January/February 2019

treasurytoday ASIA

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Corporates challenged as FDI slumps

Global foreign direct investment has been hit by US tax reforms and trade wars but not all regions are suffering from the fallout.

The Corporate View

Vipul Sardana

Global Head of Trade Finance

Maersk

Funding

Sustainable finance

Demand for sustainable finance is growing quickly as the previously niche instrument becomes a mainstream part of capital markets.

Investing

Short-term investing in uncertain times

Banking

Benefits of account rationalisation

Back to Basics

Syndicated lending: getting help from friends

Question Answered

Regulatory challenges

APAC 2019: US-China trade war a big risk factor for treasurers

As it stands, the year ahead is shaped to be rather interesting, if not challenging, for treasurers across Asia Pacific, with politics a key theme as elections will take place in India, Indonesia, the Philippines and Australia.

But despite the uncertainties that elections anywhere always encompass for businesses, it can be argued that at least they are certain events, with (one hopes) a certain level of transparency and intelligence available on policies to enable at the very least some semblance of planning and preparedness.

Which is not something we can say at all about the US-China trade spat, the single biggest risk to the APAC region entering 2019. Any escalation of the dispute will likely lead to the slowdown in China being exacerbated, which in turn would have large knock-on effects across the region, given the interconnectedness of Asian trade.

The two countries have called a truce for now, after President Trump announced a 90-day delay in increasing US tariffs on US$200bn worth of Chinese goods to allow negotiations. But even if they go well, most analysts believe the kind of fundamental changes the US is demanding of China are almost impossible to agree on in such a short negotiating window.

As we note in this issue, the trade war has led to companies in both countries relocating to escape the fallout. A prime beneficiary has been Southeast Asia and South Asia, with their economies enjoying a boom in foreign direct investment, even as, mainly because of US tax reforms, global FDI has slumped.

Treasurers and trade chiefs in companies affected by the trade war have therefore been kept on their toes over, for instance, investment strategy, financial supply chain management, capex spend and cash management generally. With uncertainty over how the trade dispute between the US and China will evolve, the early months of the new year at least will likely remain challenging on these fronts.

Despite the threats posed by the trade war, investment analysts are generally predicting a stable to positive 2019 outlook for APAC, with forecasts of around 5% for GDP growth for the region versus rather more muted outlooks for the US, eurozone and Brexit-challenged UK. The hope is that even if the US-China trade war is not resolved, the region will manage to rise above the fallout. Under the circumstances, APAC-exposed corporates will likely be content with such an outcome.

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Stronger together: the power of syndicated lending

Syndicated lending has had its fair share of ups and downs in recent times with liquidity crunches, challenges on pricing and new market participants. Yet it remains a powerful solution for corporates needing a big loan which cannot be secured via a single lender.

All change: winners and losers emerge in the fight for global FDI

US tax reforms and trade disputes have led to a slump in global foreign direct investment but as corporates revise their investment strategies in the light of the changing operating environment, some regions are experiencing a boom in investment.

The last few decades have seen foreign direct investment (FDI) become a vital part of the armoury corporates can deploy to maximise returns on their investments. By securing controlling interests in foreign assets, firms can, for instance, rapidly acquire new products and technologies, sell their existing products to new markets and reduce production costs.

Governments too have been very keen on FDI, seeing it as an effective means of creating jobs and improving economic growth. That corporate-government consensus has reigned since at least the 1970s and resulted in FDI flows globally soaring from little over US$10bn in 1970 to well over a trillion dollars now. These flows, comprising as they do cross-border M&A activity, intra-company loans and investments in start-up projects, are also an indicator of growth in corporate supply chains and trading relationships and, more broadly, a powerful bellwether of globalisation.

New data from United Nations Conference on Trade and Development (UNCTAD), however, shows that FDI worldwide is on the decline, with the US tax reforms introduced at the end of 2017 in particular resulting in a dampening of global investment activity. According to the data, FDI globally slumped 41% in the first six months of 2018 to US$470bn — the lowest since 2005 – from US$794bn in the same period in 2017.

UNCTAD says the big fall in FDI flows is mostly due to US tax reforms having encouraged big firms there to bring home earnings from abroad – mainly from western European countries. Trade disputes, notably the US-China tariff war, are proving to be another drag on flows, with the accompanying anti-trade rhetoric and protectionist stances further undermining investor confidence and forcing companies affected to review their investment strategies and locations of their operations.

James Zhan, Director of Investment and Enterprise at UNCTAD, is clear that the fall in FDI flows is being "driven more by policy than the economic cycle". He points out that the agency had warned in early January that there was about US$2trn of stock in the form of cash or reinvested earnings of retained earnings outside the US that could be repatriated in some form following any wholesale tax reform: "And indeed, that is happening. We have seen that outward FDI from the US was US$147bn last year but turned to a negative US$247bn already this year."

Winners and losers

Drilling down from the headline figures from UNCTAD's latest Investment Trends Monitor, however, reveals interesting regional variations. The fall in first half flows has mainly impacted the richer nations. Europe declined by a hefty 93%, the most notable fallers being Ireland, down US$81bn; and Switzerland, down US$77bn. North America retreated by 63%, with US inflows diving 73% to just US$46bn.

At the same time, however, developing economies saw FDI flows decline only 4% over the first half of 2018 to US$310bn versus the same period in 2017. This grouping includes developing Asia, where flows declined 4% to US$220bn, mainly due to a 16% decline in investment in East Asia. China bucked the wider trend most though – it was the largest recipient of foreign direct investment in the first half, attracting more than US$70bn, indicating there is still significant long-term investor confidence in the country.

FDI to the "transition economies" – comprising mainly the former Soviet Union and Eastern bloc countries of Europe – meanwhile fell by 18% over the first half to an estimated US$25bn, mainly due to a drop of flows to natural resource rich countries of the Commonwealth of Independent States (CIS).

Elsewhere, Latin America and the Caribbean saw a 6% drop in investment, as uncertainty over upcoming elections in some of the major economies there were offset by higher commodity prices. In West Africa, UNCTAD data indicates a 17% fall in investment in the first half of the year, from US$5.2bn to US$4.3bn.

Grand for greenfield

The global decline in FDI flows over the first half contrasted with trends in cross-border merger and acquisitions (M&As) and greenfield investments. M&A sales managed to stay steady over the period at US$371m but investments in greenfield projects jumped 42% to US$454bn compared to same period in 2017.

The upturn in greenfield outlay by corporates is especially encouraging as this strand of investment is generally regarded as a strong indicator of future FDI trends. Greenfield typically involves companies building physical operations in a foreign country from scratch, for example by establishing a foreign sales office, manufacturing facility or an R&D centre. It is therefore the ultimate level of FDI, it's riskiest form: if political, economic, currency or commercial risks materialise in the host country the investment cannot suddenly be relocated. But with the greenfield investing company typically having full authority over the operations and profit associated with the investment, the rewards can be substantial.

Drilling down into FDI flows across Europe shows clearly the big impact that repatriations by US parent companies of foreign earnings have had. Compared to the first half of 2017, US FDI outflows to Europe fell by a hefty US$136bn to result in a net divestment of US$49bn over the same period in 2018.

Outside of Europe, US FDI flows to "Other Western Hemisphere", including offshore financial centres in the Caribbean fell by US$163bn.

But repatriations of accumulated foreign earnings were not the only explanation for the drop in global investment flows, says UNCTAD, pointing out that the 72% drop to just US$46bn in US FDI inflows came despite the potential stimulus effect of tax reforms on investments there by foreign multinationals. Uncertainty about the implementation details of the tax reforms over the first half, combined with uncertainty about US trade relations and fears over its more stringent investment screening procedures could all have been contributing factors, says the agency.

Boom for Southeast Asia

The big regional divergence in FDI flows, with the richer nations impacted by US repatriations and developing countries remaining broadly stable, meant the share of the latter in global FDI flows increased to a record 66%. Half of the top ten host markets for FDI continue to be developing economies including China, India and Hong Kong.

Even within Asia though there were notable variations in flow. While China became the largest global recipient of FDI, flows to Hong Kong fell to US$34bn – half the level it received in the first half of 2017.

Most interestingly though, flows to Southeast Asia and South Asia rose by a strong 18% to US$73bn and 13% to US$25bn respectively, with manufacturing inflows a major feature.

In Southeast Asia, Singapore was the big attractor, securing US$35bn despite it suffering profit repatriations by US multinationals. Elsewhere in the South East, Indonesia secured US$9bn and Thailand US$7bn. In South Asia, India attracted US$22bn of FDI flows, contributing to the subregion's 13% rise in FDI in the first half of the year.

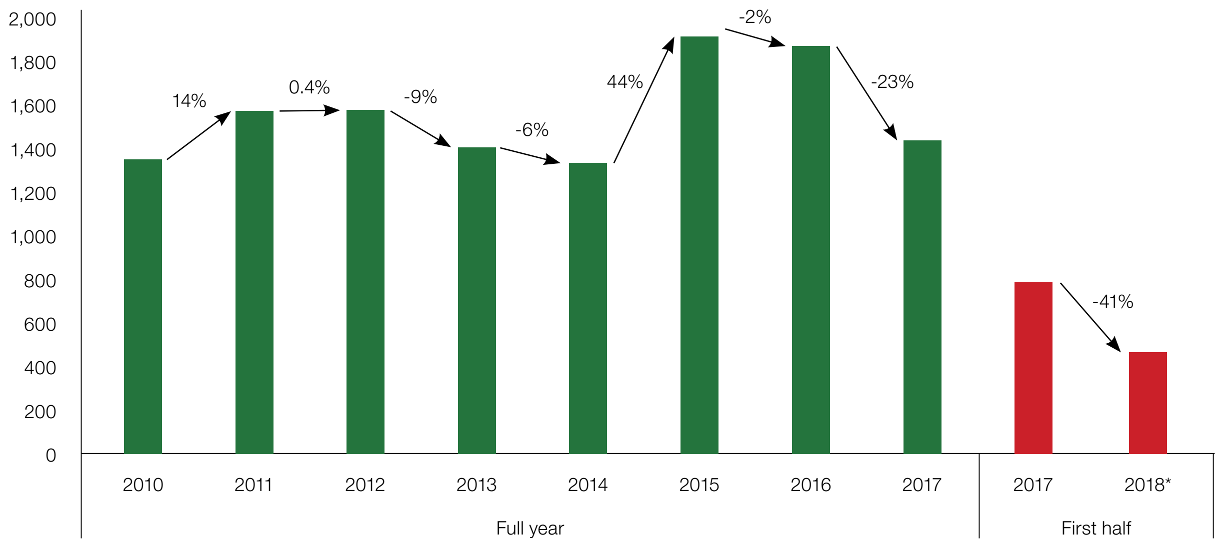
The FDI boom for Southeast Asia has attracted considerable attention, with analysts saying the region is proving the biggest beneficiary of the intensifying trade war between the US and China, with the spat prompting companies to shift production to the area.

According to analysts at Maybank Kim Eng, the investment banking arm of Malaysia's Maybank, even smaller economies across the region have experienced big FDI inflows over the course of the current year. Vietnam, for example, saw manufacturing inflows jump 18% in the first nine months of 2018, driven by investments including a US$1.2bn polypropylene production project by South Korea's Hyosung Corporation. In the Philippines, net FDI into manufacturing soared to US$861m in the same nine-month period from US$144m a year earlier.

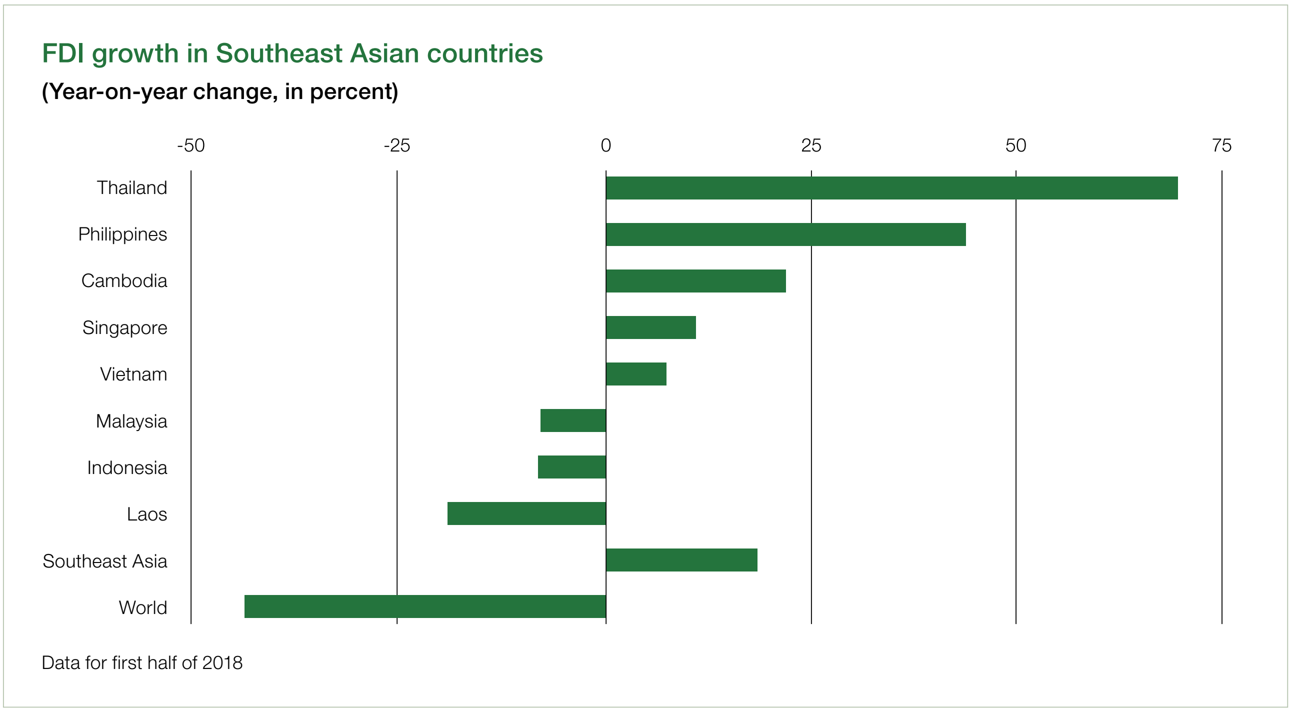
"The US-China trade war may be attracting more firms to set up in ASEAN countries to circumvent the tariffs," Maybank economists Chua Hak Bin and Lee Ju Ye said in the note.

Global FDI flows and growth rates, 2013-2017 and 2017: H1-2018: H1

(Billions of US dollars and per cent)



Source: UNCTAD



Source: UNCTAD, Mizuho Research Institute

"Companies in sectors such as consumer products, industrial, technology and telecom hardware, automotive and chemicals have indicated interest in Southeast Asia."

Southeast Asia, it seems then, has become an alternative base for firms looking to avoid the fallout from the US-China trade war. American companies are by far the most active in China and a survey of 430 of them by the American Chamber of Commerce (AmCham) in China and Shanghai found 60% have been hurt by the tariff war between the two countries. Profit losses, high manufacturing costs, increased prices and lower product demand were among the biggest impacts cited by the companies. One third of those polled by AmCham China in late August and early September said they have or were thinking of moving production sites away from the country.

According to Maybank, notable arrivals to Southeast Asia as a direct result of the tariff wars include Harley-Davidson Motorcycles, which shifted part of its operations in the US to Thailand after closing a plant in Kansas City. Electronic giant Panasonic closed its US plant in early 2017 and switched to consignment production and exports from Malaysia. Shoes and accessories group Steven Madden has been shifting production of handbags to Cambodia from China.

