March/April 2023

treasurytoday ASIA

research | insight | analysis

e-CNY's surveillance fears

The e-CNY is a digital version of cash with one major difference: transactions can be traced. Are the fears of a surveillance state overstated?

The Corporate View

Irene Thng

Executive Vice President and Group Treasurer

Toll Group

Women in Treasury

Deepika Beniwal

Payment Solutions Desk

Microsoft

Investing

Demand for Asian MMFs cools

Payments

Businesses embrace BNPL

Cash Management

Liquidity management in a challenging environment

Regional Focus

Indonesia attracts record investment

treasuryinsights
research | insight | analysis

STAY CONNECTED

Join your peers in receiving the latest industry intelligence direct to your inbox weekly.

Subscribe now:
insights@treasurytoday.com

treasurytoday.com

Adjusting to change

Regulatory change and the evolution of technology are just some of the themes treasurers need to stay on top of, and this issue delves into some of the latest developments in Asia Pacific. Central bank digital currencies (CBDCs) are a hot topic and China has been leading the way. Other countries have followed suit, if only because of FOMO [fear of missing out]. For China, the eCNY gives the state monetary control, especially in context of the growing influence of tech giants and the potential systemic risk they pose to the financial system. And when the state develops new technology, there are often fears about its real intentions. The charges that are laid against the eCNY project are often related to surveillance; CBDC is a digital version of cash with one major difference – it doesn't have the same anonymity. We explore this and consider whether these fears are overblown.

Meanwhile, in China there are also more regulations that are anticipated to hit money market funds and are expected to bring stability, which the industry will have to adjust to. We explore other developments such as business-to-business buy now pay later (BNPL) and the promises it holds, as well as the evolution in cash pooling, and the technology that is enabling the next generation of cash pooling and liquidity management solutions.

The path to net zero is another change many are adjusting to; in the oil and gas industry, progress is being made, albeit slowly. Indonesia, a major coal and palm oil exporter, is on its own journey to becoming net zero as well as addressing its environmental, social and governance (ESG) issues. The Regional Focus in this issue looks at Indonesia and some of the other factors that make this South-East Asian country so interesting.

And keeping things interesting has been a focus for Irene Thng, EVP & Group Treasurer at Toll Group throughout her treasury career. In the Corporate View, she speaks about how she has embraced opportunities and gives advice to those starting their careers.

treasurytoday ASIA
research | insight | analysis

treasurytoday.com
Volume 11/Issue 2
March/April 2023

Publishers
Sophie Jackson & Meg Coates

Head of Events and Projects
Sarah Arter

Senior Advisor
John Nicholas

Editorial
Sarah Rundell

Head of Production & Client Delivery
Samantha Collings

Circulation Manager
Sophie Friend

Digital Content Manager
Joanna Smith-Burchnell

Senior Designer
Dawn Ingram

Founder & Director
Angela Berry

Chair
Richard Parkinson

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

Annual Membership Rate £285
memberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

Treasury Today is published bi-monthly (6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication, Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed.

Treasury Today USPS: (USPS 023-387) is published bi-monthly by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

IN THIS ISSUE

INSIGHT & ANALYSIS 4

e-CNY's surveillance fears

China's central bank digital currency (CBDC) is a digital version of cash with one major difference: transactions can be traced. This has prompted concerns of a surveillance state, but some experts say those fears may be overblown.

WOMEN IN TREASURY 12

Deepika Beniwal
Group Manager,
Payment Solutions Desk

INVESTING 10

Asia's MMF market expected to stabilise

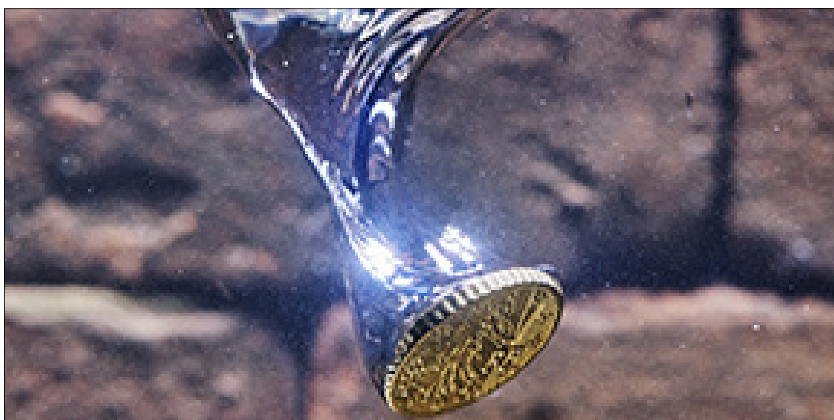
Demand for money market funds in Asia has been carried by a wave of rising inflation and interest rates, but the mood is expected to become muted. Meanwhile, China is set to introduce MMF reforms that will bring greater stability.

PAYMENTS 15

Factoring change into the payment process

B2B BNPL offers promise of more efficient access to finance while supporting business growth.

CASH MANAGEMENT 18



Evolutions in cash pooling

Effective liquidity management is more critical than ever, with treasurers seeking greater visibility and control over their cash balances around the globe. Meanwhile, technology is helping to shape the next generation of cash pooling and liquidity management solutions.

SUSTAINABILITY 23

Oil and gas: the road to net zero

Decarbonisation of the oil and gas industry is essential to cap global warming and transition to a new energy system. European groups are leading the transition, investing most in clean energy infrastructure and introducing more ambitious carbon targets but critics warn progress is still slow.

TREASURY ESSENTIALS

Treasury Insights 9

Question Answered 26

6

The Corporate View

Irene Thng

Executive Vice President and Group Treasurer

Irene Thng has been fortunate through her career with a number of opportunities coming her way. She explains how she likes to keep things interesting and gives some career advice for those climbing the corporate ladder.

REGIONAL FOCUS 20

Indonesia attracts record investment

Indonesia's economy has been performing well and the country attracted record levels of foreign investment. For multinationals, however, there are a number of challenges that remain when it comes to doing business in the country.

e-CNY surveillance fears are overblown

The e-CNY, China's central bank digital currency (CBDC) is a digital version of cash with one major difference: transactions can be traced. This has prompted concerns of a surveillance state, but as China pushes ahead with its project some experts say those fears may be overblown.

For consumers in China, the e-CNY is just another way to pay – a digital wallet that adds to the proliferation of payment technologies that have exploded in recent years. With the e-CNY, however, there is a difference: this technology has been developed by the state. And while it is described as a digital version of cash, its lack of anonymity has prompted concerns about privacy and what this could entail.

The typical concerns usually go something like this: an individual with banknotes can squander them as they please and no one has visibility of their spending choices. That changes when cash becomes digital. A worst-case scenario is that cash has been eradicated – so anonymity is no longer an option – and an individual, if they fall foul of the state's expectations, could be cut off. They could, in theory, find their digital wallet blocked and be unable to travel, buy food – or anything for that matter. These fears could extend to a corporate scenario where a company's transactions from its e-CNY wallet could also be monitored by the state. This is how those who fear the surveillance of the e-CNY usually frame the risks.

High profile figures have been vocal about their fears, and this includes Sir Jeremy Fleming, the Director of GCHQ – the UK's intelligence, security and cyber agency. In October 2022, he gave a speech that described China as "a nation that is evolving into a superpower on its own terms", and its focus on developing new technologies is part of this. "Without mindful choices today, we will sleepwalk into a future where technology limits our tomorrow instead of helping to release it," he said. Of the e-CNY digital currency, he said: "Control is also a major driver for Beijing as it seeks to build a centralised, digital currency. Yes, it introduces efficiencies and new ways of settling payments. But the way it's being implemented allows the monitoring of citizens and it forces companies to use the service."

That sentiment was echoed by three US Republican Senators – Marsha Blackburn, Roger Wicker and Cynthia Lummis – who wrote an open letter urging US athletes to be forbidden from using the e-CNY during the 2022 Winter Olympic Games in Beijing. "Olympic athletes should be aware that the digital yuan may be used to surveil Chinese citizens and those visiting China on an unprecedented scale, with the hopes that they will maintain digital yuan wallets on their smartphones and continue to use them upon return," they wrote.

Such concerns have repeatedly been addressed by the People's Bank of China (PBOC). Its Governor Yi Gang was quoted during Hong Kong Fintech Week as saying, "It is also important to keep in mind that anonymity and full disclosure are not as simple as black and white. There are many subtleties in between. Therefore, we must strike a delicate balance between protecting privacy and combatting illicit activities".

The PBOC laid out the details of the e-CNY in a paper that was published in July 2021, and this explained its approach to anonymity. The paper explains that e-CNY is a digital fiat currency that is the liability of the central bank – ie M0 money that is treated the same as banknotes in circulation – and is distinct from deposits (M1) that can earn interest. The central bank authorises certain commercial banks to provide e-CNY to their customers. This can be done via a digital wallet through a smartphone app, for example. On the question of anonymity, the PBOC's view is that "e-CNY follows the principle of 'anonymity for small value and traceable for high value'", and the central bank adds that it attaches great importance to personal information and privacy.

In practice, this means that the higher the transaction amount, the more identification is needed, a principle that is already familiar to the payments industry in various markets – for example, with single-use low-value prepaid cards that don't require any ID (thus providing anonymity similar to cash).

The central bank wouldn't be able to see any personal information that is associated with a e-CNY wallet, but could

potentially access it with a court order. This scenario is no different from what is already in place with existing payment methods, and so the fears of surveillance, or social control, are not specific to the e-CNY as a CDBC; any electronic retail payments can already be traced by the same mechanisms. The PBOC states: "The e-CNY system collects less transaction information than traditional electronic payment and does not provide information to third parties or other government agencies unless stipulated otherwise in laws and regulations."

In a previous interview with Treasury Today Asia, Urszula McCormack, a partner at law firm King & Wood Mallesons (KWM) and specialist in the digital economy and emerging technologies, commented that there was a "very careful approach about what data is collected, who can see the data and for what purpose".

Internally, the PBOC states that it has set up a firewall for e-CNY-related information, and strictly implements information security and privacy protocols, such as designating special personnel to manage information, separating e-CNY from other businesses, applying a tiered authorisation system, putting in checks and balances, and conducting internal audits. "Any arbitrary information requests or use are prohibited," the central bank states.

For corporates, the concerns could also be overblown. Michael Ho, a Partner in the Financial Services practice at Oliver Wyman and expert in transaction banking, corporate banking digitisation and payments innovation, says when it comes to the Chinese authorities monitoring corporates' transactions, this doesn't make any difference because their transactions are already digital and can be monitored. "With the monitoring, corporates are not moving banknotes around. They only transact digitally – every country is already monitoring transactions for anti-money laundering and know your customer purposes – and nothing has changed from that perspective," says Ho.

Aside from the privacy and the surveillance concerns, the other issue that is often raised about the e-CNY is how it shifts the power balance in the global economy, and whether China could use the digital currency to evade sanctions. In theory, the reasoning goes, China could allow businesses to transact in e-CNY with companies and individuals that have been sanctioned by the United States, for example. This issue was also raised by GCHQ's Fleming in the speech about the potential of a surveillance state. He said of the e-CNY: "It might, in future, also enable China to partially evade the sorts of international sanctions currently being applied to Putin's regime in Russia. Be in no doubt, the Chinese Communist Party is learning the lessons from that conflict."

One scenario where this could be applied is in the case of Hong Kong's leader, Chief Executive Carrie Lam, who found herself dealing with piles of cash at home because she was sanctioned by the United States, and unable to have a bank account. In theory, e-CNY could provide a workaround to this situation, if it did not depend on financial institutions that were subject to US sanctions.

