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## China's international growth slows

China's multinationals have expanded rapidly in recent years, but are now facing several headwinds.



### The Corporate View

**Gopul Shah**

Director, Corporate Treasury and  
Structured Trade Finance  
**Golden Agri-Resources**



### Embedded finance

What do the terms 'embedded  
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# Grappling with uncertainty becomes the new normal

The year-end is a chance to reflect on what was different – and what was the same – in 2022. The uncertainty was the same, in the last year treasurers have had to adapt to a new pace of change. What was different was the slow emergence from the pandemic and, in some parts of Asia Pacific, a return to normality.

This time last year many people were still not meeting face to face. And, as we hosted the Adam Smith Awards Asia and the Women in Treasury Forum APAC in Singapore, it was great to see old friends and colleagues in the flesh – a welcome relief to the Zoom world that we have become accustomed to.

As the COVID-19 crisis seems mostly behind us, treasurers are now grappling with a challenging macro-economic environment. Multiple external factors continue to impact corporations and for China's largest companies, these have tempered their international expansion – as the lead feature in this issue discovers.

These headwinds are part of the treasurers' new normal. And, as Gopul Shah, Director, Corporate Treasury and Structured Trade Finance at Golden Agri-Resources, explains, having strong core values can keep you steady during periods of uncertainty and change.

The technology that treasurers have to navigate is also changing rapidly, and this issue explores what embedded finance and Banking as a Service really mean. And the Back to Basics feature examines the attitude that treasurers have toward cryptocurrencies given the latest scandals to hit this space.

The ongoing energy crisis is another topic to contend with, and our experts in the Question Answered section tackle the question of how treasury can support their organisations.

And in dealing with such challenges, corporate treasury has become more strategic, as our feature on leadership shows. This article examines the role of empathy and empowerment – qualities we can all rely on and nurture in these uncertain times.

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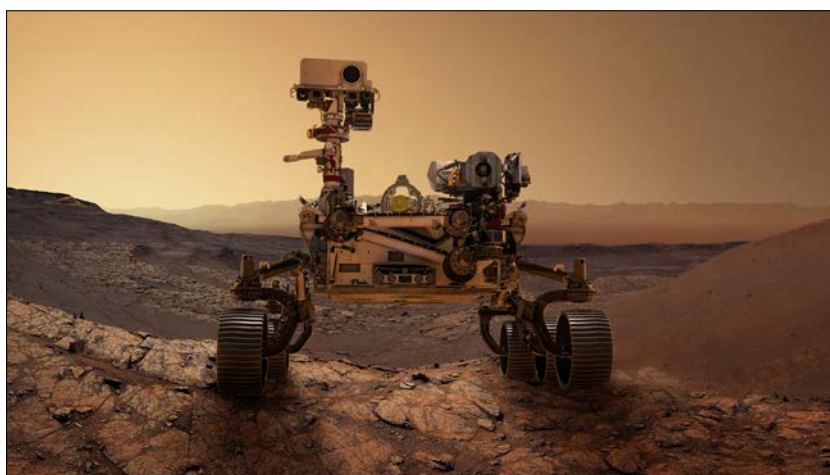


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## 11 The Corporate View

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Gopul Shah has weathered the storms of various crises and challenges. He explains how his personal values, financial discipline, and work ethic have kept him steady in order to cope with uncertainty and change.

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# Headwinds slow China's international expansion

*China is home to some of the largest corporations and brands in the world, which in recent years have experienced a meteoric rise and dramatic international expansion. Several external factors, however, are producing headwinds that are tempering their growth plans.*

China is the birthplace of some of the world's largest corporations that some people haven't even heard of. And the country is also producing consumer goods that are giving the biggest brands in the world a run for their money. Then there are the tech companies that have ridden the wave of digitalisation that surged during the COVID-19 pandemic. The rise of such Chinese corporations has been meteoric, but now there are many reasons to believe their international growth will be tempered in the coming months, possibly even years.

The rise of China's corporations has been notable. Academic Lourdes Casanova, a Senior Lecturer at Cornell University's SC Johnson College of Business and author of *The Era of*

*Chinese Multinationals: Competing for Global Dominance* has been tracking their rise in the annual Emerging Market Multinationals Report. "We were surprised," she says of the scale of Chinese corporations and how international they actually were. "We were surprised to discover the power of Chinese multinationals." That was back in 2016 when the report began and since then those large Chinese companies have continued their rise.

And that rise has been impressive, which the latest figures from Fortune's Global 500 list of top companies show. For the first time since Fortune has created the rankings, the revenues of the Chinese companies exceeded the revenues

of US companies, and Chinese companies (from Greater China, including Taiwan) accounted for 31% of the total of the global list. State Grid Corporation of China – also known as State Grid – was ranked as the third-largest company in the world, by revenue, after the more well-known brands of Walmart and Amazon. In 2022, there were 145 Chinese companies that made the Fortune list and it was the fourth year that China had the most number of companies.

However, these 145 corporations are not all-powerful, and not all the data paints a rosy picture. The Fortune results show that the profitability of these companies is not as good when compared to their peers from other countries. When the average profitability of the 145 Chinese companies was compared to the global average, the Chinese figures fell short: China's corporates had an average profit of US\$4.1bn compared to the global average of US\$6.2bn. This indicates that all might not be well with the meteoric international expansion of China's corporates, or that they might have other objectives aside from making profits.

When looking at the Fortune top 500 list, it looks like the Chinese companies have really arrived on the global scene. This dominance has been building over several years, as Casanova explains. She tells Treasury Today Asia that things really started to change after the global financial crisis. That's when Chinese corporations started to grow and the gap between them and multinationals from other emerging markets started to widen. Also, the influence of corporates from other places, such as Europe and Japan, started to wane while these Chinese companies were on the rise.

Today the largest Chinese multinationals are energy companies and financial institutions. State Grid – perhaps the largest company in the world that most people have never heard of – is the largest Chinese company and is a behemoth with over 870,000 employees. In descending order by revenue, the next largest Chinese companies are China National Petroleum Corporation, Sinopec, China State Construction Engineering and Industrial and Commercial Bank of China (ICBC).

When considering public companies that are measured by market capitalisation, it is a different breed of corporates although financial institutions still feature high in the list. At the time of writing, at the top of the market cap list were companies such as internet platform Tencent, drinks company Kweichow Moutai, e-commerce giant Alibaba, followed by ICBC and China Construction Bank.

When it comes to household names, it is in the consumer goods space that Chinese companies are becoming notable. Casanova points to the smartphone market, where China's companies have slowly been building a presence there as well. Casanova gives the example of the market share for smartphones globally, and how many of those companies are Chinese. The percentage market share by units sold are dominated by them: Huawei (17.5%), Xiaomi (9.2%) and Oppo (8.3%), which compares to Samsung's 21.6% and Apple's 13.9%.

"Chinese companies compete on price," says Casanova. Also, the cost structures in China – labour, gas and energy prices – are still relatively low when compared to other countries such as Germany, Japan, South Korea and the US, explains Casanova.

The quality, however, of Chinese companies' goods are still questioned. When asked if this is like the trajectory that Japanese companies took with their international expansion in the 1980s, and then later with South Korean companies – which are now recognised for their quality – Casanova says there is a major difference in these stories. "The Chinese companies have grown mainly with the growth of their domestic market – the Chinese market is huge compared to Japan and Korea," explains Casanova.

Although the Chinese companies' expansion has been rapid in recent years, James Root, Andrew Schwedel and Kevin Chang – all Partners at consultancy Bain & Company – point to a number of headwinds, including geopolitical tensions, supply chain disruption and the impact of COVID-19. In this new macro environment, they write in an article, Chinese companies might be better off focusing on their home market: "Their greatest growth opportunities lie right in front of them."

However, many Chinese companies are facing challenges on the domestic front as well. These challenges, such as the after-effects of COVID-19 and inflationary pressures, are not dissimilar to other countries. During the pandemic, China took a harsher line and adopted a zero Covid policy that resulted in severe lockdowns – long after other countries around the world were beginning to lift restrictions. Research by S&P Global Ratings found that this policy has impacted Chinese companies more than the threat of inflation and is more likely to affect the outlook for them for the coming months.

Meanwhile, the health of China's state-owned enterprises (SOEs) has been called into question. Analysts at S&P Global Ratings argue they are over-leveraged and stuck in a debt trap. The smaller SOEs by revenue, eg, the companies that make up 90% at the bottom of the list, are expected to need outside help for them to survive, according to S&P Global Ratings.

The analysts note in their research that those companies – which account for 45% of China's non-financial corporate debt, but only generate 15% of the earnings – have had to borrow more to repay existing loans. Given the economic slowdown in China, these SOEs will likely need to be propped up by government assistance. Given the tougher market conditions, there are projections that 13% of China's SOEs could be cash flow negative in 2023. And S&P Global Ratings projects a worst-case scenario of 28% because of the size of the companies' debt and their relatively low earnings.

The size of the borrowing of these SOEs is staggering. In the first quarter of 2022, for example, corporate debt in China was approximately the same size as the government debt of the United States. When it comes to the ability of the Chinese state to step in, however, China is better placed than other countries to help its ailing firms. China, the S&P Global Ratings researchers point out, has lower leverage with its government debt than other countries, such as the United States or in Europe.

In the media coverage of China's economy, there has been much attention paid to the worsening conditions in the real-estate sector. However, there are problems looming for other sectors, and S&P notes that industrials (including construction and engineering) and consumer goods are also facing the same problems of high leverage and low earnings.

These warnings temper the enthusiasm about Chinese companies and their potential for further international growth. While many of the country's multinationals have made a name for themselves and have had a meteoric rise, the Bain & Company consultants question how solid the Chinese companies are. They note there are now 3,400 Chinese multinationals, many of which have seen rapid growth in their international sales. Companies such as Lenovo, Haier and Huawei have been notable in their international ascent, but their success may not be indicative of the rest.

"It's no wonder that the list of Chinese multinationals appears to be growing. But, the early leaders are starting to look more like a group of exceptional pioneers than an advance guard blazing a trail for the rest. The ranks of scale of global Chinese multinationals are, in some ways, surprisingly thin. While a sector-by-sector view reveals many Chinese firms that value international growth, these firms differ from other multinationals," the Bain & Company authors write.

Also, they note, the foreign sales of these companies are a relatively small portion of their business. Casanova makes a similar point about the likes of ICBC, which although it has an international presence in over 50 countries, the revenue from those foreign countries is just a fraction of the total because its domestic market is so huge.

