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Digital dreaming

The Covid pandemic exposed weaknesses in treasury systems and processes that treasurers are now looking to address via digital technologies.

The Corporate View

Debdatta Banerjee

Head of Treasury Operations
NVIDIA

Regional Focus

How alternative payments are transforming corporate treasury in Africa.

Banking

In-house banks: the time is right

Investing

The UN's IOM: the sharp end of investing for the short term

Sustainable Treasury

The dos and don'ts of sustainability KPIs

Back to Basics

Risk management landscape

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Time to prepare

As this edition goes to press, the UK is absorbing the loss of HM Queen Elizabeth II, the country's longest standing monarch. A force of stability and resilience for 70 years, the person the country has looked to in times of crisis is no longer there and her passing accentuates a sense of change against the backdrop of already profound economic challenges.

Times are challenging for governments the world over, but the UK's new prime minster, Liz Truss faces a particularly onerous in tray. The slowing economy is poised to enter recession; inflation is at its highest rate in decades, the pound is nearing near record lows and energy prices are crippling.

In this edition's Question Answered, we ask treasury experts how to prepare for recession: regular, rolling, integrated forecasting is the emphatic response. The process will reveal cash and liquidity levels, and flag if treasury is getting close to committed facilities. It involves talking to sales, account receivables and payroll and finding out what is coming in, and what is going out.

In another, timely article, this edition also goes back to basics on hedging, offering insights on how companies can adjust their hedging strategies to the current landscape.

Sustainability

As banks increasingly shift their loan books to companies on a transition path, we explore treasury's role when it comes to choosing sustainable KPIs, the targets that link the cost of corporate borrowing to sustainable achievement. We hear how many corporates feel trapped in a transparency paradox; the more they disclose, the more stones are potentially thrown, yet peers that don't disclose or set ambitious KPIs may not be subject to the same scrutiny.

Other features explore key digitisation trends as automation and technology drive corporate behaviour beyond a simple move online. Continuing the theme, this edition travels to Africa where digital payments are transforming the continent's fragmented and complex payment and banking infrastructure. The use of APIs and open banking are gathering pace and requests to digitise receivables is one of the most frequent RFPs.

Lastly, Malcolm Grant, Chief of Treasury at the UN's International Organization for Migration shares his insight on how to invest millions of dollars in a short-term window. A play-it-safe strategy used to focus on bank deposits until the GFC proved that level of exposure to the financial sector risky. Today, around 80% of the portfolio lies in short-term placements, between 5-10% is in MMFs and the remainder (around 5%) is in a dual currency allocation.

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IN THIS ISSUE

INSIGHT & ANALYSIS 4

Digital dreaming

The COVID-19 pandemic exposed weaknesses in treasury systems and processes that treasurers are now looking to address via digital technologies.

INVESTING 8

The UN's IOM: the sharp end of investing for the short term

Preservation of capital, risk reduction, diversification and ESG integration are just some of the considerations corporate investment teams consider. For the UN's IOM the biggest challenge is squeezing billions into short-term investments.

SMARTER TREASURY 10

MMF technology in a rising rate environment

Cachematrix by BlackRock's Tricia Turner talks MMF technology in a rising rate environment.

BlackRock.

BANKING 12

In-house banks: the time is right

In-house banks promise greater efficiency and lower risk but corporate treasurers have been slow to implement the model.

REGIONAL FOCUS 22

Payments evolution leads steady transformation of African treasury

Alternative payments are transforming corporate treasury in Africa. Save the Children explains how new technology is allowing the organization to change how it distributes awards on the ground in a snapshot of African treasury's evolution.

TREASURY ESSENTIALS

Treasury Insights	7, 25 & 29
Back to Basics	26
Question Answered	30
Market View	32

14 The Corporate View

Debdatta Banerjee
Head of Treasury Operations

Debdatta Banerjee, Head of Treasury Operations at NVIDIA, discusses her career path, the challenges brought by geopolitical disruption, and why the treasurer's role is becoming increasingly connected to technology.

SUSTAINABLE TREASURY 17

The dos and don'ts of sustainability KPIs

COP26 and GFANZ pledges mean embedding sustainability KPIs within borrowing facilities will become commonplace. Treasury is increasingly involved in the process, but fear of failure is crimping corporate ambition.

SMARTER TREASURY 20

Sweeping digitisation trends promise treasury transformation ahead

For many companies, digitising their business model involves a simple move online. For industry leaders, new platforms powered by digitisation involve root and branch treasury transformation.

J.P.Morgan

Digital dreaming

The COVID-19 pandemic exposed weaknesses in treasury systems and processes that treasurers are now looking to address via digital technologies.

Five years ago treasurers would have "run a mile" from the topic of digital technology, says Royston Da Costa, Assistant Group Treasurer, Ferguson plc. "Back then, treasurers weren't that comfortable talking about Cloud technology," he says. "But the COVID-19 pandemic has forced a change and digital technologies are now seen as necessary. No one wants to go back to what things were like before."

The COVID-19 legacy of increased remote and hybrid working environments means digital transformation is key to thriving in the next decade, says Chris Schutte, Manager at corporate financial consultants Actualize Consulting. "Emerging technologies are changing how we do business. For treasury departments, the use of a treasury management system [TMS] will increase overall visibility for better-informed decisions, while mitigating the risk and loss of efficiency that comes with manual tasks."

Michael Levens, Global Head of Payments at consultancy Delta Capita, says as industry in general has shifted to a new way of working, so too have corporate treasuries. "There has been a shift in the way that many corporate treasuries operate, moving away from the manual processes of the past and embracing new technologies and solutions to make themselves ready for the future," he says. "Given the fast changing pace of the global economies treasuries have had to balance the aspirations of more digitisation and automation with the need to better manage broken risk processes and core regulatory asks."

Treasuries are now more than ever looking at ways to optimise processes and hence reduce operational cost, he adds. "With a new wave of digital enablers covering everything to be digitalised from any type of assets to central bank money, there are numerous use cases that treasuries are examining to improve cost margins, especially with those scenarios that have high repeatable transaction volumes and existing manual processes."

Writing in the Association of Corporate Treasurer's (ACT's) International Treasury Peer Review, Schutte says incorporating a digital treasury function enables a treasury team to focus on critical tasks "with less distraction, providing strategic insights for your organisation and enhancing controls". As you look to start incorporating automation to eliminate errors and streamline operations, the first place to start is identifying whether a TMS would be beneficial.

While Ferguson has deployed a "fair bit" of digital technology, there is still much more it can implement, says Da Costa.

"There's a balance to be struck between what digital technology is necessary to do your job as a treasurer and also what is necessary from the commercial side of the business."

For many treasurers, digital still means "moving from paper and a physical signature to email communications", says Naresh Aggarwal, Associate Director – Policy and Technical, ACT.

Digital is often defined as straight through processing (STP), but some treasuries are still only part-way through a digital journey, he notes. STP typically means processes are automated and there is little or no manual intervention. "A treasury might have a certain level of STP, but because of internal controls, documents may have to be printed out to be signed off. There is often a disconnect between the corporate culture and what it is trying to achieve and the delegation of authority."

The most challenging processes for treasuries can be reporting, which is often manual and therefore time-consuming. "A big question today is how can companies move towards STP to have more real-time visibility while providing more informative reporting to key stakeholders," says Aggarwal.

A corporate treasurer's digital aspirations often will be tempered by the capabilities of its partner banks. Ferguson's banks offer "fairly digitised" solutions, says Da Costa, but much of it is "low-hanging fruit". However, with a TMS and cloud technology, a treasury can think about its digital aspirations, and what it can implement on a plug and play basis, particularly with the advent of application programming interface (API) technology.

"You cannot implement everything at once; for Ferguson, progress is one step at a time. We are cautious because we want to be confident that what we are doing is safe and correct," he says.

Writing in the ACT peer review, Roshun Tulken, Group Treasurer, at distributor Mantrac Group, says the company spent six months conducting a global bank review and taking the time to select the right bank for each country from a digital capability perspective.

A capital-intensive business with high working capital requirements, Mantrac was seeking to make its cash management processes as efficient as possible. When Tulken joined the company it was operating with close to 100 bank branches with businesses manually tracking balances and some of the local banks had poor cash management capabilities, often paper based. Real-time visibility was also challenging, due to the lack of reporting and sheer number of banks, so the treasury operations were not efficient, he says.

In addition to choosing the right banks, Mantrac implemented a TMS, which gave it intraday visibility of cash balances. A direct connection to the Brussels-based financial messaging system SWIFT enabled the company to reduce its reliance on manual transfers and cheques and move to electronic payments across the group.

"Ultimately we were also able to vastly reduce the number of banks we were using, which streamlines operations and improves controls," he says. For cash collections, the company has rolled out mobile money and e-wallet collections solutions, to move away from cash and cheque. This has reduced the clearing time, while also reducing the risk of fraud.

For Ivan de Crescenzo, Financial Analyst at Italian energy utility Tirreno Power, an overriding theme in treasury is digitisation. Much of this has been driven by changes to Italy's electronic invoicing laws that became effective on 1st January 2022.

de Crescenzo, says an overriding theme in treasury is digitisation, driven largely by changes to Italy's electronic invoicing laws which came into effect on 1st January 2022. Under the rules, in certain business-to-business cross-border transactions Italian entities will have to report details of transactions to the Italian tax authority under the same rules and processes that apply to mandatory e-invoicing between parties established in Italy.

Digitisation is "increasingly crucial" to meet the requirements of the new laws, he says. Corporates must receive digital documents from banks, not least because this makes life in treasury much easier, particularly with regard to reporting. "To be blunt, I would actually ditch a bank if it was unable to digitise documents for the accounts we have with them."

de Crescenzo's digital aspirations are focused on cash forecasting – understandable in an industry currently hit by turbulent global energy markets. The ability to more accurately forecast cash flows is becoming crucial. Tirreno Power's treasury is focused on attaining tools to improve forecasting and give a better outlook on "how the numbers will move", he says.

"Gas prices are skyrocketing and while we have tools for cash prediction, it is time for us to invest even more in machine learning and other technologies that will give us more sophisticated features," he says. "The market is so complex now and that is why we must prioritise forecasting."

Patricia Hines, Head of Corporate Banking Research at analysts Celent, says while year after year, corporates rank cash forecasting as a top priority, "they still struggle with basic cash visibility".

Corporate treasurers continually indicate interest in real-time capabilities for statement data and payments, but little progress has been made as corporates are largely satisfied with their existing corporate-to-bank connectivity options, she notes.

"Corporate treasurers are pursuing technology solutions that offer either software as a service or Cloud platform deployment, which much better suit departments with limited IT resources," she says. "Treasuries are pursuing robotic process automation and artificial intelligence [AI] primarily for cash flow forecasting and cash application (receivables automation)."

Much as banks accelerated efforts to increase digitisation during the pandemic, treasuries also recognise the value from eliminating manual processes and increasing automation, she says.

The way digital technologies are developed has raised some concerns for Tirreno Power's de Crescenzo. "Machine learning will be very useful, but I sometimes fear that fintech companies and banks might produce a black box product," he says. "In corporate treasury, we need to know the algos that are included and how the system works. I feel that this control might slide out of our hands when it comes to machine learning-based forecasting solutions."

Raising a treasury department's 'digital acumen' is cited as a key priority for treasuries by the PwC 2021 Global Treasury Survey. Compared with 2019, the survey found that CFOs and treasurers were more focused on technology improvements and digital innovation. The primary investment targets of gaining efficiency and generating more impactful

insights "point toward organisations laying a foundation to support an ultimate vision of enabling treasury on demand services", says the report.

Half of the respondents said they were working towards the vision of a connected ecosystem that leverages advanced capabilities and analytics to empower CFOs and treasurers to make financial decisions in real time. "The pandemic underscored the need for real-time treasury data and insights as teams responded to intense cash and liquidity challenges while working remotely," the report says.

APIs, software tools that connect systems and share data, and support real-time connectivity between corporates and banks, are becoming a priority for corporate treasuries, says the survey. It found that 90% of respondents expect APIs to be relevant in their function over the next two to three years.

Delta Capita's Levens says the utilisation of API technologies to provide better integration and connectivity between systems and with clients and counterparts is one of the digital technology strategies for corporate treasuries. Other areas of focus include:

- Digitalisation of central bank money, coupled with new digital settlement technologies. This will hopefully provide the foundations for real-time access and on demand management of liquidity, payments and risk management.
- The long-term future of digital assets – which range from digital coins to asset tokenisation. Treasury departments and many other market actors are looking at new digital currencies and distributed ledger technology (DLT) as potential future replacements for traditional clearing.
- Data analytics using AI and machine learning to gain forward-looking insight rather than looking back just at past data. For instance, cash flow forecasting is one of the most essential functions of treasury and machine learning solutions will help build models, based on historical data and predict future cash flow, enabling treasuries to make better decisions about resource allocation and to manage risks.
- Messaging standards such as the adoption of ISO 20022 across the financial community has a potential to improve payment reconciliations, which can help remove some of the manual processes from treasury.
- Robotic process automation to address some of the well-established and mundane operational tasks.

Andy Schmidt, Vice-President and Global Industry Lead, Banking at consultancy CGI, says APIs, which can be used to share information and execute transactions will get treasurers to "where they need to be", delivering a "single pane of glass" of information and the ability to do something about it. "For example, if there is a cash shortfall in one part of the company, a treasury can use open banking and virtual account management to drag and drop funds over to where they are needed," he says. "This is ideal for intercompany borrowing, which is cheaper than going to a bank."

