July/August 2018

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Belt and Road: opportunity or threat?

China's Belt and Road is called "the project of the century" and is set to boost the flows of trade, capital and services between China and the rest of the world. Treasury Today Asia investigates what it takes for a treasurer to ensure their organisation's engagement with BRI is successful.

The Corporate View

Wei Li-Tuomela

VP, Treasurer China

Stora Enso

Women in Treasury

Singapore Forum 2018

Record numbers of treasury and finance professionals from across the region came together in Singapore to celebrate and champion women in treasury.

Technology

Transformational fintech

Cash Management

Accelerate the working capital cycle

Treasury Practice

How treasury can take a central role in M&A

Back to Basics

Centralisation strategies

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There can never be too many banks

Treasurers have never had so many banks competing for their business. Indeed, a recent Bain & Company report has found that the transaction banking space is more saturated than ever. This comes as bank executives place their bets on the fee-based income gleaned from the business driving a new era of growth for their institutions.

At the same time, new entrants, in the form of niche technology companies, are emerging. These companies tackle specific business issues unsolved by the banks and promise treasurers a better user experience. Areas currently impacted include payments, supply chain finance and FX.

This is great news for treasurers. Increased investment and competition should manifest in improved products and services. It could also see costs reduce as banks use new technology to streamline operations and are forced into more transparent pricing models by fintech entrants. Indeed, Bain & Company predicts the correct application of blockchain could reduce trade finance operating costs by as much as 80%, for example, which should be passed onto the customer.

There are risks that may emerge, however. Bain & Company highlights that as the transaction banking space becomes more crowded and prices fall some banks may be negatively impacted. This may cause certain banks to retrench, or it may lead to a round of consolidation.

Treasurers must therefore continue to be vigilant when deciding who they do business with. This means avoiding the fintech marketing hype and selecting partners and solutions that will be there for the long term.

Treasury Today Asia explores the effect technology is having on financial services in more detail in this magazine. We cut through the noise and explore the macro impact it is having in reshaping financial services.

Elsewhere, we dismantle China's Belt and Road project and ask what it will mean for corporations and their corporate treasury teams. We also take a tour around the region's leading corporate treasury centres and find out how increased competition is creating opportunities for treasury departments looking to centralise.

Ready, set, go!

The Adam Smith Awards Asia 2018 is now open. The short nomination form can be found on our website. Submit your nomination now and tell us why you should be one of this year's winners. We look forward to hearing about your innovative solutions.

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VP, Treasurer China

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The creation of a global or regional treasury centre can bring greater uniformity, visibility and control. It can also reduce costs and enable treasury to become more strategic in the way it supports the business. Here we talk about the different models of centralisation and where best to locate your treasury centre.

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Adam Smith Awards ASIA

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POTENTIAL

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Now is your chance to become an Adam Smith Awards Asia winner! This golden opportunity to make your mark in the industry comes round just once a year, so submit your nomination now. The Adam Smith Awards Asia recognise the very best and brightest in the industry, so whether you are a major multinational or a small independent company, tell us your success story and you could be joining us at the Gala Presentation Lunch in November to be presented with your award!

3 EASY STEPS TO NOMINATE

Step 1:

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Provide a detailed account of the challenge you faced, the solution you implemented and the benefits this had.

Step 3:

Winners will be announced in late September and will celebrate their success at the Gala Presentation Lunch at the Four Seasons hotel, Singapore on November 15th.

By submitting a nomination in the Adam Smith Awards Asia you accept that if you win an award, a case study outlining the details of your winning solution will appear in the Adam Smith Awards Asia Yearbook.

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Best Card Solution
Best Funding Solution
Best Trade/Supply Chain Finance Solution
Best Risk Management Solution
First Class Relationship Management
Best Liquidity Management/Short-Term Investing Solution
Best Foreign Exchange Solution
Harnessing the Power of Technology
Harnessing the Power of Emerging Technology
Best SWIFT Solution
Best Solution in China
Best Solution in India
One to Watch

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Open to new talent coming through the corporate treasury ranks.

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SAVE THE DATE

THURSDAY NOVEMBER 15TH | FOUR SEASONS HOTEL | SINGAPORE

All award winners will attend the Adam Smith Awards Asia Gala Presentation Lunch on Thursday November 15th at the Four Seasons Hotel in Singapore to be presented with their awards. Good luck with your submissions and we look forward to welcoming our 2018 award winners!

Should you have any queries please do not hesitate to contact us: **awardsasia@treasurytoday.com**

SHORT-TERM OUTLOOK

HAMPERING CHINESE FINANCE LEADERS' NEW TECHNOLOGY ADOPTION

Many Chinese finance leaders are taking a short-term view when it comes to adopting new technology. It has been revealed that 23% believe that there is no pressing need to adopt new technology given their current business models. This is despite clear and obvious signs that technology is transforming businesses in every industry around the world.

This is one of the key findings of Deloitte's latest China CFO Survey, which quizzed 138 Chinese finance leaders about their view on the impact of emerging technology. Respondents cited the cost of technology and the inability to gain business buy-in as further deterrents to increased technology adoption.

Efficiency gains

Where finance departments are adopting emerging technology to drive value today, respondents reported that efficiency gains were the most important reason by far for doing so. Improved decision making and a reduction in operating expenditure were cited second and third respectively.

Only 14% said that the key driver for new technology adoption was so that the businesses could deliver new products and services to clients. This supports the view that businesses are not adopting technology with a long-term view in mind.

Beyond cloud

Unsurprisingly, cloud is the most used 'emerging' technology by Chinese finance departments. However, only 28% of those surveyed are currently using cloud-based solutions, and only 15% are planning to use the technology in the next 12 months.

This is in spite of the value that the cloud-based delivery of services can deliver with respect to costs and efficiencies. Concerns about security or local realities may be preventing further adoption.

AI, robotics and advanced analytics are technologies that finance teams are using already or are very keen to adopt over the coming months. These solutions, currently in vogue, are seen as being able to help finance departments achieve their objectives of driving efficiency and improving decision-making.

Only 7% claimed they were using blockchain and 8% were planning to engage in blockchain projects over the coming months. This suggests that the hype around the technology has cooled off.

Future adoption

Whilst technology is largely being implemented to drive benefits in the here and now, Chinese finance leaders are acutely aware that great change is coming. Whilst many are yet to respond to this changing environment, 68% said that they believe between 50% and 100% of finance processes will be significantly altered by technology in the next five years.

There is also a recognition that finance leaders need to become more proactive in their adoption of new technology, with 87% suggesting that this is the case. Deloitte suggests that doing so will help finance better manage increasing cost pressures, deal with increasingly complex demands from the business and better manage changes in the economic and regulatory landscape.

Belt and Road: opportunity or threat?

As ambitious projects go, China's Belt and Road Initiative (BRI) takes some beating. With all the grand plans to establish the infrastructure capable of connecting great swathes of Asia and Europe, it needs businesses to get involved. What does it take for a treasurer to ensure their organisation's engagement with BRI is successful?

BRI is not just an infrastructure project in which land, sea and air ports become links in a vast chain connecting Asia and Europe; it is intended to be "a collaborative ecosystem". When Deloitte released its report entitled 'Embracing the BRI ecosystem in 2018', it was at pains to point out that although the focus to date has been on energy, infrastructure and communications, the next five years or so will see BRI cast its gaze wider, covering sectors as diverse as trade, manufacturing, e-commerce, tourism and culture.

As a multi-decade strategy to boost the flows of trade, capital and services between China and the rest of the world, BRI is a "physical, financial and policy connect", says Vina Cheung, Global Head of RMBI, HSBC. "It is not just about Chinese firms, but about local companies in countries along the route and multinationals that are capable of being part of the project."

BRI represents a huge opportunity for Chinese and non-Chinese companies globally. With the current phase all about developing infrastructure, businesses engaged in the transportation construction, energy, water management and telecoms fields are likely to see most activity. But this list also includes opportunities for businesses that supply the main project firms, including the heavy plant manufacturers and materials suppliers, and professional service providers such as engineering firms, electrical specialists, and architectural practices. The need for legal specialists at this stage is also important for contract work. "Any business involved in these sectors globally should proactively seek out opportunities," says Cheung.

The effect of these projects will ultimately be to ease the flow of trade. This stage will act as a catalyst for more commercial development along the routes, especially for goods and services. The reason is simple: improved efficiency should lower the cost of doing business – one of the underlying BRI objective, notes Cheung. With the growth of BRI trade estimated by HSBC to surpass US$2.5trn in the next decade, the opportunity here, she adds, is "significant".

Despite the dominance of state-owned enterprise (SOE) over the major BRI infrastructure projects to date, Deloitte authors Sitao Xu and Lydia Chenargues also anticipate increasing opportunities for privately owned enterprise and the world's MNCs. Similarly, they see country-level involvement shift from the current preponderance of emerging nations to a greater number of mature economies.

Risk and reward

However, for businesses of all types, the nature of BRI as both a long term and costly investment puts risk to the fore. Of the 70 countries Chinese state media says have joined the BRI (meaning about 125 have not), the sovereign debt of 27 is defined as 'junk' by the three main ratings agencies. Fourteen have been given no rating at all.

The majority of Chinese investment to date has focused on its geopolitical priorities such as Pakistan, Afghanistan, Kazakhstan and Uzbekistan. These are amongst countries that will need to demonstrate significant financial reform in order to see major capital inflow from MNCs.

The extent of China's investment so far raises concerns about its own BRI debt levels. Indeed, global ratings agency Fitch said in January 2017 that the "lack of commercial imperatives" behind BRI projects means that it is "highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors".

MNCs understand that although there may be an opportunity for massively increased trade flows, BRI could equally generate vast almost unserviceable debts for a long time to come; success is not guaranteed. Whilst not downplaying the risk, Deloitte's Xu and Chenargues argue that the risks are less severe than many assume. In fact, their belief is that "concern is overrated", adding that "China has long insisted that BRI is a commercial venture, not an aid programme".

With China's strong bi-lateral connection with many of the higher risk countries, and its conviction of the need to ultimately develop along commercial lines, the Deloitte authors suggest that SOE-led BRI projects are effectively underwritten by China's policy banks. This should help ease concerns of external investors, they feel, and bringing in quality. Interest is rising.

Beneficiaries

With Beijing having committed a further US$124bn at its May 2017 BRI Forum, President Xi Jinping also announced the commencement of 'BRI 2.0'. In this, the focus on infrastructure shifts to investments in international finance, mining, manufacturing, tourism and culture. The forum attracted delegates from around the world, including Vladimir

Putin amongst state leaders and officials from almost 40 countries; parts of Africa, South America and western Europe all potentially benefiting.

Naturally, large companies are paying very close attention and banks are eyeing up the prospects too, with Citi winning a deal from Bank of China to manage a complex US$3bn bond issue in April 2017. The money is for funding the opening of Bank of China branches across Asia, Eastern Europe and East Africa.

This is just the tip of the iceberg. A recent Asian Development Bank report suggested that, between 45 Asian countries, there should be an investment of US$26trn to 2030, to fix the apparent infrastructure shortfall. Two-thirds of that sum is for further transport and power development.

At this stage, with most of the construction deals going to Chinese firms, the biggest western beneficiaries will be financial and professional services, says Jonathan Bewes, Vice Chair, Corporate and Institutional Banking, Standard Chartered. The demand is for technical expertise and specialist products, and funding to match. Standard Chartered announced in December last year that it will commit US$20bn by 2020 to support BRI.

No wonder then that major MNCs such as Siemens, Honeywell, GE and ABB have already climbed on board the BRI train, along with around 50 Chinese SOEs that have so far played a part in the 1700 or so infrastructure-related 'BRI 1.0' projects.

GE, for example, drew only US$400m in equipment orders from BRI projects in 2014. By 2016, that figure stood at US$2.3bn, with a pipeline of US$7bn for its gas turbines set over the following 18 months.

If Chinese business will be the biggest beneficiary, BRI may well raise fears that it is nothing more than a one-way conveyor belt for Chinese goods to reach the rest of the world. The US has already called for the bidding on related contracts to be transparent. Notwithstanding non-Chinese discomfort, the country's media outlet Xinhuanet reported in May 2018 that the value of China's imports from BRI countries increased faster than its exports in 2017 (a 20% year-on-year rise versus 8.5%). This is the first time it has happened since BRI was announced in 2013. It's not proof of equitable trade flows, but it may be seen by some as a step in the right direction, the current US/China trade war excepted.

International involvement

"We should build an open platform of cooperation and uphold and grow an open world economy," said President Xi at the May 2017 BRI Forum. In its insistence that BRI is open for all – not least because it cannot itself foot the expected estimated final capital cost that ranges between US$4trn and

Belt and Road initiative: directions of flow

US$8trn – Beijing is seemingly handing an opportunity for foreign business to join the journey.

Where, for example, there is a meeting between market need on the one side, and the provision of professional services (and the trade of branded consumer products) on the other, there will be occasion for non-Chinese firms to flourish for many years to come. If domestic firms cannot offer the skills and experience (or brand desirability) to match those of their overseas counterparts, then the trade is seemingly there for the taking.

However, there is a danger of corporates erecting too much of a rigid framework around something that may be more conceptual in nature, says Bewes. "There are plenty of opportunities in one country or another for businesses to take advantage of, but much of this could be seen as 'business as usual'," he argues. Standard Chartered, he adds, has in effect been working on 'BRI' projects for the past few decades – in 2017 alone, the bank closed 50 BRI deals, half of which were in Africa. "Each business will have to evaluate what opportunities fit with its own strategy and manage the risks accordingly."

Conceptual or not, BRI is an occasion for businesses to look beyond their own traditional operating models. Some forward-looking international traders are already incorporating a flexible approach in terms of the goods they source and sell, notes Cheung. A garment manufacturer, for example, might shift its thinking in terms of a finished product being shipped out from a single location, towards the idea of the availability and use of different materials at different points along the route, creating a highly flexible supply chain.

The 'flexible' approach may go some way to mitigating the risks inherent in emerging market operations. But the risk when operating in some BRI countries can be higher than others, and businesses should thus be supported by those with on-the-ground knowledge, says Cheung. "Asia has a very dynamic and varied regulatory regime; with many countries along the belt and road still developing, the local laws, regulations and tax arrangements can be complex."

Treasury approach

The real test in this environment is for companies to navigate through a full corporate lifecycle, from entering into a new market, to growing the business or maintaining the project, to enhancing capabilities through integration with a regional hub or headquarters. With treasurers playing an increasingly important role in company growth, thinking through these different stages is vital, says Cheung.

In general, the difficulty for businesses working in third-party countries (certainly beyond G20 nations) can be substantial, adds Bewes. "Partnering with banks that have on-the-ground presence in those territories, where they are part of the local infrastructure, will offer a huge advantage in terms of help and advice navigating the local cultural, regulatory and legal challenges." The major western banks such as HSBC, Standard Chartered and Citi, boast long operational histories along the BRI routes.

For treasurers, at the start there is a need to define the optimal business form for entering any new market with a BRI project. For the project to function in a sustainable way, this would include a consideration of the best legal structure (many US firms, for example, are working in JVs with Chinese SOEs, according to the Centre for Strategic & International Studies). Treasurers should also define the most appropriate hedging policies, working capital models and, of course, approach to financing.

Financial concerns for treasurers

One of the major themes of BRI is sustainability, notes Bewes. Indeed, Chinese policy-makers speaking at the International Green Finance Forum in Beijing in September 2017 put forward their belief that green finance is the key to making BRI a sustainable project. China has issued US$36bn of green bonds, a figure representing 39% of global issuance. "China will honour our commitment to reduce carbon emissions and make more efforts to promote green finance globally, including facilitating green investment in the Belt and Road region," said Yin Yong, Deputy Governor of the People's Bank of China, quoted by Global Capital. "We believe green finance should be a key pillar of its success." It's an area that treasurers should be looking at.

The broader question of BRI project finance will almost certainly begin to generate the need for creative forms of capital, Bewes believes. "There is a question about how infrastructure is developed further as an asset-class in itself. This will be an important angle, in order to attract and mobilise private sector capital."

The FT has reported that many western banks are leaving the funding of big state-sponsored infrastructure projects to local banks and development finance institutions. They are instead focusing, for now, on ancillary business, such as providing FX, trade finance, interest rate swaps, or cash management. Strong treasury relationships in this environment are therefore essential.

