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Adapting to Asia's booming e-commerce

Booming e-commerce in Asia has driven payments innovation. Will the trend continue post–pandemic?

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Director Capital Markets

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Mid-autumn festival and an era of common prosperity

In this edition we are happy to be addressing our APAC community at a time when the end of travel limitations may be approaching. More and more of us are now fully vaccinated and Europe and the US are soon to end the majority of restrictions.

However, there is still much turbulence in the Asia Pacific region and we know that for many 2021 has presented numerous challenges so far.

It was our pleasure this summer to host our virtual Women in Treasury APAC Forum and to have a record breaking number of submissions in the 2021 Adam Smith Awards Asia. Please watch this space, as we will announce the winners at our live announcement on October 14th 2021.

Our APAC community has stayed connected and communicative during the pandemic and we are grateful for your support, not just of us as your trusted content source, but of each other. We look forward to hosting physical as well as virtual events with you in 2022 and to celebrating your various successes throughout the remainder of this year.

In this edition of Treasury Today Asia we are delighted to bring you a varied selection of articles and insights which we hope you enjoy.

Until we meet next, happy mid-autumn festival to our audience across Asia Pacific, and we welcome seeing what China's 'common prosperity' approach will mean for the country and the region.

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E-commerce boom drives Asia payments innovation

The pandemic has driven a shift toward e-commerce and an accompanying rise in digital payments. Many expect this trend to continue post-Covid and to have an impact on how corporates make, receive and process payments in the future.

Consumer spending in various Asian markets has long been dominated by cash, and now the pandemic has forced a shift to digital alternatives. Consumer behaviour has changed and small companies and corporates alike are rethinking how to manage their payments in response to a boom in e-commerce. In fact, the rapid growth in online sales has driven payments innovation in the region, with some companies adapting more quickly than others.

"The pandemic taught the world of business a valuable lesson in consumer behaviour. When the COVID-19 crisis struck, everyone switched into survival mode. They started eating out less, they cut back on non-essentials and shifted their purchasing behaviour online as a matter of safety and convenience. As a result, this had a significant impact on the e-commerce industry – sales skyrocketed," says Riccardo Capelvenere, Founder and CEO of Currenxie.

In a report entitled 'The next frontier in Asia payments', McKinsey gives other examples of how spending behaviour – particularly with discretionary spending – changed dramatically during the pandemic. In India, for example, there were no car sales recorded in April 2020. Meanwhile, in Thailand, foreign tourism dropped year-on-year by 78% in March 2020, and then the next month plummeted to zero.

McKinsey also notes in the report how this booming e-commerce has reinforced the need for digital solutions to cater to the growing number of connected and digitally-savvy

consumers. During the pandemic, the report states, the proportion of consumer items purchased online nearly doubled, with approximately 30% to 40% growth rate in online spending.

E-commerce was already on the rise before the pandemic and is now expected to be even bigger business in the future. According to the FIS Global Payments Report 2021, e-commerce in Asia Pacific is projected to grow 13% annually until 2024. In 2020, the region's total transaction value for e-commerce was over US$2.4trn and is predicted by FIS to reach over US$3.9trn by 2024.

Reet Chaudhuri, Co-Lead, Asia Payments for McKinsey, explains how this shift in e-commerce has affected various sectors: "The bulk of the growth in e-commerce has not been in existing categories. People have not been buying more of the same things; they have been buying different things online," he says. Chaudhuri gives the example of a large Indonesian e-commerce player, which, before the pandemic typically sold consumer goods such as mobile phones and accessories, and during the pandemic saw a huge shift to groceries and the food and beverage sector.

Other companies have also witnessed a shift in their business mix. For example, ride-hailing platforms saw a decrease in the number of journeys because people were no longer going out, or to the office, but were able to scale up food delivery, for example. Chaudhuri also comments on the emergence of new services, such as online classes like virtual yoga, fitness and foreign-language lessons. "There is now a whole range of educational services that are now being delivered online," he says.

With this booming online activity, corporates have had to adjust quickly to this changing behaviour. Shirish Wadivkar, Global Head of Payments, Transaction Banking, Standard Chartered, comments how this shift has created more "digital novices" in the market. It has also improved the viability of models that were online anyway, by providing scale, extendibility and competition, he says. "With the need for more resilient and improved reach in distribution chains, the last mile got extended to right-to-the-door fulfilment, spurring new distribution chains – even if nascent – which in turn fuelled more and more people to move their commerce online and which, in itself, became a growth feedback loop," Wadivkar says.

This has had a knock-on effect on payments, which underpin such a transition. Nagesh Devata, Vice President of Asia, Payoneer, a digital payments company that facilitates e-commerce, comments, "Both consumers and businesses have become better educated on the value that payments solutions bring to their lives. Solutions that were once new and experimental are now accepted as the new normal, or at least our new reality."

McKinsey's Chaudhuri also explains how this evolution has had an impact on payments innovation: "Suddenly a lot of players have been forced to accept payments electronically without a face-to-face payments solution." There are typically two responses to this, he adds. The first is to sign up with an aggregator platform so that it accepts and processes payments on their behalf and credits the funds to their account. On the other hand, many view such platform's charges as high and instead prefer to manage the online payments themselves. Such businesses, however, find that when they put in place their own website and tie up with an online acquirer, it is not enough and they also need to invest in digital marketing, to grow their business online.

A number of banks have offered to help clients navigate accepting payments, particularly for businesses that had to quickly adapt to accepting payments online. For example, banks created partnerships with fintech players in order to offer their clients such e-commerce solutions. In Singapore, for example, the OCBC Bank created an alliance with Shopify, an e-commerce company, to help merchants build their online presence. OCBC encouraged its customers to set up online businesses and offered free subscriptions to get started with the software they would need.

"Partnerships are a good example of how companies can expand their payments offerings to adapt to the changing landscape and needs of customers and we are seeing an increased appreciation and understanding of the value that an established payments partner brings to the table," says Devata. He explains how Payoneer, for example, was brought onboard by eBay to expand and manage payouts for eBay sellers from Greater China. "This was driven by a demand for an expanded reach, faster access to funds and the need for greater flexibility managing multi-currency payments," he says.

With so many companies and payments providers adapting to this new environment, there are still no clear winners in the region. Chaudhuri notes that so far there are no clear dominant players in the e-commerce payments space since the pandemic. "There is no regional leader – it is country specific," he says. Players such as Lazada and Shoppee are active in multiple countries in South East Asia, Chaudhuri points out, but this was already the case pre-pandemic.

Wadivkar at Standard Chartered comments on how specifically companies have been thinking about their payments: "The focus has been on automation – not just the connections to their banks, but from human intensive processes to application programming interfaces (APIs) that execute payments machine to machine," he says. Wadivkar notes, companies have also had to rethink their accounts payable and accounts receivable workflows: with nearly all employees working remotely, processes had to catch up with this new digital reality. "One such example is document signing, and the acceptance of e-signatures in the workflow – internally and externally," he says.

Wadivkar comments that the other area of forced change in the management of payables has been in traditional supplier or counterparty payments. "With a lot of gig workers effectively delivering the last-mile, there is a need to better manage the payment traceability and payment fulfilment that involves online confirmations of service delivery. Payments that actually execute based on open world stimuli – escrow arrangements – are fast becoming de rigueur," he comments.

These changes in e-commerce are part of a broader trend of the shift to a digital economy. This, Balaji Natarajan, Head of Payments and Cash Management, Asia for ANZ, explains, is much broader than consumers merely buying things on Amazon, for example. "The digital economy is really beginning to be a significant part of the corporates' way of doing business," he says.

Corporates now need to operate in an online and an offline mode, and it is unsustainable for businesses to not be digital. "If you do not have an online mode, someone else could sell

to your customers," says Natarajan. "There has been a big shift in thinking. In the past it was thought that having a physical presence was necessary to have a relationship with a customer," he adds.

"The digital economy is a primary driving force of the entire business model," says Natarajan. And this economic transformation to the digital economy is facilitated by payments. In fact, it has pushed treasurers to rethink how they receive, make, and process payments.

This trend is facilitated by a number of developments, such as increased self-service, greater interoperability with standards such as ISO 20022 being adopted and the use of virtual accounts, says Natarajan. Also, he notes, there have been advances with enterprise resource planning (ERP) systems so that treasurers have more flexibility and control in how they consume raw data, connecting in real-time to banks through APIs.

Capelvenere at Currenxie – a company that offers payment solutions for SMEs and corporates – comments that this kind of digital transformation that the industry has been seeing with e-commerce and payments was expected to take years, if not decades. "Businesses of all sizes are being forced to reset their strategies and pivot their business models while transforming operations to meet the new digital expectations that have emerged as a result of the pandemic."

Now that the business world is finally adapting to this new digital reality, Wadivkar comments on where corporates could go next: "Ideally innovation should get multi-threaded from here, building on data, services and new franchise models. Banks also need to think how they can safely scale and support such on-demand interconnected payments, as commerce moves with the speed of light. This is the real challenge in the post-pandemic era," he says.

The focus for corporates should not just be on the payments themselves, but how they can be supplemented and used to drive ease of settlement from their clients, Wadivkar adds. Also, this will reduce the overall time and effort taken to collect and reconcile, in order to convert the cash receipts to cash application.

