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May/June 2023

SWIFT: treasurers frustration

Cross-border payments are an enduring source of frustration for corporate treasury. SWIFT is a trusty Volvo, safe, secure and reliable.

The Corporate View

Francisco Meyo

Corporate Controller

Masterworks

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A technological world

In this packed edition, a few key themes come to the fore. First up, corporate frustration with international payments. In our Insight & Analysis feature, European treasury teams say slow processing times, complexity, and time-consuming and costly management behind cross border payments remain an enduring bugbear. SWIFT, the global payments network that celebrates its 50th anniversary this year, holds solutions to their payments angst which often remain tantalisingly out of reach.

Payments are also front of mind for this edition's Corporate View interviewee, Francisco Meyo, Corporate Controller at New York startup Masterworks. His resounding treasury wish is for better worldwide payment rails that will allow companies like Masterworks to send and receive money from around the world at high speed and low cost.

Meyo's call for more technology and digitisation in treasury spans blockchain, APIs and AI. We take it one step further in this edition's Technology feature. The possibilities of wearable technology are exploding. Not only does this mean increased efficiencies for the treasury and finance teams, but treasurers could also soon be wearing them to do their day job.

Speaking to treasury teams that successfully navigated SVB's collapse, this edition gathers the key treasury requisites in a startup. Treasury needs to be agile and scrappy. As for strategies, bank diversity and careful investment of VC money and startup assets – rather than leaving large sums on account with risky banks – is essential.

Cue the edition's final features where we explore the impact of higher interest rates. Corporates with money to invest are finally getting a return, putting MMFs back in the spotlight. We explore the regulatory environment and examine how investors and MMF providers are responding to the latest market conditions. Our Question Answered also explores the other corporate narrative behind higher interest rates. Companies that depend on cheap borrowing are feeling the pinch and timing refinancing is a crucial element of treasury strategy.

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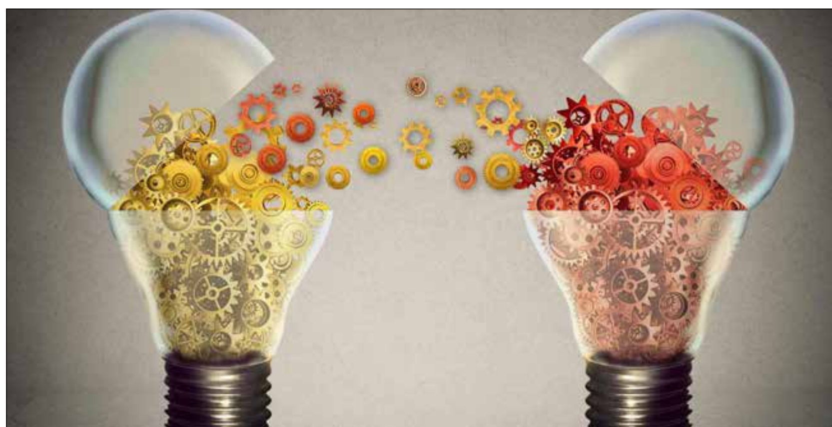

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The treasury lessons from SVB's collapse

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Francisco Meyo
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The possibilities of wearable technology are exploding, and many industries are taking advantage of the speed and convenience that the technology has to offer.

SWIFT: corporates voice payments frustration

Cross-border payments are an enduring source of frustration for corporate treasury, with SWIFT representing a trusty Volvo, safe, secure and reliable. So say our insiders as we assess progress and pain points in this space.

It's easy to send an email anywhere in the world, but sending an international payment can often be costly and slow. Despite huge technical leaps in recent decades, for many corporate treasurers, cross-border payments remain frustratingly difficult.

Some of that frustration is directed towards SWIFT, the international payments network on which global corporates depend to make and receive high value payments around the world. Treasury testimonies from the frontline cite reliability and trust but also mention high fees, slow processing times and complexity, often requiring expensive consultants or software solutions, while SWIFT's ability to provide solutions can be a work in progress..

Founded in May 1973, SWIFT is primarily a banking community (at the network's annual SIBOS gathering, bank attendees are in the majority. For corporate treasury, despite the rise of agile fintechs, alternative payment channels and bank APIs, at the end of the day, there is little alternative. Ask any large corporate why they use SWIFT and like banks, the response is unanimous. The non-profit co-operative with c11,000 members facilitate payments worth an estimated US$1.5trn a day; it's reliable and secure and the only thing close to providing the corporate holy grail of standardisation in payments.

"In the payment world, SWIFT is like the family Volvo," says Felix Meyer who leads Treasury IT and Treasury Technology at ABB Capital AG, the corporate treasury organisation of Switzerland's industrial conglomerate ABB Group alongside chairing SWIFT Corporate Group Switzerland (SCG-CH), which lobbies the payments giant on behalf of treasury teams for the country's largest corporates. "A Volvo starts at -20°C or +45°C. It may not be the most comfortable or dynamic, but it is completely

reliable and secure and gets you to those far off places not all can reach." Only 50 years on, Treasury Today interviewees are increasingly calling for an ever smoother journey.

What companies want

The thing corporate treasury requests perhaps more than anything is harmonisation and standardisation. Meeting bank specific requirements when implementing solutions connecting to the network is challenging and requires companies to invest time and money.

But expand beyond standard payment and statement integrations, and the process gets even more complex. Like eBAM or trade finance messaging, where Meyer explains ABB is in the process of going live on SWIFT and the bank specific challenges have become even more problematic, either because the existing standards require tweaking to meet the bank specific requirements or because there is simply no (bank) coverage for the demand.

In theory, banks should be able to provide quarterly extracts of all active accounts and signatories to corporates in a standardised format that allows treasury to reconcile against their existing BAM solutions. The reality is more of a headache. "SWIFT's eBAM standards offer a structure that partially fits this (standardisation) requirement but stretch this against the banks that even offer eBAM as a solution, mix this with the number of banks that a multinational has to maintain its global obligations, and it becomes clear this is complex for corporates."

Despite fintechs and established software providers entering the market to try to push a common solution, Meyer says the basic challenges remain for many corporates. Is introducing yet another piece of equipment in the payment landscape that needs to be supported and maintained really the most effective solution, he asks. What is clear, he says, is that SWIFT is in a unique position to introduce standardisation, assuming banks support it.

Complexity

Getting bogged down in complexity is a common gripe. Take SWIFT's Customer Security Programme, CSP, the security controls for SWIFT corporates. For Jonathan Schläpfer, Head of Treasury Operations at Würth Finance International, the in-house bank for German industrial fastening multinational Würth Group, responsible for the company's bank connectivity, payments, cash pooling and all SWIFT-related projects, the guiding document could be simplified. "The programme is valid and important, but SWIFT could support corporates by making the communication and IT around the programme clearer."

CSP is also front-of-mind for Meyer who says corporates see the value of having a secure financial network, but questions how far SWIFT should push corporates with further tightening of the control framework. Not only does the process require de-facto independent external support, but from this year it turns into an annual exercise. "Of course, we all want to operate in a secure environment, but how far and at what cost to corporates?" he asks.

It leads him to reflect on another SWIFT-related frustration. Pressure on corporate treasury to invest time and money into processes that are already working and from which they are unlikely to see a huge benefit. "It is like that unexpected maintenance call" he says, continuing the Volvo analogy.

One example is RMA centralisation, which moves electronic relationship management from local payment applications to a central SWIFT model. Only after a webinar, "endless customer service discussions" and reaching out to SWIFT colleagues did he understand what was needed. As Chairman of the Swiss group, he now plans to loop peers for an upcoming event he hopes will shed light on the initiative.

Of course, SWIFT isn't unaware of corporate pain points. Nasir Ahmed, Head of SWIFT, UK and Ireland says the organisation puts listening at its core and is dedicated to "actively addressing challenges facing its community" of which he lists "poor quality data, limited transparency and a lack of common languages" as bottlenecks. He continues: "Our offerings are designed to remove complexity and deliver value for end-users to enable them to provide frictionless experiences."

Bruno Mellado, Head of International Payments and Receivables, BNP Paribas Cash Management, who spends much of his time advising corporate clients on the reasons why payments in certain currencies fail, insists the problem is often one of country rules. For example, recent changes in local clearing requirements in Saudi Arabia didn't apply the same way at all banks. "Some local banks required an extra data field, but others didn't," he explains. "Many problems are linked to the currency of destination, and this is seldom explained to end-consumers upfront."

Similarly, foreign payments are also delayed due to specific country regulations. A payment from China into Europe takes a few hours but a payment from Europe to China can take several days. "Local regulations are often underestimated," he says. Payments rely on a web of bank relationships yet sometimes those relationships involve a third-party introduction, slowing the process down. "Some highways are more direct than others," he explains. "Relationships are trust-based. Even if you have the technology, you still need a network relationship."

Mellado also believes treasury's craved-for standardisation is coming. SWIFT gpi, ISO and new cloud-based API technology; the SWIFT TMP platform and pre-validation services, all show SWIFT's commitment to speed, standardisation, and security in cross-border payments. "Combined, all these changes will amount to much faster, frictionless payments and corporate treasury will feel the benefit," he says. New ISO standardisation is a classic example. "A lot of payments are stopped because people are looking at the wrong data, ISO CBPR+ standards put the right data in the right place."

Innovation

But for corporate treasury, touted innovation can fall into the burdensome and not particularly useful bucket. For sure, SWIFT gpi has caught the imagination of many corporates. Although tracking has been around for a while, treasury still face gaps around end-to-end visibility and transparency of payment flows. Banks offer the ability to track payments via e-banking tools, but teams don't want to log onto multiple different e-banking platforms, says Alejandro Muñoz, Head Treasury Operations & Payment Factory at Würth Finance. Working alongside Schläpfer, Muñoz oversees around €10bn worth of payments annually including cross-border payments in 25 different currencies where tracking missing payments can get a lot more complex. "We welcomed an initiative that allows us to track money via a central tool," he says.

> We are actually in the process of moving most of our international payments/payouts into cross-border ACH which will allow us to avoid some of the disadvantages of SWIFT such as high fees, slow processing times and currency conversion charges which are in fact a hidden fee.
>
> Francisco Meyo, Corporate Controller, Masterworks

But Treasury Today interviewees aren't convinced SWIFT gpi delivers for corporates yet. It enables banks to better track payments, but some flows aren't covered since not all banks are SWIFT gpi member counterparties, able to access the tracker. Moreover (and in a nod to corporates being on the periphery of the network) corporate treasurers have no access to the system, explains Schläpfer. "Some flows are still not covered and access to the tracker is difficult. It still lacks transparency," he says.

For Muñoz, tracking is another example of SWIFT corporate solutions still not quite hitting the mark. "We appreciate these types of initiatives, but the tracker could be more user-friendly. It would really help us to have one connection to one central financial tracker where we can see everything. SWIFT could do more for corporates."

Fraud

Payment fraud is another area treasury is calling for more support, urging SWIFT to tap into its vast store of data for solutions. "All the information needed is in SWIFT," continues Muñoz who says SWIFT has the data to know if a beneficiary bank account is secure. "Using community information to fight fraud would really help corporate treasury," he says.

Meyer also urges SWIFT to use its community to do more to support corporates around fraud prevention rather than pressuring corporates to come up with their own solutions. "In the end, it has to be a group effort, but we are grateful when the largest players can also contribute proportionally to the effort," he argues. He cites that even the pre-validation topic (whereby banks can validate key information before a payment is executed, a key step in raising the values transmitted in the instant payment world) has not been universally accepted by banks nor is it available to corporates as an API to perform such validations. "On this topic we are left hanging without appetite to invest in fintech solutions and feel SWIFT should be offering such solutions as part of the club," he says.

Competition

One sure-fire way to galvanise more corporate-friendly solutions is competition and the threat of volumes ebbing away from SWIFT to alternative payment providers. Like a railway network, corporate treasurers say they only need one system via which to send payments yet if there is only one system, bereft of competition, it will likely be a bad one. Alternative payment channels like EBICS, CHAPS, Ripple, JPM Coin and bank APIs are just some of the different rails galvanising and prodding innovation and adoption of more corporate-friendly processes. "SWIFT responds to competition," says Meyer.

"Of course, we use SWIFT, but only because other options are limited," says Francisco Meyo, Corporate Controller, at New York-based Masterworks, voicing his frustration with international payments in this edition's Corporate View. "We are actually in the process of moving most of our international payments/payouts into cross-border ACH which will allow us to avoid some of the disadvantages of SWIFT such as high fees, slow processing times and currency conversion charges which are in fact a hidden fee."

But the reality of multiple payment channels for corporates is still highly challenging. Würth joined SWIFT back in 2006 to streamline increasingly complex payments into one simple channel. The old system relied on e-banking and making local payments via a global banking network of multiple relationships. "We don't have one cash management bank for the whole world, and it was easier to integrate SWIFT and get rid of e-banking than build a host-to-host connectivity," recalls Muñoz.