In considering the international expansion of Chinese companies, there are great differences in the types of companies that operate internationally. On the one hand there are the SOEs, such as State Grid and the energy companies that top the Fortune list of largest companies by revenue. And then there are the large brand names and consumer goods companies like Lenovo, which are more well-known, and the tech companies and influential platforms such as TikTok.

The SOEs have had a very different trajectory with their international growth when compared to these private enterprises. Martyn Davies, who at the time of the interview with Treasury Today Asia was the Managing Director of Emerging Markets and Africa at Deloitte, has witnessed the trend of Chinese companies going global, which has been gaining momentum since 2000. This internationalisation of China Inc, he explains, was supported by the banks, which would explain why they also feature in the largest company lists.

There are differences in the nature of the expansion of the Chinese companies. In Africa, for example, notes Davies, the expansion has mostly been the SOEs. Meanwhile, in the UK, Europe and the United States, the successful Chinese corporations are private enterprises.

Davies, as a specialist who was interviewed from South Africa, commented: "In my current part of the world it is similar to Latin America – the vast majority of the interest has been by state-owned companies." He comments there has been the absence of substantial private capital coming into Africa.

Much of the expansion has been by Chinese companies building infrastructure and supporting the Chinese state's plans of international influence. Davies notes a mega trend whereby the priorities of the Chinese government have changed in this regard. "Since 2013, there has been a shift," he says, explaining that in the ten-year review of the

government of Xi Jinping, there has been an approach of "increased caution" about the SOEs venturing outwards.

This, he notes, has been accompanied with management changes of the companies, and there has also been increased caution with the financing of projects on the part of the policy banks such as China Development Bank and Exim Bank of China. There is now an increased awareness of the risk of lending to projects in emerging markets, and there has been a more restrained approach to the projects. This was a trend that was happening anyway, and then COVID-19 exaggerated it.

Through the pandemic, the attitude to international expansion changed. "COVID-19 brought disruption for Chinese investment abroad," notes Davies. Through the pandemic, he says, China has largely been closed which has made the dialogue and face-to-face meetings, which are necessary for such projects, difficult. The lack of travel and connectivity mean that such investment has slowed. "Capital does not automatically flow – there needs to be interaction of people and trade delegations," says Davies.

Much attention has been paid to the expansion of SOEs in Africa, especially with China's Belt and Road Initiative (BRI), but Davies points out this kind of investment had been occurring in Africa since 2000. "The BRI is nothing new at all in Africa – the investment has been happening since 2000 – but post-2013 it got a name," says Davies, who is also a visiting professor at IE Business School in Madrid, Spain.

With the various projects of the BRI, there has been a change in the willingness of Chinese SOEs to invest abroad – and a rethink of their strategy – as some projects have not worked out and gained negative attention, as Treasury Today Asia has previously reported on.

As for the companies that are better placed to ramp up their international strategies, there are some that should be watched. Both Davies and Casanova say that the Chinese all electric vehicle (or EV) companies are the ones to watch as there has been significant investment in this sector. Davies comments that, "Before the Chinese car companies couldn't compete internationally, but now the competition has equalised with the batteries," Davies says.

One such company to watch is BYD, which has reportedly large expansion plans for Europe and at the time of writing had plans to enter the UK market at the end of 2022. The company produces both battery electric vehicles and plug-in hybrid electric vehicles and has been tipped to be one of the recognisable car brands of the future. Davies comments that this new wave of competition from the Chinese automotive sector can be compared to the rise of Korean auto companies. Twenty years ago, Korean car brands weren't heard of – or not thought of as high-quality – but now they are considered world-class cars.

BYD, however, like other Chinese corporations has faced headwinds of its own. It attracted attention when legendary investor Warren Buffett bought a stake in it. But equally, it attracted negative attention – and the company's stock price dipped – when it was reported Buffet had sold some of his shares. It remains to be seen whether BYD will have a meteoric rise like other Chinese companies, but like other Chinese multinationals it will have a number of headwinds to navigate in the current environment.





*With just nine months until the cessation of LIBOR for US dollar-denominated contracts, many issues are still to be addressed.*

One crucial difference between the cessation of LIBOR for US dollar-denominated contracts on 30<sup>th</sup> June 2023 and the December 2021 deadline for the cessation of LIBOR 1-week and 2-month is in the volume of products linked to the legacy benchmark.

This means market participants still have a lot to do according to Didier Loiseau, Global Head of Trading and Financial Engineering at treasury fintech Murex.

“For example, banks in Latin America and South-East Asia had very little exposure to sterling, yen and Swiss franc LIBOR products, but have a much greater percentage of USD LIBOR-linked products in their portfolios – meaning many firms will be dealing with the transition without the experience of 2021 and the other three legacy rates,” he says.

There will be market participants for whom the US dollar LIBOR transition will be their first and the risks that smaller US regional players are not as prepared as they might be should also not be underestimated says Julien Ray, Executive Director Data, Valuations & Analytics at S&P Global.

“Some firms are highly prepared as they transitioned their exposure to the Secured Overnight Financing Rate (SOFR) and other alternative rates pre-emptively and/or performed a thorough review of their current exposure, whereas others have adopted more of a wait-and-see approach,” he says. “The LIBOR Act signed into law on 15<sup>th</sup> March will help minimise litigation risks after 30<sup>th</sup> June 2023, but firms should not be complacent.”

In the US alone there are in excess of 5,000 financial institutions, many of which do not have non-USD exposure. Some of those participants that do not have significant USD LIBOR exposures have temporarily scaled back the project set-up and will look to ramp up again closer to the cessation date agrees Shankar Mukherjee, Business Consulting Partner at EY.

“The significant number of firms that are doing this for the first time will be at varying levels of maturity in their understanding of what needs to happen,” he says. “Some education would have happened through the large global firms that have been educating their clients over the last few years, but these firms will have to now turn to execution of this complex challenge that will impact many functional areas.”

From a technology perspective, Ray cautions that market players have limited funds available and need to really understand how to use and optimise them through a combination of building in-house and using third-party data, platforms and solutions.

Volatile capital markets have not helped promote progress given lack of deal activity observes Tal Reback, Director at global investment firm KKR with responsibility for leading its global LIBOR transition.

There is no one-size-fits all approach with respect to data or technology functionality for the transition as every institution, non-financial corporate and/or market participant is set up uniquely, he says. “That statement rang especially true for the loan market given the bespoke nature of loan contracts. Industry working groups, vendors and market software and data providers continue to enhance functionality as the transition ensues.”

For the transition of contracts from LIBOR to new risk-free rates – whether through the use of fallback language, bulk transition via CCPs, or active transition – firms have designed technology solutions where feasible. But Mukherjee warns that there is still a level of manual processing required for transactions that don’t transition via technology solutions as well as contingency requirements.

“For firms that have significant non-USD exposure, most of the technology investments have already been made when transitioning GBP, CHF and JPY LIBOR,” he adds. “However, like most significant change programmes some of the solutions are tactical in nature and further investments will be needed to embed strategic solutions over time.”

# Unlocking the potential of embedded finance

*As embedded finance continues to evolve, there is an opportunity for treasurers to explore how these developments could help their businesses. So, what does embedded finance really mean, what's driving progress in this space, and where should treasurers begin?*

Among the numerous developments reshaping the financial services landscape, embedded finance is one of the most significant. Recent research by Bain & Company found that financial services accounted for US\$2.6trn of US financial transactions in 2021 – almost 5% of the total. By 2026, the transaction value of embedded finance is predicted to rise to over US\$7trn.

A significant driver of embedded finance is the ability of companies to add to their existing revenue streams, launch additional products and improve the user experience for their customers. But what do the terms 'embedded finance' and 'banking-as-a-service (BaaS)' mean? And, what do they mean for corporate treasury teams in particular?

## Understanding embedded finance and BaaS

Definitions vary, but in general terms embedded finance can be described as the provision of financial services by non-financial companies. A retailer, for example, might offer customers insurance for certain goods at point of sale.

"Embedded finance is where financial products are made available seamlessly within the customer journey of a non-financial platform, as and when they are needed," explains Jonathan McPhail, Lead Client Partner, Banking-as-a-Service at Finastra. "By embedding the products, they can very easily be tailored to the customer and circumstance in which they are presented." He adds that financial institutions expose their services for consumption in this way via BaaS platforms, which enable the connectivity and embedding of their products.

Aman Narain, Global Head of Platforms, Commercial Banking at HSBC, adds that financial services have "evolved from being someplace you went to (a branch) to being somewhere you needed it (in your pocket). Embedded finance, we believe, is the next phase of this evolution where banking is integrated or embedded into something you are doing, typically in a non-bank environment." He notes that BaaS is "the tool or the infrastructure, including APIs, that enables others to consume banking products seamlessly in a non-bank environment."

A variety of financial services can be embedded in this way. While embedded payments might be the most ubiquitous,

says Narain, "you can equally embed lending, trade finance, or foreign exchange, as we recently announced with our partner Finastra – or even a suite of services, which we offer to Oracle NetSuite customers."

## Drivers and enablers

Several factors are driving progress in this area. François Masquelier, CEO of Simply Treasury, says that while embedded finance does not derive from legislation, it is one of many innovations to be enabled by the adoption of open banking with PSD2. "Indeed, this regulation has allowed the generalisation of APIs in the banking world, a practice that has also extended to insurance and investment," he says.

Masquelier points out that embedded finance is based on API systems – "Indeed, on the use case allowing to extend the distribution of financial products to any website or mobile application, embedded finance connects via APIs to the information systems of banks and insurances to offer a seamless pricing and subscription to the end user. It is via similar systems that the underwriting information is then transmitted to all the CRMs involved."

Silvia Mensdorff-Pouilly, Head of Banking and Payments, Europe at FIS, cites two key drivers of development. "On the one hand, digitalisation and interactable technology is enabling the embedding of financial services in customer journeys," she says. "On the other hand, consumers are increasingly expecting transactions to become easier, faster, and more transparent."

As corporate treasurers begin to experience the ease of embedded financial services being offered to them as consumers, says Mensdorff-Pouilly, they will also expect to have similar experiences in the corporate environment.

## Aggregators and orchestrators

Another notable feature of embedded finance is what it means for the competitive landscape. François De Witte, Senior Project Manager – Member of the Board of Directors at Transfer1, notes that the rise of embedded finance comes against a backdrop of fading barriers to entry that have traditionally protected the financial services sector, with incumbents facing a multitude of disruptive shifts. "On the other side, customers expect real-time, seamless, and

intelligent financial services,” he says. “Regulation drives further competition.”

