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BRI: risk or opportunity?

Multinationals stuck between risk and opportunity of new BRI infrastructure.

Corporate View

Mumtaz Dole

Director – Cash & Liquidity, Management & Treasury Business Partner (APAC) – **Vestas**

Corporate purpose: how can treasury get involved?

Companies with a purpose often perform better. We explore how purpose is manifesting in corporate treasury

Payments and Collections

The best-managed companies understand the negative consequences of paying suppliers late

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EA to the Publishers
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Sophie Friend
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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Embracing change

As 2020 draws to a close this seems an apt moment to reflect on a most extraordinary year for all of us. The Asia-Pacific region, although the first hit by the pandemic, has been spared the lockdown measures that have occurred in much of Europe, North and South America.

That being said, there has been now almost 12 months of working from home and disruptions to business. Over the course of the year we have sought to offer a community space to bring our APAC readership together. The power of this connection cannot be understated and has only been highlighted by a year in which all of our personal and professional relationships have been impacted.

Our Women in Treasury Singapore Forum took place digitally in the summer of this year and in October we hosted our Adam Smith Awards Asia 2020 live winners announcement. Although we have missed hosting our regular events in Asia and our usual Adam Smith Awards Asia Lunch, it has been fantastic to be able to come together digitally and to support and celebrate our corporate community across Asia Pacific. With that in mind our Adam Smith Awards Asia 2020 season is in full swing and will feature the success stories of all our winners within our Adam Smith Awards Asia podcast programme which goes live later this month. Please sign up to our podcast channel wherever you get your podcasts from so you can hear the stories behind each winning solution.

In this new edition, the last of 2020, we look at the impact of this year's pandemic on the payments and collections space as the pandemic affects Asian exporters' payments and technology shakes up the trade payments space. We also assess the evolution of the cybercrime space and its refined focus on treasury as a target. 2020 has certainly done nothing to dampen the enthusiasm of cyber criminals as they optimise any weaknesses in corporate technology.

Elsewhere we discuss the importance of corporate purpose and the role that treasury can play in delivering it. We also speak with Mumtaz Dole of Vestas in our Corporate View segment and assess both open banking and the risks and opportunities of China's new BRI infastructure.

As the world hears news of Pfizer's development of a vaccine and Joe Biden becomes the President elect for the USA we can be hopeful that there will be improved global relations and an end to the pandemic in sight that give us cause for optimism in 2021. And we look forward to providing the latest news and insight and continuing to offer a platform for community and information in Asia Pacific for our corporate readership.

Stay safe, be well and see you in 2021!

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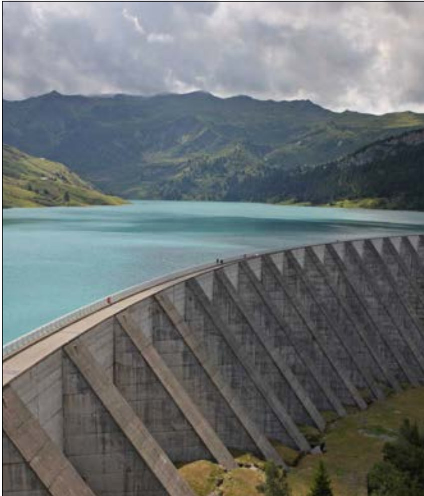

Open banking: time to focus on corporates

Open banking promises to usher in competition and new products but it has had little impact in corporate treasury so far. It is time for banks and treasury to adopt a new mindset.

Companies stuck between risks and opportunities of new BRI infrastructure

New ports, roads and rail networks are springing up across Asia as China's giant BRI infrastructure build comes on stream. The potential for foreign companies to invest off the back is huge, but it also comes with complex issues attached. None more so than navigating the growing East West digital divide.

Opportunities for foreign companies to get involved in helping construct Sri-Lankan capital Colombo's Port City have been relatively thin on the ground. Chinese state-owned companies have dominated the ambitious construction led by China Communications Construction Company, CCCC, since a line of dredgers began reclaiming land from the Indian Ocean in 2014.

But as the skyline of Colombo's own Dubai, complete with a marina and glittering financial and entertainment districts, begins to change, the hope is foreign investors from property developers to hotel chains, logistics companies and service providers will start to arrive. "Colombo's Port City offers a competitive alternative to Singapore for regional banks and insurance companies and a place for back office services. The working population will need restaurants, bars and gyms," enthuses Chris Devonshire-Ellis, founding partner at Dezan Shira & Associates Asia, who advises multinationals on BRI investment opportunities.

As thousands of Chinese-built and funded BRI projects in more than 100 countries stretching along the old silk route begin to come to fruition, enthusiasts say the real BRI opportunity for multinational companies shut out during the

construction phase has finally arrived in the project's next evolution. The BRI requires an estimated US$26trn, but China will only fund around US$1.3trn. Witness how China is only financing a third of Port City's US$24bn price tag, making foreign investment both crucial and leaving a huge opportunity to leverage off brand new infrastructure.

Yet many multinational companies view BRI investment through a cautious lens. It is saddled with a bad reputation linked to some countries amassing debts they can't repay, corruption scandals and mistrust around local employment opportunities and over reliance on Chinese expertise and supply chains within projects. Elsewhere, the climate emergency is growing, but much of the BRI's energy infrastructure is polluting and tied to fossil fuels. Between 2000 and 2019, Beijing's two leading policy banks (China Development Bank and Export-Import Bank of China) provided US$183bn in energy finance to BRI countries, which went mostly to oil, coal and hydropower. This compares with the banks' US$4.8bn funding for solar and wind projects, according to data from Boston University's Global Development Policy Center.

Perhaps the biggest roadblock to corporate opportunities comes via souring China US relations. A digital overlay that includes 5G connectivity and AI technologies lies at the heart of the BRI and is key to transforming the new infrastructure into integrated ports, rail networks or smart cities. Yet US sanctions make working with much of China's tech sector increasingly difficult for many companies, leaving unknowns around how they will navigate the digital integration behind their investment. It makes a challenging backdrop for multinationals wanting to take advantage of Asia's explosive consumption markets.

The upside

To be sure, multinationals are starting to invest off the back of BRI infrastructure. Korean, Japanese, Singaporean, French and Canadian companies are amongst a cohort of investors offering new consumer-facing businesses in Cambodia (a big recipient of BRI lending) to capture the upside of new infrastructure, says Henry Tillman, CEO and Founder of China Investment Research, part of consultancy Grisons Peak. Elsewhere, he notices that western companies are moving their manufacturing arms out of China to countries like Cambodia, Laos, Vietnam and Thailand, benefiting from Chinese-built transport corridors across the region and alongside which real estate developers are beginning to snap up swathes of land.

Meanwhile, investment flows into Pakistan off the back of new infrastructure includes companies from the US, Saudi Arabia, Netherlands, Turkey and the UAE. "The world remains transfixed on Chinese debt in the BRI and is not focused on the equity investment going in," says Tillman.

AECOM's Scott Dunn, Vice President, Strategy & Growth South East Asia, observes similar changes. The US engineering group, which designs new BRI infrastructure as well as supervising the construction process and ensuring completed assets function as designed, is one western company involved in BRI construction. "In some cases, multinational companies are starting to come in and in certain areas where the infrastructure is finished, we are seeing an increase in trade because of better facilities. Pakistan has benefited from a new port and roads. It's a big improvement compared to what it was before he says.

The ripple effect for businesses and investors of good infrastructure is best encapsulated in the transformation of Greece's Piraeus port, believes Mukhtar Hussain, Head of BRI and Business Corridors, Asia Pacific at HSBC. Ever since China Ocean Shipping Company, COSCO, overhauled the creaking infrastructure, the port has turned "from problem child to success story."

More lies ahead. In the BRI's next phase, China will actively court foreign companies. It is already evident in Chinese companies working with global names on the ground in BRI countries like Germany's Siemens, GE and Honeywell. Going forward, Chinese companies seeking to invest in the region will increasingly partner with multinationals who already have a footprint, predicts HSBC's Hussain. "A Chinese company doing something new in a market where a multinational already has a long-term association will be keen to align and create a win-win. We expect more international cooperation to manifest in actual examples as China seeks to be more inclusive."