Wadivkar notes that in Asia card penetration is low, and while that is changing – thanks to the pandemic – companies need to leverage on the one market innovation where Asia is leading: immediate payments. The spread of these immediate, or faster, payment networks are built on cutting-edge technology, he notes. This includes data standard harmonisation and the use of smart common aliases such as email and mobile numbers to address payer and payees. Wadivkar adds that the always-on nature of these payments – 24 hours a day, seven days a week, for 365 days a year – is no longer the novelty nor the critical selling feature.

Capelvenere points to other trends in payments innovation: "While cash still dominates most parts of Asia, since the pandemic hit there's been a monumental increase in the use of contactless payment methods like digital wallets, mobile apps and contactless cards. So much so that it's overtaken the growth of debit and credit cards." He adds, "There's also been a rise in Asian consumers taking advantage of peer-to-peer – P2P – payment apps to send money to one another, as well as using quick response (QR) codes to make payments and place orders. We've also seen an uptick in the number of businesses allowing customers to Buy Now, Pay Later, a trend that started gaining traction in Singapore and is now popular throughout Asia.

The challenges for corporates in adapting to this new environment depend on the vertical, says McKinsey's Chaudhuri. But broadly, he notes, corporates have to assume that consumer payment behaviour has changed, and they need to adapt accordingly. For example, they need to focus on providing an omnichannel experience where a customer can seamlessly switch between the physical and the digital world. They could order goods online, for example, and then take them into the store for a refund. The payment solution needs to link up to both the offline and online systems so that the refund in-store can be processed efficiently.

Devata at Payoneer also comments on how the physical and the digital experiences need to coexist: "The COVID-19 pandemic has normalised the digitalisation of daily occurrences, ie digital check-out, the utilisation of digital platforms and e-commerce, and other elements of a contactless experience. As a result, the adoption of digital payments has grown exponentially. As the rest of the decade unfolds, I anticipate that these digital trends will remain as cultural mainstays and we will see both physical and digital experiences work to complement each other," he says.

Capelvenere at Currenxie describes the pandemic as a 'digital accelerant' and companies, in order to stay relevant, had to embrace digital disruption and introduce new innovative payment technologies into their day-to-day operations. "In a world where cash is no longer king, digital payments come with the promise of faster, cost-effective operations that are essentially more 'hygienic'. They're no longer just a perk but a customer-driven expectation," says Capelvenere.

"Businesses who encourage their customers to use low-touch or no-touch forms of payment are the ones most likely to prevent a loss — as are e-commerce sellers who offer their customers payment gateways on their online stores," Capelvenere adds.

What all this means for the future is still open for debate. One of the questions since the pandemic, says Chaudhuri, is whether the changes in consumer behaviour is a one-off and consumers will go back offline once the pandemic is over. He points to McKinsey research that finds that some behaviours will not revert to pre-pandemic levels. For instance, there will be some parts of the workforce that will continue to work from home. There is also a heightened focus on health and wellbeing, and increased consumption at-home entertainment. Chaudhuri adds that there has also been a structural change in business travel, which he does not expect to return to the levels of before the crisis in the near to medium term. "If you are a treasurer you have to consider what implications this has for your business," he says.

Capelvenere argues that corporates should be asking themselves how they can make their customers' lives easier whilst also benefiting their business. He comments that although we don't know what the lasting effects of the pandemic will be on society, "If there's one thing that is certain, it's that the impact it left on the digital world will be a long-lasting one. Now is the time for companies to embrace digital disruption and new innovative technologies. It's not the time to be complacent. You don't want to be left behind."

GOLD SHINES

IN PALANTIR'S TREASURY STRATEGY

Big data company Palantir's investment in gold bars had some conspiracy theorists wondering whether the company had insider knowledge – from its government contracts – of an impending disaster. Although an unexpected move from the cutting-edge software company, it has put gold back in the spotlight as a treasury strategy.

Investment in bitcoin and other cryptocurrencies has been a growing trend, particularly for innovative corporations that are looking to diversify and pursue new hedging strategies. So, when Palantir – the big data software company founded by legendary investor Peter Thiel – announced it had invested in gold bars, it caused something of a stir. For such a cutting-edge digital company, many expected an equally digital investment strategy.

In its latest quarterly update, the company reported that during August 2021 the company purchased US$50.7m in 100-ounce gold bars. "Such purchase will initially be kept in a secure third-party facility located in the northeastern United States and the company is able to take physical possession of the gold bars stored at the facility at any time with reasonable notice," the company said in its filing with the Securities and Exchange Commission (SEC).

Palantir has been described as an espionage firm because of its contracts with the likes of the Central Intelligence Agency (CIA) – which was an early investor – and the Federal Bureau of Investigation. It has been portrayed as a secretive, big brother firm that wields too much power given the data it has access to. In one of its contracts, it scraped data for the UK's National Health Service to understand how coronavirus was spreading, and its data analytics were used in the UK's vaccination programme.

If a company like this is investing in gold – which it can access at short notice – does it mean it can foresee a black swan event on the horizon? Is the visionary Thiel – the Capital Co-founder of PayPal and an early investor in Facebook – onto something while others are missing a trick by focusing on cryptocurrencies instead? Or is gold just a sensible hedging strategy for the company?

To put the US$50.7m gold investment in perspective, it is actually chump change when compared even to the personal wealth of David Glazer, Palantir's Chief Financial Officer and Treasurer. According to Benzinga, Glazer's net worth is estimated to be at least US$149m. He owns approximately 2.5m units of Palantir stock and sold an estimated value of US$51.9m in the last year.

And the amount of gold the company has invested in is still small, relative to its other assets. As of 30th June, for example, it had US$964m invested in money market funds and US$65m in certificates of deposit.

One view is that gold's value is expected to increase as the value of the US dollar declines. Jeffrey Gundlach, the CEO and founder of investment firm DoubleLine Capital, who earlier in his career was dubbed the 'King of Bonds', says the US dollar's future as the global reserve currency is under threat. "I think ultimately gold is going to go a lot higher, but it's really in hibernation right now," he was quoted as saying by Yahoo Finance.

And according to the World Gold Council's report that was released last week, investors are increasing their allocation to commodities, given the improving economic conditions, higher inflation and rates expectations as well as commodity supply shortages.

Cash management gets real

Many treasuries still rely on manual processes and spreadsheets for cash management processes. But the COVID-19 pandemic has forced a reassessment of cash management and brought real-time liquidity and cash management closer to reality. New technologies are providing the catalyst.

Despite the advance of digital technology into everyday lives, many treasurers continue to rely on manual processes and spreadsheets. But the uncertainty and liquidity issues caused by the COVID-19 pandemic underlined the need for speed and accuracy in cash management. For many treasurers, the time has come to leverage new and emerging technologies and commit to a digital treasury environment that will enable real-time cash and liquidity management.

Financial technology provider Bottomline Technologies' 2021 Payments Barometer found that despite the cashflow challenges faced by many businesses, accurate forecasting is lacking, with 48% of the 800 organisations surveyed admitting their cash forecasts are rarely accurate. Among enterprise organisations, this lack of visibility increases to 56%.

However, the survey found that few businesses – 8% – aim to prioritise improving cash forecasting in the next 12 months. Financial decision-makers also tend to use more than one method to manage cashflow, with 37% of small businesses still using manual calculations on Excel, the survey found.

"The pandemic highlighted the need for accuracy and speed," says Tracy Kantrowitz, Vice-President of Marketing for Treasury at Bottomline Technologies. "Treasurers were the stewards of the information that CEOs needed in order to make business decisions about furloughing staff or keeping them on. A treasurer's role was no longer about just cash positioning and this shed a light on how inaccurate and inefficient existing processes were."

Tom Wood, Head of Global Liquidity and Cash Management, HSBC UK, says the pandemic has accelerated companies' existing digital treasury strategies. "Many treasurers were striving towards this pre-pandemic and treasury teams of all sizes and types of business are at different stages of their own digital development, as are their banks," he says.

Companies in the early stages of digital transformation have focused on automating processes such as administration, contracts and payments tracking, while more sophisticated and advanced treasurers are moving to decision-making tools for cash-flow forecasting. "Overall, there is more hunger from our client base to talk to us about real-time digital solutions than in the past, which is as expected given the impact of the pandemic."

Bert van Drie, Global Head Cash and Liquidity Management at ING Wholesale Banking, says there has arguably never been a situation as uncertain as the pandemic. "This has increased the importance of cash management for companies," he says. "Companies were suddenly confronted with drastically decreasing or increasing demand for their products and immediate and real-time insights in cash, lending facilities and (supply chain) risk management became even more important."

Stephen Randall, Global Head of Liquidity Management, Citi, says the pandemic refocused the attention of companies on the importance of cash, in a similar way to the last financial crisis. "Companies realised they had to have a laser focus on concentrating cash and redeploying it to where it was needed most," he says. "This gave them visibility and the ability to best support the liquidity needs of the operating business."