Elsewhere, Delta Electronics, which supplies power components to the likes of Apple and Tesla is looking to de-risk from the current tariff war – and potential future ones – by spending US$2bn to purchase a Thai affiliate. The move would enable Delta to expand production outside China to territories such as India and Slovakia as well as Thailand itself. Merry Electronics which supplies headphones to firms like Bose intends to move some of its production to Thailand from southern China.

Tricky times ahead for corporate investment

With the US threatening a further US$200bn in tariffs, and retaliation by China certain, the operating environment for multinational companies present in both countries could yet become a lot more onerous. Such an escalation in trade tensions, analysts agree, can only lead to multinationals acting even more aggressively to de-risk from them, in the process accelerating the ongoing trend to relocate, with Southeast Asia very well positioned to benefit from further robust FDI flows.

According to research published in October, Chinese investment alone in ASEAN countries such as Cambodia, Indonesia, Malaysia, Philippines, Singapore and Vietnam, is set to more than triple to US$500bn by 2035, with the US-China trade war likely to provide a catalyst for the spike. The study was issued by AMRO+3, a regional think tank that represents the ten members of the ASEAN alliance, plus China, Japan and South Korea.

While some regions will inevitably enjoy a boom in investment if trade and traffic wars intensify and protectionism continues to gain traction, for UNCTAD's Zhan it is the bigger picture that really matters. The agency's latest FDI data suggests a "gloomy" outlook for FDI overall, he says, adding that FDI is important because it gives countries access to external capital, technology, markets and tax contributions.

Investing corporate cash at the best of times can be complex and demanding, involving as it does the striking of a balance between security, liquidity and yield while keeping abreast of the varying regulations across the target countries. The actions being taken by companies in China and US indicates just how much boardrooms around the world are preoccupied with making sure that they achieve that balance as they look to avoid getting caught up in trade and tariff wars and rising protectionism generally.

Considered alongside the latest FDI data from UNCTAD, and signs we are entering a waning phase of globalisation, it all suggests that for treasurers engaged in FDI, the managing of investment funds has become rather more interesting and challenging.

OUTLOOK BRIGHT

FOR VIRTUAL CARDS AS DEMAND SOARS

Issuing banks and their corporate customers have used commercial cards for years but recently there has been a proliferation in card types, with increased automation of back office payables capabilities a major driver.

The commercial card has expanded into areas like T&E cards, P-cards, central travel accounts and executive cards. And now we are seeing the use of e-payables and virtual cards shoot up, with some businesses doubling or even tripling their virtual card spend.

Corporate expense management solutions provider Fraedom, recently acquired by Visa, predicts that, as the types of commercial cards on offer continue to evolve, spending on them will grow to reach US$582bn by 2020, an increase of 71% over 2013 spending levels.

Virtual cards – non-plastic accounts typically tied to accounts-receivable systems and represented by a digital token – are the new kids on the block. They currently account for only a small proportion of most issuers' commercial card portfolios. But their growth has been in triple digits for some issuers, as organisations look to them to improve business processes and exert tighter control over payments.

A study of the US card market alone by Accenture Payment indicates just how quickly virtual cards are finding favour in the market. Corporate cards, purchasing cards, and virtual cards accounted for US$523bn of US commercial card volume in 2018, up 10% from 2017, according to the research.

Virtual cards, however, are by far the fastest-growing of the three commercial card categories studied. Of the 2018 total, virtual cards, accounted for US$169bn in spend, up 24% from 2017, says the study. By 2022 the combined card volume is expected to rise to US$763bn, with virtual cards accounting for nearly half of that spend.

Cashless future?

So, what's driving this growth in demand for virtual cards? Nick Campbell, Head of Product Strategy and Innovation at Fraedom says the "consumerisation" of commercial banking is playing a big part. He points out that people are using less cash in their daily lives, with a 2017 survey in the US finding that 50% of people carry cash less than half of the time when they are out. Instead of cash, people are opting for more modern payment methods such as digital wallets within mobile devices: "The concept of using virtual cards is therefore familiar to most employees. And because they are so used to and enjoy this kind of approach as consumers, many are demanding the same payment experience in their business life."

Another important driver is businesses recognising that virtual cards can deliver a host of direct benefits. One is the ability to reduce credit exposure through limiting the number of plastic cards issued to employees. Businesses can instead move to a request-based process with a virtual card issued to employees when spend is required. With the addition of card controls, a business can further restrict spend to the approved criteria within the request.

Campbell adds: "A process based on pre-spend request ensures that a business has visibility of spend before it happens, therefore significantly reducing erroneous expenditure and back-end expense management. Furthermore, integration with an expense management system (EMS) speeds up the process as expense claims are automatically sent to the right people – giving them full visibility of expense management."

But the long-term growth predicted for virtual cards will also depend on an expansion of the kinds of business use cases available. Campbell believes that if virtual card usage is to continue growing at pace in the business arena, it is important that providers promote them outside of the traditional travel use-cases. That means, he says, educating businesses on the merits of virtual cards and driving their use for a wider range of spend needs that are currently only serviced through traditional plastic cards.

A celebration of ingenuity and determination

The world of corporate treasury in the Asia Pacific region is hard to ignore when the solutions being implemented by departments are as innovative, collaborative and creative as those recognised by the Adam Smith Awards Asia 2018. The impressive feats of Asia Pacific treasurers were celebrated when award winners and their banking and service partners gathered for the award's annual Gala Presentation Lunch at the prestigious Four Seasons Hotel in Singapore on November 15th.

As in recent years, APAC businesses during 2018 continued to battle major challenges, with corporate treasury departments across the region in the front line as they sought to help their firms cope with unprecedented geo-political events, market volatility, rapid technological change and rapidly evolving regulatory regimes. All of this took place against a backdrop of unprecedented cost pressures and an ever-expanding and critical role for the finance function. Considering the difficult trading and operational environment during 2018, this year's winning solutions are especially impressive.

Our Adam Smith Awards Asia programme, now in its sixth year, continues to recognise the excellence of solutions being implemented by APAC treasurers. The awards have justifiably gained the reputation for being the leading corporate treasury awards in the region. In 2018 we received a record 221 submissions. Our panel of judges always has the difficult task of selecting the winners; 2018 proved particularly challenging due to the outstanding quality of the entries received. The innovation, determination, teamwork and creativity evident in the solutions implemented was extraordinary. Furthermore, as a sign of the award's growing regional footprint, a broader range of companies in terms of size and industry sector participated, with every major country and territory represented. This included our first entry from Inner Mongolia, which was awarded Overall Winner in the Judges' Choice category for 2018, demonstrating the sheer reach these awards now have.

The most popular categories were Best Cash Management Solution, Best Working Capital Management/AP/AR Solution, Harnessing the Power of Technology and Best Trade/Supply Chain Finance Solution. A new category, Harnessing the Power of Emerging Technology was also very well supported, as were

the categories for the best treasury solutions in India and China. Single country solutions accounted for 48% of entries, regional APAC solutions 29% and global solutions 17%. The remainder were multi-country, but not fully regional, solutions.

A time to celebrate

This year's Gala Presentation Lunch was held in the same week as the ASEAN Summit in Singapore so security was greatly heightened, but this didn't prevent a record number of attendees, who had travelled from right across the region and beyond, filling the superb venue.

After a busy, vibrant and enthusiastic pre-lunch networking session, Angela Berry, Founder & Director of Treasury Today Group, formally opened the event with a passionate welcome to all attendees, commenting on the great work of the corporate winners, she said: "I am so proud to be standing here today. In 2018, our fifth year of the Adam Smith Awards Asia, we received a record number of submissions, more than we have ever received either here in Asia or for the EMEA and Americas programme, which is now in its 11th year. So, for all of the winners and partners in the room here today, you have accomplished something exceptional. The competition has never been greater. I am absolutely delighted to extend a really special welcome to all of you. The Adam Smith Awards Asia continue to challenge you to deliver better and more innovative solutions and you have once again risen to that challenge."

Following lunch, it was time for the crystal awards to be presented by Richard Parkinson, Chair, and Sophie Jackson, Joint Publisher & Head of Strategic Content. The pride that such recognition brings was clearly visible on the faces of each winner and images of their awards were quickly being shared with colleagues, friends and family via social media.

Test, learn and grow – an exceptional team effort

The Treasury Today Asia Top Treasury Team 2018 accolade was awarded to Dell Technologies. In 2016, Dell completed the flagship acquisition of EMC, signalling the firm's transition into a global technology leader. The expansion created both new opportunities and challenges for its treasury operations organisation. In addressing them, Dell's treasury team set about delivering a global framework for the firm's finance function to serve over 500 legal entities across 69 countries via treasury operations leadership in Singapore and regional hubs for Asia Pacific and Japan, EMEA and the Americas. By employing a 'test, learn and grow' strategy more usually associated with start-up operations rather than with mature multinational corporations, it has been able to fulfil its ambitions. The treasury transformation project was structured around three key pillars:

- Operational efficiency.
- Liquidity management.
- Operational controls.

This was teamwork in action and here is what Ng Cheng Chang, VP, Global Treasury Operations at Dell had to say: "This is a testament to the outstanding work the team has consistently been doing over the years. We are humbled by the recognition; a significant part of our achievements can be attributed to the excellent advisory and innovative support provided by our global banking partners who taught us what we know."

There are some key takeaways from this impressive programme:

- Always challenge the status quo to drive for operational excellence.
- Change is a constant, be prepared to adapt and adopt.

- Embrace a culture of technology innovation.
- Invest in human capital: cultivate employees, engage them in the company's vision for the future – and the journey required to achieve that future state.

Our Highly Commended Winner award in the Top Treasury Team category went to Rio Tinto in Singapore and Abel Martins Alexandre, Head of Commercial Treasury, had this to say about the award:

"The Rio Tinto Commercial Treasury team feel grateful and humbled by the recognition given by this prestigious award. The team are passionate about partnering with the business for value creation and driving the technology transformation of treasury. This award provides the team with confidence to deliver on our vision of a strategic partner to the business anchored into an intrinsic financial supply chain."

Harnessing technology

The technology categories are always hotly contested and this year's overall winner of the Harnessing the Power of Technology award, Kulicke & Soffa contemplated a few banking options before deciding to go with its bank's host-to-host ERP Global Adapter (ERP Adapter). Based on K&S' overall assessment, the ERP Adapter is a 'first-of-its-kind' cutting-edge technology solution in the market for Oracle ERP that adopts ISO 20022 XML industry standard and can support K&S's coverage globally while catering for local regulatory and technical requirements in different markets.

In the new category, Harnessing the Power of Emerging Technology, Hindustan Unilever in India implemented an intelligent receivables solution using AI and other software to help achieve improved straight through reconciliation.

Prudential Corporation Asia, based in Hong Kong, was awarded Highly Commended Winner in this category for embracing cloud technology to completely transform its treasury into a model of best practice throughout a de-centralised treasury function.

Commenting on the award at the event, Richard Shaw, Director Treasury at Prudential, said: "The Adam Smith Awards are the most well-regarded awards in the industry. Winning such an award provides corroboration of the quality and scope of the work that we have carried out and most importantly gives my team and Prudential recognition and credibility amongst our peers."

Volvo goes with SWIFT

In the Best SWIFT Solution category, Volvo Cars edged the competition with a project that sought to simplify treasury operations in India, Thailand and Taiwan and incorporate best in class solutions and practices to drive greater efficiencies, modernise its cash management processes, and enable the company to transact through its global ERP platform using ISO 20022 XML standards. By combining the SWIFT and virtual branch solutions, Volvo Cars was able to immediately optimise processes while meeting regulatory requirements.

Commenting on their Overall Winner award, Volvo's Johan Larsson, Senior Cash Manager, Group Treasury and Anna Löfstedt, Director and Head of Treasury APAC said, "We are very pleased to have won this award in the Adam Smith Awards Asia. It is great recognition for the hard work we as a treasury team and the wider Volvo Cars finance team have put into this specific project. It also represents a wider acknowledgement of our overall cash management strategy, which we have been actively implementing for the last few years. Standardisation and automation of payments,

collections and reconciliation with the help of ISO 20022 XML formats have been important building blocks in the strategy."

Individuals recognised

The Rising Star was awarded to Amit Grover, AP, Regional Cash and Banking, APAC at General Electric in Singapore. Maturity, perseverance and focus proved the perfect combination for Amit and he is a deserved winner. When interviewed during the event this is what he had to say; "I feel sincerely honoured to receive this prestigious award which has industry-wide recognition. It is my pride to be part of a well-established organisation and team, which entrusts me with quality work. It has always been my pleasure to contribute towards the organisational goals and now, with this recognition of my efforts, I am charged with renewed energy and enthusiasm."

The Overall Winner of the Adam Smith Awards Asia Woman of the Year was awarded to Catherine Yu, Regional Controller APAC, Herbalife Nutrition. Catherine is a fine example of a senior finance professional, with 25 years of experience in Asia Pacific and China, and a strong track record of delivering strategic and significant commercial results. She is experienced in direct investment and the pharmaceutical and supplements sectors across Hong Kong and US listed companies and highly skilled in finance, tax, treasury and business transformation. She is a natural leader of large finance organisations and a strong business partner for internal and external stakeholders.

Commenting on the award, Catherine said: "The award is a recognition of my business achievement and my contribution to society to groom future successful women. It also has a special meaning for business women like me. It means that, nowadays, the business world appreciates women's contributions. I'm very glad to see more positive development of gender equality. More opportunities are offered to women. Women can surely hold up half of the sky and contribute to industry and society. Lastly, I'm rewarded by the satisfaction of work achievements, the enjoyment of interacting with smart and high potential young ladies through mentorship and coaching during my volunteer work. As a mother of two daughters, this is a good example for them to be positive and have good values."

Another chance to shine in 2019

Our Adam Smith Awards Asia will continue to challenge the treasury community to develop even better solutions. This is what the Adam Smith Awards are all about: recognising the creativity and ingenuity of the treasury community, and in doing so, inspiring treasurers (and their solution partners) to work together to create even better, ground-breaking solutions.

The Adam Smith Awards Asia will be running again in 2019, with nominations opening on June 10th. We once again invite companies of all shapes and sizes from across the region to take part and we look forward to receiving your submissions. In the meantime, you can read case studies of the Overall Winners and Highly Commended Winners in our yearbook and on our website.

Once again, many congratulations to our 2018 winners and good luck for 2019.

A natural development: sustainable finance making a difference

Sustainable finance, sometimes seen as a gimmicky alternative to real finance, has grown up. It is now a viable means of funding that has potential benefits for us all. Here's how all treasurers can use it to make a difference.

The old proverb, 'those who live in glass houses shouldn't throw stones' has a new twist. In today's somewhat perilous climate, where weather systems seem to have become more extreme, living as we do under a great protective atmospheric 'greenhouse' demands that, at the very least, we all do our best not to make things worse. The City of London Corporation's Green Finance Initiative says that globally, US$90trn will be needed by 2030 to achieve global sustainable development and climate objectives. It seems an insurmountable figure. So why bother?

In treasury terms, there is something that can be done that arguably achieves a positive outcome for us all. That something requires bringing about a change in the way funding is sourced so that, ultimately, only the most environmentally responsible corporate activities are sustained.

What it means

Sustainable finance is, according to the European Commission, "the provision of finance to investments taking into account environmental, social and governance (ESG) considerations". It includes a strong focus on the notion of 'greenness', aiming to support economic growth whilst reducing pressures on the environment from pollution, and being more efficient and considerate in the use of natural resources. It includes a wide range of financial products such as bonds, loans, securitisation and fund portfolios.

