May/June 2023

treasurytoday ASIA

research | insight | analysis

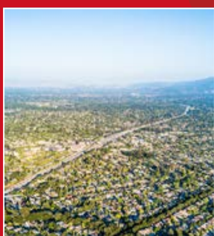
BRI lending drops dramatically

China's BRI lending has dropped significantly, particularly in Russia. This may not be a consequence of the war in Ukraine, however.

The Corporate View

Bima Tesdayu

Vice President, Treasury Management
Garuda Indonesia



Startup treasury: young, scrappy, hungry

The treasury lessons from SVB's collapse

Payments

SWIFT: treasurers frustration

Risk Management

Outsourcing: how far will treasurers go?

Technology

Gearing up for wearables

Trade Finance

Trade desperately seeks digitisation holy grail

treasuryinsights
research | insight | analysis

stay connected

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

Subscribe now:
insights@treasurytoday.com

treasurytoday.com

treasurytoday ASIA
research | insight | analysis

treasurytoday.com
Volume 11/Issue 3
May/June 2023

Publishers
Sophie Jackson & Meg Coates
Head of Events and Projects
Sarah Arter
Senior Advisor
John Nicholas
Editorial
Sarah Rundell
Head of Production & Client Delivery
Samantha Collings
Digital Content Manager
Joanna Smith-Burchnell
Senior Designer
Dawn Ingram
Digital and Design Assistant
Jesse Sutcliffe
Project Assistants
Rebecca Chapman
Caitlin Duncan

Founder & Director
Angela Berry
Chair
Richard Parkinson

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

Out with the old, in with the new?

Innovation, transformation and change are affecting how treasuries are run, but in many ways, treasurers still have to make do with existing structures, systems and processes.

Where there is change, the old ways can still persist. For example, China's Belt and Road Initiative (BRI) engagement with Russia has dropped, but this does not mean there is no engagement at all. Rather, it is now being done in a different way. And, despite the sanctions, Western products are still being sold in Russia.

Transformation and innovation are a major feature of the payments landscape, but where there are exciting, new ways of doing things, the old systems are still in place. In this issue, we look at what payments transformation means for treasurers, and also SWIFT on its 50th anniversary and consider the frustrations that remain.

Treasury teams are also making other decisions about how to do things differently. When it comes to outsourcing, specific treasury skills has been off-limits, but now outsourcing areas that are non-core is becoming increasingly popular. Trade, meanwhile, is still stuck in the traditional way of doing things, with some processes being hundreds of years old. There has been plenty of innovation, but many initiatives have failed to gain traction. We look at this and consider how innovations need to focus on the actual business problem that is being solved, and not to do too much at once. This trajectory has worked for wearable technology, which began to be used for specific purposes – such as health and fitness tracking – and now the use cases are exploding, including corporate treasury.

With the collapse of Silicon Valley Bank some serious lessons have been learned, with some risk management practices changing, particularly when it comes to concentration risk. In amongst all this change, one thing that is clear is that the role of the treasurer is increasingly strategic, a point that is explored in this issue's Corporate View.

© Treasury Today ISSN 1466-4224

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

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

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

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

IN THIS ISSUE

INSIGHT & ANALYSIS 4

China's appetite for BRI lending wanes

China's lending to Belt and Road Initiative (BRI) projects has dropped dramatically – particularly in Russia – but this could be viewed broadly as part of China's changing approach to international lending.

PAYMENTS 7

SWIFT: corporate treasury voices payments frustration

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

SMARTER TREASURY 16

Global payments transformation: where next?

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

RISK MANAGEMENT 14

To outsource or not to outsource?

When is it right to outsource processes? For most treasurers, core treasury skills are a no-go area. But when it comes to non-core activities, outsourcing is increasingly popular.

TRADE 22

Trade desperately seeks digitisation holy grail

Various trade initiatives, consortiums and platforms are aiming to facilitate trade at a pace that is more suited to the modern, digital world.

TREASURY TALENT 24

The treasury lessons from SVB's collapse

As the dust settles from SVB's collapse, strategy and skills behind startup treasury have come to the fore. Key advice? Avoid concentration risk, especially in banks, and know your investments; get things done quickly – and prepare to scrap.

TREASURY ESSENTIALS

Treasury Insights 13

Question Answered 26

10 The Corporate View

Bima Tesdayu
Vice President, Treasury Management
Garuda Indonesia

Bima Tesdayu, Vice President, Treasury Management, Garuda Indonesia, describes the challenges of being involved in a high-profile restructuring and how the treasurer's role is critical.