Cash management has always been seen as important, says Peter Dehaan, New Business Director, Cash and Liquidity Management at technology company SmartStream, but much has changed. "The pandemic was almost like a natural disaster, overnight immediate and significant changes in working patterns and customer behaviours occurred," he says. "When you have such change you realise the importance of real-time, robust, auditable information which is readily available."

Normality changed much faster than anticipated, he adds. The human element and interaction that enabled organisations to successfully manage their business pre-pandemic was now at arm's length as treasury team members worked remotely. "Forecasting and visibility of the balance sheets were stretched, with companies drawing down on revolving credit facilities. In a number of financial institutions this was exacerbated given the volumes, essentially creating the need to establish a banking 'track and trace' system for cash movements."

The shift to remote working is a point also highlighted by Bottomline's Kantrowitz. Many treasurers felt comfortable with the status quo of manual processes and spreadsheets, she says, however during the pandemic team members were no longer able to walk up to a colleague's desk to ask a question, for example. Moreover, the collaborative technologies such as Teams that were used to enable staff to work together remotely made life easier and opened the eyes of many treasurers to the benefits of such technologies.

With the initial shock of the pandemic over and governments and businesses discussing recovery and 'building back better', existing cash management processes and systems are coming under scrutiny.

HSBC UK's Wood says there has been reluctance among some treasurers to move to digital treasury technology, caused by concerns over loss of control of processes and cyber risk. "There has always been an element of this, although digital processes are often more secure than manual ones," he says. "There is a shift away from this attitude, but there are always people who find it difficult to change historic systems and processes. The pandemic has forced a change away from dated processes that many people were very comfortable with."

Moreover, digital first was already the direction of travel for treasury functions. "Companies are moving away from physical

products such as cash and cheques, which are operationally cumbersome and generally higher cost," he says. Virtual account solutions and other digital technologies, such as HSBC Global Wallet, a new digital, multi-currency payment solution, will enable treasurers to transact faster and have better visibility.

All treasurers had similar challenges during the initial phases of the pandemic, says Kantrowitz, but those relying on manual cash management processes struggled more than those with more innovative cash management systems. The newer generation of cloud-based systems such as Microsoft Azure and Amazon Web Services enabled users to better connect the disparate pieces of information that typically reside in AP, AR and other accounting systems, she says. "From a decision-making point of view, the treasury infrastructures based on the new digital generation of treasury management systems fared much better."

The companies that had a handle on the fundamentals, with efficient and automated cash pooling structures already in place and the systems and data to monitor cash balances and forecast future liquidity needs, were able to more easily make decisions about cash deployment during the early months of the pandemic, says Citi's Randall. "Without the fundamentals, such decisions become more complex and deployment of cash is slower and less efficient."

Martin Gray, Managing Director in the Restructuring Advisory practice at risk solutions provider Kroll, says as a result of the pandemic, finance teams are "drastically changing in terms of their structure, organisation and processes. Thereby, businesses are scrambling to manage this adjustment by investing in their technological solutions. The accounting and finance branches have become a key area of focus for companies."

While the pandemic has provided a catalyst for reviewing cash management processes and systems, it is not the only driver. Instant domestic payments systems and the moves towards open banking and application programming interfaces (APIs) are highlighting the inadequacies of current cash management technologies. The proliferation of real-time clearing and settlement mechanisms will eliminate the established batch, end of day processing environment and will transform liquidity and collateral management.

Wood says one of the major benefits of digital treasury is its green credentials. "Technology such as digital cash flow forecasting tools can remove a lot of paper from operational processes while also removing inefficiencies."

Technology moves fast and pinning down any one technology that will emerge as the winner is difficult. Dehaan says cloud-based solutions are now more readily discussed by treasurers than they were a few years ago. "Portals and dashboards that align data are key to ensuring people do the right things at the right time. You have to ask yourself, what is worse, latent data or latent liquidity," he says.

Blockchain technology enables very fast real-time of actual cash positions. "Because of the transparency around it, you can see very quickly when something is wrong," says Digital Strategist Kate Baucherel. "Speed and transparency are crucial for cash management and blockchain transactions are much faster to settle because they don't have to go through any third parties."

The volatility of cryptocurrencies such as bitcoin (which are based on blockchain technology) has held back widespread adoption of blockchain in treasuries, however. "Stable coins, which are tethered to a currency or commodity are emerging and central bank plans for digital currencies indicate the area is constantly evolving. There isn't much confusion about what blockchain is, but there is a lack of knowledge because it is such a fast-moving area, which is common with any emerging technology."

The oft-quoted adage, "rubbish in, rubbish out" still applies. Artificial intelligence (AI), machine learning (ML) and robotic process automation (RPA) systems are only as good as the data that are fed into them. "Much of what treasurers are trying to accomplish in cash management will depend on high quality and accessible data," says Randall. "New and emerging technologies such as AI and ML are very useful and are bringing treasuries closer to real time liquidity management, which is becoming an important requirement. But treasuries must have good data to deliver on their promise."

ING's van Drie also points to data as an important element. "Data Analytics, robotics, blockchain and APIs are 'buzzword' technologies aimed at improving the treasury function. Fintechs in the open banking space, enterprise resource planning (ERP), treasury management system (TMS) providers and banks all step up to provide the platform for the future, particularly for real-time cash management, for cashflow forecasting and for risk management."

These solutions can bring tangible benefits in terms of better informed financial decisions, but van Drie warns that a careful strategy is required. "Which role do you want to play as treasury? Should it be fully integrated in the supply chain, or more focused on the financial and risk side? What is the culture of your company – more decentralised or centralised?"

Kroll's Gray says RPA is increasingly used by businesses to automate "monotonous" treasury management processes. "If businesses scale the technology properly and adopt a holistic approach, the future could be bright in terms of ROI for CFOs."

A technology is only as good as the organisational environment in which it works, he adds. Treasurers should consider how technology should function in the entire organisation and how easily data from subsidiaries of the right quality can be obtained and how the most value can be added.

Manoj Mishra, Vice-President, Consulting Services at CGI, says treasurers often feel "left behind" compared to their retail experience. "We are seeing treasurers demanding the same user experience that they have as a retail customer," he says. "Many treasurers and CFOs have made it clear to their banks that they should modernise or risk losing their business." Treasurers are seeking customer centric user experience, unified platforms and real-time, predictive insights, he adds. "We strongly believe that these changes in the next two to three years will help transform CFO organisations making them nimbler and efficient."

Highly connected, open treasury systems that enable easy onboarding of clients are the future of cash management, says Kantrowitz. "The biggest benefit of such systems is that they give access to data across all the financial ecosystems, including treasury, banks, ERP, TMS and accounting systems. Treasurers can unlock all of the data, using the right systems and tools to be more proactive and intelligent in analysis of cash flow and in vendor management."

Get ready for the digital yuan

The People's Bank of China is about to snatch first-mover advantage. It's currently piloting the e-CNY and looks set to become the first major central bank to launch a CBDC. It's time for corporates to take it seriously.

China is about to roll out a digital yuan that could ultimately replace physical cash with a digital wallet app for users to store their e-CNY. Successful trials have been run in four cities and a nationwide roll-out is planned early next year at the Beijing Winter Olympics. e-CNY, just like the paper yuan, will serve as a legal tender issued by the central bank, circulated to the public via commercial banks. Companies need to ready operational and technological processes to allow for the new payment option that will make payments real time, cut costs, reduce bank dominance and encourage innovation. It could also propel the renminbi (RMB) into a significant trade currency. More controversially, it gives the Chinese government sight of all transactions with implications for how companies operate.

Motivation

China is not introducing the digital yuan to challenge the dollar or push a new international payment rail. Charting the momentum that has steadily built behind the e-currency over the last two years, Hong Kong-based Michael Ho, a Principal in Oliver Wyman's Corporate and Institutional Banking practice, argues the key driver to its introduction is the Chinese government's bid to break away from private sector reliance on critical payments infrastructure. The bulk of national payments now go through Alibaba's Alipay and Tencent's WeChat Pay, he explains. "Over 90% of the mobile payment market is dominated by two internet firms. If Alipay was to fail, what is the failsafe alternative that the country can rely on to move billions of cash every day?"

Its launch also sits within the context of a changing regulatory environment for tech businesses as the government reins them in. Witness the crackdown on Didi following the ride hailing app's listing on the New York Stock Exchange and the sudden cancellation of Ant Group's IPO in Shanghai and Hong Kong last year.

The tables have turned, and now the country's tech giants have little choice but to co-operate with the government's plan to disrupt them. Alipay is testing the e-CNY, Alibaba accepts it for online grocery purchases and at its food delivery service Ele.me. Didi, food delivery giant Meituan and ecommerce group JD.com are also introducing payments via e-CNY. As of June, consumers and corporates have opened 24m e-CNY wallets and spent RMB35bn ($5.4bn) in 71m transactions for paying utility bills, buying food or taking the metro, among other things, according to a recent PBOC white paper.

Benefits

The regulatory regime is still unclear, but e-CNY enthusiasts point to important benefits ahead. Its real-time characteristics could unlock trapped funding in corporates' payments processes, reduce financing costs and free up corporate liquidity. Expect faster reconciliation of payments, better efficiency and security and more freedom to transact in RMB without opening an account for settlement, says Parvez Aziz, Managing Director and Regional Corporate Sales Head, Global Transaction Services, Bank of America. "The e-CNY will enable payments to be made directly between payees and beneficiaries instantaneously, removing intermediaries like correspondent banks and the associated fees and charges. The only necessary middleman would be the central bank."