With new providers working to compete with incumbent banks, they have been prompted to produce new solutions that leverage a greenfield environment to benefit from innovations such as cloud, microservices and APIs, adds De Witte. “The new challengers are born native to the cloud and provide ‘build-your-own-platform’ solutions via modular, microservices-based and API-first architectures.”

He adds that these are both aggregators and orchestrators. “A successful orchestrator aims to leverage financial data and capabilities, brand equity and product supply on a group level,” he notes. “Individual ventures remain autonomous and focused enough to innovate and stay close to external or internal client needs, such as wealth management, P2P payments, business banking, etc.”

## Implications for treasurers

So how could treasurers benefit from developments in embedded finance and BaaS? Mensdorff-Pouilly explains that treasurers could gain access to flexible or needs-based embedded lending options, such as invoice financing, trade financing, or factor invoicing, for example. “These could be embedded in their receivables or payables management system via an embedded lending API, and would enable working capital optimisation,” she adds.

As major purchasers of financial services within their organisations, treasurers stand to benefit immensely from embedded finance, says McPhail. “With improved access to tailored financial products, such as payments, foreign exchange and financing, presented when they are needed, treasurers will be able to optimise the cost and reduce the time taken to select and acquire the services they need.”

Enrico Camerinelli, Strategic Advisor at Aite-Novarica Group, explains that BaaS enables treasurers to select and use banking products directly as part of a brand experience. “With embedded banking they can move from picking and paying for discrete products to enjoying a unique community experience in which the same products are ‘pulled’ based on the context that constitutes the user’s experience at that moment in time,” he says. “Users will also want to move money around, deposit that money, borrow or lend it, and generate interest.”

## Understanding the use cases

Narain argues that any business that would like to improve its customer journey by reducing friction could benefit from integrating a finance offering, adding that BaaS can help businesses broaden their customer offering by introducing complementary products or services at the point of need.

HSBC, for example, has integrated banking services into NetSuite Accounts Payable Automation. “The service will accelerate cashflow and accounts payable (AP) processes, such as paying vendors and processing invoices, for customers,” says Narain. “Using NetSuite, users will be able to access payment discounts and cashflow regulation.”

The bank is also working with Finastra to offer its FX services to mid-tier banks, which “allows participating banks to deliver a wide range of currencies to their customers through branch networks and other retail channels, without requiring any additional technology integration.”



Embedded finance is where financial products are made available seamlessly within the customer journey of a non-financial platform.

Jonathan McPhail, Lead Client Partner,  
Banking-as-a-Service, Finastra

Other use cases and opportunities include:

- **Working capital optimisation.** “Many businesses are overly reliant on expensive catch-all standard financing products, such as overdrafts and in many cases credit cards, to finance their short-term borrowing needs,” says McPhail. “We see this as a great example of how harnessing the data available in the business applications, which become the embedded finance venues, can enable identification of and access to right-sized financing options, which can be significantly cheaper than the catch-all standard financing products.”

He adds that companies most likely to benefit from this are those that are included in extended supply chains and have high borrowing costs. “Building on the financing use case, we expect to see complementary products around risk mitigation (eg foreign exchange, interest rate) provided as packages in the same venues,” he says.

- **Point of sale finance (POSF) solutions.** With B2B e-commerce becoming a critical sales channel for corporates, POSF solutions play a key role in helping them grow and retain their customer base, increase sales and gain an edge over competitors. “Sellers can introduce a POSF proposition which gives their customers flexibility to pay on terms or over a period,” says Narain. “Sellers still get paid in full, up front without needing to wait for their customers to pay – meaning there is more cash flowing into their bank account, making resource allocation, purchasing, and business planning smarter and easier.”
- **Embedded payments.** De Witte notes that embedded payments enable consumers to make payments at the touch of a button and without switching between apps, thereby speeding up the checkout and payment settlement process and improving the customer experience. “By providing embedded payments to customers, companies can increase their revenue, customer sign-up rate, customer loyalty and gain powerful analytics insights,” he adds.
- **Embedded lending.** “Embedded lending lets someone apply for and get a loan right at the point of purchase,” says De Witte. “The Buy Now Pay Later (BNPL) scheme is an example. This removes the need for excessive paperwork and cumbersome processes and enables the customer to get loans at the tap of a button. Another example is B2B lending.”
- **Embedded investments.** Embedded investments, meanwhile, “simplifies the investment process by offering a single platform for investing and managing money,” De Witte explains. “It allows users to put money in different

financial instruments without leaving the platform, which is a safety measure.”

## Impact on corporate banking relationships

With embedded finance and BaaS blurring the lines between banks and non-bank providers, how could these developments affect corporate banking relationships in the future? And is there a risk that banks will become disintermediated?

As Camerinelli points out, embedded banking involves the integration of financial services into non-bank products and business processes. “Companies do not have to hand over the customer relationship to a bank,” he says. “They can maintain direct customer contact throughout the entire value chain.”

Mensdorff-Pouilly observes that financial service providers that can offer embedded finance and BaaS to their corporate customers will be able to strengthen their relationships and find new markets. “However, financial service providers that miss the boat on this may find themselves disintermediated in their corporate relationships by those offering more advanced digital services,” she adds.

On another note, embedded finance can also help financial institutions reduce the cost of serving their customers, says Finastra’s McPhail. “With a lower cost to serve, financial institutions will be able to more readily position their value-added products, in risk-mitigation and advice, on a broader scale,” he explains. “Embedded finance will not replace relationship banking – it will move it to a different venue which benefits both sides.”

## Getting started

With the evolution taking place in transaction banking, HSBC’s Narain argues that “now is the time” for treasurers to consider reviewing their current treasury set-up with an eye to the future. “Against the backdrop of rapid digitisation and the arrival of exciting solutions encompassing embedded finance, treasurers have a unique window of opportunity,” he adds.

Camerinelli suggests that for companies seeking to deliver financial solutions and experiences to their customers, the best path “is to partner with financial services providers that have everything in place today.”

### Asking the right questions

When reviewing embedded finance proposals, De Witte says treasurers should raise the following questions:

**Trust:** does a corporate have enough trust in the brand to interact in a financial context? Will they feel comfortable sharing their financial data with the embedded finance provider and trust that their privacy is protected?

**Relevance:** does the financial solution make sense for the corporate?

**Business impact:** can the solution provide sufficient value to the corporate, such that it incentivises adoption and usage? What is the value that this generates for the business? Will it be meaningful to the business?

“The provision of financial services requires a license, and businesses partner with qualified banks or financial services providers with corresponding licenses,” he points out. “The fintech players best suited to offer embedded banking services are those with proven experience delivering agency banking – not simply holding an electronic money institution (EMI) license – and that have a bank license to develop BaaS products.”

For treasurers looking to take advantage of opportunities in embedded finance, Mensdorff-Pouilly of FIS suggests starting off by looking at working capital management tools and linked financing. She notes that this is currently “greenfield space”, given that most current embedded finance propositions are designed to serve retail or small and mid-sized business (SMB) customers. Nevertheless, she says, “it presents an interesting opportunity for industry members to come together and co-create a new solution.”

## Future developments

While the focus has so far been on services for consumers, it is likely that future developments in embedded finance will result in more opportunities for treasury teams.

“The key tenet of embedded finance is that it allows non-financial companies to embed financial services within specific contexts in order to streamline processes, broaden value creation and unlock unique business models,” says Mensdorff-Pouilly. “From a treasury perspective, embedded lending solutions seem like an obvious place to start, but in future, there may be additional use cases, such as B2B embedded loyalty reward programmes that can strengthen the buyer-supplier relationship.”

Could these developments give rise to a new breed of embedded treasury or treasury-as-a-service offerings? “As a new process, embedded finance brings a lot of ambition to move the financial industry forward,” comments Masquelier. “As a consumer, we will have access to many existing and new products. Now, could we talk about ‘embedded finance’ for treasurers? Interesting question.”

He suggests that banks could include in their banking service offerings elements such as treasury solutions, KYC platforms, cash flow forecasting tools and treasury-as-a-service offerings. “Banks could embed services into their offering, even if not pure banking products or services,” he adds. “I am convinced the banks will have to differentiate by offering other IT solutions to corporate customers.”

As Masquelier points out, this could be a way for banks to differentiate their offers, increase profitability, compete effectively, gain customer loyalty, enhance the customer experience – and enable customers to access better quality information, for example in the area of cash flow forecasting.

“We are only at the end of the beginning phase of embedded finance,” concludes HSBC’s Narain. “As the pioneers learn from their lessons and more players start to offer solutions, I believe the foundation of success will be based on the ability to develop the muscle to cocreate capability.” As such, he predicts that cocreation between clients, banks and fintechs will form the basis of solid relationships in this new era of collaborative working – “especially where BaaS is concerned.”



## Staying steady in the storm

### Gopul Shah

Director, Corporate Treasury and Structured Trade Finance



Throughout his career, Gopul Shah has weathered the storms of various crises and challenges. Here he explains how his personal values, financial discipline, and work ethic have kept him steady and kept his mental, physical, emotional and spiritual health in check in order to cope with uncertainty and change.

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*Established in 1996, Golden Agri-Resources (GAR) now has operations across 13 countries, and its products are delivered to around 100 countries worldwide, including China, India and the United States as well as various destinations in Europe and the Middle East. GAR was listed on the Singapore Exchange in 1999.*

GAR is a global leader in palm oil production, producing more than 2.35m tonnes of crude palm oil in 2021. It manages about 536,000 hectares of plantations, including smallholder farms, across Indonesia. Its downstream refining and specialty product facilities manufacture high-quality products for the global agronomy, food, oleochemical, and bioenergy markets. GAR's operations are innovation-driven and sustainability led, to ensure that GAR remains a global leader in sustainable palm oil production and a partner of choice.

### Strength in adversity

When major world events happen, there are the big headlines and defining moments that shape an era. Events like the Asian financial crisis, 9/11, the collapse of Lehman Brothers (and the ensuing global financial crisis), COVID-19, and the Russian invasion of Ukraine, have all produced attention-grabbing news stories and global energy and food insecurity. And then there are the more normal, personal stories: the

plans that were disrupted, the priorities that changed, personal values that were reassessed and the triumph of human spirit.

For Gopul Shah, Director of Corporate Treasury and Structured Trade Finance at Golden Agri-Resources, these major events form the landmarks along the journey of his career in which he also experienced diverse culture and geographies.

These days, Shah is reflective about the lessons he has learned about staying steady through such times of turbulence and change. He remarks that the pace of change in the external environment is increasing, and we all have to learn, relearn and unlearn to remain resilient, adaptable and to improvise. “The next few years are going to be challenging as geo-politics, energy and good security, and government actions that shapes the global socio-economic systems and business actions – we need to be on the ball and be mentally, physically and spiritually alert to remain agile and improvise,” he says.

