn't get left behind."

In the short term, Tai expects that the use of more technology will give CSPC the chance to make better use of its workforce. "If we can free our staff up from having manual processes, then they will be able to focus on more value-adding, strategic work," says Tai.

Forward planning

With the expansion of the CSPC plant nearly complete – it is on course to be fully operational later this year – Tai has reached a critical juncture in his tenure as Finance Director. "It is now time to work with the management committee to shape the vision of the company for the coming years," he says. "We must keep our eyes firmly on the future and push forward to achieve our vision of becoming the best petrochemical plant in China."

It is a job that Tai is excited to see through. Still passionate about working in finance, he is also invigorated by the work/life balance that he has built. "My current role doesn't require much travel or late-night calls," he says. "I can therefore focus my mind when I am in the office and work with my teams face-to-face and get things done."

Outside of the office, Tai dedicates one day a week to playing golf. "Spending time in the open is the best way to achieve peace of mind and forget the rather less-peaceful petrochemical plant in Guangdong where I spend the rest of my time," he jokes.

Raising the standards of Chinese money market funds

The Chinese Securities Regulatory Commission recently published a set of new rules designed to strengthen the Chinese money fund industry. Its aim is to create a stable foundation for future growth. Aidan Shevlin, Managing Director, Head of Asia Pacific Liquidity Fund Management at J.P. Morgan Asset Management, outlines what this all means for investors.

Aidan Shevlin

Managing Director, Head of Asia Pacific Liquidity Fund Management

J.P.Morgan
Asset Management

China's money market fund industry has grown exponentially in a relatively short space of time. Today, total assets under management (AUM) stand at around RMB6.5trn[1]. Because of this, the Chinese government has marked it as 'systemically important' to the Chinese economy.

As a result of its status, the regulators have begun to pay more attention to money market funds. Recently, the Chinese Securities Regulatory Commission (CSRC) brought in a host of new measures. These have been designed to strengthen the money fund industry by more closely aligning the rules that govern it with international standards, forcing some funds to de-risk. It is a move that Shevlin calls "a hugely positive step for the money fund industry in China".

A unique ecosystem

A large part of the growth in China's money fund industry has come from retail investors. After years of being limited to investing in unattractive Central Bank controlled time deposits, many were buoyed by the chance to invest in different and higher returning products. Money market funds (MMFs) have proven to be especially attractive. Today, they account for roughly 60%[2] of all assets invested in mutual funds in China. MMFs are also continuing to grow at an impressive compound annual growth rate (CAGR) of 70%[3] over the past five years.

"The popularity of MMFs in China is quite unique," says Shevlin. "There are various reasons that the market has developed in this way. When compared with returns on other investment options such as equities and fixed income, which have been quite volatile, money markets have posted fairly solid returns in China, with rates averaging between 4% to 7%." The influence of Alibaba's innovative Yu'E Bao fund[4], the world's largest with RMB1.4trn AUM, also cannot be overlooked, he adds.

Institutional investors have also taken advantage of the new range of investment opportunities. "There is a lot of corporate cash in China that needs a home," notes Shevlin. "With corporates wanting to make sure it is invested in diversified and safe products, MMFs, especially AAA-rated funds, have become increasingly attractive investment vehicles."

Emerging risks

Robust growth of MMFs in China has created plenty of competition. There are now over 400 funds[5], mainly retail focussed, competing for investors cash. This level of competition has brought with it a less than welcomed phenomenon. "In China, local investors primarily focus on yield over security and liquidity," explains Shevlin. "As a result, fund managers in China have increasingly sought to offer investors higher returns to differentiate themselves." This is driving some fund managers to adopt very aggressive investment strategies. Many funds have high duration profiles and have also increasingly been buying less liquid bonds, which can be difficult to sell at times of stress.

Moreover, some funds have been looking lower down the credit quality spectrum in their hunt for yield. This is a risky strategy, given the cash flow problems of weaker issuers and the increasing number of corporate defaults in China.

Finally, some fund managers have also been using leverage via repurchase agreements (repos) – where securities are lent out and the cash received from this reinvested – to boost overall returns on the fund. In a stable interest rate environment, managing a fund in this way can significantly boost its overall returns. Issues arise if there is unexpected volatility, especially at the short end of the curve, which can reduce returns, pushing yields lower, triggering outflows and creating significant issues for the fund.

"The authorities are very aware of these risks. They realise that if a fund was to 'break the buck', it could create a contagion effect, potentially impacting confidence in the entire financial system and broader Chinese economy," says Shevlin. "Because of the importance of money market funds and potential systemic risk, the regulators have realised that they need to install safeguards and curb the instincts of retail fund managers to boost yields without considering the risks involved."

Source: [1]Wind Data; as at 30 September 2017. [2]Wind Data; as at 30 September 2017. [3]Wind Data; as at 30 September 2017. [4]The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. [5]Wind Data; as at 30 September 2017.

Tighter oversight

The key objectives of the latest tranche of rules brought in by the CSRC in September last year are to create a stronger link between risk and return. They impose tighter limits to reduce concentration risk, strengthen rules that limit a fund's exposures to any single borrower, and reduce investments in assets with lower credit ratings.

Under the new regime, funds cannot hold assets (such as cash deposits or bonds) from a single bank if that holding represents more than 10% of that bank's net assets. Also, rules further state that funds may hold a maximum of 2% of its assets from a single institution with credit ratings below AAA and cumulatively a maximum of 10% in such lower rated issuers.

In addition, the CSRC has clamped down on money funds' use of illiquid assets. It has clearly defined what it considers illiquid and liquid assets, and states that funds must hold at least 10% of its assets in liquid instruments and a maximum of 10% in illiquid assets.

Finally, the CSRC is attempting to limit investor concentration. Shevlin explains that in China, funds with only one or two dominant investors create substantial liquidity risks: "If these investors were to redeem their investments, for any reason, it would have a significantly detrimental impact on the integrity of that fund that may send shockwaves through the rest of the market." As a result, he says the CSRC is forcing funds with high investor concentration to shift, to hold even higher levels of liquidity and substantially lower durations. Meanwhile, new money market funds with high investor concentration cannot use amortised cost accounting.

Investor impact

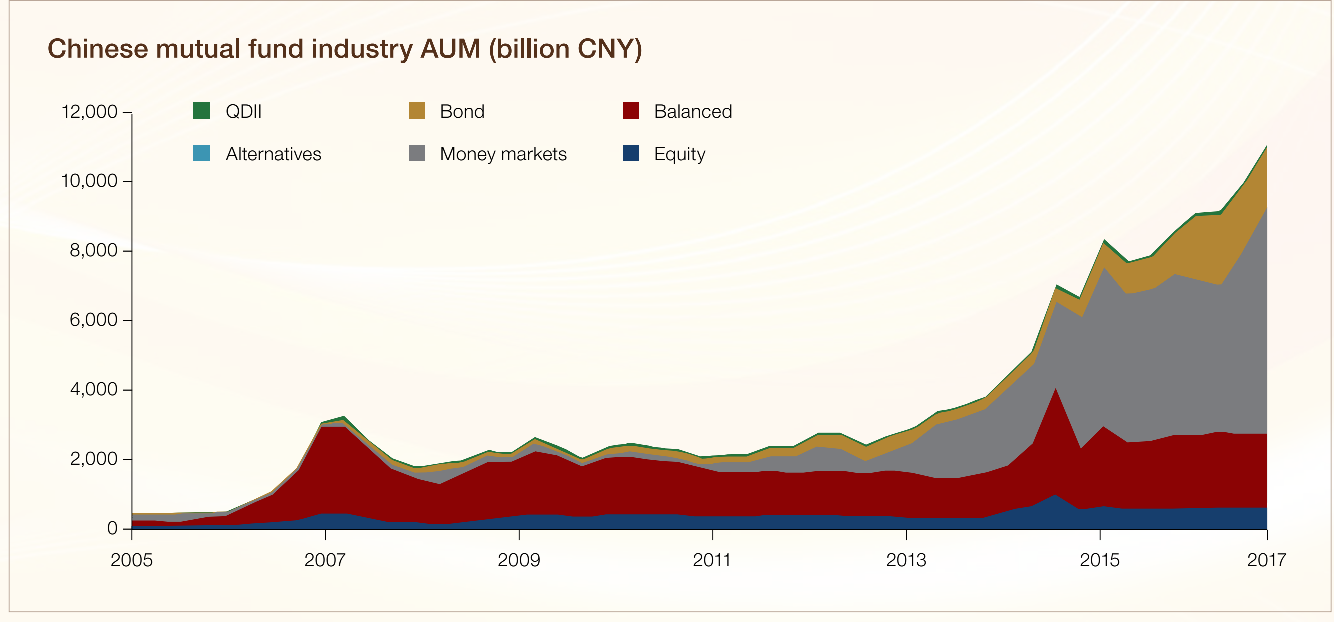
The bad news for retail investors is that because of the new CSRC's rules, the days of very high returns on their investments are over, says Shevlin. "The rules have brought down the average range of yields within retail funds, creating a lot less variability and a lot less opportunity for fund managers to manipulate the yield to look attractive." This he believes "makes the industry as a whole more stable".

On the institutional side, there is less impact. Corporates in China largely invest in AAA-rated funds which already abide by tighter rules than those outlined by the CSRC. "That being said, corporates are largely positive about the broader impact these changes will have on the money fund industry," says Shevlin. "They are also encouraged that it is being more closely aligned with how the industry works in other developed markets. This gives them the comfort to increase their usage of these products and diversify their investment portfolio in China."

