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ASIA



Navigating diverse markets

Asia has some attractive growth opportunities available, but being home to 60% of the world's population means there are huge cultural and regulatory differences. How can treasurers navigate this complicated region?



The Corporate View

Nitin Jain

Head of Treasury and Capital Markets
Agrocorp



Women in Treasury

Aigerim Bekzhanova

Business Controller
Vanderlande

Treasury Practice

Striking a balance: managing capital structure

Regional Focus

Entering the GCC region

Risk Management

Managing operational risk

Back to Basics

The dos and don'ts of bank relationships



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EA to the Publishers
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Circulation Assistant
Tracey Iveson

Digital Content Manager
Joanna Smith-Burchnell

Senior Designer
Dawn Ingram

Founder & Director
Angela Berry

Chair
Richard Parkinson

Switchboard +44 (0)13 0462 9000
Publishing +44 (0)13 0462 9005
+44 (0)79 4665 6656
Memberships +44 (0)13 0462 9013
Advertising +44 (0)13 0462 9018
Editorial +44 (0)13 0462 9003
Production +44 (0)13 0462 9019

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memberservices@treasurytoday.com

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Black swans

Coined by Nassim Nicholas Taleb in his 2008 book, *The Black Swan: The Impact of the Highly Improbable*, the term 'black swan' is understood to describe an event that is unexpected; that brings major consequences; and that later comes to be rationalised as something that could have been predicted. It has been applied to various events, such as the dotcom crash of 2000, the 2008 global financial crisis, and the 2011 Fukushima nuclear disaster.

At the time of writing, the term is being applied by some to the outbreak of a novel coronavirus, Covid-19, that started in the Chinese city of Wuhan but has already had widespread consequences for people and businesses around the world. Tens of thousands of people have been infected by the disease, while millions have been subject to lockdowns in China. Our thoughts are with everyone affected by the outbreak.

Treasurers across the region will be keeping a close eye on these unfolding events. While the outbreak only began a matter of weeks ago, the economic impact is already being felt, with countries across the region downgrading their economic growth forecasts. Supply chains are being disrupted, with factory closures in China affecting companies around the world, while sectors ranging from travel to luxury goods are seeing a considerable impact. Where workforce matters are concerned, many businesses are also taking steps to minimise travel for their staff.

As they navigate these uncharted waters, treasurers will be working to understand the impact of the outbreak on their own organisations, from supply chain interruptions to the implications for FX risk, liquidity management and cash flow. At the same time, they will of course continue to focus on their existing challenges and responsibilities.

This issue, we take a close look at some of the areas that fall within the treasurer's remit, from managing bank relationships to mitigating operational risk. We also explore the treasurer's role in managing the company's capital structure, and how this activity may be affected by ongoing market conditions.

Delving into the challenges faced by commodities businesses, Nitin Jain, Head of Treasury and Capital Markets at Agropur, explains how the company developed a distributed ledger technology platform to unlock supply chain value and support thousands of farmers in Canada and Australia.

Last but not least, this issue's Insight & Analysis article takes a wide-ranging look at the broader challenges that treasurers face in Asia's diverse markets, and what they can do to overcome the obstacles and operate as efficiently as possible across the region. In this challenging time, actions like streamlining processes, managing risks effectively and maintaining strong bank relationships will be more essential than ever. Treasury Today Group will be bringing the APAC treasury community together via our webinars, events and content throughout the year.

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Companies are continuing to focus on growth opportunities in Asia Pacific – but how can treasurers best tackle the complexity associated with the region's diverse markets?

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Aigerim Bekzhanova

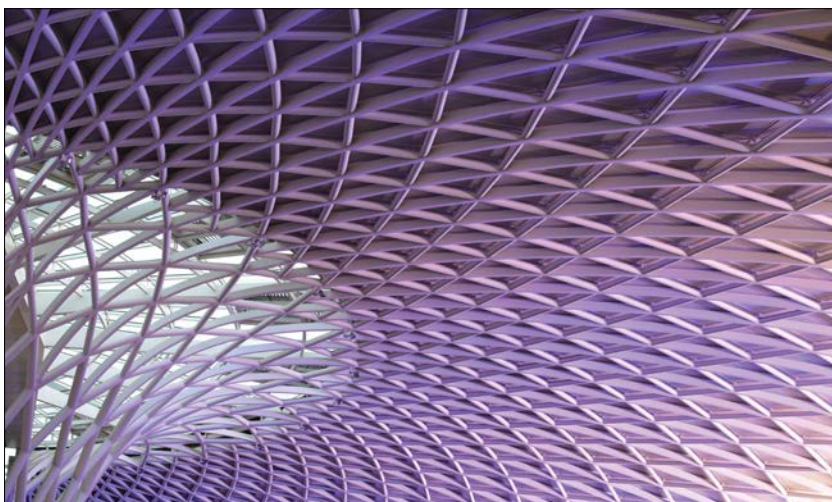
Business Controller

VANDERLANDE

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Nitin Jain

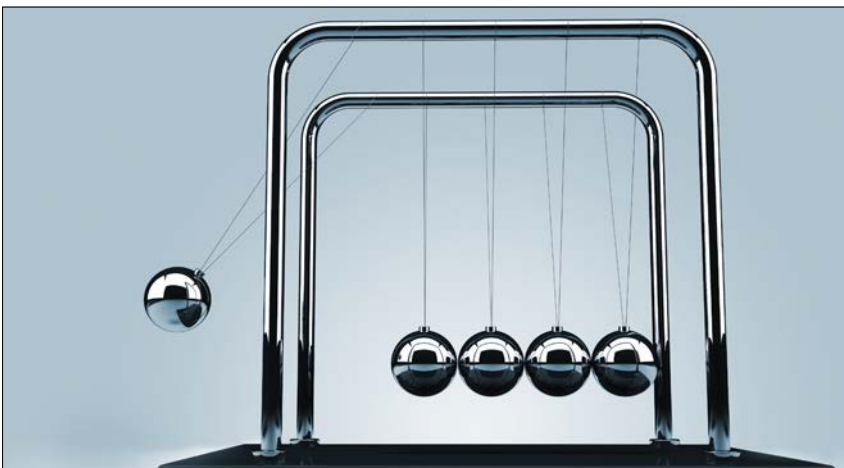
Head of Treasury and Capital Markets



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GCC: what should treasurers know about this region?

The GCC is a fast-growing and attractive region, but what do treasurers need to know before entering it?

Navigating complexity in diverse markets

Despite global tensions, growth in the Asia Pacific region is forecast to remain strong in the decade ahead. However, there are marked differences across the region in terms of regulations, market practices, languages and currencies. How can treasurers best manage the challenges brought by Asia's diversity?

As a region, Asia Pacific is nothing if not diverse. Home to 60% of the world's population, the region includes a heterogeneous collection of countries, currencies, cultures and languages. And where treasurers are concerned, the region's diversity presents considerable challenges in the form of diverse tax regimes, regulatory requirements and liquidity management practices – alongside attractive opportunities for growth.

"The Asian markets present growth opportunity to most businesses and industries," says Adesh Sarup, Head of TB, North Asia, ANZ Institutional. "The region consists of 25+ different markets, c. 57% of the world's population and consumers – including some of the largest economies in the world, together with some of the most rapidly emerging. It is also a highly attractive region for manufacturing and procurement."

Harnessing these growth opportunities has, of course, long been a focus for companies in the region. "Growth remains a critical objective for most companies, even though some Asian economies are showing signs of slowing down," says Faisal Ameen, head of Asia Pacific Global Transaction Services, Bank of America (BoFA), adding that companies are keen to leverage Asia's expansion to drive growth in their operations globally. "They are also looking at repositioning their businesses in the wake of a shift in trade corridors, relationships and exploration of new supply chain locations," he notes.

"While Asia's growth may have slowed as compared to a few years back, it remains a key growth driver for most global MNCs," Ameen continues, noting that the World Economic Forum (WEF) has predicted that Asia's GDP will overtake the rest of the world combined in 2020. "The key difference is companies are now starting to look beyond China and India at some of the emerging economies like Vietnam and the rest of Southeast Asia."

Consequently, Ameen predicts that companies headquartered in Asia will continue to look for growth opportunities within the region, and even more so in other parts of the world. "This trend underlines the continued emergence of Asia MNCs," he says.

Sarup, likewise, notes that the last decade has seen a growing list of Asia MNCs, which "often have the advantage of understanding the Asian markets better". He adds, "Many

such companies in Asia are also evolving their respective treasury and supply chain models to enable further growth."

Barriers to growth

But while companies continue to focus on growth opportunities, it's also clear that economic conditions have moved on since the very high growth rates experienced by China and India in previous years. In India, a decline in consumer spending and a reduction in factory output contributed to a reduction of GDP growth to 4.5% in the quarter ending September 2019 – the first time in seven years that GDP growth has fallen below 5%. Meanwhile, the China-US trade war has contributed to a reduction of GDP growth in both economies, with China's GDP growth slowing to 6.1% last year, down from 6.6% in 2018.

Against this backdrop, the prospect of slowing growth in emerging markets – or indeed a global recession – is one that treasurers are keeping an eye on. In a survey carried out at the 2019 J.P. Morgan Asia Pacific CFO and Treasurers Forum in Shanghai, respondents identified top risk factors as a potential global recession (30%), the impact of global tariffs (27%) and an emerging markets slowdown (24%). Other concerns included cyber threats (10%) and the impact of Brexit and the future of the Eurozone (9%).

More recently, economists have downgraded 2020 growth forecasts in light of the current outbreak of the new coronavirus, Covid-19, with some predicting China's first quarter growth could drop to as low as 3%. Other economies expected to be affected by the outbreak include Australia, which is also counting the cost of the recent devastating wildfires.

Shifting sands

Since the term BRIC was first coined to encompass the fast-growing economies of Brazil, Russia, India and China (and later expanded to BRICS to include South Africa) numerous other acronyms have been deployed to group other emerging markets together, such as CIVETs (Colombia, Indonesia, Vietnam, Egypt and Turkey) and TICKS (Taiwan, India, China and South Korea). There continues to be considerable interest in pinpointing markets which have the potential for rapid growth – although different companies will

US-China trade war: where next?

The 18-month trade war between the US and China has been a key topic for treasurers in Asia and beyond. Since January 2018, the US has imposed or proposed tariffs on US\$550bn of Chinese goods, while China has retaliated with tariffs on US\$185bn of US products.

President Trump began imposing tariffs in January 2018. Initially focusing on washing machines and solar panels, the tariffs rapidly multiplied to include steel and aluminium. China responded with tariffs on US goods, ranging from soya beans to whisky. In July 2018, the US announced further tariffs on US\$200bn of Chinese imports. Despite the two countries calling a truce in December 2018, last year brought additional tariffs alongside the continuing negotiations.

On January 15th 2020, a possible breakthrough came with the US and China signing the Phase One Deal. Under the terms of the deal, the US has committed to halving the tariff rate imposed on US\$120bn of Chinese goods in September 2019, with other tariffs to be potentially removed under a Phase Two Deal. Other tariffs that had been due to come into effect have also been suspended. China, meanwhile, has agreed to increase purchases of US goods and services by US\$200bn over the coming two years. Other conditions include restrictions on currency devaluations and increased protections for intellectual property.