Since 2015, the Paris Climate Agreement and, in particular, the UN 2030 Agenda, have asked for commitment to align financial flows with a pathway towards low-carbon and climate-resilient development. The 17 Sustainable Development Goals (SDGs) set out in the 2030 Agenda have been likened to 'a purchase order from 2030 for business and government action today'.

The Global Sustainable Investment Alliance shows that in 2017 there were US$22.9trn of assets being professionally managed using responsible investment strategies. This represents an increase of 25% since its 2014 review.

With the sovereign green bond market slowly expanding (Poland, France, Belgium, Indonesia and Fiji, so far) and large institutional investors such as Swiss Re announcing the movement of its entire US$130bn investment portfolio to ESG indices, steps are being taken in the right direction. However, there is a major regional imbalance in support.

The Global Sustainable Investment Review of the proportion of global socially responsible investment assets by region shows Europe at 52.6%, the US at 38.1%, and Asia (excluding Japan) at just 0.2% (Japan accounting for 2.1%).

Benchmarking

Whilst the key driver of ESG is often the customer, there is a strengthening policy and regulatory focus in this area, says Michael Wilkins, Head of Sustainable Finance, S&P Global Ratings. Indeed, the international Financial Stability Board (FSB) has released a set of recommendations for better disclosure on climate-related risk and opportunities. These, he notes, are being adopted "in a widescale manner".

"Green finance is very much becoming a mainstream part of capital markets," Wilkins says. "If you look at the signatories, there are in the region of 1,800 asset and fund managers who are now part of the Principles for Responsible Investment (PRI), and that represents over US$60trn of assets under management."

With countries signed up to the Paris Climate Agreement starting to implement so-called Nationally Determined Contributions, financing of projects to meet targets is assured. With most of the necessary financing coming from the public sector, there is a massive opportunity for private sector companies able to assist the transition to a low-carbon economy or improve the environment in broader ways.

But these projects need to be benchmarked, says Wilkins. In the capital markets, although the value of credit is well-understood by investors, understanding the "value of green" is more difficult to grasp. "If it can't be measured it can't be priced. If you can't price it, you can't discover what the value is," he states. Because not all green bonds are equal, he believes that enabling a relative ranking of 'greenness' enables better price discovery. To this end, S&P's Green Evaluation is an environmental credential applied to bond issuances and bank loans, providing investors with a clear picture of the green impact of their portfolios.

For issuers, although generally "the jury is out" as to whether green pricing benefits can be achieved, there is evidence from larger, well-recognised names making benchmark issues in the corporate bond market, suggesting it can, says Wilkins. Renewi (see case study) has beneficial margins linked to sustainability targets, as has Danone in France.

Of course, few investors would openly declare their preparedness to pay more for green bonds but Wilkins notes a two-to-three basis point advantage in the primary market, and in the secondary markets, anything up to 25 basis points. For now, it appears that green pricing is at least as good as for regular issuances. For the longer term, Wilkins says benchmarks and better information on the relative value of greenness will be necessary to facilitate market growth at scale if the projected investment required to meet the transition goals is to be met.

Royal engagement

"The skills in the financial and accounting community are not currently in a position to help us transition to a sustainable economy," warns Helen Slinger, Director at Accounting for Sustainability (A4S), an organisation established by the Prince of Wales in 2004 to challenge the existing financial model's appropriateness for the 21st century.

Working closely with senior financial figures through the organisation's CFO Leadership Network (itself formed of a group of companies looking to deploy sustainable business models), she is aiming to get the message out to many more finance teams, helping them to embed sustainability into their financial decision making.

A key project, started in 2017, is aiming to drive the integration of ESG into mainstream debt finance. Working with networked CFOs and their treasurers, and a number of their debt providers, the initial mission was to achieve an understanding of the extent to which ESG considerations are currently incorporated into funding activities.

As part of the programme, a roundtable was held, bringing in asset managers, banks, credit agencies, ACT leadership, and HRH The Prince of Wales himself. This group was tasked with discussing progress and the challenges faced. "One of the most important things we can do is to get people talking to each other, to get everyone to consider how we move from the current position on sustainable finance and to help it move into the mainstream," says Slinger.

Discussion has so far revealed that, in a green context, some banks are being much more careful about who they lend to from both a risk and reputational perspective. "Within their governance processes, they are looking much more closely when making lending decisions and even stepping away from some sectors altogether," notes Slinger.

London's big environmental issue

CASE STUDY

London has a growing problem with its ageing sewers. It has long-since needed an updated system to keep ahead of demand. Tideway is the regulated utility responsible for building the city's new 25km super-sewer, known as the Thames Tideway Tunnel. This is a US$5bn project. Helping to raise the debt to keep this essential work on track is Tideway's Treasurer, Ines Faden.

Tideway

"The company was created to address a sustainability issue. We thought it was only natural that the financing should align with the mission," says Faden. Tideway has now issued six green bonds, one public and five as private placements, both cash and deferred, and all indexed to inflation (CPI and RPI).

In 2017, a strategy was approved that would enable the creation of a green bond framework. This would be used to help guide this process and give investors better understanding of the company's approach.

Today, almost 90% of green bonds issued are voluntarily aligned with the "relatively straightforward" green bond principles established by the International Capital Market Association (ICMA), notes Faden. "Ours are no different." But confirming green credibility remains important and, following publication of Tideway's framework in October 2017, S&P Global Ratings published its Green Evaluation of the company's funding platform. It gave an overall evaluation score of 95 out of 100, making Tideway the joint highest global scorer to date.

In practice, Tideway's framework documentation, drawn mostly from internally sourced data, acts as the definitive information for investors, detailing the company, its alignment with sustainable objectives, use of funds, reporting to stakeholders, and the governance steering its approach.

The success of its funding model saw Tideway become the largest corporate issuer of green bonds in sterling after pricing a CPI-linked issue in early November 2018. This £200m private placement complemented its first UK public green bond issued the previous week, giving a combined total of £450m.

"The main motivation for us to issue green bonds is the alignment of the finance function with the rest of the company," says Faden. In the investor universe, there are some investors who only consider sustainable or green financing. It is a small but growing group, she says, but this helps to diversify the funding source, bringing in additional investors.

"There is also the matter of pricing. From our perspective, it is difficult to say if our bond was issued at a premium or discount as there is no curve out there for us to benchmark. There was a lot of interest in the issue right at the bottom of our pricing expectation; it has since been trading very well."

An additional benefit derived from the experience has been the change in internal dynamics, notes Faden. "Not only are our shareholders very happy – some are now doing more in this space and are coming to us for advice – but it has also brought the finance function much closer to our sustainability team and to our delivery and operational teams."

The general reaction from the banking community has been mixed. Although Faden says some banks were "very engaged" with the idea, some of them were, at best, "indifferent". She recognises some institutions have some very knowledgeable people when it comes to green finance, "but they tend to sit somewhere between compliance and HR; miles from their debt capital market desks". There is clearly an education issue here.

Funding the circular economy

CASE STUDY

Renewi is an international FTSE business focused on waste management and recycling. As a pollution prevention and control specialist, its green and sustainable activities fit perfectly into the eligible categories within ICMA's Green Bond and LMA's Green Loan principles.

In 2015 it issued its first green bond on the London Stock Exchange. In December 2018 it created a €25m Green European Private Placement (EUPP), adding an important new non-bank source of funding in addition to Renewi's existing retail bonds and bank facilities. This was issued under Renewi's existing Green Finance Framework, created with the help of its relationship banks to expand on the company's commitment to sustainable finance.

The framework (which, similar to Tideway, incorporates an external evaluation), has also enabled Renewi to convert its general purpose revolving credit facility into a green loan with its banks; the Benelux institutions with which it works being most receptive to, and thus learned in the matter of sustainable finance, notes Adam Richford, Group Treasurer, Renewi.

The company has also put in place a 'sustainability improvement' aspect in the loan. "This links our pricing on the loan facility to ambitious targets for environmental and safety aspects of our business," explains Richford. The margin discount, directly linking pricing to sustainability performance, is aimed at further improving Renewi's critical ESG metrics.

Indeed, a €150m Green operating Lease Programme, issued under the framework, was also added in December 2018, reducing Renewi's operating costs due to the efficiency of its new Euro 6 trucks. These are 'best in class' for reducing harmful exhaust pollutants and emissions and will significantly improve the environmental impact of the company's collection fleet. By Spring 2019, around 90% of Renewi's fleet will be Euro 5 or Euro 6 trucks.

Today, the sustainability framework Renewi has built is such that it could issue all future instruments – such as bonds, loans, leasing and receivables finance – under the same green guidelines, says Richford. But by strengthening the internal connection between finance and treasury, and the company's CSR credentials, it also helps tell the broader equity story, positively positioning the business within its market place and with its stakeholders.

"For us, green finance is very much congruent with our overall corporate sustainability focus and our equity story," he comments. "It's now an important discussion point with our existing and potential new equity investors, many of whom are focused on socially responsible investing."

So convinced is Richford of the value of green finance that he believes all businesses should consider using it "wherever possible, as a differentiator to investments that do not contribute environmentally or socially". Over time, he believes that this could result in more capital being deployed for positive impact. "I don't see any real downside," he concludes. "Ultimately, rather than ask 'why green?', we should be asking 'why not green?'"

However, she adds that there is an indication that companies with a sustainability focus are increasingly attractive to debt investors. She also senses an expectation that committed lenders could set further sustainability criteria within their governance and terms sheets, helping to promote the concept to a far wider market.

That said, there are many challenges ahead. "This is not an easy fix," warns Slinger. A4S is uncovering these challenges, creating a wider dialogue and on-boarding the right people to move sustainable financing in the right direction. Early adopter corporates are making great headway.

Future?

There are always cynics and the 'greenwashing' of finance is still a hotly debated point. Yet almost 90% of green bonds issued are now aligned with the voluntary ICMA Green Bond Principles; these principles check, measure and report on the transparency and governance of the allocation of proceeds. They go a long way to preventing exploitation of the concept. The argument against is ebbing away slowly.

Both treasurers featured here report that sustainable financing has been very positively received internally with their respective shareholders, executive committees and boards. Clearly it also sits well with their respective investors.

With PRI investors keen to follow the story of companies that are taking the sustainability seriously, it is opening up a new and valuable source of funding that may well have to become the norm.

With the likelihood of FSB's climate-related reporting recommendations being hardwired into accountancy standards (the City of London's Green Finance Initiative is pushing for it), they could de facto become a compliance requirement, forcing companies to either invest in or mitigate their exposures to climate issues. This will have huge consequences for the sustainable finance market.

For Faden, within the next decade, the green bond market will cease to exist. Why? "Because all financing will have to be sustainable." Treasurers opting in now will be helping to shape this nascent market, and making a positive difference for all our futures.

If money makes the world go round, then algorithms are its driving force. Black box style coding has propelled investment decisions, most notably in the big bucks world of high frequency trading, for decades. In the 1980s, 'programme trading' was common between the S&P 500 equity and futures markets.

And no wonder, compared to humans, algorithms are faster, more accurate and can process infinitely more data. However, one area of apparent resistance to the lure of algorithmic speed and accuracy in the financial community can be found in the central banks, more precisely, amongst the economists who help direct the policies that affect everyone.

Whilst the Fed economists, for example, use arcane mechanisms such as the Anderson-Moore algorithm (for solving linear saddle point models), their wider adoption as a tool to aid policy-making is still very much a work in progress.

And when respected economists such as Nouriel Roubini dismiss that other great techy hope, blockchain, as "the most overhyped – and least useful – technology in human history" and "in practice, nothing more than a glorified spreadsheet," what hope is there?

Machine time

Recessions generally happen because of unanticipated shocks. The global financial crisis of 2008 was caused by the subprime mortgage crisis, the recession of the early 2000s was caused by the dot-com bubble, and the recession of the early 1990s was triggered by the sharp rise in oil prices.

There will always be anxiety within central banks as to how to react to such events. And the inability of economists to spot them and provide timely advice makes matters much worse. So, having been found wanting with respect to several major and seemingly unforeseen events, might the economist community be due an update in modus operandi? Why not let the machines have a go at dictating policy?

Today's available computing power, allied with improvements in algorithmic complexity and accuracy, could mean that machines really are better suited to making economic decisions than humans. We could be about to enter the era of the 'Algorithm Economist', where coding decides economic policy. Arguably, as the new breed of millennial economists emerge into positions of authority, fully steeped in economic theory yet also immersed in the benefits of technology, that time is not far off.

Algo world

According to commentator, Yuval Noah Harari, currently only about 1% of the population understands the economy. In 20 years, he argues, if most of the economy is run by algorithms, no-one will understand it.

Decision-makers will then be taking policy directions from machines that will be using a rationale far too complex for humans to understand. Machines will be making most tactical decisions, being much faster and infinitely more consistent than their human counterparts. Perhaps that is a good thing. Of course, an algorithm requires the widest set of variables, inputs and scenarios to function effectively. But even then, their ability to adapt to extreme states is questionable, at least by today's standards.

Optimally tweaking interest rates to increase or decrease inflation may be easy in normal times for a smart bit of coding with the right inputs. But when things aren't normal, could an algorithm come up with the right policy to defend an economy? Possibly not. But then, if it was that smart, perhaps it would not allow economic disaster to draw its first breath anyway.

With the availability of more and better data, and huge computing power, a future where algorithms will find causes rather than just correlations, and solutions instead of just problems, is not beyond reach.

Warren Buffet has been out-invested by an algorithm. A chess world champion has been beaten by one. Just as treasurers may one day find that artificial intelligence has taken their job, the day of the 'Algorithm Economist' is surely coming. If corporate systems connect to those of the central banks, then a revolution is nigh. The solution? Reinvent yourself before it's too late.

STATE STREET GLOBAL ADVISORS

WOMEN IN TREASURY
FROM INSIGHT TO ACTION

State Street Global Advisors and Treasury Today Group's Women in Treasury roundtables came to Singapore in November 2018 to unveil the results of the Women in Treasury Global Study 2018 with the local corporate community. Guests also discussed how to curate an 'executive presence' and refine their personal brand.

Sculpture by Kristen Visbal, commissioned by State Street Global Advisors

Over a third (39%) of female treasurers feel they earn less than their male counterparts, the 2018 Women in Treasury Annual Global Study revealed. Additionally, over a quarter of respondents believe they have been overlooked or ignored in the workplace because of their gender. The eye-opening results of Treasury Today's study, supported by State Street Global Advisors, was the topic of discussion for the audience in Singapore on November 20th 2018.

This event was the latest in a series of roundtables, hosted by Treasury Today and State Street Global Advisors, looking at women in treasury. Conducted from May to September 2018, the study attracted 348 responses with those participating ranging widely in age, experience, geography and role. Of these, only 5% of female treasurers surveyed felt there have been improvements in pay parity over the past year. However, most respondents characterised their company's approach to diversity, inclusion and equal opportunity as 'favourable'.

Following an enjoyable lunch with treasury guests from a broad spectrum of industries, Gunjan Chauhan, Head of EMEA Cash Business at State Street Global Advisors, set the tone for the roundtable discussion.

"What surprises me is that, even in 2018, we're having the same conversations that we were having decades before, back in 2008 or even 1998, around gender equality in the workplace," she said. "It perplexes me why we still keep having the same conversation, why we aren't moving forward at the pace that I'm sure most of us around this table would want to move," Chauhan commented.

This view was supported in the annual study. The majority of respondents work in teams where more than 30% are female. However, at the top of their organisations this changes dramatically: only 5% of respondents have a female CEO and 82% said their company does not have a diverse board. Mentoring sponsorship and coaching programmes continued to receive positive responses, with 79% of all respondents believing these were key to a successful career.