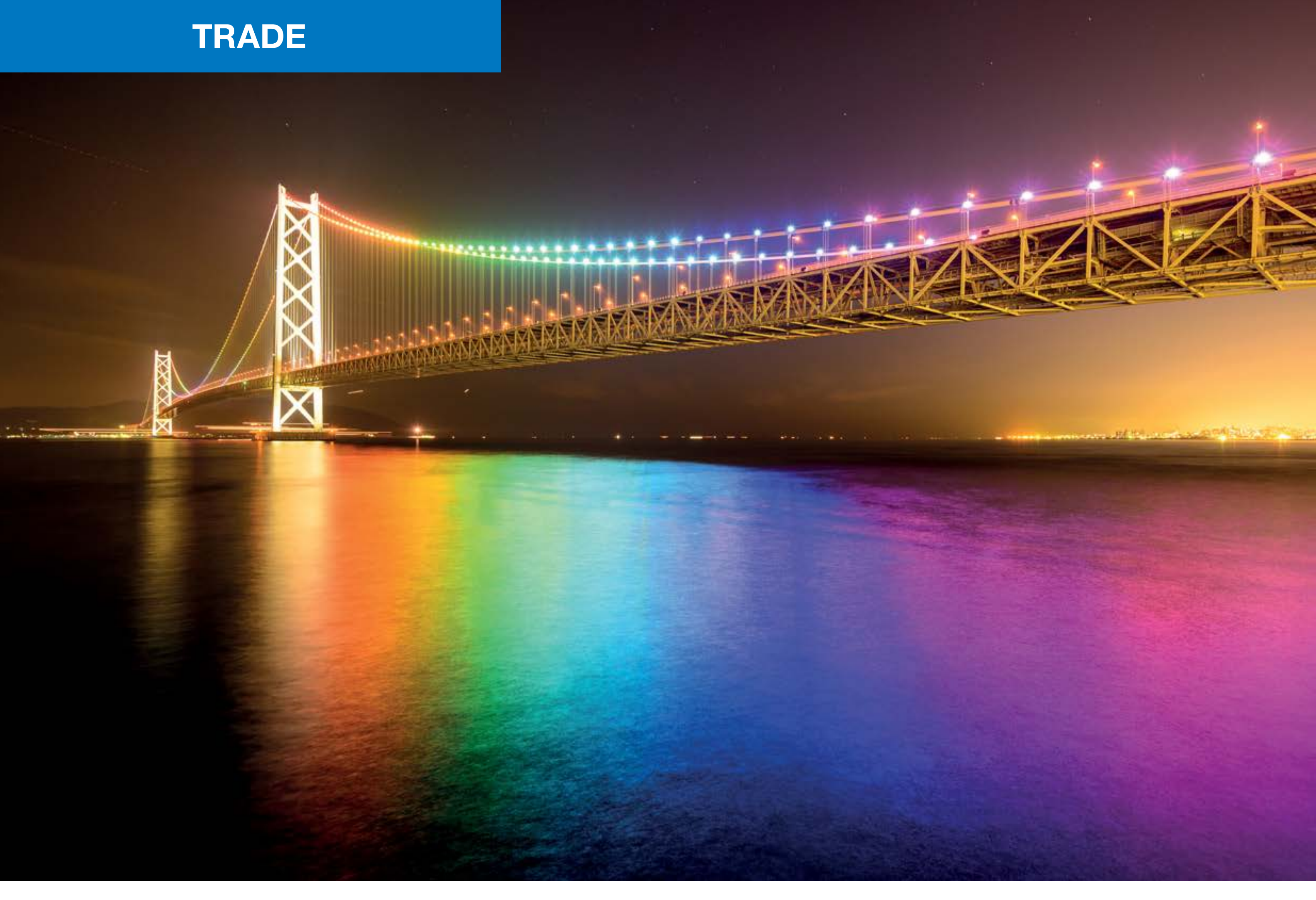
In addition to the CSRC's rules, Shevlin also comments on the Chinese central bank's rules issued in November which prohibit asset managers from promising investors a guaranteed rate of return. "This is more good news for the financial development in China," he says. "It dispels a myth that all financial investments are guaranteed by the government; they are not. Investors, particularly domestic corporates who are growing in sophistication and aiming to operate in similar ways to their Western peers, will need to do more research into their investment options. This too is pushing the market in the right direction, aligning it more with international standards."

Broader context

Overall, Shevlin sees the new rules as a positive step for the industry, enabling the money fund industry in China to expand in a controlled and secure manner. "The industry is still growing and there is lots of potential for fund managers like ourselves, so you don't want an event occurring that will disrupt this growth or destroy the industry," he says. "More broadly, these new rules closely align with China's economic ambitions over the coming five years. These focus on quality and controlled growth as the country continues to pivot away from a low cost manufacturing hub towards a hi-tech service-based economy with a strong and vibrant middle class."



Source: J.P. Morgan Asset Management, Wind Data; data as at 30 September 2017.



Building bridges

While protectionist sentiment continues to shape the economic policies of some western markets, initiatives currently gaining momentum in Asia could lead to the development of new trade corridors and opportunities, both within the region and with trading partners further afield.

In President Trump's inaugural speech, he declared, "From this day forward, a new vision will govern our land. From this day forward, it's going to be – only – America First. America First."

The phrase 'America First' has a long history: Woodrow Wilson used the same words during the 1916 presidential election, while the America First Committee was set up in the 1940s to oppose US involvement in World War II. More recently, evidence of the protectionist sentiment evoked by this phrase has not been hard to find. In January 2017, Trump withdrew from the Trans-Pacific Partnership (TPP), a free trade agreement which was also to include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. Likewise, Trump's administration is currently renegotiating the North American Free Trade Agreement (NAFTA), a pact being drawn up by the US, Canada and Mexico.

These developments have considerable implications for world trade. Natalie Blyth, Global Head of Trade and Receivables Finance at HSBC, says that trade "is more contentious now than it has been for decades", noting that from the US' decision to pull out of the TPP to negotiations over Britain's future relationship with the EU, "trade is at the heart of public discourse and it's proving divisive". Meanwhile, the pattern of trade growth has shifted over the last few years. "Before the global economic crisis trade consistently grew faster than GDP. Since 2009, we have seen a dislocation of trade, as values collapse compared to volumes, and trade growing below the rate of GDP," notes Blyth.

Indeed, since 2009 the US has passed 1,297 economic or trade measures deemed 'harmful' to global trade, according to research published by Gowling WLG – compared to 206 measures deemed to be liberalising. The survey also noted that 5,657 measures have been introduced by the EU which can be seen as actively restrictive for trade. Overall, the report noted that the number of trade measures considered to be harmful rose by over 6,000 between 2009 and 2015,

whereas the number of trade measures considered liberalising rose by over 2,500.

Impact on Asia

As Blyth points out, trade is essential for prosperity, stability and security. "According to the OECD, manufacturing workers in countries that are relatively open to trade earn between three and nine times more than their peers in closed economies," she comments. And Asia has seen the benefits of greater collaboration: "Half a century ago Southeast Asia was tearing itself apart, but this year the ASEAN bloc celebrates its 50th anniversary. Through cooperation and commerce, the member states have collectively built the world's seventh-biggest economy."

"It would be hard for me to think of any region that's benefited more from free trade than Asia," comments Atul Jain, Head of Trade Finance – Asia Pacific at Deutsche Bank. "The reality is that most nations in the region – with perhaps the exception of India – have really defined their strategies as export-led over the last few decades." Jain points out that almost 40% of global trade cuts through the region, with intra-Asia trade constituting about a third of that volume.

Jain says that rhetoric around protectionism "certainly has people worried", noting that it is becoming very much a western world phenomenon – "which is interesting, because over the last few years, these are the markets that have been promoting an open trade environment and really championing the WTO".

Resurgence of the TPP

Protectionist sentiment has certainly made its mark in the last year – and the withdrawal of the US from the TPP was particularly significant. But while the success of the TPP will obviously be tempered by the withdrawal of the US, it may not all be bad news. "There was a concern that this would have a significant impact on overall trade business – that the agreement would be dead, and every country would have to go through bilateral agreements with the others," explains Aziz Parvez, Managing Director, Head of Asia Pacific Trade & Supply Chain Finance at Bank of America Merrill Lynch. "But that doesn't seem to be the case. All of the other countries have come together, under the new name of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)."

Parvez says that while the value of the agreement would have been even greater if the US had been included, it is still meaningful. "The markets we're talking about include 500m people, with a combined GDP of US$10trn," he notes. "The agreement could potentially allow companies to move goods, services and investment between member markets seamlessly. As well as benefiting large companies, this may also benefit smaller companies which may have found it harder to navigate all the different trade rules in the past."

The rise of protectionism

The roots of the current wave of protectionist sentiment can be traced back a number of years, as Damian Glendinning, Treasurer at Lenovo, explains. "The past 60 years have seen a significant increase in global trade, as emerging countries, especially in Asia, have undergone rapid economic development," says Glendinning. "In many cases, this consisted in providing cheap labour for products assembled in the emerging market, and then exported to developed countries for consumption. Inevitably, this has led to job losses and an element of 'hollowing out' in the developed markets."

Glendinning notes that until now, this process has brought relatively little friction: "The mature market economies have focused on higher value-added manufacturing and services, while global supply chains have become the norm in many industries."

More recently, however, Glendinning explains that political events in several mature economies have started to call this process into question, with populist movements either being elected, or becoming a major political force. "The main promise is usually to take back control, and it often involves promoting the home economy by introducing protectionist barriers," he says. "The promise is usually to bring back jobs which have been 'stolen' by the emerging market countries, who are accused of not 'playing fair' by maintaining barriers to entry to their own domestic markets."

Glendinning says it should come as no surprise that this has happened: "It would have been truly exceptional if such a major shift in manufacturing presence and wealth distribution had happened without any tension or resistance at all." But the key question is how far this trend will go, and whether protectionists will be successful in reversing the movement of economic activity towards emerging markets.

"In the long run, I suspect most people will agree that protectionism is unlikely to work," comments Glendinning. "It tends to lock in uncompetitive structures and practices, and puts a stop to further innovation and development, meaning the protectionist countries simply fall further behind. Today, several emerging market economies – China and India in particular – have reached the point where the size of their domestic economies and financial reserves mean that countries initiating a trade war with them are likely to lose more than they will gain."

That doesn't mean that there will not be efforts to bring in protectionism by some countries, notes Glendinning – "particularly those where fractious domestic politics can result in impulsive actions". He also says that retaliation against protectionist moves by some countries could lead to potential trade wars, which could be 'very disruptive' to today's highly integrated global economy. "At the moment, it is difficult to assess the likelihood that this will happen – most people in global businesses hope it does not," he observes. "It is very difficult to stop progress – but progress rarely happens in a smooth, straight line."