Other elements are more worrying, however. It is programmable, making it possible for the government to track and monitor all e-CNY transactions and ending the anonymity of decentralised physical cash or bitcoin. "Of course, if the Chinese government wants to look into a transaction it already can, but this gives it full visibility on every individual transaction going on," says Ho. Zennon Kapron is Founder and Director of Kapronasia, one of Asia's leading financial technology research and consulting firms. He warns it could lead to business or individual wallets being frozen, and raises important issues regarding domestic and multinational companies' operations in China. "You can't stuff e-CNY under the mattress – the government will always be in control."

Policy

This control will become a policy lever to regulate how money flows. Positively, it could lead to more flows to China's cash-starved SMEs, suggests Kapron. Traditional commercial banks find it costly and risky to lend to SMEs. Now a digital currency could boost the government's efforts to get banks to lend more. "Historically the government has not had control of how much banks lend to SMEs," he explains. "But a programmable currency could remain inactive until it gets into the wallet of an SME. Unusable until it hit its intended recipient, it gives the Chinese government the ability to fine tune fiscal policy."

In another example, unlike physical cash, e-CNY can have an expiry date that once passed takes the currency out of circulation. "If the economy slows down, the government could boost consumer spending by setting expiry dates [to hasten spending] on the e-CNY," says Aziz.

Cross border

It also heralds changes in the use of the RMB in a cross-border context, potentially allowing China to transfer money across borders and enable users to avoid going through the dollar-based international payment SWIFT system. Although the e-CNY is currently only designed for the domestic market, the Chinese government has announced plans to work with

G20 and other organisations to develop cross-border settlement of e-CNY. It has joined central banks in Hong Kong, Thailand and the UAE to explore cross-border e-CNY payments through DLT, and in June began piloting e-CNY settlement in Hong Kong. In short, by facilitating the use of e-CNY in the region and enabling cross-border money transfer, China is advancing efforts to internationalise the yuan which currently accounts for only 2% of the world's FX reserves. "Companies should pay close attention to developments outside of China," advises Aziz.

Of course, the RMB is currently restricted under capital controls, with access based on a quota system. New rules will have to be drawn up, says Kapron. "If there was wide adoption of the e-CNY you could have a situation where the currency is swapped and circumnavigates capital controls. It is still up in the air how the government will navigate this from a rules perspective."

It holds implications for international banks serving US dollar transactions in some regions. For example, in Hong Kong foreign banks may begin to adopt the e-CNY over the dollar to serve changing client needs. "It will become more efficient to settle in RMB in Hong Kong where you already have a lot of Chinese corporates operating," predicts Ho. "Hong Kong is just the kind of environment for the e-CNY to get really good adoption." Moreover, as the use of e-CNY spreads so it becomes more expensive for companies to transact in currencies based on traditional, old school payment infrastructure. There will be a cost for banks, and therefore companies, associated with legacy infrastructure, predicts Ho. "International banks have always had good US dollar liquidity and served their clients best in dollars. The transition won't happen overnight, but the dollar's position in cross border payments could be challenged."

Beyond Hong Kong, Belt and Road Initiative (BRI), trade flows could be conducted in e-CNY given much of this lending is already in RMB. Looking further ahead, e-CNY could filter into corporate supply chains in line with companies' digitisation of their logistics operations, suggests Aziz. "The adoption of e-CNY for cross-border trade may see more companies leveraging China's digital logistics networks to access quicker and more accurate information on their shipment flows. In the long term, if the adoption of e-CNY increases, it would provide more substantial support to the internationalisation of the RMB."

It also offers Beijing the chance to sidestep SWIFT and US sanctions. Countries which are not common currency partners and want access to RMB can settle in RMB directly, no longer having to go via the US dollar. "The US has visibility on nearly all US dollar transactions," explains Kapron. However, he doesn't believe the dollar will be replaced any time soon. Commodities are priced in dollars, and it remains the most fungible currency out there. "Just because you have an electronic version of the RMB, it doesn't mean that commodities will be priced in RMB or that its fungibility will suddenly increase."

Bank impact

The digital currency poses important changes for commercial banks. It means money will move in real time, impacting their liquidity positions. "A lot of capital trapped in payment process is now freed up and will move much more quickly. This will bring liquidity management challenges for the banks,"

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> Parvez Aziz, Managing Director and Regional Corporate Sales Head, Global Transaction Services, Bank of America.

says Ho. Moreover, he warns banks (and corporates) to expect real pressure from policy makers and regulators to start using the currency.

It also promises to open the competition, introducing a payment infrastructure that other market participants will be able to access. For sure, banks will be able to leverage the infrastructure to broaden their own offering. But so will non-banking organisations, suddenly able to offer their customers payment applications over the same infrastructure, undeterred by costs and benefiting from the democratisation of the payments market. "The concept of banking as a service will become increasingly prevalent," predicts Ho. For example, telecoms companies or travel agencies with an e-commerce platform will be able to provide their own version of a banking service. Although transactional banking and FX will remain banks' domain, another wave of competition is bound to follow their recent loss of retail business to fintechs. "Staying relevant could be an issue," predicts Kapron.

That said, the ability of the government to usurp the popularity of current e-commerce payment tools will be determined by e-CNY functionality and user experience. "This is where existing payment tools probably have an edge given their prevalence within and outside of China," says Aziz, who suggests the e-CNY could see more ready acceptance in areas like utility and tax payments.

Corporates get ready

Corporates should prepare by assessing how the digital currency will impact their payments model and client experience, exploring how it will cut across their e-commerce channels and instore payments for customers in China. Treasury needs to establish the necessary hardware and software to start accepting e-CNY, says Aziz. "Newly added software needs to be integrated with the company's existing ERP/TMS to streamline accounts reconciliation. This is especially important when processing anonymous transactions with missing payer information."

Treasury also needs to access how to leverage the liquidity position and the opportunities unlocked by faster access to cash. Perhaps most importantly firms need to join the conversation, staying abreast of all regulatory changes. Chambers of commerce and industry platforms should come together and talk about what this means for their sectors, and how they can help shape policy. Anecdotal evidence suggests the eCNY is not on treasury's radar: retail and business payments are already all digital and e-commerce is firmly embedded for consumers and businesses. Yet Ho concludes with a word of warning. "Most central bankers are not corporate treasurers."

Making a difference

Fonterra is a New Zealand-based dairy cooperative and multinational company, which is majority-owned by approximately 10,000 dairy farmers. It has more than 30 manufacturing sites across New Zealand and processes about 16 billion litres of milk every year, 95% of which is exported to more than 130 countries. It is a major company in New Zealand, and approximately 25% of the country's exports are Fonterra dairy products. China is the cooperative's largest export market with over 900 staff working across consumer brands, food service and ingredients, and also over 100 ingredients customers and resellers across China.

Simon Till
Director Capital Markets

As a New Zealand-based dairy cooperative, Fonterra has features that make managing its treasury unique. Simon Till, Director Capital Markets at Fonterra, who has responsibility for the Group Treasury and Equity Markets functions, explains his priorities and why he finds his role rewarding.

Fonterra carries the slogan 'Everyday people doing good things together' on its website. This may seem like just another marketing slogan, but it does seem to sum up the attitude that Simon Till, Director Capital Markets at Fonterra, brings to his role – both in being accountable to the cooperative's farmer owners, and building a happy work environment.

Till explains how he enjoys the responsibility that he has to Fonterra's farmer owners: "You know that that the farmers will be impacted by how well we do as a business and I get to meet many of the farmer owners during our results updates so there is a strong sense of personal responsibility to the farmer owners," he says.

"With a cooperative, understanding the risk appetite of the farmer owner is a key part of the treasurer's role; you have to make sure your financial and capital management policies are in line with that risk appetite," says Till.

The cooperative exists to essentially pool resources for farmers, to collect their perishable goods and process it into a non-perishable form, and get the best total return available, explains Till.

Having this cooperative structure means that the risk appetite of the farmer owners is very clear. "In agriculture, in particular where it involves perishable products, farmers want the certainty that you can consistently deliver what you are there for, so they do not want the processor to be high risk or highly leveraged" says Till. "If farmers want higher risk, they can have that in their own farms. You do not want the supplier and the processor to both be highly leveraged," he adds.

In terms of funding strategy, because 95% of the equity capital comes from farmer owners, Fonterra needs to have access to debt markets in all market conditions. "We need to be able to readily access those markets for our ongoing funding," says Till. This compares to a listed company, for example, which could do a rights issue or share placement to raise more funds. "We would not be popular with our farmer owners if we wanted to raise equity at short notice," he explains.

Fonterra's A Band credit rating is critical to being able to raise funds in all conditions. "History shows that in good times anyone can raise money, but in bad times being highly-rated significantly improves market access," says Till.