The actions agreed in the Phase One Deal are already under way, with China halving tariffs on US goods worth US\$75bn in February. But while the agreement has been welcomed, a White House official has warned that the current outbreak of Covid-19 could have an impact on China's planned purchases of US agricultural products this year.

In the meantime, companies have been taking action to protect themselves from global supply chain disruptions. Thirty-four percent of respondents to a poll carried out at the 2019 J.P. Morgan Asia Pacific CFO and Treasurers Forum in Shanghai said they were exploring price options with suppliers, while 32% said they were sourcing alternative supplies. Fifteen percent said they are shifting production from China to other countries.

have different priorities when it comes to identifying the most interesting markets.

ANZ's Sarup says that despite macroeconomic factors and geopolitical tensions playing some part in tactical activity shifts, "each market presents growth opportunities that will be of interest to different industries and businesses. Our view is that there are clusters of markets that will be 'hotspots' depending on the business or the industry."

Among the factors contributing to this are dependency on technology and changing consumer behaviour, including the development of online marketplaces, demand for faster and more secure digital/internet capability and changing consumer choices, with a greater focus on healthier and more sustainable food, Sarup says.

Where specific markets are concerned, BofA's Ameen notes that shifting supply chains are supporting steady trade growth in Southeast Asia. "The region continues to develop increasing manufacturing capacity, infrastructure and talent to support their growth," he says. "Vietnam and the Philippines in particular are expected to emerge as key beneficiaries."

Ameen also says that India will be interesting to watch this year. "Growth is slowing and inflation is rising, but at the same time, there is a shift towards increased manufacturing capacity and expertise," he says. "This could drive corporates to look to India as they consider continued diversification away from China for their supply chains."

Technology is another major consideration when it comes to growth. According to Ameen, the rise of the digital economy and ever-expanding coverage of unserved populations will also be a key consideration – "particularly in markets such as India and Indonesia, which have a huge population of the middle class entering the global economy."

Complex landscape

Alongside the opportunities presented by high-growth markets, Asia is also characterised by considerable diversity. As Jason Tan, Regional Head of International Countries, Global Liquidity and Cash Management at HSBC observes, some say the diversity across Asia does not provide a consistent way to do business – "but Asia as a market is very different from its more established European and American counterparts – notably, in terms of its growth stage."

Tan points out that the diversity of Asia Pacific allows international corporates with a global footprint and an in-depth knowledge of regulators and market practices to support the growth of this dynamic region. "This is particularly relevant to cash management, where that insight is there to help navigate the diversity, including local regulations and local payment infrastructures," he adds.

For treasurers, the region's diverse market conditions and business practices bring numerous challenges. For one thing, the region encompasses a multitude of regulatory environments, with different rules on areas such as accounting, tax and know your customer (KYC), as well as industry-specific regulations. What's more, the pace of regulatory change can be very rapid in some markets, meaning that companies need to work proactively to stay on top of upcoming developments.

Likewise, where liquidity management is concerned, treasurers operating in Asia will find the complex landscape can make it difficult to gain visibility over cash in different countries. What's more, different countries will have different rules about cash management structures such as physical and notional cash pooling, making it difficult to consolidate cash balances and thereby reduce borrowing or maximise interest. In more highly regulated jurisdictions, treasurers will need to address the challenges brought by trapped cash.

Other challenges faced by treasurers in the region include:

- Numerous currencies and diverse hedging techniques.
- The adoption of real-time payments, with varying levels of maturity in different locations.
- Trade-related risks and shifting relationships as a result of geopolitical considerations.

In addition to these obstacles, Sarup points out that treasurers also have to navigate the risk of sudden business changes, such as adjustments to the business model as a result of geopolitical factors. “Another example is the risk imposed by cyber threats and events – both these can vary widely in different Asian markets,” he says.

Overcoming the obstacles

Fortunately, there are plenty of steps that treasurers can take to address these issues. For one thing, technology can be a powerful tool when it comes to achieving greater efficiency across the region. Vijay Shankar, Head of TB ASEAN & India and Head of Regional Sales, ANZ Institutional, says that treasurers can mitigate challenges “by implementing an effective treasury management system (TMS) platform by integrating real-time API feeds from ERPs and banking platforms.”

Ameen, meanwhile, argues that technology “is no longer an enabler” but has become a key driver behind businesses, citing the adoption of API technology to connect treasury with bank systems for real-time interaction and exchange of information. “Companies can leverage technology such as AI and machine learning to drive automation,” he says. “This reduces dependency on human intervention, and with digitalisation, processes can be shifted across borders more easily.”

Other strategies treasurers can use to overcome the challenges of Asia Pacific’s diverse landscape include:

- **Stay informed.** BofA’s Ameen says treasurers should look to their banking partners as a good source of information, alongside industry sources such as news outlets, associations, forums, journals and newsletters. “Besides regulations and local practices, banks can also provide case studies which provide useful insights into how other companies are managing similar issues,” he says.

Shankar, meanwhile, notes that treasurers have multiple sources to consult. As well as banking partners, he cites companies’ empanelled legal/tax advisors, well-established consulting companies, government and industry trade associations, companies’ country CFOs and company secretaries, consulting websites – “and finally, practical experience of being in the industry from local management.”
- **Build strong bank relationships.** Ameen points out that a company’s choice of banking partner is important when it comes to addressing the challenges, noting that treasurers “can leverage the expertise of their banking partners, who can provide insight to industry and market trends such as cyber-security and fraud trends.” In addition, he says, treasurers should aim to understand their banks’ technology and innovation roadmaps for the next five years “to see how they can harness emerging technologies to help them stay on top of changes.”



It is critical for treasurers to stay ahead and act quickly to manage the changes that would impact their businesses.

Faisal Ameen, head of Asia Pacific Global Transaction Services, Bank of America

- **Be flexible.** Ameen notes that treasurers should remain flexible, “so they can respond quickly to any changes in the regulatory environment and market, given the uncertain macro backdrop.”
- **Hedge effectively.** Shankar says that treasurers can leverage low-cost funding options by “hedging base currency with effective deposit optimiser solutions offered by banks.” He also notes that adopting “optimum and effective hedging solutions” can address short to medium-term geopolitical uncertainties.

Characteristics of a successful treasury

Given the diverse conditions of Asia Pacific, there are a number of characteristics that a successful treasury team is likely to possess. BofA’s Ameen notes that agility is key: “Today, changes are taking place at a faster pace. It is critical for treasurers to stay ahead and act quickly to manage the changes that would impact their businesses.” He also emphasises the importance of having a clear roadmap of the treasury’s role, clearly articulated and supported by senior management, as well as the adoption of technology to automate and reduce manual tasks.

ANZ’s Shankar, meanwhile, says the following steps may help treasurers navigate Asian markets:

- Having an efficient shared service centre to drive a consistent, accurate and standardised approach to processing.
- Establishing a regional treasury centre in Singapore or Hong Kong to manage liquidity pools and implement a hedging strategy to mitigate risk.
- Implementing optimum cost-effective working capital access to operating entities in Asia.
- Establishing a regional multi-currency long-term borrowing programme to complement group capital induction.
- Leveraging bank-agnostic technology such as SWIFTNet, APIs, host-to-host connectivity and RPA.

Conclusion

It’s clear that Asia Pacific is characterised by both attractive growth opportunities and the challenges brought by the region’s diverse countries, currencies and regulatory regimes. For corporate treasurers, taking advantage of the former will also involve spending time addressing the latter – but by harnessing opportunities for centralisation, building robust relationships and harnessing technology effectively, treasurers will be well placed to overcome the challenges.



Leading the technological charge

Nitin Jain

Head of Treasury and Capital Markets



While treasurers may not always be the first to adopt new technologies, today's technology landscape has plenty of innovation to pique the interest of forward-looking treasury professionals. So with a Bachelor's degree in Engineering and Computer Science, it's no surprise that Nitin Jain, Head of Treasury and Capital Markets at Agroc Corp, is working to make sure that his treasury department is up-to-date with the latest developments.

Founded in 1990, and headquartered in Singapore, Agroc Corp International is one of the leading integrated agricultural commodity and food solution providers in the world. Nitin Jain, Head of Treasury and Capital Markets and blockchain enthusiast, is responsible for ensuring everything runs smoothly for millions of dollars' worth of transactions every year.

Jain has quite some experience when it comes to digitising manual processes. His first roles were in banks in India which were specifically hiring for someone to streamline paper-based processes within areas including treasury and trade. Following those roles, Jain moved to global conglomerate Cargill as Treasury Manager – the first time that the company had hired a technology expert in treasury.

"The idea was to see how we could deploy systems which would enhance the working capital cycle," says Jain. "Most of

the finance people who work in treasuries look at negotiating interest rates with banks and seeing how cheaply they can access funding. But my focus was on reducing our cycle time by using technology."

Joining Agroc Corp

After six years at Cargill, and five years as Treasurer of Xangbo Global Markets, Jain joined Agroc Corp last year as Head of

Treasury and Capital Markets – a role in which he has focused closely on optimising working capital.

“If you look at any commodity business, it has three basic pillars: credit, transferring payment, and the logistics business – which basically means supplying goods from one place to another,” he explains. “At Agrocorp, we cover 22 countries and shift around 11 million metric tonnes of commodities globally throughout the year, which in value terms is about US\$3-4bn across the continent.”

Jain explains that the key challenges in any commodity business include reducing the working capital cycle and the cost of transactions. As such, one of Jain’s key focuses has been finding a way to use technology to allow for optimal interactions with banks, clients and shipping companies. “We’re trying to unlock the value in the supply chain,” explains Jain. He adds that this isn’t being achieved by reducing interest rates from banks, or by giving suppliers more credit, but by unlocking the working capital cycle.

The power of DLT

This has been achieved by the adoption of a distributed ledger technology (DLT) platform, developed by Agrocorp in partnership with DBS Bank and blockchain technology provider Distributed Ledger Technologies (DLT.SG) – a solution which was recognised as Best Fintech Solution in the 2019 Adam Smith Awards Asia. Using the solution, Agrocorp enables farmers to receive payments for their goods sooner, with a number of banks providing funding.

“We cater to about 4,000-5,000 farmers in Canada and Australia,” explains Jain, noting that individual contracts can range from thousands to millions of dollars. “The idea is that every contract is signed digitally, and that information goes on to the banks, then to the shipping agency, then to the insurer, and so on. Everybody gets the same view of the information, and at any point in time we have a clear view of what the status is.”

This platform saves a lot of paperwork – not only on the trade side, but also for interactions with the banks, which are now largely digital. “Most supply chain finance programmes are actually not bank agnostic,” comments Jain, adding that under the previous process, the business had not been able to serve smaller customers or high transaction volumes. “When we use technology right, we can now plug in a US\$1,000 farmer financing programme, which was previously impossible,” he says.

According to Jain, implementing these processes has enabled the treasury team to reduce working capital by 15-20%. He emphasises that by adopting this solution, Agrocorp hasn’t just unlocked working capital, but has also reduced time spent on the physical movement of contracts and sending multiple applications to banks, as well as achieving savings on courier and documentation charges.

Agrocorp’s focus on helping the entire supply chain has produced other benefits as well. “We have become the partner of choice to every farmer,” explains Jain. “They get to see when they’re going to get paid, what is the status of the contacts, where the shipment is happening, whether the request has been sent to the bank or not.” In addition, the company is now able to track where goods have come from – and as Jain points out, end users are increasingly willing to pay a premium for being able to identify the origin of goods.