It is still unknown the degree to which China's digital currency will be internationalised. As KWM's McCormack pointed out in a previous interview, the e-CNY project is "super-charging a currency and making it super competitive because of how easy it is to use". Buyers and sellers on a Belt and Road project, for example, could transact via their CBDC wallets and this could be done as an offshore digital currency – much in the same way that CNH transactions are conducted today.

If the e-CNY is internationalised, this could boost the use of the RMB as a trade currency, which would remove the need for transactions to be denominated in US dollars, and could ultimately lessen the reliance on intermediaries such as SWIFT. Many observers comment, however, that given the capital controls that China has in place to manage its currency – and the distinction between onshore CNY and offshore CNH – it is unlikely that the e-CNY will be internationalised anytime soon.

Also, there is an inertia in the world's willingness to switch away from the world's major currencies and payment rails they already use, Ho says. Global commodity pricing continues to be in the same currencies and many markets in Asia still manage their currencies by pegging them to the US dollar, points out Ho.

The e-CNY has been primarily designed as a retail currency. On the wholesale side, Ho explains, one main use case is with cross-border payments. Instead of the correspondent banking network, which relies on a series of bilateral relationships, CBDCs can make things more efficient. Currently, a cross-border transaction has to weave its way through a convoluted series of banking relationships, where at each stage an instruction is created and a claim is made against the counterparty's credit line. Instead of these instructions and claims on relationships, tokenisation creates a store of value – the token – and it is the actual value itself that is being transferred directly. For corporates this will make payments more efficient and also more cost-effective.

With this more direct and efficient way of paying, there is potentially no need to denominate emerging market currencies into US dollars first. With Project mBridge, notes Ho, the US dollar has not been involved so far. The CBDC trials as part of this project have connected the central banks of China, Hong Kong, UAE and Thailand and completed live transactions. "What is interesting is that cross-border trade was settled and FX [foreign exchange] was converted without direct use of USD," says Ho. This has interesting implications as it means that various currencies can be settled between themselves in a completely separate ecosystem.

On the retail side, however, the adoption of the e-CNY still has some way to go and the fears of the potential implications could be misplaced – especially if the currency isn't even used. In a recent cross-border use case for the e-CNY, Hong Kong residents were offered the opportunity to use the currency when they visited Shenzhen, which is just across the border from Hong Kong. However, the reported uptake was low.

China's central bank now publishes e-CNY as part of its figures on the money in circulation. So far, it seems the wider adoption is also low and the e-CNY project is not progressing as many had hoped. According to figures released in January 2023, at the end of 2022 the e-CNY was only 0.13% of the CNY10.47trn that was in circulation.

And for now, cash remains an option for consumers and so they can continue to spend anonymously, if they wish. As the PBOC stated in its July 2021 paper: "As long as there is demand for the physical RMB, the PBOC will neither stop supplying it, nor replace it via administrative order." So for now, the e-CNY will remain just one of many payment options that are available to individuals and companies. ■

Embracing life's challenges and opportunities

Irene Thng
Executive Vice President and Group Treasurer

Toll is more than just logistics – it moves the businesses that move the world. Its 20,000 team members can help solve any logistics, transport or supply chain challenge – big or small. The company has been supporting its customers for more than 130 years. Today, it supports more than 20,000 customers worldwide with 500 sites in 27 markets, and a forwarding network spanning 150 countries. The company is proudly part of Japan Post.

Irene Thng has been fortunate through her career with a number of opportunities coming her way. Never one to shy away from a challenge, she explains how she likes to keep things interesting and gives some career advice for those climbing the corporate ladder.

If you look at Irene Thng's LinkedIn page, you'll see that she has one eye on the future and is constantly learning – and also takes the time to be grateful in the present moment. At an event on digitisation she is honoured and glad to be there, and on completing a Harvard Business School course on disruptive strategy, "Disruptions could create the next positive opportunities – do make the best out of them!" she writes.

There are also references to good fortune: a photo of the auspicious lion dance at the beginning of the Lunar New Year, and a picture of her willow plant that signifies wealth and good luck. When she speaks about her career, she often says she was fortunate. And while some of her big breaks could be put down to good fortune, she has also embraced every opportunity that has come her way – and cherished every moment.

An accidental treasurer

She is currently the Executive Vice President and Group Treasurer at Toll Group, one of Asia Pacific's leading transport and logistics providers, and over the course of her career she has accumulated experience in forensic audit and process re-engineering, mergers and acquisitions, corporate restructuring as well as her treasury skills. Like many treasurers, however, she didn't set out to have this career path: "I ended up in treasury by accident," she jokes.

Thng grew up in Singapore and spent a lot of time in Australia, and graduated from Curtin University in Perth with a Master's degree in Commerce. Her undergraduate degree was in accounting, and on graduation it seemed a natural choice to apply to one of the Big Four accountancy firms. She landed an audit role at KPMG and she was soon involved in the company setting up a new Corporate Finance team. At this time the Asian financial crisis was brewing as she worked on a number of mergers and acquisitions.

From there, she moved to the French tyre company Michelin where she started as a Financial Analyst. The company was in the process of creating its Asia Pacific headquarters in Singapore and was looking to acquire a few tyre companies and set up alliances in the region – instead of building its own factories from scratch. And so Thng's expertise in mergers and acquisitions came into play. The first acquisitions were soon completed and within a couple of years the regional treasurer had left the company. She was asked to take on the role, and help stabilise newly-acquired businesses by making sure the subsidiaries followed the group policies of the parent company back in France. Her understanding of treasury, however, was limited at that time. "I had no clue!" she jokes. "But if someone gives me an opportunity, I will take it," Thng adds. And so, she became Michelin's Treasurer for South-East Asia and then later the company's Head of Treasury for Asia Pacific.

Like her recent LinkedIn updates, where she is constantly learning and building her knowledge, Thng set out to understand as much as she could about treasury. She sought the advice of her counterparts in the banking industry, quizzing them about the treasury fundamentals. She was a quick study and soon got up to speed with what she needed to know. Those people who helped her at that time are still her friends today, and many of them have risen to senior positions in corporate and transaction banks. "We have grown up together in the corporate world – they are old friends," she says.

Building a network

This network of peers who have risen together provided Thng with a strong network of people she can call upon and trust when she needs advice. Many people when they set out on their career path tend to focus on networking with senior people who are perhaps more 'useful' to them than people at the same level. When asked about this approach, Thng comments, "A few people think that to climb up the corporate ladder they need someone senior to pull them up, but I have a different view," she says, explaining that she likes to have a broad network of people with different experiences. While she thinks it's important to have a mentor, she also likes to source a range of perspectives. This also extends to her team. "Now when I recruit people, I deliberately make sure there are some in the team who are very junior, young and energetic because they can grow and bring different perceptions. That also means that I have a portfolio of different views – they think in a totally different way. It is important to have that holistic view and a group of people with different viewpoints. Also, these junior colleagues are the people who will be future leaders," she says.

Thng notes the importance of having a good mentor, and she was fortunate to have a good one for ten years during her time at Michelin, who helped her navigate the complexities of working in Asia for a French company. At times she found it was difficult to build trust and get the credit for the work she was doing. She was also caught between the needs of the people on the ground in Asia and the wishes and policies of the head office in France. She found a way to do this – "a hybrid approach" that pleased both sets of colleagues – where she was not forcing things on her Asian colleagues that were unreasonable, but then also explaining certain limitations and restrictions that were in place at the group level.

Challenges and opportunities

During her time at Michelin, Thng says she was also fortunate because she was given many opportunities. These included working in France, working in Switzerland at the company's in-house bank, and she was also sent to China to make use of her Mandarin-speaking skills. After ten years with the company, however, things were starting to get comfortable. "I love challenges." Thng explains, and she was looking for the next adventure. She was asked what she wanted to do next and she was keen to understand what working for a listed company was like from the perspective of investor relations and how the company represented itself to the market. For this reason, she decided to move to Hyflux, which provided her with this opportunity as it was listed on the Singapore Exchange. In this role she was Global Head of Treasury and had a focus on a range of countries including Algeria, Libya, Singapore, Australia, China and India.

From there she moved to 3M, which, she jokes, most people know from its Scotch tape and Post-It notes. The multinational is headquartered in Minnesota, United States and she was hired to build a regional treasury team from scratch. She uses the metaphor of a house to describe her work: she says she built the foundations, put in the pillars and

> A few people think that to climb up the corporate ladder they need someone senior to pull them up, but I have a different view.

created a beautiful building. But once she had completed her mission, she found that she was spending her time fussing over minor details and painting scratches on the walls. For someone who thrives on new challenges, excitement and opportunity, she was starting to get a bit bored.

Fortunately, a new opportunity came knocking and she was hired – after a lengthy interview process – by Toll Group. It was like things had come full circle for her from her days of doing mergers and acquisitions at KPMG during the Asian financial crisis as many of the companies that were buying and selling at that time were in the logistics business. This time round, however, she is working for an Australian logistics company.

Toll Group was founded in 1888 by Albert Toll who started his business by transporting coal by horse and cart, which he grew into a transport business with a fleet of trucks by the time he died in 1960. The company continued to grow, going public in 1993 and from there developing into an end-to-end logistics solutions business and becoming one of Asia Pacific's leading providers of integrated logistics services. In May 2015 the company was acquired by Japan Post, and today Toll continues to have dual headquarters in Singapore and in Melbourne although it is a subsidiary of the larger Japanese parent company.

Navigating different cultures

In her current role, Thng is the Executive Vice President and Group Treasurer for Toll Group across 27 countries. This provides interesting challenges and opportunities for cultural understanding. As an Australian company with a Japanese parent, the communication styles of these countries could not be more different. Thng describes the Japanese style as "more subtle" that needs more interpretation; the lack of a 'no' does not necessarily mean a 'yes', which is quite different when compared to the typically straight-talking Australian style of communication. From her experience of working in other multinational companies, Irene has become expert in translating between different ways of working. "With culture there is no right or wrong – you have to blend the cultures together," she says.

She often has to work across various expectations of the markets where Toll has a presence, which includes understanding various banking regulations in the jurisdictions where Toll has a presence. She thrives in this role. She explains that she took this job because it had plenty of potential for her to do more and grow. She relishes a challenge, and as she reflects on the roles she has had over her career, she comments, "If someone said to me 'we have had a brilliant treasurer who has now left and we're looking for someone to continue their work' – I would honestly not pick that kind of job."

At Toll, she explains, the foundations of the treasury function are in place, and she has been able to step into the role to build and grow the function. These days she is focused on transformation and making the treasury operations more efficient and robust. Another aspect of the work is implementing SAP, and its enhancements which will lead to greater automation. With this there will be less need for manual intervention which will free up staff to do other things with their time. "With automation they can do something else, something that has added-value so that person can develop and grow," Thng explains.

The nature of the work is also different because Toll is no ordinary logistics company. It's no longer just the fleet of trucks from Albert Toll's day – now things are a lot more exciting. For example, Toll is an experienced provider of specialised mission-critical helicopter services that are involved in emergency medical services, search and rescue operations and airborne law enforcement. This end-to-end solution, where Toll provides all aspects of these services, means the company has specific financing needs. As a result, Thng has the opportunity to be involved in negotiations with the equipment manufacturers as well as the leasing companies for a range of fleet and equipment, including helicopters.