> Both the TPP and One Belt, One Road could seriously help drive trade across the globe, opening up a lot of opportunities in the countries that are participating.
>
> Aziz Parvez, Managing Director, Head of Asia Pacific Trade & Supply Chain Finance, Bank of America Merrill Lynch

Likewise, the agreement may open up new markets for some countries. "For example, Singapore could gain access to markets like Canada and Mexico, when Singapore hasn't had any such trade agreement before," comments Parvez.

One Belt, One Road

Alongside the nationalistic sentiment arising in some western markets, a number of developments in Asia are adding some different dynamics to the evolving trade landscape. Jain says that with China taking a stronger role, the balance of power in the region is shifting – and that this is giving rise to the idea of an Indo-Pacific trading bloc, including the United States, India, Japan and Australia. He points out that this would allow the relevant countries to establish a counterweight to China's growing strategic relevance.

Meanwhile, China's ambitious 'One Belt, One Road' initiative – also known as the Belt and Road initiative – is also attracting considerable attention. One Belt, One Road is a development strategy which aims to create new economic corridors spanning more than 60 countries across Asia, Europe, the Middle East and Africa, and covering 60% of the world's population. The 'belt' is a reference to the Silk Road Economic Belt, a land-based network connecting China to Europe. The 'road' refers to a modern maritime Silk Road connecting China to east Africa and the Mediterranean.

First announced by President Xi in September 2013, the initiative could see China injecting as much as US$150bn per year into a wide range of infrastructure projects connecting China to other countries. Specific projects include the 850km long Bangkok to Nong Khai railway in Thailand, the East Coast Rail Line in Malaysia and Gwadar port in Pakistan.

"This plays to the interests of a lot of parties, and not China alone," says Jain. "If you look at China building roads into Kazakhstan, the benefit for China is clear – they increase their influence into Kazakhstan, they improve their access and ability to source oil and other commodities. But at the same time, the infrastructure that gets left behind from that is obviously a massive benefit to the local economy and the movement of goods."

Jain adds that another aspect of this initiative is that many of the capital goods being used to build the new infrastructure are coming from developed markets such as Germany, which are consequently benefiting from job creation. "What's very clear is that China, the markets impacted and the developed markets supplying equipment into these corridors, all win," he comments. "And that's fairly rare."

It's also important to note that this initiative is not happening in isolation. Parvez says that in combination, developments like One Belt, One Road and the CPTPP bode well for the future of global trade. "For me, both of these initiatives are a reason for optimism," he says. "I believe they will help drive trade growth across the globe, opening up a lot of opportunities for the participating countries." Parvez notes that the initiative is already proving relevant to the commodity space – particularly non-agricultural commodities, where these are being used to build infrastructure.

What are businesses doing?

Jain points out that the last few years have seen a number of pressures affecting trade, from the bursting of the commodities bubble to the stresses arising from AML and KYC requirements. These factors have led to a subdued environment for most economies in terms of their capex investment – and as a result, there is little evidence of companies taking a knee-jerk reaction to current developments.

"There's definitely a wait and watch approach, but also a very constructive, positive attitude, and a willingness to get into the spaces where they see the opportunity today," Jain explains. "So rather than viewing these developments as something to be cautious of, I see many clients looking at One Belt, One Road and thinking about how they can capture part of that value chain and participate in those corridors." He adds that many clients are asking about these opportunities, "even in the less obvious sectors that don't immediately make you think of infrastructure".

Jain says that one of the messages the bank is giving clients is to start looking at ASEAN as a destination for goods and services, rather than just a source. "Over the last few years, there's been a big focus on how to take advantage of the young population, urbanisation and low labour costs in order to get more production out of ASEAN," he explains. "But with rising consumerism and the growing middle class, the question is how companies can start to play on that."

That said, Jain points out that intra-ASEAN trade is still challenging: many clients have to deal with over 30 documents in order to trade within the ASEAN corridor. As a result, other developments may be needed in order to facilitate trade, from the removal of tariff barriers to the free flow of labour.

Meanwhile, Jain says another message for corporates is to centralise their treasuries. "It's difficult to predict when significant currency volatility is going to take place, and it's difficult to predict how and when capital controls will materialise. So having the flexibility to really think through that and be dynamic about how they manage treasury is critically important for our clients."

Conclusion

While the world trade arena is fraught with challenges, there are plenty of positive developments which may bring opportunities for companies in the coming years. "For me, there are considerable grounds for optimism," concludes Parvez. "Both the TPP and One Belt, One Road could seriously help drive trade across the globe, opening up a lot of opportunities in the countries that are participating. This could lead to new trade flows, auguring well for the world economy in general."

Working together and thinking differently:

charting a course for treasury management in Asia Pacific

Over the past decade, treasury management in Asia Pacific has undergone an evolution as the role has become more strategic and more closely aligned with the business. With a variety of forces creating a host of new opportunities and challenges for treasury teams we wanted to discover what the future will look like. To do this, Treasury Today Group brought together six of the region's most senior corporate treasurers and transaction bankers to discuss the big trends in corporate treasury at the 2017 Talking Treasury Forum in Singapore.

Participants

Randy Ou
Vice President, Treasury

Mark Evans
Managing Director, Transaction Banking

Chye Kin Wee
Head of Transaction Banking for Asia Pacific

Rajesh Mehta
Asia Pacific Head, Treasury and Trade Solutions

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Stephen Hogan
Vice President, Regional Treasury Asia Pacific

Chris Emslie
Asian Regional Treasurer

Moderator

John Nicholas
Research Director

treasurytodaygroup

Randy Ou

“From a treasury perspective, these are exciting times because we see more and more new technology coming in, and stakeholders working together to make the industry more efficient. This will ultimately give treasurers tools that enable them to do their jobs better and support the business more effectively.”

Corporates, what is your outlook for 2018?

Randy Ou, Vice President, Treasury, Alibaba Group: At Alibaba, we are very optimistic and excited about the year ahead. As an organisation, we are growing extremely fast and there are lots of growth opportunities for us around the world.

From a treasury perspective, these are exciting times because we see more and more new technology coming in, and stakeholders working together to make the industry more efficient. This will ultimately give treasurers tools that enable them to do their jobs better and support the business more effectively.

Chris Emslie, Asian Regional Treasurer, General Mills: I am new to the role at General Mills and have been tasked with building the Group's Asia treasury operation. As a result, the last few months have been quite challenging: I've been learning about the business and have put in place a plan for how we can become efficient and enable the business to grow here in Asia.

In terms of the coming year, I am optimistic. Asia remains a growth area for our business and will therefore continue to be a key market. My focus will be on getting the basics right by putting in place new treasury platforms and creating a more streamlined banking group. Where treasury is concerned, we will basically be coming out of the dark and into the light.

Stephen Hogan, Vice President, Regional Treasury Asia Pacific, Deutsche Post DHL Group: I concur with Randy and Chris, as I am also positive about the coming year. As an organisation, we have been very focused on the core pillars of our 2020 strategy. Treasury has an integral part to play in that and has been heavily involved in the areas of eCommerce expansion, particularly in emerging markets. This will continue into 2018.

On top of that, the more traditional treasury requirements will continue to hold my attention, such as the expansion of our payment factory across Asia Pacific. This is all about standardisation around payments and gaining greater visibility over our cash.

What about the banks? What are your key priorities for 2018?

Mark Evans, Managing Director, Transaction Banking, ANZ: Our main area of focus is making sure that the data we have within the bank is robust, so that it can be applied in a variety of different ways to add value to our customers.

On the one hand, this is a cost saving exercise which is designed to simplify and create efficiency in our back office.

On the other, and most importantly, we are doing it so that we can understand our customers and their needs better. Once we have this information, we aim to provide customers with insights they might not otherwise have and help them achieve their objectives.

Chye Kin Wee, Head of Transaction Banking for Asia Pacific, BNP Paribas: Our priority remains putting our client interests first. Our focus next year – and over the coming years – is on the customer journey and making it more efficient and intuitive. In the next two to three years, we are investing €3bn in digital transformation globally and in reimagining our processes and how our clients interact with us. At the same time, we are working with our clients to co-create new solutions and add greater value to what they are doing.

Rajesh Mehta, Asia Pacific Head, Treasury and Trade Solutions, Citi: Facilitating our customers' eCommerce ambitions is our number one priority in 2018. This is a huge growth area for the bank and it aligns with the revolution that Asia is going through at present, from people's growing affluence and spending power to the emergence of faster payment systems. By 2020, every single country in Asia, barring Bangladesh, is going to have a faster payments system in place. This is game changing and creates a tremendous opportunity for our clients to tap into the spending power of people who have access to money but no means of shopping online. We want to facilitate this growth.

In addition, we will be focusing a lot on our client advisory services so that we can help corporates navigate the changing landscape and make more informed decisions. As is the case with all banks, we will also be simplifying our operations.

To the corporates in the room, do these areas of focus align with what you want from your banking partners?

Stephen Hogan, DHL: I fully agree with the point about the rapid growth of eCommerce in Asia and this is a crucial area for our business. For treasury, a key objective of our eCommerce strategy is driving cash out of our processes, which is not easy in many markets, especially if there is not broad card penetration.

We are really looking to our banks to help us embrace the new wave of digital wallets. The challenge for our business – which in Asia Pacific spans 130 entities across 41 countries – is finding a provider who can support us with connectivity and standardisation across all these markets. We do not want lots of individual solutions.

Rajesh Mehta

“By 2020, every single country in Asia, barring Bangladesh, is going to have a faster payments system in place. This is game changing and creates a tremendous opportunity for our clients to tap into the spending power of people who have access to money but no means of shopping online. We want to facilitate this growth.”

“Many fintechs have very good solutions that work in certain markets, but they are often plug-and-play products. When you are a large organisation with shared service centres and a multitude of finance departments in different countries, that plug-and-play is not a natural way of operating and does not align with everything else within the organisation.”

Chris Emslie, General Mills: I agree, and this goes back to one of the key things that every treasurer is looking for: simplification. We treasurers are lazy and crave efficiency. We do not want these new technological trends to overcomplicate our lives.

On Mark’s point regarding banks knowing their customers, I think this is crucial. We want our banks to know which markets we are in, what we are trying to achieve and what the journey is – often this is not the case today. Once they have this knowledge, we can then plan together for how we best move forward. Going beyond that, we want our banks to tell us what we can do better. Suddenly it goes from being a buyer/supplier relationship to being a genuine collaboration.