## Personal roadmap and journey

Shah has a personal roadmap for navigating through the crises, which he puts down to his upbringing and the unwavering support of his mentors. He was raised in a modest family in India, and his family instilled in him certain values that he holds to this day. “A strong progressively entrepreneurial philosophy, personal ethics, and work ethic were high on the agenda in my family and that has brought me to where I am today,” Shah says.

He was raised and educated in India, and from there he had the opportunity to work in Thailand for the GP Group. He moved to Singapore with the same company and intended to become a commodity trader. However, the Asian financial crisis hit, and Shah’s future – as he had envisioned it – changed overnight.

This was the first of the major headline crises that Shah experienced in his career. “I went through a transformation,” he says. He was now at a crossroads and took the brave step which is his best investment – along with the support of his wife and his family – of going back to school. After two years, he’d completed his MBA at University of Chicago’s Booth School of Business and, armed with his new degree, knowledge, network, and conviction, was ready to take the next step in his career.

The universe, however, had different plans. Another crisis hit: this time it was 9/11. Although he wasn’t immediately impacted by the tragedy, the major event had implications for his job hunt as many companies around the world put their plans on hold. “It took six to eight months before I gained a role,” Shah explains.

When he was offered the role, at Cargill Trade Structured Finance, it was one that was well suited to his skills, aptitude and experience, and was both commercial and entrepreneurial in nature. From 2004, he spent seven years in Singapore in various roles and as Cargill’s Head of Asia Structuring and South East Asia Origination. And then from October 2010 he was the Treasurer and Managing Director of Trade Structured Finance at Cargill India.

From there, in January 2014, he joined the company where he is today: Golden Agri-Resources. In this role he has had the opportunity to set up the profit centre – structured trade finance (STF) business and upgrade to commercial treasury. One of the

highlights of his time in this role has been directing a product and geographic portfolio to gain an annual value addition of about US\$50m by integrating, collaborating, cross-pollinating, and leveraging the treasury, money markets, and STF capability.

Another achievement has been developing and managing a multi-currency global funding book of US\$5bn and the money market hedge book that is well supported by banks, capital markets, credit insurers, rating agencies and alternative financiers. Also, in supporting Golden Agri-Resources palm oil business, he has executed structured financing solutions for commodities, shipping, barging, joint ventures, and acquisitions.

Shah describes his role as also being entrepreneurial and commercially profit oriented. “I have been doing this for the last many years. The scale, scope, complexity and challenges on the job keeps me interested and engaged it’s never a dull moment,” he says.

## Anchoring impact

He adds, however, that there have been peaks and troughs in this role as well – which have followed the waves of the markets – and also in his personal life. “What has kept us going and steady is the passion, courage, conviction, the financial discipline, work ethic and the values,” he says.

And what exactly are his values? “The first is a work ethic that means you give your best in whatever you do with conviction and make sure that you add value and purpose to whatever you need to deliver,” explains Shah. And personal ethics, he explains, are about acting with courage and the long-term in mind, always considering integrity, reputation and longevity in whatever you do.

Shah also values continuous education, something he has put into practice in his own life. As well as studying for the MBA in Chicago during the first major crisis of his career, he also studied during COVID. In this time, he took more accountancy exams (adding to the accountancy qualification he already has from India) and became a fellow of CPA Australia, the professional accounting body. He explains why he did this: “If you look at the changing landscape and what is demanded of you, you have to maintain good health, reskill, and engage in continuous education,” he says.

## COVID-19

On a personal level, Shah was able to improve his skills during Covid. And on a professional level he was challenged in other ways. The COVID-19 crisis posed a number of challenges for Shah and his company. He had to deleverage, derisk, and ensure the company had enough liquidity. Also, he had to make sure that the company’s vast supply chain was functioning properly.

In times of difficulty such as the pandemic, delivering value to customers, risk management, collaboration, innovation, stakeholder management as well as team play is effectively paramount says Shah. He adds that he opts for doing this with a “soft glove and fortitude”.

During this difficult time, the company’s banking relationships also needed to be managed well, and Shah explains that transparency and honesty was key in ensuring that the company had the ongoing support of the banks. This

involved making sure the banks understood the company operations, liquidity situation, management actions, and its strategy, he says.

## Continuing volatility and uncertainty

Since then, there continues to be much uncertainty and volatility in the global socio-political and economic environment, which impacts long-term decision making and investments. Shah comments how this has changed over the last ten years; now there is volatility, uncertainty and ambiguity that he hasn't witnessed in his career before. It goes beyond the moral hazard issues of the global financial crisis or the uncertainty that prevailed with COVID-19. Now there are new factors at play that challenge the economic order, socio-political structure, and the financial system as a whole, says Shah. "It's not only the war between Russia and Ukraine and an assertive China; there is a war on the economic system and the established world order that has been the foundation of international trade, investments and peaceful co-existence. The concepts of globalisation, free markets and petrodollars are all being challenged," he says.

In recent years there has also been a lot more government support to stimulate business, incentives for investments, and regulatory arbitrages which is eventually going to increase taxes, inflation and reduce healthy competition, says Shah. Many mergers and acquisition (M&A) and expansion plans have recently failed denting expansion opportunities due to sky high valuations, talent scarcity, liquidity issues, compliance, anti-competition laws, and integration challenges, he adds.

## Personal approach

This kind of uncertainty and changes in the current geopolitical environment keeps Shah alert, and he keeps himself agile and adaptable so he can face the challenges head-on and find solutions. "So far we have done well – we have survived COVID-19 – and all these experiences make us even better today, and they also make us better human beings. These experiences teach us to be more humble, people, purpose and planet oriented," says Shah.

## Long-term bigger picture

In considering that bigger picture, Shah was asked to reflect on the major trends that have affected his career to date. Firstly, he comments on the inability to make medium-term forecasts, major shift from manual processes to digitalisation, and the importance data, cloud computing, artificial intelligence, digital currency and cybersecurity.

Also, another significant trend is how diverse Asia and other emerging markets have developed and the culturally rich and diverse impact that this has had on multinationals doing business there. This includes the outsourcing and cross-fertilisation of high value-added services, innovations, the access to local currency capital markets and the increasing use of local currency in international trade and investments. When Shah started out, Asia was just becoming a manufacturing hub and China was emerging as a major player in the region.

"A lot of sourcing started to happen in Asia and China, and that started the trend of globalisation, global collaboration, specialisation, and a free market taking place everywhere," explains Shah. "And now we are somewhat seeing a reverse

trend of decoupling and localisation resulting from trade wars, protectionism, collapse of global collaboration, a technology war or economic war. I would say we are going to see supply chains become fragmented and localised, and the decoupling of global economic systems around the world which could somewhat benefit reduction of carbon emissions," comments Shah.

Another change that Shah – and the rest of the world – has had to adapt to is around climate change and achieving net zero emission targets. "When I started my career, the focus was on profits and growth, and now it is about good governance, doing it right for the greater good and building reputation. Now there is also a focus on people, purpose and the planet," he says.

With all that is happening in the external environment, and the frequency of events that cause volatility and uncertainty, Shah comments: "We have to accept that we have lost control; we have put things in place while we can make plans, but we have to make sure that we remain flexible and agile," he says. "We need to be able to quickly adapt and improvise," he adds.

## Delivering on promises

"Also, we need to make sure that we collaborate, trust, and engage with our customers, stakeholders and talent well so that we deliver on our promises and become a partner of choice for us and they will be supportive during the good times and the bad," says Shah.

Navigating this volatility in part relies on going back to basics and doing more with less, remain agile, innovative and trustworthy. Shah adds that it is also about doing it with humility and empathy. Shah comments on the elements that he thinks are important to running a business and keeping pace with the demands of the changing environment. "Having the right talent, foresight, the right approach, the right attitude, the right frame of mind, delegating and trusting people – these are the things that are important in running a business and being able to remain resilient and adapt to its changing needs," says Shah.

## The treasurer's role

On the treasurer's role, treasury is being increasingly recognised as strategic stakeholder and a partner within the organisation, says Shah. With a finger on the pulse on the internal and external economic situation, the engagement and collaboration with treasury is upfront when it comes to risk and liquidity management, rating agency engagement, M&A financing and integration, digitisation, and managing financial institutions and its expectations, he adds.

These are just some of the changes that are afoot in the corporate world, on top of the volatility and uncertainty in the wider world. "These are interesting times," says Shah. In adapting to the challenges that all this brings, Shah makes sure that he stays strategic, agile, manages risks, convinced of a better future, and turns risk into profitable opportunities. On a personal level, he says he has been able to find strength in adversity and has been able to maintain a fine balance between his professional and his personal life. This, he adds, has kept him on the ball mentally, physically, emotionally, and spiritually, and kept him steady through the storms and crises of his career so far.

# Strategic treasury: the qualities behind a good leader

*As treasury's strategic role grows so treasurers are increasingly expected to lead. Good leadership requires empathy, empowerment, and overhauling mentorship programmes in an approach that demands much more than soft skills.*

The BBC documentary “The Elon Musk Show” reveals the incredible ability of the world’s richest man to lead and elucidate his vision around seemingly far-fetched ideas like space travel for all or, back at the turn of the century, electric cars. In less comfortable viewing, it also shows Musk extracting long and gruelling hours from staff like Colette Bridgman, Head of Global Marketing at Tesla from 2004 to 2017, who recounts in the documentary how she had lost all semblance of family life. “I was drinking out of a firehose every single day for years and years. My three-year-old son was calling me Dad.”

Leadership is one of these amorphous concepts that people struggle to pin down because it comprises a fuzzy combination of different skills. For some, the most successful leader is someone who develops and communicates a vision of an organisation in a way that can be understood at every level and allows all to contribute. For others, the essence of a good leader is the exact opposite, someone able to draw on people’s resources and talents in a way that doesn’t result in burn out. Treasury Today interviewees also point out leadership isn’t synonymous with corporate position nor is it something that necessarily responds to generous remuneration. In amongst these diverse opinions, it’s possible to draw common threads. Many ingredients go into good leadership; it can be taught – and companies neglect it at their peril.