"As a corporate we have to balance the technology offerings and efforts against our overall strategy," continues ABB's Meyer. "After doing some initial investigations, we have not jumped on the bank API wave as an alternative routing channel. As the technology and offerings become more secure, standardised, and able to prove their reliability, we will adapt." He argues bank APIs might be an excellent fit for corporates with a smaller handful of integrations, but flags reliability issues particularly. "If an API was down for two hours during operating hours, our alarm bells would be ringing," he says.

Mellado also highlights the importance of new regulation in alternative payments before available payment routes are safe and offer equivalent levels of transparency and standards. Alternative payments still need to follow origin and destination transparency rules and adopt minimum standards, he says. "We need even 'rules of the game' so that all payments have similar levels of security. The alternative will be a more complex and fragmented world for payments."

A call for cooperation that Treasury Today interviewees agree signposts the best path ahead. The payment ecosystem requires all players work together from banks and the software houses, SWIFT and corporates. Corporate treasurers don't want to reinvent the rails, but they do want their payments pain-points heard and resolved. "Despite the various challenges and bumps in the road, the Volvo gets us there," concludes Meyer.

MMFs: back in the spotlight

High inflation, rising interest rates, banking turmoil – today's investment landscape comes with a whole new set of challenges. So where do money market funds stand in this environment? How are investors and MMF providers responding to the latest market conditions? And could further regulatory reform be on the horizon?

It's no secret that the last three years have brought numerous headwinds, from the beginning of the COVID-19 pandemic in 2020 to soaring inflation and the recent collapse of Silicon Valley Bank (SVB). All of these have brought challenges for investors.

"Investment involves making choices under conditions of uncertainty," says Alastair Sewell, Liquidity Investment Strategist at Aviva Investors. "While that will never change, there are peaks and troughs of uncertainty." Currently, he says, uncertainty is high: "The effects of the rapid pace of interest rate hikes are being felt. A recession could be around the corner. Major banks have had to be rescued. Even the gilt market came briefly unstuck. These are not easy investment conditions."

On the other hand, notes Sewell, the increase in rates mean that investors are benefitting from materially higher yields on their cash holdings compared to the last ten years. "This offers great opportunities for astute investors," he adds.

Flight to quality

So how have money market funds (MMFs) fared during the recent turbulence? Despite market stress in March 2020 and September 2022, says Sewell, "MMFs functioned as normal. Redemption requests increased, some portfolio security valuations were affected, but MMFs successfully preserved capital and provided liquidity. They also maintained their 'quick' ratio of short-term assets to short-term liabilities and all other regulatory-required tests." (While the quick ratio does not feature in MMF regulation, notes Sewell, "the concept is applicable.")

More recently, the sudden collapse of SVB in March 2023 led US investors to re-examine their small and medium sized bank exposures, prompting withdrawals from bank deposits. It also caused reverberations in Europe, leading to volatility in the banking sector, which contributed to the forced merger of Credit Suisse and UBS. "As apparent vulnerabilities in the banking sector were exposed, concerned investors turned to MMFs as an alternative to the bank deposits, resulting in inflows

Impact of current market conditions on investors and MMF providers

Beccy Milchem, Head of EMEA Cash Management, BlackRock:

"MMFs operate under a strict regulatory framework designed to ensure they can provide liquidity when required and manage duration risks prudently through short weighted average maturity (WAM) restrictions. Over the past 12 months, amidst rapidly rising interest rates and market uncertainty, MMFs have typically shortened duration to be substantially within the WAM limit, and held much higher levels of overnight and weekly liquidity so as to be well positioned to capture further rate hikes.

"Following the period of zero and negative interest rates that preceded the last year, investors have typically been more proactive with cash management strategies seeking to take advantage of higher yields. However, navigating the timing and duration of investments has proven difficult, with many investors ending up in investments that are trading below the market rate. More recently, concerns have arisen over concentrated bank deposit holdings and a desire to spread that risk over a number of counterparties.

"While market uncertainty remains, short term MMFs continue to be a popular choice for investors as alongside providing diversification and daily access benefits, they are positioned to minimise volatility and absorb any central bank rate hikes quickly."

Kim Hochfeld, Global Head of Cash, State Street Global Advisors and Chair of IMMFA:

"In a nutshell, MMFs are more popular than ever. The latest crisis reinforced the value of having one's cash in a diversified set of banking names and paying for professional money management and credit analysis, which cash investors can access through an MMF. The latest aggressive rate hiking cycle across the globe has meant that MMFs are also an attractive relative value investment option as opposed to bank deposits, in addition to their other benefits.

"Investors are reacting with a resounding vote of confidence in using MMFs to manage their short-term cash needs. Many MMF providers are continuing to manage their portfolios conservatively with shorter durations and higher liquidity levels than usual, both to absorb any potential interest rate hikes and to act as a buffer for unexpected market volatility."

into money funds," says Veronica Iommi, Secretary General of the Institutional Money Market Funds Association (IMMFA).

Indeed, Iommi points out that the IMMFA MMF industry in Europe experienced inflows during March 2023, "which is a testament to their being perceived as a safe haven in times of crisis."

"It's no surprise that during times of stress, we see a flight to quality – and the recipient of that flight to quality oftentimes is a money market fund or a fiduciary manager," comments Jim Fuell, Head of Global Liquidity Sales, International at J.P. Morgan Asset Management. "We've certainly seen a significant flight to money market funds in the US, where there's a substantial platform of government-style MMFs – and we've seen some of that in Europe as well."

In the US, more than US$286bn flowed into MMFs in March, according to data provider EPFR.

Seeking diversification and liquidity

Where investment priorities are concerned, Fuell says that treasurers have always been focused on achieving capital preservation and liquidity, with performance only a tertiary concern. While the events of the last few years haven't changed these priorities, he observes that treasurers are showing a slightly stronger preference for capital preservation in the current market. "Alongside these three things, diversification is something that is on the minds of treasurers these days," he adds. "We've seen a lot of clients in the US questioning their comfort at holding all of their cash at a single institution, particularly with smaller regional banks."

Hugo Parry-Wingfield, EMEA Head of Liquidity Investment Specialists at HSBC Global Asset Management, likewise notes that treasurers have become more focused on diversification following recent events. "That's an entirely logical thing to do," he says. "One of the important benefits of MMFs is that they can offer a very high level of diversification through a single investment vehicle – typically our MMFs have exposure to 50 or 60 issuers. It's pretty hard to replicate that scale and breadth of diversification."

MMF providers, meanwhile, are taking steps to build up liquidity in light of current market conditions. "Our normal approach is to have high levels of liquidity anyway – we typically maintain thresholds higher than the regulatory minimum, for example, in terms of the weekly liquid assets and daily liquid assets that we need to maintain," says Parry-Wingfield. "In the current market, we're maintaining even higher levels of liquidity, and we've also been limiting the maximum duration of investments for a period of time." He adds that this is a "normal prudent step" during times of market disruption.

"On top of that, our investment team and our credit analysts are keeping extremely close to developments and are tracking the bank counterparties that we use," he says. "In many ways, that's business as usual – but it's obviously particularly relevant given recent developments."

Fuell says that European regulations require at least 10% of a LVNAV/PDCNAV's [Low Volatility Net Asset Value/Public Debt Constant Net Asset Value] assets to be comprised of overnight maturing assets, and at least 30% to be comprised of weekly maturing assets. "But most funds will be carrying a lot more, and remaining a lot more liquid, given the volatility of

the current marketplace. For example, we are currently running in excess of 50% weekly liquidity across a number of our core funds."

Testing the resilience of regulatory reform

Europe and the US both implemented MMF reform in the wake of the 2008 financial crisis, during which the Reserve Primary Fund infamously 'broke the buck'. Under the rules introduced by the Securities and Exchange Commission (SEC) in 2016, constant net asset value (CNAV) funds were required to switch to a variable net asset value (VNAV) model. The European Money Market Fund Regulation (MMFR) implemented in 2019 took a different direction, introducing a low volatility net asset value (LVNAV) model that would operate alongside VNAV and public debt CNAV funds.

Under the MMFR, funds can also impose liquidity fees, redemption gates and suspension of redemptions if liquidity falls below 30% and daily net redemptions are greater than 10% of the fund's total assets. Mandatory fees and gates will apply if liquidity is less than 10%.

In Iommi's, opinion the introduction of prescriptive requirements under the MMFR on liquidity, credit quality, portfolio diversification and weighted average maturity, and transparency made MMFs more resilient. "The events of March 2020 acted as the first stress test of MMF reform and IMMFA MMFs continued to perform as intended, preserving capital and providing liquidity," Iommi says.

However, "one area of MMFR that did not work as intended was the link between minimum liquidity thresholds and the possible imposition of gates and fees." As Iommi explains, this link created procyclical incentives for investors and investment managers around liquidity buffer levels. "There is now widespread agreement on 'delinking' which would enable funds to use their liquidity buffers, as intended, during times of stress."

Meanwhile, another area of focus has been the ability of the LVNAV to maintain a stable NAV, providing that the mark-to-market NAV does not deviate more than 20bps from par. "This ability to trade in and out at par is essential to the utility value of the LVNAV and is helpful for classifying as cash or cash equivalent for accounting purposes," explains Iommi.

Some regulators have proposed that this ability be removed, thereby creating another variable NAV fund type which may be harder to achieve consistency in the same accounting treatment. But as Iommi points out, "LVNAVs account for approximately 46% of the European MMF market. To remove the LVNAV fund structure would significantly impact investor choice."

Regulatory review in Europe and the UK

The EU MMFR required the European Commission to review and publish a report on the adequacy of the regulation "from a prudential and economic point of view by summer 2022, including whether changes are to be made to the regime for public debt CNAV MMFs and LVNAV MMFs." However, the review is ongoing and the report is yet to be published (although expected over the coming months).

"We know that the review has been delayed, as the European Commission wants to ensure that they are looking at all the factors they should be considering – particularly given some of the recent volatility that we saw in the UK last year, and given the banking stress during the last few weeks," comments Fuell. "We're supportive of the European Commission's approach in terms of ensuring they've got a comprehensive view of money market funds and how they have weathered this environment."

The UK is also in the process of reviewing MMF regulation: in May 2022, the Financial Conduct Authority (FCA) and Bank of England published a discussion paper to "gather views to inform the UK's authorities' development of MMF reform proposals."

"Pending the outcome of any potential reforms, we continue with what we have in place today. While it is important to stay abreast of the developments, there is no need to start to consider revising investment policies," says Iommi. The earliest impact of any relevant changes for treasurers would be in 2025/2026.

In the meantime, she concludes, "IMMFA will continue to engage with regulators and policy makers to articulate the views of investors and other stake holders."

Alternatives to MMFs

As Parry-Wingfield points out, MMFs are popular with treasurers in part because they offer a high degree of diversification as well as capital preservation and liquidity – "and that is something that's quite hard to replicate outside of a managed fund."

The most obvious alternative is to place cash in bank deposits from relationship banks. "But treasurers have to consider diversification when they're doing that, as recent events have highlighted," he says.

Larger and more sophisticated treasury teams may purchase instruments such as deposits, commercial paper and repo themselves, although this requires significant in-house expertise. For investors with a longer investment horizon, another option is to use asset management solutions that offer more duration and credit risk, while typically seeking to provide a higher rate of return. "I would say that these are more appropriate as an add-on to a money market fund, as opposed to an alternative," comments Parry-Wingfield.

Investors may also consider segregated investment mandates that are set up for specific clients with their own investment restrictions. However, as these can be time-consuming and complex to set up, Parry-Wingfield argues that they are "typically better suited to investors with larger cash pools."

A Masters in Treasury Tech

Francisco Meyo
Corporate Controller

MASTERWORKS

New York headquartered Masterworks is the first and leading firm for buying and trading shares in multi-million dollar, blue-chip artworks. It allows investors to build a diversified portfolio of iconic works of art curated by its industry-leading research and acquisition teams that includes artists like Basquiat, Picasso and Banksy. Masterworks was launched in 2017 and has 200 employees.

Francisco Meyo's treasury career began in Mexico at PwC. Following a stint in Silicon Valley, he's landed in New York overseeing treasury at the art investment platform Masterworks in a cutting-edge role that speaks to his enthusiasm and knowledge of treasury technology.

If Francisco Meyo, Corporate Controller at Masterworks, the tech start-up that allows people to invest in fine art, was granted three treasury wishes they would all be related to technology. First-and-foremost, he dreams of worldwide payment rails suitable and cost efficient enough to enable small, fast-growing companies like Masterworks to send and receive money from around the world at high speed and low cost. Secondly, he wants a sweeping take-up of Blockchain that would enable treasury teams to track money transfers and money balances in a reliable, stored ledger. His final wish is for all banks to have APIs and the ability to support instant, visible payments for their corporate customers.

Meyo's response offers a window not only into his own digital and tech acumen and a future where leveraging technology in corporate treasury is as natural as breathing – especially at new companies creating processes from scratch. His wish-list also reveals his treasury priorities around leadership and investment, and the importance of ploughing resources now into the manpower, technology and innovation that will shape the future. Witness how Masterworks' five-person treasury and finance team includes a dedicated software engineer, recently hired with the enthusiastic support of the CFO and CEO to ensure the best, time-saving treasury tech ideas the team come up with are developed and put in production.