TECHNOLOGY 20

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.

China's appetite for BRI lending wanes

China's lending to Belt and Road Initiative (BRI) projects has dropped significantly, and this has been noticeable in its engagement with Russia. Rather than being a consequence of the war in Ukraine, however, it could be viewed as a window into China's broader attitudes to international lending.

It has been known by a few names, all grand sounding and pointing to the bold vision that China has for its international development. One Belt One Road – shortened to 'Belt Road' – and later known as the Belt and Road Initiative (BRI) are the names that refer to China's project to develop the world's infrastructure to connect China – by land and sea – to the rest of the globe.

China's lending to BRI projects has been huge, but the numbers have suffered a steep decline in recent years. According to research from Boston University's Global Development Policy Center, China's international investments are at their lowest level for over a decade. In 2021, for example, the loan commitments from the China Development Bank and the Export-Import Bank of China (Exim Bank) combined were US$3.7bn. This is a paltry sum when compared to the average of US$35.6bn a year between 2008 and 2021.

There have been many news reports about China's investments running into trouble, and projects being unable to meet the loan repayments. Amid this, **China has bailed out BRI projects with emergency rescue lending**.

And more recently, a notable trend has been the steep decline in China's BRI engagement with Russia. In a piece entitled, 'China's overseas lending and the war in Ukraine', economists Sebastian Horn, Carmen Reinhart and Christoph Trebesch

write that Russia has been the largest recipient of BRI lending, but the war in Ukraine is likely making Chinese banks more cautious about making new international loans. Russia, they note, has the largest foreign debtor to Chinese state-owned banks. Between 2013 and 2017, the economists write, Russia accounted for 15% of BRI lending and most of China's investments have been in Russian energy projects.

That BRI engagement with Russia has now, however, dropped dramatically. The Green Finance & Development Center's (GFDC) BRI investment report, which covers the period until the end of December 2022 found that there was a 100% drop in China's BRI engagement with Russia.

Christoph Nedopil Wang, Director of GFDC, which is based at Shanghai's Fudan University, was quoted by the FT as saying that China could have been deterred from investing in Russia because of sanctions in the wake of the war in Ukraine. There is, however, still economic engagement between the two countries, particularly with China buying Russia's energy exports, he noted.

Also, it might be the case that Chinese investment in Russia has not been recorded as BRI infrastructure projects. Chris Devonshire-Ellis, Founding Partner of Dezan Shira & Associates, a multi-disciplinary professional services firm in Asia, says that the figures about China's BRI involvement with Russia are misleading.

"There is a huge amount of misinformation coming from the West about Russia," he tells Treasury Today Asia. "There is a tendency to equate Chinese investment and trade with the BRI and that is wrong," he adds.

Devonshire-Ellis explains there are plenty of infrastructure projects that China has invested in internationally that don't fall under the BRI banner. For example, Brazil is not part of the BRI, but this does not mean that China has not invested in Brazil. Similarly, just because China's BRI engagement with Russia has dropped to zero, this doesn't mean there isn't any Chinese investment in Russia. Devonshire-Ellis comments that there are sensitivities on the Russian side about being seen as the recipient of BRI investment; Moscow does not feel comfortable with projects being included under the BRI banner as it could be viewed as Russia needing help with its infrastructure.

There have, however, been plenty of projects where China has invested billions into Russia without it being part of the BRI, including energy investments and the development of rail infrastructure connecting China and Russia.

Rebecca Ray, a Senior Academic Researcher at the Boston University Global Development Policy Center, comments, "The BRI has very fuzzy edges." There are parts of the BRI that go beyond investment and lending. The BRI, she notes, is a vague concept that can extend to micro level individual projects, to large scale multi-billion dollar investment deals. When it comes to Russia, she says, the drop in lending may simply be a result of China not lending to anyone at the moment. "Chinese lending to Russia has plummeted, but it has to everyone. It is not a good time to lend. Chinese lending in general has dropped," Ray says.

The waning appetite of China to lend can be seen in the Yamal liquefied natural gas (LNG) project on the Arctic coast of Russia. For the first project, China invested heavily, notes Ray. Now, with the sequel to that project – Arctic LNG 2 – there has been less interest in supporting it, Ray notes. There was a lack of sovereign guarantees for the project, and the Chinese policy banks put in US$2.8bn for this second project, which was much less than the previous figure of US$9.5bn for the first round, notes Ray. This smaller appetite on the part of the policy banks, CBD and Exim, is a pattern that has been repeated in other parts of the world where China has previously had an interest, she adds.