Do you have executive presence?

As such, Louise Watts, founder of Australian executive coaching company, Transition Hub, spoke to the roundtable guests about how she mentors women (and men), in the importance of 'executive presence' and how it can be gained.

Executive presence has often been cited across recruitment teams and board rooms as a qualifying characteristic for senior roles in the corporate world. As jobs increasingly become automated, both men and women are going to need this type of human skill more than they ever have in the past, Watts explained. "It's not something that naturally arrives as you grow up. As women, I think it's a really untapped opportunity for us to be more confident, bolder and more present in our organisations," outlined Watts.

Having worked with business women globally, Watts argues that a lack of confidence plays havoc with female careers worldwide. "Networking, being confident and present is not something we naturally grant ourselves the right to," she explained. "Interestingly, we are probably more likely to get the job done, take care of the details and ensure somebody else can look good as they network, than do it ourselves," Watts pointed out.

Curating a personal brand

When working with clients, Watts often asks them to imagine how people would describe them in a couple of words. They are then asked to think about how they would like to be described, and "so often there's a little gap," Watts said. She then works to close that gap to create their desired perception.

"We pretty much know the strategies. It's reminding ourselves to coach ourselves or to take advantage of feedback we've been given through coaching or from peers," Watts explained.

People are often so busy with work and other things in their lives, that they're not thinking about their personal brand, Watts said. "But I think we're beginning to. We're reading more on social media, listening to podcasts and going to events where we're reminded that we can build our own reputation," Watts explained. "It's all about choice rather than just accepting the way someone sees you," she added.

After enthusiastic discussion from male and female treasurers sharing stories of progress and remaining barriers, Chauhan rallied the audience. "There are enough of us now – very like-minded colleagues, male and female – who can come together and make it count. But if we don't make it count, if we don't challenge the status quo or the corporate policies then what's the point? It will always be the same. "Now more than ever, I'm feeling like people are ready to think differently," she concluded.

Evolve and reinvent to stay ahead in a fast moving world

Vipul Sardana
Global Head of Trade Finance

MAERSK

As Global Head of Trade Finance at Maersk, Vipul Sardana spearheaded the development of a novel, digital trade finance solution for the Danish shipping giant's customers. The solution has won Sardana's team considerable praise and, indeed, they were Overall Winner of the Judges' Choice award in the Adam Smith Awards Asia 2017. He explains the inspiration for the solution and how its development benefitted from his experiences in roles prior to joining Maersk.

Maersk is an integrated container logistics company working to connect and simplify its customers' supply chains. As the global leader in shipping services, the company operates in 130 countries and employs roughly 79,900 people.

Building a company with staying power, one with the ability to withstand change and compete over decades or more, is no easy feat. Being innovative and flexible through the ages are certainly essentials for long-term corporate survival, as is, more specifically, the ability to respond to changes in market conditions and the needs of customers.

All these vital ingredients for long-term success have undoubtedly played their role in helping Danish shipping giant Maersk survive and prosper for over 100 years. They have certainly been demanded of the heavyweight conglomerate over last few years, faced as it has been with a number of big challenges including chronic overcapacity in the global container shipping and consolidation across its industry.

Maersk's response to those headwinds was to launch "a radical transformation" of its business, a move that has led to a streamlining of its sprawling global empire. Most notably, the overhaul led to it jettisoning its energy-related businesses, including its oil exploration and production unit. It now describes itself as a "fully integrated, highly focused transportation and logistics company".

Three and half years ago, as the group's rethink and reorganisation began, a team led by Vipul Sardana began to explore the potential for Maersk to offer a trade finance service to its customers, a 'one-stop shop' to help them manage the flow of both goods and money. The resulting digital platform offers import and export financing solutions that enable customers to meet their working capital needs.

Called the Maersk Trade Finance Solution, the novel service has attracted considerable praise and, indeed, was Overall Winner in the Judges' Choice category of the Adam Smith Awards Asia 2017. "The praise we won really made us feel we had developed something truly innovative. It caught the attention of our customers and peers across the region," says Vipul Sardana, Global Head of Trade Finance at Maersk.

Setting sail

Sardana says the inspiration for the novel platform came from the company's customers constantly pointing to trade finance as one of the biggest obstacles for their businesses and, by extension, greater global trade generally. It is an obstacle that comes in many forms. Accessing capital when it is needed is one big hurdle: bank financing has become limited and expensive since the financial crisis, with the credit environment constrained for all except the big multinationals. According to the World Trade Organisation, over half of trade finance requests by SMEs globally are rejected, against just 7% cent for multinational companies.

Another major drag for firms is the fiendish complexity of financial services instruments that support global trade. "If you look at conventional banking instruments that assist global trade, the customers constantly have to choose between simplicity and security, between say open account or letters of credit," says Sardana.

"Today we have new generation, tech-driven businesses that ensure freedom of choice lies solely with the consumer, and they develop products in line with consumer needs. That recognition helped inspire us to also do better for our customers with trade finance. We appreciated there was this huge gap between our customers' demands and what they were being offered, that it was something that was crying out for disruption."

Sardana became convinced that by leveraging Maersk's global footprint and pedigree – it is the largest container shipping line in the world, with offices in 130 countries and over 100 years of experience in forging solid relationships with customers – the company could co-create solutions with customers for enabling global trade transaction: "Maersk is in a unique position to assess risk differently to the banks. We know the buyers, we know the sellers, we are carrying their cargo on our vessels. We really know what's in the box and have control over the cargo, which makes financing for our customers simple to action."

It is also the case that with global trade transactions it is usually shipping lines that generate the most important documents; indeed, most banks rely on that very same documentation to support their financing decisions. "The fact that we have control over that documentation means we are actually part of the trade transaction and not somebody outside it looking at just paper and funding that. That realisation allowed us to do this little experiment, to see if we could bring together the flow of goods and the flow of money, and in the process alleviate one of our customers' biggest pain points: access to capital. We imagined what a solution would look like if the customers' logistics partner, that is Maersk, was the provider of their working capital needs. The focus was always on the customers, understanding their needs. They are the ones that really helped us shape the resulting solution."

The first product note for the solution was a "very bad PowerPoint presentation" and its journey to full commercialisation began with a "very small pilot" in India. Three years on, the Maersk Trade Finance Solution is being offered to the group's customers in six countries: India, Singapore, The Netherlands, US, UAE and Spain. The simple, user-friendly digital platform has so far provided working capital loans in excess of US$600m to its customers, who continue to report simplicity and time saving compared to traditional trade finance instruments.

"Our customers also consistently rate us over 4.5 on a scale of 5 on user experience. Our focus continues to be on making it simple for our customers to access capital; bundled with world class logistics solutions."

Customer is king

Sardana joined Maersk six years ago, having previously spent seven years at Bank of America Merrill Lynch where he was Vice President, Operations for Global Trade & Payments. Other previous postings include GE Capital, the financial services unit of General Electric, and prior to that, a clutch of B2B sales roles. His achievements at Maersk, particularly in spearheading the development of the trade finance solution, owe much to the experiences he gained in these previous roles.

"What I was tasked to do three years ago for Maersk was to essentially build a start-up company in a 100-year-old organisation. In a start-up it is critical that everyone on the team understands that sales is everybody's business and I think my experience in that field played a vital role during the incubation period for the solution, to ensure it had a solid base from which we could commercialise it and take it to where it is right now."

Equally, his experience of corporate commercial banking whilst at Bank of America Merrill Lynch provided valuable insights into global payments and the blizzard of technological advances being made across the space: "At Bank of America Merrill Lynch I saw the digital revolution that was starting to really impact the retail banking. I also developed a fair idea about the complexity of trade finance products like letters of credit that banks offer to corporate clients.

"My experience at Bank of America Merrill Lynch, and before that B2B sales, really helped me appreciate fully that while both the flow of goods and flow of money are essential for global trade transaction, they invariably run on parallel tracks, never really meeting or talking to each other. And that appreciation fitted perfectly into the opportunity we saw of creating something really unique for Maersk that mixed them together and supported the key element of Maersk's DNA: to be an enabler of global trade. The project was also an opportunity for us to come up to speed with related sectors like ecommerce and parcel transportation, where companies have succeeded in dramatically simplifying the way they go about their business. We thought, if they can do it, surely we can too."

The bigger picture

It is two years since Maersk's Chief Executive Officer Soren Skøu informed the market of the company's new mission: to become the 'global integrator of container logistics, connecting and simplifying our customers' supply chains'. Sardana is in no doubt about how important the new mission is, not just for the company's customers, employees and shareholders but also for global trade: "It's a winning combination and has benefitted emerging economies in particular. As enablers of global trade, companies like Maersk have become incredibly efficient and cost effective."

But Maersk is just one player, albeit a heavyweight one. In considering the bigger picture, he concedes that much more needs to be done by both his industry and institutions, pointing to OECD estimates that 15% or US$100bn per year of the overall value of traded goods around the world is comprised of hidden costs. These are typically associated with manual processes, complex transactions and intensive documentation. "Lowering the hidden cost of trade by just 10% say for an emerging economy like India could help improve its competitiveness and revenues by US$5bn annually. Imagine if we were to do that for the US$100bn of waste that exists today in the ecosystem. The impact would be massive."

Friction-free futures

While Maersk's innovative trade finance solution offers both simplicity and security in one product – the digital solution enables customer onboarding, credit assessment, KYC and transactions – Sardana assures it is only the beginning, or more accurately "the end of a good beginning".

Like many institutions and organisations worldwide, Maersk has begun exploring the potential of blockchain for trade finance and Sardana has high hopes of the technology. "In global trade currently, there is an inherent trust deficit amongst parties because with trade generally, and trade finance in particular, there are several parties involved in one transaction. And more often than not, they're not located in the same country or even the same continent. That is why so many checks and balances and controls and documentation exist today. Blockchain could obviate all that. Moreover, the potential of blockchain to create that kind of transparency and trust in a commercial environment could give rise to several new trade products and business models."

In August, Maersk and IBM announced the creation of TradeLens, a blockchain-based shipping platform jointly developed by the two companies for the world's global supply chain. Its bold aim is to "promote more efficient and secure global trade, bring together various trade parties to support information sharing and transparency, and spur industry-wide innovation".

Sardana believes TradeLens has enormous potential to transform the shipping industry. The solution offers secure, real-time end-to-end information about cargo shipments to multiple parties involved in a global trade transaction. Shippers, shipping lines, freight forwarders, port and terminal operators, inland transportation and customs authorities can interact more efficiently through real-time access to shipping data ad shipping documents, including Internet of Things (IoT) and sensor data ranging from temperature control to container weight.

During the 12-month trial of TradeLens, ahead of its launch, Maersk and IBM worked with dozens of ecosystem partners to identify opportunities to prevent delays caused by documentation errors, information delays, and other impediments. One test of the platform demonstrated how it can reduce the transit time of a shipment of packaging materials to a production line in the US by 40%, avoiding thousands of dollars in cost. Through better visibility and more efficient means of communicating, some supply chain participants estimate they could reduce the steps taken to answer basic operational questions such as "where is my container?" from ten steps and five people to, with TradeLens, one step and one person.

It's still early days for TradeLens, but Sardana says that over 100 organisations have joined and the platform has already processed more than 220m shipping events, including data such as arrival times of vessels and container "gate-in", and documents such as customs releases, commercial invoices and bills of lading. This data volume is growing at a rate of close to one million events per day.

While Sardana is optimistic about the potential of blockchain he believes any successful commercialisation of the technology will require global participation and collaboration. "Progress is being made rapidly but despite all the excitement, blockchain solutions are still very much in their nascent stage. Ultimately, however, the success and viability of a trusted global ledger will be based on a single factor: scale. Really commercially viable solutions will need to involve entire ecosystems with participants working together around a common vision that benefits all equally."

Middle stump and mindfulness

Sardana marvels at how quickly technology has so far transformed work and society but is conscious also of the pressures a fast-changing world can impose on individuals. So how does he relax and refresh himself? Well, he follows cricket avidly, but he is even more passionate about meditation, mindfulness and yoga: "I began yoga initially as a tool to help me stay fit but soon realised it is much more than just about the physical and that it also encompasses mindfulness. It is a very holistic process and for me has evolved over the last few years into something which goes beyond the body.

"I do like to invest time in practising it. In a fast-moving world, I find it gives me perspective, enables me to scan the external environment, make sense of it and identify trends and opportunities. I think those abilities are important for evolving as a leader but everyone can benefit from taking the time to clear space in their mind and meditation and yoga can surely help with that."

Mulling over sage advice he might give to those starting off on the corporate ladder, he considers the path of his own career and experiences garnered before saying: "It's such a rapidly changing world that I think the one thing that one should not close doors to is learning. That's my biggest tip to anybody – including myself: never stop learning. It's critical because the day you feel that you know it all and you've learned everything, that is the day when you stop evolving.

"The other bit of advice that I always give to young people, including many here at Maersk, is that your degree is not your career. One needs to constantly evolve and reinvent otherwise you become obsolete. Lastly, I tell them your personal brand is very, very important so invest in it and protect it. Integrity is of utmost importance."

MAKING WORKING CAPITAL WORK

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.

"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."

There are considerable opportunities to tackle this area more effectively. Varoon Mandhana, Senior Advisor, APAC Solutions, Treasury Services, J.P. Morgan, says that companies that are able to optimise the use of capital through effective working capital management are able to generate higher return on capital employed (ROCE) by reducing their overall capital base and improving shareholder value.

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.

"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.** "My suggestion is to focus on getting the basics right," explains Vrontamitis. "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."
- **Collaborating on KPIs.** Also important is making sure that companies are applying key performance indicators (KPIs) consistently across divisions where working capital is concerned.
- **Organisational change.** The entire organisation needs to pull in the same direction when improving working capital – and this requires effective change management.
- **Securing buy-in.** Vrontamitis emphasises the importance of having buy-in from all relevant stakeholders when using techniques like payables financing and pre-shipment financing.
- **Achieving consistency.** 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.
- **Technology and data.** Mandhana says that companies are starting to focus on data management and data visualisation tools that can bring the required visibility and insights into working capital management.

Conclusion

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.

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Asia on fast forward to the future

The economic outlook for Asia and the Pacific remains healthy, and the region looks set to remain one of the most dynamic of the global economy for the foreseeable future, with digital transformation a major theme for companies and their treasurers. In this fast-evolving landscape, Citi's strategy is to deliver a remarkable client experience. Digitisation enables this strategy, supported by Citi's multifaceted approach to innovation to better address the rapidly changing needs of its clients.

Ernesto Pittaluga

Asia Pacific Sales Head, Treasury and Trade Solutions, Citi

Asia has a lot going for it: *two of the largest and fastest growing economies; a clutch of thriving smaller "tiger economies"; and a relatively young population that has taken to technology with gusto unmatched in other regions. The region is the leader in developing innovative solutions that attempt to bring its vast underbanked population into the mainstream.

For Ernesto Pittaluga, Asia Pacific Sales Head, Treasury and Trade Solutions, Citi, these are not only powerful drivers for the region but also factors that must necessarily shape the bank's own innovation strategy, both for in-house initiatives and projects with external partners. "We are focused on meeting the future needs of our clients and to do that we must pay close attention to the forces that are shaping their businesses. With that environment now evolving rapidly, foresight is important in thinking about how best to serve our clients."

At Citi, that forward looking approach covers at least three key interconnected themes. The first revolves around optimisation and efficiency, for instance in relation to helping clients find ways of making payments quicker and automate processes. The second theme focuses on helping clients with their business/sales growth strategy. The third, meanwhile, aims to help clients improve the experience and satisfaction of their own customers. Alongside those client-centric initiatives, Citi has also evolved its innovation philosophy: "We are focused on making innovation mainstream across the organisation."