At present, corporate treasuries are a mix of "screens, spreadsheets and timing difficulties", he adds. "It can take hours, if not days for a large corporate treasury to pull together an answer to the question 'how much money do we have today?' There is a mix of currencies, some systems are real-time, others are end of day. It is a real mishmash."

A core digital aspiration is to tackle this by leveraging APIs and the solutions of fintechs to access the information and make it available in as few screens as possible, says Schmidt.

"The good news is that everyone is moving towards a common end state or next state, which is a more considered understanding of the use of APIs and more universal access to real-time systems," he says. "It is the differences in timings of systems that is the hard part to address. Open banking and virtual account management will be central to solving this."

ACT's Aggarwal agrees timing presents difficulties for treasurers. "APIs can provide a chunk of real-time visibility but processing may only provide batch updates. If part of the information is in real time but some in batch a treasurer will not get a proper picture of what is going on. To do so requires business transformation, not just in the treasury, but across the business as a whole."

Other digital aspirations of note, according to Schmidt, include the integration of accounts payable and receivable – a "great idea" that hasn't caught on yet, he notes. Integration will enable greater visibility of incomings and outgoings.

Real-time access to information is also a priority aspiration for bank treasuries, says Nadeem Shamim, Global Head of Cash and Liquidity Management at fintech SmartStream Technologies. "A key aspiration right now for bank treasuries is real-time reporting and meeting regulators' demands for them to be focused on more actively managing their real-time liquidity," he says. As with corporate treasuries, the COVID-19 pandemic focused minds on the urgency of real-time liquidity management.

Previously, it was considered a costly exercise to implement real-time liquidity management but changing dynamics such as higher interest rates and the advent of faster payments is increasing interest among bank treasurers in real-time connectivity with internal and external systems. "Bank treasuries are looking to see if APIs can help them to address these issues," says Shamim. "The reality is that banks have antiquated systems and they need to get to the data. Bank treasuries are looking to real-time clearing systems to release APIs for connectivity."

One of the key challenges for treasuries to accelerate digital transformation is "fixing up the fundamentals, which remain a core focus", says Delta Capita's Levens. "From a recent event we held with a number of senior banking executives, they all agreed there needs to be a lot of progress on regulation, standards, and interoperability of digital assets; DLT; and central bank digitisation and tokenisation are to change the game. All agreed on the need for better regulation in areas such as processing times, amount of information carried, and interoperability. This would lead to better standards, or at least some minimum agreed standards."

For Ferguson's Da Costa, addressing treasury pain points is how a treasurer can build a business case for digital aspirations. "From a treasury view we are careful to look at technologies to implement that can add value, we are not trying to find solutions for problems that don't exist," he says.

Despite the increasing range of digital technologies on offer, Da Costa says the fundamentals of treasury – cash, liquidity and risk management – will not change. "These will still need to happen, but the processes we use to do them will have evolved along with the technology." ■

APPLE LOOKS TO TAKE A BITE OUT OF BNPL

Apple's entry into the buy-now-pay-later market has already proved controversial – but the challenging economic environment could work to its advantage.

In June, Apple announced that it was adding a buy-now-pay-later (BNPL) component to its Apple Pay offering, enabling customers to split a purchase into four equal payments over six weeks with no interest or fees to pay. It will perform a 'soft' credit check on users along with a review of their transaction history with the company.

At first glance this appeared to be bad news for the likes of Affirm and Klarna, who have been experiencing difficulties this year. Klarna's valuation fell by 85% in its latest fundraising round despite the company describing itself as being bigger than American Express and it reduced its headcount by 10% earlier this year, while Affirm's share price has fallen dramatically in 2022.

But many analysts believe the tech giant's entry into the BNPL space will grow the overall market by appealing to people who don't currently use it rather than poaching Klarna or Affirm users.

Instead of partnering with retailers, the service has been developed as a component of Apple's digital wallet targeting the millions of people who use its mobile devices – and are incredibly loyal to the brand. These users also tend to have higher disposable income than the typical BNPL customer and for most, Apple Pay Later will be just another payment option that appears in their Apple Wallet.

One of the factors working in Apple's favour is its deep pockets, which should cushion it from the worst effects of any slump in revenues resulting from recession and the end of the post-Covid recovery in consumer spending.

Regulation is an elephant in the room. In an interview last month, Rohit Chopra – Director of the US Consumer Financial Protection Bureau (CFPB) – said it would be looking carefully at the implications of so-called 'big technology' firms such as Apple entering the BNPL market.

The CFPB is particularly concerned about how these companies might use customer data given the amount of information they would have on consumer spending patterns, location and even health. Chopra also intimated that there were concerns over whether merchants might be forced to accept payment by instalment.

Under the UK government's plans for the sector announced in June, lenders will be required to carry out affordability checks (ensuring loans are affordable for consumers) and financial promotion rules will be amended to ensure BNPL advertisements are fair, clear and not misleading. Lenders offering the product will need to be approved by the Financial Conduct Authority and borrowers will also be able to take a complaint to the Financial Ombudsman Service.

Providers and users of BNPL services will also be keeping a close eye on the extent to which the market is affected by rising interest rates. In the B2B space the impact is already being felt as the cost of capital continues to increase.

However, Aiga Senftleben, Co-Founder and Managing Director of BNPL platform Billie reckons higher rates will translate into higher demand on the buyer side.

"Increased interest rates mean that refinancing and working capital funding will become more expensive," she observes. "Hence, access to external funding will be more difficult. Since the costs for the service are borne by the merchant and not by the buyer, a BNPL solution offers the buyer additional liquidity for the duration of the payment period granted by the service provider." ■

The UN's IOM reveals the sharp end of investing for the short term

Preservation of capital, risk reduction, diversification and ESG integration are just some of the considerations corporate investment teams consider. For the International Organization for Migration, the biggest challenge is squeezing billions into short-term investments.

The International Organization for Migration (IOM), the UN-institution striving for orderly and humane migration, is sitting on around US$1.7bn in cash in an allocation that has trebled over the last seven years mostly due to expansion and an increased lead time on its investments.

Malcolm Grant, Chief of Treasury at the Geneva-based organisation, estimates the IOM only ever needs around a third of that cash on-hand, but long-standing rules around governance of the surplus dictate a duration limit of 12-months on all investment. Although IOM's finance and management teams are involved in an ongoing process urging member states that the size of the cash pile merits restructuring the balance sheet, for now IOM must squeeze its billions into a 12-month window.

A play-it-safe strategy used to focus on bank deposits until the GFC proved that level of exposure to the financial sector risky. Today, around 80% of the portfolio lies in short-term placements, between 5-10% is in MMFs and the remainder (around 5%) is in a dual currency allocation.

Apart from an outsourced ESG mandate, one member of the six-person treasury team runs the bulk of the portfolio, overseeing a diversified strategy across sovereign and supranational issuance and a more complex allocation to a dual currency strategy. Investment is shaped around capital preservation and liquidity, benchmarking three-month rates and avoiding all allocations to equities or illiquid markets.

Navigating the impact of negative interest rates in dollars and euros has proved one of the biggest headaches. Positively, the giant cash buffer means that unlike most corporates, IOM doesn't have to craft an investment strategy shaped around cash flow forecasts. "Cash flow is not critical given our cash buffer," says Grant.

The basics

It's a different story for most other treasury teams where investment strategy begins with a clear understanding of investable cash. Cue dividing cash between what is needed for operational versus long-term purposes; scrutinising the likelihood of operational cash levels coming under pressure in different markets, taking into account a post-pandemic environment requiring a reduced cash balance and strategic growth opportunities. "Before a company starts making investment decisions, treasury needs to know the cash balance in every geography especially in restricted markets and currencies far away from head office," advises Suraj Kalati, HSBC Global Head of Liquidity & Investments Products.

Next, treasury taps the tools available spanning on-balance sheet, deposit-like products, off-balance sheet MMFs or segregated account structures available from asset managers. "Available cash, working out which tenors and pricing suits best and finding the tools available are some of the important elements in an investment strategy," surmises Kalati who says the risk of a short-term or technical recession is unlikely to impact longer-term investment strategy. "Corporates are not likely to disrupt their investment policy because they've identified short-term stress. What is the right level of cash is the question companies ask."

Macro environment

The macro environment also goes into the mix. As rates increase and economies enter a cycle of tightening, corporates are increasingly looking for opportunities. Treasury Today interviewees say rising rates mean corporate investors are adjusting the duration and maturities of their investments to optimise overall returns and exploring new products as rates start to climb and the yields on savings edge higher.

In recent years, IOMs treasury team has worked hard to insulate returns from the impact of plummeting yields. Now their focus is on investing with an eye on rising inflation and interest rates. "Our financial statements already reveal healthier yields," says Grant who warns that the significant impact of inflation on procurement costs, especially transport and medical supplies, although more difficult to see, will offset the benefits. "Inflation is an invisible killer," he says. "It is a primary treasury risk."

In one trend, higher interest rates are encouraging some corporates to put money into current accounts in a deliberately short-term approach; not committing on tenor but expecting maximum yield and banks to pass on the benefits of higher interest rates on deposits. Indeed, some commentators note it's triggering RFP activity as corporates consolidate and pare back on their global and local bank relationships in an approach designed to both shore up liquidity and leverage the most favourable deposit rates.

Still, it's not the right approach for everyone. The IOM stopped placing large deposits in its current accounts years ago when banks stopped paying current account interest. "For euros the amount we were allowed to deposit without incurring negative interest with our main partner bank got pushed down to ever smaller allowances from US$150m to US$100m, and then to US$50m," recalls Grant.

MMF/SMA

Those capacity constraints on banks' balance sheets have helped fuel another trend: treasury demand for MMFs, sought-after for 24-hour liquidity and yield; a way to put excess balances to work and invest a specific amount of cash for a known period. The IOM runs the money market platform ICD, allocating up to US$120m as a buffer to MMF for short-term liquidity emergencies.

More recently, ballooning treasury demand for MMFs has spilt over into increased allocations to next-step separately managed accounts (SMAs). During the pandemic, many treasury teams divested from SMA's into short-term deposits and MMF's to shore up liquidity. Now, companies carrying large surpluses but achieving poor returns, are heading back to these off-balance sheet solutions to generate yield and bespoke exposure and expertise, especially around ESG.

Like Booking.com, where SMAs have become a useful tool in the global travel platform's investment armoury. "Alongside programmes managed in house and vanilla bank deposits, we have found SMA's are a helpful option," explains Will Nossier, Director of Group Treasury. "I have sometimes heard treasurers mention that they fear an associated lock up of cash in SMAs, but the portfolio management team can construct maturity ladders to ensure there is a constant flow of cash available for withdrawal or reinvestment. Should portfolio sales ever be required to fund unexpected requirements, liquidation is also possible relatively quickly with money available in just a few days."

Diversification

Diversification and multiple counterparties are other essential seams to any investment strategy. The extent to which treasury can concentrate an allocation in one fund class or with one institution will depend on counterparty limits drawn up at board level and embedded into investment policy. A board's appetite for risk will also translate to specific portfolio settings – however this is also an iterative process, evolving as boards become more comfortable with certain strategies.

The IOM ensures diversity via different counterparties and brokers and the size of its cash surplus means it has no shortage of banks knocking on the door or quality counterparties. "We work hard on diversification and ensuring the diversification of counterparties. You can't just talk to the same banks," says Grant. "We work with US, French, British, Norwegian and Asian banks."

Additional diversity comes via interesting in-house strategies, like dual currency deposits. The approach helps navigate negative euro returns whereby placement in one currency is hooked up to a currency option, explains Grant. "If the spot price moves out of the strike rate we move out to another currency. We can manage that risk because we approach it very conservatively – we are not looking for yield enhancement. It is a little bit exotic, but we are a multi-currency agency so have margins."

Managing currency risk is another headache that falls within IOMs investment remit. Unlike a typical corporate domiciled in one country, the organisation doesn't have a reference currency and reports back to its different donors on a project-by-project basis spanning 3,000 operations. "We have a currency basket going across projects in all directions. It's complex and getting data and trying to mitigate FX exposure is very difficult," says Grant. Positively, liquidity in so many currencies allows the organisation to naturally hedge its exposure and supports rebalancing.

Asset managers

But despite every effort to boost diversification, the IOM can't escape its limited investment universe. Moreover, the organisation's ability to invest in non-financial sector investments is stymied by its own risk management capabilities. Looking to the future, mandating to more external managers looks increasingly likely, predicts Grant. "I think we will have to move more money to external managers to manage the risk and diversification we are looking for."

At Booking.Com, an asset manager is on hand in the SMA allocation to ensure specific investment objectives are met, providing the full suite of products and connecting the group to offer important support. The strategy also allows Nossier to call on expertise during market turmoil – like March 2020 when spreads significantly widened. "Back then it would have been challenging competing with institutional trading desks when attempting to sell positions," he says. Today, that relationship is just as important as the company seeks to align its SMA exposure with its conservative risk profile, drawing on hypothetical portfolio models and macro analysis provided by its asset manager.

ESG

Asset managers are growing providers of ESG investment solutions, says Kalati. "ESG-themed funds are available in the market. Because they are linked to clients' operational accounts, it's possible to sweep into these funds. Sustainability deposits for on-balance sheet options where clients deposit cash into ESG themed products is also on the rise." Asset managers are already providing important support to the IOM around ESG integration following the organisation mandating UBS to invest in a tailor-made bond portfolio with strict ESG exclusions. That said, Grant says treasury still has a firm grip of ESG internally. Treasury stopped working with one major US bank following significant governance issues. "We are bringing an ESG flavour to the whole portfolio; it's not exclusive to the portfolio we've outsourced," he concludes. ■

Money market fund technology in a rising rate environment

Tricia Turner from Cachematrix by BlackRock discusses the impact of a rising interest rate environment on money market funds and how cash management technology is adapting to meet treasurers' needs – from technology integration to agile development.