Sustainability at Agrocorp

Agrocorp is a strong believer in sustainability, and the adoption of eco-friendly work practices is central in the execution of all work streams across its business. “The partnership with DLT.SG supports our sustainability initiative, as it allows us to bring the entire supply chain in an ecosystem using a blockchain technology and application programme interfaces (APIs) together, to fill the gap in supply chain networks, eg traceability and transparency,” Jain explains.

With the blockchain functionality comes a seamless ability to identify, track and trace movements along the supply chain. At the same time, disclosure of data and information is enhanced. As sustainability becomes an increasingly popular area of interest for end customers, the sourcing of where products originate from has become a priority. This includes who we source from, when we source, and what is actually sourced.

The blockchain platform addresses these concerns and provides visibility on how the end products (from plantation to finished product) to the end customers are actually traceable and proven to be sustainable. Blockchain provides a network for all people involved in the supply chain to be digitally connected.

A smooth-operating treasury

Turning to the evolution of the commodities space, Jain observes that while companies themselves may be growing in size, the number of people trading commodities for those companies is shrinking. “We don’t have very big teams in the commodity sector any more – for us, the number of people in the entire process globally is 10-20,” Jain points out. “What that means is that you get to be involved in structuring processes and getting processes implemented across various geographies.”

But as in other sectors, soft skills are also important for treasury professionals. When it comes to his team, Jain has one specific quality he looks for in employees: empathy. “You are acting like an internal bank to the business providers, and you have to empathise with the business,” he explains.

A close second quality is innovation. The leaps and bounds made with technology in just the last decade mean that Jain is on the lookout for people that can offer the freshest ideas. “From a treasury perspective, I look for people who can think outside the box and look for solutions that can provide a competitive edge to the business,” he says.

Risk management

Naturally, risk management is a major consideration for treasurers in the commodity space. Agrocorp deals in commodities that are traded on exchanges which have deep liquidity, such as wheat, corn and soya beans, explains Jain. The company also deals in some commodities that do not have any hedging mechanisms, especially pulses, oilseeds and nuts. “The risk management for each set of commodities is very different,” he says.

Jain notes that in previous organisations, he encountered the view that the only commodities worth getting into were the ones for which exposures could be hedged on the market. “Some trading companies have strong guidelines on dealing in commodities that only have a hedging mechanism – whereas some other companies look at this as a positive, and

want to work in places which don't have an exchange-driven market," he explains.

Modernising bank relationships

During his career, Jain has noted a significant shift where bank relationships are concerned. In the past, he says, "for every transaction, we used to approach the bank via phone or email." Communications with banks could be difficult, owing to the fact there was no dedicated communication system.

Since implementing the blockchain platform, however, Jain says that the company's bank relationships have become "very contextual". For example, if a transaction involves obtaining a code for a particular letter of credit from 30 banks, it's no longer necessary to write emails to those 30 banks. "Every time I input the details into the system, the entire request for code goes out to all the banks," he explains.

When it comes to competing for transactions, Jain says that when a bank isn't approved, it will receive feedback. "We are making banks compete for every transaction on a real-time basis, and every bank gets to know if they are losing business because they aren't competitive enough," says Jain.

The main benefits of this, according to Jain, are the ability to free up resources and access any number of banks with a single click. All interactions go into one system, stopping the cumbersome need for multiple systems interactions, and that system offers such in-depth information that it can benefit the banks too.

"When banks come for a review, we can tell them, 'these are 50,000 transactions that we have sent to your system – you were able to do this; you took this much time to respond on certain transactions,'" says Jain. "We can also tell a particular bank, 'you are good at handling some of the emerging markets risks, but you're not good in terms of pricing when it comes to developed market bank risks.'" By being able to offer such detailed analysis, Agrocop is able to eliminate a lot of inefficiencies and effectively handle relationships with multiple banks.

Technological treasury

Given Jain's technology background, it's no surprise that he has a history of embracing opportunities for efficiency whenever they arise. "About three years back, most of our processes were Excel-based. I saw this as an opportunity," says Jain. Learning from his experience in other roles – not least how costly it can be to implement new systems – Jain is now looking to set up a "new-age ERP system" which can offer real-time tracking of every shipment.

"The legacy system can only talk about if an invoice has been created – it won't talk about whether it has been signed by the counterparty, or whether we have taken insurance on that commodity, or what is the status of the goods," he explains. He adds that where commodity trading is concerned, ERPs only handle information once a trade is completed – meaning there is a distinct lack of insight on all the processes in-between.

Agrocop is currently in the process of implementing a new TMS, and Jain hopes that the new system will be able to extract more information from the DLT platform, as well as providing a more real-time view of the company's cash flows.

Alongside this, Jain notes, the new system will have much more accurate cash flow forecasting. "There is a lot of 'garbage in and garbage out', because treasury takes information from the ERP, which talks about contract dates, but doesn't have visibility over shipments and cannot project the cash flow correctly," he explains. "The system we're trying to implement involves real time tracking on shipments and payment to improve cash flow projection. When the information goes into our TMS, we need to be quite certain that whatever we have projected, we are going to get."

A key question to ask for the success of any ERP or TMS is 'how enriched is your information?', says Jain. "We are spending a lot of time getting the processes right, and trying to loop in all that information from the DLT blockchain platform into our legacy system – from FX, risk, cash flow, and funding standpoints – to get our TMS to give us a holistic picture."

Predicting the future

Looking forward, Jain says that innovation will be key to the future of capital markets. "One of the key things we're looking at for the next couple of years is that once digital bonds and the digital issuance of commercial papers become a reality, we may be able to attract global investors, reduce our cost of capital and have an ordered base of investors."

Where liquidity management is concerned, Jain believes the complexity involved in dealing with multiple banks will be a key challenge to overcome in the future. "When we deal with multiple banks – especially placing surplus funds in fixed deposits – there is no platform from which you can seek information from multiple banks on a real-time basis." He's hoping that either the regulators or a consortium of banks will get together to change this. "I want to see banks able to provide us with a deposit quote or an investment quote, on a platform, so that we can pick and choose."

When it comes to predicting the future for trade finance, Jain believes paperless processes are on the horizon. "A lot of processes have been digitised already, but we haven't seen some of the key players – such as the shipping agencies and the ports – becoming digital," he says. But with pilots currently being conducted in various geographies, he's hoping that it won't be long before the entire industry becomes paperless.

A finance and family man

Away from the office, Jain says he is a blockchain enthusiast who enjoys trading crypto-assets. The crypto-market is 24/7, he explains, and as a result he can always find time to do that as well as spending time with his family.

Achieving the right balance isn't always easy. When Jain's career started taking off, his children were much younger, and he acknowledges that finding a healthy work-life balance was something of a challenge initially. "Not every day is the same – you will always have month-ends, quarter-ends and year-ends, which can mean you are getting home late at night," he remarks.

By having the right processes in place, and by setting up people to be accountable for specific processes, Jain says it is possible to achieve and can maintain a better work-life balance. "But it took me many years to get that process right," he concludes.

This much I know

Aigerim Bekzhanova

Business Controller

VANDERLANDE

Tell us about your career path. Why treasury?

My choice of the finance field was determined by DNA: my aunts and grandfather held accounting and financial roles. In addition, I have a strong background in mathematics which helped determined my choice.

I got my Bachelor's degree with honours in Business Administration and Accounting in Kazakhstan, at an international university which was established when the country gained independence. I had a great opportunity to be educated to an internationally recognised level and to work with some of the best professors from around the globe. I managed to graduate earlier than the normal curriculum and was eager to apply what I had learnt in practice.

After careful consideration of the big four auditing firms, I chose to start work at Ernst & Young, whose clientele covered the majority of major oil and gas firms in the country. I was involved in complex auditing and IPO projects. Those two years at Ernst & Young set an important foundation for my professional and personal development.

During my third year there, I took academic leave to pursue my Master's degree in Accounting and Finance at the University of Edinburgh in Scotland. Upon my return, I made a conscious choice to move from auditing to corporate finance in the oil and gas industry.

Having held different roles in project finance and management in the oil and gas industry in Kazakhstan, I decided to take the next step – a change of industry and country. I moved from Kazakhstan to the Netherlands and after a year and a half I was transferred to the Singapore office, where I'm currently covering the Southeast Asia controlling.

What is your next major objective?

My objective is to further expand my duties regionally. I believe it will boost my professional and personal development further.

What's the best piece of advice you have been given in your career so far?

When I was in audit, we had a golden rule – the 15-minute rule. When you face a challenge, think about it for 15 minutes. If you don't find a solution within 15 minutes by yourself, then seek help. I apply that rule to my whole life now.

If there is one thing you could have done differently in your career path, what would that be?

I strongly believe that whatever happens in life is for the best. All the conscious choices we make will give us the necessary experience and develop particular skills that we might need at some point later in time. I once took on a role of project manager in an industrial automation project, which was quite a shift from my financial background, but developed vital skills that I am still utilising now. All the roles I've taken have helped develop me into a better business partner.

What is your motto in life?

If I can dream it, I can do it.

“Take as many opportunities as you can, but sustainably – so you don't burn out.”

ONLINE

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Overcoming challenges

The biggest challenges facing corporate treasurers, in Aigerim's opinion, come from the localisation of global businesses, and the automation of processes. In the age of artificial intelligence, it is important to plan the human and artificial interface thoroughly in order to create the required efficiency. Additionally, Aigerim says that expanding businesses across the globe brings new challenges: "Cultural and political aspects can be game changers."

However, moving around the world has also given Aigerim the opportunity to learn about other cultures' ways of working – and for her, this has provided one of the biggest learning curves. She explains that moving to the Netherlands meant she had to adjust from Kazakhstan's fairly hierarchical environment to the Dutch trust-based system, before adjusting back to a more hierarchical system when she moved to Singapore.

The key to successfully managing this, she says, lies with a piece of advice given to her from a manager in the Netherlands – "don't be afraid to be vulnerable". She argues that entering into an unfamiliar situation and being open about any hesitations allows colleagues to support you. "When you're in this transition and trying to grow, you have the opportunity to be a bit more vulnerable in the beginning, so that people can see where best they can support you," says Aigerim.

In terms of how treasurers can make their voices heard within their organisations, Aigerim recommends identifying key decision makers and having good relationships at the right levels. "You need to help decision makers by providing valuable insights, but you also need to get insights from others. It's a two-way thing," she says. "Sometimes you can have amazing ideas, but not the ability to raise them properly – so it's about making sure you have the right communication techniques and adjusting them accordingly."

That said, Aigerim notes that one of the biggest challenges for women in the workplace is around achieving a work-life balance. "Make sure you have the right balance so you can enjoy your work and also your personal life, and live up to values and priorities by developing your own vision and enhancing it," she advises. "Especially in a professional environment, I try not to differentiate by gender. There are common success factors for both genders, but my advice, especially for women, would be to be true to themselves and build the right platform for being heard."



All the conscious choices we make will give us the necessary experience and develop particular skills that we might need at some point later in time.