Ray also notes, "China has other priorities for lending," and this comes amid news reports that Chinese banks are lending at historic rates domestically to stabilise China's domestic economy. China is now lending in smaller amounts to international projects.

With the lending to Russia, "It is a microcosm of the broader trend that we see," says Ray. The drop in deals being done with Russia may not necessarily be a consequence of the war in Ukraine, but rather a broader shift of China moving away from lending.

Meanwhile, there has been plenty of economic engagement between China and Russia. A Russia Briefing, published by Dezan Shira & Associates, notes that there has actually been an increase in China-Russia trade. In 2022, Russia became one of China's top ten trading partners. And in the same year, exports from Russia to China grew by 43% to US$144bn. China is able to buy Russian raw materials at a discount – when compared to the options with other countries – and its oil purchases have boosted Russia's income, and this accounts for the majority of the trade growth between the two countries in 2022, according to Dezan Shira & Associates. There has also been trade flowing in the opposite direction, from China to Russia, with Russians increasingly buying Chinese electronics and household items.

Despite the war in Ukraine, there has also been diplomatic engagement between the two countries. In March 2023, China's President Xi Jinping made a state visit to Moscow and had a series of meetings with Russian President Vladimir Putin. The two leaders described each other as a 'dear friend', and Xi also reportedly praised Putin's 'strong leadership'. The meeting came at a time when Putin has become an outcast and international pariah, and the US urging China to use its influence to persuade Russia to withdraw from Ukraine. On this point Xi was quoted as saying that China's relationship with Russia was a "strategic choice and will not change due to a temporary incident." The diplomatic meetings reaffirmed the economic cooperation between the two countries, with statements from both sides about their intention to develop their relationship.

There are a number of projects underway that cement this relationship. In March 2023, for example, China and Russia agreed to build a second railway bridge over the Amur River, which borders north-eastern China and Russia. And there are also free trade zones that facilitate trade between the two countries, such as China's Heilongjiang Pilot Free Trade Zone in northern China, which borders Russia.

Another example of China-Russia cooperation is the CR929 project, a joint venture between Russia and China to develop a long-range passenger airliner, which could ultimately challenge the dominance of Airbus and Boeing in the aviation industry. Although there have been some setbacks to the project, the long-term project is reportedly still going ahead

> There is a tendency to equate Chinese investment and trade with the BRI and that is wrong.
>
> Chris Devonshire-Ellis, Founding Partner, Dezan Shira & Associates

and is a large investment that is symbolic of the relationship between the two countries.

Devonshire-Ellis also points to the investment of Chinese companies in the automotive industry in Russia. He explains that the production figures of the factories in Russia show a steep decline as Western companies pulled out of the country because of Ukraine. That, however, is a 'blip', he says as Chinese auto companies, such as Geely, are now taking over those factories and have been working on reconfiguring the facilities for their production needs. All of this takes time, which explains the lag in the statistics, and production has by no means stopped entirely, says Devonshire-Ellis.

This indicates that the sanctions have not had the desired impact, and Russia has found other ways to keep its economy moving. On the domestic front, local companies have also benefitted as Russians have switched to Russian brands instead of European ones, for household goods, for example.

Meanwhile, there are still many Western companies that are able to sell goods in Russia despite the sanctions that have been imposed on the country, notes Devonshire-Ellis. One loophole is the Eurasian Economic Union – which comprises Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia – and companies from other countries can do business with a country in the union, and from there goods can be exported to Russia duty free. This free trade agreement, in effect, is a way for companies to access the Russian market without saying they are in Russia, says Devonshire-Ellis. He comments that the Western media is misreporting what is happening on the ground, with a narrative that the Russian economy is faltering and Russian consumers are suffering. Many Western brands, he notes, haven't actually exited the market and Russians are still able to buy Western produce in spite of the sanctions.

Devonshire-Ellis has published photos of a typical local supermarket in the surburbs of Moscow. Here the shelves are stocked, and with produce made by companies from Europe and the UK. International wines, spirits, fresh fruit and veg, seafood, meats, household items, coffee, breakfast cereals and cheeses all fill the shelves. And Devonshire-Ellis also recently visited Blackchops, a British-style pub and steakhouse in St Petersburg which had foreign products like Colman's mustard, HP sauce, Worcestershire sauce, Scottish beer on tap, and other perishable items that must have been imported since the sanctions were imposed on Russia.