"My dream treasury functions like a Swiss watch with minimum human interaction," he says, speaking in an interview with Treasury Today from the firm's New York offices. "We are not there quite yet, but I'm enjoying the journey."

Meyo's treasury journey began in his native country, Mexico. He studied finance and accounting at Universidad de las Américas Puebla (UDLAP) just outside the city of Cholula after which, fresh out of college, he joined PwC where he would stay until 2021. His first job kept him in Puebla, spending most of his time working with the consultancy's biggest client and Cholula's largest employer, VW.

A six-year stint in Cancun on the Caribbean came next, this time supporting corporate clients in the hospitality and retail sector in a role where he was tasked with building up a portfolio of clients and recruiting staff for PwC's new office. He supported multinational corporates navigating technical accounting protocols and conversion between Mexican GAAP to US GAAP and IFRS, revenue recognition, inventory costing and tax compliance. "I had an amazing mentor and learnt how to build an office from scratch from a client and team perspective," he recalls.

Technology calling

In 2014, a move with PwC to Silicon Valley marked his first, significant, step into the tech space that now shapes his career. He served clients in tech and biotech startups, as well as working with the Valley's venture capital funds where he was involved in IPO advisory and secondary offerings, debt/equity sales and complex accounting advisory that included valuing VC portfolio companies and coordinating multiple teams and specialists.

Selection onto PwC's coveted Digital Accelerator Programme cemented and fast-tracked his growing interest in technology. The internal programme takes candidates out of their day job, putting them through a two-year immersive training programme that teaches automation, machine learning, design, digital storytelling, and everything in between. He learnt about data analysis, smart workflows, and Alteryx; how to automate repetitive manual processes utilising Robotic Process Automation (RPA) and got comfy with the tools that provide the business insights that ultimately saved PwC thousands of hours on audit processing for its Bay Area clients. "I had always had an inclination for technology and was very fortunate to be chosen for the programme," he says.

It was a two-year period that also laid the foundations for his next career move. After 17 years at PwC, Meyo took the plunge. Leaving to not only begin a master's in data science at Berkeley School of Information but also to take up a new role at Masterworks. Studying and working at the same time has involved an arduous schedule of weekend and evening classes for his masters (a three-year course that he hopes to finish this year) alongside a new job that landed him in the corporate world for the first time in his career. Add in moving to New York and raising a two-year old, and he admits it hasn't been easy. "We have been on a bit of a roller coaster."

Masterworks

The ups and downs that come with joining a new company on the cutting edge of the tech, investment and art worlds has certainly added to the ride. Founded in 2017, Masterworks is the first platform for buying and selling shares in iconic art of its kind. It allows investors to build a diversified portfolio curated by an industry-leading research team, tapping into an alternative asset class valued at US$1.7trn and where growth more than doubled returns from the S&P 500 between 1995-2021.

Masterworks selects artwork according to what will have the greatest momentum. It then buys and securitises it before selling fractions of the work to investors on its platform. Investors typically wait three to ten years before Masterworks then sells the art, and they can take their profit – unless they find a willing buyer for their stake before on its secondary market. Each new painting is an SPV with its own IPO under US securities law, creating a regulatory framework that treats an artwork the same way as a listed company.

Behind the scenes, Meyo's treasury team pull the levers facilitating the platform. Masterworks has around 600,000 users in 200 countries and to date it has offerings (the fractions of an individual piece of art for sale to investors) on around 230 artworks. The finance function is responsible for launching around four to six new pieces for sale every week and overseeing smooth distributions behind the IPOs. Daily flows coming into the platform equate to thousands of deposits and the team are responsible for receiving and reconciling funds from new and existing customers dotted around the world on five different payment rails spanning ACH wire transfers to credit cards. Just as important is sending cash out when paintings are finally sold.

Alongside operating the company's end-to-end cash processing and reconciliation function his team also maintain the investor ledger and are responsible for accounting all transactions, financial reporting and maintaining bank relationships.

Of all Meyo's varied and complex tasks, international payments are his biggest bugbear. "Frictionless payment to bank accounts around the world still have a long way to go," he says, in a nod to that first wish. "The most difficult part of my job is creating an easy process whereby investors can

> We must solve the problems with technology. The pace we are growing means we will outgrow our traditional finance operation.

send us a payment that we can reconcile, and then for us to send money back to those investors in a way that is cheap and efficient." Masterworks is in the process of moving most of its international payments/payouts into cross border ACH in a bid to avoid the disadvantages of SWIFT that Meyo says are an enduring treasury pain point. "We want to avoid high fees, slow processing times and currency conversion charges which are in fact a hidden fee," he says.

He is convinced technology will make payments easier in the future. For example, international investors on the platform increasingly use local payment rails, paying into regional bank accounts Masterworks has opened with its banking partner Goldman Sachs. "The banking industry has come a long way. Things like this are making it easier for us."

He also notices that payment vendors and banks are boosting investment in technology, particularly APIs, giving treasury the ability to see live information and real-time transactions. "It's not cheap for banks or vendors to make APIs available to their customers, but it is a gamechanger," he says. "The first question we ask any new vendor that is offering a payment-related service is if they have an API. It makes such a big difference using APIs compared to a system whereby you must download Contract & Service Billing (CSB) to get a hold of your bank transactions."

Masterworks is also developing its own, bespoke solutions. Like T-Rec, its award-winning, in-house, API-powered, investor payment reconciliation system that acts as both a data processor and as a visualisation tool on all payments coming in and out of the business. No outsourced payment operations, administration option would have been cost-effective or able to seamlessly integrate into our investor experience, explains Meyo. "We built our payment operations entirely in-house."

Treasury's ability to develop internal solutions rests in the skills Meyo has recruited to build Masterworks' small but expert team. For example, the company's Accounting Manager has a background in programming and Python; the Payments Manager's grasp of technology and automation includes comfortably using tools like Zapier, and the finance team's dedicated Software Engineer ensures every new function and process the team develops gets into production. "We have assembled a truly modern finance team," he says, adding that working with such a close-knit team (in the office five days a week) is one of the most enjoyable aspects of the job. "I enjoy the face-to-face contact but also for the way it speeds up processes. I can look up and see the person I need to talk to. Things move faster when you are in the office."

Building out the treasury function has drawn on all his tech expertise. "For a regular accountant, a lot of this would be unknown," he laughs, reflecting that just a few years ago he was exactly that. Now it's a different story. "I'm not writing the code or setting up a new system in production, I'm not that person, but I can speak the same language as the developers."

Perhaps most importantly he has a level of understanding that means he knows what the treasury function needs and can articulate the way ahead. "What I enjoy most is the opportunity to innovate," he says. "Particularly listening to new trends amongst payment processors and being able to say yes, let's explore that."

Still, despite the steady stream of people seeking to work at the company, he says finding tech and programme savvy treasury expertise is challenging. Treasury applicants with accounting and operations skills who understand APIs and can comfortably navigate an SQL database are thin on the ground. "We can't rely on traditional manual accounting or spreadsheets," he says. "It's hard finding the right people, although I do notice more people are seeing the importance of shifting towards these skill sets."

But, in contrast to his time back at PwC when he was tasked with staffing the new Cancun office, Meyo reflects that building Masterworks' treasury headcount may not be the solution to the growing workload. Today the company has 240 paintings in its portfolio, but this is predicted to grow to 500 in the next few years. "It is unsustainable to keep recruiting people to do all these tasks manually," he says. "We must solve the problems with technology. The pace we are growing means we will outgrow our traditional finance operation."

An AI future

The solution, he says, is AI. Although the pace of progress in advanced artificial intelligence systems, such as OpenAI's GPT, sparks alarm in many quarters, including global tech leaders, in a treasury context he believes the benefits will be profound. Natural language recognition and processing could be applied to everything from payments and reconciliation to customer services and marketing. Accurate Chatbots that go into a company's knowledge base and give the same response that a human would are something to celebrate. He believes the arrival of widely used countless applications are just around the corner. "We are not applying it now, but we are willing to explore it. I'm not scared, I'm excited and think it is just going to make our life easier."

The conversation draws to a close with Meyo reflecting on his career highs. He counts the times he has embraced change as pivotal, namely moving from Mexico to Silicon Valley and more recently jumping from PwC into the corporate world. "Moving to a fast-growing fintech like Masterworks has been a lifechanging experience," he says. Other memorable moments are a nod to his academic prowess. They include graduating first, nationwide, in Mexico's 2011 Contador Público Certificado (CPA) cohort when he was still at PwC. "It was a big deal at the firm," he recalls. Selection for the Digital Accelerator Programme was equally important. "It really was a life changing programme. I was trained in data tools which was the inspiration to pursue my degree in data science and ultimately land a job in industry where I have been able to innovate," he concludes.

REMOTE WORKING IN TREASURY

Three years after lockdowns forced a change in the working patterns of office-based workers, remote working continues to be an option for many. Following on from our recent article on the rise of hybrid working, Royston Da Costa, Assistant Treasurer at Ferguson, shares his views on working remotely.

What should treasuries consider when contemplating remote working versus working in the office?

I think it's important that companies give their employees the choice. And by choice, I don't just mean about being able to work from home. Some employees might actually want to work in the office five days a week.

Challenges arise when companies try to apply one rule for everyone, or they allow one employee to work remotely but insist another employee comes into the office. Likewise, I've heard of instances where there have been resignations because people have not been given the choice, and have been forced by their companies to come in.

What are the advantages of working remotely?

Ferguson in the UK requires associates to go into the office on average two days per week. I believe, working from home is more efficient – for one thing, I'm not spending two hours stuck in traffic – and I have the flexibility of being able to manage my time. I can plan my day in such a way that I can work in a way that suits me. I'm fortunate I have a home office, the broadband in my area is very good, my daughters have graduated, and I have few distractions when working from home.

Based on a number of published reports on improved productivity, we can also see an improved work-life balance from widespread remote working. People now have more freedom to fit leisure activities into their workdays and ultimately, prioritise their wellness.

What are the benefits of remote working for a company?

Is a company more interested in hours worked, or in output? If the company is only focused on clocking in and out, then in my view, it's not looking to get the best from its employees. If it's concerned about output and productivity, then it needs to make sure there is agreement between company and employees on the best way to achieve that.

If employees are experiencing improved mental health, they will have improved motivation and work more efficiently – all of which leads to better productivity. Any potential disadvantages tend to be linked to a lack of social interaction.

Would you say there's a danger that people may become isolated if they work from home?

It comes up all the time – 'If I don't spend as much time in the office as I used to, I'm going to miss out on social interaction.' Well, compared to the past that's true. But the reality is when I go into the office – and I think it's the same for a lot of people – much of my time is spent on Zoom calls or meetings.

Now we have flexible working guidance, not everyone comes in on the same day. When I'm in the office, I will interact with one or two people. If anything, I feel the social interaction I've had working remotely has been of a higher quality than if I had been going into the office.

Is remote working here to stay?

When I was starting out in my career and my children were very young, there was never an option of working remotely or flexibly. But there's an argument the workplace doesn't have to be an office in a particular location. Technology has revolutionised the way we work, you can work from your laptop, phone, tablet etc.

For the younger generation, I would say the pandemic has had an impact on their expectations. They know what it's like to have more quality time with their family, and now they have experienced flexible working, they value it and are strong advocates for it.

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Is outsourcing a cop out?

In a cost-cutting environment, treasurers are under pressure to consider outsourcing. But very few have yet taken the step towards outsourcing core treasury functions. For now, it is non-core activities such as data management that are being handed over to third parties.

As inflation and borrowing costs rise, treasurers are under pressure to cut expenditure as much as possible. Some believe that outsourcing – whereby selected activities are handed over to third-parties to operate – is the answer, but is it? Damian Glendinning, Chairman of the Advisory Board of research company CompleXCountries and former Group Treasurer of Lenovo, says many treasurers are under pressure to outsource but he is not aware that any treasurer has outsourced a core treasury function.

While it makes sense to outsource functions that are not core skills, particularly where those skills are difficult and expensive to acquire, outsourcing core treasury functions carries the risk that control will be lost over such functions, he says.

"The first question to ask if you are thinking of outsourcing is what is pushing you to consider it and why and what do you hope to achieve?" he says. "Typically, the main reason is cost savings, but treasurers have to be careful they aren't penny wise and pound foolish."

Outsourcing service providers will argue that rooms full of people undertaking daily, repetitive tasks are ripe for handing over to a third party. However, Glendinning says any treasury that has a big team doing repetitive tasks every day "has a problem". In many cases, the problem resides in the systems and processes. Sort these out, he adds, and the need for such people – and outsourcing the tasks they are doing – disappears.

Alastair McGill, General Manager, Data Control at Broadridge Corporate, agrees that treasury operations are under the same pressures as other corporate functions and face the "inevitable challenge" of delivering more for less each year. "Any aspect of their operation that can be performed more efficiently outside of their direct control is worthy of consideration for outsourcing," he says. "The acceptance and trust that Cloud service providers have established means that from core treasury applications to cash and liquidity management systems, critical treasury systems are now seen as targets for outsourcing from a technology perspective."