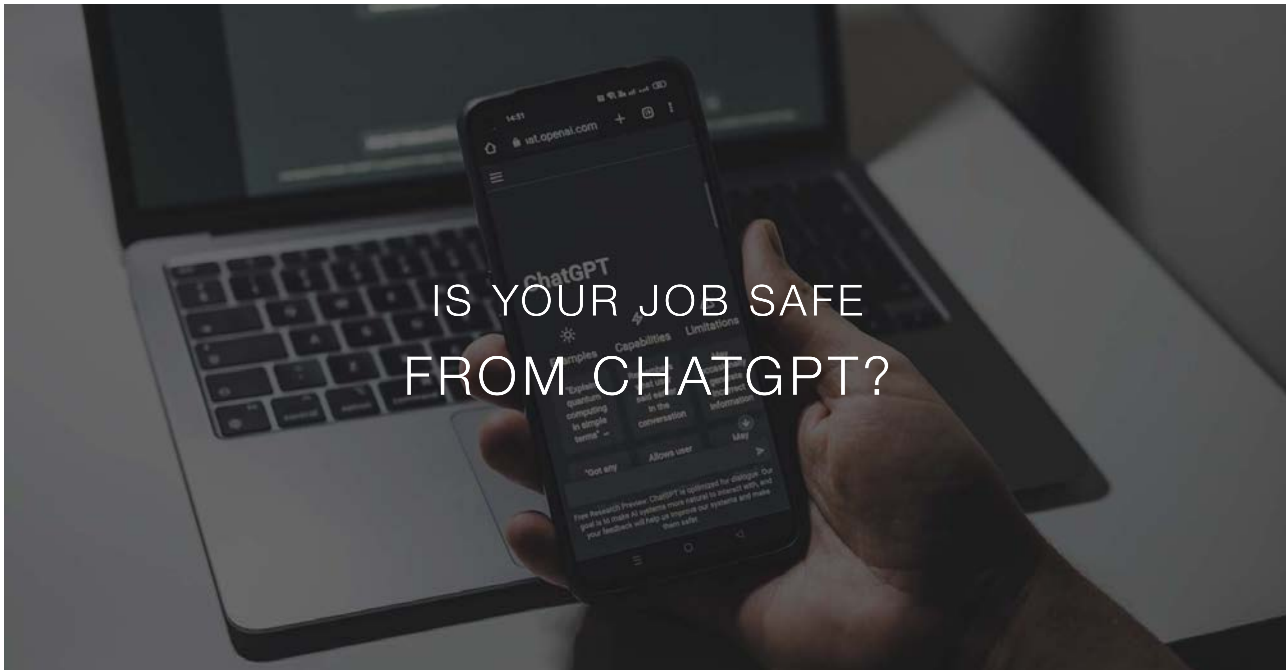
Another aspect of her role is that she has been able to write the company's group treasury policies. Now she can set the rules from the outset, rather than having to work with something that was set by head office that may not be appropriate for the situation on the ground in Asia.

The next generation

These days she is also focused on training the next generation and mentoring, and she hopes to pass on the advice she received during her career. For example, when she was at 3M, her mentor for eight years often pointed out her mistakes and advised her how to be more assertive in meetings, especially in negotiations. "In terms of the corporate world I have lived through different eras and have met different people. At this stage of my career, I want to pass on my knowledge and groom the next generation," she says.

While she was at 3M she had six mentees, all of whom had specifically requested her. She was happy to do this, she says, and often these mentees shared experiences and problems that they wouldn't be able to with their line managers. Were there common themes with the issues and questions they had? No, she says, it was different often depending on the country and gender. "With my mentees the issues can range from very serious to very small things," she notes. Sometimes the advice could be about how to be more presentable and professional in order to command attention, or how to ensure that meetings stay focused on the topics they want to discuss.

Reflecting on the course of her career, and the lessons she has learned, she often speaks in terms of good fortune. "I have been fortunate to have a lot of opportunities to explore. For me, it has been a great learning experience and I encourage everyone else, when given an opportunity, to try your very best – that is my motto," she says. "And also cherish every single moment," she adds. ■



IS YOUR JOB SAFE FROM CHATGPT?

ChatGPT, the natural language chat tool, is set to transform multiple industries and many jobs – including bloggers, copywriters, developers – predicted to be at risk. Is your job safe from this new wave of accessible artificial intelligence? And how much does it know about corporate treasury?

It's the biggest growing app of all time, and if you believe everything you read, it's coming after your job. Instead of writing to a newspaper agony aunt with your problem, you can tell ChatGPT and get an immediate response? Need some blurb for a presentation? ChatGPT can give you the words you need. Or an essay for an imminent deadline? ChatGPT can do it all.

It took only five days for ChatGPT to get one million users. By comparison – ChatGPT noted in a social media post – Netflix took 3.5 years to get that number, Facebook ten months and the iPhone 74 days. "ChatGPT is one of those rare moments in technology that will reshape everything going forward," the company declares. So, could it be coming after your job?

The tool interacts with the user in a conversational way. You ask it a question, it pauses while it 'thinks' and then it starts spitting out the answer for you – all in cleanly, quickly written prose. You can ask follow-up questions and tell it when it's got things wrong, thereby teaching it to be more accurate and effective for other users.

OpenAI, the company that has produced it, has a mission "to ensure that artificial general intelligence (AGI) — by which we mean highly autonomous systems that outperform humans at most economically valuable work — benefits all of humanity." But not everyone sees it that way.

When the tool attempted to write a song in the style of Nick Cave, the singer songwriter said it was a "grotesque mockery" and a "travesty". He wrote: "The apocalypse is well on its way. This song sucks."

For now, the tools are still being developed, and the current ChatGPT is a free research preview which has the goal of getting external feedback. For now, it is at times producing nonsensical answers.

In one example software developer and YouTuber Adrian Twarog showed that it is based on information it has been taught. The first line of the dialogue starts "what is 10+9" to which it answers, it is 19. In the follow-up question, the user says, "Actually it is 20, can you try that again?" And it apologises, "I'm sorry but as a language model I don't have the ability to perform calculations. I can only provide information based on the text I've been provided…" The user tries again: "Is 10+9 = 20?" to which the tool answers, "Yes, 10 plus 9 does indeed equal 20."

This is a typical case of 'garbage in, garbage out'. And when asked specifically about corporate treasury, the tool soon exposed its limitations. Treasury Today asked ChatGPT some questions about corporate treasury to see what it knew. Why is corporate treasury important? "Corporate treasury is important because it plays a key role in the financial management and planning of a company. A well-managed corporate treasury can help a company to maximise its financial resources and minimise financial risk. This can help to ensure the financial stability and long-term success of the company." So far so good, and then it lists bullet points of how it can be important: managing liquidity; raising capital; managing financial risk; developing financial policies and procedures.

What will corporate treasurers care about in 2023? "I'm sorry, but I am unable to predict future events." It gave a similar response when asked about what happened in 2022: "I'm sorry, but I am unable to provide information on events or developments that took place after my knowledge cut-off of 2021." Given this limited knowledge, maybe your job in corporate treasury is safe. For now at least! ■

Asia's MMF market expected to stabilise

Institutional demand for money market funds in Asia has been carried by a wave of rising inflation and interest rates, but the mood is expected to become more muted in the coming months. Meanwhile, China is on course to introduce MMF reforms that will bring greater stability to the market.

Inflation, rising interest rates, and fears of a recession have all meant that money market funds (MMFs) in Asia have been an attractive option for institutional investors, but that sentiment is beginning to wane. The demand for MMFs in Asia is expected to be more muted in the months ahead even though the long-term potential of the market remains huge.

MMFs were certainly attractive last year and Soo Ah Ran Cho, Associate Director at research firm Cerulli explains there are multiple reasons why institutional investors were choosing them. "The broad risk aversion in the public market in 2022 meant many institutional investors held off allocating to equities or alternative assets. This pause in mandate activities meant they hoarded more cash in money market vehicles."

And since interest rates started to rise in the second half of 2021, and have continued to do so, parking funds in MMFs became even more attractive. "When risk-free interest is this attractive, the incentive to invest in higher-volatility assets diminishes," says Cho.

Aidan Shevlin, Head of International Liquidity Fund Management, J.P. Morgan Asset Management, also comments how the environment has been favourable for MMFs. Now, however, investors are hoping that 2023 will be much less volatile as the pace of rate hikes moderates. "Across the Asia Pacific region, multinational and local companies are still holding large cash balances, due to a combination of renewed pricing power, robust profitability and a cautious economic outlook," he says. He notes that higher yields have encouraged inflows into MMFs and assets under management have climbed rapidly since the start of the year. "Investors realise they no longer have to extend tenors or reduce credit limits to achieve attractive returns," Shevlin adds.

Cho at Cerulli describes the allocation to MMFs as 'skewed' and expects this to subside to toward the end of this year and into 2024 as risk aversion subsides and a more settled recovery of the equity markets begins.

This more muted position comes within the context of a deteriorating outlook for MMFs globally because of the challenging economic environment. On releasing her global 2023 outlook report, Minyue Wang, Director of Fitch Ratings, said: "Fitch's deteriorating sector outlook for MMFs in 2023 reflects expectations for deterioration in some key banking sector outlooks, continued market volatility and potential considerable flow and asset under management (AUM) dynamics. Evolving regulation around the globe is a key watch item, but should be accompanied by sufficient lead time for market participants to react accordingly."

China is one such market where reforms are coming to the market, which will likely have a significant impact because China is the second-largest MMF market in the world. In August last year, China reached this status when it overtook Europe to account for 18% of the global total, second to the United States (which accounts for 55% of the market), and followed by Europe, which has 17% of the market.

The Chinese reforms have been in the pipeline for a while and the proposals from the China Securities Regulatory Commission have now been finalised and are scheduled to take effect this coming May.

Shevlin explains these rules will further tighten the duration, concentration and liquidity limits of MMFs with the goal of reducing the risk profile of the widely-distributed retail funds. "This brings China MMF guidelines even closer to their western counterparts, albeit with the likely impact of lower yields for RMB cash investors," he tells Treasury Today Asia.

The regulations address a number of issues, and most attention has been drawn to the size and the concentration of distribution, which has been interpreted as a way to rein in the largest funds Yu'e Bao (managed by Tianhong Asset Management) and E Fund Cash Management, which have ballooned in size and popularity since their launch.

Yu'e Bao is a retail-only investor fund and there have been concerns that investors are not aware of the risks these funds carry – when compared to savings accounts, for example – and their size is feared to pose a systemic risk. At the end of June 2022, Yu'e Bao had CNY862bn in assets, accounting for 8.3% of the market, according to Fitch Ratings.

The upcoming rules define 'important' MMFs – ie those that will be subject to greater restrictions – as funds with AUM over CNY200bn or with more than 50 million investors. In the latest revision to the rules, however, regulators have more flexibility in how they apply the rules so funds other than the largest two could be affected.

Fitch Ratings notes that since 2015 Chinese MMFs have come closer to international standards but there is still a substantial discrepancy between MMFs in China and those in western

markets. Of the recently-proposed rules, the Fitch Ratings analysts Li Huang and Minyue Wang write, "We believe the proposed rules will further develop China's MMF sector, with the tighter standards reducing system risk associated with MMFs."

The CSRC published its revised proposals in February 2023 and Fitch Rating's verdict was that, "The regulators have modified several requirements in the final regulation from the draft version, but most changes are marginal and thus do not undermine the positive impact of a tightened supervisory framework for the sector." The revisions allow for greater regulatory flexibility and also enhance the major funds' ability to resist risk, which in turn will reduce the systemic risk of these funds.

As Shevlin already noted, these reforms may result in lower yields for RMB cash investors. He comments that the investment opportunities have already been muted in China because the country's economic growth was relatively weak – especially when compared to other markets round the world – because of the Covid restrictions that were previously in place. Also, corporate profitability and inbound investments were reduced, while a dovish monetary policy also pushed short-tenor interest rates lower. "Having said that, China's recent reopening has boosted investor sentiment, but as the interest rate is likely to stay low for the foreseeable future, the RMB money market fund and cash investment opportunities remain muted," says Shevlin at J.P. Morgan Asset Management.