The cooperative has developed long-term relationships with banks, as well as the bond investors. Till explains that Fonterra has about 13 banks in its bank group – a relatively small number – with total bank facilities of approximately NZ$4bn. In the bond markets, Fonterra has four or five strategic currencies – or geographical regions – that it focuses on. "We focus on building relationships with our investors, which includes prioritising regular bond issuance in our key strategic funding markets" says Till.

Given Fonterra's size relative to the New Zealand market, it would be challenging to get all the debt funding the organisation needs from the local market, unlike European equivalents, for example, that can easily tap their much larger local markets. "Diversification of funding is important," says Till, and this includes raising funds in a number of other currencies aside from the New Zealand dollar as well as being able to access longer tenure funding, "It can be difficult to do that consistently in scale in the Australasian market," he says.

"Because we export to over 130 countries, pretty much every element of what we do has a cross-currency exposure – whether it is transaction flows, funding the local business and repatriating cash, and the associated foreign exchange exposures. These cross-currency implications are a significant part of understanding and managing our risk," says Till.

Also in his role, Till gets exposure to the global capital markets, which given the scale and complexity of Fonterra's business, the organisation must have access to. "Fonterra collects around 80% of the milk produced in New Zealand and exports around 95% of that milk to 130 countries," says Till. That scale and complexity is what he finds interesting, for example, with different funding arrangements in China, Asia, South America, and various emerging markets, and how to repatriate the cash.

Till has a number of priorities in his role. The primary purpose is to ensure the cooperative has the funds available to execute its strategy, and also to manage risk prudently and efficiently. "A huge part of that is how we deploy funds across the global operations and how we collect all the cash flows from that," he says. "It is key for us to make sure we understand the financial risks in the business, and that we are measuring them, managing them, and reporting them in a way that is useful for people to base their decisions on," he says. "There's no point just reporting the risks, we want to present them so decisions can be made that improve the outcome."

Fonterra has reset its strategy over the last two to three years, which has included significant deleveraging. "I feel that we have contributed quite strongly to the improved financial discipline. It is enjoyable to be making a difference to the organisation – that is very satisfying," he says.

Also, strong liquidity is a key priority. "We are a highly seasonal business. Dairy in New Zealand is a pasture-based system where the grass provides the feed. Milk production follows the seasonal grass curve, which means we have a highly-seasonal funding requirement. For our core funding we use long-term bonds, and for the seasonal requirement we use the bank facilities as we have the flexibility to draw and repay these daily" says Till.

Also, another focus for Till is creating a supportive environment to work in. "It is important, in terms of how we operate and in any finance role, to have an environment where it is good to challenge and ask questions. You want the team to be comfortable challenging ideas, views and proposals- you have got to create an environment where they are comfortable doing that – you cannot just tell them to do it."

Till also wants to create a fun environment. "If I were to talk about the highlights of my career over the years, I could give you a list of the transactions. But when I step back, the real highlight has been the people I have worked with. I love working in a high-performing team, with high energy, positivity and camaraderie. We spend a huge amount of time at work so it is important to enjoy that. A priority for me is helping create a fun and positive environment that makes being at work not feel like a job," he says.

And although he doesn't give the list of transactions, his career to date has had some significant highlights. After growing up on a sheep and beef farm in the Wairarapa, just out of Martinborough, which is now well known for its

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wineries, he went to Victoria University of Wellington. His undergraduate studies were in accounting and commerce, and honours year in finance. This set him up well for his career, which began at Jarden, a New Zealand-based investment banking firm.

One of the formative moments in his early career was the 1987 share market collapse, and Black Monday – or Black Tuesday as it is also known in New Zealand – when stock markets around the world plummeted, causing widespread panic. It also had a long-term impact on New Zealand's real economy as well as its financial markets. "I saw first hand what risk was all about," he says, adding that one of the triggers for the crisis was the poor reporting of cash flow. That experience taught him the importance of understanding cash flow and the consequences of poor risk management.

At Jarden, a full-service investment bank based in the relatively-small market of New Zealand, he was exposed to the full range of disciplines such as mergers and acquisitions (M&A), advisory, equity capital markets and debt capital markets. That experience became more international when Credit Suisse First Boston bought Jarden in 1990. Till comments that it was an exciting time to be in the industry, "There was huge change in the economy and the corporate landscape, and many significant and transformational transactions. I really enjoyed that environment and it was really exciting being part of Jarden and Credit Suisse First Boston."

He worked his way up the ladder and by the late 1990s had become Head of Investment Banking of Credit Suisse First Boston in New Zealand and later a Global Managing Director of Credit Suisse First Boston, where he had relationship responsibility for key corporate accounts in New Zealand such as Fletcher Challenge and Lion Nathan.

In 2002, Credit Suisse First Boston sold its stake in the New Zealand business to local management and that was the point Till chose to make a change. "What I really enjoyed was the global interaction and cross-border transactions and we would have been going back to predominantly a domestic business," he says. With that, he took some time out and went to live with his young family in France and Italy for a year.

On his return to New Zealand, he worked for himself in private equity and advisory. Then, in 2010, Fonterra advertised for the role of Head of M&A. The hiring manager was the cooperative's Chief Financial Officer, Jonathan Mason, who Till already knew from his earlier investment banking days. He also knew Fonterra well from being an advisor on the cooperative's formation in 2001.

"I had been thinking about making that change from an advisory role to working in a business where you are actually the one making the decisions and dealing with the consequences of them," says Till. Also, he adds, he was attracted to Fonterra because of its involvement in the primary sector, its importance to New Zealand's economy, and also the global scale of the business. "I get to see what is happening around the world," he says.

He got the job and was the Head of M&A for a couple of years. He then became the Group Treasurer. In 2015, Fonterra restructured the team so that the Group Treasurer and Equity Capital Markets (which covers Investor Relations) roles were combined into the Director of Capital Markets position – which he has now. Till says that combining the roles made sense. "As a cooperative the majority of our capital comes from our farmer owners, but we also have a listed unit trust in which the public can buy units which receive the same economic rights as the shares in Fonterra, but the unit holders do not have voting rights in Fonterra. The unit holders and the various providers of debt have quite similar information requirements regarding the cooperative's performance so there is a lot of synergies so combining the debt and equity capital market roles – it's quite an effective way to do it," says Till. Does this mean he gets double the money for doing the two roles? "No, my powers of persuasion are not that good," he jokes.

An area that Till would like to see development in is managing risk in emerging-market currencies. In some markets, Till explains, due to liquidity and in some cases, regulatory restrictions, it is difficult to use traditional tools like forward contracts for hedging forecast exposures. "You cannot always hedge the currency beyond actual sales and therefore cannot hedge forecast sales – and being able to manage some of that exposure in a more sophisticated way would be great," he says. "I think all treasurers would identify with that and I would like to see more tools to do that – it can be difficult to effectively manage all of the risk at the moment," he says.

When asked about the trends Till has witnessed over his career, he comments on the broadening of the treasurer's role. "Traditionally treasury was seen as a control function but in recent years it has broadened to being a business partner and trusted advisor, finding solutions for challenges."

Another aspect that has changed is the increased availability and the complexity of funding structures. He comments on the variety of structures that are available for working capital, for example, which are designed to address challenges and problems. "I think there are structures out there that make sense, but also a number that don't. Some do not make sense from an economic or fundamental finance point of view – they may be developed and used purely for accounting purposes or as a kind of window dressing but at an economic cost. It is important to be able to differentiate between them. You have to understand what you are using," he says.

With sustainability, Till notes that in the past – say five years ago, in Europe – the first question that investors asked was about the environmental impact of the business and your plans to manage this. "Now, this is often the first question in all meetings. They do not just want to know about your policies, they want to know what your actual plans and actions are. They very much expect companies to walk the talk. Investors are increasingly demanding around sustainability and with that will come real change by the businesses," Till says.

MMFs: what's new?

Money market funds (MMFs) faced significant pressures at the beginning of the pandemic – and more challenges are on the horizon, from continuing low interest rates and the prospect of further regulatory reform to the focus on ESG considerations in investment activities.

Money market funds have seen significant changes in recent years – and more is to come. Following the introduction of regulatory reforms prompted by the financial crisis, the volatility caused by the onset of the COVID-19 pandemic has once again triggered calls for change, with various proposals currently under consideration. At the same time, money market funds are facing additional challenges as a result of continuing low interest rates – and the growing focus on incorporating ESG into the investment process is also shaping the development of the sector. With that in mind, let's take a closer look at how money markets have fared during the crisis, and the factors that are likely to affect the direction of travel going forward.

From regulatory reform to a 'dash for cash'

Regulatory change has long been a theme in the world of money market funds. In the US, the 2008-2009 financial crisis saw the Reserve Primary Fund 'breaking the buck', with the resulting run on money market funds prompting significant regulatory change. In Europe, the focus of money market fund reform included replacing constant net asset value (CNAV) funds with low volatility net asset value (LVNAV) funds. In the US, meanwhile, CNAV funds were required to move to a variable net asset value (VNAV) model. In addition, both sides of the Atlantic introduced the ability to impose liquidity fees and redemption gates if liquidity falls below a certain threshold.

These measures were intended to make money market funds more robust in the event of another crisis – a goal that was severely tested in early 2020, when the beginning of the pandemic brought considerable volatility. The US saw outflows of US$125bn from prime MMFs in March 2020, which prompted the Fed to step in with the creation of the Money Market Mutual Fund Liquidity Facility (MMLF). European funds, likewise, experienced significant outflow pressures.