Rajesh Mehta, Citi: I completely agree with this. One thing we are seeing from our clients – and they are explicit about this – is that they want ideas, rather than just solutions. This is very different to what banks have traditionally provided.

We have developed a host of tools designed exactly for this need. As a result, we are able to take our clients’ KPIs, run some quick analytics on the data and tell them which solutions are available to help them meet their objectives. We are also able to benchmark their data against their peers in a variety of different ways.

Randy Ou, Alibaba: It is interesting to hear the banks’ plans for the year ahead because I see a huge opportunity for them to bring new solutions to market that will be readily adopted by corporates.

There is a lot of talk about fintechs and the exciting solutions that they are developing. But as a treasurer, I must make my manager comfortable with any solution that we adopt. Will they let me use a fintech company to process billions of dollars’ worth of transactions? This is a hard sell, no matter how impressive the solution. It comes down to trust.

This is where I see the greatest opportunity for banks, because if they can acquire, white label or develop solutions that offer the speed and convenience of the fintech solutions, then corporates may be more willing to adopt these. If a fintech company has a product we like, and a bank has a similar product, we will probably pick the bank.

Stephen Hogan, DHL: I agree. Many fintechs have very good solutions that work in certain markets, but they are often plug-and-play products. When you are a large organisation with shared service centres and a multitude of finance departments in different countries, that plug-and-play is not a natural way of operating and does not align with everything else within the organisation.

We treasurers are lazy and crave efficiency. We do not want these new technological trends to overcomplicate our lives.

Chris Emslie, Asian Regional Treasurer, General Mills

In the past, when we have implemented traditional payment solutions, the banks' ability to deliver implementation teams and customer service has been very important. In my view there is an advantage there if the banks do not try to out-and-out compete with fintechs, but act as the facilitator and gateway to their solutions.

Mark Evans, ANZ: Could I just make one more comment on that? I think that banks got it wrong in terms of how to address the fintechs over the previous few years. We regarded them as disruptors that were going to 'eat our lunch'.

What has changed in recent years is that we now see the value in fintechs and banks working together. As a consequence, we now speak to them and go, 'OK, that is a really good idea, I can see the applicability of that. Now how am I going to roll that across 34 countries and 50,000 staff? And by the way, I am a regulated entity'. Many of them then look at you and go, 'Sorry, how do you spell regulated?'

So therein lies the difference. I hope corporates are going to find that across the industry, we are starting to get it. The fintechs bring innovation that we are not necessarily equipped to do – we are banks, and that generally means that we are trusted, but it does not mean that we are the most innovative.

With all that being said, how do you as corporates go about picking your banks?

Randy Ou, Alibaba: Aside from traditional factors like product, service, pricing and technology, one area that stands out to me is collaboration. I want my international banks to be ready and willing to collaborate with others in the ecosystem, such as other international and local banks. International and local banks should not be competitors in the B2B space; they should act together and then provide a good solution for the corporate treasurer.

To expand on this, what I am looking for is for my banks to have a platform strategy mindset, akin to what some internet companies have done. This means that we make a product or service that we feel is good enough and then we open it up to the world to connect to. We cannot and should not do everything by ourselves, and welcome industry players to participate together. This sparks innovation, drives scale and brings the whole world forward.

In the financial services industry, we find that this platform mindset is not there. Instead, banks tend to think they are a powerhouse or the best global bank. But you are competing with the future and you can't remain that big – it is too costly. That is why I will prefer banks that have a platform mindset because I believe these will be the ones that win out in the years to come.

Chris Emslie, General Mills: I have been quite outspoken about this, the banks have all got the same products and capabilities. Therefore, over a period of time, it has become less about products and services and more about the relationship. Yes, we still talk about service and about pricing, but it is about the relationship.

Personally, I want a strong partner who understands my business and knows how to take it forward. I also want to be able to pick up the phone and say, 'We have got this

Chris Emslie

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problem; how do you think we can move forward?' I don't expect an answer straight away, but I expect the bank to be able to say, 'Well, Chris, let's think about this, let's brainstorm, let's see how we can move forward.'

I am going to use the words 'as a team' because that is what it is. We are trying to get to the same point. You are trying to make money from me, I am trying to save money when using your services – but we are all trying to get to the same point.

Stephen Hogan, DHL: I agree with Randy and Chris on both points. Given our large geographical scope, we have quite a big panel of banks who are supportive with their balance sheets. They are in for the long term and are showing their commitment.

When we are looking into cash management solutions it is about the banks' geographical reach, what solutions they have and the relationship we have with them: these have always been important factors for me. I also want to work with banks that are well-aligned internally. This means that if I have somebody walking into a branch in Bangkok, the relationship manager in Singapore knows about it and so does the relationship manager in Frankfurt later that afternoon. The most successful banks I have worked with are the ones who have that clear communication.

Rajesh Mehta, Citi: To Randy's point about banks collaborating, I think one of the paths that will make it happen is regulation. It is unfortunate that this is the case, because the banks should have done it themselves. In Europe today, the Payment Services Directive 2 (PSD2) is mandating open banking. Every bank has to publish an API, which is essentially the wires coming out of your account, and anybody is allowed to connect to it. And the API is a regulatory standard. Once you have this mandated connectivity, there'll be a bunch of providers who'll come in and create a platform.

How do you go about bringing your different banks together, with their different geographic footprints? Chye Kin, how do you respond to what you have heard?

Chye Kin Wee, BNP Paribas: It is about collaboration, co-creation and being business partners to our clients. I believe that a bank's relationship managers are core to this as they are the ones who understand what the client is doing, and who propose solutions and bring ideas to add value to the client relationship.

Relationship managers are effectively business partners, and corporates expect them to intimately understand their businesses, industry sectors, strategies and objectives. We have a relationship management structure which mirrors that of our clients with global, regional and in-country teams to deliver a coordinated and strategic partnership to

corporates. With our 'One Bank for Corporates' approach, our clients have access to global connectivity with local expertise.

Stephen Hogan, DHL: I think it is crucial to have relationship managers specialising in industry sectors as well, going back to the 'knowing you' theme.

Rajesh Mehta, Citi: I agree that banks need to have the right mix of subject matter experts, whether they are focused on compliance or products, and also customer experts. I think the journey has been for relationship managers to understand that they are customer and industry experts, and it has taken the banks a while to understand that this is a skill. They may not be the best credit experts or M&A experts, but if they can understand the industry and the customers, we have got enough expertise centres to be able to make music. But if you do not have somebody who can listen to the audience, you are not going to make music.

Chris Emslie, General Mills: For me, the relationship manager is that point of reference. Sometimes when something unexpected happens and you are in a panic, it's comforting to be able to pick up the phone and speak to your relationship manager, who will take on board what you are saying and get the information you need.

Chye Kin Wee, BNP Paribas: Banks have adjusted their coverage in recent years to reflect their clients more closely. Within our organisation this has certainly helped us be nimbler and support our clients better.

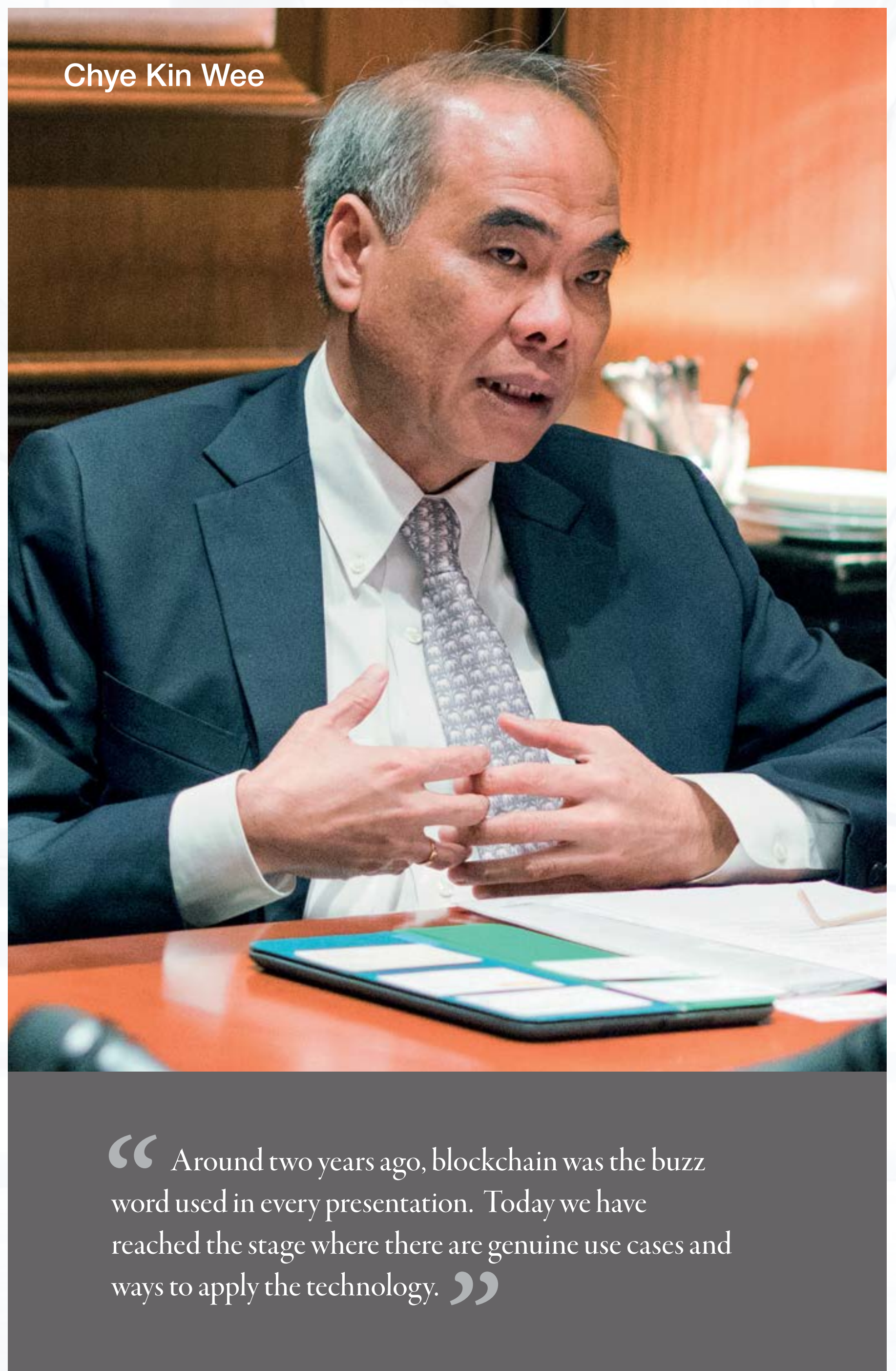
As both Chris and Stephen have said, human contact is key. While technology is the driver of change, human relationships remain critical in bringing value to clients. At BNP Paribas, we are a phone call away. We converse directly with our clients, not via automated machines. Treating our clients in a bespoke manner ensures we align as closely with them as possible, providing customised solutions for our clients' needs.