Justin Callaghan, CEO of Dublin-based treasury services and advisory company FTI Treasury, says when it comes to outsourcing, the company's clients retain strategic treasury functions such as front office trading. Two principal areas are outsourced: the management of inhouse bank (IHB) structures, and back and middle office services and systems. "Outsourcing the IHB structure, which includes daily cash management, is very popular particularly with North American multinational companies that wish to have their international FX and cash management handled for them," he says.

Callaghan says there has been a narrowing in the field of processes that are being outsourced. "People realise that outsourcing works well for particular processes. What has also changed is that treasury systems have come on in leaps and bounds, which has improved the level of direct integration we have with our clients' systems, enabling us to provide reports directly into their ERP systems, for example," says Callaghan.

Andy Schmidt, Global Industry Lead – Banking, CGI, says corporate treasurers are looking to outsource non-core functions that require "specialised capabilities or do not provide a competitive advantage. Common examples include payments, liquidity management, cash flow forecasting, and receivables management where connectivity to payment networks can be key," he says.

Nadeem Shamim, Global Head of Cash and Liquidity Management at software and services company SmartStream, points out that bank treasuries do not outsource any of their treasury functions "because they are heavily regulated and any problems would have a direct impact on their liquidity buffers".

Operational and regulatory risk are the main obstacles to outsourcing bank treasury functions. "Outsourcing services providers cannot be bespoke to everyone – one size does not fit all. It is likely that outsourcing companies will not necessarily have the updated information on legal requirements that a bank is obliged to have," he says.

What is typically outsourced in bank treasury departments, however, are reconciliation processes, he adds. "Reconciling cash and liquidity at the end of the day appeals to treasurers because it is not a time-sensitive task," he says. "SmartStream also provides stress testing of previous liquidity with different scenarios, based on data provided by the bank."

Regulatory reporting for the Basel III capital adequacy requirements is also ideal for outsourcing, he adds. "There is an opportunity for banks to outsource the effort of gathering the data, putting the results in the right format and delivering them to the regulator."

Reconciliation processes are "designed for outsourcing" because of their staff-intensive nature, says Shamim. "Many reconciliation systems and processes are antiquated and use a lot of manpower. By outsourcing these processes, a treasury can reduce the size of its teams and redeploy those people to run something else."

Glendinning, however, believes that the manpower intensive nature of reconciliations is more due to "the junk that is going through" the systems than the process itself. "Treasurers should be asking themselves why such an intensive workload is being created. Much of the time it is because of wrong inputs. A key part of all administrative functions of finance is

that when things go wrong, you need to understand why and what are the issues that are taking place in the company. If you outsource those processes you will never know – the knowledge acquired by the person at the outsourcing provider is not held within your organisation."

Loss of control is an issue for treasurers when considering outsourcing. McGill notes: "Any time a process moves outside of your direct control there's a risk – which is why it is important to have the same level of control over your outsourced provider as you would have done had you kept the process inside the organisation." Broadridge ensures it remains certified on all relevant certifications, performing its own audits and bringing in external auditors to review processes. Clients are also able to audit the company's operations.

Callaghan agrees that control is a critical issue, particularly when it comes to risk. However, he feels that rather than a treasury department losing control by outsourcing "it is directly the opposite. We spend a lot of time agreeing with our clients the parameters in which to operate. Treasury has absolute control but doesn't have the administration and expense of the process," he says. The parameters are reviewed quarterly and the FTI team contacts clients on a daily basis. "We operate as part of a client's treasury team. It is an 'old school view' that outsourcing is separate."

The key task for treasurers, he adds, is to identify an outsourcing services provider partner that will control the operating environment and expenses. "They should ask how well controlled the outsourced environment is and how much experience the people who will be running processes have. I would add to that the need for independent auditing every year and evidence that the outsourcer is providing services to companies in your peer group."

McGill agrees, noting that there is a risk in outsourcing of "passing over your operations to a third party that doesn't apply the same level of controls that you would have taken internally. You need to be confident that the outsourcer can demonstrate a control system that is proven to meet your requirements and the requirements of any regulatory body." In outsourcing, he says, corporate communication takes place externally, which results in an increased communication effort. "Outsourcing therefore requires clearly defined communication channels and regular exchange."

Advances made in "less visible but equally critical services" such as monitoring and alerting technologies that provide essential control over critical operations have also helped to address concerns about loss of control, adds McGill. These services deliver early insight into unexpected events that could disrupt payment services. "There have also been advances in automated deployments and testing, making it easier for providers to keep clients' environments up to date with the latest patches, with minimum disruption. It is not just the infrastructure though; it is also the people and the services that are wrapped around that technology that are just as important."

Outsourcing has "inherent risks", says Schmidt, and these risks are frequently changing. "The challenge is being aware of the changes and understanding how these changes can impact your business. For example, privacy and security are risks that are well-known, and are common topics of conversation in any outsourcing relationship. At the same time, emerging risks including pending regulations such as the Digital Operational Resilience Act in the EU and climate change – or more

> Treasurers have to be careful they aren't penny wise and pound foolish.
>
> Damian Glendinning, Chairman of the Advisory Board CompleXcountries

accurately, climate resilience – are increasingly part of the outsourcing conversation and are also important topics."

Callaghan says outsourcing is "very suited" to day-to-day operational treasury tasks that ensure the smooth running of the department. These include daily cash management, management of zero balances, notional pooling, administration of intercompany loan portfolios, multinational netting management and implementation of FX hedging strategies. Some processes, he says, are not appropriate to outsource. "The more non-transactional treasury activities, which rely heavily on a treasurer's or CFO's relationship with banks, are not suitable to outsource."

Treasurers should define what they want to outsource, says Callaghan, and understand the difference between daily operational elements and the more strategic elements within a treasury. "I would recommend treasurers ask three questions of an outsourcing service provider: do you currently provide services to other clients in my peer group; do you have any third-party accreditation in your control environment; and can we speak with some of your clients?"

Outsourcing such activities, argues Glendinning, is not the right answer. "The correct solution is to improve the systems that are being used. The key factor for outsourcing to work is that everything has to fit into a predetermined set of transactions, with no exceptions. Those operating the systems have no autonomy. These people won't take the initiative or make a judgement, they will just follow a recipe. Weak finance teams would rather outsource activities to another company so it is not them saying 'no' to a client."

While Glendinning believes outsourcing amounts to something of a 'cop out' on the part of a treasury team, Shamim argues otherwise. "For many treasury teams the decision to outsource is based on the fact that they have a problem they just don't know how to resolve. An outsourcing service provider will deliver reports and feedback on their processes and how they can be improved. A treasury team can spend a lot of time and effort in trying to fix internal issues, or they can move that process out and focus on their unique selling point, which is not reconciliations," he says.

Callaghan also argues against the idea that outsourcing is a cop out. "We are bringing to the table knowledge in terms of processes," he says. "We manage around 30 in-house banks and we can see what works well. I advocate outsourcing those activities that are the day-to-day activities that do not add strategic value but need to be done. If I were a group treasurer, I would prefer to have a small team of experts doing the high value treasury projects such as managing bank relationships, rather than a large team of people that are consolidating data and acting upon it, for example."

Global payments transformation: where next?

The world of payments is evolving rapidly, with different regions progressing at different rates. Citi's Payments and Receivables Heads from around the globe share their views on how the payments transformation is being realised, how companies can benefit, and what this evolution means for treasurers.

The global payments landscape is undergoing a seismic shift. As Mark McNulty, Payments and Receivables Head for EMEA at Citi, observes: "Sometimes transformation is used as a bit of a buzzword – but you can't look at the payments landscape at the moment and not articulate what's happening as a transformation."

This transformation is multi-faceted. One is the shift towards real-time payments. As consumer expectations have evolved, people increasingly expect 24/7 availability and the ability to execute transactions in real-time, which is being matched by the proliferation of instant payment schemes around the world.

With the growth in ecommerce, meanwhile, more companies are moving to direct-to-consumer models which require them to accept multiple forms of payment. At the same time, developments such as the continuing adoption of digital wallets and the rise of QR codes and APIs are presenting new opportunities to move money quickly and conveniently, while transmitting data that supports rapid reconciliation.

A further aspect of this transformation is the development of the competitive landscape, as fintechs create products that are changing how payments are viewed by the entire ecosystem. "We used to be asked a lot about whether fintechs were a competitive threat to banks – less so now," says Sanjeev Jain, Payments and Receivables Head for APAC at Citi. "But in the last few years, the growth of fintechs has been very positive: many fintechs specialise in niche areas, and in user experience, which is a net positive for the financial services industry. I think partnership has become a bigger theme than competition."

Drivers of change

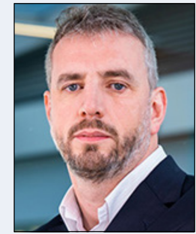
The arrival of the Covid-19 pandemic in 2020 was an important catalyst for the adoption of many of these developments. "Some of our clients, in markets where cheques are common, had cheques sitting in their offices with nobody able to deposit them," recalls Anupam Sinha, Citi's Payments and Receivables Head for NAM. "And they quickly realised that if they did not act, it would create massive working capital challenges for them."

McNulty believes that, three major trends are driving the evolution of payments. "The first is technology, which is clearly driving the transformation – whether that is what is now made possible by more dynamic connectivity models such as APIs, cloud computing, machine learning and artificial intelligence. Other developments include how our customers' business models are evolving with more decentralised infrastructures, as well as the evolution of virtual reality."

The second driver, in McNulty's view, is the evolution of clients' needs, including the adoption of new business models in which companies are looking to directly sell to, and service, consumers and counterparties that have much more sophisticated expectations of user interfaces and client experiences.

"Lastly, regulation in the payment space is driving a huge amount of change," surmises McNulty. "Governments are looking to digitise their economies and create efficiencies, and often that can only be achieved at scale by upgrading the payment infrastructure. Financial inclusion is also a significant driver of regulatory change, especially across Africa, where we see more of a move towards interoperability between local

Payments in EMEA



Mark McNulty – Payments and Receivables Head for EMEA

How is the payments landscape in EMEA evolving?

The march towards instant payments and 24/7 continues. In Europe, while the SEPA Instant scheme has been operational since 2017, adoption has been limited across Payment Service Providers. To counteract this draft legislation is now looking to make adoption mandatory for all participants in the Eurozone, which will only increase the scale and usage of instant payments in Europe. Elsewhere in the region, countries like Egypt, Bulgaria and Tanzania are looking to roll out mandatory instant payment schemes.

Where mega trends are concerned, the rollout of ISO 20022 is a very significant transformation, particularly in Europe and Africa. For years, we have been on a legacy format that limits the messaging and information we can provide to our clients, so this upgrade is very important.

Openness is another trend – we are seeing more frameworks emerging around openness and open banking in countries across the region. UK and Europe have been there for some time even if adoption needs to scale, but we are now seeing open banking frameworks appearing in more countries, including in the UAE and Saudi Arabia.

Other developments include the arrival of intra-regional cross-border schemes, such as BUNA and AFAQ in the Middle East and Africa, the Pan-African Payment and Settlement System, and P27 in the Nordics. We are also seeing market infrastructures become more sophisticated in terms of the capabilities they are adding. At the same time, we are seeing digital native platform companies looking to expand their offerings and services into the financial services space.

What sort of developments do you expect to see in the coming year?

I think the drive to increase the scale and resilience of the overarching infrastructure continues to be a huge trend, alongside the growth of ecommerce. Digitisation and the reduction of cash continues as a trend, particularly in Africa and the Middle East, where cash continues to be widespread. It is not going to disappear tomorrow – but the evolution of digital wallets and instant payments will continue to drive the reduction of cash.

I also think we are going to see an increase in the use of APIs by our corporate clients. That dynamic connectivity enables different use cases that companies can take advantage of, from pre-validation to real-time reporting.

Open banking will continue to mature, especially in Europe, while we are likely to see continued exploration and use cases around digital assets and the underlying technologies. And following the move to ISO 20022, structured data is going to be an important topic.

closed loop ecosystems and the wider banking infrastructure." In Latin America and APAC, likewise, financial inclusion has proved to be a significant driver of change.

Developments like digital wallets can play a role in providing unbanked people with other payment options. "China for instance is dominated by Alipay and WeChat Pay," says Jain. "But even in most of the emerging markets in APAC, wallet penetration has increased significantly over the years, whereas card penetration in many markets is still in single digits."

Implications for corporate treasurers

So, what do these changes mean for corporate treasury teams? And how can businesses harness the latest innovations? "This change has huge implications for corporate treasurers – and for banks, who are supporting those treasurers," comments Kirestian. "Treasury has evolved from a corporate function to an area that is supporting the core business of the company on a real-time basis."

As such, he says, treasurers have had to shift from the old model, in which vendor payments might be sent on a weekly or monthly basis for processing – "and if something went wrong, it just meant a vendor was paid one day late." Today, in contrast, "when there is a Request to Pay transaction in a coffee shop, because someone is buying a coffee, that person cannot wait two minutes to complete the transaction. It must go through within seconds – and the whole reconciled process around that payment also needs to be completed in a matter of seconds."