Developing yourself

Looking back at her career, Aigerim believes education is important, and she encourages junior treasury professionals to learn as much as they can via different means: on the job, self-learning, and certifications and qualifications, for example. "Learn on the go and take offered opportunities to develop your unique and authentic approach to handling things," she says. Additionally, she believes that the beginning of a career is important when it comes to setting good habits. "Building up your relationships, handling your resource management or time management," she adds.

In order to move forward though, Aigerim notes that experience is a necessity – both having it, and actively seeking it out. "Take as many opportunities as you can, but sustainably – so you don't burn out."

Additionally, Aigerim notes that confidence is important. "Just know that you're good enough to take any opportunities that are offered. I believe that it only lands on your desk once you are ready to handle it." For women especially, she encourages individuals to ask for the challenges they think they're ready to take. "Take your development into your own hands," she concludes.



Aigerim Bekzhanova is the Business Controller for Vanderlande Airports and Warehousing & Parcel (South East) Asia, based in Singapore.

Aigerim joined Vanderlande in the Netherlands in 2017. Before Vanderlande, she had ten years of extensive cross functional experience in the oil and gas industry in Kazakhstan, where she held varying roles from auditor at Ernst & Young to corporate commercial roles in oil production and industrial automation. She has a Bachelor and Master's degree in Accounting and Finance.

Managing capital structure

When it comes to optimising the company's capital structure, it's important to strike the right balance between debt and equity and ensure the company has the flexibility needed to harness growth opportunities. How can treasurers in Asia approach this important task, and what factors do they need to take into account?

Having the right capital structure in place is essential when it comes to supporting a company's growth, achieving the flexibility needed to accommodate any unexpected bumps in the road, and harnessing opportunities for M&A when they arise. It also represents a significant consideration within a company's overall approach to risk management.

For corporate treasurers, managing capital structure is an important area of responsibility, from striking the right balance between debt and equity, to making decisions about dividends and understanding the tax implications of different financing instruments. What's more, given that the company's capital structure can evolve over time, it's important for treasurers to keep a close eye on market conditions and any developments that may necessitate a shift in approach.

With this in mind, what considerations should treasurers bear in mind when approaching the task of capital structure management?

Striking a balance

Capital structure is a term used to describe the particular mix of debt and equity that a company uses to fund itself. A company's business operations, acquisitions and capital expenditures can be funded using a variety of sources, including equity (ie selling shares to raise capital) and debt (ie borrowing funds via debt instruments such as loans or bond issuance).

Different companies will approach this differently depending on factors such as the company's size and industry, as well as the current macroeconomic environment. There are, of course, some important differences between the different sources of capital, such as:

- **Cost of funding.** Broadly speaking, equity is a more expensive funding source than debt, as investors take on a higher risk than when lenders provide debt funding.
- **Leverage.** Despite this, companies that take on high levels of debt experience a higher cost of debt due to the greater probability of default.
- **Accountability to shareholders.** Shareholders own a portion of the company, meaning they will need to be consulted on certain decisions, whereas debt financing doesn't give the lender control over the company.
- **Impact on cash flow.** Regular debt repayments may adversely affect cash flow, whereas equity doesn't include specific repayment obligations.
- **Tax deductibility.** Interest paid on debt is usually tax deductible, unlike dividend payments on equity shares.

- **Risk in the event of liquidation.** If a company goes into liquidation, a hierarchy is in place to determine which creditors are paid back first. Shareholders are at the bottom of the list and are therefore the last group to be paid.

When it comes to determining the optimal capital structure for a particular business, a number of factors will need to be taken into account. Venkat ES, head of Asia Treasury Products, Global Transaction Services at Bank of America (BoFA) explains: "A company's capital structure can be dynamic as it is dependent on shifts in its internal policies, local regulatory requirements (such as minimum or maximum shareholding), tax environment and liquidity situations (HQ and local), profitability, and commitment to local markets."

In practice, many companies will opt for a capital structure that includes both debt and equity components. The relative proportions of debt and equity used by a company will determine its weighted average cost of capital (WACC), a calculation which states the weighted average of the company's cost of equity and cost of debt. Traditionally the rule of thumb is that the best capital structure is the one which provides the lowest WACC. However, this is not set in stone, as David Blair, Managing Director, Acarate Consulting, explains in the box on page 14.

The treasurer's role

Overseeing the company's capital structure is an important element of the CFO's responsibilities. PwC's 2019 Global Treasury Benchmarking Survey, Digital Treasury – It takes two to tango, said that capital structure is a priority for 100% of CFOs – joint first with cash flow forecasting, and ahead of funding (98%) and currency risk (69%).

That said, corporate treasurers also have a key role to play in making sure the company's capital structure is the best fit for its needs. PwC's survey noted that an increasing push for internal sources of growth "creates an opportunity for treasurers to think more strategically about capital structure and the balance sheet." Respondents to the survey identified capital structure as the fourth most important priority for treasurers, ahead of bank relationships, working capital, and technology and digital innovation.

"Capital structure management is a key pillar of a company's risk management approach and an important area of responsibility for treasurers," says Sonia Clifton-Bligh, Director – Regional Treasury Services Centre Asia Pacific at Johnson & Johnson. "It examines how we finance the overall operations and growth of the company by using different sources of funds, ie from its own balance sheet, capital raising or loans."

Calculating leverage

David Blair, Managing Director, Acarate Consulting

How have companies traditionally calculated leverage?

Traditionally leverage was determined with reference to the capital asset pricing model (CAPM) and the WACC curve:

- WACC combines the cost of debt and the cost of equity. Equity is generally more expensive than debt, especially after the tax shield on interest (interest on debt is tax deductible, whereas dividends on equity are not tax deductible). However, excessive leverage – ie too much debt – will drive up the cost of equity. This is because higher leverage increases risk, mainly due to the fact that higher interest payments may not be sustainable.
- CAPM allows us to calculate the cost of equity with the (equity) market rate of return, plus the individual stock's beta, which is the volatility of the individual stock compared to the market volatility.
- WACC can be found online and on Reuters and Bloomberg. It's still a fairly standard metric, though there is much academic debate about how exactly to calculate it. WACC is also used for things like corporate investment decisions, such as building factories, developing products and entering new markets.
- Generally, companies with stable revenues can have higher leverage because they are very likely to be able to cover the interest payments. A typical example is power companies, as light and power are always needed.

What's changed?

The current situation deviates from the traditional approach in a number of ways. For one thing, technology companies and other favourites 'always' run net cash balance sheets with no debt and tons of cash. Decades ago, this was because the technology sector was risky and needed a strong balance sheet to survive. Now, these are the biggest companies on the planet (and therefore hardly risky start-ups) and still have an abundance of cash. Academics cannot explain this (certainly not with formulae) and ascribe it to market sentiment and perception.

In addition, interest rates are at historic lows, and have been for a while. This makes it easier to cover interest payments so that companies can have much higher leverage than has been traditional. Creditors therefore have to look at interest cover in the P&L, rather than leverage (ie the debt to equity ratio) on the balance sheet. Of course, when (or if) interest rates revert to historic norms, then many companies will struggle to cover interest payments.

What does this mean for treasurers?

Treasurers can balance all this by managing the balance sheet towards a target rating, which effectively subsumes all the relevant metrics. Obviously, they also have to comply with any covenants on debt outstanding.

For treasurers, the objectives of capital structure management may include maximising shareholder value, achieving the flexibility needed to realise opportunities for M&A, and reducing the cost of capital. In addition, a company's capital structure will need to be sufficiently flexible to suit the organisation's goals and requirements as economic conditions evolve. As such, achieving the right balance is something that will look different to different companies.

"Managing capital structure is a very important activity for a corporate treasurer, although the level of involvement may vary from company to company," says BofA's Venkat. He explains that capital structure has a direct impact on a company's funding strategy, cash flow management, dividend repatriation, and debt management. "It also has an indirect impact on its FX/IR risk management and bank relations if local currency other than its HQ reporting currency is involved, where local bank support is needed especially in some restricted markets," Venkat adds.

What to consider

Optimising the company's capital structure is a task that includes a number of activities and considerations. "The

types of activities that are likely to fall within the scope of capital structure management include defining appropriate borrowing levels to limit loan funding to that which the company can service without causing financial stress," says Clifton-Bligh. "Additionally, decisions on dividend repatriation and capital injection also form part of the capital structure responsibilities of treasurers."

In order to manage capital structure effectively, Clifton-Bligh says considerations include "the risk and cost of debt vs equity; matching cash flows to meet interest and capital repayment obligations, flexibility of those various instruments against the underlying need for financing, and the taxation implications of exceeding debt to equity ratios."

Venkat, meanwhile, says that treasurers need to consider factors such as the following: the company's internal liquidity situation; the level of commitment to local markets; debt and capital market conditions; whether the company is in an expansion or consolidation stage; the local legal/tax/currency control related regulatory requirements, including the ability to repatriate excess liquidity out of the country, tax treatments and key metrics including return on equity, debt-equity ratio, liquidity/current ratio, profitability, dividend paid rate.

Considerations in Asia

For treasurers in Asia, there are also some specific points that they will need to bear in mind. Clifton-Bligh points out that the maturity of the legal and financial environment, as well as the regulations in Asian countries, “may create challenges for treasurers as they conduct their capital structure activities.” She adds that examples of such challenges include “the availability of suitable debt products and tenure to match the company’s requirements, cost, taxation consequences of equity – some countries impose additional taxes on companies that meet a threshold of capital.”

BofA’s Venkat, likewise, says that treasurers may face challenges such as:

- Legal requirements regarding the type of investments, percentage shareholding and local partner requirements.
- Relevant tax regulations.
- Currency control regulations.
- Local management influence.

- Capital support by local banks.

In addition, Venkat points out that capital structure is mainly driven by tax and is restricted by relevant local legal requirements. “Often, changes in market conditions can have considerable impact on the availability and accessibility to capital,” he says. “Corporate treasurers need to stay ahead by anticipating the changes and ensuring that the treasury can carry out critical functions such as liquidity positions, settlements and risk management.”

In conclusion, capital structure management is an important element of the treasurer’s responsibilities. While this is not something treasurers will determine in isolation, pinpointing the right balance between debt and equity – and managing this effectively over time – is key to ensuring a company has the agility needed to respond to evolving market conditions and harness opportunities. The coming months are likely to bring some significant challenges, particularly in Asia, so treasurers should continue to ensure the capital structure in place continues to be the best fit for the company’s needs.

Q&A

Harsha Basnayake, Asia-Pacific Transaction Advisory Services Managing Partner, Ernst & Young

How significant an activity is managing capital structure in terms of the treasurer’s overall responsibilities?

We have always held a view that managing the capital agenda of the business is core to the survival of any management team because it underpins the longer-term success of the business. The capital agenda of any business represents a set of activities relating to: raising or accessing capital for growth or to fund day to day operations; investing or deploying capital to new investment opportunities that may be both organic and inorganic; optimising the use of capital in the business portfolio and preserving or managing the risk and adopting to changes in the business environment.

An efficient capital structure is the output of a well-managed capital agenda. While this should really be on the CEO’s and CFO’s agenda, the treasurer plays a very critical role in monitoring the broader macro-economic activities and balancing the short, medium and longer-term capital needs of the business. The treasurer is best placed to advise on what type of a structure permits the company to be agile, responding to diverse market conditions in managing its overall capital agenda.

To what extent can a company’s capital structure evolve over time?