Whether engaging in a BRI 1.0 infrastructure project or 2.0 trading arrangements, for the incumbent bank to support ongoing local business (and familiarity is a real comfort in any new venture), it is necessary for treasury to establish if its bank has a presence in each new market and whether its data flows can be integrated with group operations; standalone operations massively increase risk. It will also be necessary to discover how well-established the bank is in each location, both in terms of size of balance sheet and connectivity to the business infrastructure (including local regulators, local clearing systems and, for FX, whether it is a market maker or taker).

With capital controls likely to be a concern for inbound investors, this is something treasurers will also have to plan and manage. Indeed, with many different currencies and stringent controls likely to be encountered along BRI routes, at the very least, some complex FX scenarios will be encountered, cautions Cheung.

Manifold issues such as currency, local culture and customs, legal and taxation differences suggest that there are and will be many challenges to be addressed when tackling a BRI project. Partners and advisors are available to assist and should be used fully; it does not have be done alone.

Mindful of these concerns, it is also worth bearing in mind the declaration President Xi made at the May 2017 BRI Forum in which he said, "this is the project of the century". Treasurers are in a good place to help their organisations become a successful part of it.

PASSING THE BATON AROUND

THE WORLD

On Wednesday April 25th 2018 over 150 senior treasury professionals from throughout Asia Pacific gathered at the Four Seasons hotel in Singapore to debate diversity at Treasury Today's fifth Women in Treasury Singapore Forum.

Record numbers of treasury and finance professionals from across the region came together in Singapore to celebrate and champion women in treasury. If there was a sign needed that the topic of gender diversity is growing in importance it would be that in its fifth year, Treasury Today's Asia latest chapter of our Women in Treasury Forums has never been so well attended or so buzzing with energy.

Treasury Today's Women in Treasury initiative was established to pioneer women in our industry and to create a new professional community where we share our experiences and encourage each other's professional development. Over the six years since the Women in Treasury initiative started, we have seen such a shift in the mainstream cultural consciousness, with companies across the board recognising a focus on diversity and inclusion as fundamentally important if they wish to be successful businesses of the future.

Singapore has played host to all of the Treasury Today Group's Women in Treasury Singapore Forums to date and it is a particularly special place to host such events. Singapore is a great location to speak about gender diversity and equality, as there is just such fantastic representation for women in the country state at senior levels in corporate treasury and finance, and the support from the treasury community in Singapore for the Women in Treasury initiative has been so strong.

At a broader level, the Singaporean government has been incredibly vocal of its plans to push for better representation at board level, with a target of 20% female representation on boards by 2020. Although at board level female representation remains low, in corporate treasury there are a great number of women enjoying brilliant careers and sharing best practice in this region which can only facilitate a dialogue that pushes for progress at all levels.

Key themes of the day

The most recent Singapore forum, hosted in late April of this year, offered a platform for a diverse line-up of senior industry figures to share their experiences and insights on a broad range of issues affecting many women and men working in treasury across the region, whilst also offering some valuable advice to the audience.

During the pre-lunch reception, the forum was opened by Meg Coates, Joint Publisher & Head of Operations, and Sophie Jackson, Joint Publisher & Head of Strategic Content, who introduced the Women in Treasury initiative and presented the results of the most recent Women in Treasury Annual Global Study. Meg gave an overview of the study, presenting the following findings:

'The 2017 online study was conducted from May to September 2017 and was the fifth Women in Treasury Study. The global study attracted 352 responses from a broad universe in terms of experience, age, geography and role.

Some of the key themes raised by the respondents to the 2017 study were as follows:

The majority of respondents were aged between 35 and 54 and 50% have dependent children. More than half have been in a treasury role for over ten years.

It was clear that flexibility in the workplace is integral to enabling both women and men to return to work in a way that supports them and their families, with 30% of respondents to the 2017 Study stating that their organisation had changed its approach to flexible working in the past year, which would imply that attitudes to flexible working are improving.

On the topic of gender parity regarding pay and opportunities, 41% of respondents said they felt they earnt less than their male counterparts, which has shockingly increased 12% on last year.

Only 6% felt there had been improvements in pay parity over the past year, with over a quarter of respondents feeling overlooked and ignored in the workplace because of their gender.

More encouragingly, the majority of respondents characterised their company's approach to diversity, inclusion and equal opportunity as favourable, with over three quarters of companies already having strategies in place.

On the topic of quotas for board representation, over 40% of respondents felt there should be a quota for female representation on boards. 39% said no and 17% weren't sure.

It is disappointing not to have seen more progress at board level over the five years since the initiative began. Will we still be debating the merits of quotas in 20 years? The case for having more women on boards is stronger than ever. Not only does research show that companies with more women in executive positions report stronger financial results, but the reputational and brand advantages are also significant. Yet, the numbers remain very small: on a global basis, just 9% of CEOs and Managing Directors are women. From our respondents, just 7.5% have a female CEO.

Mentoring and sponsorship programmes received incredibly positive responses. Over 70% of respondents to the 2017 study felt these were key to a successful career.

On the subject of networking and social events, 35% of respondents have felt excluded. The main reasons cited were gender and parental responsibilities."

Deep discussion

With this, the introductory part of the afternoon came to a close as guests then moved through to a three course lunch and sat down to hear from our roll call of expert panellists.

The Women in Treasury 2018 Singapore Forum panellists were:

Florence Tan, Head, Treasury, APAC, M+W Group

Christopher Emslie, Asia Regional Treasurer, General Mills

Crystina Hickey, CFA, Vice President, BlackRock

Chédia Haddouchi, Treasury Manager, APAC, Uber

The panel discussion was facilitated by Treasury Today's Sophie Jackson and the thought provoking debate included topics such as taking charge of one's own professional destiny, mentoring, mobility and the value of building a strong and diverse team.

***Flexibility** in the **workplace** is **integral** to **enabling both women** and **men** to return to work in a way that **supports** them and their families.*

Beginning with discussing the draw to the treasury profession, the panel discussion explored the motivations behind both Florence Tan of M+W Group and Chédia Haddouchi of Uber's career choices to date, focusing on what makes a role in treasury unique. As Florence explained, 'I think that the treasury skill set is very scalable. We need to learn about the company, the business and the product. It's important to learn about the different infrastructures of the countries that the company operates in, learn about the different payment methods, regulatory environment, FX regulations and so on.'

Chédia added the following around her enjoyment and choice of the profession, 'In treasury you have to collaborate with a lot of people from across the business. So I think as a treasury person it's really in the DNA, to be able to collaborate, whether it's people from legal, tax or other functions across the business. This is really a very central and unique position that only treasury people and a few corporate functions in companies have, and this is something I really enjoy! The other aspect of treasury that I've learned to love over the years is really the adrenalin rush that we have in our daily roles, because you never know what's going to happen during the day! That was not so fun at the beginning of my career, but over time and with experience you become more comfortable with the "unexpected", you know how to react, you know who to reach out to and that's a part of the job I've really learned to enjoy.'

Crystina Hickey of BlackRock spoke of her own career journey and of the critical importance of being clear and vocal about what you want to do with your career. From her own experience of requesting an interview for a position, she had learnt that being open and clear about your needs and career goals is important within your organisation. Crystina explained that whilst we may not always get everything we want, taking the initiative and voicing an opinion is something she reminds herself to do on a daily basis.

Chris Emslie of General Mills is a South African native and spent the majority of his career working there in treasury before a move to Asia in recent years and to his current role in Singapore at General Mills. Chris spoke of the changes and developments to the diversity and inclusion dialogue that he has seen over this time and the fantastic example his current employer is setting with regards to female representation, 'I think it was about ten years ago I walked into my first treasury conference with ABB, out of 60 treasurers there were two female treasurers, and the rest were all support staff. Most of those senior positions were taken by men and everybody else just filled into those support roles. I think as I've seen over the years, and moving to Asia and of course moving to General Mills now, my direct boss is a woman, my Vice President Finance – Asia and Latin America is a woman, our Group President – Asia and Latin America is a woman. Forty percent of our senior management staff in Asia at the moment are women and overall per our staff complement 45% are women out of a total workforce in the region of 10,000. That's the change that I've seen over the last 20 years as diversity has started to come in. It's not everywhere, we all need to learn that, but it is coming.'

The panel moved to discuss broader concepts of diversity and inclusion, with Crystina speaking of the value of diversity of thought and diversity of perspective, both of which are critical in driving forward powerful collaborative ideas. Crystina added that the inclusion piece of the puzzle involves those diverse thoughts and perspectives being well received, with all members of a team feeling confident and comfortable that their views will be heard and their positions respected.

Conversation then swiftly moved to the critical and increasing importance of flexibility in the workplace. In our 2017 study the results indicated that 30% of respondent's organisations had recently changed their approach to flexibility as this

***35%** of **respondents** to Treasury Today's Women in Treasury Study 2017 **have felt excluded**. The **main reasons** cited were **gender** and **parental responsibilities**.*

becomes more commonplace and accepted as central to the fruitful future of work. Our panel debated the difficulties involved with balancing flexibility and working from home with the need for visibility within one's organisation when forging forward with an ambitious career plan.

Issues around quotas, board representation and the tricky trailblazing that female board members across the world are having to engage in followed suit, before moving to discuss mentoring and the people that have inspired and supported our panellists' careers to date. Other issues discussed included mobility, how we place value on different individuals and on our (hopefully) bright and inclusive working future.

Following the panel discussion, a lively and enthusiastic question and answer session took place, with many questions raised by the audience. This gave the panel the opportunity to share further insights from their own careers and the challenges they have faced and overcome. It was a fantastic dialogue, enriched by the candour and forthcoming approach to the afternoon that was adopted by both the panellists onstage and the (female and male) attendees from the world of corporate treasury.

Thriving community

Against a backdrop of uncertainty and change on the global geopolitical scene, it is very encouraging to see the dialogue around diversity and inclusion grow in significance and the rallying cries for progress increase in volume. Commenting on the success of the event, Sophie Jackson said, 'As we approached the sixth anniversary of Treasury Today's Women in Treasury initiative it was fantastic in Singapore to take stock of how far our industry has come in that time. The Women in Treasury initiative is constantly growing and expanding, driven forward by the women and men who are part of our community and who lend their voices to our conversations around diversity, inclusion and representation in corporate treasury. It was a galvanising experience to see this community thriving in Singapore last April.'

Treasury Today Group's Women in Treasury initiative recognises the importance of women in the corporate treasury profession and creates a means for women in treasury to communicate with one another, learn from each other and build relationships in order to help each other. The Women in Treasury initiative seeks to offer a platform to make women more visible and to bring people together to discuss and celebrate diversity in the corporate space.

As well as our forums Treasury Today Group also:

- Profiles female leaders in our regular This Much I Know feature.
- Conducts an annual Women in Treasury Global Study. 2018's study, in association with State Street Global Advisors, will close for submissions on August 17th 2018.

To learn more about Treasury Today Group's Women in Treasury initiative please visit: **treasurytoday.com/wit**

Stepping out of the shadows: demystifying China's new asset management industry rules

Rules recently introduced by China's financial regulators will transform the country's asset management industry. Aidan Shevlin, Managing Director, Head of Asia Pacific Liquidity Fund Management at J.P. Morgan Asset Management, unpacks the rules and explains what they mean for investors.

Aidan Shevlin

Managing Director, Head of Asia Pacific Liquidity Fund Management

J.P.Morgan
Asset Management

In less than four years, China's asset management industry has doubled in size to over US$15trn, approximately equivalent to China's overall GDP.

The growth of the industry was originally triggered by financial and interest rate liberalisation, which has encouraged significant financial innovation. However, the recent, rapid development in shadow banking products is driven by less desirable factors including regulatory arbitrage, implicit guarantees and opaque, complex products which are designed to circumvent central bank-imposed regulations in order to provide borrowers with access to credit, while also providing investors with higher-yielding products. The asset management sector has thereby served the real economy and fuelled much of China's recent economic development.

The asset management industry's boom has also created risks in the Chinese economy, however. Most notably, indebtedness in China has quadrupled since 2008. This has seen China's debt-to-GDP levels skyrocket to 266% at the end of last year. Whilst this figure is comparable to that of the US, UK and Japan, it is significantly higher than other emerging market economies and the speed of growth appears unsustainable, translating into concerns that a financial crisis may be brewing.

Taking action

The systemic risk that this credit growth poses to the Chinese economy is recognised by the country's government, which has made deleveraging a key objective in order to de-risk the economy and create financial stability. China's regulators have already introduced several new rules, including measures adopted last year by the China Securities Regulatory Commission (CSRC) to strengthen the mutual fund industry (which equates to 10% of China's entire asset management industry) and new macro-prudential rules by the People Bank of China (PBoC) to reduce bank risks.

Now the remaining 90% of the asset management industry, which Aidan Shevlin, Managing Director, Head of Asia Pacific Liquidity Fund Management at J.P. Morgan Asset Management describes as containing "less desirable financial activity", is to be curtailed. This is after rules introduced by the Financial Stability and Development Committee – a 'super regulator' designed to unify the rules covering the entire asset management industry – were signed into law in April.

Under the spotlight

Titled 'The Guiding Opinion on Regulations in the Asset Management Business of Financial Institutions', the rules seek to curb financial risks and enhance investor protection. The headline change is that existing investment products sold by the asset management industry, such as trust products and wealth management products (WMPs), will be unified under a single product umbrella: the Asset Management Product (AMP).

Publicly sold AMPs must conform with strict rules. For example, these products must no longer provide an implicit or explicit guarantee that an investor's principal is secure. It is a move that Shevlin believes is positive. "The guarantee that these investment products offered created a dislocation between risk and return in China," he says. "Removing it will realign the principles of risk and return and force investors to be diligent when making investments – something they haven't had to be in the past because of the guarantee."

AMPs must also only invest in 'standard assets' – defined by the regulators as assets that have a market price. "This will impact the returns that these funds can offer because the yield of WMPs was often boosted by funds investing in opaque loan structures and using techniques such as layering, which is no longer permitted," says Shevlin. "But the change will also drastically reduce the risk in these funds, which is a good step for the industry and is what the Chinese regulators are trying to achieve."

Another rule change is that all AMPs must be mark-to-market, meaning investors will no longer be assured a guaranteed rate of return. "It will drive more transparency in the industry, making it clearer for investors to know what they are buying and what risk they are taking," says Shevlin.

In an effort to ensure a smooth transition, the Financial Stability and Development Committee has granted a transition period until the end of 2020 for existing products to comply with the new rules. Any new products launched after April 2019 must obey the new rules immediately.

"Extending the transition period to two years is a sensible move, as many existing products have one or two-year maturities," says Shevlin. "Investors will get their money back and the underlying loans that the product is investing in will be paid off before they transit under the new AMP rules. It is uncertain what will happen to those products that have longer maturity dates, however."

Market impact

The impact that these rules will have on the asset management industry should not be downplayed. Indeed, Shevlin says that the rules will "essentially kill off nearly all the existing investment products used in China today". So what will happen to all the cash? Shevlin says that some of it will likely flow back into time deposits – and banks have been preparing for this by increasing the rates of return on these products.

Shevlin also expects cash to flow into the 'traditional' mutual fund sector – which is not directly impacted by the new rules. "Money market funds, which are already well-regulated and offer good disclosure, are unaffected by the new rules and would appeal to investors focused on liquidity, security and return," he says.

Whilst this is a boon for the fund management industry, Shevlin notes that fund managers cannot rest on their laurels and that the industry must innovate to retain investor cash. "I hope to see more products launched that cater for the entire risk spectrum," he says. "This will give investors more choice and play a key role in boosting the sophistication of the investment community in China."

The new rules are expected to have a negative short-term impact on commercial banks in China. Some banks generate up to 12% of their total revenues issuing WMPs, and this revenue-generating ability will be greatly reduced under the new regulatory regime. What is more, those banks that don't have a separate asset management subsidiary will now be required to create one in order to conduct asset management business.

Whilst Shevlin expects that those banks with a stronger traditional loan/deposit franchise and capital base will be best placed to withstand the impact of the changes, it is likely that bank funding costs will increase overall, making banks less inclined to provide credit to corporates. This may lead more corporates to the bond market, thus increasing spreads – and possibly resulting in more credit events taking place in China over the coming years.

To alleviate this impact and ensure the banks will fund the real economy, the PBoC cut the reserve requirement ratio (RRR) in anticipation of the new rules. "This releases some funding back to the banks at no cost," says Shevlin. "And we expect to see the PBoC continue to do this over the coming year as it adopts a more neutral monetary policy and debt flatlines."