Chris Emslie, General Mills: We do not make it easy for you and that is the beauty of it! Figure out those sets of rules.

Mark Evans, ANZ: The number of times you go in, you see the head office treasurer and the treasurer says, 'right, that cash mandate is coming up, you have the chance to win the business'. And you go and see the regional treasurer and he says, 'I will never change it – I come from that bank, I'm going to stay with that bank,' so you go, 'Oh dear!'

Mark Evans

> "KYC is a huge issue, but in order for the industry to deal with it we need to stop thinking that it is going to be down to the regulators, the banks or the end customers to solve this in isolation. We need a joined up collaborative effort to help the regulators understand that despite their intentions and desires, the current regimes are not resulting in the right outcomes and are instead creating a highly laborious, expensive and time-consuming box-checking exercise."



"Around two years ago, blockchain was the buzz word used in every presentation. Today we have reached the stage where there are genuine use cases and ways to apply the technology."

On the subject of bank relationships, how big an issue is KYC, for both corporates and banks?

Mark Evans, ANZ: It is a huge issue, but in order for the industry to deal with it we need to stop thinking that it is going to be down to the regulators, the banks or the end customers to solve this in isolation. We need a joined up collaborative effort to help the regulators understand that despite their intentions and desires, the current regimes are not resulting in the right outcomes and are instead creating a highly laborious, expensive and time-consuming box-checking exercise. This means that the whole point of KYC can often be lost.

Chye Kin Wee, BNP Paribas: This point was raised at the recent Singapore Fintech Festival where the spokesperson from the Monetary Authority of Singapore (MAS) called for the banks to take a collaborative approach underpinned by technology. This obviously makes a lot of sense because compliance costs are being replicated five times over by all the banks and there is a lot of potential to cut these costs if the information is shared.

Rajesh Mehta, Citi: Agreed. We will only solve the KYC challenge once there is an agreed-upon technological infrastructure in place that can help the whole industry manage it more effectively. What is the correct solution to do this? We do not know. In India for example, the government has launched a biometric platform. You also have what the MAS is doing with the MyInfo portal. Then there are third-party players with Thomson Reuters and Markit creating common utility platforms.

Stephen Hogan, DHL: Mark, do you feel that there are enough compliance experts within the banks and are they taking too cautious an approach to how they interpret the regulators' guidelines?

Mark Evans, ANZ: Yes, we are all chasing the talent because it is a finite pool and the consequences of getting it wrong are so much bigger than they were before. As a result, over the past number of years there has been a real premium on compliance and operational risk expertise.

The second point is absolutely correct: banks are naturally cautious because there is zero tolerance for a breach. To a degree I think this is unreasonable, but the politicians and lawmakers have very few directions in which they can point the blame and the banks are the obvious ones. They do not want to necessarily hit a corporate unless it really has done the wrong thing.

The good regulators work collaboratively with the banks to understand what we need to achieve from a robust and sound financial system. That is in everybody's interest. But

We are really looking to our banks to help us embrace the new wave of digital wallets. The challenge for our business – which in Asia Pacific spans 130 entities across 41 countries – is finding a provider who can support us with connectivity and standardisation across all these markets. We do not want lots of individual solutions.

Stephen Hogan, Vice President, Regional Treasury Asia Pacific, Deutsche Post DHL Group

that is the exception rather than the rule because as much as banks are chasing compliance expertise, regulators need commercial expertise. And that is not necessarily readily available either.

Chye Kin Wee, BNP Paribas: To your point, Stephen, that compliance by itself is not a static topic: that is the challenge we have. One dimension is KYC, then there are the transactions – 'know your transaction' or KYT compliance – which add another level of complexity.

There is nothing wrong with the regulation itself – it is how it is applied that can sometimes be challenging. I think Singapore is a regulator that is forward-looking and clear-minded. In other cases, the regulatory landscape is fast-changing. We must, therefore, take a cautious approach, but nonetheless still be pragmatic.

Rajesh Mehta: Citi: I think it is clear that there is a need to move from the form of the regulations to focusing on their spirit and substance. This would remove a lot of the need for legalistic interpretation and go some way towards preventing regulations from inhibiting business.

Chris Emslie, General Mills: They certainly stop us from doing business today. That is the key issue and it makes our jobs a lot harder because it is incredibly difficult explaining to a business person that they can't do business because they don't have X, Y and Z.

We have talked a lot about technology, but I am surprised that blockchain has not come up. Is this of interest at all?

Randy Ou, Alibaba: I believe blockchain presents a huge opportunity for banks and corporates. I see genuine applicability in areas such as payments, KYC, working capital management and even risk management. But the industry and banks are moving very slowly to adopt the technology. It is too slow.

Chris Emslie, General Mills: From our perspective, we are still in the infancy of exploring the technology. But it's not just blockchain – we are eager to learn and explore all new technologies. It is exciting.

Chye Kin Wee, BNP Paribas: Around two years ago, blockchain was the buzz word used in every presentation. Today we have reached the stage where there are genuine use cases and ways to apply the technology.

At BNP Paribas, we are working through these and seeing where it fits in our own internal processes and where it can deliver value to our corporate clients. In the transaction banking space, we have been working with our clients to co-develop new services based on blockchain. An example is 'MyCollat', co-developed with Sucafina (a Swiss multinational coffee merchant) for more efficient collateral management for commodity finance transactions. Another

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Randy Ou, Vice President, Treasury, Alibaba Group

is 'Cash without borders', co-developed with the Panini Group (Italy) and Amcor (Australia), to allow real-time cash transfers within the BNP Paribas environment.

In my view, we are going to have to find ways of bringing new technologies such as blockchain through by intermediating between corporates and fintechs. It will be about collaborating so that we can bring the best solutions to market that offer the strongest value propositions to corporates – this is the direction we are heading in.

Rajesh Mehta, Citi: I think Randy makes a very valid observation. Two things in response to that. Like everybody else, we have deployed several blockchains. There is one for security settlement, which is a clear use case because it requires reconcilement. We have deployed another one for inter-company nostros within the bank because it's about having a single version of the truth.

The biggest challenge – or the biggest opportunity, depending on how you view it – is that blockchains cannot be internal and must be part of a wider ecosystem. For example, trade is ripe for the blockchain, but if it is really going to work then you must get so many parties, like customs and shipping companies, on board as well. The biggest value of the blockchain is in a multi-stakeholder ecosystem.

As a result, we are working on quite a few things, but it is going to take time for me to come to you and say, 'Here's the value'. Not because of the technology, but because we have got to get the multiple holders of the truth to agree what the truth should look like. That is the challenge.

Chye Kin Wee, BNP Paribas: This is happening on multiple fronts. For instance, what Singapore is doing with its National Trade Platform is extremely interesting because they are trying to create an ecosystem. It's extremely important to Singapore because of its historical existence as a key trading location. We're excited to be part of this because we believe co-working with industry and government partners is where we can bring real value to our clients for the long haul.

So, the subject of this has been raised, we have had meetings with Singapore Customs, and then of course with the likes of the forwarding companies and so forth to link it up. But what is also interesting is the recent announcement about a link up with the HKMA around distributed ledger technology. Ultimately the success of all this is based on your ability to create an ecosystem.

Rajesh Mehta, Citi: And rules and standards that everybody agrees on.

Chye Kin Wee, BNP Paribas: And once it takes off, then you have positive momentum for creating value. Coming back to your point, Rajesh, it is all about creating that platform and then plugging as many users into it as possible.

The MAS is pushing for banks to invest in APIs that can talk together. But one of the concerns that banks all have is around cyber-security, so that is the push and pull that's taking place. I think at some point we'll all reach a certain level of comfort, whether it's going to be in Singapore or Hong Kong – it has to take fruition somewhere, and momentum has to build from there.

Mark Evans, ANZ: We recently launched a very interesting blockchain-based solution that solved a major pain point for one of our customers around guarantees. The solution solves the customer's problem, reduces their operational risk, reduces the bank's operational risk and reduces the cost of delivery.

In this case, the upside for the customer is there and so is the upside for the bank, so there's a win-win in that. But it was not just a proof of concept, it was a pain point that we identified and blockchain was the solution in that instance.

Stephen Hogan, DHL: Yes, and from a personal perspective that white paper is the most interesting use of blockchain and distributed ledger technology because I can see it's adapted for a corporate.

Mark Evans, ANZ: And I would love to say, 'I'm delivering that to you tomorrow', but I cannot. We are working towards it: we need to bring some other banks along on the journey and get the regulators comfortable that we are sharing data and so on – but it is a step in the right direction.

What about the negative side of technology, cybercrime? How high is that on the agenda?

Chris Emslie, General Mills: For us it is extremely high on the agenda. If you had to rank our risks then cyber risk would be at the top – I think we are attacked about 100 times a day. To put this into perspective, I was in the organisation for one day and suddenly had a phishing attempt. How they did this I do not know; I didn't have business cards, I didn't have anything – but all of a sudden, I

had an email account and the email came from the CEO down to me. So that is just where it is and for us that is a big focus at the moment.

Chye Kin Wee, BNP Paribas: Safeguarding our data and technology assets is paramount in our digitalisation journey. Forewarned is forearmed – target attacks have grown in sophistication, so even preparation is insufficient.

To be forearmed requires robust and practiced incident response capability. Apart from continuous investment in prevention and monitoring tools, the ability to respond and ensure business continuity should a breach occur is crucial – which is where our training and simulated exercises come in.