Tricia Turner

Director, Head of International Relationship Management for Cachematrix

BlackRock

The last year has been nothing if not challenging for corporate treasurers. The Russia-Ukraine conflict, surging inflation and sluggish growth are all contributing to an environment that is fraught with difficulties at every turn.

For money market funds, meanwhile, the current landscape is one that continues to be characterised by change. "While the recent flurry of central bank interest rate rises may be good news for investments and money market fund rates today, the path of interest rates remains highly uncertain. This means the need for prudent duration and liquidity management is crucial, now more than ever," notes Tricia Turner, Director, Head of International Relationship Management for Cachematrix by BlackRock.

Likewise, with euro money market funds re-entering positive territory for the first time in seven years, treasurers need to find new ways to manage their balances. "For corporates in Europe managing euros, I imagine a significant amount of their time will be spent reviewing their portfolios, repositioning and perhaps looking at different investment options now on the table," says Turner. "We've seen a big surge in French and German corporates, for example, who haven't invested in money market funds for years but are now coming back to the table and want to talk to fund managers about their investment options."

Cash management technology for an evolving market

Where cash management technology is concerned, having a system that is efficient and easy to use is more important than ever in the current environment. "Treasurers need to be able to perform their daily tasks easily – they don't want to be toggling from one page to another page, or from one system to another, with drop down boxes and different information on different screens," says Turner. "The system really should be a joy to use, and not a frustration."

Security is, of course, an unavoidable topic where technology is concerned. Turner points out that cyberattacks have

significantly increased since the pandemic – and as such, corporates need to make sure they work with vendors who have the right security processes in place, and who take precautions such as dual approval on trading systems and two-factor authentication.

In addition, Turner cites the growing focus treasurers are placing on effective technology integration. "Treasurers need real-time and holistic information on their cash balances and risks," she points out. "They are often using many different systems, which need to be able to speak to one another – and it all needs to be done in a cost-effective manner."

While the current market may be challenging, the technology that companies can use to manage money market funds is also becoming more sophisticated. "We work at Cachematrix, and across the industry, to bring new technologies such as application programming interfaces (APIs) and more advanced cloud-based technology to clients to improve their cash management processes," says Turner. "Companies are also looking at ways to optimise their systems and partnerships to provide corporates with treasury management solutions, all under one umbrella." At the same time, there is a continuing focus for corporates on incorporating technologies such as artificial intelligence and, as the digital assets industry matures, corporates are asking for help facilitating their exposure and trading of cryptoassets.

Of course, while some treasury teams are very tech-savvy, and are already taking advantage of these technologies, this is not universal – and other treasury teams are still working to move away from spreadsheets.

Benefits of Cachematrix

While it is owned by BlackRock, Cachematrix is an independent, fund-agnostic portal – "and we really do take that very seriously, maintaining strict information barriers between the two businesses," says Turner. She adds that this arrangement gives clients the benefit of a large firm's resources, together with the advantages of an independent tech company – "which is quite unique."

Cachematrix by BlackRock leverages Cachematrix's Software-as-a-Service (SaaS) platform, which is built on BlackRock Aladdin technology. Over 1,000 developers are working on the Cachematrix system and the ongoing development of the portal – an approach that Turner says differentiates Cachematrix amongst other money market fund portals. "We have a huge amount of experience, being one of the world's largest and oldest money market fund platforms out there," she adds. "Our portal's ethos is all about end-to-end operational efficiency and system integration."

As well as ease of use – Turner says that money market funds can be traded and settled in just five clicks – Cachematrix enables treasurers to conduct risk analytics and access bespoke report packages that can be delivered via email or Secure File Transfer Protocol (SFTP). "We also have a number of security controls, such as compliance rules and dual approvals," she adds.

Also important is the overall client experience and relationship. "We have an extensive relationship management team, offering global client support," says Turner. "In addition, our global client service centre is available around the clock for clients."

Technology for a challenging environment

So how can Cachematrix support treasurers in the current market? Turner says that a lot of companies are reviewing their cash strategies in light of rising interest rates, which in some cases means looking at increasing their use of money market fund investments, or indeed looking at using money market funds for the first time.

"Corporate treasurers really don't want the added burden of logging into multiple systems," notes Turner. "So a system such as Cachematrix by BlackRock, which can consolidate their trading and risk, is absolutely key." She points out that compliance rules on the portal can be implemented against treasurers' investment policies to ensure that investment guidelines are always followed.

Where integration is concerned, Turner says corporate clients are increasingly asking about how they can integrate the platform with a treasury management system (TMS). "We have a partnership with Kyriba as well as other TMS integrations across the board," she says. "That's really important for our clients: they go into one area to do their trading, and their balances are updated not just on that system, but at their TMS. Everything is in sync, so they don't have to do any double keying, enter additional trades or send it to their settlements team or back office."

Turning to the need for streamlined administration, Turner says Cachematrix has recently developed a new admin module which provides self-service functionality. As such, clients can access information such as details of their user lists and recent user activity on a self-service basis, providing additional convenience.

Future developments

Focusing on the future, Turner says the platform is well-positioned to adapt to changing market conditions and customer needs. "One of the key purposes of my team is to understand our clients in so much detail – we need to know what they like, what they don't like, what they're using, what they don't use, so that we can make sure we are developing the right things," says Turner, who manages the sales and relationship team. "We generate ideas based on client need, and our developers work on them."

In the past, platforms may have only been able to roll out updates every few months. But today, the use of agile software principles means that Cachematrix is able to develop and release updates within a couple of weeks. As such, updates are rolled out on a very frequent basis.

Ongoing additions and enhancements will continue to be rolled out to the platform to ensure the technology always stays current, and that it continues to meet treasurers' needs in the complex and fast-moving environment that is financial technology. From innovative developments to continuous platform enhancements, Cachematrix is committed to streamlining the cash management experience. ■

All in the house

In-house banks promise greater efficiency and lower risk but corporate treasurers have been slow to implement the model.

Defining an in-house bank isn't straightforward, says Naresh Aggarwal, Associate Director – Policy and Technical at the Association of Corporate Treasurers (ACT). "If you look at in-house banks, you will find several look similar, but most are different from each other. Centralisation takes many different routes."

An in-house bank is typically described as a dedicated finance or treasury entity that provides financial services including risk management (covering FX, interest rate and commodity hedging), cash management, funding and working capital. These services are offered to internal business units or affiliates of a company.

"Organisations that like to centralise certain activities will create shared service centres which concentrate many of these activities into just one location," says Mr Aggarwal. "In the past, this location would be physical but it is now more likely to be a virtual location."

Writing in the ACT's International Treasury Peer Review, Diana-Iulia Macarascu, Head of Global Treasury Operations, BAT, noted that as businesses have become more complex and integrated, treasury departments are changing. "Today, treasury departments are becoming increasingly centralised and are integrating strategic delivery with operational and regulatory activities."

The key to delivering 'world-class' treasury, she writes, is visibility and connectivity. 'Empowered centralisation' aims to eliminate duplication of effort to foster efficiencies and improve outcomes across the entire organisation. "Utilising a shared service centre space, with oversight of the information, policy and technology that supports treasury activities, can provide opportunities to bring centralisation to execution at an organisational level. It is no longer limited to purely transactional activities."

'Traditional' treasury activities such as cash management can be improved to streamline bank relationships, fee monitoring, and payment consolidation to provide further control over transactions. Virtual accounts and automated matching can also enhance the order-to-cash delivery.

By creating an in-house banking infrastructure, a corporate treasurer can reduce financing costs and improve operating flexibility, she says. Centralised hedging strategies and processes allow for aligned systems and procedures, which in turn can improve visibility, netting, accounting and expert execution.

Writing in the same report, Chris Dibben, Director, Global Cash Management at GlaxoSmithKline, noted that technology can support an in-house bank for efficient cash management and consolidation of exposures. "By having an integrated ERP system and TMS, a treasury function can facilitate the settlement of a high volume of intercompany invoices through both cashless and physical netting as frequently as desired," he wrote. "When combined with software to ensure matching of intercompany invoices, this can be performed each day and lead to the management of FX exposures on a daily basis. Through pulling forecast data into a TMS, the treasury function can look to manage future forecast FX and interest rate risk and perform the necessary valuations and assessments to meet the accounting standards in place – thereby minimising the P&L and cash flow risk to a company."

In-house banks, combined with virtual accounts, are "powerful tools in the treasury space", Mark Smith, Global Head of Liquidity Products, Transaction Banking at Goldman Sachs writes in a blog post. Despite this, US treasurers have been slower than their international peers to implement such solutions. Combined, they "can create big advantages for organisations".

An in-house bank can centralise payables and receivables through shared service centres called payment and receipt factories. A payment factory is a centralised hub that manages an organisation's payment processes and flows. Smith says a payment factory delivers greater efficiency through better automation, better straight through processing, better reconciliation, and reduced FX costs because cross-currency payments can be consolidated. A receipt factory delivers similar efficiencies to the accounts receivable process, while also improving working capital through faster cash application.

Virtual accounts, which function as subledgers that exist within a traditional bank demand deposit account (DDA), divide and organise the bank account data by assigning each incoming and outgoing transaction a unique identifier (a virtual account number). The number enables the bank's virtual account engine to attribute all payments to a discreet virtual account. Each virtual account has an opening and closing balance and records all relevant incoming and outgoing transactions. "Crucially, the total of all the virtual accounts always equals the total on the physical account," writes Smith. "So virtual accounts report the same information that a physical account reports; they are just subledgers within the account."

Bank-issued virtual accounts can have the same structure as a physical account, says Smith, with individual customers issued a unique virtual account number. "This can greatly assist with receipts reconciliation because remittances from that customer are recognised by the virtual account engine and posted, simultaneously, to the correct physical account and the customer's virtual account."

Because of their ability to segregate and organise data within one physical account, virtual accounts can sit at the heart of an in-house bank, operating as the intercompany ledgers between the treasury entity and other group companies, Smith adds. While virtual accounts track intercompany transactions and descriptions, they can also administer intercompany interest, receivables and payables, further reducing the burden on the treasury team.

"Although the effort required to set up an in-house bank shouldn't be understated, bank-issued virtual accounts can help with implementation, while delivering ongoing improvements to straight through processing and straight through reconciliation," Smith says.

Writing in a blog, Barbara Babati, Head of Marketing at Finnish cash and treasury management solutions provider Nomentia, noted that most major banks offer virtual accounts, which some refer to as an in-house bank. However, such accounts are limited compared to an actual in-house bank, she contends. "It is a good first step for a smaller treasury group to centralise cash management, but the limitations should not be forgotten. Virtual accounts are highly dependent on banks – this may be a good solution if the company does not have countless banking partners. When you have multiple banks, the virtual accounts should be set up at each bank, however, it adds unnecessary complexity to your operations. Working with virtual accounts is also reliant on the banks to set up the banking structures and match incoming payments to invoices. Batching invoices to a single payment is also not possible. The solution is also entirely maintained by the bank."

A first step in any in-house bank project should be to determine what you want to achieve, says Aggarwal. "In-house banks, shared service centres – none of these structures is a panacea. You have to work out what it is in response to," he says.

There are many independent consultants who can help treasurers scope out a project and pose questions such as whether the in-house bank is separate from the finance function of semi-integrated. "Once you answer those types of questions, you then look to clarify what the structure itself will look like. This includes where it is located, who will work in it and what technology systems you should use," says Aggarwal.

There are, of course, challenges in setting up in-house banks and shared service centres. Aggarwal says legal, tax and accounting implications are important to consider. Locations with a favourable tax environment should be considered, for example, as some countries impose withholding taxes on bank interest.

Other questions to consider include whether the in-house bank will make payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO). When an in-house bank is used for POBO and COBO, all incoming and outgoing payments go through the group treasury so that the entity that pays or collects is mentioned in the reference field of each payment file. The payments are then settled between the group and the entities not by using external bank accounts but by using internal accounts hosted via the group's ERP system. This may affect how a management charge is applied to the business. Technical tax, accounting and legal entity questions need to be resolved before decisions are made, he adds.

There are also cultural challenges to be considered, says Aggarwal. "A manager or employee within the treasury team may not want this to happen – change can be threatening, but the Covid pandemic has changed many of the rules of working."

The pandemic accelerated the pace of many centralisation programmes within corporations, says Aggarwal. "With most treasury employees now working from home and remote technology having proved itself, virtual in-house banks can be more easily deployed." Cloud technology means treasuries can deploy and treasury management systems, maintain or upgrade them "overnight". Cloud technology moves an in-house bank further towards a virtual, rather than a physical, location, he says.

Heidi Dittmar, Head of Service and Delivery at fintech Broadridge says the in-house bank operations Broadridge supports are under many of the same cost pressures as their financial institution clients. "They face the same challenges with regards to responding to the new ISO 20022 message transformations and the speed at which cross-border payments need to be processed today, for example," she says. "Outsourcing their SWIFT connectivity and messaging requirements to a mutualised service makes a lot of sense."

In establishing and running an in-house bank, corporate treasurers need help in managing multiple bank relationships that cover their global operations, says Dittmar. "It's essential that a service provider delivers seamless and highly secure connectivity with a user interface that makes it easy to consolidate money flows. This should enable analysis by operation, currency, bank etc to provide transparency for any complexity of global cash management or money market transactions, which increasingly is a cornerstone within the corporate industry to drive the decision process."