## Empowerment

Optimism is often more effective than a motivational approach to leadership, says Dave Ulrich, Speaker, Author, Professor, Thought Partner on Human Capability. Drawing on the work of Martin Seligman, the father of positive psychology, Ulrich argues that ‘learned hopefulness’ whereby leaders imbue in employees a belief in their own agency and power to control their own environment makes for the best type of leaders. Success depends on getting people to tap into their own sense of efficacy, optimism and imagination, he says. “These brilliant insights help me personally and help me help others. With agency, people replace helplessness with hopefulness and create a better future. Agency becomes a fundamental

principle for people to take charge of their circumstances and reach their potential.”

## Empathy

Empathy is another key ingredient. “Honestly, do you know how your staff feel?” asks Ulrich. “Living in your employees’ shoes alters your perspective, provides valuable insight, and strengthens the culture of the workplace.” Empathic leaders allow disagreements to foster innovation and creates organisations rooted in common sense without self-inflicted bureaucracy and where employees want to give their best. Appreciation and sharing also oils the wheels of good leadership, he adds. “You ultimately lead most by example. Share your hopes and fears, your successes and failures, and the processes you use to make key decisions. When your employees experience your values in action, they will feel the sincerity of your commitment.”

But leadership’s association with words like empathy, gratitude and humility is frustrating for many experts on the topic. It bundles leadership into a nice-to-have box of soft skills, a depleting term that fails to reflect leadership’s importance and alienates employees. Like Ulrich, Zahira Jaser, Associate Professor and Director MBA at University of Sussex Business School, also believes that good leadership rests in employee empowerment. “Successful leadership is about understanding that people want to work, are committed and conscientious and don’t need to be told what to do,” she says.

But that is challenged by the fact that the ability to connect and listen embodies so-called ‘feminine’ skills (not unique to women) like empathy, caring and making time for people. Yet it is ‘masculine’ skills (again, as prevalent amongst women as men) of efficiency, presenteeism and control that tend to dominate in many companies.

It also suggests that the hard skills that drive performance are most sought after. “The way we appraise a good leader is often to do with a very masculine approach to leadership that is deceiving and does not respond to today’s workers’ needs, men or women,” she says. It also feeds into why many



companies struggle to build these soft skills. Executives are quick to say if they need more hard, tangible skills like coders or staff on a production line, but it's difficult to gage and push for conceptual skills in an organisation. "Leadership is fuzzy; it's difficult saying you haven't got enough," agrees Russ Porter, Vice President of Finance, Global Business Services, IBM for nearly three decades before joining the Institute of Management Accountants as CFO and Senior Vice President.

Successful leadership is complicated by the fact different situations require a different type of leadership, continues Porter. For example, in a crisis companies might need a coercive leader. At other times, leaders need to be authoritative. A different situation might require focusing on morale and adopting a coach-like role to help people understand their own capabilities. "Good leaders need all these characteristics in their toolbox ready to pull out and use. Pull out wrong tool and you won't get the results you need," he warns.

## Learning to lead

David Aldred, at Citi for 12 years, most recently leading treasury and trade solutions in MENA and Pakistan until he left in June 2022, has spent recent months coaching and advising on the key components of strategic management and leadership.

Like others, he is convinced that successful leadership involves empowerment. Something that in turn rests on leaders seeking their own self-development, whether equipping themselves with the latest knowledge around APIs, AI and blockchain, or attending leadership seminars. "You don't have to be a coder, but if you don't understand how to embed these things in a business that is a skills-gap," he says. "You can't rest on qualifications from 20 years ago – and you are never too old to learn. It's about taking ownership of yourself for success in your next role and the role beyond that; needing to do something now that will get you to where you need to be in six years."

"IBM is a huge believer that leadership can be taught – I am living proof," echoes Porter. "If you'd seen me 30 years ago you wouldn't have thought I would succeed, but I studied leadership."

## Mentoring

Learning to lead is why mentoring is a key tenet in the leadership process. Yet in many cases, mentoring falls short. Few organisations offer mentoring at a senior level, requiring people to reach out themselves to colleagues and peers they respect to ask for career support. In another challenge, mentors often have a propensity to advise and cajole when the emphasis should be on listening. "Mentors often say 'you should do this' or 'if I was you' but a mentor's role is really to listen, ask questions and get the mentee to think for themselves," says Aldred.

Good mentorship also involves mentors withstanding a critical conversation and not shying away from difficult ethical problems in a way that simply reinforces the system. Drawing on her own experience of mentorship when she was in banking, Jeser stresses the importance of mentors accepting a mentee's criticism of the company and co-workers. "My mentors in banking were good, but when we started talking

about politics in the workplace and bad practices from the top, they shied away at the time I needed them most." Now a mentor herself, she makes sure she asks questions about who is blocking mentees and exploring the key alliances in the company to make sense of their challenges. "Don't have generic conversations, be specific to each," she urges.

Good mentorship comprises imbuing a sense of self confidence and belief, she continues. Something that wains, she observes, most obviously amongst minorities in senior roles. "How do you keep your core confidence up when you are continually an outsider? I think a huge part of this involves mentors helping mentees recognise their own value and the need for voices that are not compliant and complacent but innovative and creative. Your uniqueness adds to the organisation."

## Remuneration

Companies won't necessarily solve their leadership vacuum by throwing money at the problem. In many ways, high remuneration is the wrong incentive to engender strong leadership. Many leaders are simply not motivated by remuneration or climbing the corporate ladder, says Porter. "I'm not sure we do enough to reward people for whom money is not a motivation." For many leaders, respect, networking opportunities or the opportunity to work on specific projects is what they value most. "I knew a guy who wasn't interested in becoming an executive. He was an expert in a narrow niche of accounting, and this is what he enjoyed leading on most and where he saw his value. It wasn't about seniority or pay."

An anecdote that also speaks to the fact companies often overlook the importance of experience when it comes to leadership. Jobs open-up in a meritocratic system; employees may only stay three or four years in the same role and companies are loath to invest in seniors. Yet experience makes for the best leaders. Similarly, managers, in touch with people on the ground and often a company's most important source of leadership, are often overlooked and not recognised as leadership material.

Moreover, anecdotal evidence suggests that pay is not a key differentiator since companies in the same sector tend to have similar pay levels. Employees do, however, take a keen interest in different leadership cultures and the opportunity to grow and develop within an organisation. Corporations that get leadership right, will be better able to hold onto their staff.

Leaders may not be overtly motivated by pay but corporates still need to overhaul their reward system to better recognise leadership and talent management alongside financial results. If leadership matters to an organisation's success – and study after study suggests it does – it should be rewarded, argues Ulrich. "The reward system should signal or communicate this by making effective leadership part of the criteria for pay. This happens by having indicators of effective leadership as part of the expectations and standards and tying pay to those indicators."

As treasury's reach continues to evolve so the need for treasurers to lead and inspire colleagues grows. Treasurers no longer just lead on cash and FX management. Their prowess extends to technology, ESG, governance and risk expertise. "As treasury adds more value to an organisation treasury leadership will continue to grow, and I don't see any end to this," concludes Aldred.



# Information underpins evolution of sustainable trade finance

*As ESG data becomes more accessible, companies need to ensure that they can stand over their environmental and social metrics.*

A sustainable trade finance solution is by definition a financing solution facilitating trade while having a material and positive contribution on either environmental or social aspects. This ESG impact is sought either directly in the underlying project/asset financed or facilitated, or indirectly through the ESG performance of the borrower.

Sanjay Sandarangani, Head of Sustainability Propositions, Global Trade and Receivables Finance at HSBC explains that there are two broad categories of sustainable trade finance transactions – use of proceeds; and transition financing.

“Metrics and underlying targets need to be relevant and ambitious based on historical performance and industry best practice,” he says. “In both scenarios there is a requirement

for annual reporting by the client to confirm that the intended purpose or target was met.”

Key components of sustainable supply chain finance include track-and-trace, certification, and financial incentivisation.

“Assessment of the customer’s economic activity or line of business and/or relevant industry certifications of their ESG goals and actions taken to achieve them are crucial when a bank looks to finance a sustainable trade,” says Sriram Muthukrishnan, Group Head of Product Management, Global Transaction Services at DBS.

The certification process needs to be supported by a robust traceability process and data-led, while potentially enabling

the completion of financing and settlement processes simultaneously. This means clients should utilise data directly from business processes to enable tracking, certification and financial arrangements.

The first step in assessing suitability for sustainable trade finance solutions is to understand where the client is in their ESG journey explains James Binns, Global Head of Trade & Working Capital at Barclays.

“Some clients may provide products to the market that meet the relevant industry standards for being ‘green’, but may not have developed external reporting for their broader ESG goals,” he says. “This could mean that sustainable solutions that link to the purpose of transactions are appropriate.”

Other clients may offer a suite of products which are both ‘green’ and ‘non-green’ but have developed their ESG goals and regularly report on their progress towards these goals. In this scenario, solutions that link to attainment of targets linked to their ESG goals are more appropriate.

“Both of these solutions enable the client to speak to stakeholders (suppliers, buyers, regulators, employees and shareholders) about their commitment to supporting transition to a more sustainable economy,” adds Binns.

Ahmed Benraissi, Head of Strategic Advisory, Global Trade Solutions at BNP Paribas observes that the first movers tying their sustainability commitments to their trade and supply chain financing were listed and large corporates from Europe, APAC & North America.

“We expect this movement to extend to all regions and clients segments including mid-corporates, who typically face significant challenges in complying with sustainability standards, either through top-down or bottom-up pressures and incentives,” he adds.

Muthukrishnan refers to increased interest in sustainable trade finance solutions globally, with European-led corporates in particular driving demand as larger corporates ramp up efforts to transform their procurement operations to meet international sustainability standards and/or targets.

“In terms of specific sectors we see a sharp pick up in interest from the apparel, footwear and textile industries, especially from Asian suppliers located in markets such as Bangladesh, Vietnam, China and India,” he says. “The renewable energy segment in Greater China also remains active and we have supported several projects in the region over the years.”

Sustainable solutions are in their infancy within the trade and working capital market with many banks still developing solutions to meet this client need according to Binns.

“So far, we have seen a similar level of use for sustainable trade and working capital products across all geographies and client size,” he adds. “However, we are noticing an increasing requirement from clients as knowledge of these products and the benefits they can bring to the client and their stakeholders increases.”

Greenwashing and reputational risk are important issues to factor into any sustainable finance solution according to Donna McNamara, Global Head of Trade Product Commercialisation & ESG Strategy at Citi Treasury and Trade Solutions.

“To help mitigate these risks, data validation is at the centre of the procurement practice and the financing,” she explains.

“Banks and corporations have a similar approach to validation requirements and have built it into their respective procurement strategies.”

Many organisations have started to address their direct emissions, but not enough has been done to reduce indirect



## CASE STUDY

German adhesives and consumer goods giant Henkel recently confirmed that it had integrated sustainability criteria into the largest segment of its supply chain finance programme.