Where instant payments are concerned, McNulty believes, "some treasurers continue to deliberate whether instant payments offers a value added solution for their business model if they do not have a direct consumer nexus." But while the consumer nexus point is obviously a powerful use case, McNulty argues that B2B use cases are more and more prevalent. At the same time, he notes that instant payments come with the ability to drive more efficient reconciliation, as companies can access instant data in a way that was not previously possible.

Adapting to ecommerce: bring treasury in early

Where the rise of ecommerce and direct-to-consumer models is concerned, treasurers have a role to play in adapting their processes to accommodate high velocity, high volume instant payments. In practice, this means that treasurers may need to set up appropriate cash management structures and achieve greater control and reconciliation over the resulting flows.

Payments in APAC

Sanjeev Jain – Payments and Receivables Head for APAC

How is the payments landscape in APAC evolving?

Asia is front and centre of the global transformation taking place within the payments landscape. The region has leapfrogged from cash and paper-based payments to more digital forms of payments in many areas. On the ecommerce front, the banking system was previously lagging somewhat in terms of what end consumers were looking for, and this has given rise to a lot of alternative payment schemes to come into play to fill that void.

Over the last five years, most countries in the region have gone live with 24/7 low-value instant payments. At the same time, batch payments are starting to shift more and more towards real-time. Now that the foundational layer of true real-time banking is in place, value-added features are being added. In many cases, regulators are enabling this – but it's a two-way street, also driven by expectations from corporate clients and consumers. Banks, likewise, are advocating for this shift.

In many markets, QR codes have also become a big enabler, as they allow information to flow alongside payments. QR codes can be used to embed payments within an application – for example, if you make an insurance premium payment by scanning a QR code, the insurance company not only receives the payment, but also the full, rich information on what the payment was for and which policy it relates to. So, reconciliation can be completed right away.

Meanwhile, regulators are also looking at what's next. If you have moved low-value payments to 24/7, you could also do the same for ACH payments, which some markets have already done – India, for example, has already moved all forms of payment to 24/7. Other countries are also asking if they really need so many types of payments, such as Hong Kong which has decided to decommission ACH and move to instant payments.

What are the most important drivers and enablers of development?

Regulation is certainly one, and many countries in the region are learning from each other as they decide on next steps and further simplification. Other considerations are geopolitics, as well as concerns around data privacy – there has been a lot of focus on onshoring of data and platforms, which comes at a huge cost and effort from a bank's perspective.

At an industry level, the ISO 20022 migration is going to be very beneficial. The quality, consistency and standardisation of information flowing across banks will enable clients to see rich data and reconcile their payments. For regulators, this shift will also help to enforce anti-money laundering and sanctions around the world.

"For example, our Spring by Citi business is designed to capture the opportunity for our clients and offer a digital collection proposition," says McNulty. "This proposition will differentiate through its geographical scope, feature functionality and range of payment types, including leveraging instant payments, alternative payment methods and open banking to enable account-to-account collections."

But as Sinha notes, in many cases treasury may not be included early enough in the process, resulting in a sub-optimal infrastructure. As ecommerce scales up, treasury teams are then brought in and may need to enhance existing processes to ensure they meet the risk management framework and other treasury standards required by large organisations.

"So, one of the things we advise our clients is to get treasury involved in the process early on – have a treasury champion who understands the ecommerce evolution and can add value to the commercial team," Sinha explains. "Treasury should show value to their business counterparts early on in the process and be a critical part of the overall business growth as their organisation embraces ecommerce."

Where next?

While the payments transformation is progressing at different rates around the world, there are many common themes across the different regions. One key topic is the question of how best to facilitate cross-border instant payments, notes Jain.

"When a payment moves from cross-border to domestic rails, it's important to consider how the information flows, and what the regulators expect from screening and from the information you pass on," he says. "In some markets, for example, regulators want to make sure the bank that's receiving the money can figure out that it started as a cross-border payment. So, it's a conversation at a country-by-country level."

As progress continues, interoperability will be important as a means of avoiding fragmentation, in McNulty's opinion. "In Africa, for example, there is a big focus on interoperable switches, where you connect to ACH systems, instant payment systems and wallets, all through the same clearing switch. This simplifies the overall proposition and provides a better underlying client experience."

Moving forward, Sinha says technology will continue to be a major enabler of change. "Technology will remain significant in driving the evolution of the payments landscape," he says. At the same time, "the shift from payments being an 'experience' to payments being embedded in our clients' ecosystems will go a long way towards ensuring the world of tomorrow looks very different from what we've seen in the past."

Payments in North America

Anupam Sinha – Payments and Receivables Head for NAM

How would you describe the payments landscape in North America?

The landscape has historically been very paper-driven, but is rapidly moving towards more electronic payment methods, driven by initiatives like real-time payments. While North America has long relied on cheques, we are now seeing a significant change, with a year-over-year decline in the market. Cards, likewise, continue to be a predominant payment type here, but a rapid change is happening with things like real-time payments coming in, and the other peer-to-peer payment services. A lot of private sector initiatives are driving consumer flows and commerce.

From an ACH perspective, payment volumes continue to grow – but they are now growing at a slower pace than in the past. Some of that is driven by payroll flows moving away from ACH and going into real-time payments.

What do you see as the most significant developments and initiatives?

One of the most significant developments has been the launch and adoption of instant payments. But whereas many markets have mandated the adoption of instant payments, that kind of regulatory mandate does not exist in the US – which means not all banks are reachable. This has somewhat slowed down the adoption of instant payments, but we are seeing good progress.

What sort of developments do you expect to see in the coming year?

As our clients' business models evolve, I think we will see a significant shift of flows from the traditional B2B to B2C/C2B, which will drive flows towards real-time payment schemes. Another big change is that along with the existing TCH Real Time Payments scheme, the FedNow scheme is due to be launched later in the year, which will drive adoption and increase reachability. In Canada, meanwhile, the existing infrastructure is being replaced by real-time rails (RTR).

Payments in Latin America

Gabriel Kirestian – Payments and Receivables Head for LATAM

How would you describe the payments landscape in Latin America?

Latin America is one of the regions leading the implementation of new payment schemes, not least because of the region's progressive regulations regarding payments.

We already have 12 markets with instant payments schemes, which has been driven by regulators, and three others are due to be implemented this year. Among them we have success stories like the Pix instant payment scheme in Brazil, which was launched two years ago and is already processing close to 2.6 billion transactions per day. Argentina and Mexico are likewise big volume markets which have already implemented successful payment schemes.

But it's not just about instant payments. The big markets like Mexico, Brazil and Argentina not only have the basic component of an instant payments scheme, but also QR codes on top of that rail, and Request to Pay schemes that enable consumers to pay online or offline at any time of the day. Interoperability is also very important, and Argentina in particular offers the ability to do payments between virtual wallets and bank accounts in the same clearing system in a transparent way.

What sort of developments do you expect to see in the coming year?

One of the main drivers behind this transformation is the regulators trying to create more financial inclusion, particularly by improving interoperability. In Latin America, a high percentage of employment is in the informal economy, and a lot of people either don't want to open a bank account, or don't qualify to do so. Having these types of virtual accounts that can be regulated in a different way is a really critical role of governments and regulators.

Some countries are already discussing the implementation of Central Bank Digital Currencies (CBDCs), which could further increase financial inclusion by adding the unbanked population into the system and replacing cash, which is the instrument used by that portion of the population. Beyond that, I expect to see the integration of instant payment schemes into a cross-border payment structure or system that could take advantage of local schemes that are already there.

As the evolution of payments continues, consumer adoption will be key – and that requires trust from the end consumer. Regulators and governments in Latin America will need to play a role in addressing this in order to help drive adoption.

Treasurers gear up for wearables

The possibilities of wearable technology are exploding, and many industries are taking advantage of the speed and convenience that the technology has to offer. Not only does this mean increased efficiencies for the treasury and finance teams, treasurers could be soon wearing them to do their day job.

In the not-too distant future wearable technology could be a part of your everyday life. Need to monitor your blood pressure? Take a pill, and the tech inside will continuously do it for you. Need to work out? Put on some vibrating yoga pants to make your poses more effective. Want to make contactless payments? Embed an NFC chip in your arm, just tap your wrist and go. That might be a bit extreme, and most people are opting for a smart watch or ring instead. Such devices are becoming more commonplace, and the possibilities of wearable technology have mushroomed in recent years. No longer the preserve of tech geeks, many industries are taking advantage of the technology and wearables could soon be coming to a corporate treasury near you.

"Wearables are all about efficiency and taking steps out of a process," says Albert Bodine, Director of Commercial and Enterprise Payments at Javelin Strategy & Research. When it comes to finances and corporate treasury this can translate into greater efficiencies with payments, for example, and increased profitability. And some other benefits for companies could be enhanced productivity, enhanced speed and greater accuracy.

And, unlike smartphones, wearable technology is usually worn all the time, making it much more convenient. An avid wearable user, Bodine uses his smart watch for fitness tracking, listening to music, making and receiving calls, and paying for goods using the tap-and-go contactless function. This is just a glimpse of what is possible with the technology, which is expanding into many other forms.

DelveInsight, for example, notes other wearables – aside from the smart watch – that are becoming popular include: smart bands, smart jewellery, smart clothes, smart glasses, implantables, smart helmets and smart hearables. And these devices are being used for real-time monitoring, proactive healthcare and activity tracking, for example.

Such smart devices are becoming more mainstream, and the pandemic increased interest in general usage of wearables. In the wake of COVID-19, Gartner estimated that global spending on wearable devices would total US$81.5bn, an 18.1% increase from 2020. This was put down to an increased interest in consumers in tracking their own health, as well as a greater interest in wellbeing and fitness. Also, more people were buying ear-worn devices as they were relying on these devices to work remotely. Another consequence of the pandemic, Gartner notes, was that people were more engaged in e-health and monitoring their wellbeing and interest in smart patches grew.

Bodine gives an example of this wider trend: pulse oximetry, or measuring the level of oxygen in the blood. During the pandemic, this metric became important for those who were suffering from Covid and it is also a good indication of overall health. And such technology, Bodine says, could be used by companies to monitor the health of their employees. If, for example, a long-distance driver's oxygen level indicates they are tired or unwell, they could be stopped from undertaking a potentially dangerous journey.

Kane McKenna, Wearables Analyst at CCS Insight, says that in recent years there has been particular interest in wearables for activity tracking, health and wellbeing. This has mostly been with individuals looking after their own health, but this data could be useful for companies as well. Insurance companies – such as life insurer Vitality Insurance – incentivise customers with better rates if they use fitness trackers, for example.

Another recent development, notes McKenna, is with femtech – or women's health – with apps such as fertility tracker Natural Cycles. This solution can now be linked to a wearable to remove some of the steps in the process. Previously, someone who is tracking their fertility would take their temperature at the same time every day and log it manually in

the app, which then analyses and predicts peak fertility. Now with a wearable, which automatically reads their temperature, it is done automatically. It is possible, for example, to use the Natural Cycles app with a Samsung sensor and smart watch, as well as the Oura Ring, a smart ring that is typically used by individuals to monitor and analyse the quality of their sleep.

Other applications include continuous glucose monitoring for diabetics, which links a smart sensor on the individual's upper arm to the app. This feeds almost real-time data on glucose levels which can be shared with multiple parties, such as doctors, or, in the case of a child, a parent. There are numerous other potential applications in the healthcare field, such as monitoring heart conditions, or other remote patient monitoring, which will free up capacity in hospitals – as patients can be assessed from their own home – and doctors are able to work remotely.

Aside from the obvious applications in healthcare, Bodine says that logistics is another obvious use case for wearables. "In logistics, wearables are making a huge impact," he tells Treasury Today. For example, wearables can be used to confirm the receipt of goods, which can then trigger the payment. When a delivery truck arrives at the store, for example, the driver unloads the crates, the shopkeeper acknowledges the delivery by tapping their smart device against the driver's reader and the data is sent automatically. This is a far more efficient way of doing things than giving the driver a cheque, which is taken along with a bundle of others back to the depot, to be passed on to the finance team, to be processed for payment, which will happen days, if not weeks, later. For the finance and treasury teams in such companies this makes things more efficient, reduces the days sales outstanding (DSO), and is ultimately more profitable, notes Bodine.

In financial services, a very noticeable application of wearables has been for contactless payments. Instead of tapping a card or a smartphone, the user taps a smart watch, bracelet or ring on the reader, which is often used for public transport. Another use case is in closed-loop environments such as theme parks or sporting events where the ticketing and spending can be done from the wearable. Someone could tap their bracelet to enter through the ticket gate, to go on a ride, and also pay for their lunch.

McKenna explains that contactless payments isn't why people buy wearables, however. CCS Insight does an annual survey and has consistently found that health and activity trackers are often the reasons for users to buy a smartwatch or upgrade. Although contactless payments are low down on the list of reasons to buy a smartwatch, once people have purchased one, they may also use it for that reason as well.