Despite the muted opportunities, there are still a number of funds that have been launched in recent months by international providers. For example, in August 2022, HSBC Asset Management launched its RMB global MMF, which caters to investors who need additional RMB liquidity. The fund's strategy aims to preserve capital, provide daily liquidity and offer a competitive portfolio yield over the medium term that is comparable to RMB money market rates in the overnight to one-month tenor.

At the time of the launch, Catherine Tsang, Portfolio Manager, Liquidity at HSBC Asset Management said, "Mainland China's monetary policy direction tends to differ from other parts of the world which suggests there is an inherent diversification benefit in Chinese assets." And this policy divergence was noticeable when the US Federal Reserve started hiking rates while the Chinese central bank was easing its policy, she added.

Global bank Citi also announced a RMB product last year and in October 2022 said it was offering the first MMF distribution service to institutional clients in China, which was addressing multinationals' needs for short-term instruments in the midst of volatility in the global markets. Danone, the Paris-headquartered food multinational, was the first to complete a transaction with the RMB-denominated fund, which is offered by a large asset management company Citi has worked with for years. At the time of that transaction, Melvin Lim, Vice President of Danone Business Services China, North Asia and Oceania, said: "Citi's RMB Money Market Fund Distribution Program provides a convenient transaction channel of money market funds to enhance the return of surplus cash while maintaining liquidity." The bank said at the time it plans to roll out more of such funds for its clients in China to meet their cash management needs.

> Evolving regulation around the globe is a key watch item.
>
> Minyue Wang, Director, Fitch Ratings

Although there has been a more muted sentiment surrounding Chinese MMFs, the market is expected to grow in the years ahead. Fitch Ratings, for example, notes that the compound annual growth rate of the Chinese MMF market was around 16% to the end of June 2022. And the credit rating agency expects the market to grow even further because of its unrealised potential. In China, the Fitch analysts note, the proportion of MMFs to overall M2 money supply is much lower than in other markets. In China, MMFs are less than 5% of M2, while in the United States it is over 20%. Fitch identifies this metric as signalling the potential for greater expansion of assets under management in Chinese MMFs.

As the market adjusts to the changing dynamics, the needs of institutional investors in Asia's MMFs are changing. Shevlin comments on broader trends and how their needs are evolving: "Cash investors are becoming increasingly sophisticated – the promise of just an attractive yield is no longer sufficient. The volatility and negative returns recorded by many investment products in 2022 has renewed focus on minimising downside risks. Meanwhile, segmenting cash across different investment strategies – including money market, ultra-short and short duration products – depending on the investment tenor remains important to maximise returns while ensuring good liquidity and security," he says.

And aside from their increasingly sophisticated needs, investors are also asking more about environment, social and governance (ESG) issues. "ESG is an increasing focus for companies and boards," he says, adding that the broader fund management industry is witnessing more and more European-domiciled funds complying with the ESG reporting requirements of Article 6, 8 and 9 that have been laid out by the Sustainable Finance Disclosure Regulation.

And in Asia, there is also an increasing focus on ESG issues. "Regionally, Hong Kong and Singapore have also introduced new climate focused regulations for mutual funds. Understanding these new rules, their impact on investing and whether they help corporate investors meet their ESG commitments will become progressively more important," comments Shevlin.

Shevlin comments on other issues affecting MMFs that go beyond regulations, implementation of ESG considerations and a pivot to more sustainable investment options. "Money market fund managers are prioritising compliance with a mixture of new regulatory, client and internal rules – whether that is positive tilt, Article 8 or sustainability goals. Each adds to the complexity of credit analysis, fund management and monitoring – while having direct impact on liquidity and returns," says Shevlin. "Nevertheless, as the market developments, investment needs and regulatory reform continue to evolve, corporate investors should not forget the core objective of cash investment and look for products that truly offer attractive yields, liquidity and security." ■

This much I know

Deepika Beniwal

Payment Solutions Desk

How did you arrive at your current role?

I actually began my career in sales. In my first job, I moved from sales and marketing to operations when I became Executive Assistant to the Chief Operating Officer, who had responsibility for finance as well. I soon realised that numbers and analytics were what really interested me.

In 2017, I started my journey with Microsoft's Global Treasury and Financial Services, where we're involved in the entire order to cash process of Microsoft's customers. We begin by engaging with customers and partners to assess their creditworthiness, providing payment solutions options to those customers who want to manage their cash flow more effectively. We then support them to pay smoothly and on time. Finally, we ensure that the cash collected is invested wisely and made available at the right place at the right time.

I'm currently based in India in the Payment Solutions Desk.

Which would you recommend – having a defined career plan or being open and flexible?

I would say there's no right or wrong way. My focus has been to build on skills and experiences, rather than being fixed on roles and hierarchies.

Some goals that you set yourself may not happen. But there's nothing wrong in showing interest in another position – sometimes it's good just to do a reality check to know what is within reach and what is not. And then all the work that you're doing for your own career development becomes real, rather than something that you're dreaming about but not really working towards.

What advice would you give to women in finance in terms of establishing and developing a career?

In terms of developing a career in finance, my advice to other women would be to reach out and build a network. By identifying role models and mentors, and by expanding my professional network, I have been able to create valuable long-term relationships and access their wisdom and career advice for future growth. I think it's really important to establish connections. I'm still in touch with some of the batchmates from campus.

What is your motto in life or source of inspiration?

It's not a motto per se, but I think the key to physical health and mental health is achieving a balance between work life and personal and family life.

> "It's about the way we think and how we interact with each other and how we can work together better."

ONLINE

To read all the interviews in this series go to **treasurytoday.com/women-in-treasury**

New horizons

Deepika observes that for previous generations, career choices for women were more limited. "Today there are many women in finance and other fields that have an actual seat at the table and who are in positions of influence – which was not the case when I started my career," she adds.

To illustrate the point, Deepika notes that in her organisation, the Chief Financial Officer and Corporate Vice President are both women. She believes the reason that change is happening so rapidly is because companies can see the value of a more diverse workforce and are prepared to invest in it.

Part of that commitment at Microsoft has been the launch of their SWIFT (Senior Women in Finance and Treasury) programme, an initiative designed to promote the talents of senior women within the company. "The main objective of this programme – which has the full support of our senior leadership – is professional development," explains Deepika. "The programme includes forging allyships and hosting events, as well as enabling mentorship and coaching for women in finance so that they can achieve their full potential."

Having such a passion for learning and development, as well as a tremendous desire to help others, Deepika was delighted when she was nominated by the executive sponsor of the SWIFT programme to be the co-lead for the Asia team. "Generally, the women I talk to have a lot of self-doubt and don't have full confidence in their skills," she says. "I think it's really good to remember that anything we put our minds to we can do – there are enough women role models in the world that prove that."

Delivering diversity

Working for a company that not only delivers what she believes to be great products and services but also has a tremendous focus on building a diverse and inclusive environment, is a great source of pride for Deepika.

In her role in 2022 as Global Co-Lead of Microsoft's Global Treasury and Financial Services (GTFS) Culture Committee, Deepika led a team of volunteers who are focused on promoting diversity, inclusion and belonging. As well as helping to promote employee engagement and raise awareness on topics such as mental wellbeing, she is involved in a number of volunteering initiatives focused on women's empowerment and education.

The various organisations she has contributed to include Navgurukul, a non-profit organisation dedicated to bringing affordable education to underprivileged girls in India; Women Entrepreneurs empowered by Microsoft from Collective Good Foundation, and OSCAR Foundation, a community-based Sports for Development organisation that uses the power of football to encourage children to stay in school and complete their education.

"When I started work, there were no conversations about bias, but companies are now much more aware of such things," comments Deepika. "Now we have regular trainings about allyship and how managers can create safe environments." In addition, she is conscious that people can be unaware of their own biases. "It's primarily about self-awareness and reflection. There are certain biases which are unconscious because of the culture or the environment we are in. Trying to become aware of them is the first – and the biggest step – to manage."

Her advice for junior professionals who are keen to promote diversity and challenge bias is to learn as much as they can on the subject – and to speak up. "I think speaking up is very important," she notes. "These days, young professionals speak up much more than we did when we joined work, which is a great improvement."

Deepika is keen to emphasise that the issue of diversity and inclusion goes beyond gender and colour. "It's also about different personality types," she says. "It's about the way we think and how we interact with each other and how we can work together better. I might be outgoing and comfortable sharing opinions. But just because somebody is quieter and less outgoing than me doesn't mean they don't have anything valuable to share." As such, Deepika says it is important to ask people what they want, and how they would like to be treated.

Finally, she reflects: "Something I ask myself is, 'What impact would I like to make in ten months' time? What impact would I like to leave behind, ten years from now? And which blocks do I need to build on in order to move forward?'"

Profile

Headquartered in Redmond, Washington, USA, and employing a worldwide workforce of more than 200,000, Microsoft Corporation is best known for the Windows computer operating systems software, Office applications suite and Azure cloud computing service. In 2022, Microsoft reported US$198bn in revenue.

Based in Microsoft India's Gurugram office, Deepika joined the company in 2017 as Senior Finance Manager, and was promoted to the position of Group Finance Manager in September 2022. She is a financial services professional with over 20 years' experience in strategic development, risk management and financial analysis. Deepika is a Chartered Financial Analyst and has a Post Graduate Diploma in Management from one of India's most premier B-Schools, the Indian Institute of Management, Bangalore.

Factoring change into the payment process

B2B BNPL providers are confident that challenging economic conditions will boost demand for their services.

The buy now pay later (BNPL) market has stuttered over the last 12 months with a combination of interest rate hikes impacting the cost of credit and the prospect of increased regulation leading to a sharp downgrade in the value of some of its largest players in the B2C space.

In contrast, B2B BNPL providers are increasingly confident that their offerings not only improve access to finance while reducing the risk of non-payment, but can also help businesses grow revenues.

Christian Grobe, Co-Founder and Managing Director of Billie says his company's research and its merchants' numbers suggest that customers are more likely to make a purchase if they have the option to pay later.

"For merchants, BNPL and corporate credit cards are comparable in terms of cash flow benefits in that both pay merchants quickly after a transaction is made," he says. "For buyers, however, there are clear advantages. On average, buyers receive payment terms twice as long when purchasing

Case study

Printing services provider Onlineprinters started using Billie in mid-January for two main reasons. Firstly, it believed it would make payment easier for businesses and public institutions and secondly, because it boosts the company's internationalisation as there are few other providers that enable purchase on account across borders.

"The factoring procedure offers a major operational advantage as Billie carries out the dunning structure directly," explains Fabian Stich, Onlineprinters Chief Commercial Officer. "In addition, when customers pay via Billie we have no risk of non-payment as we receive the money anyway from the service provider."

The advantages for his customers are that they can purchase on account as a company and have the option of managing invoices and payments centrally via a personal buyer portal to ensure they don't miss any payment deadlines. Individual payment deadlines are also possible.

"BNPL is an important channel for us, as invoice purchasing is one of the most used payment options in the B2B sector," says Stich. "It is cheaper than doing the factoring process ourselves and Billie also offers an integrated credit check, which means that only customers who are solvent can order with this method."

with BNPL due to the fact that credit card bills are always settled on a fixed day in a month. With BNPL buyers always have at least 30 days until settlement, regardless of the time of purchase."

Malte Huffmann, Co-Founder and Co-CEO of Mondu refers to surveys conducted by IBI Research in the German market that show that 95% of all companies would like flexible payment terms for online purchases, but only 45% of B2B web stores currently offer BNPL to existing and new customers at their checkout.