BRI projects only count for a small amount of AECOM's US$20bn annual revenue, but the firm is involved in a growing number of projects. AECOM's work is divided equally between strategic partnerships with a cohort of Chinese developers or contractors and working directly with local government-owned groups building out their transport system. "We are one of the larger global companies doing this kind of work," he reflects.

And experts expect the pipeline will continue to flow as ASEAN countries' demand for BRI infrastructure continues unabated. HSBC estimates around US$70-80bn of Chinese infrastructure investment to ASEAN countries is currently in the pipeline. The dialogue is also beginning to shift from the infrastructure story to how BRI can be a force for global good, notes Hussian. This could be around building social infrastructure like hospitals, housing and schools, he suggests. "The BRI could drive much more investment into these critical sectors. This is what governments need and we see BRI evolving accordingly." he says.

The problems

But despite the investment potential, foreign corporates remain wary. They cite familiar worries around unstable currencies in some emerging economies and challenges around transferring money. Political instability is another concern. Malaysia's high speed and urban rail programme, part of which was tied to BRI, turned messy following a change of government when the new regime renegotiated the price and changed the routing. "If you look at all the countries the BRI touches, many are politically unstable. It means things can change quickly which is a risk because infrastructure investment is long-term and doesn't happen within one political cycle," says AECOM's Dunn. "Ultimately success will depend on how the currency risk is protected and how transparent the financial and legal systems of BRI countries become, especially in Southeast Asia."

But other, bigger challenges lie beneath, none more so than finding the right partner on the ground. Andre Wheeler, Director of Wheeler Management Consulting based in Perth, Australia, advises all clients seeking to partner with a local

entity off the back of BRI infrastructure to carefully unravel who they are investing alongside. It involves a deep dive of the corporate structure, operating and litigation history and key management and decision makers, as well as ascertaining ownership of the infrastructure assets.

Wheeler, who estimates that only 6% of the current investment in BRI projects is by non-Chinese entities, advises all his clients to peel back the layers. Investors might find they are partnering with Chinese state-owned companies and not a local entity at all, he warns. "There are a number of instances where a local corporation has been set up, in a sense a "front" company, but regulatory and management control comes from China. Landbridge in Australia is such an example."

Partnering with private Chinese companies is just as much of a risk. New powers have recently given the Chinese state more control over private enterprise within China, he says. "The CCP has increased its control in private enterprise, particularly through the broadly defined "national security interest" test. Investors should ensure they are investing or partnering with a company that falls outside Chinese law – and is not an SOE."

More straightforward investment comes via construction of apartment blocks or warehouses in 100% ownership models, he suggests. He also flags how some BRI countries also offer investment opportunities without the complexities of Chinese partnership like Sri Lanka, and increasingly Vietnam, which straddles the BRI as well as Japanese, Indian and African trading corridors. "Vietnam has opened up its foreign investment laws and is also wary of China. It is becoming a little like Switzerland and investors like this," he says.

In Columbo, companies seeking to invest will typically partner with a local entity, familiar with local regulations and able to do the groundwork, says Devonshire-Ellis, who reassures investment doesn't involve partnering with a Chinese company. "There is no need to be involved with the Chinese whatsoever. Companies invest alongside local entities."

Elsewhere, Wheeler says the Philippines offers less complex investment opportunities, and believes that more big-ticket infrastructure investment in the region will start to appear without Chinese involvement. Most recently he is advising on investment opportunities linked to a new feasibility study around a land bridge in Thailand between two seaports on the Andaman sea and the Gulf of Thailand to bypass the Strait of Malacca. In another example, initiative like Japan's Indo-Pacific Fund, a collaborative effort with America and Australia to develop and offer complementary infrastructure within the Indo-Pacific region, also suggests a shift away from China.

Digital divide

But the biggest potential risk and roadblock for multinational companies seeking to invest off the back of BRI infrastructure comes courtesy of the growing digital divide between China and the West. A digital overlay that spans 5G connectivity and AI technologies lies at the heart of the BRI and is key to transforming Chinese-built infrastructure into integrated ports, rail networks and smart city packages, complete with facial recognition systems and big data analysis to automate services such as traffic management, sewage systems and public safety. According to research by RWR Advisory, a Washington-based consultancy, Chinese companies have done 116 deals to install smart city and so-called safe city packages around the world since 2013, with 70 taking place in BRI countries.

For example, logistics, supply chain and freight forwarding groups setting up shop in Colombo's Port City will likely have to integrate Chinese technology protocols and standards. "Port City investors may be engaging with a sovereign Sri Lankan company, but the infrastructure and digital connectivity will be provided by China," says Wheeler. This leaves investors in danger of signing up to agreements with Chinese tech companies, blacklisted by the US. "Potential investors are wary of US sanctions, and not having enough knowledge around who they are contracting with," he says. The US has sanctions against 24 entities, including the CCCC and its five subsidiaries, all companies involved in an estimated 900 projects across BRI countries.

It leaves western companies needing to judge which part of BRI they can focus on, and what part of the opportunity to tap on a case by case basis. It also plays into how treasury teams navigate the growing narrative around the emergence of two separate supply chains – one for the Chinese market and Asian bloc, and one for the rest of the world. Chinese manufacturing entities are increasingly seeking lower cost production outside China, and Asian countries are increasingly relying on consumption markets within Asia – particularly China, explains Hussain. "Trade and investment in Asia is becoming increasingly Asia-centric and intra-Asian trade flows are increasingly more significant than investment flows from Europe and the US."

Witness how Chinese companies are preparing to invest off BRI infrastructure in contrast to foreign groups' caution. There has been a jump in Chinese companies raising money for BRI investment via IPOs, notes Anastasia Gordeeva, BRI Manager at law firm Charltons Law in Hong. "An increasing number of Chinese companies are listing BRI-related projects on the Hong Kong stock exchange via IPOs. It is enabling them to tap overseas investment, as well as a Chinese investor base via Hong Kong's Stock Connect with Shanghai and Shenzhen stock exchanges," she says.

Of course, the pandemic has pressed pause on many multinationals' ability to leverage BRI infrastructure anyway. "We still supply some advisory services to people who are interested in BRI projects, but travel has been non-existent with COVID and we are doing it all on the phone," says Wheeler. HSBC's Hussain agrees the scale and speed of BRI projects has diminished on the back of worsening geopolitics and the consequences of COVID. Meanwhile, some companies held back from making big decisions before the US election in the hope of more certainty and predictability around US tariffs.

But the momentum, scale and long-term timeline driving BRI suggests it will only be a short break. Multinationals will increasingly want to take advantage of China's more pragmatic view on international involvement and constrained ability to be the sole financier of all things BRI. "There may have been a slowing of BRI investment right now, but it's here to stay. China judges the short term by decades, and this is an opportunity for a company with a long-term view," says Hussain. Just exactly how companies navigate the opportunity remains to be seen.

Payments and collections – the folly of late payment

In this article we look at the impact of COVID-19 on Asian trade flows, consider the impact on suppliers when their customers delay paying them, offer some suggestions for preserving cash flow in these challenging times and explore how supply chain finance is evolving.

Regional trade-flows disrupted by COVID-19

These are uncertain times for companies all over Asia. Across the region, supply chains have been disrupted by the COVID-19 pandemic, forcing production facilities to scale back operations. Many countries imposed export controls at the start of the pandemic, and some of these remain in place.

Ongoing disruption in the global aviation and shipping industries has compounded the situation, and some products which were formerly much in demand have seen their markets disrupted, as consumers, and national governments, have focused on securing essentials. A rise in regional geopolitical tensions has also had a dampening effect on trade, and now there is increasing nervousness about the global impact of a "second wave" of the virus.

Are companies hoarding cash?

COVID-19 is testing the resolve of even the most efficient companies, including those which habitually pay their suppliers on time. Companies are doing whatever it takes to preserve liquidity. Unfortunately, delaying payments to suppliers is a route that some companies have opted to take. They will have looked at their supplier lists and made some internal ranking decisions about which relationships are the most important – ie those suppliers which must be paid on time, and those which can wait.