Nomentia's Babati believes in-house banks are becoming more popular, noting that "pioneering treasurers" are using them to centralise payments, collections and loans as well as to optimise liquidity and risk management.

"As the in-house bank is a proven concept that can be adopted at the own pace of an organisation, group treasurers are starting to show increasing interest in an in-house bank solution," she says. "While the concept may be clear for many, the question may still arise: do we really need an in-house bank? How does it compare to virtual accounts or cash pooling? What are the core features? How do we implement it?"

The more subsidiaries a company has, the greater the benefit of implementing an in-house bank, she argues. An in-house bank is a "great tool" for centralisation and treasurers should ask whether they will get more from that than from a payment factory, for example.

"When you work with a payment factory and you roll it out for all your subsidiaries, you will need to connect all the bank accounts that are used for settling payments," writes Babati. "Working with a cash management vendor that can provide a payment hub and bank connectivity will tackle the challenge of connecting all your banks, however, it's more time-consuming than setting up internal accounts within the in-house bank for each subsidiary. The more banks you work with and the more bank accounts you have, the more reasonable it could be to consider an in-house bank over a payment factory."

Aggarwal describes the moves towards shared service centres and in-house banks as a "slow march". Treasuries are beginning to realise that risk can be better managed in a centralised environment, as well as operational issues such as staffing. "With an inhouse bank, instead of having treasury staff scattered around the world, you can have fewer staff in one location – virtual or physical." Additionally, the risk of payments fraud can be minimised as payments are released from only one location. "An in-house bank enables a treasurer to put in place very strong preventative controls that can be checked on a more regular basis than when such controls are scattered around with varying degrees of responsibility." ■

Technology-enabled treasury

Debdatta Banerjee
Head of Treasury Operations

Debdatta Banerjee, Head of Treasury Operations at NVIDIA, discusses her career path, the challenges brought by geopolitical disruption, and the importance of integrating new acquisitions effectively. She also explains why fintech is becoming increasingly key to the treasurer's role.

Headquartered in Santa Clara, California, USA, NVIDIA Corporation is an American multinational technology company founded in 1993 by three American computer scientists, Jen-Hsun ("Jensen") Huang, Christopher Malachowsky and Curtis Priem. A global leader in artificial intelligence, NVIDIA's development and popularisation of the graphics processing unit (GPU) in 1999 fuelled the growth of the PC gaming market, with the company going on to supply specialised chip systems for such fields as architecture, engineering and construction, media and entertainment, automotive, scientific research, and manufacturing design. With over 22,000 employees and with a market capitalisation of over US$309bn as of September 2022, NVIDIA is one of the largest semiconductor companies in the world.

"The cornerstone for success in treasury is built on having a good understanding of the wider business," says Debdatta Banerjee, Head of Treasury Operations at NVIDIA. "And treasury itself is not just about cash or designing the optimum cash structure. It's about the end-to-end."

As Head of Treasury Operations at technology company NVIDIA – a role that she has held since September 2020 – Banerjee is well placed to understand the evolving role of treasury within the organisation. At the beginning of her career, however, treasury was not on her radar, and after

graduating from Delhi University with a BA in Commerce, Banerjee had not yet developed a clear idea of the direction of her future career. "At that stage, I had no idea what I wanted to do with my life," she reflects. "Should I do an MBA? Or become a chartered accountant?"

Embarking on an MBA in Finance and International Business proved pivotal in deciding the direction of travel for Banerjee's subsequent career. During her studies, she became intrigued by the world of derivatives and valuations, not least because of its sheer complexity. And so, shortly after gaining her MBA, Banerjee began her career as a valuation analyst at the hedge fund D. E. Shaw Group, operating out of New York and India.

"They had the most complicated long/short equity investment strategies," she remembers. "It was at the time of 2000-2007, when there were a lot of valuation crises due to the non-bank financial companies and collateralised debt obligations. Because of that, there was a lot of demand for people who could value those instruments based on inputs not available easily in a liquid market."

Treasury in Silicon Valley

After a year at D. E. Shaw, Banerjee was offered the role of Treasury Analyst at Microsoft, where she was responsible for the valuation of assets and cash flows. In some respects, this was a continuation of her work at the investment group.

"When I started it was easy for me to see parallels between Microsoft and a hedge fund, because although with a corporate treasury the risk appetite is limited, the managers were able to engage in so many fascinating strategies," she explains. From here, she moved into treasury operations, working with all of the groups in treasury, including Investments, FX, Commodities and Strategic and other investments.

Moving to the heart of treasury operations at Microsoft brought her into contact with a high level of technology and automated procedures. "With that level of cash, good visibility is impossible without proper investment in technology," says Banerjee. Finding herself drawn to the world of technology, she learned its importance in increasing efficiency, speeding up processes and reducing error rates. "My career became shaped by fintech," she reflects.

Moving to eBay seemed like part of a natural process for Banerjee, not least because she had collaborated with the company during her time at Microsoft: "eBay had reached out to me as part of a benchmarking exercise because we had implemented a FX option matching system that helped us move away from the Neolithic process of paper confirmations," she explains. So, when a position became available, eBay got in contact to see if Banerjee was interested.

"Yes, I was interested!" says Banerjee. "It was a very organic move." Managing the treasury controllership team was also a role that brought Banerjee a greater understanding of complex accounting, and the impact of stock-based compensation on earnings per share. "It was a very different world for me," she observes.

In this exciting – and challenging – environment, Banerjee was able to expand the team, carry out an RFP for a custodian, and set up an end-to-end automated confirmation system. During this time, PayPal, which had been acquired in 2002, split from eBay – a move that ultimately propelled Banerjee and her team into the world of payments. "It was fabulous, just understanding the architecture of how payments work," she recalls. "The challenge of doing cross-border payments and using different currencies, while at the same time reducing friction and keeping costs low, making the process more fluid and creating value."

Intelligent design

In September 2020, Banerjee was offered the position of Head of Treasury Operations at the technology giant NVIDIA. Given her background in technology, the prospect of working for a company generally acknowledged to be at the cutting edge of graphics processing units and artificial intelligence was extremely appealing.

"Having had a number of roles in treasury, the appeal for me lay in what the company actually does," says Banerjee. "Through their AI expertise, they have been able to achieve many things like the genome sequencing for Coronavirus, and they are also involved in long-term weather forecasting and plotting the effect of climate change on crops."

At NVIDIA, Banerjee leads the team responsible for treasury operations and cash management worldwide, working with the tax and legal departments around the area of legal entity structuring, improving processes with the use of cutting-edge technology as well as managing global bank relationships. In fact, keeping an eye on the cash and making sure that it can be utilised for all the company's activities, is of primary importance.

"What is cash management? It's being able to go into the system and make sure that there is enough cash for the company's needs, including investment activities, strategic acquisitions and stock buybacks," says Banerjee. "We have to make sure that cash is not building up in any region where we can't invest it or bring it back to our main region. With certain countries, it can be difficult to get trapped cash out, so we need to give a lot of thought to that."

Despite having a comparatively small treasury team, NVIDIA manages more than US$20bn in cash, harnessing technology to achieve continual oversight of cash as well as current exposures and risks. "We are a small – but mighty – team here in treasury at NVIDIA, with Treasury Operations, Investments, FX and Collections all rolling into the Treasurer," says Banerjee.

With regional teams spanning many different locations around the globe, the first challenge of the day is to catch up with events in the rest of the world. "When we wake up, we're already 12 hours behind what's happened in Europe or the Middle East," she says. "So our first priority is to figure out what has been happening in the world." Without the luxury of dedicated treasury professionals in these locations, Banerjee uses technology to monitor events and automate processes, and her team has also worked hard to build up strong relationships with the company's regional teams.

"What we have done is build alliances with our regional teams, where we can delegate the lower priority events," says Banerjee. "The higher priority events – major crises and geopolitical issues, technology or connectivity problems – still land on our plate."

Challenging environments

With any organisation, disruptions in a particular part of the World can have dramatic consequences. And for a company

with a global reach, volatility in any one region can affect the whole organisation. For Banerjee, business continuity plans – BCPs – are extremely important. Designed to help companies continue operating in the event of threats and disruptions, these plans mitigate against potential events that range from minor to catastrophic.

"As a treasury professional, what gives me sleepless nights more than anything else is geopolitical disruption – what am I going to wake up to?" says Banerjee. As she explains, "business continuity planning works at different levels, starting from light green – someone failing to turn up for work, say – to red, a whole country facing disaster. But you still have to make payroll. We need to know how we can keep it 'business as usual'."

Another challenge lies in the area of acquisitions. With no two acquisitions being exactly the same, integrating new companies into the business can be challenging. "We've tried to create a 'playbook' for acquisitions, but there are always variables and surprises that cannot be forecasted, that we need to discover when we go through our due diligence," she notes.

Part of the process of the acquisition of other companies is to familiarise them with the NVIDIA culture – without negatively impacting the existing culture. "It's all about working with them to create synergy, to get the best out of both cultures," says Banerjee. "But at the same time, it's not just about matching the people, but also matching the technology."

The latter can be one of the biggest challenges when an acquired company is using different systems and solutions. Because many of the acquisitions bring with them legacy processes, their file formats and messaging can be in different structures, which in turn creates business friction. Removing these barriers using a single format streamlines processes and decreases friction, allowing the movement of money to become virtually seamless. As Banerjee explains, "for a treasury person, the major concern is that money should not be sitting idle. It shouldn't be hitting negative interest rates, and it shouldn't be causing an overdraft somewhere."

Accurate forecasting

Although the forecasting of revenues is handled by the financial planning and analysis (FP&A) team, Banerjee and her team work closely with the accounts payable (AP) and accounts receivable (AR) teams to obtain accurate forecasts. With her team continually working to fine tune these forecasts, finding a system that can ultimately deliver consistently good results has taken significant effort.

"The strength of any cash management process lies in how good the forecasting is," she says. "But we have found AR forecasting to be incredibly difficult. You would think that it would be seasonal and that after a time you would know what it was going to be, but customer behaviour can be very erratic." Although NVIDIA has been around for decades, she notes that the continued focus on expanding into new areas means it is still very much a growing company.

The future of treasury

Banerjee sees the evolving role of the treasurer and the continuing advance of technology as being closely interconnected. As such, she believes that treasury has moved beyond its traditional remit to embrace the world of APIs, gpi and other innovations.

With real-time models representing the biggest challenge for treasurers, she explains, "Treasury is no longer just about cash – it's also about the system." For example, the CFO could ask at any time how much cash is in a particular country, and how quickly it can be accessed or moved from one location to another.

"In addition, business cycles can vary wildly, and taxation is changing all the time," says Banerjee. "If you want to align your inflows with your outflows, how do you make sure that there is a steady flow of cash to cover all the expenses that come up? From a treasurer's point of view, having good visibility, and having good forecasts, is extremely important. It sounds very simple, but it's very complicated to put into practice."

For Banerjee, the powerful tools included in treasury workstations mean they are a vital tool for the treasurer. Acknowledging that for most people the attitude is 'if it isn't broken, don't fix it', she believes it is only when new systems are implemented that people realise their true value. "The problem is that people are scared of changing existing practices," she adds. "How do you change established thought processes so that the technology is accepted?"

In Banerjee's view, a thorough understanding of the whole business will become increasingly important in the coming years, with the treasurer being seen as a key stakeholder to be consulted – rather than informed – about important strategic decisions. "I see the role becoming more and more fintech than just traditional finance," she explains. "I also see treasury as a whole becoming an integral part of the business, rather than operating in an isolated silo."

Rest and recreation

Outside of work, one hobby that Banerjee loves to pursue is astronomy. With the unveiling of the James Webb space telescope – the largest and most powerful space telescope ever launched – she is particularly thrilled to know that NVIDIA GPUs are playing a key role interpreting data streaming in from the craft.

Closer to Earth, she also enjoys attending yoga and cookery lessons, as well as planning for her next vacation. "I love travelling to different countries," she says. "Travelling has opened my eyes to different cultures. I think that is so important when your work touches so many countries around the world."

But for Banerjee, the one outside interest that gives her more happiness than anything else is to help out at animal shelters and to increase the chances of the animals there being rehomed by spreading awareness about their plight.

Final word

Looking back at her time in treasury, Banerjee reflects on the changing nature of the role and the constant stream of new challenges to be addressed.

For a long time, treasury was fairly invisible within the organisation – but today, she argues, treasury is involved in every aspect of the business. "I am so happy to be where I am right now," she concludes. "I would have thought that after 16 years, each day would be entirely predictable. But I find that there is a new challenge almost every other day." ■

Treasury gets to grips with sustainability KPIs

COP26 and GFANZ pledges mean embedding sustainability KPIs within borrowing facilities will become commonplace. Treasury is increasingly involved in the process, but fear of failure is crimping corporate ambition.

They could be emission reduction or energy-efficiency targets, goals around waste, sustainable sourcing, biodiversity or human rights and employee engagement objectives. Sustainability KPIs that link the cost of corporate borrowing to sustainable achievement shot to fame in 2017 after Dutch conglomerate Philips signed a Revolving Credit Facility with 16 banks that linked the interest rate to improvements in the company's sustainability performance tagged to KPIs.

More recently, COP26 and GFANZ [Glasgow Financial Alliance for Net Zero] pledges to clean up and decarbonise bank loan books is accelerating the adoption of KPIs, increasingly supported by important new policy frameworks. EU taxonomy rules are being rolled out, classifying what is and isn't sustainable and ending subjective sustainability claims. Elsewhere, the ISSB [International Sustainability Standards Board] is preparing new sustainability standards to guide international accounting while in the US, SEC rules on climate disclosures will introduce mandatory non-financial disclosure from corporates.