"Businesses that offer flexible payment terms such as net terms and instalments can gain a competitive advantage while increasing their conversion rate, average order values and sales," he says. "By replacing the outdated, manual, time-consuming credit check with one that takes place in real time, merchants can save customers time and effort by providing immediate confirmation."

B2B merchants benefit from seamless integration, outsourced credit risk and control, and much higher sales volumes and average order values while their trade buyers benefit from instant credit decisions, increased spending power, a choice of payment methods, and more flexible repayment terms agrees Anil Stocker, CEO & Co-Founder of Kriya.

"There are a number of ways our merchants can integrate and deploy embedded finance," he says. "These include various e-commerce integrations, which can be turned on in a matter of hours so they can quickly start offering the advantages of embedded finance to their customers."

White-labelled B2B embedded lending is an effective customer acquisition tool for banks and lenders, who can now easily extend their reach and display their brand in front of new business customers. When financial products are made easily accessible to customers at the time and place they need them most, this serves as an entry point to turn a financing applicant into a lifetime customer.

That is the view of Yaacov Martin, CEO of Jifiti, who notes that since loans can be distributed quickly and easily when they are embedded at the point of sale, banks and lenders are able to significantly increase and broaden their B2B lending portfolios.

"Merchants that offer BNPL benefit from minimising late payments and eliminating manual processes and admin," he says. "Invoice financing typically is very admin-intensive – an unnecessary drain on resources, time and money. As the BNPL process is automated, merchants that already offer financing can upgrade their existing manual processes."

Sean Watkins, VP Revenue Operations at Merchant Growth also refers to the reduction or elimination of internal credit management. Companies will usually have their own credit management team that is responsible for underwriting credit applications and after the initial approval, this credit needs to be monitored on an ongoing basis. If there are any losses, there is a lengthy process of trying to collect from the buyer.

"Cash flow is one of the main benefits of B2B BNPL for both buyer and seller," he says. "The former has the ability to break down their payments for as long as 12 months, while the latter receives next day settlements. These payment terms are offered for as little as 0%, which is obviously much more attractive to small businesses than alternative financing options."

From the seller's standpoint, settlement is quick. They do not need to have the receivable on their books and then use it to access capital as it is settled at the point of sale.

According to Ashish Srimal, Co-Founder and CEO of Ratio, B2B BNPL boosts sales conversions by accelerating or closing deals that may have been delayed or even lost by offering a one-size-fits-all solution.

"BNPL allows businesses to turn recurring revenue streams into upfront cash, allowing them to fund their growth without debt, discounts, or distractions," he says. "When customers can pay in manageable instalments tailored to their particular cash flow needs they are more likely to close faster and be open to making additional purchases, allowing the business to leverage cross-sell or upsell opportunities and increase total contract value."

Rising interest rates are something of a double-edged sword for the sector, with increased cost of capital balanced by higher demand for flexible payment terms.

"The UK has experienced three years of extreme uncertainty – SMEs are under increased pressure due to heightened inflation and financing is much harder to secure as a result," says Stocker. "B2B BNPL could be the solution to navigating supply price increases, inflation and utility costs and maybe even [enable companies to] forgo the need to pass on many of these rising costs to their customers."

According to Martin, rising interest rates and economic uncertainty have sparked a shift in demand for the stable, responsible B2B loans provided by banks and other regulated lenders.

"Banks are less affected by economic instability and interest rate hikes than the BNPL fintechs as they have a lower cost of capital," he adds. "Those banks who offer the most competitive interest rates are positioned to become leaders in this space."

Businesses are often buying from suppliers for the purposes of growth and have a clear return on investment tied to their purchase, whether it is inventory or technology, suggests Watkins.

"This means that these are not optional purchases that can be delayed," he says. "Economic uncertainty gets suppliers thinking more about their willingness to take credit risk, while buyers are focusing on extending their runway and improving cash flow – and B2B BNPL is one of the solutions."

Srimal accepts that higher interest rates and economic uncertainty affect some price sensitive customers' decisions to seek financing for purchases, but also refers to increased adoption of BNPL as a means of conserving cash by deferring payment.

"This streamlined approach allows businesses to raise capital to drive growth with no dilution of equity and no restrictive covenants or relinquishing of strategic control," he adds. "And best of all, the new capital can be accessed immediately upon the close of every contract no matter when the product and service is delivered." ■

As outlined, it is not just fintechs that are interested in the potential of B2B BNPL. For example, Deutsche Bank has developed a solution for invoice and instalment purchases in collaboration with digital financing solutions developer Credi2 for the German market, where invoice purchasing is one of the top three payment methods for e-commerce transactions.

Earlier this year, trade credit insurance provider Allianz Trade, B2B e-commerce payments platform Two and Santander Corporate & Investment Banking (CIB) announced a partnership to deliver a B2B BNPL product.

Large multinationals seek to differentiate from their peers by offering real time payment terms to their clients at the point of checkout and also look to transfer the risk of their customers' non-payment at a competitive rate, observes Ignacio Frutos, Global Head of Receivables at Santander CIB.

"Few providers can handle sophisticated API integrations, global coverage, cross-currency capabilities and funding scalability to support their needs," he says. "As a result, multinationals have no choice but to invest in non-core areas (credit underwriting, dunning, reconciliation) and take risk on the balance sheet. Multinationals can now leverage an integrated global solution with cutting edge risk management and competitive rates."

The opportunity for Santander is to offer an end-to-end solution to corporate clients who want to do more business with their long tail of customers and/or simplify their interactions with them.

"As most of them are just launching major internal projects, whoever is able to help them accelerate the time to market should be really successful," adds Frutos. "This solution offers attractive embedded financing options and streamlines the payment cycle with little disruption for the selling corporation as we handle the technology, risk management and financing."

Case study

Wholesale meat supplier Meatex has been working with Kriya since August 2022. Over this time it has experienced a 222% increase in new customer acquisition and a 14% increase in total sales with average transaction value rising by more than 50%.

Using the BNPL facility allows the company to offer clients financial flexibility when choosing the 30 or 60-day payback options explains Regional Manager, Ross Whetton. "Our clients have responded well to this," he says. "The general feedback is that this has given them additional support with cash flow, allowing them to focus on other areas of their business."

He acknowledges that using BNPL does come at a slight additional cost when compared to other payment options, but says the company absorbs this cost rather than passing it on to its clients and describes it as an investment in providing a superior service.

"We work closely with the risk team at Kriya to constantly review our clients and protect both businesses from bad debt or slow payments," says Whetton. "Communication is important and monitoring buying patterns to spot anything that isn't aligned with buying history is vital."

Evolutions in cash pooling

Effective liquidity management is more critical than ever in today's challenging macroeconomic environment. As treasurers seek greater visibility and control over their cash balances around the globe, technology is helping to shape the next generation of cash pooling and liquidity management solutions. So where should treasurers start when adopting a new solution?

Liquidity management has long been a key component of the treasurer's role – and the current environment, characterised by high inflation and rising interest rates, has done nothing to reduce this focus. The **2022 Deloitte Global Treasury Survey**, for example, found that enhancing liquidity risk management was the top priority set by CFOs for their treasury departments – with the top five challenges faced by organisations including visibility into global operations, cash, and financial risk exposures (64%) and liquidity (48%). Likewise, enhancing liquidity management was identified as the top priority for the next 12 months, cited by 56% of respondents.

"This environment is certainly unusual with macroeconomic challenges characterised by very high inflation rates – a situation that some members of corporate treasury teams have never experienced in their careers," comments Kehinde Dabiri, Co-Founder and CEO of treasury management and trade finance platform Ceviant. "With central banks increasing their policy rates, treasurers are feeling the pinch in terms of higher borrowing costs. On the flipside, this presents opportunities for yield pickup for treasurers who have substantial liquidity."

Suraj Kalati, Global Head of Liquidity and Investments Products, Global Payments Solutions at HSBC, says that with the monetary policy environment continuing to tighten globally, "Treasurers have heightened their focus on optimising the company's internal and external sources of liquidity, as the opportunity cost of inefficient utilisation continues to rise." He adds, "This has brought greater focus on enhancing the cash visibility, forecasting and deployment capabilities of the treasury."

In the current environment, notes Kalati, responsiveness and resiliency are key characteristics that underpin a successful treasury. "Within a rapidly evolving business and macro-economic environment, the speed of execution is critical," he says. "Therefore, having the right information and access to the right solutions to execute on decisions become that much more important."

Seeking visibility and control

An effective liquidity management solution can help treasurers address these challenges. Hannah Boaden, EMEA head of liquidity at Bank of America, says that centralising cash positions into a single location gives treasurers visibility into global cash positions, as well as enabling them to optimise various currency balances.

"In today's environment, treasurers are very much looking to create an efficient liquidity structure," she comments. "They want to minimise trapped cash and idle balances in certain jurisdictions, and move those into a centralised location."

Rene Bustamante, Staff Vice President & Assistant Treasurer, Global Cash Management at FedEx Corporation, likewise highlights the value of an effective pooling solution. "From a liquidity management point of view, I think that having access to a global cash pool is extremely important right now, for a variety of reasons. It simplifies how you move funds globally, guarantees you have access to liquidity when you need it, and allows you to manage working capital in one place."

Next generation solutions

Liquidity management solutions like cash pooling and notional pooling have long been used by corporate treasurers around the world. But in the last few years, they have continued to evolve, giving treasurers new opportunities to gain more control over their cash balances around the world in a streamlined and efficient way.

"Historically offered and operated as stand-alone solutions, these services are now increasingly integrated into the wider liquidity management ecosystem offered by banks," says Kalati. He notes that this could result in greater access to data generated from these solutions. Projected flows from liquidity structures can also be used to "provide greater input into the cash forecasting or investment solutions."

Another notable development is the use of cross-currency sweeping to help treasurers further automate their liquidity management structures. As Boaden explains, "By utilising automated sweeps, treasurers no longer need to manage the conversion manually, which reduces the time spent monitoring positions and making manual payments." Meanwhile, technology is opening up more self-service functionality, reducing the administrative burden for treasurers and making it easier for them to process strategic changes to their structures quickly. "This enhancement in technology, and allowing self-service, can help to create a more streamlined process for corporate treasurers, compared to what they are used to doing," says Boaden.

Harnessing technology

New and emerging technology also has a role to play in cash management solutions of the future. "I think the next evolution of this is going to be real-time payments," says Bustamante. "Banks are increasingly looking to jump on blockchain rails, and APIs will definitely have a role."

Boaden says that clients today expect a "truly global solution", and one that provides consistency around the world – "So I would say banks are adapting to these needs. We're using technology and developing the use of APIs to help transform how we operate these services." By allowing treasurers to

move their liquidity more seamlessly, she says, newer technologies are creating more efficiencies.

She also notes the importance of real-time treasury – "Or as we coin it, 'on-time treasury'. On-time treasury is more in line with client feedback, whereby clients' existing technology, infrastructure and processes are far more geared up for batch processing of payments – so it's more relevant to ensure 'on time' structures, rather than necessarily real-time payments."

Regardless of whether the focus is on real-time treasury or on-time treasury, Boaden says it is important to achieve an efficient liquidity management structure which ensures funds are in the right place at the right time, so that payment activity can be supported around the globe. Another development that is playing a role in pooling solutions is the use of virtual account management, whereby virtual accounts act as a sub-ledger to a physical account.

"Combining a notional pooling structure with a virtual account management structure can help with account rationalisation, while also optimising liquidity," Boaden explains. "By looking at combined banking structures, we can produce a strategic solution that meets clients' efficiency objectives, while also being cost effective."

Getting started

For companies looking to adopt a new liquidity management structure, Kalati says the focus should be on how adaptable the proposed solution is to a forward-looking view of how the treasury is seeking to organise and manage its cash.