And the smart technology is moving to smaller devices, and so wearable payment rings are increasingly common, which – unlike paying with a smartphone or card – saves on the need to rummage through a bag to make a payment.

Another reason to enjoy contactless, points out Bodine, is the aversion to touching surfaces that occurred since the Covid pandemic. He gives the example of an executive who is travelling on business and pays using their smartwatch for the hotel, and for their car. It's not just the ease of making the payment, but also the data that is now flowing on the backend to get the transaction cleared, settled and reconciled – all possible to do without the need for a paper receipt or onerous expense claims on return to the office. "With the advent of instant payments – with real-time payments from The Clearing House and FedNow payments – that is going to clear and settle within 20 seconds," says Bodine. Also, it all happens without having to touch a thing.

Anything that sees payables and receivables getting processed more efficiently is good news for treasurers. And in their day job, as part of managing their banking relationships, wearables are also becoming a feature.

Bank of America, for example, integrated its corporate treasury platform, CashPro, with Apple Watch, to tokenise the wearable technology. This means that treasurers, and other users of the platform, can generate a one-time password from their smart watch, instead of carrying around a bulky physical token. The bank told Treasury Today that it has plans to introduce a more frictionless method for users to authenticate themselves with a token via their Apple Watch. This method is particularly convenient for people who are travelling and don't wish to take the banking tokens with them – treasurers often have several devices ie one for each of their banks – which is not only cumbersome but incredibly inconvenient if they forget to pack them. With this approach, all they have to do is install the CashPro app on their Apple Watch.

Bank of America is one of a few banks that offer a mobile token on the Apple Watch. When asked if this idea of CashPro integration had been extended to other wearables, Jennifer Sanctis, head of CashPro App and Personalised Technologies in Global Transaction Services at Bank of America, told Treasury Today that the team is currently in a discovery phase regarding the application of wearable technology to support treasury operations.

Sanctis added that the bank has filed a number of patents related to the technology with the United States Patent and Trademark Office. She commented, "We don't have other wearable-enabled solutions as yet, however, we think the technology will become increasingly prevalent." When asked to comment on the other potential uses for treasury solutions, she said: "The possibilities of how wearables can support treasurers are limitless. The patents that we have under review range from how wearables can support data reporting, the use of smart glasses, communicating with service agents and enhancing content through AR and VR [augmented reality and virtual reality]."

And beyond these applications, there is also the potential for wearables to be used for user authentication by using biometrics. McKenna explains this could be similar to how fingerprints or face scans are used to unlock smartphones. He sees potential for biometrics and wearables in the treasury environment for authenticating bank customers, for example.

Bodine comments that there is no reason why you couldn't have biometrics in the corporate treasury environment. It is common to have cameras on phones and laptops, why not extend this to retinal scanners? And with other uses of biometrics, Bodine comments, "Our eyes and fingers are wearables," which opens up even more possibilities.

McKenna points to a trend of biohacking, which takes the idea a step further, where people have self-implanted a payment chip so they can pay more easily and conveniently. Maybe this is a glimpse of what the future will look like, but for now most treasurers will probably opt for the more mainstream smartwatch.

Financial market volatility complicates funding environment

The major cash management banks remain bullish about their role in the provision of trade finance despite recent market upheaval.

The collapse of Silicon Valley Bank and the rescue of Credit Suisse by UBS sent shockwaves across the financial sector, with the chair of the Federal Reserve warning in March that lack of confidence would contribute to significant tightening of credit conditions. Also in March, Sunil Barthwal, Secretary of India's Department of Commerce, told a meeting of the G20 Trade and Investment Working Group (TIWG) that co-operation among member countries was required to reduce the widening trade finance gap. However, most of the leading banks reckon recent turmoil in the banking sector has had limited impact on access to trade finance.

"In general terms any stress in the banking sector affects corporate access to liquidity, though the impact of recent events was more focused on deposits," says James Fraser, Global Head of Trade & Working Capital at J.P. Morgan Payments.

What has changed in the trade finance space is that the conversation has moved back to reliability of funding and the concept of 'backstop' providers for critical credit facilities such as supply chain finance, he adds. "If you are a large multinational and your entire supplier base is depending on

access to cost-effective lending because of you, reliability of funding is non-negotiable."

Tighter liquidity conditions and higher interest rates may lead suppliers to rely on their buyers more to ensure the financing of the commercial contract, in order to lighten their balance sheet, suggests Marie-Laure Gastellu, Head of Trade Services at Société Générale. In this respect, trade finance programmes enabling the financing to be extended directly to the buyer may be favoured, she says.

"The potential contagion risk to banks in Asia has been limited as banks in the region are well-capitalised with relatively small direct exposures to the affected banks," says Sriram Muthukrishnan, Group Head of Global Transaction Services Product Management at DBS Bank. "Against this specific backdrop, we see limited impact on trade finance."

Sam Mathew, Global Head of Flow and Financial Institution Trade, Transaction Banking at Standard Chartered agrees that the effects of bank failures in North America and Europe have been less acute in emerging markets. However, he also acknowledges that there has been a review of financial institutions' counterparty risk appetite and exposures.

"What we have seen is a flight to quality and some banks are benefiting more than others, but overall there has been no real impact on capacity," says Javier Sanchez Asiain, Global Head of Global Trade Finance at Crédit Agricole CIB. "If anything, we have seen more companies look at their working capital initiatives recently to be better prepared for future potential turmoil."

According to Stephanie Betant, Head of Global Trade and Receivables Finance at HSBC UK, the longer-term implications include a shift towards more structured, short tenured/self-liquidating structures that are asset backed. "This would more directly reflect funding institution repayment maturities and point more toward trade finance solutions," she adds.

In terms of demand for specific products, Asian Development Bank research indicates that letters of credit accounted for more than 37% of the trade finance market in Asia last year, compared to the global average of 26%. Fraser reckons there is always a 'flight to security' back to letters of credit when there is a risk event in the market.

"The primary purpose of letter of credit is to mitigate counterparty risk, whether that is a corporate or a financial institution, and right now players in the market are naturally evaluating which counterparties they are comfortable depending on," he says. "I don't see corporates making dramatic shifts in their counterparty risk appetite – though decisions are being made in measured and strategic ways."

Betant notes that when risk appetite is restricted there has historically been a move toward documentary trade buyer risk mitigation. "As the move toward open account trade accelerates, other risk mitigation tools are assessed by sellers such as bank guarantee/standby letters of credit issuance, in order to backstop an element of seller risk," she says.

However, Mathew observes that global letter of credit throughput was down year-on-year in the first quarter of 2023 with financing demand affected by the prevailing SOFR term rates and higher cost of borrowing. He also refers to a redenomination trend from USD to local currencies for trade finance as cost of borrowing differentials between USD and local currencies diverge, especially for local/regional flows.

Liquidity has not tightened due to recent turmoil in the trade finance space, as the impacted banks were not active trade banks and had very limited trade exposure, claims Asiain. "The evolution of the product mix is mainly driven by credit risk appetite, regulations for the various products offered in the space, and working capital optimisation," he adds.

Dave Skirzkenski, CEO of Raistone also rejects the idea that tighter credit pushes companies toward letters of credit. Rather, he suggests that companies looking to mitigate risk and obtain liquidity against receivables are increasingly choosing open account transactions, which has resulted in increased adoption of receivables finance.

"We have not seen a marked shift towards the use of letters of credit in the past few months," says Muthukrishnan. "However, the high cost of funding and inflationary environment could contribute to a greater preference for letters of credit to mitigate the risk of non-payment."

While letters of credit and bank guarantees still have a place in the trade finance suite of products, companies are increasingly turning to digital trade products such as supply chain finance to increase their control over working capital.

That is the view of Thomas Mehlkopf, Head of Working Capital Management at Taulia, who says his company's latest supplier sentiment survey report found that 59% of respondents expressed an interest in taking early payment for a discount.

AdvanIDe
Advanced ID electronics

Case study

Semiconductor manufacturer AdvanIDe (Advanced ID Electronics) provides components for RFID transponders, chip cards and RFID readers and terminals. The company recently sought a trade finance facility including import invoice financing to extend credit terms on vendor invoices and receivables financing for the credit terms it extends to its customers explains Chief Financial Officer, Joseph Lian.

"We also needed a banker's guarantee for vendor purchase and participation in government tenders as well as a letter of credit for export, a revolving short term loan, and a long-term loan," he says. "In addition to our existing bank relationship we looked at a number of other banks to give ourselves options."

The company eventually decided to go with Standard Chartered having received what Lian describes as a competitive proposition. When asked to characterise the application process, he suggests that if the onboarding process could be improved and the lead time reduced, it would be advantageous in terms of helping companies become more competitive.

> On documentary trade products we have not seen many non-bank providers successfully entering the market.
>
> Marie-Laure Gastellu, Head of Trade Services
> Société Générale

One of the key themes to emerge from the TIWG meeting was that adoption of fintech solutions for improving access to trade finance needed to be accelerated. According to research by Valuates Reports – which estimates that the global trade finance market will expand by an average of 5.4% annually between 2023 and 2029 – there is a growing desire to move away from banks towards non-traditional sources of capital. Mehlkopf reckons smaller businesses are questioning whether their existing bank strategy is the right one.

"Flexibility and security of access to funding have consequently increased in priority," he says. "For smaller regional banks, we have seen significant outflows of deposits as businesses dash to more established larger banks and money market funds. Our expectation is that credit appetite will shrink further and we can already see this taking place as regional banks limit access to trade finance."

Institutional buy side investors continue to increase their interest in trade finance due to its short term, self-liquidating nature, especially as trade finance platforms connect this capital to additional opportunities to hold private credit.

"This is a continuation of the trend which began with the introduction of Basel III," says Skirzkenski. "Small and medium sized enterprises are benefiting as trade finance providers can offer solutions to companies from distressed through investment grade by tapping bank and non-bank capital."

Fraser suggests bank capacity has remained relatively resilient, although he also recognises the increasing role of insurance balance sheets as an alternative source of funding, particularly where supported by alternative asset platforms increasingly active as originators in the trade finance space.

"On documentary trade products we have not seen many non-bank providers successfully entering the market," says Gastellu.

"In the open account trade finance space, non-bank players are not really active on the financing side – most of them provide technology-based solutions to facilitate the corporate experience by exposing its transactions to its banking pool, as well as facilitating and receiving financing offers from its banking pool. Other platforms also facilitate risk distribution and buying or selling of trade assets on the secondary market, but these platforms do not provide the financing, which is still done by banks."

Asiain and Mathew both observe that non-banks are growing their presence in trade finance largely through partnering with banks rather than replacing them, with the former referring to alternative investment models "achieving some minor success on small sized companies or non-investment grade flows but having limited impact on main trade flows."

In bank intermediated flows such as letters of credit, the bank plays the role of a trusted intermediary that also mitigates the credit risk and provides settlement, adds Mathew.

Inevitably, the largest corporates are best placed to ride out any issues in the funding market due to their access to multiple banking relationships and the resources to develop a standardised approach to trade finance.

Srinivas Koneru, CEO of Triterras refers to the trade finance market as cyclical, but adds that stricter capital requirements have reduced the amount of funding banks can make available for trade finance over the last five years.

"Lack of availability of capital from the banks creates opportunities for fintechs," he says. "But it becomes challenging to deploy funds across multiple jurisdictions because of the need to hold a regulatory licence in each market."

Then there is the issue of higher costs of capital and a generally higher cost base for providing trade finance services. "When a platform is redeploying capital from different lenders it will have additional costs and these platforms have to make a profit," says Koneru.

Case study

Paxton Access designs and manufactures security solutions for a range of buildings that are exported to more than 60 countries worldwide. The company has banked with HSBC for nearly 20 years, over which time revenues have increased tenfold.

"Trade financing had not been something we had previously required, running things lean as we did," explains Adam Stroud, CEO. "However, with increased stocks, slower transportation methods, and new equipment and infrastructure required, we had a clear funding gap."

He describes the discussions as straightforward and says the company's relationship director understood exactly what it needed and why. "The terms were acceptable to us and, after completing the due diligence of seeking competitive quotes, we went ahead," adds Stroud. "Within around a month, we had access to a new multi-million pound facility that funded the gap and was straightforward for our finance team to administer. Now, a few months on, the new facility is being used and we are starting to enjoy the cost and productivity benefits – as well as the business security – that our investments have allowed."

TT'S 25TH ANNIVERSARY: A SINGULAR SUCCESS?

At its launch in January 2008, John Hurley, Governor of the Central Bank & Financial Services Authority of Ireland observed that SEPA was designed to do for electronic payment instruments what the introduction of euro notes and coins in 2002 had already done for cash transactions.

It now encompasses around 530 million citizens across 36 European countries and SEPA payment schemes are used by thousands of payment service providers to facilitate some 46 billion transactions each year. Today, virtually all euro credit transfers and direct debits in SEPA are based on the EPC SEPA schemes, thereby achieving one of the main goals of the initiative observes Giorgio Andreoli, Director General of the European Payments Council (EPC).