Joining forces

Forging external partnerships are a critical part of that strategy: "We are not limiting ourselves to developing solutions on our own. We look to actively partner with others, including fintechs when needed. We have a clearly defined process for identifying fintechs that offer a good value proposition, something that they have developed already that we can integrate with a value proposition of our own to make it even more attractive for clients."

As part of its partnership strategy, Citi, via its venturing arm, Citi Ventures, also directly invests in fintechs and other companies. An example of this is its investment in US-based HighRadius Corporation, a software company specialising in cloud-based integrated receivables. Last July, the two announced the launch of Citi Smart Match, a solution that "dramatically increases" the efficiency and automation of the cash application process of matching open invoices to payments received for its corporate clients.

The solution leverages HighRadius' proprietary artificial intelligence (AI) and machine learning (ML) technology along with Citi's own proprietary assets. Citi Smart Match helps clients enhance straight through reconciliation rates by cleverly bringing together disparate pieces of payment data and applying AI and ML enabled business logic to match payments received with expected receipts in a more efficient manner.

Pittaluga explains that corporations often experience delays in applying cash due to the difficulty in obtaining the remittance information required to reconcile invoices. Cash application can also be hindered by inconsistent payer behaviour and payment mechanisms used. Many clients facing these challenges are seeking innovative solutions to automate manually intensive processes, thereby reducing costs, decreasing days-sales-outstanding, and optimising working capital.

"These are pain points for clients that Smart Match can help address. It shows our ongoing commitment to investing in our core transaction banking infrastructure and leveraging emerging technologies and partnerships. Our infrastructure allows clients to manage their treasury operations from a single point of interaction, with global consistency. The addition of AI and ML to Citi's receivables reconciliation solution suite make it an even more compelling proposition to better serve our multinational clients across the globe."

Indeed, AI and ML are among the key technologies being invested in by Citi. Others include robotics for tasks requiring efficient, repeated processing and data collection; and optical character recognition (OCR) for digitising paper forms and records, to simplify the handling of high volumes of paperwork associated with trade processing.

Another big investment target for Citi is its payment infrastructure: "We expect that over the next two to three years Asia will be in faster payment rails in every country in the region, and we are actively integrating with those clearing channels as a key part of our strategy."

Digital outside, digital inside

Pittaluga, however, is keen to stress that digital transformation for any organisation is much more than just bolting on new solutions to existing operations. "As we explain to our clients, there is an external and internal element to digitalisation and both are equally important for securing real, tangible transformation. If we partner with a fintech to resolve a digital problem for a client in a digital way, we see that as investing in being digital on the outside. But we also have a cornerstone strategy – both for Citi itself and its clients – to enable them to become more and more digital on the inside."

Pittaluga believes the bank's migration from the offering of efficiencies and simple commoditised solutions towards offering a higher value-added customised service, which addresses different types of client needs, will develop into a general trend across the financial services industry.

A major influence for this shift towards much more customised, bespoke solutions is e-commerce, specifically the seamless, holistic, predictive servicing offered by the likes of Amazon and Alibaba. As Pittaluga points out, a bank's client is also a retail consumer and impact of the latter on client expectations must be acknowledged: "Because they are so used to and enjoy that kind of seamless, one click approach as consumers, many clients want to see similar, painless, friction-free interaction and servicing in their business life too. So, all of those things are going to change the way we do banking."

Pittaluga sees a big role going forward for Application Program Interfaces (APIs) in delivering such experiences for clients and transforming banking. As the 'digital plumbing' that enables software applications to talk to one another in near real time, APIs have been around for many, many years, humbly going about their business unnoticed. But their potential use cases are multiplying fast now, especially for solutions aimed at helping clients optimise operations, grow their business, and better serve their own customers – three key business imperatives.

Citi is investing heavily in APIs and is putting together new solutions that employ them to addressing its three themes. So, an API for the first theme, optimisation and efficiency, could be one that enables the automatic initiation of payments automatically from the ERP or accounting system. Similarly, an API-backed solution aimed at helping client business grow could entail, for instance, helping a distributor who has fully utilised its credit line to reconcile a payment so that he can continue selling.

Recently, Citi launched an API onboarding portal to set up a consistent implementation process for customers in all markets, which speeds up the API testing and implementation process. Citi is also the first global bank to launch APIs that are embedded in Treasury Management System (TMS) providers. This includes FIS, which has connected its Trax corporate payment factory to enable seamless integration with Citi's core treasury management functionalities, covering payment initiation, transaction status inquiry and balance inquiry.

Asian attractions

More broadly, Pittaluga is optimistic about the long-term outlook for Asia, arguing that it boasts some compelling positives versus the other regions. One of the most critical ones is that the region is, according to UN data, home to 4.5 billion people, 60% of the world's population, with a median age of around 31 years: "It's being called the 'population dividend' and it is why Asia is widely regarded as a consumer play, why it has powered ahead in developing e-commerce and online retail. These two phenomena are progressing hand in hand, with development of technology that supports reducing transaction and communications friction resulting in ever more people gaining access to online trading and faster and faster 24/7 payments infrastructure. Moreover, Asia is the region in the world where you have the highest concentration of countries moving into this increasingly connected faster payments space."

The region's drive into the new tech-driven world is also being aided by a "regulatory tailwind", with central banks and other regulators generally supporting its development. The Monetary Authority of Singapore, for instance, is encouraging financial institutions to adopt APIs to drive banking innovation, consumer protection and transparency. The Hong Kong Monetary Authority recently launched an industry consultation for an Open API framework. The National Payments Corporation of India has introduced the concept of tokenised payments through its Unified Payment Interface (UPI); just as Thailand has done with PromptPay, and Singapore with PayNow.

China is of course well advanced with its cashless revolution but the region's other heavyweight, India is moving very quickly on this front too, with a flurry of government reforms and initiatives having been launched to wean the economy off cash towards digital transactions. The country pushed through demonetisation and UPI is supporting that by allowing fund transfer between banks with the help of a single tokenised financial identifier. In practice, a consumer buying online checks-out and pays via UPI by providing their UPI ID. "The UPI initiative coupled with a series of other related cloud and biometric efforts to support online transactions and identification are really catapulting India's growth towards digital and contributing to a much improved business environment." says Pittaluga.

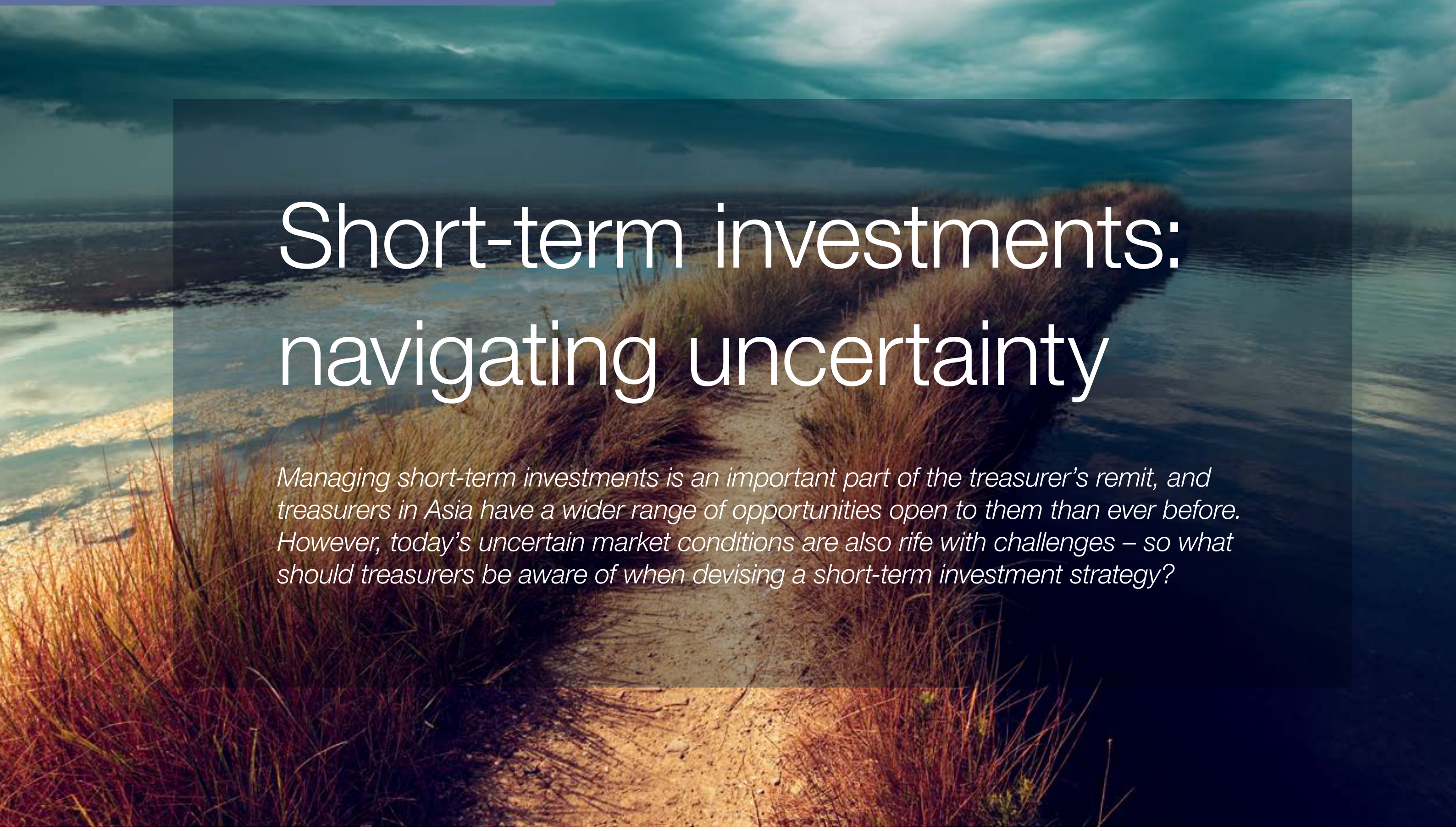
He points out that India's digitalisation initiatives, alongside reforms that have made it easier for companies to seamlessly pay taxes and trade across borders, have resulted in the country jumping 54 spots in just two years to rank 77 out of 190 countries in the World Bank "Ease of Doing Business" rankings.

The developments and trends being seen across Asia play very much to Citi's strengths and strategy, says Pittaluga, adding: "Citi is uniquely positioned to support our corporate clients through the above mentioned transformational trends. Our investments and innovation drive are centred on supporting our clients capturing the associated opportunities that will emerge in the future. We have operations in 17 markets across the region and in some of them for over 100 years. We have vast experience in the markets where our clients want to grow, including those where the digital developments is accelerating such as China and India."

Have your say

Visit **treasurytoday.com/technology/treasury-systems/asia-on-fast-forward-to-the-future-ttsf** to share your views on the challenges and opportunities presented by digitalisation for APAC treasurers.

**Source: https://www.weforum.org/agenda/2018/04/the-worlds-biggest-economies-in-2018/*



Short-term investments: navigating uncertainty

Managing short-term investments is an important part of the treasurer's remit, and treasurers in Asia have a wider range of opportunities open to them than ever before. However, today's uncertain market conditions are also rife with challenges – so what should treasurers be aware of when devising a short-term investment strategy?

The area of short-term investments is something of a moving target. Regulatory change is one important consideration for corporate treasurers: developments such as Basel III have affected the value placed by banks on corporate deposits, while Asia's diverse regulatory environment is often characterised by rapid change in individual markets. At the same time, companies which may have traditionally used bank deposits for their short-term investments are increasingly turning their attention to money market funds as a wider range of products has become available – and technology is also playing a role in opening up new investment opportunities.

In light of these developments, there are plenty of reasons why treasurers may choose to review their investment strategies. According to J.P. Morgan's 2017 PeerView℠ study, almost half (47%) of respondents in Asia Pacific said that changing the investment policy requires 'significant' effort – for respondents in the Americas and Europe, in contrast, the same level of effort was reported by 21% and 20% respectively. But despite the effort involved, 33% of respondents in Asia Pacific said they were considering changing their investment policies in the coming six-12 months, given the current regulatory environment.

So which challenges are likely to shape treasurers' short-term investment strategies in the coming year – and what factors will they need to take into account?

What's in store in 2019?

Aidan Shevlin, Head of Asia Pacific Liquidity Fund Management at J.P. Morgan Asset Management, says that 2019 is likely to signal a turning point for global economics and interest rates – and that corporate treasurers "should be prepared for increased volatility and uncertainty, but also be ready to take advantage of emerging opportunities."

Rising rates

Interest rates are, of course, a key consideration where short-term investments are concerned. Lewis Sun, Regional Head of Product, Global Liquidity and Cash Management at HSBC Asia Pacific, says that 2019 "will continue to witness modest interest rate rises in addition to those in 2018," noting that this signals a further increase in cost of borrowing as well as better yield opportunities. As such, he says that the focus will continue to be on better visibility, control and managing funding efficiently. "Depending on the geographical, structural footprint of the cash balances, treasurers will likely look to consolidate funding centrally or optimise cash positions notionally where permissible," he adds.

François-Dominique Doll, Director, Global Treasury Advisory Services at Deloitte, also highlights the significance of rising rates. He says that after a long period of low yield in major currencies and accommodating policies from central banks, "money market rates globally are now following an upward trajectory that was initiated two years ago by the Federal Reserve Board with the gradual increase of interest rates."

As such, Doll says that cash-rich corporations can benefit from higher yields and better diversity in product offerings in order to place their surplus. "As Asian companies usually hold large amounts of USD, they can directly invest the surplus cash without the need to convert their balances," he adds, noting that a number of Asian currencies are linked and pegged to the USD, and are following this upward trend.

Economic conditions

Treasurers will also be monitoring macroeconomic developments and seeking to understand the possible impact that these can have on investment conditions. Alan Huse, Head of Payments and Cash Management at ANZ, says that volatility and uncertainty are the overriding challenges,

Weighing up security, liquidity and yield in challenging times

Venkat ES, head of Asia Pacific Treasury Product Management, Bank of America Merrill Lynch, explains that faced with uncertainty and market volatility, treasurers will focus on security, liquidity and yield – known as the 'SLY' principle – while ensuring that their investment policies remain flexible enough to deal with changes. He notes that the key priority "is to establish accurate forecasting for cash segmentation, real-time visibility of their liquidity positions and having the right skill set to invest. All these can be supplemented with technology."

Venkat says that security and accessibility of cash will be treasurers' primary concerns during challenging times. "Excess liquidity would most likely be deposited in demand deposit accounts, short-term time deposits or money market funds," he says. "Treasurers would be looking to ensure surety of the principle deposited and thus, key considerations would be counterparty risk and market risk."

He adds that treasurers are likely to consider the following when weighing up security, liquidity and yield:

- **Capital preservation.** Treasurers want to ensure capital preservation. They have learnt from the past financial crisis the importance of selecting their counterparties carefully and distributing their investments so as to mitigate the risks of non-return of their deposits upon maturity. Market risk is also the other important consideration as treasurers want to maintain the value of their deposits regardless of interest rates. As such, there is a preference for shorter-term investments, rather than longer-term, to mitigate both risks.
- **Liquidity.** Another consideration is liquidity eg how quickly can investments be converted to cash if required and the associated costs. From that perspective, treasurers may prefer placing funds in 'on-demand' accounts and short-term time deposits which offer lower charges and quicker access. Money markets investments may take longer to convert and are likely to be more expensive. Treasurers also require further analysis such as understanding the secondary market where their money market investments are operating in before making decisions on liquidating the investments. Generally, treasurers with dedicated in-house expertise may still consider such investment options as it requires a lot more understanding of the risks.
- **Yield.** Yield, while still important, would likely to be of lower priority in a volatile environment. The consideration of yield may take a back seat as treasurers' concerns on liquidity and cash flow take precedence.

pointing out that the geopolitical climate "is creating massive volatility and uncertainty" in light of topics such as Brexit, the US/China trade war and unrest across France.