Next steps for investors

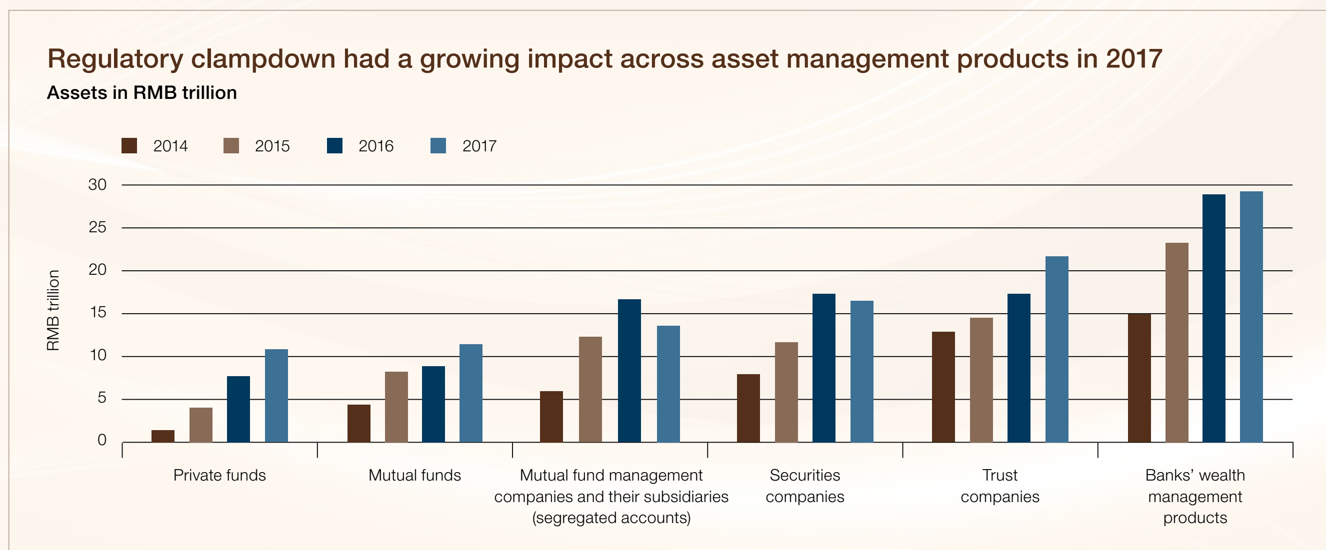
For corporates in China, particularly those that use guarantee products, changes will be required in terms of how they invest. But Shevlin says that there is no need for panic.

"Corporates that have exclusively used WMPs and trust products need to revisit their investment policies to ensure these are broad-based and flexible," he says. "This will enable them to invest in suitable products under the new regulatory regime. They also need to think about changing their investment procedures and make sure that they are doing their homework on the products they are buying because of the greater link between risk and return." Shevlin adds that for western investors that rarely invest in WMPs, the impact on their investments should be minimal.

"That being said, as always it is important to stay close to your fund manager as sudden change is par for the course in China," he says. "But overall these new rules should be seen as a positive that will reduce systemic risk and moral hazard in China, and help the government achieve its goal of creating sustainable financial stability."

Regulatory clampdown had a growing impact across asset management products in 2017

Assets in RMB trillion



Sources: Moody's Investors Service, Asset Management Association of China, China Trustee Association, China Banking Wealth Management Product Registration & Depository Center

The role of treasury in M&A

With M&A volumes continuing at a high level, what role can corporate treasurers play in supporting the process – and where are the opportunities to add value?

The global M&A boom continues. Last year saw deals worth over US$3trn finalised – and the first quarter of 2018 brought the strongest ever start to the year, with deals totalling over US$1.2trn. Significant deals have included Bayer's US$63bn acquisition of Monsanto.

"The market is extremely buoyant – and frankly, more buoyant than anyone expected going into 2018," says Richard King, co-head of Global Corporate & Investment Banking, UK at Bank of America Merrill Lynch (BofAML). He notes that as well as strong volumes, the current market is also characterised by much larger transaction sizes, with numerous deals exceeding US$10bn announced in recent months.

Vincent Couche, Asia Sales Sector Head of Industrials for TTS at Citi, says that a number of factors are currently driving growth in M&A. "Financing is very cheap compared to historical averages, which makes many deals attractive," he observes. "And the fact that the economy has slowed down globally has also created opportunities for companies to grow by buying market share." He adds that some companies are looking to diversify their portfolios and balance their businesses across various industry lines, while some are selling down certain activities so that they can concentrate on others.

Of course, not all M&A deals are a roaring success. Figures published in June by Willis Towers Watson in partnership with Cass Business School revealed that quarterly global M&A performance – measured in terms of the acquiring company's share price performance – was the lowest in Q2 since records began ten years ago. Given this caveat, what role can corporate treasurers play in making sure any acquisitions result in the desired outcome?

Role of the treasurer

For companies embarking on M&A activity, there is much to consider – and treasurers have an increasingly important role to play in that process. King points out that as a highly strategic area, M&A starts and finishes with the CEO and the Board – but that the treasury team and group treasurer are very much part of a company's M&A team. He notes that since the financial crisis brought the importance of treasury into the spotlight, "treasurers now get involved at a much earlier stage of the M&A process than they might have done ten-15 years ago. In most cases today, they are brought in well before the transaction has been confirmed as definitely going ahead, to help with integration and synergy planning from a treasury perspective, and funding/risk management strategies."

As such, there are four areas of M&A in which treasurers can play an important role: by supporting the due diligence that happens before the deal; financing the deal; settling the deal – and integrating the new acquisition into the company after the deal has been completed.

Before the deal

Couche points out that treasurers have a role to play at the earliest stage of the process, when the focus is on understanding the target's shareholding structure – but "unfortunately they are not always engaged at that point". As such, he says that treasurers should be proactive in stepping up and getting involved in this part of the process – "Don't wait to be asked".

In some cases, treasurers can play a role at the very earliest stages of the M&A process by advising on the implications of different locations from the perspective of currency controls, FX risk and trapped cash. "If the opportunity were to involve multiple jurisdictions, the treasurer would be able to identify optimal sources of financing and trading to minimise FX and other market price risks to advantage the M&A's operations and integration within any existing operating model," says Fulvio Barbuio, Board Director of the Finance and Treasury Association (FTA) in Australia and the former Head of Corporate Treasury & Risk at Australian Broadcasting Corporation. "This would also require the treasurer to integrate cash management and ongoing operational funding for the changed entity."

Global information, software, and services company Wolters Kluwer has carried out M&A to the tune of roughly €200m-€300m per year since 2010, with recent acquisitions including last year's purchase of Tagetik, provider of corporate performance management solutions, for €300m. "Getting involved as early as possible in the game is essential," says George Dessing, Senior Vice President, Treasury & Risk. "It depends a bit on how large the deal is, but treasurers always need to stay close to the implications of a deal on leverage or debt levels; the discussions with banks and credit agencies and questions around valuation." He adds, "The real question is, 'do we actually get value for our money?'"

Financing

Naturally, one of the most important areas is that of financing. "The traditional role of the treasurer is in raising the financing to enable an acquisition or to manage debt," says David Stebbings, Director, Head of Treasury Advisory at PwC. He points out that this can be a complex activity, depending on the scale of the deal and the geographies involved. "For example, if you're in the UK and you're buying something in the United States, do you borrow in the UK or in the US?"

Barbuio says that first and foremost, treasurers formulate "a financing plan aligned to the strategic plan which identifies sources of funding (both internal and external) available to the

Q&A

Guillermo Gualino, Vice President & Treasurer

How would you describe the treasurer's role in M&A?

The role of the treasurer is critical, particularly in large deals, where choosing the right acquisition financing strategy will have a long-term impact in credit ratings, debt covenants, financial synergies, and liquidity. The treasurer not only advises the CFO on M&A capital structure but also executes on the financing and payment of the acquisition. A treasurer's M&A financing experience will be especially valuable in challenging economic conditions and cross-border deals.

What involvement have you had in M&A?

Depending on the acquisition, my involvement has ranged from planning the financing strategy to integrating cash management systems and operations. One thing I learned from my prior years in private equity is not to underestimate the general view that every acquisition is different and unique. That forces me to prioritise on customising the M&A process over spending too much time on a template of due diligence questions. While most principles for treasury M&A are the same, the focus on a "unique process" for a "unique deal" is very useful to anticipate issues and allocate the right resources upfront.

How have you added-value to the process?

Treasury can add significant value by managing the FX risk of cross-border M&A deals, especially during periods of financial volatility. For example, I have protected the cash value of multibillion dollar deals by hedging the acquisition payment against FX fluctuations between the time of signing and closing. A proactive post-integration FX hedging plan is also important since FX exposures may be unintentionally created during the transition of the target's balance sheet into the buyer's balance sheet.

What challenges did you need to overcome?

The main challenge to overcome is having limited information during the due diligence that could later complicate integration activities. To deal with this potential issue it is helpful to complement the data room with a couple of pre-closing meetings with the target. This could be arranged in a way not to overwhelm the target's team with unnecessary requests.

How important is it for treasurers to take a proactive approach where M&A is concerned?

It is important to get involved early in the M&A process because it takes planning and coordination to avoid potential liquidity issues post-closing. This upfront planning is also needed for the design of contingency plans, especially if there are critical dependencies for closing, such as securing debt financing.

What advice would you give to other treasurers when getting involved with M&A for the first time?

Regardless of the deal's dynamics and competing M&A priorities, treasury's number one objective for day one should always be having full control and visibility of the target's cash. This will minimise the risk of business disruption, potential fraud, investment losses, and liquidity and credit issues. Securing the cash on day one should be prime responsibility for any treasurer.

organisation giving it flexibility, diversity, capacity and cost effectiveness." He explains that once a specific M&A deal has been identified, the treasurer can tailor financing from these sources that best matches the M&A in terms of factors such as source, structure, timing, drawdowns, repayments and refinancing.

"This would take into account any leverage, WACC, credit rating and risk management implications for the organisation which would have a bearing on its enterprise value, something it seeks to maximise for its shareholders and broader stakeholders," he comments.

Settling the deal

When it comes to the settlement day, much will depend on how well the company has prepared beforehand. "If you haven't prepared, your payments could be blocked because your financing line isn't large enough," warns Citi's Couche. "If the payment doesn't go through, you could miss the cut-off. It's really about being very transparent with banking and technical partners – and with the target you're acquiring – about how things are going to work."

It's also important to be aware of any practical obstacles that could prevent settlement from taking place. For example, Couche points out that clearing houses in the United States can only clear a maximum of US$10bn in one transaction, which can result in obstacles where mega mergers are concerned.

Integrating the new business

Settling the deal isn't the end of the story and integrating a new acquisition into the existing company takes time and planning. "Treasurers need to consider how they will integrate the new business into their cash management, FX management and banking structures," says Stebbings. "Or if they are demerging part of the entity, they will need to consider how they set up a separate treasury function for it, including the systems and operational aspects."

> **“It’s important** to **integrate quickly,** but it **can take a month or two** to **open** up **new accounts** and integrate the **payments and hedging processes.** Having **visibility** over **cash flows** should be the **number one priority.”**
>
> Vincent Couche, Asia Sales Sector Head of Industrials for TTS, Citi

In practice, the integration process cannot be done and dusted on day one but will need to be managed over a period of time. For example, essential tasks will need to be completed on the day of completion, such as updating bank account signers when necessary and putting in place the required sweeping and funding mechanisms. Other tasks can be scheduled in the following weeks or months, from training staff who have joined from the acquired company to rationalising the number of bank relationships and bank accounts. Further down the line, treasurers may then begin to look at integrating their treasury systems and centralisation structures.

“The number one goal is to ensure the continuity of business,” explains Couche. “It’s important to integrate quickly, but it can take a month or two to open up new accounts and integrate the payments and hedging processes. Having visibility over cash flows should be the number one priority.”

The ingredients of success

So what should treasurers bear in mind when playing a role in M&A? For one thing, it’s important to pay close attention to timings and to make sure the necessary resources are available when needed. However, this isn’t always straightforward: BofAML’s King says that there is a certain amount of ebb and flow during the M&A process. “Deals can go quiet for weeks or months, and then become extremely busy,” he explains. “Once the price has been agreed, everything will need to be done in a matter of days – so managing resourcing within the treasury team is not an easy matter.”

Also essential is a treasurer’s ability to communicate effectively with other parties involved in the process. Barbuio says that in order to deliver on M&A objectives, a treasurer needs to be a strong communicator and influencer, both with internal stakeholders and with external advisors. “This would require strong and highly developed commercial and soft skills, with the treasury/analytical skills being a given,” he comments.

Dessing also notes the importance of teamwork where M&A is concerned. “We have to make sure that we are in close discussion with the M&A deal team leading the transactions from the beginning,” he says. “You also have to make sure that the interconnection between finance, accounting, legal and tax teams is secured. Likewise, investor relations has to know how the external world will react to certain M&A deals. So I would say it’s truly a team play. In treasury you cannot simply sit behind your PC – you need to literally walk around and make sure you have the right information.”

Finally, Dessing says it is important to have a team which has a can-do attitude and be mindful of the energy that is needed during the M&A process. “At the end of the day, buying new companies is fun and exciting, but it’s also time consuming, requires a lot of energy – and is always pretty urgent,” he says. “So you can’t just say you are out of the office for a couple of days, because the transaction still needs to go ahead.”

Planning for success

Bank of America Merrill Lynch suggests that treasurers ask the following questions in order to plan for success when undertaking mergers, acquisitions and divestitures (MA&D):

1. Have appropriate controls been put in place for compliance, audit and risk management?
2. Have you established a cash monitoring and funding process to ensure cash visibility and control?
3. Do you understand the regulatory, tax, treasury practices and instruments in the new geographies where the NewCo will operate?
4. Would you replicate the current setup for a carve out, or would you look to take advantage of opportunistic redesign?
5. How will you accommodate the differing investment grade and liquidity needs of the NewCo?
6. Do you see opportunities for treasury enhancements for the NewCo?
7. Does treasury have full access to resources needed to integrate the acquired company?
8. Is MA&D part of your core group strategy? What is the role played by your treasury in MA&D events?

All action treasury

Wei Li-Tuomela
VP, Treasurer China

Wei Li-Tuomela, VP, Treasurer China at Stora Enso, thrives on challenges. Indeed, her career has been defined by two major projects that have redefined the role of treasury in China at Stora Enso. Now her ambition is to build upon this foundation and future-proof the department.

Part of the bioeconomy, Stora Enso is a leading global provider of renewable solutions in packaging, biomaterials, wooden constructions and paper. We believe that everything that is made from fossil-based materials today can be made from a tree tomorrow. Stora Enso has some 26,000 employees in over 30 countries and sales in 2017 were €10bn. Stora Enso shares are listed on Nasdaq Helsinki (STEAV, STERV) and Nasdaq Stockholm (STE A, STE R). In addition, the shares are traded in the USA as ADRs (SEOAY).

Wei Li-Tuomela, VP, Treasurer China at Stora Enso, is a firm believer that anything is possible if you put your mind to it. Throughout her career, she has lived up to this mantra by taking on the tough challenges, raising the profile of the treasury department in China and attempting to add value to Stora Enso as a whole at every available opportunity.

This has seen Li-Tuomela build two treasury departments from scratch and transform a decentralised treasury operation in China into a world-class centralised department. She has also worked hard with her team to forge a cross-departmental bond between sales, sourcing and finance that has helped push treasury up the value chain.

Complete knowledge

Li-Tuomela is somewhat unique in today's fluid labour market in that she has been with Stora Enso her whole career. Some may regard staying in one company as a conservative career choice. Li-Tuomela has a different view, however, believing that working for a large multinational company brings plenty of opportunities to try different roles and gain new experiences.

She joined the firm after graduating from Helsinki University with a degree in Forest Economics and embarked on the company's Pathbuilder programme – a partnership between Stora Enso and IMD business school focused on leadership and development. Since then, she has held multiple roles across the company, including positions in marketing, sales, finance, M&A, business intelligence, communications and, of course, treasury.

Indeed, Li-Tuomela believes that working for just one company has benefited her career and her ability to add value as a treasurer. "The modern treasurer must intimately understand the business and its strategic direction, targets and values," Li-Tuomela explains. "You also need to understand the industry, which cannot be achieved overnight. Having worked at Stora Enso for almost 20 years I understand the business quite well – and this helps greatly when I run projects and drive change within the organisation."

Of course, a successful treasurer also requires first-rate treasury skills. Li-Tuomela honed her craft working under the Group Treasurer in Stora Enso's Helsinki headquarters for five years. During this time, she worked on the day-to-day running of the treasury, as well as playing a key role in several large transactions and transformational projects.