"This single payment area, sharing consistent rules, has helped to innovate and develop new initiatives such as SEPA Inst, which aims to also make instant payments universally available across the EU," says Frederic Viard, Director of Financial Messaging at Bottomline. "By making this instant payment rail mandatory for payment providers processing payments in euro, the European Commission has delivered less friction, better reachability, and improved availability on liquidity."

Etienne Bernard, Global Head of Transaction Banking at Crédit Agricole CIB refers to an improvement in lead times, which have gone from several days, before 2008 to 24 hours, to instantaneous transfers since 2017. "This has been made possible thanks to the technical and functional developments initiated and in particular the use of identical standards for all actors in the payment scheme," she explains.

According to Salwa El Yacoubi, Global Euro Offer Product Manager at BNP Paribas, the fact that SEPA use cases extend from individuals to the largest corporates (and the harmonisation of the payment schemes and framework) has facilitated an increase in economic activity across Europe. There is significant opportunity for SEPA as innovation evolves faster in the eurozone, according to Steven Anderson, Product Director for enterprise payments platform at Fiserv in EMEA.

"The European Commission's proposal that all European bank account holders have access to an instant payments system is working its way through Brussels, with the publication of regulation anticipated towards the end of 2023 or early 2024," he says. "From this standing start all banks in the Eurozone will need to enable customers to receive instant payments within six months and send them within 12 months. SEPA could facilitate these payments."

Overall, SEPA has been effective in creating a consistent set of rules that are applied across the many national euro credit transfer and direct debit schemes suggests Joe Morley, TrueLayer's EU CEO, which means cross-border payments via SEPA Credit or SEPA Direct Debit are easier to make for both merchants and consumers. However, he also refers to the problem of direct and indirect IBAN discrimination and notes the adoption of SEPA Instant has been a little underwhelming.

"It is optional and therefore just over half of EU banks have made it available," says Morley. "In many cases it is offered at a premium, making it uncompetitive in relation to other payment methods. There are also technical issues of interoperability between payment rails like TIPS and RT1."

Arjeh van Oijen, Head of Product Management at Icon Solutions says more work needs to be done around card payments. "Despite the European Commission's call for a new European card brand to increase competition, the market continues to be dominated by Visa and Mastercard."

Furthermore, payments instruments that enable consumers to pay for online and in-app purchases of goods and services – such as iDEAL in the Netherlands and Giropay in Germany – are still country-specific and lack a European standard.

SEPA request-to-pay has the potential to drive new innovations in the B2B, B2C and P2P payments space and may even become an alternative to traditional card payments according to van Oijen. "There have been various successful deployments in countries like the Netherlands, Belgium and Sweden, but all have been based on country specific schemes and standards," he concludes.

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Startup treasury: lessons from SVB's collapse

As the dust settles from Silicon Valley Bank's collapse, startup treasury strategy and skills have come to the fore. Avoid concentration risk, especially in banks, know your money market account from your money market fund; get things done quickly – and be a bit scrappy.

"The first part of treasury management at a startup is to make sure your bank still has your treasury," laughs Bill Hunter, President and CEO of California-based Canary Medical, a company making pioneering smart medical implants that provide data insights into patient surgical recovery. But still reeling from Canary having to scramble its finance operation to navigate the fallout from Silicon Valley Bank's (SVB) collapse last March, Hunter is only half-joking. Canary Medical only had around 5% of its assets with SVB but still stood to lose around US$5m before US regulators came in to guarantee deposits at the stricken lender. SVB's collapse also caused a hiccup in Canary's treasury operations. It's ERP system spanning payroll, invoices, payments and purchase orders all ran through SVB. "Our money was safe, but we had a nightmare restructuring the processes in our IT system," says Matteo Marchetta, Chief Financial Officer at the company.

Founded in 2011, Canary Medical has a more mature treasury function than earlier stage startupss. But the sudden demise of the tech sector's favourite bank has shown that even if treasury comprises just a handful of people juggling multiple tasks, the team managing the money behind the scenes are as essential to business success as any celebrated founder.

Concentration risk

Concentration risk of any kind, whether in a single customer, specific employees, or owners in the supply chain, is dangerous for any company. But perhaps the most important lesson in startup treasury revealed in SVB's collapse is bank diversification. Thanks to a best practice approach to risk and investment management engrained from a decade working for startups in Silicon Valley, Marchetta had ensured that SVB was only one of Canary's banks.

The company spreads its money between different accounts, distributing the risk. Some is placed in different currencies (to the dollar) and rather than leave it on account with its banks, cash is invested in short-term treasury bills. "We have really worked on our investment policy and risk management," he says. "In my experience, earlier stage companies might not think it's worth the time, but when you have a crisis like this, it is."

But it is a strategy that meant going against the grain. Startups typical relationship with SVB was shaped around borrowing relatively small sums from the bank in a loan agreement that also entailed parking most of their (much larger) assets with the bank to manage. "Most startups would give all their VC money to SVB and leave it there. We know businesses that borrowed US$20m from SVB but handed over US$100m for them to manage," says Hunter, who like Marchetta, has learnt from experience that bank failures for serial entrepreneurs aren't that unlikely and it's important to dig into every loan agreement and seemingly throw away clauses. "I banked with Merril Lynch in 2008 so this is not the first time my bank has gone belly up. Experiencing something twice in a career is not a once in a lifetime thing."

For Terence Kaplan, COO of Wayleadr, a venture backed B2B software company behind a leading arrival technology that steers motorists to available parking spaces and EV chargers at their office or multifamily location, the crisis also highlighted the importance of banking with diverse lenders. Wayleadr didn't bank with SVB and is mature enough to have the security, tech expertise and direct relationships with a larger banking cohort, but for most startups this is not an option. "Big banks aren't interested in banking and lending to startups," reflects Hunter.

For all the talk of the need for diversity, in a catch-22, startups struggle to find banking partners. Years back, Hunter had to provide guarantor letters and "jump through hoops" to find a bank willing to back a business based in Switzerland, and he says banks in his native Canada are equally reticent to lend to startups. "Banks in the US are far more open to taking your business than any other part of the world," he reflects. "SVB was an incredible source of investment for startups. It accepted the risk, and the money was cheaper than other sources. Many banks don't understand startups and can't distinguish a good or bad company. SVB was filling a niche, but they were the 800lb gorilla in that space. They were the Goldmans of the venture space and within that realm, we've lost the anchor tenant."

As the dust from SVBs collapse begins to settle, some Treasury Today interviewees see new players entering the market. For example, flows to neobanks providing digital-first and often digital-only banking platforms with low or no fee services have spiked. Scott Orn, Head of Startup Accounting & Taxes at Kruze Consulting in San Francisco, believes SVB's departure will act as a catalyst to neobanks who have already seen a sharp influx of new clients comfortable with the technology. "Founders are self-serving, software people and

really like the ease of use of neobanks. The market is moving, and people are going to find alternatives," he predicts.

Cash management

Cash management is another vital skill in startups treasury. Deciding where and how to put investor money to work before it is sunk into the business is a key focus for Kaplan. "Investors hold us accountable," he says. "Your resources and capital are limited to what you've raised, and how you manage it is critical."

In one cash management strategy that is a direct consequence of the crisis, Treasury Today interviewees note more companies investing in US government bonds – something Canary Medical's Marchetta was already doing. Most startups typically put their money in interest bearing money market accounts (as opposed to MMFs) with their banks. Because these accounts are still on the bank balance sheet, these precious assets were also at risk when SVB went down. "Instead of having a money market account at the bank, some companies are buying treasuries directly," says Orn.

Post SVB, and startup treasurers' new awareness that insurance from America's Federal Deposit Insurance Corporation only covers up to US$250,000 of deposits, the number of startups parcelling off small deposits to different banks has turbo charged. The strategy is complicated given many startups have borrowed from their banks on the basis that they keep their cash with the bank, but it is still leading to demand for new products, says Orn.

Like an "insured cash sweep" service whereby a bank breaks large deposits up into chunks and farms them out to multiple banks, freeing small treasury teams from the administrative headache of managing small pots of money behind the scenes. "Under insured cash sweep facilities, treasury can place 250,000 with this bank and 250,000 with that bank which maximises security," says Orn.

Communication

Another key lesson from SVB's collapse is communication – for many, the first rule in any crisis. "Communicate with your CEO and your board if you are dealing with something existential," advises Russ Porter, CFO and Senior Vice President for Institute of Management Accountants (IMA) says that treasury teams have a fiduciary duty to communicate with their boards, a powerful resource in times of stress.

At Wayleadr, treasury's direct access to the CEO is vital. An open door between the founder and finance team allows a strategic treasury function, distinct from old-fashioned, back office number-crunching. "I see treasury like an advisor to the CEO. It is my responsibility to give our CEO all the insights from the data we have so he can make the best decisions for the business," says Kaplan for whom communication also involves staying in touch with his treasury network. "Having access to a strong network of peers to bounce ideas off helps me because everyone's situation is different, and no one size fits all."

In a crisis treasury is also responsible for communicating the rationale behind financial decisions to other departments. Porter explains that finance in a startup involves communicating the reality of the situation (more, he says, that just 'hey, we are in a crisis,') and detailing what action the company is taking with its suppliers and, crucially, employees. "Payroll is 70% of a startups spend," flags Orn.

Porter's advice is to pay employees first on the basis that treasury will probably have good enough relationships with suppliers and customers to stretch payments. "It's never fun to not pay suppliers, but it's less fun to not pay employees." It requires a thoughtful process and knowledge of key relationships (time and energy-intensive for a small company) and balancing those that the company is completely reliant upon with those that "will be fine" if they go unpaid for a few weeks. "You have to ask if you don't pay them, will you break relationship that will hurt you in the long term."

Skills

Other key advice for startup treasury in the wake of SVB includes investing in people and technology. It means overcoming an instinctive reticent to invest given treasury and finance aren't a natural priority when resources are scarce, and money is needed elsewhere until the company grows.

Skills to look for include a mishmash of resourcefulness, financial acumen, and the ability to get things done. Startup treasury requires people who can see the big picture and know what the business needs to achieve from a strategic point of view, but also people with the ability to dive into detail and understand the ins-and-outs of day-to-day operation. "You need people with a long-term macro strategic mindset but also the ability to get into the weeds and get stuff done quickly and be a bit scrappy," says Kaplan.

Startup treasury requires expertise in building financial models and projecting when the company will need capital, continues Orn. "A founder is typically a great engineer or salesperson, but they may not be great with money."

Scenario planning

Treasury teams say the crisis has also highlighted the need for scenario planning to get a handle of what it looks like if the worst happens. SVB's collapse was partly a consequence of a change in the macro landscape that was already on Kaplan and the team's radar. "Before interest rates edged higher, we had written different scenarios about what could happen if there was a banking crisis. We had already run different scenarios in the team to plan for the worst." Orn also notices more companies drawing up ratified Cash Investment Policy Statements, for the first time clearly outlining where the company invests.

Although Canary is at a later stage and will have access to capital in different segments, how best to finance the business in the coming year is now front of mind. Any debt refinancing will be more challenging; interest rates have gone up and the largest debt provider is no longer in the market, says Marchetta.

Kaplan's key priority ahead is wise use of scarce resources. He will focus on ways to improve operationality. The company has just seen its strongest quarter of growth and he is determined that treasury will continue to support that through innovation and staying on top of fundamentals. "We are the Number 1 ranked software on the market. We've just got started."

Higher interest rates

"Rising interest rates hold opportunities and challenges for corporate treasury. Borrowing costs more, but those with money to invest are finally getting a return."

Robert Westreich

Senior VP, Treasurer and
Chief Tax Officer
Newell Brands

Rising interest rates have increased our cost of borrowing, at the same time the challenging macro-economic environment has put pressure on our credit rating. Together, this has significantly raised our cost of capital and our issuance costs in a trend we expect to continue medium to long term.

We have tried to flatten our debt towers and ensure we have no more than US$500m payable in any given year. This allows us to either re-finance without feeling any major impact from higher rates because it is a relatively small sum, or we can fund it out of cash.

We had US$1bn coming due this April that we refinanced last September. We split this into two tranches of US$500m, giving up a note that cost us under 4% for two notes that cost us approximately 6.5%. This is an example of one of the impacts we have felt because of rising interest rates.

In 2026 we will have approximately US$2bn of debt to re-finance. We will have to be very particular about how the market looks and the interest rate environment as we approach the deadline. When we issued this debt in 2016 the coupon rate was 4.2%. Now that same debt could cost us in the 7% range, and we are very aware of the risk of replacing cheap money with more expensive borrowing costs. We still have three years before we need to refinance, but the key question is timing when we go to market.

Our borrowing is at a fixed rate, so we don't hedge to achieve floating to fixed. However, we do enter cross currency swaps to reduce the cost of our borrowing. For example, we issued bonds with an average coupon of 6.5% and entered a cross currency swap, converting from dollars to euros notionally. At the time, that swap gave us a 200bps benefit, reducing our cost of borrowing. Depending on euro and dollar moves, currency swaps probably save us 10% of total issuance expense.