Jarrod Shandley, Co-Head of Product at RapidRatings in Brisbane says: "We have not seen significant signs of cash hoarding since COVID-19. In the prior four quarters, company cash balances on average went up 6.2% per quarter, while in the quarter following COVID-19 we saw an average cash balance increase of 9.0%. This is certainly an increase, but we also know that many companies raised capital or drew down debt during the quarter, so these numbers are as expected. In fact, many of our clients with global supply chains have been accelerating payments to suppliers to keep their operations flowing".

Prompt payment is a differentiator in business

The best-managed companies understand the negative consequences of paying suppliers late and know that prompt payment of suppliers can be a very useful differentiator in business. It can be used as a tool which provides considerable leverage, for example to motivate suppliers to improve their performance. Suppliers are far more likely to want to do more business with prompt payers than with those who have a history of doing the opposite.

Singapore-based Leon Scott, MD, Regional Head Asia Pacific Japan and Middle East at TradeIX notes: "We have certainly seen examples of companies using COVID-19 as an excuse to delay payment, even when cash is available. Equally, and admirably, there are many examples of companies exploring every way possible to speed up payments to suppliers, even if it requires using their own balance sheet to do so. Some of the most vulnerable are the most critical, and sensible companies know this".

The impact of late payments

Late payments to suppliers really are the scourge of the supply chain and cause more disruption and damage to supplier/customer relationships than any other single risk factor. Below are some of the effects:

Stress in the supply chain – when a customer delays payment to a supplier, there is an immediate impact on that supplier, who will have a cash flow shortfall that needs to be covered. When a supplier is under pressure to meet its financial obligations, there can be a ripple effect through the whole supply chain – ie downstream providers of goods and services may well feel the impact of the customer's action too.

Damage to supplier relationships – delayed payments cause tensions in the supplier/customer relationship. They also make the supplier less likely to want to continue future business dealings. It is vital in these situations that both parties maintain dialogue. The track record between the two parties is key here, as is honesty in the communications. Shandley notes that supply chains are more interdependent than ever before: "The pandemic has illustrated, in stark terms, that the financial health of any given company is heavily influenced by the health of the third-party suppliers that you're doing business with. Companies of all sizes must collaborate in real terms and with real transparency. You can't extend favourable terms or get payments in advance unless you have a conversation with your third parties".

Access to funding becomes more difficult – businesses which regularly make late payments to their suppliers are likely to see their standing in the eyes of their banks diminish. Banks will see this as a possible warning sign which, in turn, may make the bank less willing to provide support to that business. At the very least, the bank may decide to raise the pricing on its credit facilities. Suppliers who experience regular delays in receiving payments may find that this has a negative impact on their credit rating, thereby making it harder to obtain bank financing.

Negative publicity – unhappy suppliers may take to social media to shame a company that isn't paying them on time. Companies must communicate effectively with their employees in such situations and train them in how to respond appropriately to complaints or criticism from suppliers.

Internal measures to protect cash flow

COVID-19 has forced many businesses in Asia to change the way they operate. Consequently, companies need to re-examine and refine their internal processes with a view to preserving maximum liquidity. Here are some practical measures to consider:

Keep on top of process changes – in normal times invoice settlement delays often occur purely because of inefficiency – weak internal processes, lack of automation, administrative errors or poor cash flow management, for example. COVID-19 brings new challenges, as staff in accounts payable may be working from home and invoices may need to be routed to new email addresses. Issuance of purchase order numbers may be subject to a new process. Companies should be contacting their customers to find out if there have been changes at their end. And if a company has changed its own processes as a result of COVID-19, it should make sure its customers are aware of these too.

Follow up on outstanding invoices very actively – now more than ever, companies need to maintain regular contact with customers, following up on outstanding invoices even before their due date, to make sure that any issues or queries that might delay receipt of payment are resolved. Companies need to ensure that their invoices are at the top of the pile for payment and should refine their internal processes for making this happen.

Credit limits and watch lists – companies should be on the lookout for early warning signals that could mean there is a likelihood of future bad debts, and keeping on top of credit limits, thereby ensuring they are in a position to react as risk levels change. Customers in high risk sectors should be monitored closely and appropriate watch lists maintained.

Credit extensions – allowances may need to be made for customers operating in sectors which have been hardest hit by the virus. Careful thought will need to be given about agreeing payment plans or granting extended terms to customers who are really struggling. Effective internal communication between credit control, sales and service is essential here.

Unpaid invoices – credit control should have a clear and well-documented escalation path for addressing situations where it is clear that invoices will not be paid. Bear in mind that there is every likelihood that legal proceedings to recover debt will be significantly delayed as a result of COVID-19.

Growing interest in supply chain finance solutions

Having considered the impact on suppliers of late payments, what can be done to speed up the whole payment process? One solution lies in the continuing development, and scaling, of supply chain finance (SCF) solutions – using new technology it is increasingly going to be possible for smaller suppliers to gain access to SCF.

Instead of using a corporate balance sheet to pay suppliers early, SCF is a well-known and popular solution which enables the buyer and supplier to disconnect the buyer payment date from the supplier collection date with a funder, typically a bank, bridging the gap. When structured correctly and implemented for the right reasons, it provides significant low-cost working capital benefits to both a buyer and their suppliers. A supplier is usually happy to forfeit a small discount to receive their payment early as the cost of doing so is calculated based on their customer's usually stronger credit rating.

TradeIX have considerable expertise in this area, and Scott provides some thoughts on the way forward for SCF in Asia: "Popularity in SCF solutions always increases further during times of crisis as working capital and cash become an even higher priority than usual. SCF is not as widely adopted for large corporate buyers in Asia as in Europe and the US, but the level of interest in SCF in Asia since the start of the pandemic, in particular in Japan, suggests this is changing rapidly".

SCF programmes have historically had a very narrow scope, only benefiting larger, strategic suppliers. Commenting on why smaller businesses, which desperately need the cash during times of crisis, have not been able to get on board and access the solutions developed to support them, Scott says: "This limitation stems from a lack of automation with the technology used (ie manual, human processes) and lengthy compliance and know your customer (KYC) requirements, which are different for every bank. It is not that smaller suppliers cannot be onboarded, it is that the combination of these two constraints makes the average cost to onboard a small supplier too high to warrant doing so and they are left behind. An SCF programme also creates a parallel accounts payable and payment process for the buyer – creating additional manual work required to process and reconcile back to the company's enterprise resource planning (ERP) system".

Scott notes that a clear, emerging trend is corporates looking for a single supplier payment solution for their entire supply chain needs and connected to their ERP – large and small suppliers, indirect and direct spend, early payment and on-time payment. He adds: "Suppliers need a secure and private lens into the buyer's accounts payable process – approval, payment and remittance, offsets, the ability to easily reconcile back to their own ERP system and there needs to be an early payment option to all suppliers, supported by the corporate's panel of banks".

The key is (i) the latest cutting-edge technology and (ii) using different funding structures for different supplier groups. Combined, this drives standardisation, simplification and automation, removing expensive human-led processes. Automation drives down cost significantly and enables the scaling of SCF programmes, and thereby the inclusion of new suppliers for the first time.

Winds of change

Mumtaz Dole

Director - Cash and Liquidity Management and Treasury Business Partner (APAC)

Vestas

Headquartered in Aarhus, Denmark, Vestas designs, manufactures, installs and services wind turbines across the globe. Through its industry-leading smart data capabilities, and over 104 GW of wind turbines under service, Vestas uses data to interpret, forecast and exploit wind resources and deliver best-in-class wind power solutions. Vestas has production facilities in more than 12 countries including China, India, Brazil and the United States – and with over 117 GW of wind turbines in 81 countries, it has installed more wind power than any other company. Vestas has more than 25,000 employees globally, and reported revenues of €12bn in 2019.

Mumtaz Dole has been Director of Cash and Liquidity Management and Treasury Business Partner (APAC) at Vestas Wind Systems A/S since June 2019. After graduating from the University of Liverpool with a BA Hons in Business and Information Management, she went on to gain her Association of Chartered Certified Accountants qualification. She entered the world of treasury in July 2007 with a role at Maersk Company UK Limited.