Treasury, along with the sustainability team, is actively involved when it comes to discussing which sustainability KPIs and targets to embed in debt instruments that can be used (unlike green or social bonds or loans) for any type of corporate purpose. "Treasury is convinced this is something they want to be involved in," says Agnes Gourc, Head of Sustainable Capital Markets at BNP Paribas who advises treasury teams on integrating KPIs into their borrowing in a bespoke and iterative new process.

Getting started

What is material to one business may be less relevant to another: fuel efficiency is significant in the airline industry while clothing groups have most work to do around labour rights. Good starting points to ensure KPIs are relevant and material to the overall business and its future operations include frameworks like the LMA Principles, ICMA's Sustainability-Linked Bond principles and SASB materiality metrics, which highlight the material issues for 77 industries.

Companies will typically develop internal KPIs which they benchmark to external methodologies, explains Gourc, who highlights a step-by-step procedure that doesn't happen overnight. It takes time determining if a KPI is material, especially when it's attached to other companies' (for example, suppliers and customers) sustainability efforts like Scope 3 emission targets.

Elsewhere, embedding KPIs in a deal with a tight turnaround like acquisition finance risks weak, rushed targets. In deals where time, not sustainability, is the primary driver, syndicates might not have time to undertake proper due diligence to ensure that KPIs are sufficiently robust and material says Gemma Lawrence-Pardew, Head of Sustainability, Director – Legal at the Loan Market Association (LMA).

As for a single, most important KPI? Perhaps one of the most important, and increasingly prevalent, KPIs is one that links director performance to achieving sustainability targets, says Caroline May, Partner and Head of Sustainability, Europe, Middle East and Asia at Norton Rose Fulbright. "We expect that reaching ESG targets and objectives will increasingly become part of a board or director's KPIs," she predicts.

Banks

Treasury Today interviewees observe that banks, not corporates, are driving most KPI uptake. "Banks have been given targets internally and are engaging with corporates through relationship teams," says Nick Merritt, a Partner at Norton Rose Fulbright. When companies go into new rounds of funding, they are increasingly asked to introduce sustainability KPIs, while relationship teams are targeting new industries for the first time. For example, last year Norwegian tanker operator Oddfjell SE became the first shipping group to issue a sustainability linked bond tied to reducing carbon emissions.

Merritt believes that banks increasingly linking access to finance to climate KPIs heralds a future whereby lenders will exit the companies in their loan book that have not outlined their targets to net zero. In the medium term, he predicts KPIs may harden into genuine covenants that aren't just price-linked. Instead, corporates which fail to meet them may be subject to mandatory pre-pays or defaults, and banks will likely exit the relationship. "The non-sustainable company of tomorrow risks being shunned by investors, employees and customers and need to shift their focus from stockholders to stakeholders," he says. "Non-sustainable companies will see capital constrained."

Loans v debt

In a loan, the interest rate will go up or down according to whether the company reaches its KPIs. In contrast, bond issuance tends not to have a step up, or premium facility: companies only get penalised if they miss their target but if they improve, there is no reward. In another distinction, KPIs embedded into loans tend to be tested annually while KPIs pegged to bond pricing are set for the life of the bond, with every detail published at inception and rarely revisited.

Treasury teams should also bear in mind the different levels of engagement on KPIs attached to either bank finance or bonds. Corporates issuing debt will communicate with their investors about the KPIs primarily during roadshows, and for some via annual engagement thereafter. Banks, on the other hand, regularly discuss companies' ability to meet targets with conversations focused on "next steps" or target materiality and progress, says Gourc. "We look at KPIs as an engagement tool with the company. Ambitious KPIs require significant corporate transformation, requiring detailed planning and support."

Challenges

A number of challenges strew the path ahead. Fear of failure is increasingly crimping robust and ambitious KPIs as corporates, wary of the attention sustainable finance attracts from the broader syndicated and investor market, set deliberately weak goals they can comfortably achieve. "We are trying to educate people not to fear failure," says Lawrence-Pardew.

It's a message echoed by others who distinguish between the importance of market scrutiny of KPIs to prevent greenwashing on one hand, and the damaging outing of companies that haven't met targets on the other. Many corporates may feel trapped in a transparency paradox, explains Merritt. "The more they disclose, the more stones are potentially thrown, yet peers that don't disclose or set ambitious KPIs may not be subject to the same scrutiny."

The solution? Market education that identifying and hitting KPIs is an iterative process. Sustainable KPIs set today will be different from those set in the future and old transactions will be refinanced with new KPIs reflective of the energy transition gathering pace. Shared benchmarks and market standards allow for comparison and transparency, but sustainable finance is flexible and depends on understanding companies' own individual journey because there isn't a one size fits all when it comes to transition. "Ongoing and significant corporate improvement is the right track," says Gourc who says few companies are reached where they need to be. New products are also supporting corporate progress. The commercial paper and repo markets are exploring KPIs, and the derivative market is also expanding, driven by the fact KPIs don't have to be linked to specific projects like social or green bonds.

More robust KPIs will also emerge as efforts to stop greenwashing step up. The LMA is stamping down on declassification, whereby corporates remove the sustainability label of their loan if they don't reach the KPIs in what Lawrence-Pardew describes as one of the biggest threats to the credibility of the sustainable loan market. "There are examples of ground-breaking transactions that have received lots of publicity but never hit their KPIs. The corporate will then declassify the loan without any public announcement."

The LMA is also flagging risks in new products. Like so-called sleeping sustainability loans whereby corporate borrowers originate traditional loans that contain dormant sustainability KPIs that can be switched on at a later stage, imply sustainability is not at the heart of the transaction. "This is a growing trend; particularly in the US, and one that needs to be treated with caution," says Lawrence-Pardew.

In another trend, litigation is also on the rise. The non-profit monitoring group CDP recently reported "a steady increase" in the number of companies at risk of litigation because their green promises don't match reality on the ground. The trend is most visible in the US, but now European corporates have come under fire, being sued by environmental groups for greenwashing and deceptive marketing. "The risk of scrutiny from NGOs is leading to client demand to better understand governance and reporting structures for ESG issues to ensure that they are not at risk of allegations of greenwashing and challenge from stakeholders, NGOs, investors and their own employees," says May, signposting a stronger and more robust market ahead as companies come under increased scrutiny from stakeholders.

Measurement

The biggest and most enduring challenge attached to identifying and meeting robust KPIs and preventing greenwashing is access to data. Banks are encouraging corporates to set KPIs and put sustainability targets into traditional corporate loans in a top down approach, but their existing corporate loan books lack the meaningful sustainability data needed to help set and police targets. "Information needs to be digitised and accessible on an

industrial scale to enable banks to measure things like waste, water consumption and GHG emissions to create meaningful targets," says Merritt. It gets even more complex measuring KPIs around social and governance criteria, and impact.

Despite the challenges, Treasury Today interviewees note that drawing up KPIs is a big step. Interest, homework, and discussions are vital and meaningful precursors in a long process. "As a company, you should decide when you are ready to do this type of transaction," concludes Gourc. "Sometimes we recommend to clients to further develop their sustainable plans ahead of launching a sustainable finance transaction – and not to worry if it is for the next funding exercise." ■

Nick Kidd
Head of Treasury and Interim Head of Investor Relations
Coats Group plc

ESG is very much at the heart of what we do and core to our strategy at Coats, so the question is more; how could our refinancing last year not be linked to ESG?

Since signing our RCF, we have added local facilities with an ESG element: our local banking facility in Turkey mirrors the ESG linkage at a Group level while in Vietnam, we place deposits that have a direct contribution to the UN Sustainable Development Goals. Furthermore, our global trade facility, catering for Bank Guarantees and Letters of Credit, is also linked to our ESG metrics. We would highly recommend speaking to your banks and enquiring about ESG, they will increasingly have a variety of solutions that can be embedded into various parts of your banking needs.

At Coats, we are committed to pioneering a sustainable future. We set out our sustainability goals in 2019, focusing on water, energy, effluent, social and materials impacts.

As we report on our progress against our targets in our Annual Sustainability Report, it was an obvious decision to align the RCF with these. We worked closely with our Head of Sustainability to select those metrics which were challenging and, importantly, most measurable to fit with our banks' requirements. We have since further advanced our ambitions to align with Science Based Targets for 2030.

We are working hard at automating our ESG reporting to the same level as we do financial reporting. At Coats, we see these as equally important and an area that potentially finance can offer a great amount of support to the business. By leveraging our finance teams' experience, knowledge, and rigour in reporting, we aim to mirror our ESG reporting as it is our believe that ESG reporting will be on a par.

Measuring and reporting on ESG is required as part of our facility, but it is also important to focus the business on our performance and provide insights as to where improvements can be made. Coats uses a web-based tool to track performance across all areas of all our metrics. Being transparent on our operations shows that units really are 'walking the walk'.

The discount (for meeting all three targets) or premium (if we miss them all) is not huge, but there is far more value in having them embedded in as many places around the organisation as possible. It focuses everyone's minds on the importance of achieving our sustainability objectives. However, we would encourage treasurers to play a part in advancing the ESG agenda as much as they can or risk being left behind.

Only those businesses that take sustainability seriously and are, in themselves, sustainable, will ultimately survive in the long run so from a lending perspective it would seem a significant step forward for this to be recognised by reducing, or allowances given to, the risk weighting against those companies that are genuinely, or quickly becoming, sustainable, so that it can be reflected in the pricing they are able to offer.

There has been unmitigated support. The banks were equally as keen to add ESG to their facilities as Coats was to incorporate them, and equity investors also see it as another indication of the commitment to our strategy. In addition, it is also fundamental to our customers and suppliers to know that Coats is a leader in sustainability and seen to be delivering on our commitments.

Internally, our board was very supportive of this, and treasury received many positive questions and comments on the facility when we announced the new RCF, which was a great opportunity to raise our profile and to engage with the wider business.

Coats was very focussed on ensuring that this was not a greenwashed facility, as it simply would not have reflected what we are about when it comes to ESG. We deliberately went for three of the more challenging targets, as we do not want to hide from our responsibilities as a corporate. We were also keen to have a diverse selection of metrics that, given our global footprint, touched upon social as well as environmental.

We firmly believe that all individuals and corporates need to take responsibility for, and have a role in, delivering a more sustainable future. We would hope that by now most companies will have sustainability targets, which can help frame an ESG linked facility and can be leveraged for reporting purposes. It seems to us that unless you have existing group KPI's then it would be difficult for treasury to establish and measure them in isolation.

The sweeping digitisation trends promising treasury transformation ahead

For many companies, digitising their business model involves a simple move online. For others, especially customer-centric businesses, new platforms powered by digitisation involve root and branch transformation. J.P. Morgan's Lia Cao explains how and why treasury can lead the way.

Lia Cao

Managing Director and Global Co-Head of Corporate and E-Commerce Sales & Solutions

J.P.Morgan

Seismic changes are brewing in the car industry as digital disruption sweeps aside today's linear model where industry giants simply manufacture and sell cars. In the future, car groups will operate on platforms with ongoing, direct engagement with end customers. As we move from car ownership to usership, customers will have individual profiles that activate in each car they use. Rather than a large, one-time purchase, payments will become subscription-based recurring transactions and a raft of suppliers will directly market value-added services via the platform from safety features to infotainment services or insurance.

Platforms enabling consumers and producers to connect to exchange goods, services and information via a single interface are already well established in marketplaces like Facebook, Uber and Alibaba. They promise to disrupt long-established industries like the auto sector, consumer and retail segment, energy and travel, and are behind the extraordinary rise of new connected commerce models. According to Lia Cao, Managing Director and the Global Co-Head of Corporate and E-Commerce Sales & Solutions, TikTok is an interesting example of these new business models where a social media platform can transform itself from an entertainment channel to a digital marketplace. Through active engagement of one billion plus monthly active users via Tik-Tok challenges, it has been able to monetise its user base and incentivise individuals to create content and ultimately go viral.

TikTok is now evolving into a marketplace with immersive shopping experiences, tailored to different regions, offering advertising, real-time streaming powered purchases and shopping in a tightly connected world of buyers and sellers interacting digitally – just as happened for centuries in the physical world. "TikTok is an example of how an online social media platform can evolve into a multi-party connected

commerce ecosystem that can create multiple revenue streams for creators and brands," says Cao.

Of course, platforms don't suit every industry or business. But they sit at the vanguard of today's digital transformation and their emergence signposts many of the digital challenges and opportunities ahead for corporate treasury teams. Platform companies need dynamic liquidity management to support multiple real-time pay-in and pay-out methods and changes in cash balances. Elsewhere, platform models might trigger more financing at the point of need as volumes ramp up through 24/7 marketplaces. For example, SMEs serving the platform may not have access to free cash flows to finance the procurement of goods at the scale that is needed, therefore short-term capital and supplier financing can be a critical enabler to re-calibrating working capital positions.

The platform model brings new meaning to working capital churn. Working capital levels transform off the back of consumer demand, platform throughput and reduced inventory levels, lists Cao who says signs of shortening were recently visible in J.P. Morgan's Global Working Capital Index findings. She continues that with so many players on the platform, it's hard to overstate the importance of optimising working capital; partnerships are reliant on a smart, steady flow of funds between parties. "For any company scaling up to a platform, treasury needs to think about these macro trends and micro-implications. It's very different from a traditional B2B model, and we have solutions to help."

Digital journey

Platforms may represent a distant future, but many companies (hastened by the pandemic) are in fact well on their digital journey. Cao splits that trajectory into three distinct phases: tactical, transformational and strategic. In a first, tactical phase, the pandemic necessitated quick, digital pivots to maintain business continuity such as adopting DocuSign technology or conducting cash forecasts daily or weekly rather than monthly.