> "**The modern treasurer** must **intimately understand the business** and its **strategic direction, targets** and **values**. You also need to understand the industry, which **cannot be achieved overnight**. Having worked at Stora Enso for almost 20 years I understand the business quite well – and this helps greatly when I run projects and **drive change** within the organisation."

"The more I worked in the treasury department, the more fascinating I found it," she says. "As the internal bank of a large corporation, you really get to experience the power of capital."

Project treasury

In 2013, Li-Tuomela took the career opportunity of a lifetime to set up a new project treasury office with full-scale treasury operations for the company's new mill in China. The €800m project in the Guangxi Beihai region's Tieshangang industrial zone is the largest Nordic direct investment in China and a significant investment for Stora Enso.

One of Li-Tuomela's key responsibilities as Project Treasurer was to ensure that there was enough funding at a reasonable cost to finance the construction phase of the project. To say this was a challenge is an understatement, especially given the size of the investment required. Li-Tuomela notes it taught her about the importance of a balanced funding portfolio when operating in China.

"The Chinese banks have huge balance sheets and deposits, which make them the most competitive CNY lenders," she explains. "The international banks, on the other hand, are more reliable – but their lending ability can be hampered by the regulators. It is, therefore, crucial to diversify risks and use a variety of lenders when operating in China."

Aside from ensuring the project was funded, Li-Tuomela also put in place all the elements required in any treasury department. This included bank connectivity, payment processes and risk management systems. "This was incredibly hands-on but very exciting as I had my own sandbox and the ability to shape the treasury in my vision," she says.

Three years on, the mill is up and running and a huge success for the company, "It was one of the highlights of my career and it was a privileged to work on the project," she says.

Central priorities

With the Guangxi Mill completed in 2016, Li-Tuomela was at a crossroads in her career, looking for a role that could provide her with the same professional fulfilment as the project she had just worked on. Thankfully, Stora Enso's growth in China meant that she didn't have to wait long and was soon tasked with another exciting project: building a centralised regional treasury department in Shanghai.

This was to be a stimulating challenge because most of Stora Enso's operations in China are carried about by joint ventures. "The level of treasury being conducted by these joint ventures was basic," says Li-Tuomela. "For example, some operating units didn't do cash flow planning and few had controls or standardised processes in place. Some didn't even have account payables ledgers, meaning they had little idea how much cash they had, or needed."

To rectify this, Li-Tuomela set to work on several transformational projects. The most important of these was the formation of an RMB cash pool to centralise liquidity and enable treasury to act as an in-house bank for the business units.

With the cash pool in place, Li-Tuomela and her team then spent significant time analysing cash flow patterns to increase the accuracy of the cash flow forecast and facilitate better liquidity planning. "There is always room for improvement in this area, but I think we have done a great job," she says. "We now have one of the most sophisticated treasury operations in China."

Despite her success centralising the treasury operations, Li-Tuomela admits that it has been a challenging process, testing her change management skills as much as treasury abilities. "Convincing the business units to give up their power and decision-making ability to a treasury department they didn't know was not an easy process," says Li-Tuomela. "It required lots of conversations and reassurances that this would be a positive step. Eventually, we were able to convince them that this was a positive change that would enable them to focus on their core competencies and better meet their KPIs."

Strategic intent

Today, Li-Tuomela is focused on adding value to the organisation. This aligns with her view that the modern treasury department must be more than an operational centre; it must also help drive the strategic objectives of the organisation. Li-Tuomela provides many examples of where treasury has added-value and influenced the strategic direction of the organisation. One that stands out is her work around credit management and controlling counterparty risk.

This is easily an area fraught with difficulty due to the differing KPIs of the treasury and sales departments, which, as Li-Tuomela explains, "creates a natural conflict". "Selling as much as possible is rightly the main objective of the sales team," says Li-Tuomela. "Sales tends to offer longer payment terms and bigger credit limit than what the company's credit profile allows."

To tackle this, Li-Tuomela followed a course of action similar to the one she had taken when setting up the treasury centre, engaging with the sales team rather than dictating to them. This involved reaching out to the sales team to build a standardised credit analysis process which would enable to the sales team to continue selling while mitigating the risks.

Li-Tuomela has also put in place a process that sees the credit team issue reminders to the sales representatives regarding due receivables. "This enables the sales team to proactively reach out to our customers and ensure they pay on this," she says. "In my experience, this is a unique relationship between treasury and sales, and one which helps the company thrive in a sustainable manner."

Passing it on

As a stalwart of the company for over a decade, Li-Tuomela has a deep connection to Stora Enso and wants to see the company succeed not just today, but in the years to come. To that end, Li-Tuomela is very keen to pass on her knowledge and experiences to her team members and anyone in the company with an interest in treasury.

They would do well to listen. Throughout her career Li-Tuomela has not just demonstrated excellent treasury skills; her approach to solving business challenges through

> "As a **treasury leader**, you need to **understand** the **fundamentals** of the role. But **cross-departmental** and **interpersonal leadership**, **networking** and **management skills** are **equally important**, **if not more important**. The way I see it is that **IQ can get you so far**, but it is **emotional intelligence that sets you apart**."

discussion and understanding is a trait that every modern business leader should have.

This is something that Li-Tuomela is acutely conscious of. "As a treasury leader, you need to understand the fundamentals of the role," she explains. "But cross-departmental and interpersonal leadership, networking and management skills are equally important, if not more important. The way I see it is that IQ can get you so far, but it is emotional intelligence (EQ) that sets you apart."

This explains why Li-Tuomela is keen for members of her team to spend as little time in the treasury department as possible. "I want my team to go out and be curious about the business, the people in it and what makes it all come together," she says. "This is why I tell them to take every opportunity that comes up and learn from other people. Doing so will make them better treasury leaders in the future."

Solid grounding

Li-Tuomela is especially keen on staying abreast of the latest trends shaping the financial industry. In her view, treasury and finance more broadly are on the cusp of a change that will completely redefine the profession. "Fintech is changing everything in the retail space here in China and this is slowly making its way into the commercial space," she says. "The future will look very different."

In light of these changes, Stora Enso's treasury is actively looking to adopt more technology. Li-Tuomela notes that technologies which help treasury harness and interpret big data are of particular interest. "These will help treasury drive greater operational efficiency, as well as better supporting the business with detailed insights and analysis," she says.

Incremental improvement is on the agenda for Li-Tuomela and the Stora Enso China regional treasury for the years to come as the company continues to grow in the country. On the technical side, Li-Tuomela plans to spend more time understanding the potential big data could bring to increase capital efficiency. Most crucially, there are plans to build a cross-border cash pool and thereby bring the China operation into the Group's global liquidity structure.

Finally, Li-Tuomela plans to foster more cross-departmental relationships – thereby solidifying the position of treasury as a strategic leader and ensuring that it can continue to add greater value to the organisation.

Building on the pillars of growth in Asia Pacific

The growth potential for corporates in Asia Pacific is dominated by three key markets: China, India and ASEAN. Each is unique, presenting opportunities and challenges in equal measure. We consider the treasury perspective, exploring the latest developments and trends in each.

Mridula Iyer

Head of Treasury and Trade Solutions, South Asia, Citi

India has made significant investments in digitisation across the board and is embracing these changes to move with confidence into the digital age. The government is showing commitment to building a digital infrastructure, supported by regulators and the banking industry. Structural reforms in taxation and law, and the formalisation of the economy are matched with rapidly evolving consumer behaviour. For Mridula Iyer, Head of Treasury and Trade Solutions, South Asia, Citi, India's mood is positive and expectations are high. All this is having a direct impact on how corporates do business within and outside the country.

Roots of change

The policies, initiatives and reforms introduced by the government are the bedrock of India's change for the better. Among one of its reforms executed over the past few years is the national digitisation programme, which plays a key role in the country's future.

The 'JAM trinity' (Jan Dhan – Aadhaar – Mobile) of initiatives encapsulates this movement. Jan Dhan is driving financial inclusion; Aadhaar gives each citizen a unique digital identity; Mobile is the practical means of inclusion in the digital economy for almost every one of India's 1.3bn citizens. Additionally, with the introduction of real-time 24/7 payment channels like Immediate Payment Service (IMPS) and Unified Payments Interface (UPI) that are faster, cheaper and more convenient, there has been significant progress in moving towards a digital economy.

Spectrum of opportunities

With GDP growth forecasts heading towards 7%, India has become one of the most attractive destinations for investment in the emerging markets. Government reforms in the recent past have led to a lot of positive change on the ground. Additionally, India jumped 30 places to 100th in the World Bank 'Ease of Doing Business' ranking. Key global players are now looking to expand their footprint in India, leveraging the development and consumption growth story in the country. Meanwhile, major Indian corporates are heading overseas, some strengthening their world-stage position through acquisition.

The major success in India is its US$50bn (c.US$120bn by 2020) e-commerce market. Propelled by favourable drivers towards rapid growth, the Indian ecommerce market is gaining further depth and breadth through new entrants, of which key priorities are increasing their presence in India and connecting Indian consumers to global merchants.

India is also emerging as a preferred export hub by many MNCs, manufacturing for the rest of the world. Automotive sector expansion has seen global players form vast ecosystems of national and international suppliers including OEMS, component-makers, financing companies and distributors.

India has long-been an IT hub for the world, playing host to some of the world's largest technology companies. As a sector, IT is pushing outwards to countries such as the US and Canada. As key players work evermore closely with the administrations in these countries, they are finding new ways of enhancing their overseas presence.

The pharmaceutical sector, much given to inorganic growth, is a major player in India too, the country ranking third in the world in terms of volume. With rapid overseas M&A activity, strong footholds in the US and Latin America, for example, are being created.

Paths to success

Given the scale and impact of India's sweeping new digital reforms, Citi is helping clients create value and drive growth through its commitment to digitise and implement innovative solutions. Digitisation has eliminated much of the trade paper-flow. The creation by the government of a centralised

data repository connecting customs, regulators, banks and clients, has enabled Citi to offer an end-to-end digital solution, simplifying cross-border trade payments and significantly improving efficiencies for clients.

With the rapid emergence of Indian e-commerce, Citi has helped clients by facilitating seamless payment mechanisms through specialised cross-border remittance solutions, working closely with the regulators.

To help clients navigate this dynamic environment, Citi is keen to partner with treasuries on their digital transformation journey. With progress encompassing the entire working capital cycle, Citi's view is that the best next-generation solutions for clients can be developed through leveraging collaborative partnerships with the FinTech community. For Iyer, the agility, and new solutions of start-ups, combined with Citi's unique global platform and network, will ensure the bank executes on its commitment to be the best for its clients.

When making judgments about China as a commercial opportunity, there are three key concepts treasurers must contemplate, says Yigen Pei, Head of Treasury and Trade Solutions, China, Citi: de-regulation, globalisation and digitisation.

China has become a fast-growing and complex market in a relatively short period. It used to retain a deeply conservative approach to regulation, particularly around exchange and interest rates, yet the trend is for a relatively accommodative environment for financial innovation.

Two-way flow

The country has benefitted from globalisation, with the arrival of many MNCs onshore. But increasingly, Chinese companies are heading outwards, not least under the banner of the country's vast Belt and Road initiative (BRI). With renminbi progressively becoming a usable international currency, and the gradual opening of capital accounts onshore, China's increased accessibility is striking, with trading opportunities very much bi-directional.

No emerging economy has travelled far down the road without the adoption of new technologies; China is no different. The penetration of internet and mobile devices, and the development of new channels, especially in the consumer space, have been key to success. Indeed, the transformation of traditional payment products into the digital realm has pushed e-commerce to the forefront of China's emerging market opportunities.

That said, China is still at a transitional stage, says Pei. MNCs in the country are looking for the introduction of best practice. They want to hook their Chinese operations into their international networks, matching systems and processes seen in Europe and North America. Transformation must reach the subsidiaries, and provide an overlay in selected centres within China, before connecting to global operations.

Home-grown companies are catching up quickly; as they reach out across the world, they are adapting success stories, upgrading entire ecosystems accordingly. Companies are seeking full platform uniformity and system support, often via their banks.

Hope and patience

China's commercial ecosystem is dynamic and complex; tackling its regulatory landscape is sometimes a challenge for corporates, says Pei. While financial liberalisation is under way, government intervention in home affairs can see it correcting undue market practices, stepping in, for example, to cool an over-leveraged shadow banking sector. All this must be understood by treasurers for the right decisions to be taken. For the uninitiated in transformation, be hopeful but also be patient, advises Pei.

China is morphing into a dynamic consumer market. Domestic and international players in retail, pharma and auto sectors, in particular, are significant beneficiaries of this re-invention. With the country often cited by foreign majors as their largest or second largest market, corporates seeking growth cannot ignore it.

The services sector has been a major growth story in China too. App-based taxi services or travel service aggregators, for example, are exploiting new technologies and channels, playing on the provision of convenience, often to China's young demographic.

Even indirectly, huge demand is being generated by China's growth, says Pei. With Chinese companies moving further afield, investing and acquiring but also constructing under schemes such as BRI, foreign MNCs can benefit. A Chinese infrastructure project in Malaysia, for instance, may see a US or German company win the heavy-machinery contract.

Market-ready

Chinese companies – including those in the digital economy – are expanding into new markets, often by acquisition. These are often fuelled by international capital, PE firms or VC money. This activity also presents global banks such as Citi with opportunities to service corporates travelling in either direction.

Of course, Chinese businesses heading outwards must be prepared for new political risks, market volatilities (especially FX and interest rates) and cultural factors. They must establish process and management structures, and ensure people are in place with international vision, says Pei. Failure to respond can see operations become fractured, increasing risk. The same broad awareness applies to banking partners. The ability to advise on local market risk and opportunities, yet give a global perspective, is crucial for expansion, whether incoming or outgoing.

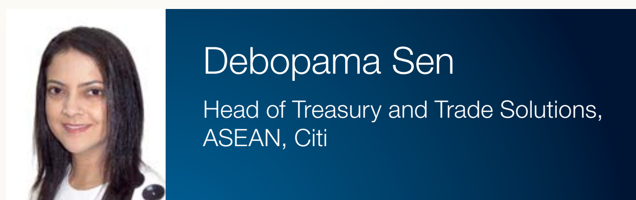
Call to action

The pace of change means corporates operating in China need to stay alert, says Pei. Treasurers must closely follow market

developments and communicate changes to all stakeholders rapidly because what was done yesterday might be outdated by tomorrow.

It can be a challenge, says Pei, but with the right partner it is possible to adapt to even the most changeable of environments. Citi's long history in the region, allied with its global reach, enables clients to benefit from a timely flow of essential and actionable information.

By accessing the bank's local connections, global intelligence and flexible solution set, building upon the pillars of de-regulation, globalisation and digitisation becomes less about the challenges, and more about opportunities.



Debopama Sen

Head of Treasury and Trade Solutions, ASEAN, Citi

The ten members of ASEAN have a combined GDP of circa US$2.6trn. This makes it the world's fifth largest economy, a position that is expected to improve by one place by 2050, according to World Bank estimates. It boasts consistent growth over the past six years of around 5%. These figures meet ASEAN's youthful demographic (more than 50% of its 550m people are under 30), and growing middle-class, head-on, presenting an exciting opportunity for businesses.

Consumer drive

Consumption and wealth is expected to continue growing, with the overall expectation for ASEAN's expanding middle-class and youth segments to raise aspirational consumption and online activity, says Debopama Sen, Head of Treasury and Trade Solutions, ASEAN, Citi.

There is also noteworthy traction for ASEAN FDI, with Europe and the US showing increasing interest in the financial sector, for example, China ploughing a lot into finance, and the retail and wholesale trades, and Korea developing its manufacturing interests.

Intra-regional investment is conspicuously increasing too. It now represents around 25% of all ASEAN FDI. With 2016 setting a record intra-regional high of US$24bn, Sen notes that many regional corporates are making concerted ASEAN growth plans.

It is noteworthy that corporates from all regions do not typically see their ASEAN investment through a single lens of, for example, cost arbitrage or consumer-market access, says Sen. Instead, it is commonly approached with multiple drivers in mind. This, she comments, makes for sustainable regional growth in what remains a highly changeable market.

Digital agenda

At a government level, ASEAN is driven by different themes. Infrastructure spend, attracting foreign investment, improving business facilitation rankings, and encouraging innovation are, in varied combinations, part of the region's growth plans. Singapore, for instance, continues to boost its status as a global liquidity centre, Vietnam as a manufacturing hub.