The programme – which Henkel has been running with Taulia since 2015 – now provides flexible financing options to the company’s suppliers with preferential rates depending on their ESG ratings. EcoVadis was chosen as a co-operation partner for the programme, allowing for a globally consistent rating mechanism.

Since each country and region is different, it is very important to take local aspects into account and at the same time not lose sight of the need for consistency regarding impact. For this reason Henkel applies one consistent scale to measure sustainability using the same ESG provider worldwide.

The company does not expect sustainability to have any negative impacts on its supply chain in terms of additional costs or complexity.

“While the positive funding impact is still hard to measure, we expect sustainable programmes in the future to gradually receive funding at preferred rates from financial institutions,” says Ulrich Borgstädt, Head of Group Treasury. “This requires their refinancing for green programmes to be cheaper than funding costs for ‘classical’ programmes.”

Henkel has set a target of achieving 100 million tons of CO<sub>2</sub> reductions together with its customers, consumers and suppliers between 2016 and 2025.

The company has been using ESG ratings as a criterion for selecting suppliers for a number of years. Its sustainable supply chain finance programme incentivises suppliers to improve their ESG rating using a multi-dimensional approach on sustainability beyond pure carbon reduction.



## Assessment of the customer's economic activity or line of business and/or relevant industry certifications of their ESG goals and actions taken to achieve them are crucial when a bank looks to finance a sustainable trade.

Sriram Muthukrishnan, Group Head of Product Management, Global Transaction Services, DBS

emissions, including Scope 3 emissions arising from their suppliers according to Sandarangani.

“On average, more than 80% of a company's carbon footprint resides in its supply chain, which means delivering on Scope 3 emissions won't happen unless more is done to help small and medium sized suppliers,” he says. “Anchor buyers are in a unique position to influence positive change across their supply chains by helping their suppliers with know-how and financing tools to enable the transition.”

He suggests that buyers need to identify metrics (which need to be robust, ambitious and in line with industry best practice) for their suppliers to improve against and which can help address the buyer's own ESG strategy.

Buyers also need to consider the social aspects of their supply chains, such as human rights. “While the EU and UK have had ESG disclosure requirements for public entities for many years, this is now being enacted into law,” adds Sandarangani.

To remain relevant, companies will need to align profitability goals with meeting the needs of society – to demonstrate their efforts in supporting the betterment of lives and livelihoods, and show how the organisation is changing and investing in business practices to encourage a more sustainable future says Muthukrishnan.

“Banks can also work with corporates to provide working capital to suppliers and improve financial inclusion of SMEs while at the same time enabling and incentivising the achievement of agreed sustainability goals,” he adds.

When asked to outline the sort of advice he would offer to companies looking to incentivise their supply chains to implement sustainable practices, Binns says he would start by recommending that they define and understand their ESG goals internally to ensure they have a compelling story to present to the market.

“Companies can then focus on those elements that are influenced by their supply chains, for example, reducing the end-to-end carbon footprint of the goods or services that they provide,” he continues. “This can then be used to incentivise their supply chain to improve those elements by provision of key metrics that are externally verifiable on a periodic basis.”

In a similar vein, clients can use their goals to make positive changes to how their supply chain operates – addressing the social and governance elements of ESG – by agreeing targets and pricing linked to the achievement of these changes with these suppliers, which will have a positive influence towards their own goals whilst providing leadership within the industry.

According to Benraissi, the success of this kind of supply chain financing programme relies on a number of factors including:

- The capacity of the buyer to convince its suppliers of the criticality of the ESG topic.
- The reliability and robustness of the ESG data.
- The appeal of the incentives.

“Research shows that the financial performance of companies corresponds to how well they manage ESG and other non-financial matters,” says Benraissi. “However, for SMEs – especially in less ESG mature countries – there are still challenges in complying with sustainability standards and allocating time, money and resources. Those challenges are amplified if they need to demonstrate transparency and initiate sustainable actions to many buyers with different expectations.”

He suggests that integrating these supply chain financing programmes within a digital platform enables suppliers, buyers and banks to interact seamlessly by connecting ESG data to financial metrics, speeding up access to early payments, while having a concrete and positive ESG impact.

Another consideration for corporates is the extent to which sustainability has a negative impact on supply chains in terms of additional costs or complexity.

Binns acknowledges that some supply chains will bear greater costs, for example where processes need to change or where increased monitoring and governance results in changes to suppliers. Accessing the data required to measure the ESG credentials of supply chains can also be complex and lead to increased costs. “However, this should be viewed through the lens of initial investment costs,” he says. “In the current climate of the high price of utilities impacting the bottom line of supply chains, the time required to recoup the initial investment for making sustainability-linked changes is reducing.”

This process is necessary over the long-term and will ultimately result in more sustainable and resilient supply chains, adds Binns. “Governments and regulators are also putting increased focus on transition to sustainable solutions, so if supply chains delay implementing these they risk negative reputational impact.”

Muthukrishnan accepts that lack of supply chain transparency and control can be a source of business disruption and non-compliance to sustainability policies, resulting in financial and reputational losses.

“However, there has been a marked improvement with the advent of digital tools such as the internet of things to collect data, 5G networks to transmit this data more efficiently and cheaply, machine learning to make real time decisions, and blockchain to enable supply chain traceability and visibility,” he concludes. These technologies can provide corporates with critical early warning signals to potential disruptions and help them manage exposure to risks and verify that products are procured sustainably.



## ISO 2022 MIGRATION HITS ANOTHER SNAG

*The migration to the payments messaging format ISO 2022 has been delayed by SWIFT, again, in a move that demonstrates the complexities of getting all the world's financial institutions to adopt the new standard.*

It has been heralded as the new era in which payments won't just simply be about money. With ISO 2022, the messaging format that financial institutions use to communicate with each other, there will be the potential for more information. When one institution sends money to another, it will no longer just be about the payment; it will be about the data that accompanies a transaction. This will make it easier to identify where it came from, what it is for, and make it easy to refer to any relevant documentation. The new messaging format could be game-changing for correspondent banking – and cross-border payments – but the migration to ISO 2022 has hit another snag.

SWIFT announced that it was delaying the migration of ISO 2022 for cross-border payments and reporting, a project that is known as CBPR+, until March 2023. It is not the first time that the migration has been delayed.

This time the decision came after the European Central Bank (ECB) announced it was postponing the launch of its upgraded real-time gross settlement and securities settlement system – which also uses the ISO 2022 standard – to “allow users more time to complete their testing in a stable environment”.

SWIFT said in a statement, “An overwhelming majority of our global community has requested that SWIFT align the start of the global ISO 2022 migration for CBPR+ with the ECB's updated timetable to ease implementation. In response, we have taken a decision to accommodate this request, and SWIFT will begin the ISO 2022/MT coexistence period for all users on 20<sup>th</sup> March 2023.”

The coexistence period means the old style of messaging will still be possible as the new format is phased in. The difference with the upgraded ISO 2022 has several implications in the services that will be possible with cross-border payments and correspondent banking.

Annemarie Bona, a subject matter expert and Product Manager at ION Group, a provider of treasury and risk management solutions, writes that some of the benefits of ISO 2022 include the gaining of enriched, structured and quality data as well as more straight-through processing and automated remittance reconciliation. Also, this inclusion of quality data with transactions can help prevent money laundering. One example of this could be providing land registration details as additional data to accompany large payments – to prove that the transaction is for a legitimate purchase of property.

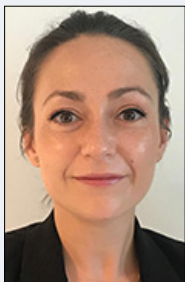
The SWIFT CBPR+ migration deadlines affect certain types of financial messaging and MT 1, 2 and 9 messages will be phased out in favour of the ISO 2022 compliant MX format. Bona explains that the categories impacted will be financial messages for customer and financial institution payments transfer, cash management status messages and bank statements.

The old MT and the new MX messages will co-exist as financial institutions adapt to the new format. Although the start of the ISO 2022 messages for cross-border payments has been delayed, this does not mean that financial institutions cannot use them, if they are ready. They can opt-in to the new standard and communicate this way if it has been agreed on a bilateral basis with the financial institution on the receiving end of such messages.

SWIFT previously delayed the migration schedule for correspondent banking back in 2020, pushing back the deadline to 2021. Given the complexity of payments systems, it is perhaps not surprising especially as many payment systems upgrades are delayed. Still, however, industry observers comment that it is frustrating to wait even longer and are concerned that the initiative will lose momentum.

# Supply chain transformation in Asia: just-in-case, localisation, and sustainability

*In today's landscape, supply chains in APAC and beyond face significant challenges, from geopolitical tensions to logistics disruptions. BNP Paribas' Cynthia Tchikoltsoff discusses how companies are adapting to the new landscape, the role supply chain finance can play in alleviating supply chain challenges, and the growing focus on sustainability.*



**Cynthia Tchikoltsoff**  
Head of Supply Chain  
Management, Transaction  
Banking APAC



**BNP PARIBAS**

The bank for a changing world

It's fair to say that the world's supply chains have faced more than their share of difficulties over the last couple of years – and the challenging environment shows no signs of abating. Geopolitical tensions continue to affect conditions around the world, from the US-China trade war to the continuing Russia-Ukraine conflict. Inflation is increasingly impacting commodity prices, while logistics disruptions continue to challenge trade transactions.

“Geopolitical tensions, lockdown in China due to Covid restrictions, and recent weather events such as floods in Pakistan and South of China have all led to physical supply chain disruption. All these have been affecting companies' ability to source or deliver goods on time,” says Cynthia Tchikoltsoff, Head of Supply Chain Management, Transaction Banking APAC at

BNP Paribas. “Several industries, including tech and automotive, are experiencing production limitations due to structural shortages in critical components, such as semiconductors.” The reduced sales due to the macroeconomic situation in Europe, as well as compressed margins resulting from the rise in inflation, are adding to the challenges.

## Extended payment cycles

Alongside these issues, many companies are also experiencing a lengthening of their working capital and payment cycles. “We are seeing clients that are no longer able to ship goods from Asia to Europe via rail because of the war in Ukraine, so they have to use sea freight,” says Tchikoltsoff. “This method of transportation takes much longer, meaning that our clients' customers receive goods later than expected, and therefore tend to pay later.” Some clients, she says, are negotiating longer payment terms to address some of these logistics issues.