A company’s capital structure has to evolve over time depending on the growth trajectory it is on. In a disrupted low growth environment, companies have to maintain a high degree of flexibility in their capital structure.

What factors do treasurers need to consider when managing the company’s capital structure?

This is a difficult question as these factors may vary depending on the circumstances confronting the business.

I would expect them to be guided primarily by the capital agenda activities undertaken by the company based on the growth trajectory that the business is on. Business success at the end is measured by the overall shareholder value creation as well as business resilience depending on the circumstances faced by the business – and treasurers present a barometer to guide where they should invest and how such activities should be funded.

For this to happen effectively, treasurers need to have sharp focus about the medium-term market volatility and be creative to map the funding mix for businesses.

How might market conditions affect how treasurers approach this topic in 2020?

We see a couple of challenges. We are experiencing a very volatile market – markets in our part of the world are experiencing low growth, are vulnerable to geopolitical tensions, and on top of that we are now faced with the coronavirus impact – which has really been a black swan event. Risk of recession in some of the markets is quite real. It is a time where treasurers have to be quick to act and have access to multiple capital sources so that there is flexibility to change course as needed.



GCC: what should treasurers know about this region?

In April 2019, the IMF had forecast real gross domestic product growth in the six members of the Gulf Cooperation Council at 2.1%. By October 2019, that figure had dropped to 0.7%. The growth for 2018 was 2%, so what do these fluctuating figures mean for treasurers in the region and those looking to enter it?

The IMF reported that the deceleration of GDP growth “mainly reflect[ed] oil production cuts in line with OPEC+ agreements”. The World Bank published its Gulf Economic Update in December 2019, noting that economic growth in the GCC is “likely to recover over the medium term to 2.2% in 2020 and 2.6% in 2021”. But, the report adds, this is conditional on a “gradual recovery in oil prices and continued spending on mega projects as well as continued growth in non-hydrocarbon sectors.”

Fitch Solutions published its MENA Monthly Outlook: Key Themes for 2020 in December 2019, theorising that the GCC will “face its own set of challenges in the year to come.” It

claims that oil prices are exerting pressure on the countries and will likely result in a “resumption of fiscal consolidation and a renewed focus on enticing foreign capital.”

The current environment

The GCC region is often described as one of the fastest growing in the world. Indeed, David Aldred, Head of Corporate & Public Sector Sales TTS at Citi, explains that there are some areas where the GCC is “leapfrogging” some developed economies. Adam Boukadida, SVP Treasury, Tax & Finance at Etihad Aviation Group, gives SWIFT gpi and the

practical use of blockchain as good examples of the countries working to digitise processes.

However, Aldred notes that when it comes to the current environment in the GCC region, “you can’t comment without acknowledging the current geopolitical tensions,” and that treasurers need to be mindful of that. “But it’s a very resilient region,” he says, adding that the mentality is simply “business as usual”.

This resilience is a necessary trait for any organisation in the region – both corporates and banks. Boukadida explains that access to funds can still be a challenge for SMEs and start-ups. “These companies often have no choice but to accept short-term loans with high margins and fees, while larger corporates with good credit ratings are in a better position,” he says. Additionally, those large corporates can arrange for funding outside of the GCC region.

However, he adds, as currencies in the region are pegged to the US dollar, any change in LIBOR will affect those markets immediately. “Last year, we saw continuous rate cuts by the Fed, which has spiralled into the GCC markets. The low interest rate environment has given a boost to lending in both the retail and corporate sectors, and also to the stock market.”

The booming tourism industry

When it comes to businesses in the GCC, many countries are looking to diversify beyond oil. As demand for sustainable and renewable resources grows, the demand for fossil fuel falls. Thus, countries in the region look to develop other industries: Expo 2020 Dubai and the 2022 FIFA World Cup in Qatar are just two examples of branching into the tourism industry.

The cost of Expo 2020, and projects related to the event, is estimated at around US\$10-15bn, according to Deloitte, which includes the site, an extension of the metro line, and a new Museum of the Future. Meanwhile, Qatar is reportedly forecast to spend over US\$200bn on preparations – not only on stadiums, but also on a new airport, hospitals and roads.

Outside of oil and gas, infrastructure, tourism, transport and logistics are by far the largest areas that GCC countries are investing in, and Aldred explains that the United Arab Emirates (UAE) “was ahead of the game” with it. “Anyone operating here or coming here should not think that the GCC is going to remain as it was for the last 50 years,” he says. The rapid acceleration seen in just the past five years is showing no signs of slowing down, and Aldred says that treasurers therefore need to keep a strong view on “corporate agility and strategy”.

Becoming global hubs

For several consecutive years now, Dubai has been the busiest airport in the world in terms of passenger traffic. With almost 90 million passengers in 2018, it’s no surprise that aviation is expected to be 37.5% of Dubai’s GDP in 2020. For Aldred, the GCC’s position as a global hub is what organisations should be looking at when considering treasury centre locations.

Meanwhile, Gary Slawther, Interim Group Treasurer at Eddie Stobart Logistics Limited, points out that the city of Salalah in

Oman is the tenth biggest trans-shipment port in the world. “Everything comes from the East – you’ll have a ship full of Toyotas from Japan and a ship full of toys from China, and something else from South Korea. That cargo will be going to ten different destinations. So they’ll stop at Salalah, swap freight and then each ship will go to their final destination with the required mixed load,” he explains.

Indeed, shipping giant Maersk quotes Salalah to Newark in the US as taking around just 20 days, and the port was made into a main transshipment hub in the company’s global network. This only makes sense when you consider the GCC’s position in the world – arguably in the centre – especially with regards to Asian and Western Europe time zones, says Aldred.

Educating the masses

Randy Bell, Director of the Atlantic Council Global Energy Centre, wrote that “diversification of the economy cannot be measured by comparing oil to non-oil GDP alone. Instead, countries need to examine how connected their oil economy is to the rest of their economic activities and work to develop sectors that will thrive independently.” He specified that GCC countries should be making efforts to attract “tech talent and build innovation hubs”.

Indeed PwC’s paper, *The Lost Workforce: Upskilling for the Future* in conjunction with the World Government Summit, notes that “The GCC must urgently upskill for the future”, and that “Designing a robust organisational structure that prepares the company for the future is a key priority for CEOs from the Middle East.”

Slawther notes that there is a huge effort in the GCC to try and build the skills of the local population and encourage them to join the private sector. A report by management consulting firm, Oliver Wyman, *Maximising Employment on Nationals in the GCC*, explains that “the availability of an affordable foreign workforce willing to occupy blue-collar jobs, combined with attractive public sector jobs, enabled GCC nationals to limit their employment within the private sector, or only consider the more suitable opportunities within it.”

Slawther explains that this could prove challenging because of just how attractive the public sector is in the region: the hours are often less demanding, and the pay and benefits are generally much better. Additionally, GCC citizens are accustomed to the wealth distribution strategies and therefore governments need to adjust these to incentivise the citizens to build their own.

For Boukadida, industries like tourism, transportation, healthcare, banking and investment are now the top tier sectors in the GCC. He believes that “the opportunities that are coming from this transition are great, creating a healthy environment for treasury professionals to pursue a career in the GCC countries.” However, like Aldred, he notes that this rapid change and focus on automation means that treasury professionals need to look for the opportunities to upskill themselves. “Today’s world calls for professionals who are adaptive and those who welcome change,” says Boukadida.

There are other developments too, particularly bureaucratic reform. For example, Qatar’s visa-free entry programme was expanded to include Indian and Ukrainian nationals; Bahrain introduced a wage protection scheme to end the exploitation

What are free zones?

Also known as 'free economic zones' or 'free economic territories', free zones are a class of special economic zone. They are areas in which companies are either taxed very lightly or not at all to encourage business. In the GCC, free zones often allow expatriates to have 100% ownership of a company, while elsewhere they may require a majority (51%) be owned by nationals.

of staff – and for Saudi Arabia's Saudi Vision 2030, the country has implemented more business-related reforms to boost international investment than any other GCC country.

Regulatory differences

Slawther, who spent eight years working in the region – only leaving in November 2019 – has witnessed these changes first-hand. "The economy, or the banking system, does suffer from a lack of transparency and credit information, but steps are being taken to address that," he says. This is largely due to the fact that in the region, unless a company is listed on a stock exchange, there is no obligation to release financial information. This is changing though, explains Slawther. For example, companies in the UAE are now required to submit financial information to the Etihad Credit Bureau.

Boukadida has also found that "There is pressure on banks and service providers to prioritise regulation changes and updates, to digitise their processes and develop solutions that emphasise security and transparency."

Additionally, Slawther notes that the rapid expansion of countries, and more specifically, banks within those countries – such as Abu Dhabi Commercial Bank and Emirates NBD – means that they have to have an international level of transparency and corporate governance.

Business is getting easier

For Aldred, "Governments have to be the enabler" when it comes to making inward foreign direct investment (FDI) easier. Things like free zones make investing in a notoriously tricky region more accessible to foreign investors. The Fitch Solutions report notes that "tighter fiscal space will encourage GCC governments to focus on business environment reform", and that although the GCC states have improved in recent years, they still lag behind others by a considerable margin.

One notable example is that of Saudi Arabia, where a recent focus on reform saw it move 30 places up the World Bank's Doing Business Index in 2019, now at 62 out of 190 countries. The UAE, meanwhile, is in the top 20 at 16 and Bahrain is at 43. Oman sits at 68, Qatar at 77, and Kuwait at 83.

The report cites Saudi Arabia as the economy that improved the most across three or more areas measured. These areas include: starting a business, dealing with construction permits, getting electricity, getting credit, protecting minority investors, trading across borders, enforcing contracts, and resolving insolvency. The only two areas Saudi Arabia did not improve on were registering property and paying taxes.

Similarly, Bahrain implemented the highest number of regulatory reforms and the only area missing was starting a business. Aldred has noticed the improvements Bahrain has

made with initiatives like Fintech Bay and Fawri+ which aim to make the area more attractive to potential businesses and investors. Similar initiatives include the Dubai International Financial Centre, Fintech Hive in Dubai and Abu Dhabi Global Market.

Keeping culturally aware

One of the most important things to keep in mind when working in the GCC region, according to Slawther, is the difference in culture. This isn't just to show respect for the citizens, but also because the culture dictates a different way of working. "It's a very conservative region," he explains. This extends to the banks too, and in his experience, that's something a treasurer might find a bit frustrating.

"In the construction sector, for example, you'll find that the bonding requirements (protection against non-performance) are quite substantial and the risk transference is a very different way of doing it from how we would have in the UK, Europe, Far East and Australia. Elsewhere the risk transference will be using surety, whereas the Middle East works on bank bonding and they won't touch sureties," explains Slawther.

From his banking role in the region, Aldred is aware of these challenges, and recommends that treasurers "embrace new ways of doing business but be very cognisant and respectful of traditional ways of doing business." For example, for things like payables and receivables, where cash and cheque has been dominant, have one eye on the new digital ways of doing business, because there is a "real desire for economic and digital progress".

To help navigate these unfamiliar waters, Slawther recommends leaning on colleagues who are local to the region and who will be able to help understand the customs. Other key relationships, says Boukadida, include those with banking or technology partners. "It is crucial for corporates to carefully and strategically select their partners to ensure they receive a service that is appropriate for their specific business needs. If you find a banking partner or a technology provider who is an industry leader in their own right, typically the service that you will receive follows a standard benchmark," he says.