Laurie Brignac, Chief Investment Officer and Head of Invesco Global Liquidity, recalls the uncertainty that arose during the critical timeframe from February to the end of April 2020: "As economies began shutting down, we saw a 'dash for cash' as people and corporations sought to hold as much cash as possible amid the uncertainty that reigned at that time."

Initially, says Brignac, "we were wondering if we would see large inflows into money market funds since they are generally the 'flight to quality' vehicle of choice for many investors. By the time we started seeing outflows from money market funds and they sought to raise additional liquidity, dealer balance sheets were already quite clogged with other securities. It was a very tough time." Following central bank interventions, she adds, "markets did start to function more normally as they gained confidence that the central banks stood ready to provide support as needed."

Gauging the next steps

In the wake of these challenges, regulators are once again reviewing existing money market fund regulations to explore whether further action is needed. For one thing, concerns have been raised that some of the measures introduced by recent reforms may have had unintended consequences, particularly the use of redemption gates and liquidity fees to prevent redemptions if weekly liquid assets (WLA) fall below 30% of the fund's total assets. Preliminary research published by the Fed suggested that "the expectation that other investors will withdraw money and drive WLA below the 30% threshold may incentivise them to run pre-emptively before such liquidity restrictions are imposed."

In December, the President's Working Group on Financial Markets in the US released a report on money market funds, exploring the impact of the crisis and setting out potential reform options – albeit without endorsing any particular course of action. The Financial Stability Board (FSB) published a consultation report in June 2021, while the European Securities and Markets Authority (ESMA) ran a consultation between 26th March and 30th June 2021 looking at potential areas of reform.

The types of reform under discussion are wide ranging. According to Invesco's Brignac, potential money market reforms fall into four distinct categories:

1. **The operation and structure of liquidity buffers**. "For example, policy makers are considering removing the regulatory tie between portfolio liquidity and the potential application of fees and gates," says Brignac.
2. **Product changes**. Brignac notes that one proposal under discussion is "requiring money market funds to adopt a floating net asset value (NAV) structure, versus a constant NAV, to remove perceived regulatory 'bright lines' for investors – such as the liquidity buffer – and to reduce a perceived 'first-mover advantage' for investors seeking to redeem at par during periods of market stress."
3. **Bank-like reforms**. This could include introducing an additional capital buffer alongside existing liquidity buffers within funds, or mandating membership in a liquidity exchange bank. "We suggest policy makers reconsider the appropriateness of applying bank-like reforms to money market funds, not only because money market funds are not banks, but because they could undermine the vital role money market funds play in channelling liquidity to the real economy," comments Brignac.
4. **Sponsor support**. Brignac says that in the EU, regulators are considering whether existing rules should be strengthened to ensure the prohibition of sponsor support is absolutely clear – "while in the US, policy makers are considering introducing a framework governing sponsor

Challenges in APAC

In the APAC region, the post-pandemic environment poses significant challenges for corporate treasurers, says Jonathan Curry, Global CIO Liquidity at HSBC Asset Management.

"While the support measures put in place by Central Banks are fostering economic recovery, they are distorting liquidity and suppressing yields, making it difficult for treasurers to find value in short term investments," he says. "Uncertainty around monetary policy also means that finding an appropriate investment for medium term and strategic cash is challenging, as investors look to limit their exposure to interest rate risk."

With the added impact on domestic economies from renewed lockdown measures and tighter border restrictions, Curry says treasurers in the region are "holding increasing cash buffers and prioritising capital preservation and liquidity until the economic outlook is more certain."

support to clarify the risks borne by money market funds and their sponsors."

Whichever types of reform are ultimately chosen, it seems likely that money market funds will once again see significant changes in the coming years – and as Aidan Shevlin, Head International Liquidity Fund Management at J.P. Morgan Asset Management notes, any period of change will create uncertainty. "Tighter guidelines should improve liquidity and security, but will also likely impact returns," he comments. "Meanwhile, any accounting changes will require internal adjustments to accommodate."

Low interest rates

Regulatory reform is not the only factor currently weighing on money market funds. Another challenge is the continuing issue of low interest rates, particularly given the high levels of cash currently held by many companies. "Following the outbreak of COVID-19, most companies significantly increased their cash balances," says Jonathan Curry, Global CIO Liquidity at HSBC Asset Management. "While some sectors have had to use portions of that cash, many others continue to hold balances that are much higher than their previous levels."

Low interest rates continue to present another challenge for investors when it comes to earning a return on that cash. "Globally, central banks have pinned base rates at record lows while markets are awash with liquidity, further depressing market driven yields," comments Shevlin. "Returns on many money-market instruments remain close to zero (in the US, UK, Australia, etc) or below zero (in the EU). Meanwhile, banks and financial institutions, caught between excess liquidity and tighter rules, are reluctant to accept additional time deposits." Shevlin notes that this has created significant challenges for corporate treasurers, who are still seeking to invest higher than average cash balances.

Against this backdrop, Curry says he has seen increased interest from corporate treasurers for ultra-short duration fixed income investment strategies that take limited interest rate and credit risk to improve yield. "These strategies can be a useful tool for corporate treasurers in a range of global currencies, but it's important to ensure that an investor weighs the risks against the opportunity for increased return," he observes.

Shevlin adds that a combination of diversification and step out strategies "should allow corporate treasurers to get fully invested and achieve a more competitive yield, while retaining a focus on security and liquidity." He also emphasises the value of good cash forecasting, which can allow cash to be segmented into operating, reserve and strategic cash categories – "allowing for different investment strategies to increase returns without significantly expanding risk."

MMFs and ESG

Beyond the impact of the COVID-19 crisis and the challenges associated with a low interest rate environment, a further factor affecting the development of money market funds is the growing focus on ESG and sustainability. As HSBC Asset Management's Curry observes: "We have seen a sharp increase in interest from corporate treasurers seeking to align their investment activities with their company's sustainability objectives."

A number of factors are driving this focus on ESG and sustainability, as Shevlin points out. "ESG considerations have rapidly emerged as a crucial challenge, especially as extreme weather events and the growing importance of equality have heightened consumers' and companies' awareness of these issues," he comments. "This implies that ESG factors are an increasingly important part of investing and the due diligence process."

As such, Shevlin says that treasurers are progressively seeking to incorporate ESG into their cash management and liquidity fund selection process. "Regulators and central banks are also considering incorporating these factors, with the EU setting early standards through the introduction of SFDR Article 6 and 8 funds classification system, while the European Central Bank is planning to establish ESG rules and is tilting its purchases towards green investments," he adds. "Across Asia, local regulators are also debating how to include and improve environment standards, with Hong Kong, Singapore and Taiwan all recently announcing ESG-related rules."

In this environment, Shevlin says a key focus for investors should be on understanding how ESG is incorporated into credit analysis and the security selection process. "If the credit analyst believes that the ESG factors are material and may impact issuer risks, the analysis will be reflected in the analyst's credit opinion," he says. "The ability to incorporate this analysis into the investment process and portfolio implementation is also important."

The way forward?

There's no doubt that the crisis has brought some additional challenges for money market funds – and with regulatory reform once again on the horizon, treasurers will need to be prepared for any future changes. In the meantime, money market funds still fulfil a valuable function for treasurers seeking to manage their short-term investments. As Curry points out, "Money market funds continued to play an important role in helping companies around the world manage these elevated cash balances through challenging economic and interest rate environments in 2020 and 2021."

Don’t be afraid to look through the hedge

Getting a complete picture of a company’s exposure to foreign currencies is no simple task, but well worth the effort.

Foreign exchange is a significant cost for many businesses. A recent survey by Australian fintech Fluenccy suggested that SMEs in the UK paid more than ten times as much as corporates for FX when using their banks last year and lost an average of £17,000 on their international payments through a combination of excess fees and bad trades.

Fewer than 10% of the small businesses surveyed had access to a system that allowed them to monitor and control the impact of FX on their business. Fortunately, there are a number of steps companies can take to establish a full understanding of their exposure to foreign currencies.

FX risk can be divided into primary and secondary categories, the first of which being the actual cash flows of foreign subsidiaries and the second being the supply chains and macro risks driving FX exposure. An example of the latter is how exposure in Brazil can be affected by events in Argentina or Chile.

“In order to catalogue such risks, treasury teams need to think through the data they have on their outlays and receipts globally,” says Bob Savage, Head of FX Sales North America at BNY Mellon.

Companies should take the time to understand the main types of risks across their industry and identify best practices across their peer group to ensure alignment with competitors, suggests Standard Chartered’s Global Head of Financial Markets Sales, Sharad Desai.

“A global review of exposures at parent company and subsidiary level will ensure accurate understanding of group exposure,” he says. “Companies should also assess the hedging risk generated by foreign investments.”

Companies should also assess the hedging risk generated by foreign investments.

Bob Savage, Head of FX Sales North America, BNY Mellon

Companies with multiple divisions, each with different pricing criteria, will have multiple sources of FX exposure. Within an industrial engineering firm, for instance, machine production, spare part provision, and service delivery will all generate different exposures.