On a short-term basis, our typical cash cycle shows that we use cash in the first part of the year to build our inventories. We then ship goods and, from Q2 onwards, receipts come in. This means we need to borrow short-term paper at the beginning of the year to fund the inventory build. Prior to the actions of the various central banks, we paid less than 1% on such debt but we are now paying in the 5% range. Whether commercial paper or a credit revolver, the cost of short-term money is a lot more than it was. The solution is to generate more cash to mitigate the impact of higher interest rates, but this is difficult for our business during this part of the cash cycle.

We are also watching the banks, as they are a source of liquidity. After Silicon Valley Bank collapsed, we noticed a pull back in the commercial paper market. We are also exposed to Credit Suisse as they are in our banking syndicate, however given their recent acquisition by UBS the exposure has been diminished. It is my job to ensure our banking syndicate will step up when needed and syndicate banks are contractually obligated to provide a lending facility, but if a bank is under pressure, they can sell their position to another bank, and this could increase our counterparty risk.

Hopefully the market will stabilise, but everyday seems to get more challenging regarding interest rates. And of course, interest rates also have an impact on our FX costs. We report in dollars but generate a sizeable portion of our business outside the US.

Alastair Sewell

Investment Strategist
Aviva Investors

Central bank rates have risen at the fastest pace on record. Peak rates may now be in sight if forecasts are to be believed. For treasurers, this brings challenges and opportunities.

On one hand, rate rises have brought higher funding costs. Simultaneously, businesses, just as much as consumers, are feeling the effects of high inflation. While inflation is beginning to fall, and technical effects ahead mean further decreases should materialise, our core view is that inflation will remain above central bank targets for some time.

On the other hand, there are bright spots, including in cash. After many years of zero or ultra-low rates, cash is finally generating healthy income again. We expect income from cash to remain high for the foreseeable future. Even if central banks begin to cut rates later this year or in 2024, we think it highly unlikely, rates – and hence cash income – will fall back to the levels we experienced over much of the last decade.

Corporate treasurers need to act to access the best rates on their cash. The rate paid on cash on deposit can "erode" quickly compared against market rates. Being ready to move cash if needed is important.

Money market funds (MMFs) are attractive now because of their high "beta" – the relationship between the central bank base rate and the average rate paid by a bank deposit or MMF. History shows MMF betas are higher than bank deposit betas. MMF yields adjust quickly to rate rises, while bank deposits re-adjust slowly. A good example is the average deposit rate in the European Union: at end-February, the average new overnight deposit rate was 31 basis points. Euro MMFs, in contrast, were yielding 245 basis points. The prevailing central bank rate was 250 basis points. While these figures are averages, they highlight the phenomenon. If rates begin to fall, the beta effect tends to work in reverse – MMF yields fall more slowly than bank deposit rates.

There are more actions treasurers can take if rates stabilise or even fall. Chief among these is working on segmenting cash pools into short, medium (or reserve) and long-term (or strategic) buckets. The latter two may be invested with a longer horizon, using "standard" MMFs or even ultra-short-duration bond funds to eke out extra yield from term premium, without materially impacting the overall cash pool's security or liquidity.

MMFs have experienced two major stress events in the last few years – the onset of COVID-19 and the sterling market stress of September 2022. MMFs successfully navigated both, continuing to provide liquidity in full and on demand throughout. This augurs well for future stress events. It is reasonable to expect more adverse events, whether business failures or market instability. Higher rates revealed flaws in business models or risk management, as we saw with Silicon Valley Bank. Corporate treasurers can at least expect sustained income from their cash investments, but achieving the maximum benefit will require careful attention.

Brice Lecoustey

Consulting Partner
EY Luxembourg

There is no one single response as to how companies should navigate higher interest rates because the impact varies. Corporates that require regular financing are already facing an increased cost in financing with a negative impact. These companies face constraints not only because of higher rates but because banks will charge them a premium because they perceive their business as more sensitive to rising rates. Other companies that secured long-term financing negotiated when rates were low, will feel the impact less.

The extent to which companies are and will struggle depends on their sector. Companies producing industrial raw materials and products and goods that have been impacted by the economic slowdown or by supply chain disruption, may have to borrow more in a high interest rate environment. Banks are also becoming more prudent regarding their credit exposure and the risk of default.

In a flip side, there are also companies that are cash rich and for whom higher interest rates are an advantage. Companies in this bracket include utilities, telecoms, media, and tech groups, well positioned in the current market. Even if the economy slows down, these companies will still see strong business flows. They can put money into investment products and receive a better yield in medium to long-term bonds than in years past.

The current climate creates an incentive to increase treasury management of cash across a group. Companies that don't have central treasury management processes and don't globally pool their cash from their subsidiaries, won't have a global view of their position. Not having a global pool creates inefficiencies because a company might have cash available on one side of the business but is still borrowing in another; 40-day windows of positive cash in a global position could be used to cover short-term borrowing needs.

A centralised cash pool acts like an internal bank, but it requires tax considerations and treasury will have to review transfer pricing agreements between the head office and subsidiaries.

Treasury should also explore their banking relationships in a climate of rising interest rates. Corporates should hunt deals available from different banks and encourage competition between their banking relationships.

Economic conditions are particularly challenging. Inflation is mostly in energy and food prices and is not a consequence of economies overheating. Rising interest rates will reduce the ability of businesses to invest in agriculture and new energy, in a vicious circle that feeds this type of inflation. Overall, it is still not clear if central bank interest rate policies will work when the underlying factors that are creating inflation are linked to topics that are more complicated.

Next question:

"When is the right time to set up an in-house bank?"

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Inflationary pressure set to stay around

Even through the inflationary pressure of the pandemic and war in Ukraine has eased, longer-term structural factors will keep inflation high.

The pandemic and war in Ukraine accomplished what central banks were unable to for decades: end too low inflation. Covid greatly reduced labour supply (due to illness, caring for others and fear of working) while governments maintained demand with massive support measures. Demand also shifted sharply from services to goods, creating all sorts of bottlenecks. This gave companies more pricing power (which they used) and gave commodity prices a lift which was then amplified by the war between two major commodity producers, Russia and Ukraine.

The pandemic and the Ukraine war resulted in two major shocks to the world economy that led to higher inflation. This should also mean that when the effect of these shocks wears off, inflation will quickly fall again and return to pre-corona crisis levels. Inflation has started to fall in Europe and the US and the decline is likely to continue.

Base effects, as prices are compared with those already high prices of last year, the year-on-year change comes out lower.

Economic growth has weakened and lower growth is on the horizon as the stimulative effect of waning supply side problems fades and spending of hoarded savings stops. Moreover, much of the negative effect of previous interest rate hikes has yet to be felt in the economic data. Lower growth reduces the pricing power of firms and will also cool the labour market, reducing upward pressure on wage growth.

As a result, the inflationary effect of the corona crisis seems to be gradually dissipating. Furthermore, the Ukraine war may continue, but its effect on commodity prices has diminished significantly.

Return to old normal unlikely

However, there are a number of reasons why we strongly doubt that inflation will actually return to pre-corona crisis levels and stay there. Besides corona and the war, there are a number of other developments contributing to the current high inflation rate:

In many countries, the labour force is on the cusp of shrinking (China and some European countries) or has already shrunk, like in Japan. This increases labour market tightness and reduces international wage competition, giving workers more bargaining power. Ageing also means that the demand for healthcare personnel increases; a sector that has low productivity growth compared to other sectors.

The cumulative effect of very loose monetary policy since the credit crisis. During this period, much more money was created than could be absorbed by the real economy. The excess money has mainly flowed into asset markets, where it has led to asset-price inflation. This has created a huge reservoir of inflationary potential just waiting for a trigger to break the dam.

This trigger came in the form of higher government deficits. Through issuing more government bonds and distributing the proceeds to businesses and consumers, suddenly much more liquidity flowed into the real economy and combined with less supply led to consumer-price inflation.

Due to the transition to renewable energy and under pressure from ESG considerations, less capital has been available in recent years to invest in oil and gas extraction and commodity production in general. Meanwhile, the demand for commodities remains high for the time being, if only to enable the transition to renewable energy (and the associated infrastructure). This will accelerate the situation of insufficient supply of commodities and will thus cause rising commodity prices.

Without these developments, it would be highly doubtful that the pandemic and war alone would have led to inflation rising

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so quickly – and hanging around. Rising commodity prices as a result of the war would otherwise have greatly inhibited growth (and thus overall inflation), and without the large amounts of excess liquidity, much higher government deficits would have quickly led to higher interest rates. This would have crowded out businesses and consumers, who therefore would not have been able to borrow or only borrow at prohibitive high interest rates. Wider fiscal policy would then have mainly led to a shift in demand (from the private sector to the public sector), while higher interest rates would have caused substantial downward pressure on asset prices.

It is therefore too short-sighted to base inflation expectations on the impact of the Ukraine war or how quickly the effect of the corona crisis (and the hefty fiscal stimulus during that period) wears off. We do see this having a major impact on headline inflation in the coming months to quarters, but we see core inflation falling much less sharply due to the other factors. For the coming years, we expect these and other factors mentioned above to structurally create more upward pressure on inflation.

Long-term implications for asset prices

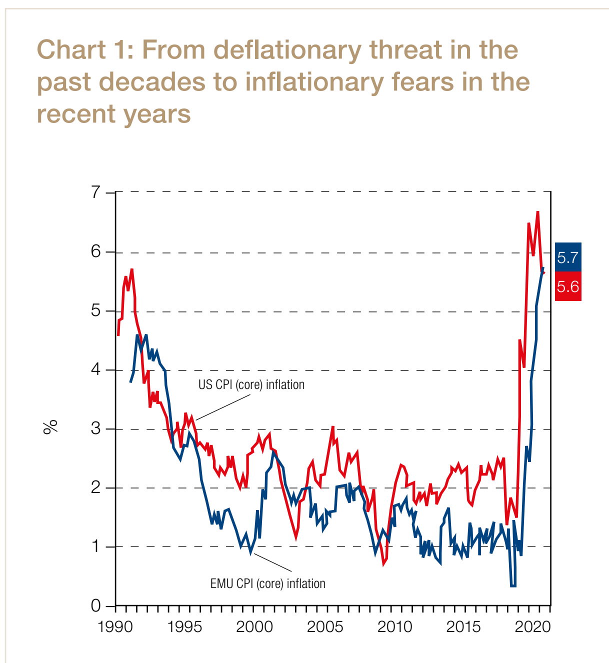
This year's (expected) decline of inflation will not be a harbinger of a return to the pre-pandemic days which central banks conducted expansionary monetary policies to get inflation to rise towards 2%. In fact, over the next few years we expect the five developments mentioned above to put more structural upward pressure on inflation. We expect the markets to gradually start discounting this in the coming quarters. Furthermore, we think that some of these factors (continued loose fiscal policy and tight labour markets due to ageing) will cause core inflation to fall less sharply than headline inflation ahead.

There are a number of consequences for financial markets:

Long-term interest rates, based on weakening growth expectations and declines in (headline) inflation, may fall further this year. However, this fall will be limited and followed by a rise to new highs in the coming years.

Real interest rates will likely turn positive, as bond investors will increasingly take into account that central banks will do

Chart 1: From deflationary threat in the past decades to inflationary fears in the recent years



Source: Refinitiv Datastream/ECR Research

too little to really control inflation and would rather accept higher inflation than risk a credit crunch.

In principle, stocks would benefit from a further decline in long-term interest rates and the expectation that central banks will accept higher-than-target inflation to avoid a deep recession. But in our view, this positive effect will be offset in the coming years by increases in long-term real interest rates and low growth prospects due to ageing populations and a higher share of low-productivity sectors (defense and healthcare) in total GDP. In addition, we expect governments to more heavily tax corporate profits to foot the bills of the increasingly expensive welfare state.

Over the coming years, we expect the prices of inflation-linked bonds and real assets (gold, commodities and infrastructure) to rise due to inflation and expectations that central banks will accelerate monetary devaluation.

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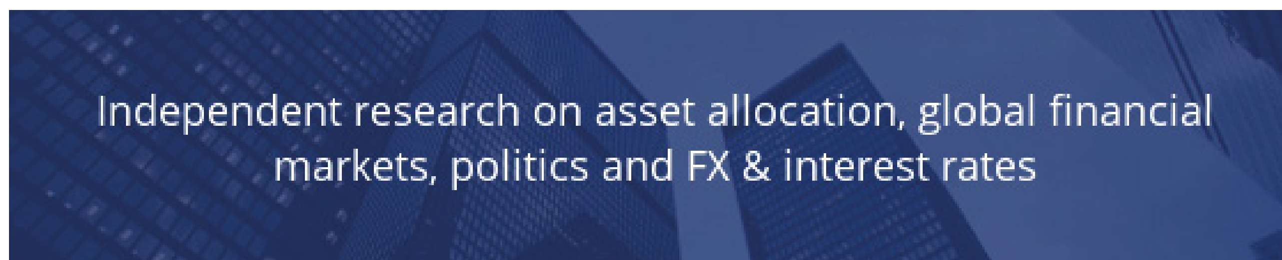

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