It was while looking for a new position after gaining her ACCA qualification that Mumtaz Dole was approached by a recruiter and offered a job at A.P. Moller Maersk Group as a Treasury Analyst. Although the shipping line was headquartered in Denmark, its numerous operations in the UK meant that the group was looking to open a treasury centre in London.

"One of my primary tasks was to become acquainted with the UK business from a treasury point of view, and to get to know the banks," she explains. "The group was in the process of moving all its companies from their existing banking partners to new banks. And to manage the liquidity, they were also setting up cash pools and a cash flow forecasting system." Given that she had known nothing about treasury before accepting the position at Maersk, Dole considers her entry to the industry as a very fortunate accident.

For Dole, there is a fundamental difference between accounting and treasury. "Although I studied accounting, I soon realised that treasury is a much better fit for me. I found

out quickly that treasury people look forward – they have more of a connection to the outside world. With accounting, it's more like looking back at the numbers." Having decided that this was the direction her career journey would take, she particularly welcomed the opportunity to forge close working relationships with the banks.

When the task of setting up the treasury was completed, Dole was asked if she would like to relocate to Copenhagen and join the project team rolling out SAP, primarily focusing on the in-house bank. Although she had never used the system, she was equipped with her knowledge of banking and cash pools as well as her relationships with banks. Using her experience of creating cash pool solutions for the UK, Dole ended up doing the same for a further 44 countries. "It was so interesting. Getting to know the countries, learning about the regulatory frameworks and what is permitted – it was a massive learning experience." At the end of the project, she had gained knowledge not only of SAP's in-house bank functional architecture, but also of the specific business and regulatory requirements of many complex markets including Asia, South America and Africa.

Hitting the ground running

It was while she was on a road trip in Argentina that Dole saw a position at Vestas advertised on LinkedIn. Attending the interview on her return, she was excited to discover that the job involved not only taking care of cash management, building cash pools and mass payments solutions (POBO, PINO and treasury payments) structures, but also building the whole banking landscape for the company. "It was everything that I had been training for. I felt like I had been taught by the best, and now I had the opportunity to do it for another company," she explains. "I was able to hit the ground running."

It was immediately apparent that Vestas had a culture of empowerment. Dole found that she had plenty of autonomy when it came to setting up the banking infrastructure for the company, and found the freedom a perfect fit for her method of working. She had two years to accomplish her task, including not only the technical aspect but also the shift from a decentralised set up to centralisation and the change management that comes with it. In total, the implementation involved over 100 subsidiaries spread across 79 countries, most of which were complex markets. "I felt confident because having done it before, it is much easier the second time," she explains.

The fact that Vestas is a 'green' company that is committed to sustainability makes working there not just a job but almost a lifestyle choice for Dole. "This company is doing such a great service to the environment," she says. "I come from the Maldives. It's a small country – about 1,300 islands – and it's suffering from the climate crisis. We may not exist in a few years' time. If I can do something to help, it might mean the difference between my family having to relocate or not."

In addition, Dole believes that the culture at Vestas encourages individuality and initiative. "You need to be able to lift yourself up and display some of your personality and be able to make yourself heard."

With the project now completed, Dole is extremely proud of the role she has played in designing and running the in-house bank at Vestas, considering it her finest achievement. "Of course, I didn't do it alone. But as project manager I find that I have now gained a reputation as something of an expert in this field."

Whether it's about how to select a bank in China, set up cash pools or negotiate the specific difficulties and complexities of individual countries in the APAC region, she finds herself being approached by her peers from other companies. In fact, one of the rewards of the project has been precisely this recognition by other corporate treasuries, as well as by banks. "We have presented it at EuroFinance, and we have been given five stars by Deloitte," she says, "and the solution was also nominated for the EuroFinance Treasury Excellence Award."

After the project

After the roll-out was complete, Dole was promoted to Director with responsibility for leading a small team overseeing the in-house banking, cash management and back office operations for the group treasury.

Following a restructuring some 18 months later, she found herself in the position of having to offshore up to 90% of the back office operations to a shared service centre in Manila in the Philippines. "Having an office in Copenhagen with responsibility for straightforward tasks is a very expensive option," explains Dole. "Our concern at the time was whether or not we would be able to recruit staff with the competencies necessary for the specialised functions of treasury." But as it turned out, these fears were unfounded, and Dole and her team were able to train the Manila staff in back office operation.

Stepping up

With the more routine tasks being handled by the shared service centre, Dole and the Copenhagen team were able to specialise in cash management. "We started looking into what the next step should be," says Dole. "Although we had this world-class cash management solution, things are continually moving and evolving in the treasury world."

The next 18 months gave Dole the opportunity to consider all the technological advances in treasury and the chance to discuss these with banking partners. It also enabled her to get to know many fintech companies and contemplate the future direction of treasury.

It was while experiencing the desire to take on fresh challenges that she was given new responsibility for the liquidity and cash management for the whole group. At the same time, she was also appointed business partner for Asia Pacific and China.

"Our treasurer is very keen for people in the team to step up. By taking extra responsibilities and building up competencies, he wants us to be fully fledged treasurers in a few years' time," she says. For Dole, that means stepping out of her area of specialised knowledge – namely cash management – and gaining a fuller understanding of all aspects of treasury.

Treasury in APAC

Responsibility for the Asia Pacific region (APAC) brings many challenges, not least of which is the disparate regulatory requirements of each country.

"Seventy percent of my cash is from the global cash pool, but for the other 30% I have to work really hard to bring it home each month," says Dole. "You not only need to know the regulatory framework, the currency controls and the documentation – you also need very strong partnerships with your local colleagues and the banks to do things smoothly."

In her time in the industry, Dole has seen treasury move from being decentralised to centralised. "But now I think corporates are going back to a decentralised model," she observes. "I see a lot of new treasury centres being opened in Asia, in Singapore and elsewhere."

Despite being based in Copenhagen, Dole has built strong connections with the team in APAC, which is responsible for all business operations, core treasury activities and dealing with the local banks. However, the sheer logistics involved in arranging meetings between teams in different time zones presents a challenge. "Personally, I think that treasurers should strike a good balance between centralisation and decentralisation," she remarks. Noting that Vestas has production facilities in China and India, and also sees big wind potential in Australia and Vietnam, Dole observes that Asia Pacific is a very important market in the wind turbine business – "and it would be extremely helpful to have a senior person based in Asia to look after the Asian market."

Impact of the COVID-19 crisis

As with so many companies, for Vestas the coronavirus pandemic brought sudden and far-reaching disruption. For Dole, the immediate priority was liquidity. Throughout her treasury career she has been keen for banks and corporates to regard themselves as being on the same side, and for relationships to be nurtured. "As it turned out, it was not necessary to draw on the facilities available, but the important point was that they were there and the banks were ready if we needed them," she notes.

Her other immediate concern was cash forecasting, which if problematic in normal conditions became a major challenge at the start of the crisis. For a project-based company, which is reliant on manufacturing facilities and supply chains in various countries to make and erect turbines, the potential for disruption is huge – and the disruption arising from COVID-19 put considerable pressure on the supply chain in the form of local shutdowns in ports, travel restrictions and transport capacity constraints.

"If we can't get the money in the right currency, to the right place at the right time, we could completely disrupt the business," says Dole. But while there was a degree of disruption, she says the team was able to settle very quickly into the new environment, while also transitioning to a working from home model.

A seat at the table

Despite the challenges brought by COVID-19, normal activity continues – and some three months ago, Dole was also put in charge of the company's working capital management, a responsibility that had been handled by a different team but now rests within treasury. "It is very new to me," she explains, "I have a lot of cash management, banking and general treasury experience. But I have zero experience in working capital management."

Dole recognises the challenges that she faces, not least of which is that treasury has no involvement in the components of working capital, namely accounts payable, accounts receivable and inventory. "Although these are not things that we have any direct influence over, we are of course very interested in the amount of cash that gets trapped in working capital," she says. "Cash is the lifeblood of the company; it is our job to make sure that it flows to where it is needed."