However, in all cases, there is a proactive regional-level agenda, says Sen. Almost every corporate today, whether it is a digital native or a traditional company, has a digital transformation strategy because this is seen as the only way to sustain growth. "This is a key place where we partner with these businesses, helping them on their digital transformation journey," says Sen.

With several clients benefiting from Citi's expertise in navigating the rapidly changing payments landscape in ASEAN, Sen says the process is about educating clients as to what is possible, helping them to understand the benefits of technology in their unique circumstances, and then making that happen.

A recent case in point is Citi's work with an e-commerce retail client in Singapore. This business was struggling to provide immediate online confirmations to customers that their payments had been successful. "We worked to leverage the Fast and Secure Transactions (FAST) network in Singapore to give them instant reconciliations," says Sen. This has helped the client process thousands of payments per month with instant confirmations for every end-customer.

As well as the efforts of Citi with its own clients, digital progress across the region is helped by determined knowledge-sharing amongst ASEAN members. There is a collective will to progress. With most members now driving a payments digitisation agenda, Sen believes that by 2020 all will have 24/7 real-time payments mechanisms, facilitating, amongst other benefits, rapid e-commerce growth.

It is vital now for treasurers to harness this evolving digital payments landscape. It is especially important to grasp what is happening in the real-time payments space, advises Sen, "as this may eventually impact how your customers do business with you".

This means fully understanding how technology can impact end-customer relationships, channel management and, ultimately, liquidity planning. "If your business is using instant payments on both sides of your working capital cycle, then how you manage liquidity may also change," she explains.

Similarly, treasurers must be proactively involved in sales and procurement cycles to optimise working capital, constantly investigating supplier and customer sides of the value chain to understand how the business can be more efficient on the balance sheet.

At the same time, of course, treasurers must be equipped to navigate the frequent regulatory changes that are typically issued by the developing members because here too there may be opportunities to leverage ASEAN's developing trade environment.

At the corporate level, there are few, if any, serious impediments to market entry, says Sen. However, complexity and opportunity can present in equal measures. As such, Citi, as a global yet local partner, has the footprint and experience to steer clients through the ASEAN maze. Regardless of how progress is achieved, ignoring what could soon be the world's fourth largest economy is surely not an option.

Get ready for the fintech revolution

The impact of fintech is starting to be felt around the world – and even though most of the development sits in the retail space, the corporate world is also benefiting. What should treasurers be doing to take advantage of the possibilities?

Treasury professionals have heard lots about the transformational impact of fintech. Everyone involved in financial services is keen to outline what they are doing, who they are working with and what's included in their vision of the future. And all the talk is being backed up by significant investment: KPMG's latest Pulse of Fintech Report notes that global fintech investment topped US$31bn in 2017. This has pushed total investment over the past three years to US$122bn, with banks, corporates and venture capitalists pouring money into start-ups. But has this talk and investment had much impact?

This is a tough question to answer because the global fintech marketing machine is running at full steam. Whilst this is raising awareness about fintech, it has also made it hard for casual observers to distinguish between hype and reality.

Take Bitcoin, for example. When the cryptocurrency first emerged, commentators couldn't stop talking about its transformative power. One expert told Treasury Today in 2014 that Bitcoin would "become more integral to our lives than we can possibly imagine", adding that it would "replace the backbone of finance, capital markets and commerce".

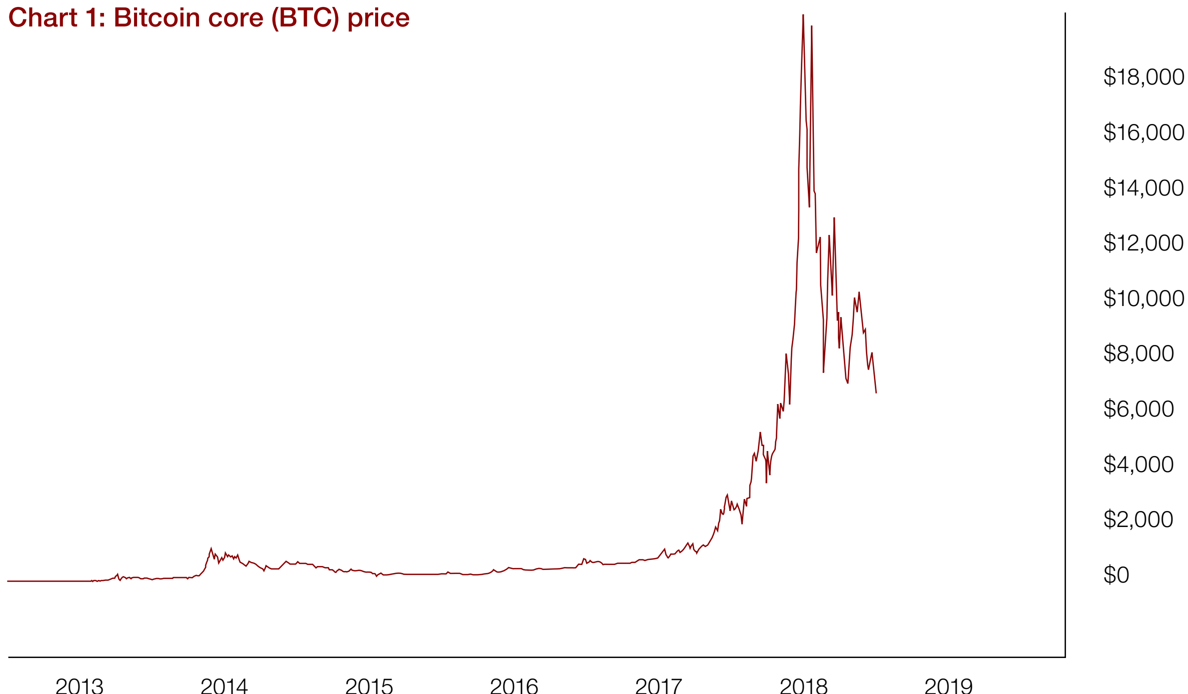
For a while, this prediction looked like it might be correct. Bitcoin hype soon reached fever pitch and the value of the currency exploded. In late 2017, one Bitcoin was valued at US$17,000. Bitcoin hype (and value) has since trended negative, with confidence in the cryptocurrency rocked by severe volatility, scandals and adverse regulatory rulings. Few are now predicting that Bitcoin will become the world's dominant global currency and have a dramatic impact on our lives.

This shouldn't be a surprise. Bitcoin and several other fintech trends are closing following the course predicted by Gartner's Hype Cycle. The Hype Cycle shows that after an initial explosion in excitement around a particular technology, interest wanes once it fails to deliver on the early promise. Then, as the time horizon expands, the technology quietly matures. Eventually, mainstream adoption occurs, growing in line with the widespread applicability of the product.

Instant impact

This isn't to say that fintech has had no impact. In China, for example, technology firms Baidu, Alibaba and Tencent (BAT) have brought financial services to the masses. Individuals in China today can bank, invest and borrow using their mobile phone. Indeed, US$12.77trn was transacted on mobile platforms in the first ten months of 2017.

Businesses in China have responded accordingly. Many have partnered with BAT to accept payments from their platforms, and banks are now building aggregation services to streamline this. More recently, businesses outside of the C2B space have also



Source: Bitcoin.com

begun to leverage these platforms. For example, a company that uses contractors to carry out maintenance has embraced WeChat Pay. This has removed the risk of contractors handling cash, while creating additional value through the automated and straight through reconciliation of payments.

Fintech is also shaking up developed economies, albeit in a less spectacular fashion. In the UK, for example, a range of challenger banks have emerged. These include Monzo, which launched in 2015 and captured the retail market's attention with its simple onboarding process, intuitive app and innovative features. Monzo now has over 750,000 current account customers.

Development in commercial banking is less obvious. There has been a steady trickle of new solutions, built in collaboration with fintechs. One example is Bank of America Merrill Lynch's Intelligent Receivables solution. This was built with fintech firm High Radius and uses AI, machine learning and optical character recognition to match incoming payments with disparate remittance data.

For the most part, however, the industry remains in a period of experimentation defined by small-scale pilots and proof of concepts, especially around transformative technologies, such as blockchain.

Focus on partnerships

It shouldn't be a surprise that fundamental change is not happening overnight: commercial banking is an entrenched, complex industry, with high barriers to entry. Corporates are also rarely willing to make significant internal changes or take a gamble on technology with no track record.

Change is coming, however. PwC's 2017 Global FinTech Report highlights this, showing the growing influence of fintech on financial services. Most notably, the report suggests there is a considerable awareness amongst banks that fintech poses a significant risk to profit margins: over 80% of respondents said that a part of their bank's business is at risk from innovators.

To combat the risk of losing business, banks are investing heavily in technology to upgrade legacy infrastructure and develop new solutions. HSBC has announced it is investing US$17bn in new technology as it looks to return to "growth mode". British lender, Lloyds Bank, also said it was investing over US$3bn in technology.

Meanwhile, traditional banks are increasingly working in partnership with fintech firms. The objective of these partnerships is to learn about the technology that such firms are using and to see where and how this could be applied by the bank. Additionally, banks are looking to replicate the culture and ways of working associated with fintechs in a bid to become nimbler and more innovative.

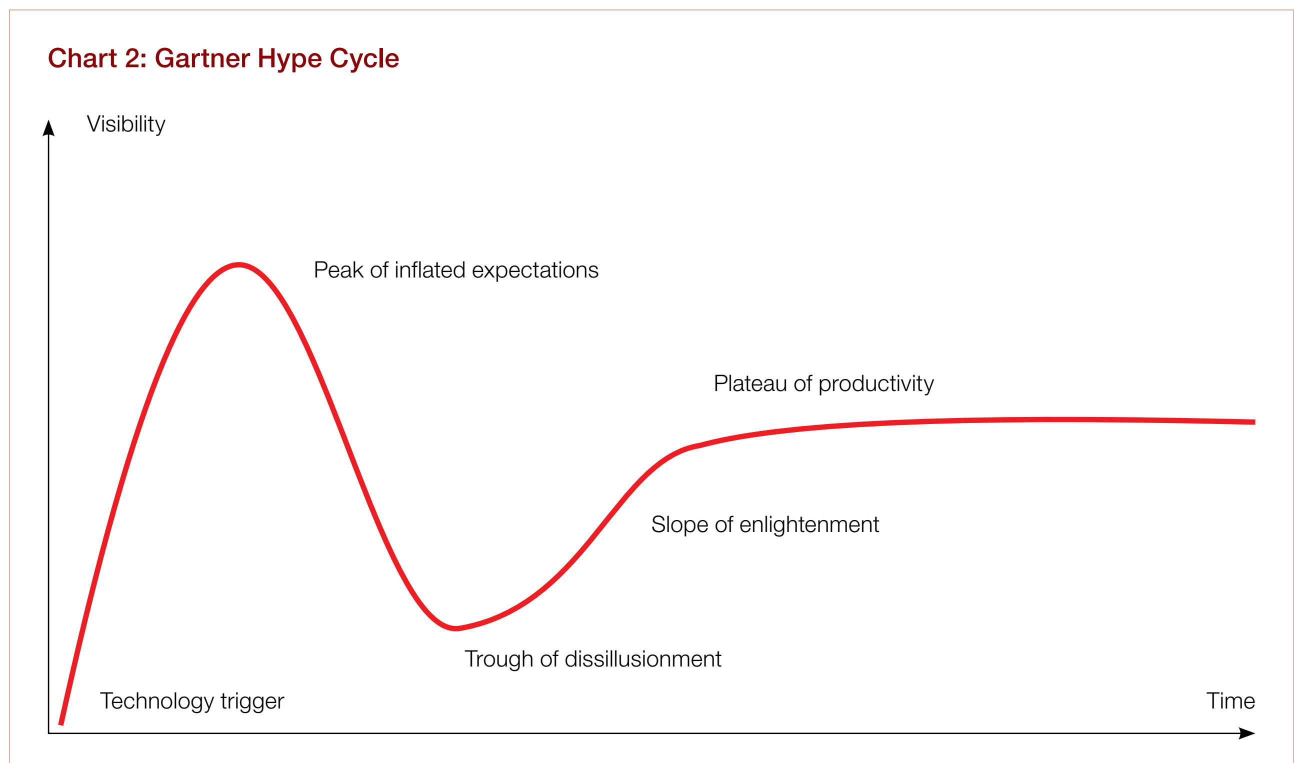
This also points to an interesting change in the approach of fintechs themselves, many of which marketed themselves as disrupters of the traditional financial system. Today, this thinking is no more. The aim of most fintechs is to partner with a bank, as this strategy is considered the best way to achieve the scale required to survive in the long term.

Bank unbundling

These trends are what Sam Hall, Managing Director at Rainmaking Singapore believes has led to the unbundling, and in some cases selective rebundling, of financial services. The term refers to the splitting of combined services at scale into component parts or modules, which can now feasibly be positioned selectively to deliver highly sophisticated value props for particular user segments – somewhat like being able to buy individual tracks on an album, rather than just the complete album.

Hall explains that the impact of emerging technology, access to customer data, cloud, regulatory changes, availability of

Chart 2: Gartner Hype Cycle



Source: Gartner

capital and customer expectations have created a context whereby fintechs are able to create value in far more niche areas of the traditional financial services value stack than was previously possible. This means the banking landscape will collectively evolve to be everything to all people, although for individual banks the historic reality of operating at scale across capital, platform and application layers is long gone.

"The emergence of fintech has given the end-users of financial services more choice," says Hall. "For example, if your bank provides a poor payment experience, you can now use one of the fintech payment providers. And regulation such as PSD2 and Open Banking – which give third-party providers access to customer data and the possibility of offering bespoke and segment-specific front-end financial services – will drive this trend, exposing banks to more competition."

This will have a big impact on banks in the long term, as they will need to overhaul most aspects of their operating models, adds Hall. "Banks are burdened with significant legacy technology that is expensive to maintain. They are being outcompeted on cost of technology and must evolve their business models to focus on areas where they have capability and can seek to remain competitive."

Hall says that this will see banks evolve differently. He expects some to take a platform-based approach, leveraging API layers to connect with best of breed fintech firms and offer retail and corporate customers a one-stop shop for all their banking needs. Others will become back-end infrastructure providers or utilities for other firms.

Digital transformations

This is already happening, at least to a degree. J.P. Morgan, for example, has been bullish in its willingness to partner with fintechs. "There are instances where we are willing to partner with fintechs," says Manoj Dugar, Head of Core Cash Products, Asia at J.P. Morgan. "The reason J.P. Morgan takes this approach is simple: it is about ensuring that we deliver cutting edge innovation to our clients."

Dugar adds that J.P. Morgan also wants to assist its clients with their own digital transformation journeys. "In a recent survey of our clients, we found that the majority are going through a digital transformation," he says. "We must be ready to help guide them through this journey, not just with products and solutions, but by sharing our own experiences to help them build a roadmap for the future."

Raof Latiff, Group Head of Digital, Institutional Banking Group at DBS echoes this point. He explains that DBS is currently undergoing a technological and cultural transformation to become akin to a "24,000 people start-up". Latiff adds that to achieve this, the bank is working with fintechs and bigtechs to digitise its internal technology stack. "We are moving all of our data and platforms into the cloud and reimagining our internal processes," he says. "This will enable us to cut costs, be more agile in innovating, and deliver solutions to customers more rapidly."

These back-end improvements will take time to complete. However, it will be worth the wait. Not only will corporates be able to enjoy a wide range of new products and services; banking costs may also fall. Indeed, a report by Bain & Company suggests that this investment, tied in with increased competition for business, will cause a structural decline in prices for services such as cross-border payments and trade finance.

New engagements

Fintech isn't only impacting banks behind the scenes – it's also changing how they interact with clients. Most notably, banks are paying attention to how fintechs design their solutions and the user experience they create. "We are working hard to bring the experiences we have in our consumer lives to the corporate space," says Jennifer Doherty, Head of Innovation, Asia at HSBC. "To achieve this, we are ensuring our products and propositions have intuitive user interfaces and are easy to use – which hasn't always been the case with banking products."

It goes beyond look and feel, however. Doherty explains that HSBC is redefining how treasurers interact with the bank. "Traditionally, if a treasurer had an issue or needed something, they would make a phone call or email," she says. "Today, clients can initiate these questions through our chatbot, which can deal with many of these enquiries instantly. The idea is to remove the friction between bank and client."

As well as changing how banks and corporates interact, fintech has also pushed banks to design solutions differently. In the past, banks followed a model of designing and building a solution in-house that would then be pushed out to the market. But today, banks are keen to have corporates involved in the design process.