Despite the challenges, Boukadida explains why he likes the region: "Its diversity is unapparelled, with more than 200 nationalities living and working here. Not only it is a great place to build and progress your career, it is also one of the safest countries, where you will have access to world-class healthcare, education and activities catering for all interests. While the UAE is a leader in promoting peace and tolerance, it is important to be sensitive and considerate in respecting each country's culture and traditions – as when we are anywhere else in the world."



Operational risk: managing as much as you can

Operational risk is defined by the Basel Committee as: “The risk of loss resulting from inadequate or failed internal process, people and systems, or from external events.” Once dismissed as the risks that didn’t fit in anywhere else, operational risk came into the public eye after events like the 9/11 attacks and the 2008 financial crisis, demonstrating that these risk areas not only matter, but are vastly under-catered for.

Deloitte’s 2017 report, ‘Operational risk management: The new differentiator’, stated that “in short, operational risk is the risk of doing business.” For treasurers, the failure to manage operational risk properly can have huge financial, regulatory and reputational ramifications.

According to the Global Risk Community, operational risk can be summarised as human risk, as it is the “risk of business operations failing due to human error.” As a result, businesses with a higher level of automation will theoretically have lower operational risk.

Too much technology?

Mark Lewis, Bloomberg’s Head of Product Corporate Treasury, recognises the benefits of technology. However, he also believes that with more technology come more risks. For example, Lewis notes that treasury management systems (TMSs) are becoming increasingly sophisticated – and this isn’t necessarily a good thing for operational risk.

“Instead of just having a package solution, TMS vendors have ended up having this huge variety of choices,” Lewis says. “So instead of implementing a system in two and a half days,

you implement in six months. Or, in some cases it’s a three-year implementation project when you get to the really big systems.” It’s this flexibility that Lewis believes creates opportunity for operational risk. “No one person knows every piece of it and what’s going on and whether it’s actually going to work properly or not,” he adds.

A simple example, he says, is running a report, applying a filter to it, and saving it. “Then you forget you put that filter on. So next time, you think you’re running the report for all your payments for sterling, but it’s filtered out a bunch and you don’t know. And if it’s not highlighted properly that the filter is on, you’ve missed something important that you should be doing.”

Hackers abound

For Nor Adila Ismail, Chief Risk Officer at Petronas, the biggest operational risk in treasury is cyber-security, owing to the use of external systems such as SWIFT to process payments. “These external systems are in our treasury,” she explains. “For operational risk, we must learn from the Bangladesh Central Bank heist and consider the unauthorised access to certain payment systems.”

She continues: “Operational risk is always thought of as health, safety and environment, or security, but it’s never thought of as potential for theft or fraud. All of that needs to be looked at holistically so that we’re able to design the risk management accordingly, reflecting not only treasury but all the other aspects of our operations.”

Andreas Bohn, a partner at McKinsey, agrees that cyber-risk is one the most important factors in operational risk these days. He says this applies not only to internal areas such as data protection and/or manipulation of data sources, shadow accounts and cyber-fraud, but also to the risk of external cyber-attacks – such as distributed denial of service (DDoS) attacks and ransom demands – which can incapacitate a business for some time.

A 2016 report by Accenture and Chartis focused on “analysing the benefits of better alignment across operational risk management procedures with cyber-security.” The report argues that “cyber-attacks from external criminals or internally disgruntled employees” can fit the definition outlined by the Basel Committee, as they “become a problem only if the processes and people elements in an FI’s strategy are not sufficiently developed.” Additionally, the Basel Committee’s 2014 report on operational risk includes cyber-attacks as an example scenario. The report also points out the pressing need for firms to invest in cyber-security is only heightened by the regulators imposing retrospective fines and sanctions for past breaches.

Lewis agrees that cyber-security is more important than ever. With recent high-profile attacks on companies across the globe, he notes that having strong security around systems in place is imperative. “Having just a single password is insanity,” he says. “A user ID and password is just not good enough these days. We use biometrics and two-factor authentication.”

Human error

Operational risk can overlap with several other areas, says Bohn. For one, erroneous data entries, in particular when it comes to trade and payment entry – wrong signs, decimals, or currencies – can cause liquidity risks.

With human error often posing the biggest risk to any organisation, cyber-attacks coming from dangerous or phishing emails can fall under the operational risk umbrella. No amount of firewalls can protect against spam emails, and all it takes is one employee to unknowingly click on a link in an email for malware to infect the system.

However, human error doesn’t just mean clicking a malicious link. Instead, Lewis explains that the increased use of technology risks encourages basic errors like typing in the wrong account number. “I use the term ‘garbage in, garbage

out,’” he says. “It’s so important that your starting point is putting the right data into a system, because once the data is in a system, people rely on it. And this is where things can easily go wrong from an operational risk perspective.” Bohn agrees, and notes that these erroneous data entries can cause operational risk to have overlaps with liquidity risks, particularly when it comes to trade and payment entry – for example, wrong signs, decimals or currencies.

As a result, Lewis says that having a four-eyes principle when capturing static data is a necessity. “People trust that the information in the system is correct and just press ‘send’ on payments because they’ve had a busy day,” he adds.

However, Lewis has seen high-tech solutions that flag changes on the transaction from the standard settlement instructions (SSIs) and automatically send those instructions to a second signatory for release of payment, highlighting the fact that it is not an SSI. Unfortunately, Lewis notes, this is often a costly feature and thus is often only affordable to larger corporations.

Mitigating the risks

Manu Taneja, Executive, Cash Management & Treasury Services, APAC, General Electric, believes that most of the treasuries he sees keep risks at a manageable level. “There’s a process to identify all the major risks and plug them,” he says, adding that the best way to do this is to have a strong operational risk framework in place.

The framework, according to Taneja, should be about finding the risk areas, building controls around them, offsetting the risks and then reviewing the cases that slip through the net. He believes there are three components: engaging the right stakeholders, building controls, and having a mechanism around them.

Bohn has a similar view, believing that a strong operational risk management has three lines of defence. “Appropriate policies, appropriate oversights, account validation and so on, is the first line – basically, the treasury itself,” he says. “The second line of defence looks at the control figures, defining the risk identification, the variations of the risks and setting limits and breakage points to get the key operational risks first of all under supervision, and then control. The third line of defence is the audit function, which then looks at the first and second lines to ensure they work properly.”

Putting the fire out

When operational risks arise and aren’t dealt with, there are usually procedures to follow. For Taneja, the first thing to do is “firefighting”. After that, it’s imperative to do a root cause analysis (RCA), plug the risk, figure out what happened, how it happened and how the right controls can be put in place

The Bangladesh Bank heist

The Bangladesh Bank heist happened in February 2016, when hackers used the SWIFT network to illegally transfer almost US\$1bn from an account belonging to Bangladesh Bank. Most of the transactions were stopped or reversed, but the hackers still got away with US\$81m. According to the governor of the bank at the time, he had hired a cyber-security firm a year before the event, but “bureaucratic tangles” in Bangladesh prevented the firm from starting work until after the incident.

moving forward. “Who did it is probably the last thing to be wondering and squabbling about,” he adds.

Who should be involved?

In Ismail’s experience, when it comes to managing and mitigating operational risk in a treasury context, the best results come from a dedicated financial risk management and operational risk management team working hand-in-hand with the operations team in treasury. This allows all the teams to communicate and design something that’s workable for the treasury function of that specific company.

Taneja agrees that there should be cross-functional teams engaged throughout the process, as does the Accenture and Chartis report, which states “operation and cyber-security employees need lines of communication and a coordinated pre-planned response.”

The report continues, specifying that job titles such as chief information security, technology or information officer (CISO/CTO/CIO) “tend to have a strong understanding of IT, but... limited formal risk management understanding”. Meanwhile, “risk managers have a strong understanding of the business and risk concepts needed for a good cyber-security response in the event of an attack, but a relatively weak understanding of the complex IT issues involved.”

“Treasurers have been talking about segregation of duties since back in the 80s,” says Lewis. Indeed, it’s still just as relevant today. “You have someone trading who can’t actually make the settlement instructions, someone who’s releasing the payment but can’t do the confirmation, and so on. You get this triangulation of validation, so you know what’s being paid, because it’s usually around the payments that the fraud happens if it’s going to.”

For Lewis, a key figure in the management and mitigation of operational risk is the middle office. He explains: “Middle office function, in my view, is not part of the workflow, but is monitoring and managing the risk of the group. You’ve got a trader who’s got to stay within his limits and controls, but there is this second team that’s looking at the risk of the treasury department and making sure that all the players in that space are doing the job that they’re meant to be doing and they’re not breaking any of the Group’s policies.”

The fallout risks

The consequences of failing to mitigate and manage operational risk can be severe. Financial consequences and reputational damage can cripple a company. As Ismail explains, it’s sometimes not through any fault of the company, but could be in relation to a payment that is made which seems harmless on the surface but results in accounts being frozen. “It’s not necessarily third party anymore, now we talk about fourth party risk,” she says.

Bohn recommends that institutions should have a framework in place to manage third and fourth-party risk from the sharing of confidential data. “Such a framework may require specific contract provisions, professional indemnity insurance or comparable guarantees and other minimum requirements for the supplier,” he explains.

The reputational damage that comes with poor operational risk management has the potential to be catastrophic.

Consumer trust is essential for any business to function effectively, and Bohn explains that any breach “can undermine your franchise, your customer base, your investor base and your counterparty base for trading”. There are an estimated 2.65 billion social media users in the world, and with platforms capable of spreading news immediately, the results can be much harsher than they were 20 years ago.

The end goal

For Bohn, the end goal depends on the type of operational risk being managed. There may be operational errors which have limited impact, meaning you can reverse them – such as a wrong payment – or there could be problems related to fraud which may be irreversible and require more effort to manage the impact. But, he adds, the focus should be on controlling the risk, then reversing the impact with a mitigation or crisis plan – learning from the mistakes so that they hopefully don’t happen again.

Ismail has a similar outlook: “Realistically, can we mitigate all risk? Especially the ones that involve the external environment, especially when there’s a fourth-party risk?” she asks. If not, she adds, it becomes about mitigating the risk to an acceptable level.

Taneja agrees that it’s unrealistic to expect a zero-risk environment. “Realistically speaking, some residue of risk will remain at all times, and that generally emanates from people-related issues,” he notes. For example, this could be finding that the expertise is not there, or that there are new employees joining and they have a learning curve ahead of them.

He continues: “I think the goal should be to keep risk at a manageable level, which means the framework should be robust enough not to have any major risks uncovered. Blind spots do exist and do come up once in a while, but by covering all the major bases you should be mostly protected.”

Going back to basics

For Lewis, the end goal of operational risk management comes back down to the basic function of a treasury department. “Your job as a treasurer is to make sure the company has got sufficient funds,” he explains. “You’ve got to ensure that all the risks you’re mitigating, all the items that could impact the liquidity of the business, is looked at very carefully.” It’s important to have a holistic view, he adds, and to learn to prioritise the risks. “You work out which ones you’ve got spot on, and then you work down from there onto the smaller ones that are operational related but that won’t have severe consequences like the company collapsing in a heap.”