The opportunity that this new responsibility presents is to make it an absolute necessity to connect with the whole company. "Treasury can be very cut off from the rest of the organisation dealing only with certain specific financial risks," says Dole. "But now we are getting the opportunity to go out and learn the business in a way that we didn't before." She adds that while the treasury was previously focused on the cash in the business, it is now important to understand the context: "We need to know why a project is getting delayed. If a customer is impacted by coronavirus, how are they going to pay us? Who is funding them? Who are their banks? We have to know everything."

Looking forward, she says that having responsibility for working capital "is going to make us even more visible and increase Treasury's presence in the business." She adds: "I think treasury should be sitting at the top table. We are mitigating a lot of risk and providing a very specialist service for the company. Being able to enter new markets is one thing – but if you can't get your money out, and don't consider the financial risks, it is something else."

Taking stock

Outside of her work, Dole is focused on her commitments as a mother, wife and daughter. As the mother of two small children and another on the way, she is keen that they should be encouraged to adopt the best of both Eastern and Western values.

Looking back at her career, Dole says she is fortunate to have entered the world of treasury, despite knowing nothing about it beforehand, and to have had the opportunity to implement projects which required her to become a specialist in those areas. While she has achieved much in her roles, Dole compares her career path to getting on a boat and going to an unknown destination. "I was being taken along and I just had to explore the places that I encountered. I didn't plot my own course."

Looking at the world of treasury more generally, Dole notes that there are still not enough women leaders – and in APAC in particular, women may still encounter expectations that they will stay at home and focus on childcare after a certain time.

"From experience, I can only say that women can unleash the power within themselves if they try to reprogramme what they have been taught to believe about the 'woman's role'," she says. "I think I have a lot going against me: I am a woman, and I am Asian. I am also Muslim. And I am really short! But I have been lucky with my career – I think you need to have a little bit of personality to lift yourself up and make yourself heard."

With the right employer, Dole says, women are better placed to assert themselves and build a strong profile. "And with a lot of corporates actively working on diversity and inclusion, we're now part of those 'winds of change'."

Cybercriminals seek home comforts

With the volume of cyber attacks increasing since the start of the coronavirus pandemic, corporates need to demand constant vigilance and security policy compliance from work-at-home treasury staff.

Criminals thrive on turmoil, so it should come as no surprise that treasury exposure to cybercrime has increased over the course of this year. The latest Journeys to Treasury report produced by BNP Paribas, EACT, PwC and SAP refers to an upsurge in electronic fraud, with one contributor advising corporates to stress test their business continuity plans to mitigate the impact of a successful cyberattack.

This represents an acceleration of a trend highlighted in the 2019 AFP cyber risk survey, which found that 88% of corporate practitioners' organisations had been targeted by cybercriminals over the previous 18 months.

When it comes to preventing cyberattacks, identity and access management is vital. Detection modules in treasury management systems detect anomalies in account use, for example if an unusual request is made.

Another basic control principle is ensuring that the endpoint of the user connecting into the cloud system is encrypted across the network, explains the Chief Information Security Officer at treasury management solution vendor Kyriba, Eric Adam.

"If a user is connecting from a public space, an attacker would be able to listen to all the network traffic using security software tools and if this traffic was not encrypted they could analyse it for password and account information," he says. "We are therefore constantly refining our encryption technology, running penetration and network tests and assessing the vulnerability of individual devices."

Many organisations have different levels of control so if an attack was made on an internal business system it would not affect the applications they host or allow the attacker to extract data from these applications.

"Application level security is vital to ensure treasury applications are not vulnerable to attack," says Adam. "However, regardless of how the corporate structures its cybersecurity system, consistent policies are enormously important. If your business solutions require 15 character password access you want to keep this as consistent as possible across all applications."

A survey of IT professionals in the US, UK, France and Germany conducted by Tanium Security found that 90% reported an increase in the frequency of attacks after shifting to a distributed workforce. Visibility of new devices; overwhelmed IT capacity due to virtual private network (VPN) requirements; and increased security risks from video conferencing were the top three security challenges identified for staff working from home.

According to Martin Schlageter, Head of Treasury Operations at multinational healthcare company Roche, working from home in itself doesn't make it harder to protect treasury teams from cyber threats. However, he says, it does require different solutions (for example, highly sophisticated web application firewalls) as the existing measures don't scale to such an unprecedented increase in traffic and remote working.

"Firewalls and anti-virus protection may not be up to scratch on home PCs, so employers should ensure that only approved and tested communication devices are used for business and that these devices are not open to use by other family members," says Len Jones, Senior Accountant at property services firm Wincham Group.

Adrian Rodgers, Director of treasury consultancy ARC Solutions observes that corporate IT departments have spent a lot of time and money on creating hermetically sealed, safe computing environments for employees. "Staff using their own machines in shared space with family members is not going to improve the security situation, but this is not really the vendor community's problem," he says. "Responsibility for the development, propagation and validation of safe work from home practices lies with corporate IT departments."

In the office, treasury professionals will be protected by the corporate firewall and their IT colleagues will often be in close proximity, so if they receive a suspicious email, for example, they can quickly check if it is genuine. The networking equipment they use provides a further layer of protection. However, when they are working from home they will be using different routers and have different software controlling their devices' hardware, while their physical separation from IT staff makes them more vulnerable.

The first step for a corporate looking to boost its cybersecurity is ensuring it has enough VPN connections so that when staff connect remotely they are doing so through an encrypted private network. "They should then ensure that laptops and other devices being used at home are updated by the IT department," says Adam. "Making IT staff available to answer queries promptly is important, as is phishing training to prevent employees downloading malware." Jones says most potential cyber threats can be identified by a robust risk assessment, which will show the risks facing the overall organisation and its treasury staff. "It is clear that employee behaviour and IT

literacy have a crucial role to play," he says. Corporations need to build resilience to constant cyber threats while still being able to operate. Knowledge is the key and many large corporates have employed ethical hackers to penetrate their internal systems and operate as audit and assurance police."

A common form of attack is social interaction, which can lead to identity theft. Hackers may also impersonate CEOs or people in senior positions and use language which causes the recipient to initiate a payment. "Even with additional layers of authorisation this can be problematical as hackers may have access to other co-signatories on the accounts," says Jones. "Criminals will also hack into client emails and impersonate the business in order to have the corporate pay them rather than the legitimate company. Multi-step verification processes and internal controls are crucial here so that no one person has complete control of the payment process." Another step corporates can take to improve their cybersecurity is to establish protocols around how email addresses are structured so that phishers can be identified. Given the level of fine that can be levied by the ICO, companies should already have robust controls in place to protect sensitive information.

Cultural organisational issues should be at the forefront here because data is a resource that has value and must be protected. User behaviour must also be modified so that apps and programmes are not downloaded indiscriminately, while the usual internal controls regarding passwords and user access (including past employee access) is essential.

When asked how treasury cybersecurity technology vendors keep pace with the evolving threat from cybercriminals who are constantly developing new methods of attack, Adam explains that it starts with analysing the types of attack that are made to get an understanding of what the cybercriminal is trying to achieve.

"We also ensure that only permitted communication is allowed between different corporate systems, which links back into the issue of access control," he adds. "When we analyse major cybersecurity breaches, we can often trace the source to non-observance of a basic principle."

The authors of the Journeys to Treasury report observe that while treasurers rarely 'own' responsibility for cyber risk, they can play a major role in preventing attacks, given the sensitivity of the data and scale of financial transactions and holdings managed within their departments.

It would be unusual for treasury departments to have dedicated cybersecurity systems or processes distinct from those of the wider organisation. However, because these departments deal with a small number of high value transactions they are at particularly high risk of attack.

Schlageter suggests treasury systems not only require much stricter controls than most other information systems, such as ensuring the identity of the user and mapping every action and connection to that user and device. "Due to the potentially high financial loss in case of a system breach, they also require dedicated cybersecurity systems for security incident and event monitoring," he says.