At the same time, some companies are deglobalising their operations in order to get closer to their suppliers or customers, and to leverage domestic supply chains. “Some Chinese suppliers, for example, are starting to move some of their production and manufacturing capacity to other countries in Southeast Asia, as well as India,” says Tchikoltsoff. Meanwhile, in the electric vehicle (EV) manufacturing space, some activities that were previously concentrated in countries like China, Korea and Thailand are now expanding to Vietnam and Indonesia. She adds that some global corporations in the apparel and retail

sector are now looking more closely at non-Asian countries such as Turkey and Mexico.

“The general trend is to make sure that the supply chain is closer to the manufacturing process, closer to suppliers, and closer to customers,” Tchikoltsoff observes. “As such, corporations want to work with banks that have both global and local capabilities, to make sure they are not reinventing the wheel in every country.”

## Financing solutions

Nearshoring and localisation bring additional investment requirements, meaning that many corporations are working to secure lines for capex financing, thus impacting their balance sheet structure. On another note, companies that are switching to new suppliers may not be comfortable trading on open account terms, meaning there is a greater need for instruments such as letters of credit or guarantees.

Another option is the use of supply chain finance, which can play a role in helping to alleviate balance sheet concerns. With buyers requesting longer payment terms, there is a greater appetite for early payment solutions that can help suppliers receive payment sooner, rather than waiting for cash that is tied up in a longer working capital cycle.

“On the payables side, we’ve seen a significant uptake of supply chain finance, not only from buyers realising that supply chain finance is a very important instrument to create resilience, but also from suppliers who are more actively drawing on these alternative sources of funding,” says Tchikoltsoff. On the receivables financing side, she adds, sellers are increasingly turning to deferred payment solutions that can help their customers by enabling them to pay later.

Tchikoltsoff points out that these solutions represent a strong value proposition compared to a typical loan, because clients can benefit from off-balance sheet treatment and access cash immediately, while transferring credit risk to the bank. In addition, these solutions give clients a way of naturally hedging their FX exposures.

## From inventory solutions to syndication

Another way that companies are adjusting to current challenges is by transitioning away from just-in-time inventory management in favour of a just-in-case approach.

“BNP Paribas is one of the few banks capable of offering off-balance inventory solutions,” comments Tchikoltsoff. “Historically we have been very experienced in just-in-time programmes, whereby we intermediate between supplier and buyer by holding inventory on our books. With the focus on just-in-case, we’re now seeing a lot of clients looking to build up safety stocks in case of adverse conditions in the physical supply chain.”

She explains that the bank is also supporting supply chains via its syndication capabilities. “Our strong platform enables us to lead and coordinate loans for our clients – so they don’t have to handle similar discussions with ten other banks,” says Tchikoltsoff. “That syndication element is increasingly important because we are facing bigger volumes now.”

## Digitisation and sustainability

In this climate, Tchikoltsoff says there are two important things corporate clients are looking for in medium-to-long-term supply chain finance solutions. For one thing, there is a greater focus how technology can speed up processes and reduce costs through automation. “When it comes to financing invoices, we have clients in the tech space where each drawdown is more than 50,000 invoices,” she notes. “And they are relying on very strong digital solutions from the bank to handle such volumes.”

With clients looking for more plug-and-play solutions, the bank is also developing its API capabilities and broadening its ecosystem of fintech partners. “At BNP Paribas, we try to understand how the client functions operationally so that we can offer the most appropriate technology out there to support their needs,” says Tchikoltsoff. “Supply chain finance is very efficient in terms of technology – a lot of the day-to-day flows are somewhat dematerialised, which has been extremely helpful during the pandemic, as there is no need to exchange physical papers that are signed.”

The second major focus is on sustainability. Many of the bank’s clients in the region are large corporations that are already engaged in pursuing environmental, sustainability and governance (ESG) goals – but as Tchikoltsoff observes, companies’ suppliers and customers also represent the source of significant ESG considerations. “This is where supply chain finance is extremely powerful, as it helps incentivise our clients’ value chain partners to embrace a similar trajectory of driving a positive impact,” she says.

## Driving change

In particular, the bank has launched several programmes on the payables and receivables side, in which the cost or availability of financing is indexed to certain ESG parameters. Different sectors will have different priorities: agricultural companies may focus on preserving natural capital, for example, whereas fast-moving consumer goods (FMCG) and food and beverage firms might target the circular economy and packaging. However, as Tchikoltsoff points out, climate change is the common denominator across industries today.

A lot of corporations are pledging to become net zero, and some of them realise that reducing their own carbon emissions is just the tip of the iceberg. More than 80% of carbon emissions sit in the companies’ value chains, rather than in their operations. As such, Tchikoltsoff explains, BNP Paribas has developed specific programmes focusing on carbon reduction. “We are partnering with companies like CDP, for instance, which are helping to quantify the emissions that suppliers’ factories are responsible for, and that information can then be used to deploy impactful programmes to encourage suppliers to reduce those emissions.”

As Tchikoltsoff points out, there is an opportunity for banks to harness precise data that can be integrated into financing schemes in order to drive concrete change. “Globally, trade finance is worth US\$8trn per year,” she concludes. “So if we are to embed some sort of financial incentive in the way that we finance corporates, the impact in terms of outreach is actually huge.”

# Believer or sceptic?

## Crypto divides treasurers

*Another crypto winter has dampened the enthusiasm for cryptocurrencies such as Bitcoin, but others are still believers and are playing a long-term game. Meanwhile, many treasurers are adopting a 'wait and see' approach and are wary of investing in crypto.*

Since Bitcoin was introduced back in 2009, there have been many 'Agh, if only' moments. Imagine you invested when one Bitcoin was worth US\$1, and you'd held onto it – even through its peaks and troughs – and sold today around its current value of US\$20,000. If only. Or imagine you had bought thousands in 2011 just before its first bull run when the currency increased in value by over 3,000%. Or if you had sold just at the right time when Bitcoin reached its all-time high (at the time of writing) of over US\$68,000. If only.

There are many tales of people buying and selling at the right time. And, equally, there are those who did it at the wrong time and have been kicking themselves ever since. Is investing in cryptocurrencies, such as Bitcoin, the way of the future and something that all treasurers should seriously consider? Or is it all purely speculation?

When it comes to having an investment strategy, Deepali Vyas, Global Head of Fintech, Payments and Crypto at Korn Ferry, comments, "You cannot be fickle if you believe in this ideologically. If you believe in what Bitcoin stands for, you cannot be fickle of mind."

Despite the current crypto winter, where there has been a prolonged decline in value, many are still taking a long-term view because they believe in the future of cryptocurrencies like Bitcoin. Not only are they a currency and asset class, the underlying technology is potentially game-changing as it removes the need for an intermediary – ie a financial institution – for making payments.

Vyas comments that almost everybody who is a believer in crypto ideologically is a long-term believer. They are, therefore, less likely to be fazed by its volatility and recent drops in value. For something to be so disruptive – Bitcoin is, after all, an entire currency and global payment system – there has to be a long-term view on it, Vyas comments.

There are the believers, and then there are the sceptics. These include Bob Seeman, author of 'Bitcoin: The Mother of all Scams: Lies, Manipulation and Gambling' who argues that investing in Bitcoin is simply unlicensed gambling and pure speculation. He also argues that crypto is not an asset because it does not have any cash flow.

Corporate treasurers are caught somewhere between the believers and the sceptics. Some companies are embracing crypto and are investing in it in a careful and considered way. Meanwhile, many of the corporate treasurers that Treasury

Today spoke to are taking a wait and see approach and are steering clear of crypto for now. For those that do choose to invest, it is more likely to be in the most well-known and mainstream of the cryptocurrencies, such as Bitcoin or Ether.

The divide has been exacerbated by a number of crypto winters, where there has been a prolonged downturn in the value of the cryptocurrencies. By some estimates, since the start of 2022, the value of some cryptocurrencies has declined by more than 70%.

Despite these figures, many companies have been choosing to invest and there is institutional demand for crypto to be handled by established financial institutions. In an indication that crypto investing is becoming more mainstream, custody bank BNY Mellon announced in October 2022 that it had developed its financial infrastructure to support digital assets. This move enables certain clients to be able to hold and transfer Bitcoin and Ether.

At the time of the announcement, Robin Vince, Chief Executive Officer and President at BNY Mellon, said, "Touching more than 20% of the world's investable assets, BNY Mellon has the scale to reimagine financial markets through blockchain technology and digital assets. We are excited to help drive the financial industry forward as we begin the next chapter in our innovation journey."

A recent survey by BNY Mellon also pointed to this enthusiasm for crypto. The survey found that 41% of institutional investors hold cryptocurrency in their portfolio today, with an additional 15% planning to hold digital assets in their portfolios within the next two to five years.

This echoes the research of Nickel Digital Asset Management, which shows that 18 listed companies with a combined market cap of US\$826bn have over US\$3.1bn in digital assets. The value of those assets, however, has fallen as they originally spent US\$5.9bn buying them. There was also a notable North American bias, with 11 of the 18 listed enterprises being US or Canadian.

Nickel is optimistic about companies' appetites for investing, particularly as a diversification strategy and inflation hedge. Also, the recent crypto winter is not necessarily a negative because the prices are now looking attractive after a long period of correction.

In August 2022, Nickel surveyed professional investors from seven countries – who manage over US\$2.2trn in assets



– and found that more than two out of three believed at the time that the crypto winter was either over or will last less than six months. At that time, 9% of respondents believed that the crypto bear market was already over, and 58% said it would end within six months. Others were more pessimistic, however, with 7% expecting the crypto winter to last more than a year.

Many of the companies that Treasury Today spoke to, which did not want to be identified, were much more cautious and were unwilling to even consider investing in Bitcoin. Of those companies that have chosen to invest, Anatoly Crachilov, CEO at Nickel Digital Asset Management, comments on their strategy: “Listed companies that allocated to digital assets have expressed a bold, yet perfectly sound, strategic view to this nascent asset class. Undoubtedly, such exposure ought to be the most volatile line within their portfolio. However, the asymmetric return profile associated with digital assets overcompensates for the embedded volatility in the long run,” he tells Treasury Today.

Crachilov points to analysis that shows that over a statistically-significant nine-year period between 1<sup>st</sup> January 2013 and 1<sup>st</sup> January 2022, a portfolio with a 60/40 split between equities and bonds, respectively, delivered a cumulative portfolio return of 160.2%. If an adjustment is made to that portfolio by just allocating 5% to Bitcoin, this would have increased the cumulative portfolio return to 335.7%. In effect, explains Crachilov, this small inclusion of Bitcoin into the portfolio would have been “a solid 175% performance boost”.