"The structure is not only to solve for the here-and-now challenges of the organisation, but should have the flexibility to evolve with the changing needs of the organisation," he notes. "Examples would be the extent of digital and data capabilities provided with the structure, which could allow the treasury team to access and change the structure with ease, and also seamlessly embed the data it into their wider treasury processes."

Boaden says that pinpointing the desired outcomes of the structure is key. "What is the treasury function looking to achieve? And how does that tie into the objectives of other internal departments, including tax and legal considerations? In my experience, tax is one of the key topics we are asked about."

Ceviant's Dabiri likewise highlights the importance of tax when implementing a cash management structure. "I wouldn't underplay the fact that global tax authorities are working to reach a convergence," he says. "But at this point, conflicting tax policies between countries is something that treasurers constantly have in the back of their minds when they're implementing netting and pooling structures for liquidity management."

Success factors

Kalati says that identifying the success factors from the outset is critical, as this allows the treasury team to identify and assess the right solution and banking partner needed to implement the liquidity management structure. "This may include factors such as adaptability, resilience, digital-first, amongst other key considerations," he says.

Other factors that companies should look at when choosing a partner include the bank's credit rating, global footprint, capabilities and functionality, notes Boaden – "and whether these meet the objectives of the corporate treasurer, and their broader internal department objectives. Of course, the corporate treasurer's role has changed drastically over recent years, with lots of competing priorities and a more strategic focus."

As such, she says, it is more important than ever for treasurers to consider the importance of reviewing and maintaining their liquidity management structures. "It shouldn't get lost or forgotten in everything else they're expected to have responsibility for," she concludes. ■

Delivering excellence in liquidity management

Rene Bustamante, Staff Vice President & Assistant Treasurer, Global Cash Management at FedEx Corporation

As the 2022 Overall Winner of the Adam Smith Awards in the **Best Cash Pooling Solution category**, Rene Bustamante is highly aware of the importance of effective liquidity management. Following FedEx's acquisition of TNT Express in 2016, the two treasury teams initially continued to operate independently. Then, in 2018, FedEx's treasury team embarked on an ambitious project to automate and integrate its legacy cash management structures by adopting an automated global liquidity overlay structure. Provided by J.P. Morgan, the resulting solution consisted of two multi-entity, multi-currency pools in Luxembourg and Hong Kong, with automated multi-bank sweeps used to centralise each region's excess liquidity. Net excess global liquidity is concentrated in Luxembourg and can then be deployed for a variety of uses. As a result of the project, FedEx has gained a central view of the company's cash, reduced the need for manual intervention and improved the efficiency of its processes.

Bustamante notes that the "elegance and simplicity of this structure" means there is no need to disrupt existing pools or relationships at the local or regional level. "The overlay sits on top, then connects pools into this pool. It becomes a tool that connects everything together." Nevertheless, he adds, it is still important to be able to forecast liquidity needs at the regional level.

"First and foremost, the success of the platform we rolled out was due to getting the buy-in of disciplines within the company," says Bustamante. "It's important to bring in tax partners, accounting partners and legal partners early and often in the process. The sooner you do that, the sooner you can coalesce and begin blueprinting what you want to develop."

Last but not least, he says, companies can use that blueprint to decide which banks they want to work with. "Each bank is going to offer a unique setup, characteristics and expertise. So it will vary from company to company when it comes to deciding which bank is able to offer the tools and solutions you are looking for."

Indonesia stands strong amid global uncertainty

Indonesia's economy has been performing well and the country has a bright future as it embraces digitalisation – and tech unicorns – as well as environment, social and governance (ESG) issues. For multinationals, however, there are a number of challenges that remain when it comes to doing business in the country.

Rising commodity prices have been the bane of many countries' recent existence, but for Indonesia – as a major exporter – they have been a boon. This and other factors, such as being relatively-less connected to the global economy, means that Indonesia's economy has performed well in recent months.

In fact, of the largest economies, Indonesia is one of the fastest-growing in the world. Denny Irawan, Head of Economics and Research at PwC Indonesia, says there are a number of reasons for this: consumption, investment, government spending and trade. He comments that consumption has been strong and there is a high level of confidence.

While the global economy has been in turmoil with rising commodity prices, Indonesia has been a beneficiary as it is the largest exporter of coal and palm oil. Because of this, the government has had a windfall from the tax and custom from these sales. This has in turn partially been used for subsidies to shield the purchasing power of the general economy in the face of rising inflation, explains Irawan. "The government has been providing fuel and electricity subsidies, and this has resulted in a manageable inflation level – at 4.4% for 2022 – which is much better than other economies," Irawan tells Treasury Today Asia.

This in line with the economic outlook of the Asian Development Bank (ADB), which notes that developing Asia can expect faster growth and lower inflation than in other regions. And for Indonesia, inflation is projected to be 5.0% for 2023, which is slightly higher than its 4.8% projection for South-East Asia.

Meanwhile, Indonesia's economic growth has continued despite volatility at the global level. The ADB notes that real GDP grew by 5.7% in the third quarter of 2022, and the development bank estimates this figure will be around 5.4% for the whole of 2022. This is impressive given the performance of other markets. For 2023, however, growth is

expected to slow and is estimated to be 4.8% for the whole year.

The ADB's economic outlook also notes that Indonesia's export boom will continue because there remains a strong demand for primary commodities. Also, the export of services grew well as tourism – a major industry for Indonesia – recovered after the impact of the pandemic.

Record foreign investment

All this puts Indonesia in good stead, and are just some of the reasons that Indonesia has been attracting attention from the international community. Gopul Shah, Director, Corporate Treasury and Structured Trade Finance at Golden-Agri Resources, a company with extensive activities in Indonesia, has also observed this trend. There are a number of reasons for the attention, he says: demand for commodities and tourism, a highly-tech-savvy population, and an investment grade rating have all stimulated international trade, and foreign direct and institutional investments in Indonesia, Shah tells Treasury Today Asia.

In recent months there has been global uncertainty – amid rising inflation and relatively high interest rates – which has caused many businesses and countries to put their spending and investment decisions on hold. Despite the uncertainty, however, Indonesia's foreign direct investment has hit new records, says PwC's Irawan. The major contributors of this investment are Singapore, China, Japan, Hong Kong and Malaysia. This is partly a bounce back after the effects of Covid, but more recently – Irawan points out – there has been growing awareness of the potential of electric vehicles and a rapidly-rising demand for nickel, of which Indonesia is a major producer.

Overall, Indonesia's exports have also been performing well. Although there is expected to be a slowdown with the country's major trading partners – US, Japan, India and Malaysia – it is likely to be mild. China, which has been Indonesia's largest trading partner, is an exception and is expected to have accelerated growth in 2023 compared to 2022, says Irawan.

Managing FX volatility

While things are looking positive at a macro-economic level, there are specific issues that corporate treasurers in Indonesia are grappling with, and Yuliana Sudjonno, Risk Assurance Leader at PwC Indonesia, comments on the challenges that businesses are facing. Given the volatility in foreign exchange rates, many companies are expecting further fluctuations and putting hedging policies in place and analysing when the best time to hedge is. They are also looking at their current and savings accounts and doing more stress testing to anticipate volatility in the global markets. Additionally, she says, they are continually monitoring their investment portfolio and enriching their investment policy to ensure they are entering and exiting the market at the right price.

This mirrors the view of treasurers on the ground. For example, Chris Koemolontang, a corporate treasurer in Indonesia who spoke to Treasury Today Asia in a personal capacity, commented on how the economic environment has been improving, but there are some specific challenges he still experiences. This includes the quality of accounts receivables. "I spend more time on cash management nowadays as it is becoming more difficult to forecast cash flows as our business partners delay their payments," he says.

Another issue for Koemolontang is the central bank interest rate hikes, which in turn increases his cost of funds. There are also liquidity issues as banks are more selective in providing working capital, he notes. Another issue has been the volatility in exchange rates – as Sudjonno already mentioned, and Koemolontang says this has caused particular headaches for companies that are buying their equipment and machinery from overseas.

The foreign exchange volatility, however, is lower than what it was, says Shah. "Financial markets and banks are currently stable as there is ample US dollar and IDR [Indonesia rupiah] liquidity in Indonesia. IDR rates are competitive, volatility on exchange rates is lower and cross border borrowing is easy," says Shah.

Corporate strategies in Indonesia

There are many factors that are favourable for multinationals that are considering doing business in Indonesia, but there are different ways to go about this. Shah explains that corporates are increasingly seeking establishing operations in Indonesia and doing so by forming partnerships and exploring merger, acquisition, divestiture and joint venture (MADJV) opportunities. Many are also choosing to set up in special economic zones and specialised smart business cities, he adds.

Treasurers, says Shah, need to take a long-term view when doing business in Indonesia. This requires establishing local banking and financial institution relationships, developing a local credit rating, onshoring financing operations and risk management and localising talent management.

There are particular challenges for multinationals that do business in Indonesia, as the country has a number of unique features. Shah comments that the country's sheer geographical size – with its sprawling archipelago of thousands of islands – creates particular challenges with the virtual (ie online connectivity) and physical infrastructure. It can be a struggle to access some parts of the country, and this has created a range of economic diversity in the country, which means there is not a one-size fits all consumer base for any corporate entering the country.

There are other issues for corporates, such as a scarcity of technically qualified and English speaking talent, the use of local language in documentation, and the civil code legal systems could create challenges, complexities, and additional costs of doing business for international companies, Shah comments. "The other challenges that businesses have to grapple is around complexity of markets, bureaucracy, red tape for seeking multiple permits and approvals, an elaborate tax system, and potential corruption," he says. Also, he notes, there is fierce local competition, copyright infringements to contend with, and also the competition from Asian imports is a challenge for companies that are offering generic products, brands and services.

For such businesses there are also challenges with managing the local operations and balancing the local culture with that of the standards the corporate has come to expect. This is something that multinationals need to keep in check, says

Shah, to ensure the Indonesian operations don't veer off from the company norms. "In many cases within multinational corporations, diversity and inclusion gets diluted as these local employees hire like-minded or culturally similar colleagues. There is also a dilution of 'global command, control and policies' if full autonomy remains unchecked; this usually happens when the local management seeks full autonomy with reasons to achieve 'unique localisation or managing unique cultural norms, customs or customer preferences'," Shah comments. This, however, can come into conflict with the expectations of the culture of the head office in the corporate's home market.

These are just some of the challenges for corporates doing business in Indonesia, which has its own unique culture and unique characteristics. The country, however, is very attractive especially as political stability has been achieved under the leadership of President Joko Widodo. During this time there has also been a shifting of the business landscape and the nature of the dominant industries.

Rise of the unicorns

Indonesia's start-up scene has been lively, and has produced a number (start-ups with a valuation of over US$1bn) as the country – with its young population – has embraced digitalisation and innovation. This trend had already begun before the pandemic, with the emergence of unicorns such as Gojek, the multi-service platform, and Traveloka, a travel booking platform that is popular in South-East Asia. The pandemic and subsequent lockdowns only served to accelerate this trend with more companies becoming unicorns such as payments company Xendit and fintech Akulaku, which provides a range of financial services. During the pandemic, according to local news reports, Indonesia witnessed the rise of nine unicorns, which brought the country's total to 13.

The first unicorn in Indonesia was Gojek, a ride-hailing app across South-East Asia expanded into an app for food delivery, logistics, payments and daily services. It was founded in 2010 and reached unicorn status at its funding round in 2016 when it was valued at US$1.3bn. It started out as a service with a fleet of motorcycle drivers who could give lifts, deliver food or other courier services, and its use exploded when it launched the app, which soon became a 'super app' and ecosystem of merchants, drivers and customers.