"We expect treasury cybersecurity technology vendors to keep up with evolving threats by running a security lab with full-time security researchers and offering professional services such as security penetration tests and consultancy as well as participating in and running security conferences," he adds.

Stephen Lane, Chief Financial Officer at mechanical engineering firm Xtrac, reckons any business would be well advised to look at cyber security in 'the round' while acknowledging that there may be certain nuances required to protect the financial elements of the business. "The role of the chief technology officer/chief information officer has been rapidly evolving to ensure that businesses invest appropriately in modern equipment and security that offers suitable protection," he adds.

"There are certainly opportunities for cybersecurity vendors, but I think there is also a very clear opportunity for proactive management of a company's IT estate such that protection can be developed as efficiently as possible within a pragmatic and financially sensible framework."

The challenge for corporates is how to take a more focused approach to treasury if their cybersecurity processes are applied uniformly across the whole organisation says Dino Nicolaides, Managing Director, Head of Treasury Advisory UK&I at Redbridge Debt & Treasury Advisory.

"I have seen clients address this issue through stricter processes," he says. "For example, some treasury departments are not allowed to accept payment instructions via email, even if the authorisation appears to come from the very top of the organisation. This would require payments to be verified by phone."

In other cases the corporate might impose a policy of not accepting payments made to a supplier that is not already onboarded on the system, or insist on a pro-forma being provided before any invoice is submitted for payment.

Of course, in the pre-coronavirus era a payment instruction could often be verified in person. With so many treasury staff working from home this is no longer possible, although Nicolaides says corporates have responded by reviewing cybersecurity processes and procedures to tighten controls around remote access. "This remains a work in progress, but progress has been made."

Nicolaides believes corporates are making greater efforts to keep treasury staff updated on potential cybersecurity vulnerabilities.

"Treasury cybersecurity technology vendors react quickly when new forms of attack emerge and we have noticed an increase in attempted attacks since the start of the pandemic," he says. "Corporates have been more proactive in reminding their treasury staff of the main threats and risks and the techniques used by cybercriminals to ensure they remain alert and don't ignore suspicious activity."

Rodgers offers some reassurance for corporate treasurers by suggesting that banks' systems now incorporate many of the lessons learned from decades of experience in producing payment systems and portals.

"For treasury, multi-level approval layers – tailored to the risk involved – will underpin a robust control environment," he concludes. "It is probably even more important to create and widely publicise the payments rulebook in order to avoid the dangers of 'Friday afternoon' fraud and similar social engineering attacks."

Open banking: time to focus on corporates

Open banking and its promise to usher in competition and a swathe or new products has done little for corporate treasury. It is time for banks and treasury to adopt a new mindset.

For Pedro Madeira, Group Treasurer at UK telecoms group Arqiva, open banking – the UK version of Europe's PSD2 – and its drive to encourage banks to open-up their precious data isn't really on the radar. "Open banking doesn't affect us. We would be interested in exploring the opportunity to access other banks from our main bank platform, but it's early stage and I can't see how it would change how we do business," he says, reflecting a muted interest in open banking's promise of competition and innovative financial products and services that is shared by many other treasury teams.

For enthusiasts, however, the technology that allows banks to securely share information with their customers' consent via application programming interfaces (APIs) with regulated third parties (TPPs) may be complex, and driving deeper, widespread adoption still a way off, but the benefits are undeniable. And signs of progress, like industry body Open Banking Implementation Entity (OBIE), recently reporting a record number of API calls, or requests for information, between systems, shows banks are finally responding to increased demand from treasury teams to develop corporate APIs.

Challenges

Still, everyone agrees progress is slow. One key reason remains a lack of corporate demand. Treasury teams with little downside risk from ignoring open banking have little enthusiasm to explore its opportunities. For example, Arqiva uses an HSBC banking platform that already embeds strong customer authorisations and security protocols, says Madeira. For large corporates using SWIFT or similar third-party applications that already offer multiple banking information, the push for open banking is similarly lacklustre.

With no pressure from clients, corporate banks have been slow to innovate. On one hand, some of the physical infrastructure isn't fully in place yet, explains Hakan Eroglu, Global Open Banking lead at Mastercard Advisors. Banks need to introduce APIs for TPPs to access customers' accounts, and the speed at which banks systems respond to API calls is crucial. "At the moment, not all banks have compliant APIs available or working the way they should. Speed and availability are important in the API business," he says.

Retail focus

Banks have been equally slow to roll out products for corporates to take advantage of the ability to share information. Their focus has been on retail customers, primarily around encouraging switching to stop money languishing in current accounts not earning interest. "I haven't seen much effort being put into corporate solutions," says Arqiva's Madeira. "Some banks are evolving solutions but it's sporadic. Open banking is something targeted at retail customers, and corporates have been an afterthought." He'd like to see innovations that could help Arqiva's B2B business like greater concentration of the company's bank accounts, tighter security and centralised cash management. "The ability to have all this without using SWIFT would be significant for a mid-sized corporate like Arqiva." The problem is compounded by the lack of regulation pushing corporate innovation, says Eroglu. "Most of the focus is around online banking. Corporates have much more complex needs that are not covered by PSD2 – or other regulation," he says.

Like banks, fintechs have also prioritised retail over corporates, says Professor Markos Zachariadis at the Cambridge Centre for Digital Innovation. However, he does observe that fintechs have developed an increasing ability to offer corporate solutions in the last three years. "There is a lot of accumulated knowledge and experience in the fintech industry that can be re-purposed or transposed to develop business banking solutions," he says.

A next step would involve fintechs partnering with banks. But this depends on corporate banks integrating with innovative fintechs leading in the space, and role models are few and far between, says Zachariadis. "Fintechs are not great at customer acquisition and banks won't necessarily do much to provide them with access to their clients. The emergence of platforms that can connect the dots and integrate fintechs and banks into corporate systems may be the way forward for corporates to benefit from fintech innovation."

Regulatory barriers

Regulatory disparities between different markets don't help. In Europe, despite overarching regulation, there is no uniform adoption of open banking between European countries. Some banks are embarking on automated onboarding processes; others are pushing manual registration or asking TPPs to register on a development portal. "There are different interpretations in different countries, and it is also a question of whether the regulation has been implemented properly," says Eroglu.

Brexit is adding to unknowns for the UK's financial services industry around PSD2, one of many pieces of legislation within the European directive. "Who is going to take charge of

> The problem is compounded by the lack of regulation pushing corporate innovation.
>
> Hakan Eroglu, Global Open Banking lead at Mastercard Advisors

the implementation of this post Brexit?" questions Madeira. "It feels that regulation might be taking a back seat."

Outside Europe, the pace of implementation is equally disparate – and slower. For example, Hong Kong's Monetary Authority (HKMA) began its open banking journey in 2018 launching four phases of regulation, but banks have yet to really open up account data and enable the initiation of transactions by third parties. In Singapore, "by far the most advanced country in Asia in terms of open banking and APIs" according to Eroglu, there is no regulation in place and utilisation remains comparatively low. "The reasons are a lack of market-wide standardisation of APIs and a lack of common infrastructure and processes. A fintech will be reluctant to invest time and money in developing apps that will only work with a certain bank in a relatively small market like Singapore," he says.

Nevertheless, he believes that despite the lack of regulatory stick, open banking's benefits will ultimately drive take up. "When we talk to banks outside Europe about their strategy around open banking in the corporate space, many are not under regulation. But they still want to understand its merits and learn how to build their own ecosystem and business model around it."

New approach

The lack of innovation and interest in all open banking offers, requires a new narrative to capture the industry's imagination. And now is the time as transaction banking grows more competitive, and treasury teams take a tooth comb to costs. Moreover, the pandemic has highlighted the wider importance of APIs, forcing banks to prioritise and drive their digital offerings and explore new technologies to meet increasing client demand for digital solutions.

Because it is real time, open banking can transform working capital and liquidity management, says Eroglu, in an enthusiastic reminder of all open banking's benefits. Companies can carry out instant payments from one account to another or pause payments at the touch of a button. It allows treasury to access all their transactions and balances instantaneously, giving a window into the entire dollar, sterling and yen positions in one go. By connecting to multiple banking relationships, companies can streamline and optimise invoicing, putting all their transactions into one place or paying them at the best time to optimise cash management. "There are things you can do much better when you have a 360 view of financial situation in real-time," he says.