Building a business case for implementing enhanced risk management – which often comes at a cost – can be a struggle for some treasurers. Lewis notes that it’s no different to insuring a home and urges businesses to recognise that. “Explain that these systems are necessary to protect the business and that it needs to be something that is secure, controlled, and part of your remit,” he says. Using high-profile examples, such as the Bangladesh Bank heist, as a starting point is useful too, as you can then build on it from a cost savings perspective. “Cash seems to be the easiest way of justifying a risk system,” he concludes.



The power of a good partner

Having good banking relationships is a fundamental part of maintaining a working treasury – but some relationships are more effective than others when it comes to meeting the company's needs. We went back to basics to discover what constitutes a good bank relationship, and what can be done about bad ones.

A less-than-solid bank relationship is risky for both the corporate and the bank. For the bank, a poor relationship not only risks loss of immediate business, but also reputational damage – which can cause loss of future business too. For the corporate, a weak relationship could mean that when the corporate needs it the most, the bank may be less of a resource than expected.

In an ideal world, treasury-bank relationships would be equal. Unfortunately, this isn't an ideal world and so that's not always the case. Further, some companies have more negotiating power than others: a corporate with a large cash surplus may have more freedom when choosing banking partners, whereas a small corporate that has no surplus cash may be at something of a disadvantage.

It's a treasurer's responsibility to ensure that the banking needs of the business are being met, and that operations run

as smoothly as possible. However, this can become particularly difficult when companies have a presence in multiple regulatory geographies, resulting in numerous banking partners and decentralised treasury structures.

Good communications

For Setareh Golchin, Senior Treasury Projects and Bank Relationship at Total Oil and Gas, bank relationships should always be tailored to the corporate. "Each has a unique desire. For a bank, it's about strengthening loyalty to your client, getting to know your client's particular situation and needs, and adopting to changes in their financial and business needs," she says.

Golchin says banks should be focused on deepening and growing relationships with their corporate clients. Key to this, she says, is a good relationship manager "who should be

familiar with the bank's products and services in order to be able to introduce the appropriate products to the corporate."

Etosha Thurman, Head of Sales and Client Engagement at Capital One Treasury Management, believes that communication is key. "An ideal banking relationship involves openness and a willingness to partner together to drive efficiency and transparency in cash and risk management processes, with the goal of supporting business growth and profitability." Clear and meaningful communication with the right banking partner make this achievable, she says.

Two-way communication is imperative for a good bank relationship. But according to Golchin, the bank should be actively pursuing the corporate, keeping up-to-date with their enquiries and, more importantly, acknowledging questions when they are raised. "It doesn't add much when you send a query to the bank and it's not even acknowledged," she notes. "A corporate can only do so much on their side to try and maintain a good relationship with their bank, but the bank should also be keen on maintaining it."

Know the strengths and weaknesses

Understanding what a bank can offer a business is imperative to a good relationship. For example, a bank that is excellent for trade may not have the same strengths when it comes to cash management. PwC's 2019 Global Treasury Benchmarking Survey found that 'bank capabilities' was the most cited criteria for selecting a banking partner, with approximately 76% of respondents choosing it. This is quite a significant jump from the 2017 survey whereby it was approximately 37% and only the sixth most selected option.

"On a basic level, treasurers should look for a bank that will give them access to capital necessary to support their liquidity needs," says Thurman. However, she adds, treasurers also need to consider the bank's ability to help drive them towards best in class cash and risk management processes.

Treasurers should therefore be asking themselves, "Does the bank have a roadmap for driving future cash management technologies?" and "Is the bank making meaningful investments in digital treasury solutions that meet current needs and anticipated future expectations?", in order to choose the right partner.

Expand your options

For Golchin, the best way to choose the right banking partner is to go through a request for proposal (RFP) process. Through the various RFP decision and implementation stages – project planning, informing RFP participants, pilot phase testing, documentation, account opening and pooling, transfer of services – a corporate can learn and establish which bank is the right one for them to have a relationship with.

"I think one important aspect is the pricing that comes into it, and what pricing the banks can offer," she says. "This could be a huge competition in most banks and corporates are always looking to save costs." Golchin continues: "Also very important during an RFP process is that banks should deliver what they promise, and the focus should not just be on winning the RFP as a competition."

To get a feeling for whether a bank is looking to just win the competition, Golchin says having face-to-face meetings during

the process is the best way forward. "You can analyse and judge based on the information you have received – but when you're in a meeting you can tell if a bank is just in it for the competition to win, or if they're genuine with their responses."

Reviewing your bank relationships regularly is necessary to ensure that they are still meeting your needs. However, PwC's survey found that 48% of respondents reviewed their core bank relationships annually, whilst 27% reviewed them 'ad-hoc'. When it comes to secondary banks, only 30% reviewed them annually and 47% on an ad-hoc basis.

The survey recommends that "treasurers should conduct systematic, regularly scheduled reviews of their bank relationships," and that these reviews "should emphasise quantitative elements (eg the estimated wallet shared compared to the financing support received, and the investment made into new technology solutions), and qualitative elements like the level of day-to-day service."

Automation of processes

A fair question to ask about banking relationships could be 'why do they matter when everything is automated these days?'. And indeed, technology has taken on a significant role in all aspects of treasury. But human relationships do still matter. "Good relationships and automation are two different topics," argues Golchin. "Corporate clients, firstly, rely on the knowledge, expertise and experience of the relationship manager prior to automating any service."

Even when some aspects are automated, Golchin notes that human contact is still needed initially. "As much as we're trying to step away from paper, we still have to fill in forms and file documents. We've always had to complete a set of documents and be in touch in person before automating any service," she explains. For example, any documentation that needs completing and approval cannot easily be done with an automated system. "If everything has to be automated, it loses that human contact, which is just so important," she adds.

Thurman agrees. "While the industry is moving towards fully automated solutions, the reality is that we are not there yet," she says. Thurman notes that fintechs are "reigniting innovation" in the treasury and B2B payments space, but she also believes that banks are still leading the race in many areas. "Banks are driving towards comprehensive, optimised treasury management processes that are being built from dialogue and interaction with companies," she explains. Having a poor banking relationship leaves the corporate at risk of missing out on insight and innovation that banks offer, particularly in an omni-channel, multi-modal environment, she adds.

Hurdles to overcome

In Thurman's experience, the thing that affects a treasurer's relationship with a bank the most is technological sophistication and the ability to provide insight. "A treasurer should be cognisant of their bank's technological sophistication," she says. "A top bank will provide outstanding service to companies at various stages in their treasury technology journey, and assist them in that digital transformation if necessary." She adds, "While any reputable bank can provide data and services, the right bank will help you glean actionable outcomes from this information."

Indeed, a recent survey by The Association of Corporate Treasurers (ACT), The Business of Treasury 2019, found that technology providers were sixth in the list of external organisations that treasurers engaged with, while financial institutions stayed resoundingly at the top. The report questions whether the latter suggests that treasurers are relying on banks to provide their tech needs, or if they're simply focused on their day-to-day banking relationships.

For Golchin, it all comes back to communication. "I think banks should always be proactive in exceeding expectations. Failure to notify the client prior to establishing the issue does happen sometimes, and relationships have failed because the corporate has managed to establish what the issue is and let the bank know before the bank has even reached out itself," she explains.

Some communication issues, such as not responding to emails promptly, or at all, may seem small – but they can soon add up and lead to doubts about the capability of the bank, and how well equipped it is to meet the service demands of the corporate.

Jumping ship

If a relationship with a bank isn't working out, the logical thing to do would be to leave the partnership and find a new one. But this is easier said than done. In Golchin's experience, corporates, and especially medium-large corporates, often have hundreds of accounts, and the process of opening

accounts and going through know your customer (KYC) and due diligence checks can take months.

"The transitional period could take anywhere from three to six months, and if it's a bigger project with a high number of accounts, this could potentially last up to over a year," she explains. Rather than go through with the lengthy, and sometimes costly, process, she has found that some corporates occasionally just tolerate the bad relationship with the existing bank instead.

This isn't the norm, of course; nor should it be. "Switching should be easy," says Thurman. She suggests that if a treasurer believes that a bank cannot meet the company's needs, they should initiate a conversation with the bank to first see if there is anything additional that could be done. "If you remain unsatisfied, your bank should make it easy to move somewhere else," she says. "Banks are not interested in hindering their clients' progress or in penalising them for finding the right solution for their business," she adds.

Golchin agrees that switching should be easier, noting in particular that the process should not be long-winded. "Account opening processes should be reduced. I think in this day and age, documentation needs to be reduced, the processes need to be improved to at least reducing account opening from, say, a month, down to a week or two weeks," she explains. Strong relationships are important for both corporates and banks, so it makes sense that both parties should work together to make them as successful as possible.

The art of communicating

Communication, by definition, is a two-way process, with every message requiring a sender and receiver. Being a skilled communicator is not natural; it comes with practice. For many treasurers, the extension of the role into the wider business – and the inclusion as a strategic partner – means sharper communication skills are essential.

We've all had the experience of getting it wrong, so how can communication be improved? According to web resources such as Mindtools, Entrepreneur Europe and Lifehacker, there are several quite simple steps we can all take to improve our chances of getting our message across in a positive way.

- **Assertiveness not aggression** – assertiveness means having the confidence to say 'no' when necessary, yet still helping to maintain relationships on an even keel. Assertiveness, as with all communication skills, comes with practice. Begin by confronting mildly tense situations where you perceive the threat as minimal yet worth tackling. Learn to set reasonable limits and how to say 'no'. Respect yourself and let go of the guilt of saying no.
- **Tackling difficult conversations head-on** – avoiding an issue can allow it to take on a life of its own. When communicating a difficult issue, such as when dealing with a problematic relationship, using a tool such as the Situation – Behaviour – Impact (SBI) model can help focus the conversation and give it a positive direction.
- **Face-to-face matters** – written communication channels can fail to soften the blow of difficult messages because they cannot carry non-verbal cues, such as body language or tone of voice, that in-person communication offers.
- **Preparation is key** – any communication that is intended to have an impact should be subject to proper planning and preparation. Communicators should plan what they are going to say and how they are going to say it. We can't all be great orators or writers, but we can all take the time to prepare a credible, intelligent, and hopefully compelling message.
- **Everyone is different** – bear in mind that in a globalised business, cross-border trade can mean cross-cultural communication. Don't make assumptions; learn about your audience. An understanding of the people with whom you wish to communicate may suggest a rethink of your message, tone and approach, timing and even expectations, to avoid mis-communication.
- **Learn to listen** – the key to successful listening is to tune into the speaker's motivators, values and beliefs. Conversations should be used to learn from others, not as a platform to demonstrate your own intellect.

The digital conundrum

“ Does the move to digitalisation create more problems than solutions? ”



Saurabh Chakravarty
Jt President, Finance
UltraTech Cement Ltd

Before we analyse the question we need to first understand the difference between digitalisation and digitisation, since the two are often confused. Digitisation in its simplest form is converting information from a physical format into a digital one. For example, scanning a medical prescription and saving it as a PDF would be digitisation.

Digitalisation is slightly more complex. This means harnessing the digitised information to improve processes. In the example of my digitising the prescription, only when I store the prescription in a platform (say, the cloud) – which can be accessed at any point of time – will it be digitalisation. This saves me from carrying the prescription with me when I next visit my doctor.