Equally important in this area is education. The top causes of cyber breach are human error, lack of staff awareness of security risks and failure to follow defined processes, so it's important to educate both staff and clients around security awareness. Of course, there is the need to collaborate with fintechs for new security solutions.

Stephen Hogan, DHL: Corporates must have robust IT services to manage this threat. There must also be a constant education of the workforce – something that happens within our organisation. For instance, the IT department recently ran a test where they sent out phishing emails and monitored how people reacted. We were then told of the results, which really opened our eyes up to the threats.

Randy Ou, Alibaba: Yes, I think cybercrime is high on treasurers' agenda. That is why more and more corporates have started to embrace cloud services. The increasing complexity and costs of cyber-security makes corporates realise that this needs to be taken care of by professionals. Relying on internal IT departments will become less effective and affordable in the future.

Rajesh Mehta, Citi: I think one of the biggest issues right now is that the cyber criminals attack the weakest link in the chain. So, you can have the strongest IT, but that may not immunise you. And I think the point is, when we get hit, we sometimes get hit because of a client's laptop compromised in a car.

Each of our institutions could immunise ourselves individually, but the vulnerability is usually cross-ecosystem. What we have been doing a lot of is educating our clients that this is a workflow and that you can get hit anywhere. And I think that's where we all need to collectively have much stronger responses.

Stephen Hogan, DHL: It's the individual – the weakest link is the individual. And that is why, as you rightly say, we could have robust IT, we could have a couple of thousand people sitting in Malaysia monitoring the systems – which is the case in our organisation – but it takes one individual to click and let the criminals in undetected.

Rajesh Mehta, Citi: Or to share a password just once.

Stephen Hogan, DHL: Yes, or use a USB that has been tampered with. There are so many ways that corporates can be attacked and that is why education is key.

Chris Emslie, General Mills: Our laptops in the future will not have USB port access anymore.

Rajesh Mehta, Citi: That is the same with us.

Mark Evans, ANZ: Yes, we are doing the same. We did an education session for one of our large corporates recently and said, 'did you know that you've got people that actually never log out of the system?' And they said, 'well that can't be true'. Well, one of the people in question was sitting at the table! What she did not realise was that just shutting the browser page was not enough to log out. This education session really opened her and her colleagues' eyes to this issue. The tricky thing is that they have all been educated on this multiple times, but sometimes you just forget about it and you fall into a bad practice.

Chris Emslie, General Mills: People get lazy, that is the problem.

Mark Evans, ANZ: Yes, and we don't want the criminals around the world to be the beneficiaries of the inappropriate use of the system. So collectively we must find ways to work together and combat this threat.

What are your closing thoughts?

Randy Ou, Alibaba: It is exciting to see the changes happening in the industry, and technology creates a huge opportunity. We are very optimistic about the transformation happening in finance and this will improve not just individual banks, but the industry as a whole.

The question is, how do banks make this readily available to the clients in a cost-effective way? I think that is where the competition will be, and the ones who win will be the next generation of leaders in the financial services.

Stephen Hogan, DHL: To sum up, for treasury in our Group and finance as a whole, we're really expected to be influencing business decisions and driving business direction – that is a clear message from the Group CFO. To do this, we are very keen to take advantage of innovative technology, digitisation and new ways of thinking.

It is great to hear other corporates are heading in the same direction. It is also refreshing to hear that banks have moved on from where they were two years ago: they now understand that what corporates want is for them to embrace this and offer us value-adding solutions. This is manifesting itself in banks realising that they cannot do it all alone and looking to partner with others in the industry.

Chris Emslie, General Mills: I think from our point of view it is always a good opportunity to get everybody's perspective. We have our thoughts and the banks have their own; what is

clear is that we've all got the same challenges and the same hurdles to overcome.

My key takeaway is that on both sides of the table we are trying to be enablers, not inhibitors. We are all trying to be good business partners and we are all trying to achieve value-add, whether that means getting the best solution on the treasury side, or giving the best solutions on the banking side.

That is the best way to sum it up: we are on the same path, just on different sides. Once we converge and collaborate, I think it will be far better.

Chye Kin Wee, BNP Paribas: I am heartened to hear that the corporates are quite empathetic about the challenges we have. But I hope also we have brought home that uppermost in our mind is still the strong commitment to the client journey and to delivering a genuine value proposition to you.

Central to this is the commitment to co-work with all stakeholders. Against the backdrop of digital transformation and evolving customer expectations, financial institutions need to collaborate more closely than ever with each other, regulators and disruptors.

At the same time, what is needed is full commitment to balancing digitalisation with robust risk management and importantly, a people-centred, relationship-based approach to supporting our clients – the human touch remains key.

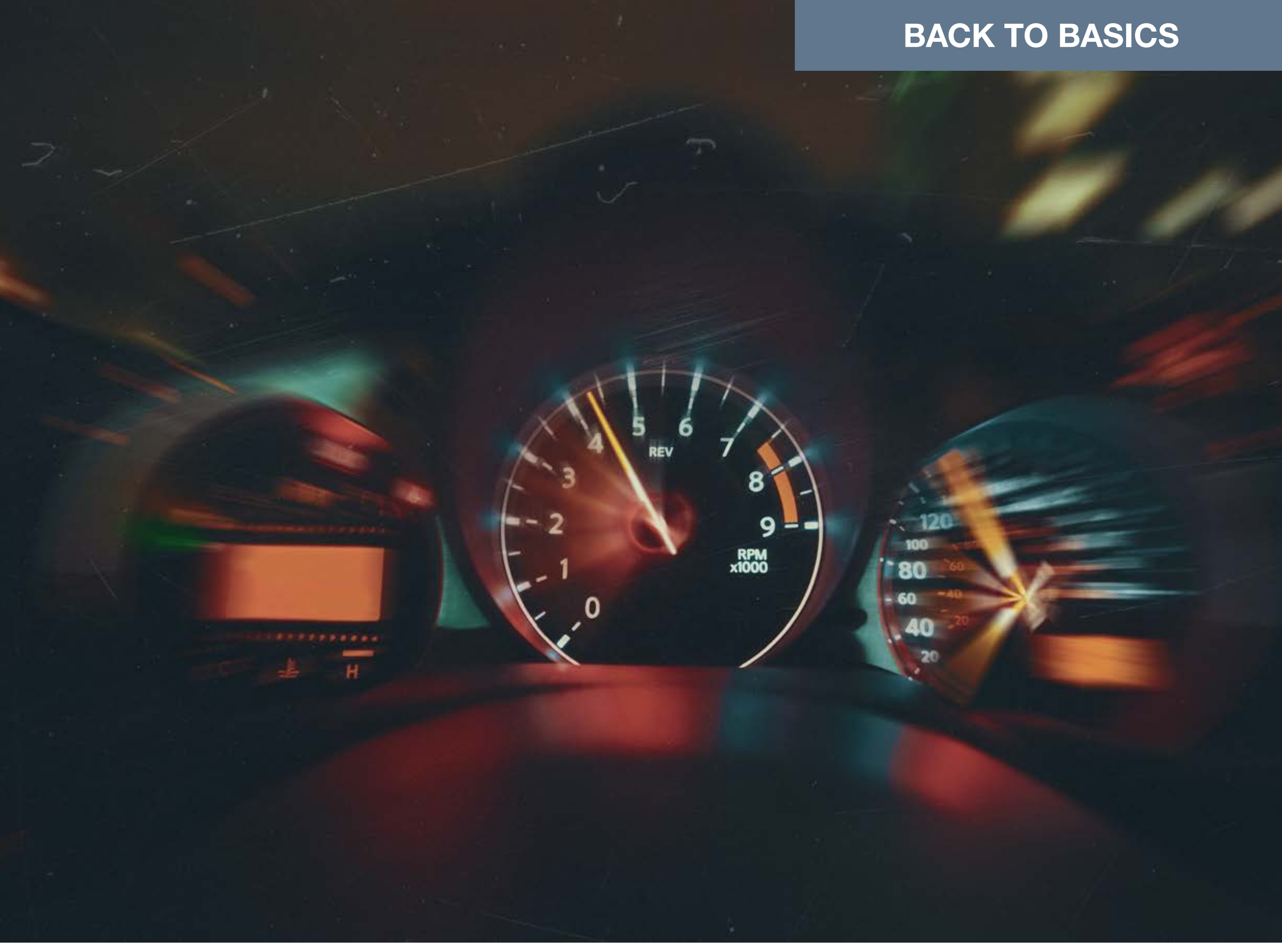
Mark Evans, ANZ: It has been very insightful, so thank you for your candid comments. A few things that really stick out are that banks have an important role to play now and into the future, but we should stick to what we're good at, and then work with others that can complement what we bring to you as the corporate, rather than think that we can solve all these things ourselves.

That is what you are looking for: a bank that gives a true relationship, not fair-weather bankers and not product push. You are after solutions and insights that add value to you, not just things that are of interest to us.

Most importantly, whatever we do, we must simplify ourselves, so you know who to go to and who can get you the answer to the question. You do not need an answer immediately, although there are time-critical moments, but you need to have confidence that the person you go to is your advocate within the bank and can find the answer.

Rajesh Mehta, Citi: I would boil it down to just one thing, and that is that the biggest opportunities and the biggest challenges that the corporates have today cannot be resolved in any one place or by any one institution. The possibility of obtaining quick wins from low-hanging fruit no longer exists. The biggest value comes from working together and thinking differently about how to address old problems and drive the whole industry forward.

Many thanks to you all for participating.



Measuring success

Treasurers use a wide range of metrics and key performance indicators (KPIs) to measure key areas of treasury, from capital structure to risk management. But a company's needs can evolve over time – so it's important to review those metrics on a regular basis and make sure they continue to support the overall business strategy.

You can't manage what you don't measure, as the old management adage goes. And in the world of corporate treasury there is much to measure. Indeed, research published in 2016 by KPMG found that almost two thirds (63%) of treasurers use a set of KPIs to measure the performance of their various treasury activities.

But while treasurers commonly use metrics and KPIs to assess the performance of treasury, there are different ways of approaching this task. Not all metrics will be applicable to every treasury – so it's important to make sure that the measures looked at are the ones that are most relevant to the company and its strategic direction. Likewise, treasurers will sometimes need to review the metrics used to make sure they continue to reflect the company's evolving strategy.