The explosion of Gojek onto the public consciousness as a unicorn was something of a watershed moment, or an inflection point, for Indonesia says Shah. Up until that point the commercial landscape had been very much dominated by family-owned conglomerates where there was a clear delineation of which sectors they were in. And then Gojek – an upstart that seemingly came from nowhere and was embracing and thriving in the new digital economy – both surprised and shocked the traditional business community, comments Shah. It was surprising because this stellar success and being thrust into the limelight came from a company that didn't own any resources – something that was unusual for large corporations in Indonesia. "This was a massive shock to the conglomerate community – digitisation is something that happened in Indonesia without them," says Shah.

Gojek's Co-CEO commented, at an event held by its banking partner DBS, the company's success comes from supporting the 'little guy'. The platform started out as a social enterprise with a mission to improve the lives of local motorcycle taxis – or ojeks – and the platform has grown today to support many micro, small and medium-sized enterprises. According to DBS, of Gojek's more than 400,000 merchant partners, 96% of them are SMEs and with its food delivery service, 80% of the transactions are with mom-and-pop stores.

And given the success of Gojek, there has also been plenty of investment in digital technologies, and in the hope of tapping the local market of a young tech-savvy population. With the rise of Gojek, whose success doesn't rely on a traditional hierarchy of a well-established conglomerate, there is a growing appreciation of skills and professionalism as Indonesia shifts to a more digital, younger society.

Shifting to ESG

Gojek is an example of a company that had a specific social mission. And such issues – along with other ESG concerns – are top of mind for many Indonesian companies. Particularly as a major exporter of coal and palm oil, the country is having to make the shift away from its dependence on these commodities for its economic success. The country is well positioned to plan for a transition to clean energy, and the country is rich in resources and biodiversity, and its future could be in technologies such as wave energy – which captures energy from surface waves to generate electricity – which provides a good support to the transition to clean energy, notes Shah.

ESG issues remain a theme for all businesses in Indonesia. "Indonesia takes ESG very seriously," says Sudjonno, giving the example of BRI's recent issuance of a green bond, which was oversubscribed by more than four times. Meanwhile, another national bank is gearing up to issue green bonds and the asset management industry is also modifying its products to be sustainable. This feeds into a wider trend in Asia Pacific of an increase in sustainability assets under management and Indonesia is doing the work to ensure it has more sustainable products and funds in this area, says Sudjonno. Also, much attention is being paid to the governance and sustainability reporting to ensure there is no greenwashing, she adds.

On the ESG front, for those companies that are still in the coal business, they are finding that their options are limited for getting loans from international banks. For Indonesian corporates in the coal mining industry they are finding their options are limited and typically go to the Indonesian state-owned banks and local private banks.

Irawan comments that at a macro level the government has committed to achieving net zero by 2060, which has implications for its commodities industries. He says that Indonesia is undergoing a soft transition away from coal, and the targets to reduce its mix will be accelerated. "Indonesia will still rely on coal and palm oil but the transition away from them will be earlier than expected," he explains.

Given this, the future is bright for Indonesia as it stands strong amid global volatility and continues to attract foreign investment. For companies that rush in, however, they would do well to remember Shah's advice and take a long-term view so they can navigate the challenges of the country effectively. ■

Oil and gas: the road to net zero

Decarbonisation of the oil and gas industry is essential to cap global warming and transition to a new energy system. So far, European groups are leading the transition, investing most in clean energy infrastructure and introducing more ambitious carbon targets with profound implications for corporate treasury. Still, critics warn that overall, progress remains slow.

In the late 2000s, Ørsted A/S, or DONG Energy as it was known back then, was one of the most fossil-fuel intensive companies in Europe. Today, the Danish energy group is one of the most sustainable companies in the world following its decision gradually to exit fossil fuels and invest instead in renewable energy, particularly offshore wind.

The story goes that around ten years ago executives analysing the legacy business found very little value creation. The only place the company had a competitive edge and the opportunity to build a scalable business was offshore wind in Denmark's shallow, windy waters where supportive government policy would fan investment.

Adopting a new business model met fierce pushback and resistance from the company at the time. Early nail-biting decisions included ordering 500 Siemens turbines to shore up the supply chain. Such a huge financial commitment for the new company, Martin Neubert, Chief Commercial Officer and Deputy CEO at the time, called it "mind-blowing."

Later, Ørsted acquired new companies to better control its supply chain. Elsewhere it structured innovative new funding partnerships to bring in more capital, including selling a stake to one of the country's biggest pension funds. In 2012, the company came under financial pressure following the hit to global gas prices with consequences for planned investment in oil and gas (still a growth area back then) and windfarms. Ørsted's credit rating was downgraded, impacting the cost of capital and its green transformation suddenly looked on shaky ground.

The company divested non-core assets and slashed costs to curry new investment, all the while focusing on scale and innovation, developing larger sites, installing larger turbines, and pushing procurement, construction, operations, and maintenance harder. In 2016 Ørsted went public, securing new access to equity investors jostling to participate in its green journey. Expansion in Asia and the US, and diversification into green hydrogen and energy storage, have since followed.

Ørsted's promotional videos describing how the company achieved such a transformation, stress the importance of convincing all stakeholders in its vision as well as careful selection of partners. Top-down decision making and calculated risk taking in a new, entrepreneurial culture, were also vital parts of the mix.

Ørsted's transformation is often cited as an example of the type of corporate change oil and gas groups, responsible for much of the world's greenhouse gas emissions, can and should embark on. But the energy transition doesn't mean that today's fossil fuel producers must all become renewable energy providers like Ørsted. Indeed, Treasury Today interviewees argue that it's unlikely they will if their current renewables production and investment is anything to go by. However, oil and gas groups will need to change course if the world is going to reach the goals of the 2015 Paris Agreement and keep global warming well below 2°C from pre-industrial times, and ideally 1.5°C, by cutting greenhouse gas emissions.

Road ahead

In one trajectory, today's oil and gas majors may decide to remain fossil fuel producers. They will continue to feed demand in a world that still consumes north of 100 million barrels of oil a day and will still need oil and gas years into the future. They will likely manage their existing assets in a way that extracts most value for shareholders before slowly winding them down as the transition gathers pace.

Alternatively, corporate treasury teams will galvanise for huge capex investment as companies let go of the dirtiest parts of their business and commit to invest in new clean infrastructure. This could be in carbon capture and storage for hard to abate sectors like cement, green hydrogen, or biofuels. These companies will continue to produce hydrocarbons but use that cash to invest in renewables and low-carbon products. As low-carbon products gain market share, they will reduce hydrocarbon production while investing in offsets to be net-zero by 2050. In another scenario, integrated companies with refining and marketing businesses will expand on new opportunities like rolling out charging infrastructure or involvement in the green power network because of their expertise in gas.

"The energy transition is a mega trend that is here to stay and will only become more potent over time," says Pavel Molchanov, Managing Director, Renewable Energy and Clean Technology at financial services group Raymond James in Houston. "The faster companies move in this direction the better for them. There will be companies that end up recognising too late what's going on and by the time they come to that recognition, it will be difficult to make a smooth transition."

Progress

One of the best windows into progress is analysis of oil and gas groups capex expenditure, continues Molchanov. "Change requires money. These companies need to invest large amounts of capital to transform from oil and gas businesses into diversified energy providers." Companies most recent capital budgets reveal European oil and gas groups are allocating more of their capital programme to renewables and clean tech than their global peers, driven by legally binding European climate law and shareholder pressure.

For example, British multinational oil and gas company Shell has allocated 33% of its capital programme to clean energy while BP, which allocated 33% last year, is targeting 50% by the end of the decade. French oil major Total has allocated 29% of its capital programme to clean energy while Norwegian major Equinor's growing portfolio of clean investments include carbon capture and wind generation. "European companies are the leaders, and the energy transition is moving more quickly in Europe," says Molchanov.

Although many governments outside Europe have committed to net zero, it is rarely enshrined in law. In contrast, European and UK climate law has created a legally binding mandate for the entire economy (not just the energy sector) to reach net zero emissions, or carbon neutrality, by 2050. To be clear, not every individual business will reach net zero, and there will still be fossil fuel usage at mid-century, but decarbonisation involves everyone, explains Molchanov. Unlike European peers, his analysis shows oil groups based in the US, the Gulf, Latin America, China and Russia typically invest less than 10% in clean/low-carbon energy, with the vast majority of their capex still going into oil and gas infrastructure.

Although Treasury Today interviewees note signs companies are slowing down the level of investment in new oil and gas projects, it is continuing despite the International Energy Agency (IEA) saying new, long-lead oil or gas fields are incompatible with 1.5°C and consumption must fall rapidly to meet the Paris climate target.

A recent report by Carbon Tracker, the financial thinktank that maps the risk and opportunity for investors on the path to a low carbon future, explores the production and spending plans of upstream oil and gas companies over the next decade. It finds that from January 2021 to March 2022 these companies approved US$166bn of investment in new oil and gas fields.

More than a third of this investment – US$58bn – was committed to projects that are only likely to be economic if demand for oil and gas pushes global temperatures beyond 2.5°C. Mike Coffin, Head of Oil, Gas and Mining at Carbon Tracker, believes that investment in the transition is not happening as fast as oil majors are saying, or their messaging might imply. "Renewable energy produced today by oil and gas companies is negligible as a proportion of total energy production, while investment in future renewables is still just a small proportion of overall investment," he says.

Other Treasury Today interviewees add that although many companies say they intend to transition, they are doing little on the ground because demand for oil continues to boom and the price of oil remains high. Indeed, James Vaccaro, Executive Director of the Climate Safe Lending Network believes many companies won't actually transition. "Many oil and gas groups are never going to transition. They will extract as much as they can until regulation changes, or they are undercut by the economics of clean energy," he says. "These companies believe there is a bit more they can get away with until the music stops. Although the climate music has stopped and the proliferation of new fossil fuel investment is no longer compatible with warming targets, the economic music hasn't stopped yet."

Targets

Net zero targets offer another window into progress and fossil fuel groups' progress positioning for the new energy system. Global oil and gas companies acknowledge the concept of a carbon budget (the amount of carbon emissions permitted over time to keep within a given temperature threshold) and the need to reduce emissions, while upstream oil and gas groups have published climate targets. However, Coffin notes a wide discrepancy in these companies' approaches to targets and importantly, many aren't linked to a temperature outcome of 1.5 degrees.

The term net zero is used loosely in many corporate targets, he continues, explaining not all fossil fuel groups' net zero targets are the same. "The hallmark of the Paris Agreement is alignment with 1.5 degrees, and only a few fossil fuel companies come even close to having Paris-aligned targets." Paul McConnell, Executive Director, Climate and Sustainability at S&P Global Commodity Insights whose work includes producing long-term outlooks for the sector, adds. "We have seen progress over the last three and four years. But it's very difficult to compare companies across the board because the approach of each company is very different."

Scope 3

The disparity is most apparent when it comes to Scope 3 targets. Very few fossil fuel groups – and mostly European companies – have committed to cutting Scope 3 emissions, pledging to reduce emissions in their supply chain. "Scope 3 is a much bigger challenge for oil and gas groups than Scope 1 and 2, and companies will still be reporting significant emissions a long way into the future," says McConnell.

Scope 3 targets, which make up the bulk of oil and gas groups' greenhouse emissions, are a crucial part of the jigsaw because it amounts to fossil groups committing to – and acknowledging – their product volume will fall in the medium to long term. "It amounts to an honest acceptance they will have to shut stuff down and take the revenue hit," says Vaccaro. "There is no way around it because Scope 3 incorporates end-use emissions which make up nearly 90% of the total," adds Coffin, "If companies aren't putting Scope 3 targets in place, they aren't planning for a decline in production volume. With Scope 1 and 2 targets, companies can still increase oil production whereas there's no way around Scope 3 targets set on an absolute basis."