"We look to solve business problems with our clients," says Latiff. "Rarely do we talk about basic treasury solutions today as a starting point. Instead, we talk about digital solutions addressing business problems. For example, one of Asia's largest leading general insurers, MSIG Insurance came to us because they were seeking a way to improve the speed and convenience of the claims process for customers, whilst streamlining internal processes and reducing costs. We worked together and solved this through a real-time payment solution, enabled by DBS' API solution, IDEAL RAPID. This transformed both the efficiency with which insurance claims are processed, and the quality of the customer experience, setting a new precedent for the insurance industry and strengthening MSIG's position as a market leader."

Pricing models for solutions are also likely to change. Rather than banks charging corporates per service, it is likely many will package services together and charge a single fee. This is similar to the switch made by the telecoms industry several years ago.

Alternatively, product pricing may become more bespoke as technology gives banks new ways to track what their clients are doing. Commerzbank, for example, recently announced that it had struck a deal with machine tool manufacturer, EMAG, to create the world's first data-based, pay-per-use loan. This innovative structure sees the repayment of the loan linked to the usage of capital equipment – data which is shared with the bank through tracking devices installed into the tools produced by EMAG. Elsewhere, Nordea has publicly said that the pricing of the loans offered to corporate clients will be directly influenced by their cyber-security awareness and readiness.

Taking action

It's an exciting time for treasury. The main advice is to be engaged with banking partners, technology providers and industry peers to understand what is happening and split hype from reality.

Corporate Interview

FERGUSON

Royston Da Costa, Assistant Group Treasurer

Royston Da Costa, Assistant Group Treasurer at Ferguson, talks through why technology is so important to his treasury operation. He also reveals what emerging technology will have the greatest impact on treasury.

Why is technology vital to your treasury department?

Technology is very important to us. It provides enhanced visibility over our cash, accounts, loans, FX activity and payments. This is crucial because we are managing treasury for a decentralised business and need to know what is happening.

We also want the technology we invest in to have a good ROI. We are therefore keen that any technology we use should connect with the other systems used in our organisation. This then allows us to drive efficiency and cost savings through automation and straight through processing.

Finally, new technology, especially cloud-based offerings, such as our TMS, BELLIN, provide greater security, which is crucial for treasury.

Which emerging technologies are of interest?

AI and robotics will be game-changers. We are already seeing these impact shared service centres by automating manual processes. I am now investigating how these might benefit our treasury.

Harnessing Big Data is also of great interest. Everything we do relies on having access to reliable data. The challenge is that this data often sits in disparate systems across the organisation. A technology that brings all this data to a central location would be interesting and allow us to better support the business.

What about blockchain?

Blockchain is interesting as it can solve many issues we have, such as KYC. If blockchain can facilitate true-digital document exchange and matching, it will reduce the time and effort it takes to conduct KYC. This would be a huge benefit for both corporates and banks.

I would be open to using a blockchain solution if it solved this issue. The problem is that the technology is largely unproven.

What is most important for me as a treasurer is not the technology itself, but the value it can deliver. So whilst blockchain is very interesting, my real focus lies in not how it works but the business problems it might solve.

Has new technology had a positive impact on financial services more broadly?

Yes, without question. The focus on fintech has delivered new solutions to individuals and businesses. These provide greater speed, accuracy and reduce costs.

Beyond that, new technology has also enabled businesses to scale up and reach a wide array of new customers around the world. This is revolutionary.

How will the continued evolution of technology impact treasury in the years to come?

Some argue that increased technology usage and automation will make treasury teams redundant. I don't believe this to be true. Technology is not replacing the role; it is replacing the process. And making the process more automated will mean that treasury has more time to focus on the data and act on it. So in five years I foresee treasury departments being slicker and driving greater value in how they support the business.

Views are of Royston Da Costa not Ferguson PLC

Those who want to benefit from new technology at the earliest opportunity must ensure they're ready. HSBC's Doherty notes that treasurers should look at their existing technology stack and see if it is ready to integrate with the new technology coming through. "Most importantly, it must be able to consume APIs as these are the future of bank/corporate connectivity," she says. "I would also recommend that treasurers are involved in the company's annual technology plan. This will ensure that the treasury function is not being overlooked when deciding what areas of the business receive attention and investment."

The future is bright for corporate treasurers who will eventually benefit from all the investment in fintech. This will see them enjoy improved services, products and greater choice and flexibility. So, whilst the fintech revolution is yet to fully deliver on its potential to improve financial services, it's just a matter of time.

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The fundamentals of end-to-end FX excellence

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Director, Transaction Sales
Thomson Reuters

Recent currency market volatility has highlighted the need for many treasury teams to pay close attention to FX risk-management. For this reason, treasury teams are introducing technology into their FX workflow. It can enable them to streamline FX processes, better manage currency risk, and conduct post-trade analysis, as part of a programme to proactively seek continuous improvements.

Sime Darby Motor Group (HK) is one company that has taken this approach. The company used to struggle to manage the financial risk surrounding its foreign currency forward supplier payments. Treasury could not lock-in the costs of its trades and execute at fair market prices. It also had difficulty providing accurate forecasts to management.

To overcome this challenge, treasury revamped its pre-trade FX risk management process by deploying Thomson Reuters cross-asset pre-trade analytics solution. This allows treasury to determine the fair market value of FX forward contracts by utilising trusted calculators and unbiased market-data. The same solution allows Sime Darby Motor Group (HK) to assess ongoing mark-to-market pricing and benchmark their performance.

Using this technology has revolutionised how the company manages its FX exposures and delivered multiple benefits. "We have reduced the pricing of our FX forward contracts and short-term financing, lowering the overall cost to the business," says Chan Man Wai, Treasury Manager at Sime Darby Motor Group Hong Kong. "Additionally, we've enhanced our negotiation power when dealing with the banks. We now also have documentary evidence to show management that treasury is executing hedges at the best market price and adding value to the organisation."

Sime Darby Motor Group HK is also enjoying a more streamlined and automated FX trade workflow. This is something that Raj Melvani, Head of Market Development, Corporates & Commodities, Asia at Thomson Reuters says corporates building a centralised treasury operation should look to do. "For a majority of organisations, Treasury is considered a cost centre meaning there's always pressure to do more with less," he says. "Automating the FX workflow plays to these goals and allows treasury to generate cost and resource savings through increased efficiency."

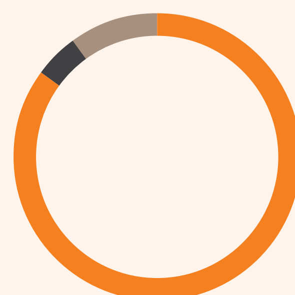
Beyond this, automating the FX workflow brings further benefits. Melvani explains that it allows treasury to deploy better controls and encourage segregation of duties. "Treasury can also aggregate trades across the group and execute from a single location. This reduces fees and treasury may improve pricing."

An automated FX workflow also allows corporates to conduct post-trade execution quality analysis (EQA), something being considered by more corporates. Indeed, a poll of the audience during the webinar found that 85% see value in using post-trade analysis to benchmark FX deals.

Dan Guille, Director, Transaction Sales at Thomson Reuters, isn't surprised by this. He says corporates are more focused on how they trade with counterparties and if this is delivering value. Guille explains that EQA allows corporates to get into the "nuts and bolts" of FX risk management. Significantly, it highlights whether corporates are paying the market-rate for their deals or if better pricing can be achieved elsewhere. As an illustration, EQA can show treasurers if better-pricing can be achieved by trading a certain currency at a particular point in the day or by using a different bank. "This is valuable data for a treasurer and allows them to make small tweaks to how they trade, which often results in significant cost savings."

Melvani concludes by highlighting that these tools do not require significant investment – something that previously deterred some corporates in Asia. "FXall is deployed in the cloud," he says. "This lowers the cost of installing and operating the system. It also means it can be scaled-up or down as FX trade volumes change. As a result, there is no reason that all corporates can't achieve end-to-end FX excellence today."

Do you see value in using post-trade analysis to benchmark your FX deals?



Yes
85%

No
5%

Not sure
10%

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

Working capital optimisation

Treasurers are increasingly playing a more central role within the organisation when it comes to optimising working capital. Where are the opportunities for treasurers to drive improvements in this area – and which challenges are likely to arise along the way?

Working capital management is a perennial concern for companies around the world – and in today's environment, corporate treasurers are paying closer attention to this topic than ever before. So where are the most attractive opportunities for optimisation?

It's clear that working capital optimisation is nothing new. "Capital has always been an expensive and scarce commodity for businesses to set up, run and grow," says Varoon Mandhana, Senior Advisor, APAC Solutions, Treasury Services, J.P. Morgan. "A good part of this capital is tied up in day-to-day running of the business in the form of cash, payables, receivables and inventory (collectively referred to as working capital) besides other capital investments."

As such, working capital is a significant concern for companies around the world – and one in which treasurers can play a key role. "This is a subject that is on every corporate client's agenda," says Michael Vrontamitis, Head of Trade, Europe & Americas at Standard Chartered. "Treasury is becoming much more focused on working capital management as technology evolves and we move into the real-time world. This is being driven by the emergence of real-time payment systems and real-time information, particularly in Asia where developments like Alipay, WeChat and others are blazing the way."

Of course, not all companies are equally focused on this topic. Vrontamitis observes that the competitiveness of particular industries may affect the extent to which working capital optimisation is seen as a priority. "For example, working capital management techniques are heavily used in the retail industry," he says. "Margins in this sector are thin, so treasurers are particularly focused on any techniques that can help transfer risk, improve DPO and reduce costs for suppliers."

In contrast, Vrontamitis notes that high-margin, cash-rich industries like oil and gas have traditionally placed less focus

on working capital. However, he says that some of these sectors have seen increased pressure on their margins more recently – leading to a greater focus on conserving cash via working capital management.

Unlocking working capital

There are considerable opportunities to tackle this area more effectively. PwC's 2017 Working Capital Study found that for companies in Asia, cash is increasingly locked up within lengthening working capital days. The report adds that with one of the worst net working capital days (NWCD) positions, "the average Asian company is well-placed to focus on releasing this cash to reverse current capex levels and stimulate return on capital employed (ROCE) improvements".

Mandhana explains that companies that are able to optimise the use of capital through effective working capital management are able to generate higher ROCE by reducing their overall capital base and improving shareholder value. "Cash released through working capital optimisation presents an opportunity for companies to potentially retire expensive debt, internally fund projects and acquisitions as well as pay back shareholders," he adds.

Venkat ES, Head of Asia Treasury Product Global Transaction Services at Bank of America Merrill Lynch (BofAML), adds that the efficient use of working capital is particularly critical today. "For one thing, working capital is especially important in the current market, where growth rates are moderate compared to the days of double-digit growth," he says. "Secondly, with the pressure on margins and ROCE coming under severe strain, large enterprises have to rely on working capital optimisation to deliver better results."

Venkat also cites the significance of evolving sales models in this area. "The model is changing from traditional sales to online sales," he notes. "And this will have a significant impact on companies' cash flows." Indeed, a report published by the GSM Association last year in collaboration with Boston Consulting Group, Embracing the Digital Revolution, notes that digital technologies will influence up to 45% of all retail sales in India by 2025.

Taking action

There are many reasons for focusing on working capital management – but how can companies tackle this area effectively?

For one thing, it's important to look broadly at the different components of working capital: days payable outstanding (DPO), days sales outstanding (DSO) and days inventory outstanding (DIO). Companies can improve working capital in a number of different ways, such as by taking longer to pay supplier invoices – and, conversely, by collecting payment faster from customers. While benefits can certainly be gained by focusing on one of these areas on its own, these can be limited. A more effective approach is to tackle the full range of working capital metrics, while also taking into account the impact on the company's buyers and suppliers.

"In the past, a lot of companies have focused only on getting benefits on the payables side by delaying payments to their suppliers," says Venkat. "But increasingly companies are focusing on receivables and inventory as well." Where receivables are concerned, the goal is to collect and reconcile payments as quickly as possible – and this is an area that Venkat says any company should be focusing on. "There are clear opportunities, irrespective of industry, for them to adopt the tools and solutions that are being developed both by banks and third parties," he explains.

Adding value

Working capital optimisation is an activity that extends across many different parts of the organisation. So where can treasurers add value to this process?

"While traditionally working capital optimisation has been a CFO-led and shared responsibility, treasurers are now playing a more strategic and pivotal role in company-wide efficiency initiatives," says Mandhana. "Treasuries have a lot to bring to the table, considering their visibility over cash, cash management expertise and increasing role in managing financial risk and bank relationships."

Promoting cash culture

Mandhana explains that treasuries are taking a lead role in working capital optimisation initiatives in a number of ways. For one thing, he points out that treasury is "uniquely positioned to promote cash culture throughout the organisation, not only by improving cash visibility and forecasting but also by building awareness within each business function about how their activities affect company cash performance." He notes that both finance and the broader organisation – ie sales, operations and procurement – need to be educated on the connection between working capital efficiency and generating free cash flow to reduce capital needs or fund business growth.

Centralising cash management

Another way in which treasury can drive working capital optimisation is by centralising cash management. "In a decentralised setup, subsidiaries tend to maintain high cash buffers, which in turn take the focus away from the need to reduce overall working capital levels," says Mandhana. "Centralising cash across subsidiaries through pooling mechanisms, and transferring it back to the business as intercompany loans and deposits, not only helps in reducing overall cash needs but also drives business behaviour to optimise working capital utilisation."

Institutionalising policy and practices

Mandhana adds that treasury plays a key role in institutionalising forecasting policy and practices across the organisation. "Effective implementation of the same has a direct impact on cash management and working capital optimisation," he notes, adding that regular follow-up with subsidiary teams and the escalation of inaccurate forecasts can also help keep this process under control. Furthermore, Mandhana points out that treasury is assuming a leading role when it comes to arranging supply chain finance solutions for the business.

Getting it right

There is plenty that organisations can do to optimise their working capital – and, equally, there are a number of challenges that can arise, and pitfalls that may need to be

avoided. After all, a project which fails to meet its original goals – or which sees staff reverting to old processes over time – is unlikely to deliver the fullest possible benefits of working capital optimisation.

"When we implement these programmes, they are perennial," says Vrontamitis. "It isn't a case of implementing the deal and then having service reviews every six months. You're constantly on-boarding suppliers onto the programme – and, of course, the purchasing needs of the company will change over time."

Focusing on the basics

For one thing, Vrontamitis advises that treasurers should avoid trying to run before they can walk. "My suggestion is to focus on getting the basics right," he explains. "For example, if you are looking to increase payment terms from 30 to 60 days while adopting a payable financing programme, you first need to make sure that you have consistent processes in place for approving and paying invoices."

Again, the need for robust processes extends beyond DPO. "Working capital improvements must be holistic across the order-to-cash cycle," observes David Blair, an independent treasury consultant based in Singapore. Blair says that invoicing errors can represent a significant source of delays where accounts receivable is concerned. He also points out that it may be prudent for organisations to focus on the largest late payers who materially impact DSO in the first instance, rather than on smaller balances.

Collaborating on KPIs

Also important is making sure that companies are applying key performance indicators (KPIs) consistently across divisions where working capital is concerned. "In an integrated world, we are better when we are connected," says BofAML's Venkat. "Each division needs to work together in order to support working capital goals across the enterprise as a whole. For example, whether there is an opportunity to negotiate better terms on the payables side, or reduce inventory, or collect payment faster, these things all need to be centrally co-ordinated – and treasury should play a key role in making that happen."

Organisational change

Meanwhile, Mandhana points out that optimising working capital may require broad organisational change. Whereas treasury and finance teams may exercise more direct control over sources of capital through debt raising and capital markets, he says that "responsibility for managing cash, payables, receivables and inventory is spread unevenly across operational silos such as treasury, finance, operations, supply chain, sales and procurement."

The entire organisation therefore needs to pull in the same direction when improving working capital – and this requires effective change management. However, as Mandhana observes, "most companies do not have a formal organisational structure to manage such initiatives."

Securing buy-in

Also important is the need to secure buy-in and engagement from multiple parties. "You can't just set these programmes up and expect them to run," says Vrontamitis. "When you look at using techniques like payables financing and pre-shipment financing, it's really important for all the different stakeholders to buy into the programme. Treasury needs to sign up, and so does the bank – but you also need procurement on board, and you need the suppliers themselves on board and seeing value in the programme."

Likewise, Mandhana notes the importance of ensuring C-suite attention. "Considering the cross-functional nature of working capital initiatives, it's important that companies set the tone at the top, with C-suite executives emphasising the importance of this topic while also setting annual targets to free up cash flow," he comments.