Why do KPIs matter?

Within the context of treasury, metrics can be used to measure outcomes in a variety of structures and activities, from capital structure to risk management. David Blair, an independent treasury consultant based in Singapore, says that the chosen metrics should support the treasury's overall goal, which he defines as cost effective risk reduction (CERR), within the parameters defined by the board of directors.
He points out that while costs can be measured easily, the

> In the energy and resources sector, companies may have lots of derivatives and potentially big swings in margin calls on derivatives. In these organisations there are short-term daily liquidity targets, and KPIs against these will be very critical – whereas in other organisations those KPIs will be less relevant.
>
> Karlien Porre, Partner, Global Treasury Advisory Services, Deloitte

definition of what is cost effective will vary from company to company – as will the acceptable level of risk.

When using KPIs and metrics, it's important to have a clear view of what the treasury is trying to achieve. "KPIs are there to assess how well the treasury function is performing and how it could improve on that operation," explains Karlien Porre, Partner, Global Treasury Advisory Services at Deloitte. "There are three topics here. There are the processes involved in developing the strategy – 'what should we be doing?' Then there's the execution of the strategy – 'are we doing it right?' And thirdly there are the tools and enablers required to do the execution."

Likewise, Porre identifies several different benefits that KPIs can bring:

- **Controls.** Testing the quality of controls within the treasury function and assessing how well these controls are applied.
- **Process efficiency.** Measuring how efficient processes are and identify opportunities for improvement.
- **Risk management.** Evaluating the effectiveness of the treasury's risk mitigation strategies and techniques.
- **Value.** Demonstrating the value of the treasury function to the organisation.

Choosing the right KPIs

Not all companies are alike, and the KPIs used by treasuries will vary depending on the nature of the business. Respondents to the KPMG survey identified the most important KPI as visibility over cash (88%), followed by counterparty limit usage (63%) and forecast errors (50%). Other KPIs included portfolio value at risk (38%), cost of funds above benchmark (38%) and cash swept into in-house bank (38%).

Porre points out that some KPIs are industry specific. "In the energy and resources sector, companies may have lots of derivatives and potentially big swings in margin calls on derivatives," she says. "In these organisations there are short-term daily liquidity targets, and KPIs against these will be very critical – whereas in other organisations those KPIs will be less relevant."

Also key is the company's current strategy in areas such as financing. Porre says that a company which is highly leveraged will typically have a far greater focus on metrics related to leverage and gearing, and a heavier focus on cash flow forecasts than businesses which are less highly leveraged. Even within the same company, the KPIs used by treasury can evolve over time, reflecting changes in the business model, company strategy and treasury priorities.

At Hilton, for example, the company's strategic priorities have shifted somewhat in recent history. For several years, the treasury's primary focus was on deleveraging, with the company moving from a highly leveraged to a more moderately leveraged organisation. But following the company's IPO in 2013 – which raised over US$2.3bn – and the more recent spin-offs of its real estate and timeshare businesses, Hilton has achieved a more capital-light business model. As a result, Fred Schacknies, SVP & Treasurer, says there is a greater focus on returning capital to shareholders via dividends and buybacks.

This shift has had an impact on the treasury's KPIs. "Looking back, leverage was the number one financial metric we were looking at," Schacknies explains. "But going forward, while we're still very mindful of our leverage – and have identified a target of 3-3.5X – our metrics have shifted to incorporate more free cash flow and the visibility needed to meet these targets."

KPIs vs management metrics

These are not the only metrics that Hilton focuses on. Schacknies notes that like many treasuries, Hilton also measures operational activities such as forecast accuracy, the number of bank accounts, yield on cash and FX risk. "These are all things we do on a daily basis, and they are all very important in making sure we can do our most important job, which is delivering cash flow," he says. "But to me, it's important to make the distinction that these are all operational metrics. I wouldn't go so far as to call them key performance indicators, because at the end of the day the board is less concerned with the efficiency of your bank account structure than with the company's ability to achieve key financial priorities, such as buying back shares."

Schacknies emphasises that KPIs should not simply be about measurement but should also include goals for the treasury. "KPIs have to be aligned with the company's strategic priorities – but they also, in my mind, have to be not only measurable, but also tied to some sort of objective target," he says. "So if you are looking at free cash flow, you've got models that you are trying to achieve. If you're looking at leverage, you've got known ranges, either that you are looking at, or that the credit rating agencies are looking at."

In contrast, Schacknies says that metrics such as the number of bank accounts held by a company "may be measurable, but there's no right or wrong answer for them. You can benchmark it; you can say, 'I've got more or less than other companies do' – but that in itself is only a relative observation and it has no objective truth in and of itself."

He adds that while managerial metrics are important for carrying out day-to-day tasks, they are simply data points that come without any particular target attached. "KPIs, on the other hand, have got to be strategic and aligned, and they've got to have some sort of objective reality to them."

Using KPIs and metrics effectively

KPIs and metrics can and do vary over time – so how important is it to review these on a regular basis? "Your KPIs need to be reviewed on a periodic basis, because the business might change over time," explains Porre.

How often metrics are reviewed will vary from company to company depending on a number of factors. What's important is making sure that the metrics continue to be a good fit for the company's goals.

"We've got a few different cadences of reviewing these metrics," comments Schacknies. "In some cases, those might be sit down meetings; in some they might just be emails. In the eight years that I've been here, we've had a number of major milestones such as the IPO – and for each of those, we've sat down and considered what that changes for us and what we need to focus on going forward."

Another consideration is how companies report on KPIs. "Something to reflect on is how you efficiently and effectively report on KPIs," Porre explains. "This links with your technology and processes – you need to know where you get the relevant information and how you can automate the collection of the data needed."

Porre points out that the information needed may come from a variety of sources, including the core ERP system, the treasury management system, banking platforms and trading platforms. "The question is how you can pull those various information sources together in order to achieve some automation."

Communicating the results

Finally, it's important to know when and how to communicate the information gathered to the rest of the business.

"It really does come down to making sure your message is level-appropriate for the intended audience," says Schacknies. "My goal is to make sure that my boss – the CFO – and everyone else above him knows what they need to know, which is anything impacting those strategic KPIs. Everything else that happens operationally in support of that is part of the ordinary course of business and need not dilute the communication with senior leadership."

Schacknies says the same applies when his peers across the organisation have demands for information from treasury. "It's very much on a need to know basis – it's about respecting people's time and ability to process information, and giving them information that's most useful for them," he concludes.

Examples of KPIs/metrics

Treasurers use many different metrics and KPIs, and the chosen metrics will vary considerably between companies. That said, Porre notes that treasury metrics may include the following:

Operational efficiency

- Bank account monitoring.
- Value of total business by bank.
- Global banking fee costs by bank.
- Payment flows.
- Visibility over accounts.
- Percentage of account balances that are reported automatically.
- Proportion of payments that are made electronically versus manual payments.

Financial risk management

- Hedge ratios.
- Net risk exposure reports.
- Achieved rate versus market rate.
- Percentage of exposures hedged over a stated period versus the benchmark set out in the policy.
- Impact of the hedging policy on the company's bottom line profits.

Strategy

- Net cost of equity.
- Yield on invested cash.

Good cash management = less banking

The most effective route to efficient cash management is to minimise banking – balances at banks and flows through banks – because such third-party interactions inevitably increase both risks and costs.

My guiding principle for treasury metrics is Cost Effective Risk Reduction (CERR). Treasury covers a variety of financial risks such as liquidity (in the sense of cash availability), price risk (foreign exchange, interest rates et al), operational risk and so forth. Non-financial businesses want to minimise non-core risks like financial risks so that they can allocate more capital (which translates to risk capacity) to their core business.

The treasurer's role is to reduce the non-financial risks in the most cost-effective way. A classic example of balancing risk and cost is capital structure. A fully equity funded firm with huge cash reserves will be very low risk, but it will also have a high weighted average cost of capital (WACC) that will materially reduce its competitiveness. On the other hand, highly leveraged firms are riskier, even though they should have a lower WACC (subject to the WACC curve).

The right capital structure depends on the riskiness of the underlying business, and there is no best solution – though the market may provide valuable input through equity and debt pricing. Capital structure is a strategic board level decision.

Cash management is far more generic across most businesses. In the end, all need to collect cash from customers, to pay suppliers and to manage the resulting balances efficiently. Ideally cash would just be a utility like electricity or water. The objective is to reduce costs and risks – and fortunately both can be achieved together.

Cash management can be usefully split into balance management and flow management. For balances, we want to concentrate all our cash into one global balance available for investment according to policy. For flows, we want to minimise the cost and operational risk of payments and collections. These objectives are best achieved by minimising banking.

Less banking = more CERR

From a balance perspective, if you exclude the market cost of funding the business' net debt (which is a strategic board decision outside the scope of cash management), most of the cost and risk come from maintaining bank balances.

Banks need to charge cost of capital and margins for use of balance sheet. This means there is a substantial spread paid by businesses that maintain both credit and debit balances with banks (including account balances, loans, and deposits).

Pooling cash into one global balance eliminates this spread, and is normally the biggest cost saving that comes from efficient cash management. Pooling also eliminates many risks – both operational and credit – that are associated with dispersed bank balances.

In a similar way, making payments through the banking system incurs bank fees, loss of float, and (for cross border) foreign exchange spreads. Making payments through the banking system is also risky – not so much because of the banks themselves but because the interface between corporates and banks introduces multiple risks.

Challenge	Solution
Cash is spread across legal entities and geographies.	Sweeping, notional pooling and IHB.
Cash is spread across different banks.	Sweeping and IHB.
Cash is spread across different currencies.	Notional pooling.

The best way to reduce both costs and risks is to minimise the number of flows going through the banking system. For example, intercompany flows can be settled through payment netting or in-house bank (IHB). Third-party flows can be minimised through aggregation (payment factory) and on behalf of (OBO) structures. The benefits from eliminating or at least reducing banking are far greater than what can be derived from haggling over fees and spreads.