Another important consideration is the forward discount/premium of the currencies involved. "European exporters typically sell in currencies with higher interest rates than the euro, such as the US dollar or the renminbi," explains Antonio Rami, Co-Founder of currency management automation software provider Kantox. "In this case, currency hedging entails a forward discount that must be effectively managed."

The scale of the company will also determine its ability to mitigate FX risk. A large corporate is likely to have a dedicated treasury management team with in-house experts as well as external partners, allowing it to implement a variety of risk management protocols.

"For a small business it is better to focus initially on the areas that are likely to affect the business the most and build from there," suggests Laurent Descout, Co-Founder and CEO of treasury services platform Neo. "Integrating a modern treasury management system into the business operations is the next important step."

Atlas FX is a provider of foreign exchange risk management services. The firm's Vice President, Strategy and Operations, Scott Bilter, says corporates need to go beyond the data readily available from their ERP system, create a forecast of future FX exposures, and put proper results analytics in place to understand the sources of FX variance.

"Getting each of these steps right requires a lot of expertise and treasury teams are often understaffed and highly rotational," he warns.

Accurate forecasting – supported by a competent treasury management system – and centralised treasury enabling netting of foreign currency exposures are steps corporates can take to establish a full understanding of their exposure to foreign currencies agrees Ruth Bellinger, Head of IRFX Macro Sales UK at BNP Paribas Global Markets.

Options for minimising corporate exposure to FX volatility in current market conditions include adhering to a treasury hedging policy. A 'layered' approach remains popular whereby as certainty of forecasting increases in the shorter tenors, the amount hedged increases.

Borrowing in the currency of the asset or hedging via derivatives (such as cross currency swaps or rolling FX swaps) is another option.

"Highly structured derivatives may offer preferential exchange rates but will have additional restrictions whereby the hedge notionals may change on maturity or the hedge may fall away – usually at a time when market rates have moved adversely," says Bellinger. "Hedge accounting is also more challenging for these structured derivative hedges."

For cash flow hedging, the rule of thumb is to use forwards for highly predictable exposures and options for uncertain cash flows. Corporate treasuries with long-term emerging market currency exposures face the choice between hedging at the

CASE STUDY

California-based Electronic Arts has almost 10,000 employees worldwide and annual sales in excess of US$5.5bn. International revenue accounts for more than half of its sales, which means it is exposed to the effects of fluctuations in exchange rates across a number of currencies.

Strengthening of the US dollar relative to the euro, sterling, the Australian dollar, Japanese yen, Chinese yuan, South Korean won, and Polish zloty has a negative impact on its reported international net revenue but a positive impact on reported international operating expenses – particularly when the US dollar strengthens against the Swedish krona and the Canadian dollar. The company hedges a portion of its foreign currency risk by purchasing foreign currency forward contracts that generally have maturities of 18 months or less.

The company's treasury department processes around US$1.5bn every quarter across all transaction types, explains Grace Antonio, Treasury Manager. "We review all exposures – balance sheet and cash flow – via our exposure management system and our financial planning and analysis forecasting tool," she says. "We use spots, forwards and swaps to minimise our underlying exposure to currency."

Antonio adds that the company reviews its FX hedging strategy with its FX committee every quarter.

"We evaluate the types of hedging product we use regularly, but based on our strategy we don't often make changes," she says. "We have a rolling layered approach to our programme and even with changes in the market, we typically stay the course."

This strategy has worked well of late, with foreign exchange adding US$78m to the company's capital resources in the last financial year.

> Removing hedges where exposure is minimal is fine if the administrative burden of hedging is greater than the stress-tested risk of leaving the exposure unhedged.
>
> Scott Bilter, Vice President, Strategy and Operations, Atlas

expense of significantly affecting the return on the investment, or bearing the risk of significant currency devaluation.

"For balance sheet exposures, once the net exposures are determined companies should use a rolling programme with forwards with matching tenors as they provide the best offset from an accounting perspective," says Desai. "For long-term exposures including foreign borrowings, term hedges such as cross currency swaps can be used to mitigate the FX risk."

Companies need to keep up with a fast moving market in order to buy and sell the necessary currencies (or their derivative products) quickly, efficiently and at a low cost. This is almost impossible to do successfully without access to the right data as well as real time FX market rates and execution capabilities.

"The fact that there still are many manual processes around FX risk management is pushing corporates towards further automation to improve efficiency and internal controls," states Descout.

Customised analysis of an organisation's FX exposures can also make a crucial difference. Minimising exposure requires an understanding of what could go wrong from all potential sources of variance and applying a stress test to each one, suggests Bilter.

"It is ultimately accomplished by properly hedging, but the devil is always in the detail," he adds. "Reducing forecast deviation, having properly timed hedging workflow to avoid unnecessary slippage against accounting rates, and being able to interrogate any re-measurement inconsistencies are all necessary elements in minimising FX volatility."

According to Desai, corporate treasurers have increasingly turned to options this year in response to pandemic events. The need to react to external events demands constant monitoring of currency hedging strategies.

"Hedging strategies require constant review and removing hedges when there is no longer a need for them is a clear principle for lowering FX 'noise' in the balance sheet," says Savage. "However, while this seems simple some exposures end quickly and the unwinding of hedges takes time – balancing liquidity against spreads is more art than science."

Desai refers to a significant shift this year with a growing number of so-called 'black swan' events prompting corporate treasurers to increase the frequency of their hedging strategy reviews.

These strategies should be continuously reviewed to reflect the diversity of pricing criteria and the widespread adoption of flexible pricing in many industries, adds Rami. "As expectations for short term interest rates shift, so does the situation firms face in terms of forward points," he says. "That calls for continued assessment of hedging strategies."

Descout reckons any strategy designed to monitor FX exposures and hedge against risks should be monitored at least every day and ideally in real time.

"Relying on spreadsheets is simply unworkable and outsourcing this important task can result in slow decision-making, poor service and high costs," he says. "Recent advances in technology mean it is possible to access all of the key services corporates need – such as real time data and analytics, access to live FX rates, execution and hedging capabilities and multi-currency accounts to make and receive payments – via a treasury management system."

Significant volatility in an unhedged currency or from a hedged currency with a hedge percentage below 100% might indicate a need for a change in strategy.

"Significant volatility from 'spot slippage' would indicate the need for either an improved workflow, an improved hand off between income statement and balance sheet trades, or improvements to how FX liquidity trades are managed," says Bilter. In this context slippage refers to the difference between the expected price of a currency trade and the price at which the trade is executed.

A sizeable market shock or heightened currency volatility could require an immediate review of a programme that was running fine. In the case of cash flow hedges where the business units are involved in their specific strategy, it is important for treasury to review these hedges with the business unit at least annually as some key aspects of the business may have changed.

"Removing hedges where exposure is minimal is fine if the administrative burden of hedging is greater than the stress-tested risk of leaving the exposure unhedged," adds Bilter. "Understanding why the exposure is limited is important though. Was it larger before and is only temporarily smaller? It may still need to be monitored, even if left unhedged."

Bellinger also suggests a hedging strategy should evolve as the company changes, whether this is a strategic change in the company's direction or as a result of disposals or acquisitions.

"The merits of removing hedges for currencies to which the corporate has limited exposure depend on the currency – the limited exposure may be in an emerging market which has much greater volatility and a small position may create a significant P&L impact from market movements," she says.

The ability to forecast future exposures has been the subject of much conjecture among treasury teams over the last 18 months. The pandemic has seen many companies experience unexpected impact on their order books with major discrepancies in what was forecasted and hedged.

With this uncertainty likely to persist for some time, corporates would be well advised to keep their FX risk management options open.

Remote working: pandemic trend or here to stay in treasury?

As employers prepare for post-pandemic employment, what are the key benefits and challenges of remote working and what are the implications for treasury around the new phenomena of working while physically apart?

Ani Filipova

Former Regional COO for Citi Asia Treasury and Trade Solutions

Corporations should re-disperse any monetary savings that may have occurred as a result of office buildings, space reduction, being sold and maintenance cost savings as staff work from home.

We should see not just how and where we work as having changed but also how and what we spend our budgets on. Whereas in the past office space and employee perks may have focused on physicality, these will now look quite different, but the cost will still be there, albeit in a different form. Flexibility and adaptability are the key elements for today's workers and organisations. People will think of themselves, not as the job that they do, but the bundle of skills that they have. People should be focused on life-long learning and as such will want to be invested in by their organisations, to feel growth and skill evolution in their roles.

Very important is to re-design the system of employees' performance and contribution assessment so remote workers are properly measured and not disadvantaged when it comes to salary and bonus discussions.

In 2020-21, people, more than ever, seem motivated by their own personal ethics and situations to choose organisations and roles that work for them, rather than the other way round. People want to believe in the purpose of their organisations, to be aligned with their CSR goals and to move if that is not the case. This momentum appears only to be growing. This is particularly the case with millennials and generation X talent who will only represent more and more of the workforce. To attract talent, companies will need to be ready to offer not only competitive salaries, but also to show social purpose and a belief in career long development and flexibility in their talent management.