Achieving consistency

For companies operating in multiple countries, local variations may also need to be taken into account. Vrontamitis notes that the regulations in Asia vary from market to market, meaning that solutions that work in some markets may present challenges in others. "For example, the use of insurance is more difficult in places like India, because you can't use insurance-backed financing in that market," he says. "And we've seen similar moves in China and Korea. So while you can achieve a broadly consistent strategy around a receivables finance programme, you might find there are some idiosyncrasies when it comes to what is or isn't allowed by local regulation."

Technology and data

In addition, Mandhana points out the importance of leveraging technology and data. "Working capital optimisation requires visibility into various systems and tools capturing information on receivables, payables, inventory, suppliers and customer, business forecast and cash levels," he says. As such, companies are changing the way in which they use technology: "Beyond the standard treasury and finance systems, corporates are starting to focus on data management and data visualisation tools that can provide them the required visibility and insights into working capital management."

Further challenges

Aside from these issues, other obstacles can include a lack of visibility over key working capital metrics and processes, as well as challenges in getting non-finance people on board. Mandhana also says that the fear of harming customer or supplier relationships can slow down the process of payment term optimisation. "Instead of treating every customer or supplier the same way, companies need to take a more segmented and tailored approach to strike the right balance between price, service and cash flow," he advises.

Conclusion

As companies become increasingly focused on the benefits of working capital optimisation, it's clear that there is much treasurers can do to drive improvements in this area. From promoting a cash focused culture to centralising cash management, treasurers can play an important role in creating the conditions needed for working capital success. Key to achieving success in this area is overcoming the possible obstacles by putting consistent processes in place, applying clear KPIs and gaining buy-in from everyone involved – as well as making the best use of the technology and data available.

HOME OR AWAY

A QUESTION OF CENTRALISING TREASURY

The creation of a global or regional treasury centre can bring greater uniformity, visibility and control. It can also reduce costs and enable treasury to become more strategic in the way it supports the business. Here we talk about the different models of centralisation and where best to locate your treasury centre.

Treasury centralisation has been a hot topic for some time now. Indeed, over the past decade and more, corporations around the world have moved to established global treasury centres, often supported by regional outposts in places where they have significant overseas operations.

The centralisation trend has been especially prevalent in Asia Pacific, as multinational companies have built regional treasury centres to support the growth of the organisation. More recently, many Asia-domiciled multinationals have begun to follow suit, centralising their treasury operations as they expand overseas.

There are many benefits to centralising treasury. It can bring greater visibility; enable more efficient use of global/regional cash flows; improve pricing structures due to the extra leverage created by economies of scale; drive cost savings by removing duplicated tasks and effort and standardising procedures and techniques. Centralisation can also facilitate the rise of corporate treasury as a strategic partner to the business.

Levels of centralisation

Whilst the results of centralising treasury will be similar for all companies, there is no one-size-fits-all approach. Indeed, centralisation is a broad term and companies may vary in their understanding of what constitutes a centralised treasury. This is because the nature of a company's business, its operating model and strategic objectives, dictate the level of centralisation that treasury can achieve.

Regulation is also a factor. For example, in Asia, cross-border flow restrictions mean that treasury may not be able to sweep and centralise liquidity. Thus a centralised treasury in Asia may look different from a centralised treasury in Europe where it is possible to centralise liquidity.

As a result, it can be helpful to bucket treasury departments into three broad categories of centralisation.

Decentralised

In a decentralised treasury structure, individual subsidiaries conduct policy-making, decision-making and functional activities. Subsidiaries may have their own local banking arrangements, will organise their own funding and handle cash management (including short-term borrowing and investments) locally. The company may still employ a small treasury team in it's headquarters, acting as consultants to the subsidiaries.

Whilst decentralised treasury departments may not deliver the benefits of a centralised treasury, they can work well when subsidiaries are independent and autonomous units with limited complimentary needs. The local operational knowledge and risk awareness of each treasury team can also be beneficial – especially when the business needs to adapt to unexpected events.

Fully centralised

In a fully centralised structure, a global treasury centre will undertake policy-making decisions and most, if not all, banking and financial activities. These centres may offer 24-hour services to ensure round-the-clock coverage for all subsidiaries.

Centralisation ensures that group treasury has standardised operations, greater control across the company with streamlined bank accounts and improved transparency of cash flow. The natural hedge created by the matching of financial positions can result in better margins. A fully centralised model can also enable treasury to reduce costs through economies of scale.

However, such a degree of centralisation has its potential downsides. For example, it can lead to a lack of local expertise. In Asia, this can be a hindrance given the complexity of many of the region's markets. Take China, for example: Treasury Today Asia has frequently heard from treasurers about the importance of having a treasury professional in-country, forging relationships with the regulators and ready to react to the sudden changes common in that market.

Furthermore, if the treasury is viewed as remote by the in-country teams, they may be less interested in treasury matters and, potentially, resistant to any measures that may be introduced, making it challenging for treasury to change processes.

Fully centralised with regional hubs

This model is nearly identical to the fully centralised structure. The difference is that treasury is coordinated regionally, with business units reporting to their respective regional treasury centre. The regional treasury centre model provides a comparable level of control to the fully centralised model centralisation, whilst ensuring that there is at least one member of treasury who has expertise in a particular region and is based in the relevant time zone.

Hybrid centralisation

Hybrid centralisation is known as a 'best of both worlds' approach that sees treasury centralise in global or regional teams. However, in complex markets that require special attention – think China – there will also be a treasurer within the subsidiary(s) in that country to carry out on-the-ground treasury operations – following the treasury policy set by a central or regional centralised treasury team.

In theory, the structure delivers more control than a decentralised model, whilst still enabling subsidiaries to maintain a degree of autonomy within the front office function. It can also help to increase uniformity in treasury policies and procedures across the group and allows key decisions to be made at a global level with a comprehensive view of cash flow.

Shared service centres

The shared service centre (SSC) is a common centralised structure found within organisations. SSCs are often located in low-cost markets, such as the Philippines, and can be defined as an entity that provides certain services to several different group entities. From a treasury and finance perspective, these services may range from managing payroll, accounts payable, foreign exchange dealing or even short-term cash management.

The advantages of operating a SSC include reduced operating costs, economies of scale, efficiency gains, improved control and better performance management. What is more, offloading routine operational tasks to a SSC can free up the treasury department's time to focus on more value-adding strategic activities.

An interesting trend of late is the evolution of SSCs into value-adding centres of excellence through the adoption of technology. This can have a positive impact on treasury, as the SSC is able to support treasury at a more strategic level by providing accurate and granular data to drive more informed decision making.

In-house banks: the final stage of centralisation

The growth of centralised treasury models in Asia has led to the rise of the in-house bank (IHB) structure in the region – often regarded as the ultimate form of centralisation.

An IHB is best described as a centralised treasury organisation performing activities for subsidiaries that are otherwise performed by banks. These structures can enable treasury to reduce the company's bank borrowing, reduce the cost of FX transactions, cut interest payments on debt and improve yield on investments.

Although it is possible to build these structures in Asia, it can be challenging given the region's fragmented regulatory environment. This often means that corporates operating an IHB in Asia are unable to deploy the full range of solutions in the markets they operate in. Therefore, treasurers should work closely with the business and external advisors to weigh up the pros and cons of implementing an IHB in the region.

However, by giving the local subsidiaries the mandate to execute certain transactions and control certain functions, central treasury can benefit from the 'bottom-up' view that the local subsidiaries can offer. For example, in some Asian markets, strong local banking relationships can be the best way to obtain favourable funding or liquidity terms.

Prime location

With the structure of the treasury selected, the next big decision is where in Asia the treasury centre should be located. When making this choice, treasurers must consider numerous factors, including taxation, the regulatory environment, available talent and the location's banking capabilities and access to capital markets. Perhaps most importantly, treasury should also consider the business' overall strategy – if much of the company's business is in China, basing the centre in or close to the mainland might be the most suitable location.

Singapore

The Lion City is arguably the region's prime treasury centre location and is the long-term home to the regional treasury centres of many multinationals including AkzoNobel, British American Tobacco, DHL, Johnson & Johnson, Lenovo and Nokia. In recent years, several Chinese companies have followed suit, building out treasury centres in Singapore to support regional and global growth ambitions.

Singapore is an attractive location because of its liberal regulatory environment, AAA sovereign credit rating, large number of free trade agreements, deep and liquid FX market and legal system based on English common law. As one of the world's top financial centres, most, if not all the major Western and Asian banks have a significant presence in Singapore, giving treasurers access to best in class banking services.

The regulators have also developed a competitive incentive scheme to encourage companies to use Singapore as a base for conducting treasury management activities for the region. Most notably, an approved finance and treasury centre company is eligible for a reduced corporate tax rate of 8% on income derived from qualifying services. Approved companies are also eligible for withholding tax exemption on interest payments, such as interest on loans obtained from banks and non-bank financial institutions.

Hong Kong

Hong Kong also makes a strong case for a treasury centre location. The territory is frequently ranked as the world's freest economy, has a legal system based on English

Delivering a world-class regional treasury centre: the DHL story

CASE STUDY

Stephen Hogan
Vice President Regional Treasury Asia Pacific

DHL has one of the most successful and respected centralised treasury departments in Asia. Here, Stephen Hogan, Vice President Regional Treasury Asia Pacific at Deutsche Post DHL, explains how the company's treasury oversees the financial matters of 140 legal entities, spanning four business divisions and 42 countries.

DHL's regional treasury centre supports the business across Asia Pacific in a wide variety of activities. These range from the typical treasury activities such as bank relationship management, cash and liquidity management, financing and debt management, and risk management. Treasury is also responsible for the legal structure of subsidiaries.

According to Hogan, the regional treasury can support the business across such a wide variety of areas because unlike other regional treasury departments, which are usually separate from the global organisation, DHL's treasury is closely linked to the head office in Germany and operates as a corporate function.

"In many respects, the only reason we sit in Singapore and not in Germany is to be close to our business units in the region and their regional management," Hogan says. "The treasury department in Germany manages all the treasury systems; they give us access to these and we get on with our work, avoiding some of the more mundane tasks that treasury can sometimes be associated with."

On-the-ground support

When it comes to the in-country operations across Asia, Hogan believes it is important to forge strong relationships with the business units. To that end, his team is constantly seeking ways to add more value to the regional management and the local business units. Hogan personally visits the various businesses regularly, not only to understand their work more intimately but also to understand the cultural nuances across the region and the business environment.

In addition to these visits, Hogan has also utilised the power of modern communication channels, running regular training webinars. "This is in reaction to a major internal study where one of the key findings was that there is a real desire from employees to learn and understand what the various functions do and how," he explains. "We don't force people to attend but if it is on a topic of interest then they can join the webinar and learn. It is just another aspect of our continuous outreach."

A comparison between Singapore and Hong Kong

	Singapore	Hong Kong
Income tax rate for qualifying treasury centres	8%	8.25%
Interest deductibility	Yes	Special provision to allow deduction of offshore interest
Withholding tax	Waived	None
Tax treaties	67	39
Entity	Legal entity or profit centre	Legal entity
Markets	Better for FX	Better for debt
Location and focus	Better for ASEAN	Better for China
Costs	Similar	Similar
Number of MNCs (roughly)	12,000	8,000

Source: DBS Prism

common law and a liberal and well-developed regulatory framework. Like Singapore, its status as a global financial centre means that corporates have access to a wide range of banking services. It is also the world's largest offshore RMB hub and a gateway to the international capital markets.

Despite these qualities, Hong Kong is home to fewer treasury centres than Singapore. This is largely due to its tax regime, which until recently did not extend concessions to companies with treasury centre activities, causing many companies to opt for Singapore. To close the gap and attract more treasury centres, the authorities in Hong Kong amended the law in 2016 offering almost identical tax incentives to Singapore.

By making this change, Hong Kong is hoping that it can convince Chinese companies going global to set up a treasury centre in the territory. It has already had some success, with at least three mainland Chinese companies announcing plans last year to set up treasury centres in Hong Kong, according to the Hong Kong Monetary Authority. At least 30 other companies are actively considering the move as well.

Alternative options

Whilst Singapore and Hong Kong stand out as the two most popular treasury centre locations in Asia, there are other options available to corporates. Shanghai, for example, offers an option to those companies wanting to be based in mainland China, although the restrictive nature of the economy limits its appeal.

Elsewhere, Malaysia offers an attractive Treasury Management Centre incentive package to encourage domestic corporates to build a treasury centre in the country. Thailand also operates a similar scheme. Meanwhile, Japanese firms have been bringing their treasury centres back home to Tokyo and other major cities in recent years.

Areas for consideration

Before making any shift in treasury model, no matter how extreme, treasurers must consider the short- and long-term impact of the upheaval. To ensure a smooth transition, treasury should consider the following points:

- **Cost and cost-saving:** treasury should complete a cost/benefit analysis to understand whether the cost of the centralisation project and ongoing costs are less than the potential benefits and savings.
- **Group-wide support:** the centralisation project must have full support at management and board level. Local units must also understand what is happening and why.
- **Legal, regulatory and tax implications:** treasurers must consider how changing the treasury structure and establishing treasury centres in different locations will impact its legal, regulatory and tax arrangements. Particular attention should be given to the OECD's BEPS initiative as any treasury centre will need to prove that it is staffed by people with adequate qualifications, experience and knowledge who will form part of the decision-making process for the transactions.
- **External relationships:** centralisation is likely to lead to a change in relationship with banks and vendors and the impact of this needs to be carefully managed. This includes negotiating advantageous terms and handling the share of wallet and business appropriately.
- **Technology:** treasurers should consider what technology is needed to support the new treasury structure. Of consideration here is whether legacy systems can be integrated or if they have to be renewed – this could have an impact on costs.
- **Operational aspects:** treasurers should address transition procedures, project management and staffing issues early on to limit the impact on daily treasury activities.

A central journey

There is no doubt that centralising some, if not all, treasury activity can benefit most organisations. However, there is no such thing as a standardised centralisation project and treasurers will need to set their objectives carefully by evaluating the business and its strategy. Ultimately, a move to centralise is not just about improving treasury – it is also about putting the department in a position to drive value for the organisation as a whole.

Corporate cards

“How can I make the most of my corporate card programme?”

Deven Somaya
Head of Commercial Cards, Asia Pacific, Treasury and Trade Solutions
Citi

Corporate card programmes provide a level of convenience to companies and their employees by means of increased controls and compliance for their travel and entertainment spends. Through a myriad of card solutions available – virtual, travel and entertainment, purchasing and B2B – a programme can best be maximised by ensuring the optimal balance of form and function of card usage.

Let's look at both viewpoints:

- **Cardholder:** a corporate card provides the employee of a company with a payment tool to use for business-related expenses in the most convenient manner. Choosing a card issuer that provides a solution with high acceptance points ensures that employees are never out-of-pocket and by digitising spends on the card, transactions can be tracked against company policies.
- **Company:** an efficient corporate card programme enables the company to analyse and optimise its policies. By digitising transactions, companies are able to acquire enhanced visibility of its card programmes to ensure a higher level of adherence to its policies and also leverage the data for supplier negotiations.

Here are a few basic steps to get the most out of your corporate card programme:

- **Data:** start by getting a good view of your existing card programmes. If the programme is global, having a single global provider facilitates easy and consistent access to big data.
- **Policy:** define a consistent policy across the organisation. An issuer with the right system controls can support your programme, resulting in better adherence to policies and provide data and audit tools to ensure stronger compliance.
- **Processes and programme management:** embark on a journey with an issuer with strong digital capabilities to simplify programme management through online platforms. Many successful programmes leverage a shared service centre and thus access to digital tools becomes even more critical in overall management and execution.
- **Negotiate and partner:** leverage the data collected over time to maximise relationships and negotiate prices with strategic partners to drive economic value. Card programmes provide a great deal of data and issuers that form the right partnerships can augment that data further to implement cost-effective partnerships.
- **Optimise:** by benchmarking your programme with industry data, companies can further maximise their opportunities and drive financial and operational efficiencies of a corporate card programme. Companies can get more value out of a programme by implementing expense management systems to further enhance the data capture of a cards programme.

The value of a corporate card programme can be further enhanced by extending the programme beyond the travel expenses to include other supplier payments, typically non-strategic and indirect. A procurement card programme is a great complement to the corporate card and in the digital age, the procurement card has gone virtual with enhanced capabilities and controls. An example is Citi's Virtual Card Accounts (VCA) for corporate clients; we are the only bank to launch this across 11 markets in the Asia Pacific region.