Balance CERR

As explained above, the goal of balance management is one global cash balance – we can apply the Pareto 80/20 principle here regarding cash in regulated countries; but even there the same principle applies domestically. For those who have not implemented full IHB, and therefore still have bank balances, there are three main issues that can be addressed by various balance management tools as follows:

For simplicity, the table above does not include intercompany loans (functionally equivalent to manual ZBA, or ZBA as intercompany loans automated by a bank) or interest optimisation (a partial concentration suitable for regulated countries).

The table makes clear that optimal balance management will often require a mix of tools – for example, sweeps to move cash from operating bank accounts to notional overlay bank accounts.

IHB (done properly with OBO so that there is only one account per currency across the group) does an excellent job, but does not automate pooling across currencies. For that reason, many IHBs operate a notional pool as an overlay across their currency balances – multi currency accounts can also serve a similar function.

Flow CERR

From a flow perspective, the objective is to minimise the flows through the banking system. This normally targets two types of flows – intercompany and third party.

Intercompany flows can be eliminated with payment netting and with IHB. Payment netting reduces intercompany flows to one per entity per month. IHB eliminates intercompany flows altogether, because they become book entries across the entities' intercompany current accounts with the IHB.

Third-party flows can be sharply reduced through aggregation and lowest cost routing, which is what most payment factories and IHBs do. Aggregation reduces the number of flows, and lowest cost routing reduces their cost by executing them as domestic payments (like what banks call cross border ACH) – these comments may not apply to industries that have industry wide net settlement arrangements in place such as airlines and telecoms.

Keeping things simple

As shown, the most effective route to CERR in cash management is less banking. This is not a criticism of banks – the risks and costs of banking arise from the third-party relationship and are exacerbated by bank regulation. It is more about keeping things simple – not making a payment is simpler than making one – and complexity inevitably increases risk and cost.

It may be interesting to consider how this model will need revision when everyone has accounts with and makes payments through central banks, but that will take a while, so for now less banking equates to better cash management.

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

Control your own KYC

The challenges associated with know your customer (KYC) compliance have escalated for corporate treasury teams around the world in recent years. This has made basic tasks such as opening a bank account turn into time consuming and complex activities, eating into the resources of treasury teams and negatively impacting the business.

Rana Datta

Head of KYC and Onboarding Sales, Asia Pacific

Thomson Reuters

All treasurers have strong opinions on KYC. Indeed, some go as far as calling the whole process a "nightmare" because of the amount of time and effort they spend on it. What is more, a recent Thomson Reuters survey of this space showed that treasury professionals expect the situation to get worse before it gets better.

In a recent webinar hosted by the Treasury Today Group, Rana Datta, Head of KYC and Onboarding Sales, Asia Pacific at Thomson Reuters spoke in detail about the findings of Thomson Reuters' latest study and the challenges that corporates currently face. These issues range from a lack of common standards, the need to deal with multiple people during the process, security concerns and just a general consumption of time and effort.

Ultimately, KYC challenges are forcing corporates to re-evaluate their banking relationships and sometimes disregard banks because of KYC. A poll of the audience during the webinar found that a staggering 58.1% had discounted a bank because the KYC process was too onerous.

The other side of the coin

Datta explained that corporates are increasingly burdened by their shareholder obligations to conduct KYC on their buyers and suppliers and specific corporations (designated non financial businesses and professionals) will come under the purview of regulators in relation to AML and KYC reporting obligations. Areas that corporates must be cognisant of, from a substantive risk perspective, include meeting anti-bribery and corruption regulations; having a clean supply chain; adhering to ESG obligations and unwrapping the corporate structure to understand who is behind the business to make sure it is not falling foul of sanctions.

Although this is the less-discussed side of KYC, it was encouraging to see from a poll of the audience that a third already had a formal client/supplier due diligence programme in place and a further third were planning to put one in place soon.

Centralise and streamline

To conclude the webinar, Datta spoke of the merits of a centralised repository such as Thomson Reuters KYC as a Service solution in helping both corporates and banks streamline and centralise their KYC processes.

For corporates the solution comes at no cost and allows them to upload their documents to a centralised repository, which creates a KYC profile using this information and publicly available data, that can be shared with banks. Within the portal, corporates can also easily maintain and update their data, relieving many of the challenges that they currently face.

Datta also spoke of Thomson Reuters' GoldTier solution which enables corporates to put in place a formal client/customer onboarding programme for customer due diligence and best practice. Most corporates currently don't fall under financial regulations but still need to identify, unwrap shareholding structure, screen and take a risk-based approach to onboarding. The solution helps corporates ensure transparency, reduces operational costs and improves client servicing.

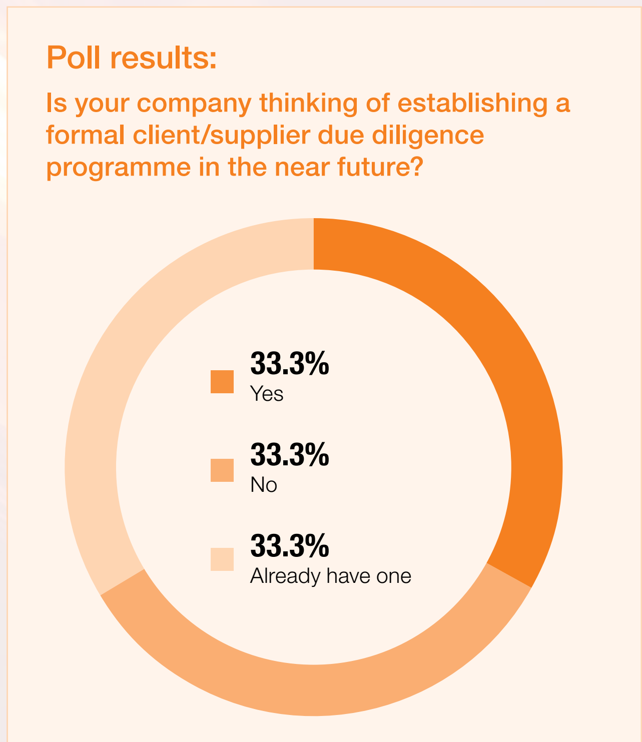
Time to act?

This thought-provoking webinar not only highlighted the challenges that corporates face around KYC; it also showed that there are solutions and proactive steps that corporates can take to alleviate some of the burdens today.

And it is clear that the regulators are only going to become stricter around KYC, meaning that corporates and banks alike need to act now to reduce the pain and get back to the business of doing business.

Poll results:

Is your company thinking of establishing a formal client/supplier due diligence programme in the near future?



*If you missed the webinar and would like to hear the full recording this is available at **treasurytoday.com/webinar/previous-webinars***

INSIGHT & ANALYSIS

Should you care about China's debt pile?

It seems that not a week goes by without some agency warning about China's growing levels of corporate debt. As a result, the fears of bubbles bursting in China, which could cause ripple effects across Asia and the rest of the world, are increasing. Treasury Today Asia speaks to several leading experts to find out if we should all be worried about China's growing debt pile. We also take a detailed look at some of the other key developments in China of late and what these mean for corporates operating in the country.

TREASURY PRACTICE

Building a cash culture

Whilst treasury is concerned about cash, the rest of the business might not be. This can create numerous issues for treasurers who are seeking visibility over the company's cash and are looking to implement strategies that mandate the more efficient use of cash within the business. How then are leading treasury teams building a cash culture across their organisations?

COUNTRY FOCUS

Japan

After years of economic stagnation, there is change potentially on the horizon for the world's third-largest economy. With the hosting of high-profile international events such as the Rugby World Cup in 2019 and the Olympic Games a year later, and signs that Abenomics may be having its desired effects, it is a good time for Treasury Today Asia to take a look at the business opportunities and challenges offered and the state of treasury in the country.

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

Andrew Bateman, Head of Corporate Liquidity and Bank Treasury, FIS; Natalie Blyth, Global Head of Trade and Receivables Finance, HSBC; Fenton Burgin, Head of UK Debt Advisory Team, Deloitte; George Dessing, Senior Vice President Treasury & Risk, Wolters Kluwer; Jennifer Doherty, Asia Head of Innovation for Global Liquidity and Cash Management, HSBC; Chris Emslie, Asian Regional Treasurer, General Mills; Mark Evans, Managing Director, Transaction Banking, ANZ; John Feeney, Head of Global Corporates, Lloyds; Damian Glendinning, Group Treasurer, Lenovo; Gary Gray, Head of Treasury Operations, AIA; Imad Abou Haidar, Managing Director, APAC, Finastra; Stephen Hogan, Vice President Regional Treasury, Asia Pacific, DHL; Atul Jain, Head of Trade Finance – Asia Pacific, Deutsche Bank; Gautam Jain, MD and Global Head, Digitisation & Client Access, Transaction Banking, Standard Chartered; Richard King, Head of UK&I, Nordic, and Benelux Corporate Banking, Bank of America Merrill Lynch; Stella Lim, Head of Corporates, Asia¬ Pacific, SWIFT; Sven Lindemann, CEO, Hanse Orga; Ariel Liu, Senior Treasury Analyst, Johnson Controls; Andrew Marshall, Managing Director, Covarius; Rick Martin, Group Treasurer, GasLog; Morgan McKenney, Head of Core Cash Asia, Treasury and Trade Solutions, Citi; Rajesh Mehta, Regional Head of Treasury and Trade Solutions, Citi; Randy Ou, Vice President, Treasury, Alibaba Group; Aziz Parvez, Managing Director, Head of Asia Pacific Trade & Supply Chain Finance, Bank of America Merrill Lynch; Marianna Polykrati, Group Treasurer, Chipita; Karlien Porre, Leader, UK Corporate Treasury Advisory Team, Deloitte; Vipul Sardana, Global Director of Trade Finance, Maersk; Fred Schacknies, SVP & Treasurer, Hilton; Peter Seward, VP of Product Strategy for Reval, ION Treasury; Gourang Shah, Head of Treasury Services Solutions for Asia Pacific, J.P. Morgan; Lewis Sun, Regional Head of Product, Asia Pacific HSBC; Patrick Tai, Finance Director, CNOOC and Shell Petrochemicals Company; Shirish Wadivkar, Global Head, Correspondent Banking Products, Transaction Banking, Standard Chartered; Chye Kin Wee, Head of Transaction Banking for Asia Pacific, BNP Paribas.

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