In the transformational phase, treasury recognised the value of technology in delivering economies of scale across teams and regions. This could include putting servers and data in the cloud or implementing new ERPs and TMS with centralised payment processing and administration. Other transformational trends include embedding AI, machine learning and robotic process automation into data analytics models. "Many treasuries have seen the benefits and invested for the long-term," says Cao.

In the third phase, prevalent amongst today's pace setters, digitisation has become strategic. Treasury teams are using digitisation to differentiate from the competition and gain market share through digital-first strategies. This could include the adoption of real-time payments and alternative payment methods like digital wallets, indicative of payments shifting from a commodity to a differentiator in customer experience and a revenue driver in its own right.

Strategic treasury teams are now utilising multi-entity cash pooling and virtual account structures to streamline their liquidity management structures. Elsewhere, they are establishing supplier financing platforms to unlock working capital and support e-commerce marketplaces. In turn, enabling direct-to-consumer and B2C models in a customer-centric strategy driven by technology.

L'Oréal's SalonCentric Marketplace creates a one-stop-shop for salon owners and stylists to source boutique wares. "The pace of digitisation is different across industries and varies in line with customer demand and regulatory openness, but all businesses are becoming more digital in nature," says Cao.

Next steps

Digitisation on this scale is only possible with data. Corporates are turning big data into smart data, helping inform market trends and signpost treasury strategies. For example, data has supported the rise of open banking, solving industry pain points such as visibility over multiple bank accounts through a single platform. "The power of data is visible in open banking," says Cao. "Treasury no longer has to pull different data sets from multiple banks, enabling a quick and holistic understanding of their cash position."

Elsewhere, data casts new light on the value of cash flow forecasting. Enhanced data analytics and AI give a more informed view of the future, outlining the most likely liquidity position based on past patterns. "For example, a company may realise it no longer needs a cash buffer across the globe based on sales growth in key segments," suggests Cao who observes new tech skills emerging across treasury focused on machine learning and AI. All alongside a new ability to think holistically and grasp the consumer needs of the business at the front end and the seller needs at the back end.

The importance of cash flow visibility also comes to the fore in a card environment when pay-outs are real-time, but some collections, like credit card settlements, are not. The growth in real-time payments has led to a mismatch between what is paid in and what is paid out, and a data-driven view of cash flows can therefore help inform funding needs across different accounts in different currencies. "Treasury has access to a lot of data, but not all of it is actionable," she explains. "It makes partnering with colleagues and departments across the business, such as procurement, sales, operations and finance critical to forming a holistic, end-to-end view of cash flow."

Cao also reiterates how embracing technology to automate mundane tasks allows treasury to concentrate on optimising its core functions, doubling down on managing credit and working capital, and safeguarding liquidity. Although many corporates outsource repetitive functions like payment processing and reconciliations to deliver solutions at scale, she notes that these tasks tend to be assigned to internal centres of excellence such as shared service centres, rather than farmed out to external companies.

The future

Treasuries will continue their transformation into a core strategic function, closely aligned to digitisation trends around payments, working capital and liquidity. But every organisation must face the next digital revolution. Harnessing digitisation to allow a company to leverage new and alternative payments as a revenue driver; recalibrate working capital and access liquidity to grow market share will turn any treasury into an essential value centre. "These are the mega trends, but they don't happen overnight," concludes Cao. "Nor can it be done in silos by treasury. It requires collaboration across internal partners and partnering with banks and industry peers who share a similar vision." ■

Payments evolution leads steady transformation of African treasury

Alternative payments are transforming corporate treasury in Africa. Save the Children explains how new technology is allowing the organisation to change how it distributes awards on the ground in a snapshot of African treasury's evolution.

Save the Children, the global humanitarian organisation that works to improve the lives of children, has dispersed its awards via mobile wallets in several African countries for a while. Now, rather than rely on specialist intermediaries, the charity is looking to link its own TMS and accounting and central payments system with an African Mobile Money Gateway. "Alternative payments like mobile wallets are increasingly important when we disperse cash or voucher awards in remote areas," says Edward Collis, Treasurer, Save the Children International who oversees a centralised treasury structure based out of London, dispersing around US$1.4bn in donor funds to 60-odd countries including 27 in Africa, home to some of the charity's most extensive and oldest operations.

It is still early days and Save the Children is in talks with several banks and mobile wallet intermediaries on how to best link mobile wallets to its central payments system. Nevertheless, Collis believes this is the type of progress that encapsulates treasury innovation in Africa. "We are seeing a lot of innovation around the meshing of banking partners, mobile wallets and cash agent solutions. Things are moving fast," he says.

As progress gathers pace, some of the key risks that had made Collis and the team wary are retreating. Since Mobile Money Operators (MMOs) are telecoms providers and not regulated like banks, the absence of capital protection or screening of payments processes and beneficiaries is a source of concern. But now banks, long on the back foot, are beginning to also offer mobile accounts evident in the proliferation of so-called intermediary or light accounts with mobile wallets. "It is quite attractive because we can now overlay bank regulatory comfort on top of the mobile wallet landscape," he says. "The treasury systems-side is catching up as banks move fast. Africa is leading on mobile wallet technology."

Save the Children's progress navigating Africa's fragmented and complex banking infrastructure using digital payments to distribute awards on the ground is just one example of the changes underway in African treasury. Other important trends see African corporates re-designing route-to-consumer strategies in response to the growth in e-commerce, also triggering an overhaul in their payments processes. The use of APIs and open banking is gathering pace in countries like South Africa and Tanzania. Requests to digitise receivables is one of the most frequent RFPs while companies seeking to diversify their supply chains in the wake of the pandemic is triggering an uptick in demand for supply chain finance solutions.

Regulation

One of the main reasons for Africa's highly fragmented payments market is the absence of a dominant payment method or provider. Since different users and countries favour varying payment methods, corporates face steep costs receiving payments. But change is afoot. The Pan-African Payment and Settlement System (PAPSS) is working on the infrastructure required to facilitate the payment, clearance, and settlement for intra-African trade payments. "New payments infrastructure is going down that will include interoperability between different wallet providers," says Esther Chibesa, Managing Director, Treasury & Trade Solutions Head SSA at Citi where clients include multinationals, some of Africa's biggest corporate names and government entities.

Elsewhere, demand from companies to work with payment service providers to facilitate cross-border payments has seen new competition in the cross-border payments space visible in Paypal and Network International buying up local players to offer payment solutions across the continent. "We are seeing international operators access the African market," says Viplav Rathore, MD, Head of Cash Products AME and MENA at Standard Chartered where he works across the bank's Africa operations, on the ground in 15 countries.

Innovation is also coming to in-country payments. In another pilot project, Nigeria and Ghana are experimenting with CBDCs, employing FinTech expertise and using blockchain enabled rails to ease in-country payments. "Treasury teams in Africa struggle with visibility and cash mobility, but CBDCs actually offer hope, replacing in country payments with tockenised payments," says Rathore.

Regionalisation

Payments innovation and digitisation is also aligning with the emergence of African trading blocs. For decades, intra-African trade has been hampered (amongst other things) by tariffs and bureaucracy at land boarders. One Treasury Today interviewee estimates 43 land checkpoints exist between Nigeria and its West African neighbour Ivory Coast. Trade is further complicated because dollars and other foreign currencies are often in short supply. This makes intra-African payments in dollars challenging while local currencies are regulated, hampering conversion.

Under the umbrella of an array of emerging regional blocs like WAMU [West African Monetary Union] or CEMAC [Economic and Monetary Community of Central Africa] new currency and clearing zones are beginning to emerge. Head south and the number of companies in Southern Africa's free trade zone SADC using the South African Rand continues to grow. These currency unions enable treasurers to set up a single payment hub, from where they can conduct borderless banking – and create a much more efficient cash management structure. Corporates that once had liquidity spread across multiple banks are now consolidating that liquidity to a single payment account limiting counter-party exposure.

Ghana and Nigeria have forged ahead, setting up a pilot scheme whereby companies trading between the two countries use their own currencies to settle balances, backstopped by their central banks holding FX reserves. "It's an exciting trend that will support intra-Africa trade," says Rathore. The combination of free trade and frictionless payments will have profound implications for MNC supply chains, he predicts. "Treasury teams are beginning to adjust to the implications for frictionless payments that are also free from customs and checkpoints."

E-commerce

In response to the growth in e-commerce and payments evolution, African corporates are increasingly thinking about how to best position for customers paying differently, re-designing their digital collections piece. It's a complex new marketplace with multiple providers, says Chibesa. But it's also triggering a new conversation with clients. "Corporate customers are requesting support to make SWIFT payments from their ERPs; talking about API sandboxes and discussing new platform configuration. We'd have never heard these types of requests ten years ago," she says.

Visibility

Technology is also transforming cash visibility in Africa. Save the Children International runs around 500 accounts globally. Three years ago, about 35% of these accounts were visible, equating to about half the organisation's total cash. Following an overhaul using SWIFT (the charity is a SWIFT corporate member) and a specialist payment and reporting partner, the treasury team now has visibility of around 98% of its cash and 86% of its bank accounts (with a target to achieve 90% visibility by year end).

"We get bank statement reporting every day from banks across Africa who send MT940 over SWIFT to our TMS which we then upload into our single ERP. It's really helped with the visibility piece," says Collis. In Yemen, Save the Children was the first organisation to obtain MT940 reporting from some of its banking partners and lessons from Yemen were then applied to Africa.

Improved cash visibility is also feeding into the payments piece, enabling treasury to better support local finance teams

> Some of the funding chains are getting thinner and stretched and in some places correspondent bank relationships are getting thin on the ground.
>
> Edward Collis, Treasurer, Save the Children International

with improved bank reconciliations. Citi's Chibesa describes burgeoning corporate demand to digitise receivables and receivable processing in line with the move away from cash and demand for visibility. Pre-pandemic, treasury processes relied on a combination of manual inputs and digital and non-digital formats that didn't support real-time information and incurred operational costs, she says.

Save the Children is in the process of introducing local ACH payment capability executed via its central payment TMS platform, continues Collis. In the past, the local, in-country accounts payable team would generate a payments file and upload it locally into their electronic banking platform. Now it is routed through a secure, central architecture sitting between the organisation's ERP and TMS payments system in a journey that goes via SWIFT to the NGO's main banking partners in London. From there it is routed over the main banking partners' networks to local branches in Africa and executed as a local payment. "We are about a third of the way through this process," says Collis. "We are trying to get as much control and visibility as we can over our payments and funding. It is all about trying to minimise our balances and reduce the risk of local currency balances."

Macro picture

Africa's treasury landscape is being buffeted by the macro environment. Treasury Today interviewees report a spike in demand for physical cash pooling to enhance cash visibility and reduce the cost of borrowing as interest rates rise across the continent. Elsewhere, corporates are increasingly focused on the cost of capital and more efficient ways to raise working capital in the short term. It is leading to demand for strategies that lever payables, says Chibesa. "We see demand for strategies to extend days payable in a low-cost strategy that passes the cost of borrowing down the value chain," she says, noting an uptick in demand for hedging strategies, notably from Africa's own central banks. Elsewhere she reports tightening capital controls, especially in Central Africa, have sparked treasury fears of trapped cash. "Corporates have to adjust from a governance objective built for this reality," she says.

Meanwhile enduring treasury challenges like access to liquidity and FX volatility are front of mind for corporates. Companies rely on FX reserves to import goods into Africa, yet hard currency reserves are low: dollars from traditional sources like Kenya's tourist industry have been hard hit by COVID-19 while countries and corporates are paying more for imports because of rising prices. "Hard currency availability in East Africa, especially Kenya, is soft," says Standard Chartered's Rathore, adding that corporates are finding it difficult to take hard currency out of Nigeria.

Unlike a typical corporate which seeks to take cash out of its African subsidiaries, Save the Children's flows are the other way – putting money into Africa. The charity converts its income in donor G20 currencies (typically dollars, krona, euros or pounds) into local currencies to spend on the ground. Almost all the organisation's FX management is done centrally with a clear focus on tightly controlling local in-country cash balances to minimise risks to donor funds (for example, FX devaluation risk can quickly erode the organisation's spending power on the ground).

This tight local country liquidity control is facilitated by a fortnightly funding cycle, resulting in Save the Children holding little cash in country compared to most corporates, explains Collis. "In some rare circumstances, we might hold cash for a couple of months which exposes us to the risk of devaluation, but trapped cash is not really an issue as we are constantly spending on our humanitarian programming locally," he says.

Still, inflation adds another layer of complexity, reducing the purchasing power afforded by favourable exchange rates. "We spend a lot of time working out how to get better visibility and reporting to our donors and stakeholders related to FX devaluations and issues around the convertibility of FX," says Collis.

Correspondent banks

Other stubbornly familiar challenges continue to blight Africa's treasury landscape, particularly for international NGOs working in higher risk locations. Correspondent banks are increasingly thin on the ground, says Collis. Although paying banks that instruct local banks in, say, Somalia to make a payment remain stalwart partners, correspondent banks in the chain that only receive a small fee but are subject to costly and cumbersome compliance from the paying bank, are becoming scarce.

"For higher risk locations, it's easy for banks to say no," says Collis. "Some of the funding chains are getting thinner and stretched and in some places correspondent bank relationships are getting thin on the ground. We haven't got to the point where we can't fund our higher risk locations, but it is getting worse and trending this way," he says.

As technology becomes more pervasive across African treasury, so cybersecurity is pushing centre stage. Interviewees report a spike in demand for treasury protocol for when an attack happens.