Once we understand the underlying principles of digitisation and digitalisation, we can examine if it is worth engaging ourselves in this enhanced effort. I argue in favour of digitalisation on the following grounds:

- **Your customer is your focus** – you can be closer to the customer through digitalisation. It is the easiest and cheapest method for any business to reach the customer. Social networks, opinion polls and websites all help the business to understand the customer's needs.
- **The decision turnaround** – while digitisation goes hand-in-hand with data management, digitalisation leads to harnessing information – the faster the information is processed, the better the decision-making is.
- **Productivity matters** – this is probably the most critical. Digitalisation leads to more knowledge and when such knowledge is used intelligently, it can lead to a significant increase in productivity.
- **Employee friendly** – options such as flexible working hours and working from home need the support of digitalisation. This benefits not only the employees but the employer too.
- **Brand recall** – the extent to which customers are able to recall or recognise a brand. This increases the public awareness of the organisation.

So how do we prevent digitalisation from creating more problems? One possible approach could be through the clear understanding of the threats and opportunities that the digital world presents to the business. This can be addressed through an assessment of the challenges posed alongside the

possible digitalisation endeavours to resolve them. With this basic understanding it should be possible to create a plan that will ensure success in the digitalisation endeavour.

The idea that digitisation and digitalisation are transforming the business and operating models has already been time-tested and the new business models will continue to stand the test of time in the current digital era. It will become imperative for businesses to develop digital strategies and comprehensive digital operating models.

Digitalisation today is no longer a choice but a necessity. Technology is changing the world and the progress is not linear. In the future, the digital strategy will become the business as usual strategy. This is the time to get a head start.



Steve Lemon
Co-founder and Vice President
Currencycloud

The fintech industry has boomed in the last decade precisely because people recognise that fintechs are providing simple solutions to really complex problems. International payments is a perfect example of how a process, which has traditionally been unnecessarily convoluted, is now being simplified for millions of businesses across the world. For the first time, payments systems can be harnessed to help businesses grow, rather than act as a burden or inhibitor.

The SWIFT global payments initiative (gpi) is likely to really kick off in 2020 and the coming years. The new system for global payments will increase speed, from days to minutes, if not seconds. Transparency will also drastically improve, meaning you are able to see where your payment is at any moment, and the cost of international transfers will also come down.

Yet, there is still more work to be done. Reconciliation is still probably the greatest challenge facing treasury departments today when it comes to payments. With traditional methods, a typical payment will pass through numerous intermediaries, which adds to the cost and shrouds the process in mystery, making a payment extremely difficult to track.

This means that when treasury departments receive a payment they often struggle to match it against the original invoice because what arrives in an account doesn't match what's been invoiced, or in many cases, what has been sent, even though all parties have acted in good faith. Global accounts that hold multiple currencies and allow businesses

to invoice in local currencies can make the process a lot smoother for all parties.



Param Thind

Head of Asia Pacific
Digital Channels, Global
Transaction Services
Bank of America

Digitisation vs digitalisation

First of all, it is important to make the distinction between “digitisation” and “digitalisation”. A number of people use these two terms interchangeably but they are in fact quite distinct. “Digitisation” means the conversion of data from analogue or physical form to a digital form (bits and bytes) that can be read and understood by computers. “Digitalisation” on the other hand is the actual process of moving from manual or paper-based processes to an electronic or digital mode, to improve efficiency and enhance the customer experience. And further along the digital spectrum is the process of “digital transformation”, which looks at the company’s strategy on using digital technology to completely change the value proposition for the customer and generate additional revenue streams.

Here is a simple example from everyday life to illustrate the difference between each of these terms. Scanning a newspaper to make a digital version of the same paper is digitisation. Sending an electronic copy of that newspaper or making it available online to the readers is the digitalisation of that process. Creating an entirely new online website or app to change the way readers access and read their news is true digital transformation.

Today’s digital world

Today, we live in a digital society and the vast majority of our social and business interactions are digital in nature. Ranging from social media and news to education and ecommerce, every aspect of our lives is touched and shaped by digital technology. Technology is no longer just an enabler but is in fact the very driver of everyday experiences at the social and the business level.

No business today can afford to do without a vision and strategy for digital transformation. And the undisputable fact is that digital transformation is simply not possible without digitisation. The actual process of digitisation can be challenging and does not come without its problems, especially if done in an ad hoc manner without a proper digital strategy in place.

Digitisation needs to be managed within the wider framework of digital transformation with clear articulation of how the digital experience is going to improve the overall employee and customer experience. Just digitising the information, without changing the underlying process and delivery of the information will not yield the desired results and will more often than not derail the entire digitisation process. For digital transformation (and digitisation) to be successful, there needs to be broad cultural change across the organisation and acceptance of the way business needs to be conducted in the digital world. Adaptation of business processes to emerging technologies like AI, APIs and mobile are key to longer-term success of any digital transformation programmes.

Conclusion

The process of digitisation is a means to the end, without which digital transformation and continued growth and very existence of the organisation is not possible. The potential for increased customer satisfaction and corresponding growth in revenues by harnessing the power of digital transformation far surpasses any challenges in the actual process of digitisation.

Next question:

“How can treasurers protect against payments fraud?”

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

Best of breed evolution

Best of breed used to mean choosing dedicated treasury management systems (TMS) rather than the treasury module of the company's ERP vendor. This seems to be evolving as more demanding requirements and regulatory changes drive treasurers to knit together diverse solutions to meet their needs.

Old best of breed

In the past, treasury discussion of “best of breed” referred to the choice between dedicated TMS and the treasury modules of corporate ERP systems. Typically, treasury wanted best of breed TMSs, while the CFO and IT pushed for ERP solutions.

The arguments for using the same system across the corporation are strong enough that SAP seems to be gaining market share, despite being an order of magnitude more expensive than most current SaaS TMSs and having relatively limited sophistication. SAP treasury may have been helped in this by:

1. A weaker TMS market from the mid-noughties, as ION and FIS hoovered up TMS vendors and did not appear to do much with them (though more recently this consolidation has made space for current SaaS vendors like GTreasury and Kyriba which has ended up strengthening the market again).
2. Concerns about cyber-security that strengthen IT's argument for a common architecture they can better secure.
3. Need for ever-stronger internal control over critical systems (though, in many ways, dedicated TMSs offer superior internal control over treasury operations).

Old treasury ecosystem

Of course, TMSs have always needed to interface with other systems for banking services, rate feeds, accounting and reporting.

Bank connectivity has traditionally been external software in most cases – either multi-bank services like SWIFT, Fides, TIS, or bank-specific solutions. Some old TMSs have

in-house solutions (FIS has Trax and SAP has BCM) and most of the current SaaS generation offer “SWIFT in the box” (Kyriba and GTreasury) or equivalent built-in solutions (Fides for Reval). The functional boundaries are blurring as specialist bank connectivity providers offer increasingly sophisticated functionality (such as Fides and TIS) and on the other hand TMS vendors offer their relevant modules as bank connectivity solutions (Kyriba).

Rate feeds have always been separate because aggregating market data is far from the core competences of TMS and ERP vendors. Most corporates use rates from Refinitiv and Bloomberg, though many are turning for cost reasons to almost as good, if more limited, rate feeds for the eFX platforms (360T, Currenex, FXall, FXGO). Of course, minimal daily FX high-low close rates are available for free on the internet.

Treasury needs data from accounting systems, such as payables, to make payments and accounts receivable and accounts payables for cash flow forecasting. And treasury needs to send general ledger entries to accounting systems; some TMSs have accounting functionality but they tend to be used as sub-ledgers for treasury transactions only.

Trading platforms

As FX trading has moved online over the past 20 years, eFX platforms, and increasingly eInvestment platforms, have become standard parts of the treasury ecosystem. Typically, eFX platforms like 360T, Currenex, FXall and FXGO have APIs to upload intended trades from TMSs and then to download completed trades back to TMSs. They also handle trade confirmation, replacing SWIFT Accord and MISys. As noted earlier, many treasuries take rate feeds from these platforms as well.

New best of breed

Today, it seems that the best of breed concept is becoming more granular. There is some precedent for this – for example, the old Reval (before the merger with EcoFinance) was probably used more for hedge accounting than as a general purpose TMS. But now, regulations like MiFID and the need for higher accuracy and greater productivity are driving treasurers to search for best of breed solutions in ever more specialised domains, like forecasting, reporting, hedging, compliance and so forth. The increasing prevalence of APIs makes stitching together diverse specialised solutions much easier, and, where legacy systems do not have APIs, treasurers can use robotic process automation (RPA) instead.

Cash flow forecasting

Traditional TMSs have supported cash flow forecasting primarily as data aggregators and consolidators. TMSs mainly assist with workflow to collect and consolidate subsidiary or business unit forecasts, possibly with some analytical support – such as comparing forecasts with previous forecasts and actuals. This has been helpful for treasurers but leaves open the critical issue of where the underlying forecast comes from.

Today, fintechs such as Cashforce, CashAnalytics and Analyste are harnessing big data and machine learning (ML) or, more prosaically but equally effectively, statistics, to actually generate raw forecasts. As yet this kind of functionality is not available in most TMSs – though some can handle seasonality and other simple heuristics.

For treasuries seeking to improve the reliability of cash flow forecasts and reduce the related workload both within treasury and at subsidiaries, this technology is well worth the cost and effort of implementation.

Reporting

Most current TMSs have some kind of dashboarding solutions and report generators. In many cases, the latter have such low usability that treasuries feel obliged to pay vendors to create new reports for them. This is not only expensive, but also neither sustainable nor flexible.

Another issue is that treasurers often want to disseminate information beyond treasury. Getting the CFO and other interested parties to learn to use the TMS dashboard (or even to remember a TMS password for occasional use) is a stretch.

Because of these issues, many treasuries are using business intelligence (BI) solutions – typically whatever is the corporate standard for dashboarding and reporting – to share treasury information within and without treasury.

Typical BI solutions include Microsoft Power BI, SAP Business Objects, IBM TM1 and so forth. Power BI is especially popular because it is included in Microsoft Office, which makes it effectively “free” (at least the basic functionality) for most treasurers. If none of those appeal, check out thoughtspot.com.

Hedging

As FX volatility increases and compliance constraints tighten, many treasurers feel the need to optimise their hedging strategies. Large treasuries have been doing hedge optimisation for decades, but typically this required using Mathematica or MatLab on the side, and the skills to use them.

The market has responded to this gap with solutions dedicated to FX hedging. One example is FiREapps, which was acquired by Kyriba in 2019, but is still available as an independent solution.

Compliance

Derivatives reporting requirements such as European Market Infrastructure Regulation (EMIR) have brought compliance requirements for treasuries that cannot easily be met by TMS native functionality. Some treasurers have integrated specialised trade reporting solutions to meet these requirements.

KYC and BAM

Many TMSs and some bank connectivity solutions provide BAM functionality as a system of record, but automating KYC and other AML requirements remains challenging.

SWIFT announced in 2019 that their KYC registry will be open to corporates – it was previously restricted to financial institutions. Some treasurers have had success with KYC.com.

Conclusion

As treasury “mash ups” become more common in the search for greater efficiency and accuracy and compliance, treasurers need to become familiar with the intricacies of dealing with APIs.



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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david.blair@acarate.com | www.acarate.com





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