Charles Evans, Head of Funding and Middle Market Sales, Markets at ANZ, says that if global trade tensions around the outcome of Brexit continue, "then risk-off sentiment in investment markets may prevail." He adds, "In this environment cash allocations may rise – hence access to short-term liquidity by banks and balance sheets may improve, reducing repo levels and thus levels on short-term securities (this could be counter to rising term funding costs)."

At a global level, Huse says that macroeconomic issues "centre around the US Fed and the impact of rising US interest rates" – but there are plenty of other developments to be aware of. "In Australia, we're seeing a downturn in the property market and possible impact on interest rates," he says. "Asia treasurers, in particular, face increased levels of foreign exchange risk due to the multiple currencies involved."

Challenging times

Against this backdrop, Deloitte's Doll says that treasurers will face two types of challenges in the coming year. "The first challenge is ensuring that risks are managed properly by keeping short-term investments liquid and convertible at any point in time," he says. "As the offering is also more diverse, closer control on counterparty exposure and review of policies might be required at the group level."

The second challenge, he explains, relates to regulation. One area of interest where regulators are concerned is that of money market funds, which have gained considerable popularity in recent years. AUM in China's money market funds doubled between 2016 and 2017 and stood at RMB8.6trn as of the end of June 2018, with growth predominantly driven by retail demand, according to research by Fitch Ratings.

In other regions, money market funds have seen considerable regulatory focus in the last couple of years, including the MMF reform adopted by the US in 2016 as well as new rules recently introduced in Europe. Doll explains that money market fund reform in the US has focused on ensuring quality of assets, while a change in the NAV calculation for funds "has created a principal reduction risk which was new for traditionally 'safe' investments." He notes that boundaries have also been set to prevent a sudden run on assets through specific liquidity fees and fixing a period where funds cannot be redeemed.

With China's money market funds growing rapidly, regulatory attention is likewise focusing on bolstering the market. In 2017, the China Securities Regulatory Commission (CSRC) issued rules designed to reduce concentration risk and increase diversification of investments. Last year, the CSRC issued further rules limiting same-day redemption of withdrawals to RMB10,000. Doll observes that regulatory developments such as the CSRC's recent changes "have an impact on the liquidity component of the funds."

Areas of opportunity

Alongside the challenges, developments in technology and product offerings are providing new opportunities for treasurers to manage their short-term investments more effectively. Doll says that a number of banks have provided

> Treasurers need to ensure they have multiple and diverse sources of funding available, while at the same time simplifying their cash management to have better visibility and control.
>
> Alan Huse, Head of Payments and Cash Management, ANZ

liquidity portals which enable customers to pick and choose from a list of money market funds. "While the volume of deposits would decrease, banks would still be able to capture this liquidity in the market and keep the customer relationships," he adds.

Technology solutions and innovation likewise represent an area of opportunity. "Online dealing portal providers are able to allow integration of short-term investments instruments to their treasury management systems," says Doll, adding that there is stronger demand for better integration of data and trades. "We anticipate that machine-learning based innovations will be able to provide online recommendations of short-term investments based on currency, amount, tenure and counterparty limit," he adds. "A number of fintechs are developing solutions in this direction."

Achieving flexibility

Flexibility is particularly important in times of uncertainty: the more dynamic a company's investment strategy, the better placed the company will be to adjust to changing market conditions. Consequently, in 2019 some treasurers may be more open to investment instruments that provide greater levels of flexibility.

Against a backdrop of rising interest rates, HSBC's Sun points out that surplus balances are likely to attract better yield. As such, he says that deposit products that provide flexibility of investment, access and yield, rather than contractual deposits, are the likely choice for treasurers. "Should markets remain volatile, cash and bonds will continue to be in favour and banks like HSBC provide a wide array of products from deposits that allow flexibility to on and off-balance sheet short-term investments," he adds.

Indeed, not all deposits are alike. Doll says that rather than placing cash in term deposits, "we have seen companies simply receiving fair interest rates on savings accounts offered by the banks. There is also a push in some of the Asian countries around structured deposits which allow enhanced yield with an optionality component." He adds that treasurers should closely analyse product fact sheets and assess whether the risks introduced are acceptable to their own policies.

While deposits are widely used by treasurers in the region, money market funds can also be an attractive option for treasurers looking to achieve greater flexibility in an uncertain market. Doll says that there is a wider product offering on short-term investment products that leverage bank channels and online dealing portals, while assets under management statistics show growing balances for fund managers. "Traditionally, money market funds have been mainly available in major currencies, but they are now available for some Asian currencies," he comments. "The flexibility in execution and processing is quite appealing for companies looking to streamline their treasury operations."

How to navigate the market

With so many changes to take into account, it is even more important to make sure the company's short-term investment strategy continues to suit the demands of evolving market conditions. With that in mind, experts suggest a number of actions that treasurers may wish to consider in the year ahead:

- **Diversify and simplify.** Huse recommends that treasurers "need to ensure they have multiple and diverse sources of funding available, while at the same time simplifying their cash management to have better visibility and control."
- **Take advantage of technology.** Huse points out that companies, like banks, "will need to be alert to the opportunities presented by new technologies". With banks continuing to introduce more sophisticated tools that can provide customers with greater visibility and control over their liquidity, treasurers "should engage their banks to ensure they have access to the latest and best tools available."
- **Take advantage of emerging opportunities.** J.P. Morgan Asset Management's Shevlin says that treasurers should focus on three key steps: "Increasing their familiarity with new money market regulations and investment options; strengthening their counterparty and credit risk analysis tools; and segmenting their cash to benefit from interest rate divergence, higher returns and more controlled risks."
- **Pay attention to changes in market yields.** "In a rising rate environment, keeping cash short rather than locking them in for long tenures is a good strategy," comments Kheng Leong Cheah, Head of Global Liquidity Sales, Asia Pacific at J.P. Morgan Asset Management. "Also, working with an asset manager with strong track record of investing in the respective local market to help navigate through market volatility and in certain countries, evolving regulatory environment, would be prudent."

In light of the evolving market conditions, treasurers may also opt to review the company's short-term investment policy, which sets out the counterparties and investment instruments that can be used as well as stipulating any limits. In practice treasurers are unlikely to change the investment policy too frequently – but it is still important to make sure that the policy continues to be tailored to current market conditions. This may involve looking not only at the products the company is currently using, but also at additional products that could be required in the future.

In conclusion, while the range of short-term investment products available in Asia has expanded in recent years, treasurers also have to negotiate a variety of challenges across the region, from economic uncertainty to regulatory change. As such, it is essential to have a clear understanding both of the obstacles and of the possible opportunities arising from rising rates and technological innovation – and to consider any strategic adjustments that can be made to harness those opportunities.

Reaping the rewards of account rationalisation

Bank account rationalisation is regarded as an increasingly vital element of best practice in corporate housekeeping, with potential to not only dramatically improve cash management and visibility but also cut exposure to fraud. So how can treasurers go about putting it into action and what kind of benefits might accrue from its successful execution?

It has been an eventful year for globally active corporates, with geopolitical tensions, a palpable souring of the economic outlook and trade and tariff wars causing decision-making in areas such as mergers and acquisitions and investment to be challenging. As ever in such environments, due diligence demands corporates re-evaluate partnerships, review structures, leverage internal investments to the maximum and look for ways of improving their working capital.

As they look to enhance their financial efficiency in uncertain times, corporates nowadays, in line with best practice, will consider rationalising their bank accounts. Bank accounts are necessary of course for businesses to operate in multiple territories. However, it is now widely recognised that most businesses probably do not need as many bank accounts as they have. Indeed, as organisations grow and expand into new markets around the world, for instance through M&A or greenfield investments, bank accounts are often opened up simply as a matter of immediate convenience.

As a result, companies can end up owning hundreds, if not thousands, of bank accounts around the world. And that can be expensive: it can impact the treasury department's ability to have visibility and effectively manage the group's cash. It can also expose the organisation to an increased risk of fraud.

The task for treasurers, then, especially in fast evolving, challenging environments that force corporate strategy rethinks, is to keep an eye out for proliferating bank accounts, certain in the knowledge that by streamlining them they can optimise a range of operations including the accounts payable and accounts receivable processes; the strategic management of cash (which helps to release trapped cash); and the need for short-term borrowings.

Pieter Sermeus, Manager at treasury consultant Zanders says that historically a globally active corporate might have had just a few or even one single 'house bank' that would take care of all its regional and/or global banking requirements. Nowadays, certainly since the financial crisis, this "one world, one bank" is no longer acceptable, not least from a counterparty risk and diversification point of view. After all, it rarely makes sense to have "all your eggs in one basket" with a sole supplier of goods or services anyway.

While being exposed to one bank goes too far, then, it is riskier to have hundreds of banks spread across the globe than it is to concentrate business with a chosen few, especially if you have limited visibility over the funds in those far-flung bank accounts. Rationalising banking relationships based on the business' footprint, operational needs and geography is therefore key. Allied to this task is the need to spread risk so the organisation's banking footprint takes advantage of the best banks or banking services in each region or country it operates in.

Given the need for corporates to engage with fewer banks —whether it be for technical or pragmatic reasons – how should they go about determining exactly how to streamline their banking relationships? Sermeus suggests using wallet distribution, a frequently used methodology for evaluating multiple banking partners. In this methodology, the amount of corporate banking business assigned to a banking partner (measured in both direct and indirect banking fees) is compared against the provided credit commitment of that banking partner. This allows corporates to evaluate if each banking partner's reward is in balance with the commitments and to compare the relative performance of different banking partners.

Sermeus says: "The wallet distribution methodology can provide a corporate with valuable insight into the revenue expectations of its banking partners and bring objective arguments to the table during discussions. It is however important not to limit the discussion to this 'revenue versus credit commitment' trade-off. A banking partner can underperform in terms of wallet distribution, but can provide complementary value-adding services or have a high level of overall satisfaction. Overall, corporates should make sure their banking partners understand where they fit into the general treasury strategy."

By working through the wallet distribution methodology, a corporate eventually ends up building mutually beneficial relationships with its core banking partners who are committed for the long term and rewarded accordingly. At the same time though, Sermeus says, corporates should remain "bank-agnostic" to maintain flexibility in case there is a need for a change in banking partner going forwards.

"Many corporates have implemented bank-independent connectivity via SWIFT which improves the visibility compared to multiple, proprietary bank interfaces. Remaining bank-agnostic means a change in banking partner can be implemented more quickly, and more importantly can also be a catalyst to harmonise internal banking processes. For instance, the use of a central payment platform can allow standardised payment processes and further efficiencies."

The promise of open banking

Recently banks have also been offering virtual account solutions. Sermeus explains that these multiple virtual accounts are linked to one 'real' bank account, which in turn helps to reduce the number of external bank accounts held: "A corporate can have one real bank account per currency with an unlimited number of virtual accounts linked to them, significantly reducing the complexity of its banking landscape and facilitating the centralisation of receipts and accounts receivables reconciliation processes. Since cash is concentrated on a limited number of bank accounts, this will also have a positive impact on cash and liquidity management."

A corporate's banking landscape will also be impacted by changes in the regulatory environment. Sermeus highlights in particular the EU's Payment Service Directive 2 (PSD2) or its allied Open Banking initiative in the UK, both of which came into force in January 2018, as having the potential to significantly impact treasury operations by providing a greater choice of providers and solutions.

The initiatives oblige banks to provide access, with consent of the corporate, for third parties to extract statement information and initiate payments. Sermeus says this will create a stimulus for the offering of bank agnostic applications which can consolidate the information of all bank accounts via the use of application programming interfaces (APIs) – the digital plumbing that enables applications to talk to each other. "Potentially open banking and PSD2 will enable new entrants to offer innovative, value-adding services which challenge the traditional bank services," he says.

In the UK, one area where finance departments will likely see an early benefit, thanks to open banking, is aggregated account visibility. The likes of HSBC and Barclays have begun to enable UK customers to view their account balances from multiple banking providers through their online banking platform. Whilst these solutions are for now aimed mainly at retail customers, hopes are high that open banking will lead to much more efficient multi-banking for SMEs and middle market corporates as well. Currently, only corporates on SWIFT can benefit from efficient multi-banking but open banking and the use of APIs will bring the price of this down, meaning that smaller companies will be able to see up-to-date balances across their accounts in real-time and manage these through just one portal.

More specifically, there is an expectation that open banking solution providers including the fintechs will offer sweeping, liquidity management, forecasting and other value-add applications at a low price point to middle market corporates and SMEs. Corporates today may receive details about their account balances at set times through SWIFT MT940 messages but in an open banking, API-enabled world, there would be no need to wait: corporates would be able to access up-to-date balance information via their TMS, ERP or online banking portal in near real-time. In this way, batch to near real-time processing will become far more ubiquitous and accessible to firms of all sizes.

Horses for courses

Over at debt and treasury advisory specialist Redbridge Analytics, Dan Gill, Senior Director, says there is not a one-size-fits-all approach to rationalising bank accounts.

The number, location, type and funding structure of bank accounts can vary widely across companies, even companies that are in the same industry and regions, he says.

Gill says there are "myriad strategies" for rationalising a bank account structure, with rationalising the expense of maintaining those accounts a major common objective: "Every bank account that a company maintains represents a cost. Often, those costs can be greatly reduced by eliminating accounts and not only rationalising the existence of each account, but also rationalising the services that are being used."

While a significant reduction in the number of accounts will certainly reduce the fees associated with cash management operations, Redbridge's experience has realised even greater savings by rationalising the types of services used within accounts to effectively manage cash.

In order to perform a service rationalisation on cash management accounts, visibility into the true costs of managing our accounts and performing cash management transactions needs to be established. To achieve that visibility requires accessibility to the bank fees being charged against those accounts: "One of the reasons that visibility into bank accounts and their costs is so difficult is that many banks have simply not reported the details of the charges levied. This has led to significant expenses to the treasury bottom line with no way to validate the accuracy."

Fortunately, the global banking industry has developed a solution that allows any bank in any part of the world to accurately report the monthly accrual of bank service usage and charges. The ISO 20022 file format known as the Bank Service Billing (BSB) standard can be used by any bank, anywhere in the world to report the monthly aggregated balances, service usage, pricing and charges for any account to any client.

Gill adds: "Through the use of the BSB or other industry standard reporting formats, banks are able to help their clients close gaps in both the rationalisation of the cash management services they are using as well as maintaining control over their entire inventory of accounts by automatically identifying new accounts opened. It is the automated visibility into accounts that the BSB file gives us that can help solve the account rationalisation problem once and for all.

"By monitoring the whole inventory of accounts in real-time, we can eliminate the sporadic need for a review project every year or two. Even in the most decentralised treasury operation, the near global availability of the BSB file format offers us the opportunity to rethink the entire need for account rationalisation. Automated BSB review gives us visibility into the cost, the usefulness and the rationale for every account in our inventory and they are now available from banks in many countries around the globe."

Bringing order to accounts

US-based international children's charity World Vision International – a winner in Treasury Today's Adam Smith Awards 2017, is one organisation that has benefitted greatly from having rationalised its bank accounts. The non-profit organisation has a presence in 100 countries and last year its expenses on its global programmes totalled US$2.27bn on income of US$2.76bn.