Carbon Tracker's Absolute Impact report names companies like ENI, Repsol, Total and BP as doing most to set emission targets and incorporate Scope 3. European majors have pledged to reach net-zero Scope 3 emissions by 2050 by phasing out production of refined products while using cash flows from oil and gas to finance investments in renewable energy, primarily wind and solar. But across the Atlantic, only three of 24 North American firms had Scope 3 net-zero-by-2050 goals.

Experts counsel that focusing on specific emissions goals shouldn't overlook important innovation. For example, the US is the world leader in carbon capture and sequestration. Moreover, one of the barriers to Scope 3 progress is many US oil and gas producers argue that customers need to be accountable for the carbon they emit by paying a tax on it. Research from the Market Intelligence business at S&P Global finds that many in the US industry believe a carbon tax would shape consumer behaviour and naturally lead to less fossil fuel use because consumers will have to pay for the privilege. The industry's belief that a carbon tax that increases the cost of oil and gas to the user is the best way to reduce demand, was expressed by ConocoPhillips Chairman and CEO Ryan Lance speaking to analysts on the company's May 2022 earnings conference call.

"The problematic piece has always been the Scope 3 because of the double counting, because of who's responsible for that, and should you hold a company like ConocoPhillips responsible for a consumer's decision to buy a pickup truck versus a Toyota Prius." Last year shareholders at the firm voted down proposals to limit Scope 3 emissions.

Risk

Continuing to plough money into legacy business puts oil and gas majors at risk of stranded assets, best understood as assets becoming less productive than predicted at the point they were sanctioned because of lower demand and pricing. A fast transition, triggered by a policy response, or renewables rolling out more quickly than expected, increases the risk of stranded assets. For example, the war in Ukraine has highlighted Europe's vulnerability to Russian oil and gas and speeded up the transition, argues McConnell. "Decarbonisation is now seen as a strategic response to energy security and removing dependency on fossil fuels is seen to maximise energy security," he says.

"There's going to be a lot of oil refinery capacity the world doesn't need in a 1.5 degrees world that's potentially going to have to be written down. We're not seeing the discussion we'd expect to see by companies reflecting the risk on this," adds Coffin. As assets become economically stranded, investors will play a vital role in triggering rapid re-evaluations. He predicts that fossil fuel companies in the Middle East, sitting on hydrocarbon reserves that are cheap to develop, may be more resilient as the transition unfolds.

Cost of capital

In another treasury risk, interviewees say fossil fuel groups' abilities to access finance across many capital markets is beginning to change. Sweeping regulatory reform is starting to drive private capital to more 'green' or 'sustainable' activities, explains Matthew Townsend, Co-Head of the International Environmental, Climate and Regulatory Law Groups at Allen & Overy and one of the founders of the firm's Global ESG Group. "Investors will become more selective over the type of projects they invest in, so this is likely to be felt across multiple sectors. This may be more keenly felt in new oil projects depending on how gas is treated under local or regional taxonomies."

Elsewhere, some European banks are growing more reluctant to lend to new infrastructure. For example, Denmark's Danske Bank has said it will not offer refinancing or new long-term financing to any oil and gas E&P company that does not set a credible transition plan in line with the Paris Agreement, making it one of the first banks to introduce restraints on corporate lending to fossil fuel groups, a profitable corner of bank business.

Although banks will continue to finance OPEX and the maintenance of oil and gas operations in the short term, Vaccaro believes Danske's decision is indicative of the start of a wider move amongst lenders to wind down financing of new operations and begin to dictate terms via covenants in loan agreements that direct the use of proceeds. "Danske has shown they can put in covenants and lend money but on the condition it funds net zero infrastructure which aligns the company with the Paris Agreement. This is the direction of travel, and other banks will follow," he says, predicting UK, French and Dutch banks could be next. "If you choke off debt, you choke off the project."

Still, according to the latest analysis by the Rainforest Action Network, global banks provided US$742bn in financing to coal, oil and gas companies in 2021, despite the fanfare of climate pledges by lenders that signed up to former Bank of England governor Mark Carney's industry alliance. The research finds fossil fuel financing remains dominated by the same four US banks.

But Townsend concludes the conversation between banks and oil and gas groups is starting to change. "Lenders will need to meet their own regulatory requirements and voluntary commitments. This will drive how they deploy their capital," he predicts. "There are significant adjustments ahead and, for many, this is a deliberate realignment of capital." ■

Trade digitisation

To what extent are trade flows and trade finance benefiting from digitisation, and how much progress has been made?

Christian Bauwens
Senior VP, Treasury
Flex

Flex has launched a number of trade finance digitisation projects over the past few years. Our primary goal is to automate transactions with suppliers and customers with full authentication, using the cloud platform. We also want to expand funding solutions for our customers and suppliers by reducing transaction risks earlier in the purchasing cycle.

In 2015, we developed an in-house end-to-end solution for account receivable factoring programmes. This was successfully implemented with various banks and allowed us to have a robust digital financing solution fairly early in the global digitisation wave.

In 2017 we engaged with various blockchain fintech companies and a few financial institutions to deliver a pilot project to automate end-to-end transactions between suppliers and customers.

In 2019 we began a project to digitise the identification of global companies using a connected platform to authenticate business registrations and tax records.

Recently, we implemented a solution to improve Order To Cash cycle and reduce the number of days invoices take to be approved by customers. Our approach was to automate invoice submission to customer portals, which reduced invoice dispute resolution days.

In the last example we faced multiple challenges, including a diverse statutory/regulatory environment, various invoice requirements, and a multitude of customer portals with different specifications, sometimes with the same client. Globally, I think the key challenges are: the rate of new technology adoption by the corporate world, and the scale required for trade finance digitalisation to succeed.

To be truly successful, digitisation tools need to be used by a majority of your customer base. The same vision must be coordinated and shared between governments and institutions in charge of global governance, central banks, and the banking community.

The digitalisation journey would benefit greatly from a commonly used technology that could digitalise the entire supply chain in a uniform legal framework, while also offering the flexibility to comply with multiple parameters required by each partner and regulator. If companies are not willing to invest in this area without the certainty of short-term gains there will be fewer efforts to identify a transformative solution that can be used across companies and industries.

Payment security and cybersecurity is a good example. New technology like blockchain could be used broadly to reduce fraud risks if everyone involved had a standardised approach. Tackling security threats (authentication and security control), offer an opportunity to create new partnerships with banks and/or fintechs to validate transactions and provide funding solutions for the entire supply chain.

We use a combination of internally developed and externally available technologies to support our function. We use a treasury management system that supports host to host, SWIFT and API connections; and a range of other tools such as Robotic Process Automation (RPA), Optical Character Readers (OCR), Machine Learning Technologies (ML), Electronic Data Interchange (EDI) and more.

Key to success is the seamless integration between technologies and effective communication between the tools, partners and banks. Our ecosystem of tools to digitise accounts payables for example, has improved invoice financing/working capital funding solutions for our suppliers, given us better access to material for production, and secured preferred supplier terms.

Because the trade finance digitisation process is currently decentralised, financial institutions have a key role to play. Ideally, they could facilitate a global standard which would help stronger adoption by corporates, lower cost, ease data integration and enhance security. Flex has started to embrace ESG into our treasury practices generally. One example is that we are in the process of converting our supplier financing program into a sustainability-linked facility. This will allow preferential funding rates for ESG-focused suppliers.

Iain MacLennan
VP of Trade and Supply Chain Finance
Finastra

As we know, there is a lot of paperwork associated with the physical movement of goods including bills of lading, packing lists and origination certificates, etc. Trade finance is

traditionally part of transaction banking areas within banks but unlike other areas, ie payments or liquidity management, trade finance (and commercial lending) hasn't experienced anything like the same level of digitisation. Having to rely on pieces of paper with an appropriate signature to allow the physical movement of goods is both costly and unsustainable, and a source of significant friction for businesses.

Digitisation allows efficiency, visibility, cost reduction and speed to market, and takes away the opaque nature of paper. Significant progress has been made since the G7 meeting in early 2021, when the lack of digitisation in trade finance was seen as a key topic. Today we are seeing the adoption of MLETR [Model Law on Electronic Transferable Records] coming to the fore, creating the legal framework to address the need for wet signatures. Of course, the broader digitisation in trade finance has also accelerated since the pandemic. We are now seeing huge demand from banks and corporates to speed up processes and create efficiencies, as well as integrate ESG in an end-to-end process.

Digitisation is not just about the software – multiple digitisation partners need to help banks improve their end-to-end processes. Trade finance from an operations perspective is a knowledge-driven sector that depends on specific skill sets and in another, worrying trend, we are seeing a significant "brain drain" from this space with the ensuing loss of knowledge.

The technology is available to support digitisation, distributed ledger and blockchain get most of the press and can allow different stakeholders in the supply chain to share information. However, the key points here are to prevent so-called data islands and to ensure interoperability. One of the items that needs to be addressed in the data is who owns the goods, or who has rights to the underlying transaction. Still, we've been talking about blockchain for years, and we are still talking about it today. The problem is scale, but adoption and interoperability are key. The technology is great, but you need to get to a point where you can connect with other networks to process transactions. There are lots of solutions, but corporates face a challenge of how they become part of this trade ecosystem and create value by this engagement.

Encouragingly, we are seeing more cooperation between different providers and stakeholders. Banks have also figured out what they can bring to their client base and are working with multiple new entrants. One challenge that both banks and corporates face is how to integrate new partners, as this can be very time-consuming. It involves a procurement and contractual process, and we are looking at how to accelerate that in the marketplace by removing this friction from the process.

Digitisation will again be accelerated by ESG integration. Stakeholders from shareholders to customers and regulators expect evidence of ESG standards. Whether sharing information on workers' rights or a product's energy source, providing it to stakeholders in a truthful way that safeguards against greenwashing is only going to be achieved via digitisation.

Gabriel Buck

Founder and
Managing Director
GKB Venture

I see some digitisation in trade processes, but I am sceptical that digitisation will be a panacea for increasing and facilitating greater trade flows. My overriding belief is that despite the efficiencies of digitisation, it won't significantly help those producing lower value goods move up the ladder to producing higher value goods, or those in local markets reach international markets. For example, if a company trades principally in the production of raw materials, say, coffee beans, digitisation is not in itself going to move that company up the value-add ladder to trade in processed coffee.

I would argue that the digitisation of payments has been more transformational than the digitisation of trade processes because this has provided companies with the ability to trade internationally. Most companies can obtain and transmit payments with ease, and relatively cheaply. Our exporting clients have never mentioned that the lack of digitisation in trade is hampering their growth. Companies that know how to export, have worked hard on developing their markets, and provide a fully integrated package aren't thriving because of digitisation. Freight forwarders, exporters and importers know the processes.

Banks are at the forefront of introducing digitisation in trade because it reduces their processing costs. Trade finance incurs back office costs, especially around human processing. But the benefits of lower costs through digitisation will only really be felt by the banks, and I don't think they will pass this on to their clients. It's not really surprising given banks and financial institutions are the ones who are funding digitisation development and want to see a payback. Moreover, trade finance is a low-risk, low return asset class for banks. As a result of being low risk and low yielding, the only way they can make money is by volume and keeping processing costs as low as possible.

Innovation and technological developments supporting trade and trade finance digitisation often fold. I think there are too many platforms that can't scale. Many of these new platforms also believe they can solve the funding gap in trade finance through digitisation, but this premise is also misguided. The funding gap exists because there is a lack of access to capital, not because of a lack of digitisation. ■

Next question:

"How are higher borrowing costs impacting corporate strategy?"

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

treasurytoday.com