At a high level, the sanctions do not mean that Russians don't have access to foreign goods. Likewise, the drop in China's BRI engagement with Russia does not mean that there is no economic activity between China and Russia.

The shift in BRI lending may have come as China is now taking a different approach to the BRI project itself – one that doesn't rely on state-backed lending. Ray comments that the era of China needing development banks to build infrastructure abroad may now have come to an end. In the early days of China's external development, the policy banks provided the support that Chinese companies needed. These days, however, points out Ray, those businesses have a foothold in foreign markets and can compete for investment projects without that support. These companies now have enough local knowledge in the foreign countries to take on their own risks and don't need a sovereign lender to back them up. To that extent, says Ray, "Development finance has served its purpose – to support national enterprise going abroad." Lending was the first crucial step in order to facilitate the entry of firms into foreign markets, where they would typically have a contract for a turnkey project and there was little risk – because they were backed by the development banks – and it didn't matter if the project was commercially viable. Now there is a pivot to direct investment, explains Ray, and it does matter that these projects are commercially successful because these companies are invested in them.

The idea of BRI as purely a vehicle for lending may actually be a misconception, points out Ray. Part of the issue is that researchers have been tracking the BRI for this information because they are following development finance and how China's lending compares. This may mean that other aspects of the BRI have been ignored and the fall in lending does not mean the downfall of the BRI, or a decline in its relevance. Rather, says Ray, it shows that the BRI is pivoting to other forms of engagement and the support from China is not primarily through lending. "We are seeing a pivot to market forces," says Ray.

It is also a mistake to think about the BRI as a centrally-coordinated project. Rather, it is a loose, umbrella term for many projects. Ray comments that it is easy for foreign observers to think of the BRI as a single entity that is controlled by the central government. Rather, it is a label that can be applied to all sorts of projects by many different departments and agencies; and if BRI is deemed to be a priority, it is more likely to be labelled in that way.

The recent news about BRI has been piecemeal and in total, it may seem that the overall project is in decline; that with a drop in lending – and reports that some African countries are struggling to repay their debts – the grand vision for the BRI is also disintegrating. The war in Ukraine has also impacted the overall appetite for BRI lending.

Devonshire-Ellis notes that Ukraine is a member of the BRI and China has invested in the country, for example in the Mariupol port, which is now in Russian hands. Ukraine is a strategic country for China's BRI investment as it links Asia with Europe and Ukraine has previously been a key country for the transit of Chinese goods into Europe. China's interest in investing in Ukraine may be reignited once the war is over, and the country's reconstruction phase begins. Although Ukraine is likely to be allied to European players, China will be able to rebuild Ukraine's infrastructure at a lower cost than the European competition, says Devonshire-Ellis.

How that plays out remains to be seen and China's stance towards Ukraine may test its relationship with Russia. The BRI project, however, will continue and although the lending has declined, China is seeking to use its influence and support in other ways and continue the bold vision of its grand-sounding project. ■

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.

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

> 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

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. ■

The strategic role of the treasurer

Bima Tesdayu
Vice President, Treasury Management
Garuda Indonesia

The airline Garuda Indonesia went through a major restructuring after the company ran into financial trouble as a result of the pandemic. Bima Tesdayu, Vice President, Treasury Management at Garuda Indonesia, describes the challenges of being involved in such a high-profile – and high stakes – restructuring, and how the treasurer's role is critical in any organisation.

If you have ever flown to or from Indonesia, the chances are you went on a Garuda flight, an airline whose vision is to connect Indonesia with the world while delivering Indonesian hospitality. And if you've flown with Garuda, the chances are you think positively of that experience – and of the airline itself.

For Indonesians, the airline is a source of national pride. It is the country's flag carrier – representing Indonesia to the world – and when the company ran into financial trouble, it was a huge public issue, with many Indonesians concerned about the future of one of their nation's best-loved companies.

> Submission of this restructuring proposal scheme is the first step of the entire restructuring process and is an important [sign of] momentum in our efforts to transform into a more adaptive, efficient and profitable business entity.