Open banking promises easier digital onboarding. Imagine a 'passport API' that sends all your information from a bank where you are already set up to a new one you want to join, easing a complex process frequently cited as a pain point for corporates. Similarly, it would allow bank credit committees to make quicker, more informed decisions to boost credit lines by sharing data.

Nor is any business too small or large to benefit. For large corporates, the technology can feed data directly into their Enterprise Resource Planning (ERP) systems, providing treasurers with insights on cash flow trends that can help them improve financial efficiency, suggests Andrea Melville, Managing Director and Head of Commercialisation and Propositions, Lloyds Bank Commercial Banking.

As for smaller companies (which find SWIFT too expensive and in excess of their needs, yet still need multiple bank accounts) it enables information sharing across one centralised platform as opposed to managing three or four separate banking relationships, a benefit that has crossed Madeira's radar. "In this respect, open banking could ward off cyber security concerns and manage multiple authorisations and mandates. It would simplify processes and also keep things tight, centralised and secure," he says.

Elsewhere, Lloyds is currently testing an intelligent book-keeping solution for small businesses that combines data gathered from open banking with companies' own invoices and expenses data. "It will help reduce the administration load for small and medium businesses and enable them to make better financial decisions through real-time cash forecasting and profit and loss information," says Melville.

Lloyds is also using open banking technology to become a Payment Initiation Service Provider (PISP), a type of TPP authorised to make payments in and out of accounts. It creates a new receivables proposition that will allow its largest clients to improve the payment experience for its end customers. "On top of this, we're developing new applications for APIs that corporates are starting to integrate directly into their own systems. A good example is an API that speeds-up the 'time to decision' for asset finance credit requests," she says.

Investment

It's the kind of product innovation and new customer propositions that are finally starting to trickle. But banks' journey to becoming API-driven organisations, shifting to innovation and monetising open banking doesn't just require a new mindset. It also needs investment, says Eroglu, who urges treasury teams and their banking partners to view open banking as an opportunity rather than a regulatory must. "Banks need to invest, especially in the regulated market. It means investing in technology and finding their way with the help of strategic and consulting advice. Banks need to make themselves open and agile and change their business models."

Only then will they begin to think about distributing new products in different ways, rethink their target operational model and put themselves between multiple business models as a service, a platform and as third-party service provider – a position already grabbed by the tech groups and other API driven companies. In short, banks need to focus on corporate clients, and grab the opportunity to innovate in a win-win for banks and treasury. "We would consider changing bank accounts if we found that a bank starts racing ahead in terms of developing open banking tools we could take advantage of," concludes Madeira.

What is a purposeful company and how can treasury get involved?

> *Evidence suggests that companies with a declared purpose perform better on important metrics over time than their less-purposeful peers. (Purposeful companies have a clear role in the world that offers them a reason for being, and promise to work for all their stakeholders rather than just shareholders.) How is this new idea of corporate purpose manifesting in corporate Treasury?*

Tom Gosling
Executive Fellow,
London Business School and is on the Steering Committee of The Purposeful Company

A purposeful company should have its purpose resonate through every aspect of its strategy and operations. A purposeful company understands how the core process by which it makes money is aligned to its purpose. It understands which stakeholder relationships are most important to its purpose and how it impacts all stakeholders. A good purpose, well-articulated, will flow through into everything the company does, including the treasury function.

Treasury decisions that might have been based on optimisation of the balance sheet come out slightly differently when a company looks through a purpose lens. Purpose could play out in treasury strategy through strict rules on how quickly to pay suppliers. It could manifest in conditions a company won't accept in loan covenants to stop creditors doing things that damage the purpose. Elsewhere, purpose could be aligned to employees. For a company where the key purpose is to provide a secure livelihood for employees, for example John Lewis, this could impact how aggressively it negotiates on pension covenants. In another example, a renewables company focused on the transition might look carefully at its banking partners and the extent to which they finance activities that contribute to CO2 emissions.

Unilever, and its purpose to make sustainable living commonplace, is the archetypal example of a purposeful company. The company has unpacked what this means in terms of the way it makes money and how it integrates across its business operations. It actively invests behind the brands it believes are aligned with its purpose and divests from brands that don't align because they believe purposeful brands create faster growth.

Unilever also looks at the whole ecosystem in which it operates. For example, it works with its supply chains to enable them to deliver products in a sustainable way, which has had treasury implications: the company offered €500m of cash flow relief to support livelihoods across its extended value chain during COVID.

One of the problems that arises is where a company feels that the purpose can only describe the good things it does, and therefore ignores the bad. This can undermine purpose. Discussions about purpose must be grounded in the reality of what the core business is. There are businesses that do messy, difficult things and face genuine conflict with certain stakeholders, but they can still be purposeful. It lacks authenticity if a purpose statement is contrived and does not face up to the reality of the company's business. It is a good idea to be honest, otherwise it creates dissonance and backfires on relationships. Employees are particularly engaged and motivated by purpose and attuned to hypocrisy.

There are now an increasing number of companies looking at purpose with serious intent. But it is difficult to do, and a multi-year process with pitfalls along the way. But we have already seen that organisations that have figured out what their purpose is, and how they impact their key stakeholders, have been better placed to respond to COVID.

Florence Saliba
VP Treasury and Financing
Danone

Danone has integrated purpose since 1972, enabling the company to create both shareholder and societal value. We aim to inspire healthier and more sustainable eating and drinking practices and believe that the health of people and the health of the planet are interconnected. This is now pegged in our 'One Planet One Health' vision.

This purpose and vision is embedded across the business, and our treasury and finance divisions are empowered with the tools to match that purpose. This is particularly evident in our funding strategy.

We are a component stock of leading social responsibility indexes including the Dow Jones Sustainability Indices, Vigeo Eiris, MSCI ESG Ratings and the FTSE4Good Index. Inclusion in these indices involves a long assessment process and this transparency and credibility can drive our investment decisions.

Our goal is to contribute positively to all 17 Sustainable Development Goals, but we have prioritised three particularly:

SDGs two, three, and six around Zero Hunger, Good Health and Wellbeing and Clean Water and Sanitation, respectively.

Two years ago, we partnered with our core 12 banks in a facility that lowered our cost of borrowing if we increased our positive impact, all verified by a third party. We raised US$2bn in a syndicated credit facility whereby our ESG performance directly impacts – upwards and downwards – the margin payable to the banks over the entire duration of the facility. So far, our external metrics have shown that we are improving our ESG performance.

We have also done a social bond in line with our purpose to create and share sustainable value with all our stakeholders. In 2018 we were the first multinational to sell a social bond in line with the new Social Bond Principles set out by the International Capital Market Association. We had really good results, and a strong reception from investors. I believe this is because we are credible; we were able to demonstrate to investors that this topic has been a long journey for us.

Proceeds from our social bond have gone towards research for specialised nutrition. Funds also support entrepreneurs and start-ups, communities, and healthcare in emerging markets. Proceeds from our social bond also finance mangrove planting in Senegal to create carbon credits, and we support farmers in our supply chain to guarantee stable income for farmers and long-term collaboration on sustainability issues.

When it comes to putting in place this kind of financing, we must partner with banks that really believe in our purpose. It involves a great deal of discussion and collaboration and involves working with banks that are well connected with ESG investors. We find that our purpose also attracts investors to our traditional, or classical debt. I believe investors like our paper also because of our purpose.

Suresh Subramanian

Managing Director, Head, Trade & Treasury Solutions Americas

BNP Paribas

Nearly every conversation we've had with corporate treasury teams and finance officials in recent months has included discussions around sustainability, and increasingly, purpose. The typical questions we ask include how the company is integrating sustainability into procurement and labour practices, or we might ask for more insight into their energy and water conservation policies. More often than not, the response is positive, but the person tasked with sustainability isn't just the treasurer. It is usually a combination of roles split between the chief sustainability officer and treasury.