Peter Dong, World Vision International's (WVI) global cash manager says the charity's expansion over the years had left it with over 2,000 bank accounts with over 200 banking partners. "The situation arose out of convenience and necessity, without much thought given to an overall cash management strategy. It was untenable, however, as it posed a potential material risk to the organisation in the form of fraud, liquidity, inefficiencies, controls and cost," he says.

To address this problem, WVI's treasury team started a bank account rationalisation project. It also aimed to consolidate its banking partners by creating a smaller group of global banks whose footprint better matched that of the organisation.

"Recognising that these changes would be disruptive to our finance operations, we developed an approach that addressed change management with emphasis on collaboration and communications amongst all impacted offices, the global partner banks and global treasury," says Dong.

Initially, each of WVI's global partner banks visited its local offices to see how each was using banking services and learn about the challenges the charity faced in managing its finances. "That was our 'due diligence' process and through it we learned that most of our bank accounts simply existed to access cash to fund operations and pay vendors. Consolidating these proved an opportunity to create greater efficiencies and safety to staff," he says.

Following the due diligence process, WVI's partner banks crafted cash management solutions customised to each WVI office with guidance and broad objectives provided by WVI Global Treasury.

Dong's colleague at WVI, Kimberly Floyd, Associate, Global Treasury says: "The new solutions consolidated all bank accounts in each country to one partner bank and maintained only those bank accounts deemed operationally necessary. Where applicable, the new cash management solutions provided more efficient payment methods such as electronic, mobile, and prepaid cards in lieu of cash and cheques.

"The new solutions also included centralising all payments to one office and eliminating the need for separate accounts payable at each project location. The result: WVI is saving money by making our banking processes more efficient and manageable."

Another important step in the rationalisation project was the use of "a three-stage iterative approach" in forming the best cash management solution and account structure, with the banks providing the new solution to WVI's global treasury team, its regional finance directors, and finally its national finance directors. "This process allowed the solution to be vetted multiple times to meet project objectives and operational requirements and include all stakeholders in the process," says Floyd. "By including as many parties in the decision-making process as possible, our bank rationalisation solution became a team effort rather than a top-down management approach.

"Rationalising banking partners and bank accounts is a time-intensive project. In hindsight the benefits far outweigh the time and energy cost. Efficiency, security for employees, visibility, transparency, cost savings, and improved account management are just some of WVI's successes realised through our bank rationalisation project."

Stronger together: the power of syndicated lending

When a single lender is not strong enough to take on a large loan it can call a friend, or several if needed. By syndicating a loan, it enables huge sums to be lent and can mean the difference between a project funded and a project terminated. We go back to basics to see how and why this works.

When a corporate needs funding which cannot be met by a single provider, usually because that sum is deemed too large a risk, there may be an opportunity to share or 'syndicate' the loan.

Lenders are usually tier one banks and, particularly for leveraged transactions, institutional investors such as hedge funds, insurance companies and pension funds. Borrowers are usually large corporates (often seeking to refinance on improved terms, fund M&A or a major capital project), or major infrastructure projects (road or airport construction, for example).

Deals typically start at US$100m and are of at least one year. However, loans are bespoke and so price, size, tenor, structure and purpose are highly variable.

That said, for investment-grade borrowers, where more funding options are available, syndication is often seen as a strategic manoeuvre or an alternative funding source; the market in 2018 has seen a lot of US$1bn and US$2bn bridges to bonds, for example. *(Source: Reuters)*

Syndication can also be used as a borrowing strategy for a corporate with a lower credit rating, where it is unable to easily access the levels of funding required through the bond markets.

With a higher credit rating, the margin payable to lenders tends to be lower and few, if any, covenants restrict the way the company operates. The opposite is usually true for lower-rated borrowers, although strong due diligence will be in evidence in every case. In both cases, the existence of a syndicated facility may serve to reassure investors holding other instruments issued by the borrower, such as commercial paper, potentially facilitating a lower overall cost of future funding or a wider pool of liquidity.

Syndicated lending by numbers

In 2017, global syndicated lending totalled US$4.6trn from 9,887 transactions (up 12% on proceeds and 3% on completed loans). The US captured 58% of global lending (US$2.7trn, up 25% on 2016). Canada, for the first time ever, was the second largest loans market (US$235.2bn).

Regionally, the Americas took 65% of total proceeds (US$2.9trn/c.5,000 transactions). Europe saw 18% of the market (U$816.3bn, down 1% in proceeds and 14% in number of completed deals). Asia Pacific totalled US$493.3bn (down 3% in proceeds and 2% in number). *(Source: HITC)*

Bank of America Merrill Lynch ranked as the top global loans bookrunner for FY 2017, with 9.46% of credited market share. The bank acted as bookrunner in 1,412 deals over the period. J.P. Morgan and Citi ranked second and third, with 9.22% and 5.42% of credited market share, respectively. *(Source: Bloomberg)*

Loan types

Loans are typically offered as a fixed sum or a revolving credit line (the KKR/Flora deal included a US$799.5m equivalent 6.5-year revolving credit facility) but may also be a combination of these. Standby letters of credit may also be offered. Interest rates can be fixed or floating, the latter typically using a benchmark or reference rate such as libor or the US prime rate, plus a margin.

Apart from where collateral requirements may differ, most loan terms and conditions are uniform amongst all lenders and there will be one loan agreement for the whole syndicate. This commonly (but not mandatorily) uses Loan Market Association (LMA) documents.

Global syndicated loans volume (as at November 27th 2018)

Rank	Lead manager	Amount US$m	No. of issues	Share %
1	J.P. Morgan	420,828.07	1194	10.93%
2	Bank of America Merrill Lynch	377,688.13	1213	9.81%
3	Citi	237,399.89	691	6.16%
4	Wells Fargo Securities	213,501.86	782	5.54%
5	MUFG	162,641.64	983	4.22

Source: Dealogic

Loan syndicates: legal structure and red flags for corporates

Traditionally, lead arranger banks conduct lender due diligence, so the choice of which financial institution has that role has always been of decisive importance for corporates, says Julian Roche, Consultant at Redcliffe Training.

In conjunction with the corporate's own lawyers, they will draft the key documents sent to potential syndicate members, the confidential information memorandum and associated corporate financial model in particular; and they will also draft the credit agreement itself. Borrowers must always assess potential syndicate members under a range of headings: any history or covenant impacts, knowledge and understanding of the business, balance sheet strength and stability, and track record.

Whilst the loans are collective, the obligations of lenders remain individual: a syndicate is not itself a bank. On the contrary, a syndicate is conventionally covered by partnership legislation, which imposes a range of reporting and tax obligations on partner financial institutions that corporates must study.

Legal issues remain varied and syndicate structures are sensitive to, and adapt to, regulatory regimes. Hence for example both the number and the volume of syndicated loan issuances in the UK dropped by an economically and statistically significant 15% after the Brexit referendum relative to the global market[1].

Concern among lawyers therefore remains over important legal matters. For example, given the different definitions and practice of default between institutions, how individual syndicate members or the syndicate as a whole are permitted to respond to borrower default or the borrower or other party's bankruptcy. Or whether unanimity or majority voting by syndicate members will suffice for decision-making – and if so whether by size of participation or not – how facility and security agent payments are treated.

Meanwhile bankers regret the slow development of the secondary loan market, with many markets still insisting on borrower consent before transfer of loan obligations. Problems of legal uncertainty for syndication are however gradually resolving across jurisdictions – Russia, for example, passed syndication legislation last year.

But there remain issues that corporates should, but often do not, recognise. The advantages of syndicated lending come at a cost because of the agency problems linked to differences in information between syndicate members[2]. These emerge in two principal forms.

First, as upcoming research[3] will suggest, local lending by international financial institutions is far more sensitive to macro-economic data than transnational lending. Second, as long established by Harvard Business School's Benjamin Esty, multiple lead arrangers can serve to curb the agency problem associated with individual banking relationships, control issues within corporates – which affect syndicate structure – and poor creditworthiness signalling in project finance.

But second, the range of permitted participants in syndicates is growing: from banks to non-bank financial institutions such as pension funds and even eventually loan crowd-funders, an evolution that poses significant financial risk for borrowers in future syndicated loan transactions as their borrower due diligence costs mount.

Recent research[4] has indicated that syndicated loans with greater funding by non-banks experienced greater sales activity and downward pressure on secondary market prices during the global financial crisis.

These adverse effects were pronounced among loans funded by non-banks with relatively liquid liabilities: broker-dealers, hedge funds, and other investment funds. In a world where syndicated loans are frequently traded in secondary markets, quite contrary to the prevailing wisdom in academia[5] and the business world alike, corporates could be sitting on enormous potential risks.

[1]Berg, T. et al. 'Brexit'and the Contraction of Syndicated Lending'. [2]Godlewski. C. University of Strasbourg, 'Banking Environment and Syndicate Structure: A Cross-Country Analysis'. [3]Avdjiev, S. et al, 'What drives local lending by global banks? [4]Irani, R. M.et al. 'The Rise of Shadow Banking: Evidence from Capital Regulation'. [5]eg Kamstra, M.J. et al 'Does the Secondary Loan Market Reduce Borrowing Costs?'

- **Term.** A term loan is a more traditional arrangement. The full amount is drawn either initially or in pre-determined instalments. The principal is either repaid over the term of the loan or at maturity.

- **Revolving.** This will have a specified term limit but the borrower can draw down funds and repay them as necessary, as long as the terms and conditions of the loan (covenants) are met. This style of loan is more suited to companies which view the syndicated loan as a secondary source of finance or have a periodic need for funding.

Investment grade borrowers will often structure their loans into different revolving tranches, with short (one year) and longer maturities (typically three to five years). This provides a longer-term source of assured funding, particularly useful as a back-up to commercial paper or where it is beneficial to delay repayment (if it takes time to bring new equipment into service for example).

Main roles

Within the corporate loan market, it's worth knowing that the Loan Syndications and Trading Association (LSTA) is the main resource centre. It can bring together loan market participants, provide market research, and has the ear of the authorities in terms of influencing compliance procedures and industry regulations.

The main roles operating within a syndicate are (with much differing of opinion as to precise function):

Mandated lead arranger (MLA): usually takes a significant portion of the syndicated loan commitment, selling parts of the debt to build the syndicate.

Bookrunner/arranger: advises the client, organises and arranges the loan, negotiates the broad terms, and often underwrites the loan (see below).

Agent: day-to-day management of the transaction, liaising between banks and borrower. The task can be broken into facility agent (managing the day-to-day running of the loan itself and compliance with its terms) and the trustee who manages documentation and holds any securities required.

Deal types

A decision will be taken with the arranging bank as to whether the loan will be underwritten. In an M&A deal, for example, certainty of funding may be essential. If so, the borrower knows it will receive the full amount of the loan, irrespective of whether the arranger has successfully syndicated the deal. If the arranger fails to fully subscribe the loan, it must take on the difference (which it can later sell on to other investors). Underwriting is a competitive tool to win mandates and it generates more fees.

Without underwriting, a best effort arrangement means the borrower receives only as much as can be generated amongst participants. Undersubscription can mean the loan may not close or that it needs major changes to create market interest.

Fees

Fees associated with the loan can include the following:

- **Margin:** lenders will charge a margin over an agreed market benchmark.
- **Commitment fee:** where a loan is not fully drawn, borrowers will be charged a commitment fee to maintain it
- **Utilisation fee:** banks may charge an additional fee if a high proportion of the loan is drawn in one.
- **Arrangement fee:** the arranging bank normally receives a fee once the syndication has been successfully completed. This depends on the size of the syndication and the credit risk. Occasionally other lenders will receive an upfront fee of a few basis points for participation in the syndicate.
- **Legal fees:** companies will have to meet the costs of their legal advisors.

Starting out

In practical terms, treasury must begin with a clear understanding of the role the loan will play in the company's wider funding strategy. This provides a focal point when the company presents its case to potential investors.

Syndicated loans can be structured in many different ways. Treasurers will also need to pre-arm themselves with accurate forecasting data, especially covering future funding requirements; only this way can appropriate terms and conditions be agreed. A repayment strategy will also need to be outlined.

Of course, the arranging bank's expertise and market influence are vital but so too is strength of the relationship, which can play a key part in making the decision as to which bank to mandate.

Finer points

Negotiations will be ongoing throughout the arrangement process and it is therefore important to understand what the other side wants. Treasurers must identify each potential lender's approach to, and appetite for, syndicated loans. Points of discussion might include:

- The type and size of banks involved and whether they will sell their participation right away or take a longer-term view.
- The importance of the relationship to each party.
- The proposed structure of the deal.
- The fees.
- Covenants or other restrictions that might conflict with policy.

Timing

Deal complexity will influence timing but the key driver on the corporate side for delivering a syndicated deal is the underlying transaction. For M&As, speed may be of the essence, less so a refinancing requirement. Typically, from initial meeting with the agent to signing the loan agreement it can take two to three months.

Secondary market

For primary lenders, an important factor is the secondary market, where exposure to the syndicated loan can be managed by selling on part or all of a bank's participation in a syndicated deal. Secondary market deals represent work (and therefore fees) for the agent as each deal requires contract documentation to be drawn up and all the proportions for monetary calculations to be changed.

Most transfers are made 'by novation', in which case the new lender becomes a 'lender of record'. In these circumstances, the new lender simply replaces the original lender. The original terms and conditions apply, with the only change relating to which bank receives the interest payments.

The key factor in all cases is that the bank's ability to sell loans in the secondary market reduces the counterparty risk associated with the decision to participate in the syndication. As a result, the secondary market enhances liquidity in the syndicated market.

What is sometimes less well understood is the importance of the secondary market for borrowers. For the corporate borrower, the development of the secondary market has also enhanced liquidity in the primary market, arguably bringing down margins for all borrowers.

Regulatory challenges

What will be the biggest regulatory challenges for you during 2019?

Amit Grover

Assistant Vice President, Liquidity & Banking – APAC

GE Corporate Treasury Singapore

There is a plethora of regulatory challenges to watch out for, however, I believe the two most predominant ones will be the extent of unilateral and protectionist measures undertaken by countries globally and the evolution of the regulatory framework for blockchain technology. These two will have wide-ranging implications for the growth of the world economy and more importantly on MNEs and their treasury function.

With regards to protectionism, the key risks for 2019 seem to be politically driven, with escalating protectionist sentiments and tensions among the nations and their political leaders. There are growing concerns over the increasing politicisation of international trade, coercive measures, sanctions, trade wars and barriers. The economic friction due to the trade war between US and China, which is likely to spill well into 2019, is putting at risk complicated supply chains and business relations. It will disrupt value chains and business models, affecting countries, MNEs and treasuries.

US tax reforms are another major issue for businesses, with the extensive changes having potentially significant implications from a strategic, operational and financial standpoint. Many MNEs are still in the process of reviewing the implications of these reforms, considering the approaching US 2020 elections. Such measures have a pervasive potential to affect everything from capital allocation, funding strategies and liquidity management practices. It may lead to repatriation movement by companies moving funds back to the US, which may have an impact on liquidity for corporate treasurers.

Going forwards, there is growing acceptance that such significant changes in the regulatory and trading environment will persist and that the key for treasurers will be to keep up with the rapid rate of change and try and stay ahead of the curve by paying close attention to all available intelligence.

There's a renewed focus on innovation within finance and treasury and of all the new technologies, blockchain is the single most powerful concept to have emerged. Considering its potential, it is not surprising that blockchain has become a global phenomenon.