A powerful electronic global payment solution that offers unparalleled control and flexibility without the need to issue plastic cards, VCA allows clients to generate unique 16-digit virtual card numbers with transaction-level controls, enabling additional security and improved reconciliation to a client's purchasing process.

It provides enhanced card transaction data that enables streamlined programme reporting, improved audit capabilities and automated back-end reconciliation processes. Collectively, VCA's flexible, real-time capabilities empower organisations to improve transaction management and reduce risk, while driving greater spend to their existing commercial card programme.

Stefanie Koh
Head of Enterprise Platforms and Solutions, Asia Pacific
Visa

As the global economy continues to grow, cross-border economic flows and business travel are also forecast to rise sharply. According to data from the Global Business Travel Association, annual business travel is expected to increase by 25% between 2013 and 2018, reaching US$34bn.

On-the-rise business travel brings with it increased demand for solutions to manage travel and entertainment expenses (T&Es). Companies are constantly looking for ways to reduce the costs of managing numerous trips by employees and corporate cards have been the solution-of-choice as they help to alleviate the hassles of organising cash for business trips. This, in turn, helps to reduce administrative costs associated with cash and treasury management.

A study by Fraedom, a spend management system and technology provider which was recently acquired by Visa, showed that 86% of all corporate cards issued have been used in the last 60 days. Companies in different sectors are also increasing their issuance of corporate cards to employees, helping to make multi-currency transactions more seamless.

Beyond the convenience of being just a payment tool, corporate cards backed up by spending management solutions make it easier for employees to streamline expense reporting and monitor adherence to corporate policies.

The complexities of business travel can give rise to a range of compliance issues. For example, business travellers can, unknowingly, trigger additional and unexpected corporate and individual tax obligations. In some cases, taxes and payroll withholdings may be required. It is essential for companies to actively manage or plan ahead of business trips, as penalties and interest can start to accrue, and lead to significant financial impact.

To this end, the use of corporate cards coupled with relevant controls, reporting and expense management solutions allow more control and visibility into T&Es and enable companies to keep track of business travel activities closely. Features such as improved reporting systems can analyse spend data by category, such as expense type and Merchant Category Code, as well as monitor employee compliance with corporate travel policies. They can also create usage parameters to meet strict compliance and regulation requirements.

Concerns over leaks of company information and online payment fraud may also arise as more business trips are booked through online travel and metasearch platforms instead of traditional travel agents. To minimise the risk of exposing company information during online transactions, companies can deploy one-time virtual card solutions which allow for a wide variety of spend controls so the card can only be used for its intended purpose once.

While business travel continues to gain importance, using corporate cards to monitor and control spending helps companies work smarter. This is how companies can minimise the costs incurred and reap the benefits of business travel.

Amit Sharma

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Helping companies meet their go-green targets, enabling organisations to reduce their carbon footprint, and supporting organisations to drive their employee satisfaction scores are some innovative ways in which clients can use their corporate cards. Rather than purely limit the use of corporate cards to the traditional T&E or Business to Business (B2B) procurement programmes, here are some ways in which companies are making the most of the corporate card programmes:

- **Monitoring/reducing carbon footprint and meeting go-green targets:** companies have been known to use the rich business intelligence provided by corporate cards to help their environmental and social governance targets through a variety of mechanisms. From mandating public transport (such as train or plane travel) over car hire for long-haul trips, and reducing the use of paper by going electronic (think about how much paper is used in a manual procure-to-pay process), companies can reduce the carbon footprint incurred by business travel and customer statements.
- **Driving employee satisfaction scores by adapting policies to suit traveller needs:** a leading eCommerce organisation was looking to better manage its business travel expense, while also addressing employee feedback around better work-life balance at the same time. The company changed its travel policy to promote 'bleisure' travel, ie to combine business travel with personal time, which brought forward two benefits – i) cheaper weekend business class rates for the organisation and ii) the flexibility for business travel for employees, resulting in significantly improved employee satisfaction scores.
- **Bridging the consumer/corporate divide:** as the world grows increasingly electronic, corporate treasurers demand more of the same experiences on their corporate cards that they can benefit from with their consumer cards. Take, for example, the fact that transport organisations in a number of countries around the world are discouraging or have simply stopped accepting cash. Consumers simply 'tap' their contactless credit cards to have the accurate fare deducted on buses and train/subway stations. A natural extension of this need is for business travellers to have the same experience. Another example is the increasing ubiquity and convenience afforded by mobile payment digital wallets to consumers. As the world moves from physical to digital currencies, from physical to digital tokens, so are cards moving from physical to digital formats. Not only are organisations embracing virtual cards, they are also becoming increasingly invisible by being embedded in the travel booking or procure-to-pay process.
- **Maximising the visibility and spend on cards, reaping greater benefits:** security and fraud remain top of mind for organisations. However, organisations regularly 'leak' millions of dollars in legitimate card usage through the use of alternative payment methods, losing on not just the visibility but also the rebate. The number one reason (by far) for card declines is not fraud, but rather insufficient credit. By simply monitoring usage via a report, companies can drive greater efficiencies in their card programme.

Corporate cards have been around for over half a century and have been a strategic tool in the treasurers' toolkit to help achieve their goals. As issuers, we owe it to our clients to be more vocal about how corporations and treasurers are making the most of their corporate card programme so that the benefits can be reaped by the entire industry.

Next question:

"My business is struggling with working capital and payments are often too slow for our suppliers. What can I do?"

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

The end of banking?

The recent vote on fractional reserve banking in Switzerland made me reconsider last year's article on the role of banks (see Treasury Today Asia March/April 2017). Although the Swiss voted not to change their banking system, one of the effects would have been that the Swiss National Bank directly banks all citizens. This provides an interesting opportunity to consider the role of banks in the transfer and storage of value across the economy.

The recent vote on fractional reserve banking in Switzerland questioned one of the fundamental building blocks of modern economies: the role of banks and the creation of money through fractional reserve banking.

Central banks can create money – so-called "turning on the printing presses" – and often do so in the context of deficit spending by governments. But the most common money creation in modern economies is when banks lend to customers, since banks need only keep a small percentage of deposits as regulatory reserves with the central bank. The central bank, in turn, influences the total money supply by adjusting reserve requirements and through interest rate policy.

Historically, banks preceded central banks. Central banks were created to bring stability to existing banking systems – fractional reserve banking has evolved over the past couple of centuries. In the days before digitisation, it would have been impractical for the central bank to hold accounts for all citizens, so using commercial banks to store and transfer value was operationally efficient.

But times and technology change. If we were to design arrangements for the storage and transfer of value today, it would seem strange to entrust it to a bunch of middlemen who destroy value by introducing friction and risk into our arrangements. Since our store of value is fiat currency, and since our acceptance of money is an act of faith in government, it makes sense to store and transfer money directly across accounts with a government institution, such as the central bank.

Value transfer

Money has two primary functions. The first is the transfer of value, allowing us to buy goods and services. The second is the storage of value, permitting us to time shift transactions.

When we think about value transfer, we want the simplest possible way to compensate the seller for the goods or services the buyer acquires. Cash was quite good for this purpose but no longer works online and over distance – plus, although cash seems free to consumers, it is in reality very expensive to process all those notes and coins. This is why more businesses are refusing to take cash. This is true not only for businesses but also for individuals – think about the hassle of keeping track of different currencies when travelling. Cash is also risky because it is relatively easy to steal and counterfeit.

Cards (and their contactless variants) are currently the main alternative to cash. And now that security has been improved with chips and multi-factor authentication, cards are reasonably fit for purpose from the consumer perspective. But for merchants, they carry significant costs and complexity, most of which is a function of the banking system (and it needs to get paid) rather than anything intrinsic to the process of settlement (which is after all simply a few bytes debiting one account and crediting another).

Frictionless settlement

Despite these weaknesses, current card arrangements can be used in a manner that gives us a glimpse of how settlement might look in a more rational world.

Uber is a good example. Although Uber is most famous for disrupting taxis and eventually the automobile industry, it has created notable service innovations as well, settlement, for instance. Although most of us take the convenience of an Uber ride for granted, the settlement process is a wonderful user experience – primarily because there is no settlement process from the rider perspective.

Uber has created a seamless settlement experience. The rider calls an Uber indicating from and to locations (the purchase order) and then takes the ride (the service delivery) and then just gets out of the car and wanders off. No wallet, no cards, no invoice, no approval. This is because the approval is embedded in the purchase order – the way it should be!

Approving payment is nonsense – we need to control the order stage because that is when we are legally bound to pay (assuming proper delivery). Refusing payment for a legally ordered and correctly delivered good or service will just land us in court with low to zero odds of winning.

Approval is embedded in the Uber process by first making a contractual agreement for services when the rider provides valid credit card details and second making a valid purchase order when specifying the ride start and end points. Delivery is evidenced by GPS tracking rider's and driver's phones.

The concept of seamless (or frictionless or invisible) payments is receiving wider attention now. BBVA's cooperation with Sodexo for invisible canteen payments is a good example.

Because we have not had better ways of doing it, we tend to believe that payment is an essential aspect of control over transactions. As stated above, this is a dangerous delusion, and much better processes can be imagined and have already been implemented.

Low tech examples include using direct debit mandates to pay utility bills. Higher tech examples will include various kinds of smart contracts. Smart contracts themselves are merely digitised versions of old human powered arrangements like letters of credit.

Seamless settlement

When we drop our obsession with approving payments – either by opening our wallet or with multi-factor authenticated digital banking – we can embrace seamless settlement.

To facilitate seamless settlement, we need greater simplicity and lower costs. The easiest path to this is to minimise transaction participants. This will look like buyer and seller holding accounts with the central bank. Settlement becomes a

consequence of validated intentions between parties. The first is a valid order and the second is an appropriate delivery. Settlement is an automatic consequence of these two. This can easily be implemented with smart contracts, for example.

Seamless settlement is equally (or more) applicable for corporates. When the order is valid and the delivery is correct, payment should be automatic. Most payment factories already work along these lines with far fewer frauds and errors occurring than the traditional model of finance directors signing cheques.

Order validity and delivery correctness are not traditional banking strengths. When central banks can easily avail computer power and network capacity to handle citizens' transactions directly, and other service providers can better provide transaction validation, there is no need for banks in this process. On the contrary, banks add unnecessary cost and risk to the process – imagine the millions of pages of bank regulation that could be consigned to the dustbin of history.

Store of value

Fiat currency as a store of value is basically the same wherever and however it is held. Some of the risks of fiat currency are intrinsic to its faith-based nature – devaluation through inflation and markets and expropriation, for example. Other risks do depend on externalities: cash under the mattress has a high risk of theft; cash at banks is subject to credit risk; and cash invested may be subject to securities risks.

At the height of the global financial crisis, some large European corporates were grateful to be able to use their banking subsidiaries to place deposits with the central bank. Why should such safety be denied by other citizens?

Having accounts directly with the central bank need not limit people's freedom to invest where they please. Presumably, the central bank would pay little or no interest and people would be free to invest elsewhere and in securities – just as is the case today with bank accounts.

Because settlement will be frictionless and free, sweeping can be democratised, allowing people to manage their money efficiently as they see fit. People so inclined could even automatically sweep their salaries to bank accounts. Banks can still provide investment products and funding to their customers, though one would expect the markets to become more competitive.

Banks currently have a role in the central bank management of the economy, but a recent BIS report makes clear that alternatives exist, albeit requiring some changes in central bank practices.

KYC and AML

Banks are currently central to KYC and AML. This allows regulators to pass responsibility to banks when something goes wrong, but it can hardly be described as efficient. Customers are driven to distraction by bank compliance officers continuously re-inventing the KYC wheel to meet their shifting interpretations of regulators' gnostic rulings and the latest billion dollar fine. This process is hugely expensive for the economy as a whole, and the results are very poor.

Although privacy advocates may object, it is basically necessary for all economic actors to be known to their governments. We have identity cards, company registrations, tax numbers and so forth. Such authorities are in a much better position to validate identity than banks. Indeed, banks usually purvey validation from such authorities, again creating an extra layer of cost and complexity that adds no value whatsoever to the resilience of the system as a whole.

Bank role

The basic job to be done is to debit the buyer's account and credit the seller's account when the buyer so intends. Banks add little value to this process and as explained above generally add risk and cost. That is why banks struggle to differentiate themselves in transaction banking.

Banks claim that they provide value-add through services like eBanking, but most users find fintech offerings much more impressive. Further, banks' isolation from the real economy makes it hard to implement seamless or invisible settlement – so we are stuck with e-banking approval processes as the only way for buyers to signal their intention to pay.

Most bank value-add comes in the form of funding, which post-GFC regulation is making harder for them. Whatever value add bank software provides can work equally well – and with greater transparency – when the actual settlement is removed to people's accounts at central banks.

Banks will still have a role in investment and funding products, derivatives, and value-added services and software. The advantage of people holding accounts directly with central banks is that such products and services can be unbundled so that users can choose the solution sets that best meet their needs.

David Blair, Managing Director

Twenty-five years of management and treasury experience in global companies. David 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.

Clients located all over the world rely on the advice and expertise of Acarate to help improve corporate treasury performance. Acarate offers consultancy on all aspects of treasury from policy and practice to cash, risk and liquidity, and technology management. The company also provides leadership and team coaching as well as treasury training to make your organisation stronger and better performance oriented.

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

INSIGHT & ANALYSIS

AI and treasury: friends or foes

Artificial Intelligence (AI) is slowly reshaping how we work. Whilst there are many positives to this, there are concerns that AI will eventually take over many roles, leaving humans as mere overseers of the machines. In this article, we explore some of the ways AI is helping treasury to achieve its goals and find out the long-term impact it will have on the role of the treasurer.

BANKING

Will Alibaba be your next transaction bank?

Traditional banks are being challenged and disrupted from all angles. This is forcing the industry to fundamentally rethink its role in the 21st century. Treasury Today Asia takes a look into the future to see what it holds for traditional banks and whether corporates may find themselves using a company like Alibaba as their next transaction bank.

CASH MANAGEMENT

The politics of cash repatriation

Capital controls are a function of both political and economic policy over which corporates have little or no say. However, the economic and political environment is always changing, meaning that opportunities to bring cash back home open and close. Treasury Today Asia investigates the politics of cash repatriation with a particular focus on the new US tax regime and what it means for companies around the world.

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

Fulvio Barbuio, Board Director of the Finance and Treasury Association Australia; Jonathan Bewes, Vice Chair, Corporate and Institutional Banking, Standard Chartered; Vina Cheung, Global Head of RMBI, HSBC; Vincent Couche, Asia Sales Sector Head of Industrials, Treasury & Trade Solutions, Citi; Royston Da Costa, Assistant Group Treasurer, Ferguson; George Dessing, Senior Vice President, Treasury & Risk, Wolters Kluwer; Jennifer Doherty, Head of Innovation, Asia, HSBC; Manoj Dugar, Head of Core Cash Products, Asia, J.P. Morgan; Venkat ES, Head of Asia Treasury Product Global Transaction Services, Bank of America Merrill Lynch; Guillermo Gualino, Vice President & Treasurer, Agilent Technologies; Sam Hall, Managing Director, Rainmaking Singapore; Stephen Hogan, Vice President Regional Treasury Asia Pacific, Deutsche Post DHL; Mridula Iyer, Head of Treasury & Trade Solutions, South Asia, Citi; Richard King, co-head of Global Corporate & Investment Banking, UK, Bank of America Merrill Lynch; Stefanie Koh, Head of Enterprise Platforms and Solutions, Asia Pacific, Visa; Raof Latiff, Group Head of Digital, Institutional Banking Group, DBS; Wei Li-Tuomela, VP, Treasurer China, Stora Enso; Varoon Mandhana, Senior Advisor, APAC Solutions, Treasury Services, J.P. Morgan; Yigen Pei, Head of Treasury & Trade Solutions, China, Citi; Debopama Sen, Head of Treasury & Trade Solutions, ASEAN, Citi; Amit Sharma, Head of Southeast Asia Treasury Products, Cross Currency Product and Commercial Cards, Asia Pacific, Bank of America Merrill Lynch; Aidan Shevlin, Managing Director, Head of Asia Pacific Liquidity Fund Management, J.P. Morgan Asset Management; Deven Somaya, Head of Commercial Cards, Asia Pacific, Treasury and Trade Solutions, Citi; David Stebbings, Director, Head of Treasury Advisory, PwC; Michael Vrontamitis, Head of Trade, Europe & Americas, Standard Chartered.

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