The push towards sustainability and broader purpose is being driven by growing concerns emanating from a company's stakeholders, particularly employees. Employees are driving companies to push the envelope and become more responsive. There was a time a company could say they didn't know anything about purpose. Now most companies realise that purpose and sustainability make a big difference in employee engagement and how they are perceived by the outside world. It is also right for companies to try and make a difference in society and, of course, COVID has also played a factor.

There is a clear difference between integrating purpose and sustainability. In companies that are clear about their purpose in society, the commitment of employees across the board is more tangible. It is easy to determine corporate purpose when talking to employees. You can ascertain whether it is a new fad or something that lies at the core of corporate strategy. Companies that have a sense of purpose have a direction driven from the top of the house. They are not just giving lip service to the concept.

In the supply chain, purpose usually manifests around procurement and what a company is asking its suppliers. Purposeful treasury teams will look beyond basic regulatory needs to truly analyse their sourcing and supplier selection processes; they will ask for compliance from their suppliers and get tough on them to improve the whole ecosystem.

In fact, purpose isn't exclusive to green endeavour. An oil company can be purposeful by, for example, working with local communities and contributing to society. A company's core products may not be sustainable, but their practices could be contributing and giving back to society in multiple ways. There is no one right answer in the approach to this.

Companies with a purpose anchored in societal benefits often find it easier to attract investment - investors have a clear preference for companies in this category. In fact, much of the drive for purpose is coming from institutional investors and pension funds increasingly asking companies what motivates them. However, purpose doesn't lower a company's cost of borrowing and the PR benefits of integrating purpose are modest.

The benefit comes from the fact employees are much more motivated to work for a purposeful company. The next generation is far more conscious of purpose than previous generations. Consumers are also motivated by purpose. It allows consumer-facing companies to tap a demand pool based on their sense of purpose.

Next question:

"COVID-19 and the strained US-China relationship is causing companies to rethink their supply chains. How are companies beginning to change their supply chains, and what does it mean for corporate treasury?"

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

Adaptive treasury

COVID-19 has accelerated many evolutions in treasury practice. Recent conversations have provided interesting examples of how treasurers are adapting to this new situation.

Liquidity

Liquidity is still top of mind for many treasurers. This has driven extra urgency for cash visibility and cash flow forecasting. Another aspect of liquidity is ensuring access to cash from the capital markets. Treasurers have been working hard on both fronts.

Many treasuries still rely on manual processes – in treasury itself or at subsidiaries or both – such as transcribing or copy and pasting bank statements and Excel and email for cash visibility. This manual approach is slow and error prone. The uncertainties brought by COVID-19 no longer allow treasurers the luxury of such inefficiency.

Treasurers who relied on manual processes for cash visibility have scrambled to digitise in order to increase the speed and accuracy of their cash visibility. This has the further benefit of freeing limited treasury resources to work on more value-added issues, such as forecasting and business support.

Treasurers are using the full range of solutions for cash visibility, depending on their circumstances. These include:

- SWIFT for Corporates.
- Other multi-bank platforms like TIS and Fides.
- TMS bank connectivity.
- Using a relationship bank to consolidate multiple banks.
- Some are using middleware and data warehouse technology.

With cash visibility cleaned up – which means seeing 90% of prior day closing cash balances at the start of day – treasurers have been using this as a starting point for short term cash flow forecasting – aka cash positioning.

With resources tight across treasury and subsidiaries, forward thinking treasurers are using machine learning to forecast short term future cash flows. The important caveat here is that machine learning basically relies on patterns in past data to predict future flows – the uncertainties of COVID-19 mean that for example customer payment behaviour this year is likely to deviate from 2019 behaviour. On the other hand, machine learning works with very granular data – in the case of accounts receivable, invoice level data – so it can spot changes in trends such as customers delaying payments much faster than human analysis would.

Treasurers are also using some of the resources saved by automating to deepen their longer-term cash flow forecasts over multi month and sometimes multi-year timeframes. Of course, the best forecast is only as good as the assumptions behind it, so forward thinking treasurers are using scenario analysis and min-max to explore pertinent different trajectories, such as current trajectory or second wave and so forth.

Capital markets

Because cash flow forecasts are both volatile and constrained by the multiplicity of possible scenarios, treasurers are willing to pay the high cost of maintaining extra cash. They see this as a form of insurance against some of the dire scenarios which have to be assessed as possible and maybe even likely to happen.

The simplest way to load up on cash may seem to be to draw down on revolvers and other undrawn credit. But this has not been simple for many – banks have balked and tried to trigger MACs; they have also had to manage credit from a regulatory and societal perspective at a time when there has been a lot of demand.

This has meant treasurers effectively have to negotiate with lenders to explain their approach and needs. Some have extended tenors to avoid liquidity squeezes in coming years.

Covenants have been re-negotiated to allow for some of the extremes that the more negative scenarios imply.

Treasurers have also switched to what used to be exotic sources of funds outside the typical capital market and bank sources – peer to peer funding, high net worth individuals, non-bank lenders, sustainable financing, and others.

Of course, once they have the cash, they have to find a place to park it. Negative interest rates are a given in most western markets. Treasurers focus on the spread between funding cost and investment yield in any case. Some treasurers have reassessed their net investment foreign exchange exposures to find opportunities to park cash in positive interest rate markets, but for most the FX swaps required to maintain neutral FX positions obviate any benefit.

In any case, credit and liquidity risk are generally top of mind, not yield. Especially in these tumultuous times, treasurers are sticking with the cash investment mantra 'SLY' – security, liquidity, yield, in that order.

Communication

Dealing with debt capital markets to draw down, extend and re-negotiate finance is just one area in which treasurers have had to brush up their communication skills. Internal communication has also become critical within treasury teams to maintain cohesion, with peers to ensure effectiveness, and with senior management who are now taking a keen interest in liquidity (and hence survival).

Not all treasurers are enthusiastic about the plethora of virtual meetings and team platforms, but all emphasise the need for adapted and deeper communication to maintain team cohesion. An example is checking in regularly with team members without burdening them with micro management. Listening becomes a key skill to avoid distracting team members unnecessarily.

Technology

COVID-19 has brought treasurers' focus squarely on technology. Whatever the use case, cloud has come into prominence as a safe and reliable way to support working from home and working from anywhere paradigms.

While cloud has been an obvious solution to virtual teamwork, security concerns over payments and other sensitive data have grown. Treasurers (and their IT colleagues) worry about the implications of accessing sensitive systems and making large value approvals from potentially insecure home networks.

One scenario that comes up is where, despite a solid VPN which most corporates have for remote working, work laptops may be compromised by weaknesses in home wiFi from IoT devices and so forth. Another concern is that the latency of home WiFi may not be fast enough for online trading.

Although one reads about American tech firms paying to upgrade employees' home offices with hardware and security and even furniture, that does not seem to be the norm from recent reports. Rather IT departments are deploying – often confidential – packet sniffing machine learning to detect and alert unusual packets before anything too serious happens.

KYC

One area that has always been very paper based is bank account management (BAM) and know your customer (KYC). Since COVID-19 rendered face to face interaction and wet signatures with witnesses extremely difficult if not impossible, the industry has been faced with a deep quandary.

To their credit, it seems banks have started accepting most major forms of e-signature wherever possible. Of course, this is limited by local regulation, and thus dependent on regulator acceptance. Regulators have been slow to adapt to the ongoing digitisation, so wider KYC processes remained mired in paper.

Banks also struggle to digitise BAM processes in accordance with regulator mandated compliance procedures. Bankers and treasurers seem to have a shared frustration on this issue. Treasurers often cannot meet operational requirements. Bankers miss sales opportunities. With governments digitising furiously in other areas, one can only hope that financial regulators will feel pressure to wean themselves from their addiction to paper and ink.

Conclusion

COVID-19 has presented treasurers, and indeed the industry as a whole, with myriad challenges. Responses have been varied and creative, adapting to corporate circumstances and ecosystems. It has definitely been a team effort across the industry as well as across corporate departments. It is good to see the industry pulling together in the face of this crisis.

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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