For corporates with treasury operations on the ground, Nairobi appears to have the edge over Johannesburg as Africa's leading treasury centre. The Kenyan capital benefits from a young, tech savvy workplace, a favourable regulatory system and easy access to Europe, concludes Chibesa. For some MNCs, rather than setting up locally, running African operations out of Dubai increasingly ticks the box in a hybrid model or shared service centre overseeing and supporting African payments flows, tracking payments and collections. Wherever the location, African treasury is united by a common thread: the need to update regional strategies for a fast-evolving market on the ground. ■

KING CHARLES III

TAKES MONEY IN NEW DIRECTION

Following the death of HM Queen Elizabeth II, many changes will occur in the new era of HM King Charles III. This includes the issuing of new banknotes and coins around the world, which – as tradition dictates – will have the King's portrait facing in the opposite direction to the previous monarch.

The death of HM Queen Elizabeth II was a historic moment, bringing one era to an end and immediately ushering in a new monarch, with HM King Charles III officially proclaimed King on Saturday 10th September.

As Britain's longest-reigning monarch, the Queen was ever present, not only in the length of her reign, but also because of the numerous symbols that represented it. Insignias, emblems, flags and stamps all carry her image and will need to be updated. Under the Carolean era (taken from the Latin for Charles, Carolus), banknotes and coins will also change, a logistical task that points to the ever presence of cash, and the complexities of physically managing its circulation.

In the United Kingdom alone, the Queen's image appears on approximately 4.5bn notes that have been issued by the Bank of England and are worth approximately £8bn. And that's just the sterling notes. Her image has also been a constant presence on the money in numerous other countries, including Australia, New Zealand, Canada, Belize and the Eastern Caribbean Central Bank, the monetary authority for Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia, and St Vincent and the Grenadines.

In the UK, the Elizabethan coins and banknotes are expected to be phased out over many years. And it may also take a while to see the first coins or notes with King Charles III on them. The first coin bearing the Queen's image was issued in 1953, a year after her coronation, and the first note was not issued until 1960.

Anne Jessopp, Chief Executive Officer at The Royal Mint noted that during her reign, the Queen had five coin portraits, each of which she personally gave her approval to. "The remarkable legacy of Britain's longest serving monarch will live on for many years to come," Jessopp said. The Royal Mint announced in a statement that it will continue to strike coins as usual.

Bank of England Governor Andrew Bailey said, "As the first monarch to feature on Bank of England banknotes, the Queen's iconic portraits are synonymous with some of the most important work we do. Current banknotes featuring the image of Her Majesty The Queen will continue to be legal tender. A further announcement regarding existing Bank of England banknotes will be made once the period of mourning has been observed."

Queen Elizabeth's portrait on the coins was always looking right, and King Charles will face the other way. This is part of a tradition that dates back to 1660 where the monarchs alternate the direction they face on the coins. Only Edward VIII broke this tradition, but he abdicated before his coins were issued.

Around the world, other countries are considering what the new monarch means for their physical currency. In Australia, the monarch has traditionally featured on the lowest denomination note – the AU$55 bill – and the central bank has stated that these notes will also remain in circulation and not be withdrawn. It is expected that Australia will release a new AU$55 note and coins in 2023. In New Zealand, the Elizabethan money will also continue to circulate and a new NZ$20 is expected to be released in the coming years.

And in Canada, where the Queen features on the CA$20 note and coins, a spokesperson for the central bank said the country has no plans to change its money. "The current polymer CA$20 banknote is intended to circulate for years to come," the spokesperson was quoted as saying, adding, "There is no legislative requirement to change the design within a prescribed period when the monarch changes." ■

Navigating the new risk landscape

From soaring inflation to FX volatility, today's risk management environment is challenging companies in a variety of ways. So how can companies address these pressures, and what are treasurers doing to adjust their hedging strategies to the current landscape?

More than two years since the pandemic began, the risk management landscape remains challenging. From record levels of inflation to the Russia-Ukraine conflict, a whole new set of issues is looming large for companies around the world. So what risks – and opportunities – should treasurers be aware of, and how are treasury teams adjusting their hedging strategies to meet the demands of today's environment?

Overturning expectations

There's no disputing the fact that the current risk management environment continues to challenge companies in a number of different ways. Rahul Badhwar, Global Head of Corporate Sales, Markets & Securities Services, HSBC, notes that the current risk management environment is generally challenging for corporates, given increased volatility across FX, rates, commodities and credit. "As the world emerges from the pandemic, with a focus on economic growth, companies have to monitor the markets for signs of slowdown and chances of recession," he says.

"Inflation may be cooling in some markets but nevertheless continues to be of concern, whilst geopolitics has hindered global supply chains and led to reshoring in some cases, which can be an expensive proposition. Taken together, this has led to profit margin pressures for corporates, raising the stakes for their risk managers to mitigate those financial risks within a company's control."

These pressures represent a significant shift from historical norms, meaning that treasurers are having to adjust their

expectations. "Who would have thought two years ago that euro-dollar would be at parity, which we are seeing right now?" says Thomas Jerolitsch, Vice President, Enterprise Treasury at FIS. "Who would have thought the Fed would hike rates to 1.75% in 2022? Who would have thought we would find ourselves at 8%+ inflation? Who would have thought tech stocks would plummet by 30% or more?"

As Jerolitsch notes, the combination of these developments is challenging corporate treasuries in many areas that they have not seen in recent history. "In a low-risk environment, whether you have money in a cash account or in some other forms of investment doesn't make too much of a difference," he says. "In a stable FX environment, whether you hedge 60% or 75% of your foreign currency cash flows doesn't make too much of a difference."

As such, the workload for corporate treasuries has dramatically increased as companies scramble to achieve the level of P&L and balance sheet predictability they have been used to.

Getting to grips with risk

Wolters Kluwer is a global provider of professional information, software solutions and services for sectors including healthcare, tax and accounting, and legal and regulation. The company is headquartered in Alphen aan den Rijn in the Netherlands, and reported annual revenues of €4.8bn in 2021. Wolters Kluwer manages business risks, which include changes in customer demand for products and the rapidly changing technological environment, alongside financial risks, such as currency movements, interest rate fluctuations, liquidity, insurance and credit risks.

"Identification and management of financial risks are carried out by the central treasury department, whereby the treasury operations are conducted within a framework of policies and guidelines (Treasury Policy), which have been approved by the Executive Board and the Supervisory Board," says George Dessing, EVP, Treasury & Risk. "The Treasury Policy is reviewed at least annually, considering market circumstances and market volatility, and is based on assumptions concerning future events, subject to uncertainties and risks that are outside of the group's control."

> Criminals are taking advantage of disturbances caused by the ongoing worldwide pandemic, and recent events such as the invasion of Ukraine.
>
> George Dessing, EVP, Treasury & Risk, Wolters Kluwer

A further risk that treasurers need to consider is fraud prevention, comments Dessing. "Criminals are taking advantage of disturbances caused by the ongoing worldwide pandemic, and recent events such as the invasion of Ukraine," he says. "Their fraud schemes are becoming increasingly sophisticated." As such, he argues that finance employees should remain "extra vigilant" regarding communications about financial transactions that they receive via app, text, instant message, phone or email – and treasurers need to make sure that the entire organisation is on an alert.

Navigating the challenges

In today's environment, it's difficult for treasurers to have a firm view of the market, "as a lot of factors impacting markets currently are outside of typical macroeconomic models," says Badhwar. He notes that CFOs and treasurers are having to grapple with managing high inflation costs and the impact on operating margins, and that many "will not be able to pass on the full price pressure felt from their input factors into higher consumer prices."

At the same time, Badhwar says that market volatility, and the speed with which some market moves have happened, is making it difficult for treasurers to make medium- and long-term decisions. Likewise, planning for hedge notionals is made more difficult by the uncertainty of the underlying exposures. Additionally, says Badhwar, "treasurers must manage interest rate risks when it comes to funding, as benchmark rates have

Hedging trends

Rahul Badhwar, Global Head of Corporate Sales, Markets & Securities Services, HSBC, says the bank is observing the following trends in light of the current economic outlook:

- An increased use of optionality by corporates to protect budget and profitability targets.
- An increase in hedge duration for USD net sellers as companies take advantage of historic spot levels in markets.
- Hedging short-term emerging market risk, especially where local rates have lagged USD rates, thereby reducing their cost of hedging.
- Significant uptick in interest rate hedging linked to current and planned financing/refinancing activities both in swaps and interest rate options.
- Demand for yield enhancement structures from companies with sufficient cash buffers, to manage returns on excess liquidity which otherwise would lie idle.
- Leasing and buying of precious metals to meet current demand.
- Alignment of ESG financing with an ESG-linked risk management framework.

been rising globally as central banks tighten policy to counter inflationary pressures in their economies."

In light of these challenges, Badhwar says companies are currently reviewing their market exposures and risk capacity. "While some will not change their respective strategies (they are not going to react every time there is undue volatility), others are adjusting their hedging programmes across hedging instruments, hedge ratios, hedge duration and so forth, while those who have not previously had a hedging policy are now looking to implement one," he says.

In particular, Badhwar comments that risks such as translation risk for overseas business investments (especially for US companies looking to protect dividend streams), interest rate risk from funding and FX risk on future expected cash flows (beyond the current accounting year) "are more relevant now than before for many companies."

Adding value and harnessing opportunities

But while today's environment is undeniably challenging, risk can also bring opportunity. As Badhwar explains, the inversion of US and other global yield curves is enabling companies to extend the duration of their interest rate hedges at cheaper levels, relative to current short-term interest rates.

"Given the outperformance of USD and stronger US rate hikes, the impact on FX hedging programmes will differ across geographies and sectors," he adds. "Broadly speaking, for USD net sellers (eg exporters to US, and European/Asian groups with substantial net assets in the US), current hedge rates might appear favourable based on a relative value basis and longer historical perspective."

On another note, with corporate valuations trending lower, he says some companies might look for opportunities to grow their operations via M&A. "In those instances, treasurers should increasingly be asked to safeguard the underlying transaction financials via rates and purchase price hedging (including deal-contingent solutions)."

Dessing, likewise, points out that not all of these developments are negative from a treasurer's point of view. "In the wake of inflation, more volatility by recession risk, energy supply imbalance, geopolitical tensions, and the rising rate environment, treasurers need to conclude that money is not for free anymore," says Dessing. "To me, this market shift is not a bad thing, as negative rates were pressuring economic sound practices, like the time value of money which was conflicting with daily routines for an effective and efficient cash management structure."

With rising rates, says Dessing, treasurers need to take advantage of all opportunities to generate income and lower the cost of doing business. "This does require good forecasting, as it will allow you to optimise your investments in deposits or money markets, for example."

On another note, he says it will be interesting to see how the company's recent hires – "especially our talented youngsters" – cope with today's more volatile economic environment. "It makes the treasurer's job challenging, but also more interesting, and gives opportunity to provide added-value to the company," he concludes. "In a period of volatility and economic uncertainty, it is even more important to incorporate a number of nationalities and cultures, while also including a rich mix of different education, experience and seniority levels within our treasury teams." ■

Technology and data

What role can technology play in helping treasurers manage risks effectively in today's environment? Thomas Jerolitsch, Vice President, Enterprise Treasury at FIS, argues that hedging strategies "are first and foremost a data challenge, meaning can I obtain adequate data on which to base my decisions?" In the past, companies may have been able to manage using estimates rather than actual data, but in today's environment Jerolitsch says this is no longer feasible.

"As you look at your future cash flows, you may want to factor in some macroeconomic scenarios," he explains. "What if you're a large industrial company and your top customer reduces their order book? How does that impact your cash flows? And how much of that cash flow should you be hedging?"

Gaining access to the right data is one thing, but Jerolitsch also says companies need to be able to analyse their data effectively in order to make the right decisions about which hedging instruments to use. "From our perspective, there's no way treasuries can get to the right data without having technology to help them mine, prepare and organise the data," he says. "You also need to have the right people and the right capabilities, whether in-house or externally, to make the right decisions based on the data available."

Today, says Jerolitsch, treasuries are looking to make better use of the data within the company's ERP system, as well as other external data that may be relevant to their risk management and hedging strategies. Rather than having access to a 'solution island', he says treasurers are increasingly looking for integrated systems that enable them to capitalise on data within their organisations.

Gaining access to data is the first step. The second step is to interpret the data, which emerging technologies like artificial intelligence (AI) can help with. "If you look at forecasting, AI can help you overlay it with macroeconomic variables," says Jerolitsch. "For example, you might have a projection of US$100m in 2023 – but based on AI you could say there's a possibility this US$100m may only be US$80m next year. So I really see this advanced technology as a way to increase the value organisations can get out of their data."

BUSINESSES BANK ON NEW SOURCES OF FUNDING

Institutional investors have the potential to significantly reduce the global trade finance gap – so why is private credit still a relatively small component of this market?

Earlier this year the International Trade and Forfaiting Association published a whitepaper on making trade an investible asset class, noting that banks alone will be unable to address demand for trade financing. They referenced the need to advance the evolution of trade finance as an asset class for alternative investors such as asset managers, insurance companies, and pension funds.

Christoph Gugelmann, CEO at Tradeteq observes that investors have been interested in accessing this asset class for some time as it regularly pays above the risk commensurate yield level. But distribution from banks' balance sheets has been too costly for what is a low yield as well as low risk asset class. Operational costs are high because of the short instrument tenors and the need for repackaging of portfolio risk and the extensive reporting requirements are further barriers.

"For an investment bank to execute on behalf of a client, the transaction costs would regularly exceed the asset spread of short-term bank exposure," he explains. "This limits access to a small portion of riskier assets."