All this was on Bima Tesdayu's mind when he was first appointed as Vice President, Treasury Management at Garuda Indonesia. The company was struggling at the time, and he questioned whether he wanted to be involved in such a high-profile situation. The company had a systemic financial problem, and the news of its restructuring was in all the media outlets. His friends and family were questioning him about Garuda's future, and his mother asked him, "Bima, is Garuda going to survive? Please, it can't close down – I like Garuda!" This outpouring of affection, Bima explains, had an impact on his decision to work for the company. "This triggered something in my mind that this company has something that other companies don't have; it has a real sentimental value," says Bima.

Bima did take that job at Garuda Indonesia, and it is the same role he does today. He took a circuitous path into corporate treasury, however, and did not initially plan this kind of career. He started out as an engineer and graduated with a degree in Engineering and had studied Geological and Geophysical Engineering. However, once he experienced the realities of the job market, he reconsidered his options. Oil prices had started to drop, and he saw his friends being laid off from oil companies and he wondered whether this industry would be sustainable and provide a life-long career. "I started to get interested in what the drivers of oil prices were and how that would affect the industry," he explains. That sparked an interest in the financial industry, and from there he applied for roles in the banking sector.

He landed on a trainee scheme at Bank Mandiri, Indonesia's largest bank by assets, where he went through a number of rotations in various divisions including human capital, business development and corporate banking. As part of a talent exchange programme, he had the opportunity to work at the Ministry of State-Owned Enterprises. And here, in the Vice Minister's office, he got to work on a number of projects involving state-owned companies whose assets totalled around US$600bn. That experience then led to the opportunity at Garuda Indonesia, which is 60% owned by the Indonesian government.

He decided to join Garuda Indonesia at a very fraught period in its history. The company was going through PKPU [penundaan kewajiban pembayaran utang] proceedings, which is the formal process for companies that are on the brink of insolvency. Indonesian law gives protection to companies going through PKPU, which is similar to Chapter 11 bankruptcy protection in the United States. The PKPU allows the company to continue to operate, but it is given a grace period on paying its debts while it restructures.

Garuda Indonesia, like many airlines, had run into trouble as a result of the pandemic when lockdowns and closed borders left the company unable to fly its usual routes. Planes were stuck on the tarmac with nowhere to go, and some staff were laid off. The company suffered losses as a result and was unable to meet its debt obligations, including leasing payments for its aircraft. Matters came to a head when creditors went to court to initiate the PKPU proceedings. Usually, the PKPU lasts 45 days, but can be extended to 270 days, which puts a tight timeframe on reaching an agreement with the creditors. A restructuring proposal was put forward at the end of 2021, which would dramatically reduce the company's liabilities from around US$10bn to nearly US$5bn. The company restructured its debts, exchanged its liabilities with long-term bonds and issued new equity.

In February 2022, when Garuda Indonesia was working on its restructuring, the company's Chief Executive, Irfan Setiaputra, was reported in the news saying, "Submission of this restructuring proposal scheme is the first step of the entire restructuring process and is an important [sign of] momentum in our efforts to transform into a more adaptive, efficient and profitable business entity."

The majority of shareholders (95% of them) agreed to the deal, and a court approved the agreement in June 2022. The agreement went into effect at the end of 2022. The creditors had to take a substantial haircut, with a write down of approximately 80% of what they were owed.

Bima explains that the restructuring was challenging because of the scale of it, and also a lot was at stake; the beloved national carrier was at risk of failing. The restructuring was in the national headlines, which also added to the pressure. And then there was the time constraint. "We had a maximum of 270 days to finalise the restructuring. If it took longer than that then we would face bankruptcy. As we were going through that the cash flow was very tight," he explains. The cash balance at the end of the month was very small for a company of its size, and the company still had bills to pay. "There were limited resources – it was very challenging – and we still had to make the salary payments," explains Bima.

Also, he says, the company had to be very careful in how it managed its resources because it had to face the creditors and be accountable to them for how it was managing those resources. The settlement the company offered the creditors meant they were losing 80 cents on the dollar, which was not an ideal solution and one they would not be happy with. However, the alternative – if the creditors didn't accept the restructuring deal – was to allow the company to go bankrupt and be liquidated. In that scenario, the creditors would recover even less of what they were owed than if they accepted the restructuring deal.

"We convinced the creditors that this restructuring would make the company leaner – we will cut costs, the pain will be

> We have to do risk management well, not just managing foreign exchange (FX) risk, but also fuel risk – the biggest cost for the airline industry is fuel. And we also have to manage debt very carefully.

shared, but the company would survive and be in a more sustainable condition," says Bima.