There are regional variations that affect the ability of companies to shift from their previous bricks and mortar set-up. The US, being geographically spread over an entire continent, can offer employees the ability to work remotely from anywhere within the country. The set-up in Europe, Africa and Asia is very different – we have number of countries with their own specific regulatory and tax requirements towards employees and employers. Without moving to another country, staff can choose now to prioritise their personal lives and commitments and avoid the major cities that were the reserve of top corporate roles pre pandemic. The next stage is how to work geographically from wherever we choose. This is tricky, as there are compliance and tax implications from country to country. But if this is the way forwards, then crossing from one country to another will need to be allowed and policies on how to support this can be worked out.

Meeting people every so often is important but the flexibility that (remote working) is going to give people is going to make a big difference. We will be able to attract completely different talent, for example hopefully more women as their roles can be more flexible. The rigid demands of certain roles may be in the past.

There is no one size fits all when we talk about future of work. For example, collaborative areas can be organised for employees who come to the office for only a couple of days every week instead of the usual desk/PC set up. The governance around this new way of work is yet to be finalised and implemented. Very important is to re-design the system of employees' performance and contribution assessment so remote workers are properly measured and not disadvantaged when it comes to salary and bonus discussions. This will not be an easy process and companies are in very different stages.

Fintech companies have already been ahead of the game in this aspect. At the moment everyone is thinking about this and we are certainly not going to go back to what we had in pre-COVID years. It might take some time, but we are certainly going to have flexible work options as a key differentiating factor to attract great talent.

Yang Xu

Treasurer
SVP, Global Treasurer & Head of Corporate Development
Kraft Heinz

The pandemic has kept treasury professionals very busy, with various unprecedented business challenges, liquidity risks, market volatilities, etcetera. At the same time, it has put many things into perspective. What is the role of strategic treasury, what is the philosophy of risk management, and how do we ensure company liquidity is safeguarded, through structural ways and at all times, even post pandemic?

Having video conferences as a norm now with everyone actually brings people who used to be far "closer", and we can "see" and "interact" with them the same way as with my team in the same city.

The pandemic also forced people to learn to work remotely. This is a fundamental change for us, in treasury and all functions. I have been very happy with the treasury systems and control processes we put in place prior to, and enhanced during the pandemic. It allows us to work remotely and efficiently. As I used to say, treasury moves billions of dollars, we must be the golden standard of control and compliance.

Besides obvious business continuity, I also observed some key benefits of remote working. First, I always believe in measuring people by their output not presence. But the pandemic proved out in practice that people can be productive anywhere. Second, it equalises people. Pre-pandemic, we used to have many telephone conferences with people not on-site. Having video conferences as a norm now with everyone actually brings people who used to be far "closer", and we can "see" and "interact" with them the same way as with my team in the same city. Third, it does help to better integrate work and life. My family moved during the pandemic to another country. The fact that I have been physically at home created a safer environment for my children's transition. My family also developed better appreciation of my work (and associated dedication, pride, perseverance) as they observed first hand.

But at the same time, remote working also brings significant challenges. We all see the line between work and life are further blurred. As a result, many of us work much longer hours and don't ever "disconnect". It can also be very difficult for some who are isolated: far from their families, and don't have opportunities to interact with colleagues or friends. In my team, we organise virtual socials like happy hours or holiday gatherings from time to time, in an effort to talk about things other than work, and create bonding as a team, and my company promotes many health and wellness initiatives. But it can take a toll on people.

I am very grateful for my team. They have been demonstrating support, empathy and rigor during the pandemic. I do personally look forward to getting back to a hybrid model where we can interact and care for our teams by collaborating in person, and also allow work flexibility from time to time to better integrate work and life.

Next question:

"What will be the most important implications for treasury teams to come out of COP26 in Glasgow? How should corporate treasury prepare?"

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

Complexity in treasury

Treasurers' best intentions often flounder on the rocks of complexity. Treasurers can feel like sailors navigating treacherous reefs without maps, and with shifting winds. The world is what it is, so treasurers can only adapt their ways of seeing it to find safe passage.

Simple treasury

The treasurer's job is – in principle – rather simple: to manage cash flow (and its attendant risks) effectively and ensure cash availability. Then a litany of complications creep in:

- Complex business models driven by customer demands and internal history and politics.
- Regulations from a plethora of authorities who do not seem to talk with each other.
- Multi country jurisdictions and business behaviours.
- Rapidly evolving financial markets.
- Roiling fiscal landscapes.

It is easy to drown in conflicting demands.

At the risk of pushing the metaphor too far, treasurers tend to be swimming head down in the details, just trying to keep their heads above water. Without the luxury of a helicopter view (or even better satellite view), it is very hard to make confident decisions.

Priorities

One place to start is with clear priorities. With clarity about overall direction, it is easier to plot a course through the rocks.

For example, cash availability aka liquidity must be a top priority for any treasurer. Difficulty will vary between cash rich businesses and those that are struggling, and the line between the two can be fleeting. Further, there is the aspect of having cash where, when and how it is needed – missing a payroll is not a good reflection on a treasurer's competence.

Cash availability comes at a cost, and how to balance the two forces has to be a business level decision – because the survival of the business depends on it – normally expressed in terms of capital structure. If the board does not clarify this, treasurers are navigating without a clear heading.

Making sure that the business has cash in the right place, at the right time, and in the right currency, also requires balancing cost and risk against availability. It is easy to leave cash floating like jetsam around the planet in disparate and unconnected banks. But that is not efficient. It will probably please local finance managers, but is it the right thing for the group as a whole?

Without clear priorities, balancing such tensions can quickly become arbitrary and ultimately destructive.

The Pareto Principle

Much corporate complexity comes from outlier or thin tail cases. It sometimes seems that half the effort is expended on

exceptions. While the business world can be complex, and things can go wrong, it is wise to focus effort on keeping the most important things on track – if only to retain dry powder for the most important exceptions.

Rigorously applying the 80:20 rule can be very helpful in focussing efforts. For example, achieving real time visibility over cash seems like a good idea. But is it really a wise use of resources to require full connectivity from a non-core bank supporting a small and remote subsidiary? Probably a weekly manual input from the local finance manager would be more appropriate.

Cash flow forecasting is a critical process for treasury – without cash flow forecasts, treasury cannot operate. Again, this is an area where the 80:20 rule is precious. The focus has to be on the parts of the business which have both large values and large volatility. In other words, put effort where it will produce the maximum actionable information.

The role of technology

Technology is often touted as a solution and a time saver – and indeed it is. Sometimes implementation can be a daunting task, especially for already overloaded treasurers. The first rule should be that implementations are not weekend jobs.

One tension in system implementations is between adopting the system's native way of working versus customisation. Since customisation introduces complexity and sets up future complexity when upgrades require further customisation, it behoves the treasurer to be very clear about their needs. Does the new system really have to mimic existing reports, or might the underlying objective be met more easily (and cheaply) by adopting the ways of working embedded in the system? Does the system really need to be customised for the obscure tax requirement of a small and obscure market? And if the system in question does not cater for the instruments being traded, is it the right system?

APIs and middleware

Another tension is between the intuitive simplicity of a single solution vs connecting specialised tools. APIs and middleware are increasingly changing the pros and cons of this equation. Often trying to squeeze everything into a solution into which it does not fit well creates much more complexity than it is worth.

The attraction of a single vendor is seductive from a simplicity perspective, but knitting together specialised tools may be more effective. In any case, connectivity is increasingly important, so it is incumbent on treasurers to develop or buy expertise in this area. In system procurement decision making, open interfacing must be a key criteria.

An example of mistaken simplification can be choosing to use the TMS dashboard to report to colleagues outside of treasury. It is generally much better for colleagues to feed them information in whatever system they are used to consuming data from the whole business. Most businesses have some kind of business intelligence (BI) solution, and treasury data should fit into that rather than force colleagues to learn and use the TMS.

Another example is in the area of bank connectivity, which despite decades of progress with ISO 20022 messaging and standardisation, can still be akin to navigating between Scylla and Charybdis. Even basic SFTP, which is a decades old bedrock of connectivity, can be tricky, since banks are endlessly creative in their security protocols. Treasurers would be wise to opt for minimum viable connectivity, rather than to tweak each connection or build specific host-to-host connections. Even better to outsource the problems to a bank connectivity as a service provider.

Just as middleware can smooth connections with non-treasury colleagues and banks, it can also help with the many connection points with which treasury typically needs to interface. Multiple ERPs make a strong use case for middleware, as do other internal and external systems.

Reporting is often a challenge, and in this area direct API or middleware mediated solutions can be a good solution where other reporting tools like BI systems may be a better fit. But it is important to resist the flexibility and attractions of treasury by Excel in this regard, because Excel inevitably becomes a dangerous shoal in itself.

Whatever solution is chosen, the future will undoubtedly bring surprises, and open systems – along with the capability to use them – are the best prophylactic.

Conclusion

Complexity is ineluctable, just as reefs and currents are part of navigation. Treasurers need a clear sense of direction, personal adaptability, and the right tools to weather the storms that enliven their lives.

David Blair, Managing Director

Twenty-five years of management and treasury experience in global companies. David Blair has extensive experience managing global and diverse treasury teams, as well as playing a leading role in eCommerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

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