Credit is the primary risk and there are also risks arising from delays in payment and dilution, although these can be mitigated by access to payment behaviour data.

"Trade finance involves financing literally thousands of invoices and thus requires a robust infrastructure to monitor payment flows and ensure contractual obligations are met and this investment is a barrier to new entrants," says David Newman, CIO Global High-yield and Portfolio Manager of Allianz Global Investors' trade finance strategy. "However, once the infrastructure is set up, trade finance is broadly similar to monitoring a credit portfolio."

Operational complexity can mean anything from know your customer (KYC) challenges to non-standard or bespoke documents for each transaction to the operational burden of purchasing and servicing of granular pools of invoices.

According to George Nijborg, Head of Trade Finance and Insured Debt at Aegon Asset Management, there are two evolving themes within trade finance helping to tackle these operational complexities. "The first of these is reliable technological infrastructure to allow investors to access and manage trade finance portfolios," he says. "The other is standardisation of documentation and reporting to improve and make KYC, credit and legal analysis more efficient."

Attention needs to be paid to precisely explaining the risk and reward structures involved. Understanding the total picture per transaction is crucial in making a proper assessment and opportunities should be filtered in a way that is mindful not only of relative value and risk-adjusted returns, but also of the portfolio construction, capital attraction and operational impact for investors.

That is the view of Suresh Hegde, Head of Structured Private Credit at NN Investment Partners, who notes that money laundering and fraud are idiosyncratic risks in international trade.

"Working with well-respected parties and establishing long-term relationships between buyers and sellers are effective first steps in reducing these risks," he says. "Fund managers also must develop and practice enhanced due diligence processes to control the risk relating to the entities and the transactions that are being financed."

When accessed in a robust and diversified way, Hegde describes trade finance as a powerful diversifier as part of a traditional credit allocation. "It can also provide an effective platform to realise responsible investment objectives and can be a catalyst for sustainable economic growth as it is at the heart of more than half of the UN's sustainable development goals," he says.

As trade finance liabilities self-cancel at maturity, there is no reliance on capital markets for refinancing and this helps generate uncorrelated returns. "However, as trade finance is a credit asset class there will be correlation to short dated credit markets," concludes Newman. ■

Preparing for recession

As the threat of recession becomes increasingly real, what should treasury prioritise?

Ben Walters
Deputy Group Treasurer
Compass Group

Recession is now pretty much a certainty in many economies. In Europe, the cost of living is hitting home, and this winter will be a stark and serious problem for many people. In the UK, inflation is running at close to 10% and GDP is between 1-2% which implies a very real negative growth – even if GDP is growing it is only because prices are going up given demand is weak. We are at a time where there is very low unemployment; it's an awful indictment that we are at almost full employment yet so many people are going to struggle to pay their bills.

It is essential that treasury teams are totally on top of their forecasting and planning process at times of such uncertainty, and when it is difficult to plan what might happen over the next 12-18 months. The forecasting process needs to be regular and monthly, covering a rolling 12-month period so that treasury forecasts 12 months from today, then in a month's time, 12 months from that point. Keep it very concise, focus on getting information in front of management rather than trying to produce a set of accounts. It should be possible to see the forecast on a single sheet of paper, and it also needs to be integrated.

A common failure with forecasting is to only forecast profit and loss, or just forecast cash. Integrated means a forecast of P&L and cash in an integrated fashion. The forecast needs to come off the same base – profit generates cash and the two are linked. There is no need to populate anything like the numbers you'd collect for management accounts.

I would advise against using spreadsheets. Multiple spreadsheets are very time consuming to aggregate up. It's all about getting the figures in front of management as quickly as possible and it could be out of date within a week or two. It is meaningless if it takes too long to put together.

The process will tell you how your cash is looking, your liquidity levels and headroom. It will flag if things are deteriorating and if treasury is getting close to its committed facilities. By integrating the reporting, treasury will also be able to see where the business model might be coming under strain, where sales are suffering most or costs going up sharpest. Treasury will be able to see if there is a need to adjust their business model or if they can ride it out.

If a corner of the business is struggling, it may need more investment or a change to the pricing strategy. For example, we are seeing many retailers begin to discount as demand drops.

Treasury teams should analyse their accounts receivable function, look down their list of customers to see who is at risk of not paying. If forecasts highlight some customers are taking longer to pay, treasury can set account receivables targets and offer discounts to those customers that settle earlier. Getting some cash is better than getting no cash. Insolvency is also an issue for key suppliers, as well as customers.

This type of forecasting doesn't require a tech heavy, AI process. The information comes from the business, it is not about extrapolating numbers from the financial department. It involves talking to sales, account receivables and payroll and finding out what is coming in, and what is going out.

Steve Scott
Head of Asia Pacific
Taulia

While the effects of a challenging global economic environment are being felt differently in Asia compared with western markets, treasurers in Asia will nonetheless need to remain laser-focused on tools that can provide transparency, access to liquidity and real-time forecasting in order to ensure their supply chains are robust enough to ride out economic undulations that seem likely to be felt everywhere this year.

As parts of the world enter recession, the greater concern for Asia remains inflation, which is yet to hit Asia with the same force as the west. Most obviously, western demand is the engine powering many businesses in Asia and as inflation booms, demand in Europe and the US will continue to fall, causing a very real cash flow headache. While demand itself is hard to control, real-time forecasting is one area that treasurers can and should be exerting their efforts. Forecasts will no longer behave in the next six months as they did in the last.

Perhaps less obvious but no less important than customer demand is the rising cost of borrowing in a number of Asian markets. Many businesses in the region with multi-market supply chains deal in various currencies most of which are pegged to the US dollar. As the Federal Reserve Bank continues to fight inflation through interest rate rises, these monetary decisions are reflected in dollar-pegged currencies in Asia. As the cost of borrowed capital and goods increases, understanding your working capital and cash currency

arrangements will be critical to having some level of control of the costs of working capital in the coming months.

Linked to this is access to liquidity. Increased cost of capital often causes delays in supplier payment. Early payment financing is a trend that is likely to increase over the coming years and treasurers should not be without this facility heading into an uncertain economy.

Finally, and perhaps most importantly, is access to supply chain data that provides a picture of the total market. Many of today's economic issues are caused by geopolitical strife, such as war and inflation, that has not been a global trend for decades. In that time, simple linear supply chain arrangements have flourished. That has all changed for the foreseeable future and while the considerations around supply chain arrangements grow more complex, transparent data with as many market touchpoints as possible will be critical to allow agile decision making that may now span many markets and currencies. Supply chains are more like interconnected supply webs, as buyers and suppliers chop and change arrangements as they need. Understanding the fullest picture of this new market dynamic will be the difference between stagnating or shrinking, rather than growing and thriving during market tumult.

Without doubt, Asian businesses are yet to feel the full effects of the global economic upheaval of the past few months. Financial decisions will become increasingly difficult and doors may close on supply corridors at short notice. Asian treasurers must therefore ensure they have the tools in place to control what they can – market data, liquidity facilities and up to date forecasting must be the priority for everyone looking to make this new, uncertain environment work for them.

Yann Umbricht
Partner
PwC

In many ways, you can apply the same principles to sovereign and corporate health. The regions and economies that will be most impacted by recession are those with the weakest balance sheet and a high dependency on consumer spending. Commodity and energy producing countries – like organisations – are also benefitting from high prices. Sovereign and corporate winners and losers will also depend on the political response.

During the pandemic many organisations were strengthening their balance sheet, creating reserves and improving their capital structure; today these recession-proofing strategies are still in place and many organisations have reduced debt and are holding more cash. The organisations most at risk now are those that are highly geared. They may not be able to access the funding they need and with costs increasing and revenue dropping, they could quickly find themselves unable to service debt.

Access to cash is the most important pillar to treasury strategy. Treasury should ensure they can collect cash quickly by accelerating cash collection processes and nurturing a strong cash culture. In a liquidity squeeze, this is critical. The more cash a company can upstream, the better it can service debt and strengthen the balance sheet. Treasury should also be proactive in approving payments, pre-empting any challenges that might arise in releasing payments. The earlier treasury puts the cash mentality into the business, the stronger the balance sheet becomes.

Treasury will also have a close eye on the credit rating. Non-investment grade organisations will find their access to borrow closes before other corporates.

Board risk appetite also becomes critical. Prioritising the balance sheet means less capacity to invest and boards will decide their risk appetite in terms of the capital structure of the company. Organisations prioritising growth and acquisition will stretch their balance sheet. In a recession, it is a bold decision to settle on this kind of capital structure because this is where a company can run into problems. Treasurers with a high profile within the company can address the board; treasury will have access to what is going on in the rest of the business, and the board support to invest in technology and skills through a recession. Modelling and scenario analysis is also essential. Treasury can leverage AI and data to help predict the future although accessing instant information is challenging.

Treasurers are risk professionals. If a business starts to struggle, it is a chance for treasury to bring value to a company. For example, when cash is cheap, treasury's credibility in the market is invisible; no-one sees how valuable they are. But during a crisis when banks introduce more credit and acceptance committees around new funding, those bank relationships come to the fore and are more likely to lead to positive outcomes. Treasurers tend to be more forward-looking compared to other financial professionals. Despite the challenges, a fast-changing world also creates opportunities for strong treasury teams. ■

Next question:

"How can treasury support businesses to navigate the energy crisis?"

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

Interest rates: hikes into next year, then central banks will change course

Europe will likely enter a recession soon, or is already in recession, as a result of deeply negative real wage growth, a fall in confidence levels and a sharp deterioration in the trade balance due to higher bills for energy imports.

Following on from this, it is strange that further ECB rate hikes are being considered. If the European economy enters a recession, inflation will come under downward pressure as demand cools and unemployment will increase. This will curb further increases in wage growth while it will encourage more savings and put extra downward pressure on asset prices. In this case, further rate hikes will only deepen the recession. Of course, this has the advantage that inflation will decline faster, but a very high economic price will have to be paid for this. Certainly with the towering debts in the background.

However, there are more factors involved:

- Various developments suggest that the recession may well be brief and mild. In Europe, for example, fiscal stimulus is being rolled out and interest rates are far lower than inflation, suggesting that monetary policies are still loose. In addition, there is a great deal of pent-up demand as many corona measures have been lifted, and many companies want to cut production abroad due to geopolitical tensions. Furthermore, it looks as though inflation will decline fairly quickly at the end of this year or early next year. First of all, because comparisons will be made with far higher price levels before too long, but also because commodity prices could plummet in a recession.
- Labour markets are tight in many European countries. As a result, there is a risk that unemployment will increase with a lag and that in the meantime additional wage

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increases will be evident, just as inflation starts to decline. In other words, purchasing power will recover quickly in this case, increasing the risk of a wage-price spiral.

In view of the above, it is quite possible that the recession will be too short and too mild to sufficiently reverse the inflationary mindset. Hence, a further deceleration via higher interest rates will likely be desirable, even though the European economy will shortly lapse into a recession of its own accord.

Many uncertain factors

Needless to say, the next question concerns the extent to which interest rates will have to be raised to achieve the desired goal. There are widely differing opinions on this, as the answer depends on all manner of developments that are very volatile:

- Late August, Saudi Arabia announced that it wants to cut oil production as oil prices have come under downward pressure – mainly due to fears of an impending recession. If Riyadh follows through with this, oil prices are unlikely to decline significantly. In this case, inflation will decline less quickly and the recession will deepen.
- Food supplies are highly dependent on the weather and on the amount of Ukrainian food shipments allowed by Russia. Both situations do not look particularly positive.
- How long will pent-up demand persist, considering that many corona measures have been lifted? And, speaking of corona, many medical experts expect a new corona wave by the autumn.
- Wage development is another uncertain factor. The risk of a wage-price spiral exists, but if a recession starts/has already started and the labour market loosens, wage increases may well turn out to be far lower than currently assumed.

Partly due to the aforementioned uncertainties, the Fed and ECB have abandoned forward guidance. Simultaneously, these uncertainties have clouded the outlook for both short-term and long-term interest rates.

The longer-term outlook for interest rates

Nevertheless, we can make a few general remarks about the level of interest rates:

- The pattern expected by the markets is basically very plausible: interest rates will initially be raised further, until the economy weakens to the point where inflation and wage increases come under distinct downward pressure. By then, the monetary reins can gradually be relaxed.
- We fear that the recession will have to be fairly deep and, above all, fairly long to keep a lid on wage growth and inflation. Central banks are unlikely to allow a recession to be deep due to the risk of a credit crisis given the very high debt levels. We therefore believe that they will open the money tap and lower their rates too soon. They prefer higher inflation to the risk of a credit crunch. Hence, inflation is unlikely to be depressed below 2%. It is more likely to keep hovering at 3%-4%, after which it will gradually rise again.
- Interest rates are currently very low compared to nominal economic growth. This is understandable because real growth is very low, if not negative, because of exceedingly high inflation. Combined with the aforementioned positive factors for growth and the preference of central banks to avoid a deep recession, this could mean that the recession could be mild – as mentioned before – and that the labour market will not loosen much. In this case, central banks will have to raise interest rates more than the markets price in in the coming years to prevent a gradual rise in inflation translating into a wage-price spiral.

If we combine these points, we expect the following:

- Over the next two quarters, we expect the Fed and the ECB to continue raising rates at a rapid pace.
- In the ensuing course of next year, we expect central banks to stop hiking rates and possibly cut rates in case the risk of a deep recession and credit crisis becomes too big.
- In the even longer-term, this could lead to far higher interest rates than currently assumed, as by that time, interest rates will likely rise more due to excessively high and rising inflation. ■

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