In February 2023 news media reported that the restructuring was proceeding well, and Setiaputra, the Chief Executive, was reported as saying that the company had been transparent with creditors about the process. "We have done this through intensive communication and long discussions with all creditors since the completion of the restructuring process some time ago," Setiaputra was quoted by Flight Global as saying.

During the entire process there has been a lot of media attention on the deal. Garuda Indonesia is more than a state-owned company (the government is a majority stakeholder), it holds sentimental value and is a source of national pride. Its future is a topic of public debate and part of the national conversation. Did Bima feel the pressure of working on a restructuring that was so high-profile?

Yes, he did feel the pressure at a personal level. "Indonesians are proud of the company. Everybody loves Garuda and its fleet goes everywhere in the world carrying the Indonesian flag," he says.

Such a challenging time, however, is an opportunity to learn. What learnings did he have from this time of being in the centre of such a public restructuring of a company? "The main lesson from this experience is that treasury is really significant and has a really important role to play," he says. In his role, there is a lot of responsibility, where many things need to be done well, and many priorities need to be juggled – all of which have serious implications for the future of the company. "We have to do risk management well, not just managing foreign exchange (FX) risk, but also fuel risk – the biggest cost for the airline industry is fuel. And we also have to manage debt very carefully," Bima explains. It is something of a tightrope that needs to be walked in judging how much debt to take on and managing the cash to ensure it can be paid back. "After the pandemic we became a lot more conservative in how we manage cash," Bima explains.

When asked about his current role and the priorities he is focused on right now, he explains that the airline industry poses particular challenges for treasury teams, which he deals with on a daily basis. Airlines typically grapple with large capital expenditure with the aircraft, and the fleet has to be restored every three to five years, a cost that is usually quite high. And companies like Garuda also rely on leasing companies for their aircraft – the repayments of which can end up being prohibitive if cash flow is squeezed. Managing the cash flow efficiently is critical to ensuring there is sufficient liquidity to cover such expenses.

Another typical challenge is the cost of fuel, and the volatility in oil prices can dramatically impact an airline's profitability, especially if the risk is not adequately hedged. Foreign exchange risk also has to be managed prudently because Garuda – as an international airline – operates in multiple countries. These challenges have become more acute since the Russian invasion of Ukraine. There is also the debt management to consider. "After the restructuring we still have significant debt obligations to manage. That is a priority to ensure that this company is able to operate sustainably in the future," says Bima.

The current macro environment is also posing particular challenges. The central bank's base rate is still quite high, and some of the company's debt carries interest rates with double-digit figures. The currency price is also unfavourable, with the Indonesia Rupiah to US dollar rate still high. On the positive side, however, oil prices are slowly dropping, and Indonesia has a strong GDP forecast of around 5.3%. The early figures for this year indicate that tourism is rebounding and people are flying again, which is also a positive indicator for the airline industry.

There is a lot to think about in his role as treasurer and many of his decisions can have a material impact on the financial health and the future of the company. Does he find such responsibility stressful? Bima takes such a question in his stride, like he does the responsibility he carries in his role. "I can say it is quite stressful, yes, but I also really enjoy it – particularly when I see each problem and how we can learn something from it," he says.

On this point, Bima says, "Whenever there is a high profile or important decision, my CEO often asks me to join the meeting." He wants to ensure the actions being taken are sustainable, and that the risk is being mitigated appropriately." This points to the growing importance of the treasurer to organisations, where they are increasingly taking on a strategic and advisory role. Being trusted at the highest level of a company in this way is surely a positive, but does being involved in such important decisions worry him in any way? Does the burden of responsibility weigh on him? Not at all, says Bima. He says that the CEO – as a true leader – made it clear that the decisions were his and he would take responsibility for them, but he wanted to hear any concerns that Bima might have. "If they – the senior leaders – want to make any major decision they often want to ask the corporate treasurer's opinion. The life of the company is in the cash flow and the corporate treasurer is sitting in the middle of it to ensure that the company has the blood to sustain that life," says Bima.