Looking at the level of investment made in blockchain technology over the past several years, and the advantages it promises, it is abundantly clear it is here to stay. Many banks and fintech companies have ventured into this technology to create more advanced solutions to cater to the needs of the financial sector, with a focus on cross-border payments, correspondent banking and trade finance.

While there is a lot of activity in this space, the solutions are arguably still at a nascent stage. The risks associated by blockchain are not fully understood yet, such as the lack of standards and governance, its impact on workforce due to automation, and exposure to cyber risk. The regulators are also catching up with the rapid growth in this space.

There is clearly a need for a unified regulatory framework to utilise the full potential of this new technology. It will be interesting to see how this regulatory framework for blockchain evolves in response to the growing importance and commercial application of the technology.

Benny Koh

Leader, Global Treasury Advisory Services, Deloitte Southeast Asia

Aida Mosira Mokhtar

Director, Global Treasury Advisory Services, Deloitte Malaysia

Currency risk management is one of the biggest challenges for most companies and regulatory changes usually have both a direct and indirect impact on the currency market. Like several other currencies in the region, the Malaysian ringgit has weakened over recent months, driven by concerns on global interest rate increases and trade protectionism.

The Bank Negara Malaysia (BNM), Malaysia's central bank, recently announced further enhancements to the forex exchange administration (FEA) rules. The measures built on regulations it announced in December 2016 that required exporters to convert three-quarters of their proceeds (the 75:25 rule) to ringgit and restricted transactions in the offshore non-deliverable forwards market. The measure was originally aimed at boosting liquidity and encouraging more domestic trade of the ringgit, as it looked to stem the currency's recent slide against a surging US dollar at the time.

Although there is no change to the 75:25 export conversion rules, the latest new enhancements offer more flexibility in management of export proceeds and allow hedging of FX obligations beyond six months allowed, subject to BNM approval. The rules also mean non-residents can trade in MYR interest rate derivatives via Appointed Overseas Offices (AOOs).

These measures are positive as they will help to ease the administrative procedures and compliance cost for businesses and financial institutions. They may also enhance currency stability in the near-term by reducing the steps involved in retaining earnings within the country.

We believe this augurs well for companies with big foreign currency exposure, especially as exporters can immediately transfer proceeds to separate onshore accounts to meet up to six months of foreign currency obligations, without first having to convert the proceeds into ringgit. This should help limit currency volatility by making it easier for companies to retain foreign earnings within the country. Consequently, companies will have greater flexibility in managing export proceeds and hedging foreign currency obligations.

As these measures differ from those implemented by the government to foster currency stability, which often resort to restrictions to curb capital outflows, over the longer-term, we believe that the enhancements to FEA rule will facilitate the deepening of onshore currency markets and introduce greater sophistication around the availability of risk management methods to manage currency volatility.

The volume and liquidity of the onshore forex market will also increase, as local banks can offer ringgit-denominated interest rate derivatives to non-resident companies as well as resident companies.

Apart from FEA, which is positive, the government's higher deficit target of 3.4% for 2019 announced in the recent budget may make the ringgit susceptible to weakening pressure in the short term. Currency volatility will continue to be the biggest challenge in 2019. The big question is how operationally ready are corporates to deal with it?

Jason Teo

Interim Treasurer

CFLD International, Singapore

A continuing, fast evolving economic, trading and political landscape over 2019 will present corporates with increasingly complex challenges and ensure regulation and related risk management governance, controls and reporting requirements remain at the top of the boardroom agenda.

The unrelenting uncertainty and complexity of challenges facing treasurers demand we make greater use of technology. Yet it is clear that the rapidly increasing use of new technologies such advanced data analytics, AI and blockchain require new risk governance adjustments and regulatory scrutiny, especially where their deployment intersects with safety and consumer privacy and protection.

In a cyclical industry like real estate, where I am presently, uncertainty over the trading environment is greatly adding to the complexity. Geopolitical uncertainty, disputes over trade, tax reforms and regulatory differences across multiple jurisdictions have potential consequences for supply chain, capital allocation, staffing and business strategies. Government policies and political environments generally were a very important consideration for corporates over 2018 and will continue to wield considerable influence on boardroom decision making over 2019 and beyond.

CFLD International is a young company, which only established its international roots less than two and half years ago, but it has already been confronted with unprecedented volatilities and multiple black swan events. Headquartered in Singapore with a focus on the emerging Asia market, CFLD International is the international arm of China Fortune Land Development (a Shanghai listed company). In seeking to diversify our portfolio and to take advantage of higher-yielding opportunities we, like many like-minded investors, look to overseas real estate markets. Our global footprint includes countries like India, Indonesia, Korea, Vietnam, Philippines, Myanmar and Egypt.

While those jurisdictions have always been challenging and unique from a regulatory perspective, recent marked divergence in monetary and fiscal policies across these territories; the US-China squabble; the prolonged eurozone-UK divorce; and fall-out from the turbulence across emerging markets over 2018 have made investment decision-making much more challenging. To make matters worse, China is currently experiencing a slowdown, a liquidity squeeze and mounting debts. On top of the regulatory challenges of operating in restrictive countries, all these additional headwinds have, inevitably, made life more difficult for offshore subsidiaries such as CFLD.

I envisage 2019 will see corporates being even more proactive in reassessing their exposure to offshore locations. As a result, there will be slower decision-making over investment deals in affected countries; a reassessment of capital and liquidity allocation, and greater consideration of redeploying employees.

Nonetheless, there are two sides to a coin, where challenges can flip to opportunities. By keeping abreast of developments, staying humble and nimble, coupled with continuing to adopt automation and innovative technologies, I believe corporates can ensure sustainable and effective change across these regulatory, economic and market challenges.

Next question:

"How do you see technology impacting your work over the next few years?"

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

What is next in corporate banking?

BCG recently opined that corporates want an Amazon-like experience from their bankers. What might this mean? And are banks best placed to deliver?

Amazon for corporates

According to a recent BCG publication, "today's corporate banking clients want the efficiency and convenience they experience every day on retail websites such as Amazon and eBay." (From "What Do Corporate Banking Customers Really Want?")

It is striking that this comparison by BCG is not to tech financial services like PayPal or AliPay but to an e-commerce platform. Even if arguably unfair, it raises good questions about what corporates want.

In the same way as a home buyer does not want a mortgage (they want a home and a mortgage is just an annoying step along the way), corporate banking customers do not want banking services – they want to do business. They want to delight customers and sell product. To do that, corporates need to collect from customers and pay to vendors, but handling cash is not their core mission. Banking for them is a means to an end.

Tellingly, e-commerce platforms like Amazon do everything they can to make payment invisible or at least minimally disruptive. It may be uncomfortable for some treasurers but this is where corporates are heading regarding banking. It is analogous to how corporate IT has migrated to the cloud, and how physical production has migrated to outsourcers.

Simply integrate

Recent BCG interviews with bankers and corporate customers revealed that – along with cheap, reliable financing, of course – what corporate banking customers want most are simple, straightforward transactions and the option of self-service.

But before we get to the business platform nirvana that that implies, there are a lot of basics to fix in the short term. Banks have tended to mirror organisational silos in the technology, resulting in a confusing mix of software with which corporates have to contend. Even if many banks now understand that this is not ideal, progress in addressing problems here is slow.

In this sense, the advent of open banking and the regulators' enthusiasm for API banking gives us some hope. APIs have been around many years. They are the glue that enables integration within and between businesses and will enable business platforms going forward. All basic business processes can be offered as services via APIs.

Platforms and end-to-end

On the other hand, big and small tech companies come to this situation without legacy and with the API mindset in their DNA. Platforms like Alibaba take a holistic view of the customers' needs – they extend into logistics and finance. The underlying mindset is to facilitate business – to handle all the support services so that their merchants can focus on whatever they do best.

Cloud ERPs like Xero come to this from a slightly different angle but also with the API mindset. Xero has a number of APIs for statements and transactions. Tally in India has integrated with DBS via API so that Tally users no longer need to work through DBS' e-banking website.

This is quite similar to TMS offering SWIFT and other bank connectivity solutions in the box, so that corporates no longer need to do their own implementation.

Shared service centres

Driven by cost savings, the first shared service centres (SSCs) were designed to reap economies of scale by centralising back office functions. Following the dotcom bust at the turn of the century, Sarbanes-Oxley and its ilk brought a second driver for centralisation and consistent processes – compliance.

Faced with ever faster moving businesses, many corporations saw a third driver for SSCs. The underlying idea here was that many back office functions have sufficient commonality so that they can be offered as standard services to various different parts of the business. The core concept is that business units should not worry about back office at all so they can focus on their key business priorities – normally customers and product – and leave the administration to SSCs.

Platformisation of business processes

If corporate action in the SSC space is a good indicator of what corporates want, then this will probably end up looking more like one or many platforms handling end-to-end business processes so that organisations can focus on core value-adding efforts.

Generally, the stuff banks (and treasurers) worry about – payments, accounts, even reconciliation – are non-core and not value-adding. Of course, they have to work effectively; they are hygiene factors which are invisible when functioning well and very negative if they go wrong. But they remain perfect candidates for outsourcing to a competent external service provider.

Banks and business processes

Banks have lots of complex processes internally. In fact, for many of their customers, they have too many and too complex processes. Banks touting "payment outsourcing", which is little more than file transfer, show how far from holistic their view is. SSCs can typically take care of everything after order initiation for their internal business colleagues.

"Based on the evidence from the worlds of SSC and cloud, the platformisation of back office business processes seems inevitable.

Even if banks were to offer deep integration into client ERPs, it is not obvious that clients would even want this, especially since for most that would mean integrating multiple banks. Given how difficult it is to get banks connected for basic payments and statements, many corporates will be understandably sceptical about deeper integration.

Once business process platforms begin to scale, they will provide service quality and scale economies currently unthinkable for any but the largest companies. This will allow platform users to better satisfy their customers, while reducing prices so that they will out-compete companies who still do everything in-house.

The current bank focus on pushing product and the narrow focus on the banking end of corporate processes will not result in end-to-end process handling. It is not clear in any case that they can overcome challenges like legacy systems, regulatory constraints and bloated cost structures and compete against nimbler tech companies attacking this space.

Whither business platforms?

If we look at what is happening with the new virtual banks and existing e-commerce platforms, we can get some inkling about what business platforms might look like.

Virtual banks often use data analytics to predict customer needs. For example, when you go to the supermarket you might normally spend US$250. If your balance is less than US$250 the virtual bank may offer you on the fly credit and warn you if you spend more than US$250. Large e-commerce platforms routinely use the data they have on businesses on their platforms to inform them of credit decisions and flag potential problems. They can offer foreign exchange conversion as well as price list hedging.

Businesses using such platforms will not have to explicitly worry about banking, risk management, accounting, payroll and so forth. And just as cloud platforms today already get updated more or less continuously, business platforms will also likely continue to evolve in terms of their own functionality as well as in relation to API integrated specialist services.

Some might object that such things are too important to outsource. But then we used to think that about IT technology, however we have now largely accepted the move to cloud. Business platforms of the future will probably combine ERP, banking, payroll, taxes, insurance and so forth in one integrated platform, together with multi-functional APIs to integrate with customers and vendors.

And they will not need to do it all themselves. They can connect with APIs to best of breed service providers for banking, accounting, payroll insurance and so on.

Conclusion

Based on the evidence from the worlds of SSC and cloud, the platformisation of back office business processes seems inevitable. The benefits of scale economies and service quality that business platforms will offer will force companies to platformise or die. This will seriously change corporate banking and corporate treasury. Most banking is likely to be commodity services provided directly to business platforms. Treasurers will have to migrate away from back office towards core business.

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.

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INSIGHT & ANALYSIS

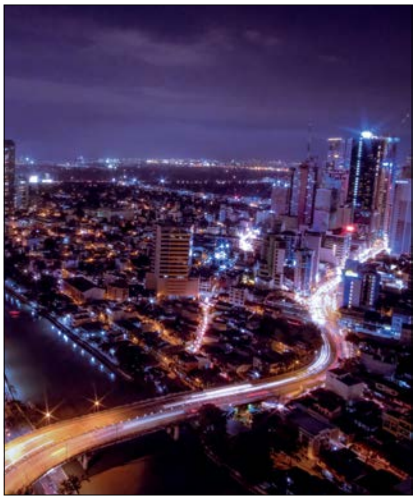
TPP: what next after the US blowout?

President Donald Trump's decision to withdraw the US from the Trans-Pacific Partnership has strategic implications for the 11 countries remaining in the Pacific Rim trade bloc. The US blowout has generated uncertainty about America's economic influence in Asia Pacific, creating fresh challenges for corporate treasurers as they look to best position their firms amid the changed landscape.

RISK MANAGEMENT

AI in fraud and compliance

The traditional models of analysing data when it comes to fraud detection and compliance monitoring are becoming increasingly challenging, given the amount of data being created. We look at how AI can be used to drive greater efficiency and accuracy in these processes and probe the challenges that its adoption may present.



COUNTRY FOCUS

Philippines proving a magnet for investment

Both the IMF and World Bank are upbeat on outlook for the Philippines, which experienced robust FDI inflows last year. According to the UN, the country has been one of the top destinations for FDI globally over the last two years. With rules being further relaxed on foreign investment, treasurers are increasingly attracted by the country's long-term investment potential.

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

Vipul Sardana, Global Head of Trade Finance, Maersk; James Zhan, Director of Investment and Enterprise, UNCTAD; Chua Hak Bin, Analyst, Maybank; Lee Ju Ye, Analyst, Maybank; Abel Martins Alexandre, Head of Commercial Treasury, Rio Tinto; Richard Shaw, Director Treasury at Prudential; Johan Larsson, Senior Cash Manager, Volvo; Amit Grover, AP, Regional Cash and Banking, APAC, General Electric; Catherine Yu, Regional Controller APAC, Herbalife Nutrition; Michael Wilkins, Head of Sustainable Finance, S&P Global Ratings; Ines Faden, Treasurer, Tideway; Adam Richford, Group Treasurer, Renewi; Gunjan Chauhan, Head of EMEA Cash Business at State Street Global Advisors; Louise Watts, Founder, Transition Hub; Aidan Shevlin, Head of Asia Pacific Liquidity Fund Management, J.P. Morgan Asset Management; Lewis Sun, Regional Head of Product, Global Liquidity and Cash Management, HSBC Asia Pacific; François-Dominique Doll, Director, Global Treasury Advisory Services, Deloitte; Alan Huse, Head of Payments and Cash Management, ANZ; Venkat ES, Head of Asia Pacific Treasury Product Management, Bank of America Merrill Lynch; Charles Evans, Head of Funding and Middle Market Sales, Markets, ANZ; Kheng Leong Cheah, Head of Global Liquidity Sales, Asia Pacific, J.P. Morgan Asset Management; Pieter Sermeus, Manager, Zanders; Dan Gill, Senior Director, Redbridge Analytics; Peter Dong, Global Cash Manager, World Vision International; Kimberly Floyd, Associate, Global Treasury, World Vision International; Julian Roche, Consultant, Redcliffe Training; Benny Koh Leader, Global Treasury Advisory Services, Deloitte Southeast Asia; Aida Mosira Mokhtar, Director, Global Treasury Advisory Services, Deloitte Malaysia; Jason Teo, Interim Treasurer, CFLD International, Singapore; David Blair, Managing Director, Acarate; Nick Campbell, Head of Product Strategy and Innovation, Fraedom; Michael Vrontamitis, Head of Trade, Europe & Americas at Standard Chartered; Varoon Mandhana, Senior Advisor, APAC Solutions, Treasury Services, J.P. Morgan.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