Crachilov argues that even though Bitcoin is inherently volatile, this would have had little impact on the portfolio’s standard deviation, even though this seems counterintuitive. He argues that the impact would have increased the standard deviation from 9.8% to 10.6%. “This is explained by the rest of the portfolio – the remaining 95% – absorbing crypto volatility in an efficient manner, softening the ultimate impact of this higher volatility portfolio component,” he explains.

On the recent price changes, Crachilov comments, “The major correction experienced by the crypto markets in 2022 did not alter the above picture – a portfolio containing crypto exposure continues to outperform traditional portfolio over the long run.”

When it comes to addressing the volatility of cryptocurrencies like Bitcoin, Crachilov argues that the correct sizing of the exposure is the main answer to deal with the concerns. One argument is that companies should at least invest a little bit as an insurance policy; if it really takes off, they will have a stake in the upturn. And if the value plummets, they won’t lose much because they only invested a small amount.

On this point, Vyas comments that this is like making a side bet when gambling: “When you’re playing blackjack, you have to take the insurance – at some point it pays off,” she says. Despite the drop in value of Bitcoin, and other cryptocurrencies, they are still appealing as an investment as an inflation hedge, comments Vyas. And although the asset is volatile, many who have already invested in it will not be concerned; they understand well the inherent volatility of the currency. “They will continue to stay in because of their long-term outlook,” says Vyas.

At the moment Bitcoin, comments Vyas, compared to other digital assets, is still fairly stable and has been hovering around the US\$20,000 mark. “Crypto is much more stable than it was back in 2014 and 2017,” comments Vyas.



If you believe in what Bitcoin stands for, you cannot be fickle of mind.

Deepali Vyas, Global Head of Fintech,  
Payments and Crypt, Korn Ferry

Many corporate treasurers, however, still perceive Bitcoin as more volatile than their companies can handle. Treasury Today was in touch with a number of corporate treasurers to understand what their attitude was to investing in cryptocurrencies. The overwhelming consensus was that it was a sensitive topic and many did not want to comment publicly because they did not want the reputational risk of associating their well-known multinational brands with assets that are still deemed risky and volatile.

None of the companies that Treasury Today spoke to – from a mix of industries and based in Europe as well as Asia – have invested in crypto. They were all keenly following the developments in the market, however, and know that this is something they need to understand – albeit from a distance. For now, these corporate treasurers – all of whom did not wish to be identified for this article – were taking a ‘wait and see’ approach to investing in crypto. For these traditional companies, it was viewed as too risky.

And that perception of riskiness hasn’t been helped by recent events in the industry, not least the failure of cryptocurrency lending platform Celsius, as well as the collapses of TerraUSD and Luna. And then there was the recent hack on Binance – the largest crypto exchange by volume – in which its BNB tokens, reportedly worth US\$570m were reportedly stolen.

Events like this confirm for the sceptics all that is wrong with cryptocurrencies. For the believers, however, this is all part and parcel of a technology and phenomenon that is in its nascent stages.

And there are other reasons that companies should get involved in cryptocurrencies – not just as an asset class to invest in as part of their diversification strategy. If, as the believers argue, cryptocurrencies are the way of the future, then companies need to understand them because this is what their customers will be using. In El Salvador, for example, Bitcoin is now legal tender and for some a way of life. Depending on who you speak to, however, this move was seen as visionary, or a reckless experiment, by the country’s president.

In a world where everyone is aiming to go cashless and focus on digital payments, crypto could be just another option that is offered at the point of sale. Vyas comments that in the future there could be an obligation for companies to offer it, much in the same way that companies are expected to offer credit card payments as an option.

For now, however, many treasurers will choose to sit on the fence while the battle plays out between the believers and the sceptics. And they may be satisfied to watch the price of Bitcoin rise and fall from a distance and say to themselves, ‘if only I had invested back then...’

# Treasury's supportive role as the energy crisis bites

“How can treasury support through the energy crisis, and what are the potential impacts of the energy crisis on corporate health?”



**Oliver Stratmann**  
Head of Treasury and  
Investor Relations  
LANXESS

We are a leading speciality chemicals company based in Cologne. With around 13,200 employees in 33 countries, we are an established company on the global market. Our core business is the development, manufacturing and marketing of chemical intermediates, additives and consumer protection products with annual sales of €6.1bn (2021). Our energy sourcing differs from country to country. At some sites, we even produce our own energy. Despite the war in Ukraine, the sourcing at our major sites in the Lower Rhine region in Germany is secure. Here chemical park operator Currenta provides LANXESS with electricity and steam produced in the park's own power plants. Our energy supply is based on long-term contracts.

Energy prices have risen substantially since the start of the war – and we expect our energy costs to double in 2022 compared to 2021. So far, we have been able to pass on increased raw material and energy prices fully, albeit with a time lag of around a quarter to our customers.

Treasury is in close collaboration with our procurement department in order to assess the situation and decide whether physical hedging or hedging via financial derivatives makes any sense, but we don't currently hedge energy.

LANXESS is committed to becoming climate neutral by 2040. This includes a switch to green energy. We are constantly evaluating the potential to switch energy sources and use alternative ways to operationally run plants. Technical possibilities here are however limited. Importantly, we have substantially increased exposure to US based production, and this helps us.

We are passing on higher energy costs to our customers and thereby ensuring that absolute profits remain protected. However, inflation in the top line of our sales arithmetically leads to lower margins. Massive inflation could also lead to a decline in demand which fuels the broadly discussed fears of a recessionary environment.

Our liquidity reserves have been ample and have been diligently prepared since the beginning of the year. Passing on raw material and energy costs ensures that we are being compensated for the higher costs. Nevertheless, our inventory levels and hence tied-up cash, are higher as disruptions in global value chains and higher prices drive up values and volumes of goods in transit and inventories. It is key to be prepared to finance rising cash needs in working capital. Fortunately, we anticipated the current situation early and have been preparing since the beginning of the year.



**Gerben Hieminga**  
Senior Economist  
ING

Companies are focused on forecasting and budgeting their energy costs for the year ahead. But in these markets of high uncertainty, a different approach incorporating scenario risk analysis is better suited to assessing the impact of energy prices on financials. Risk analysis will help companies secure their costs for a period ahead so they can start planning in a more stable environment.

Scenario risk analysis allows companies to measure what risk they can take and what type of volatility they can support before it damages the company. Companies should be aware of these calculations and act accordingly – for example, to what extent is halting production a risk to avoid?

We would also warn companies that although energy prices are coming down, they may not drop further – scenario planning should include the risk of gas prices rising and returning to €300 per megawatt (MWH) hour in the winter months.

In December 2021, the gas price peaked at €140 MWH. It subsided, but in February 2022 we had another peak of €200 MWH. Summer 2022 it peaked again at almost €350 MWH. Prices ahead will depend on how severe the winter is and how much gas Europe has managed to store. We believe that if it is a mild winter, prices will stay below €200 MWH, but if it's a severe winter prices could reach €300 MWH. At this price, manufacturers like aluminium or glass makers may be forced to save energy and stop production.

Energy intensive industries like chemicals, plastics, base metals, steel and cement will feel a direct impact. The impact will then filter down to food and beverage groups, and agriculture. These businesses will see their costs increase although it will depend on the type of energy contracts they have. In a second order of impact, high prices will trickle down to the real economy to travel agencies, hospitality and construction. This is where the full economy and every supply chain will start to feel the impact.

Corporate treasury is in a better position than consumers and households to weather the impact because the pricing power for companies is quite high. We hear from energy companies that a lot of contracts will expire by the end of the year as contracts are signed from year to year. It could be that the full impact is felt when companies need to start negotiating their energy contracts. In this way the energy crisis for corporations is like a peat fire, burning underground and not visible from the surface. Renegotiating contracts could mean the energy crisis suddenly becomes a full forest fire.

Positively, companies are in better shape now than after the GFC. Many have cash on their balance sheet because interest rates have been low for so long. In the past, energy has only been a small portion of typical costs and companies outsourced their procurement strategy to energy service providers. Because costs have increased, many companies now want a one-on-one relationship with their energy provider. Procurement departments are working much more closely with their energy provider to secure energy for the year ahead and energy procurement strategies have become more interactive and time consuming as a result.



**Gareth Williams**  
Head of Corporate  
Credit Research  
S&P Global Ratings

We are seeing companies reconsider their investment plans and they may now be more inclined to preserve cash. Cash balances rose through COVID-19, and companies may now slow deploying that cash because of economic uncertainty. Higher interest rates offer some benefit from keeping cash too.

We have two areas of concern regarding the effect of high energy prices on corporate credit ratings. First is the potential impact from higher costs on profitability and demand. This might weaken the ability to service debt. For now, this effect has been modest as many companies appear to have been able to pass costs on to customers. Ultimately this is all adding to inflation and broader cost of living challenges, but this is more likely to be felt next year as economies slow.

At some point companies won't be able to pass cost pressures on as easily and we will pay close attention to corporate results in this results season. It may be that companies have been able to pass this cost on in the first part of the year but that their profit margins are coming under pressure as wage pressures rise and the days of easy cost pass through start to fade.

The second impact is the effect on funding costs, with energy prices a key part of the equation pushing borrowing costs higher. Market confidence is an additional element here, with corporate debt issuance slumping this year. Again, this remains a slow burning pressure for now. Companies refinanced at attractive rates during the pandemic and refinancing needs are modest for now.

On a positive tack, we are seeing signs that the supply side shock that has fed inflation is starting to ease. For example, container shipping costs have fallen dramatically. Once inflation comes under control, the medium-term picture might be more positive.

The financing environment remains a concern, both in terms of market sentiment but also in relation to possible systemic risk in the financial system. The sharp fall in UK government bonds in October exposed unexpected risks in the pension system from Liability Driven Investment strategies and could be a sign that other risks might have built up from a prolonged period of very low interest rates. Sharp moves in asset prices can reveal these hidden risks and a financial crisis would make a cyclical downturn more pronounced.

A final concern is that the cost of servicing dollar debt has gone up significantly given the surging dollar and higher US interest rates. Our analysis shows that 51% of the debt of UK companies we rate is dollar denominated. Even though treasury teams carefully manage this exposure, often via natural hedging in terms of where companies' revenues are coming from as well as forwards and swaps, this could be an unwelcome pressure for companies reliant on US debt funding but without matching US revenues.

### Next question:

"How prepared are companies and countries for new IFRS rules designed to tackle greenwashing and create a single set of corporate climate reporting standards to meet investors' information needs?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)



[treasurytoday.com](https://treasurytoday.com)