The role of the treasurer is indeed critical to the future of any company. And when it comes to Garuda, the company's restructuring is now on track. Flights are also rebounding and are at higher-than-predicted levels and Indonesians and foreign tourists alike are now flying again. It is a relief, especially after such a high-profile restructuring. And although Bima still has the stresses of his day job to think about, there is one thing he can relax about for now: he can tell his friends and family that Garuda won't be closing down, and that his mother can continue to fly with the airline she loves. ■

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. ■

Our weekly Treasury Insights digital newsletter examines topical events and trends affecting the world of treasury and includes our news digest with links to other treasury and finance related news. Treasury Insights offers a pertinent viewpoint on the issues that treasurers are, and should be thinking, about today. Sign up now – **subscriberservices@treasurytoday.com**

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."

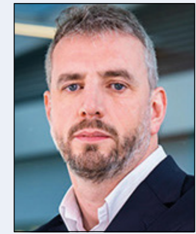
McNulty believes that, three major trends are driving the evolution of payments. "The first is technology, which is clearly driving the transformation – whether that is what is now made possible by more dynamic connectivity models such as APIs, cloud computing, machine learning and artificial intelligence. 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. ■

Trade desperately seeks digitisation holy grail

Various trade initiatives, consortiums and platforms seek to overcome centuries-old inefficiencies and facilitate trade at a pace that is more suited to the digital world in which we live. Many, however, have struggled to gain traction and get the scale and network effect that is necessary to be successful.

Digitising trade finance is a bit like world peace; almost everyone agrees it should happen, but when it comes down to the nitty gritty of achieving it, it's a lot easier said than done.

Trade finance is in sore need of a revamp as much of it relies on paper-based processes that are centuries old. And, in some cases, paperwork can take longer to reach its destination than the shipping of physical goods.

In an era of digital finance and digital ledger technology, there have been many efforts to overcome this situation. The fragmented, federated nature of systems and processes means that trade participants have to sign up to multiple platforms, initiatives and consortiums to work out which one will get the scale it needs to take off.

On the one hand there is a large, immovable part of the industry that has low growth and massive scale. And on the other, there is real innovation occurring but at a small scale with high growth – albeit from a low base, comments Anton Ruddenklau, Partner, Global Head of Innovation, Financial Services, KPMG International.

Some are focused on standards, information sharing or creating blockchain-based technology platforms. Although there are many good projects out there, "It's easy to get caught up in the fintech hype," says Ruddenklau. Many platforms have been unsuccessful in delivering returns to their investors, he adds.

So far, the holy grail of digitisation remains elusive and many initiatives have fallen by the wayside. One such project is the TradeLens offering, which A.P Moller – Maersk announced in November 2022 that it was discontinuing. The integrated logistics company said at the time that its vision was to make a leap in supply chain digitisation as an open and neutral industry platform. "Unfortunately, while we successfully developed a viable platform, the need for full global industry collaboration has not been achieved," said Rotem Hershko, Head of Business Platforms at A.P. Moller – Maersk at the time of the announcement.

And then there was HSBC's Serai, which also failed to gain the traction it needed to have its desired impact. In June 2022, the global bank announced that it was winding down Hong Kong-based Serai, an HBSC subsidiary and trade platform for small-and-medium enterprises (SMEs). According to sources quoted by Reuters, the bank had invested around US$70m in the platform. In a statement on its website at the time, the bank said, "Despite a huge amount of progress made by the team, it has proven difficult to build a commercially viable business. As a result, we've made the difficult decision to close our doors."

In May 2022, another venture discontinued, this time blockchain-enabled we.trade, which had described itself as a 'digital one stop shop' for supply chain trade, which was overcoming the Wild West nature of cross-border trade. There have been other initiatives that have fallen by the wayside, including the Marco Polo trade finance network that reportedly entered into insolvency in February this year.

Commenting generally on the state of such initiatives – and not singling out any platform in particular – Ruddenklau comments, "It is difficult to deliver anything that gives scale

and network effects." However, there have been some successes, particularly those that are focused on a narrow part of the value chain – such as procurement – and are solving a particular business problem.

Many platforms struggle to attract enough buyers and suppliers to make them viable, and without significant volumes they end up costing more to run than they bring in. Given this, many trade participants are wondering which initiatives they should get involved in, unsure of which ones will break through. Bankers involved in such projects have told Treasury Today Asia that they have signed up to multiple initiatives to keep an eye on the developments, so they stay in-the-know and won't miss out, just in case one of them does take off. Where banks have committed to certain platforms, others comment they don't put their largest customers on the platform; they run it as an experiment on the side. With many banks thinking like this, many of the platforms fail to get the volumes they need to be successful.

One observation is that some of the initiatives try to do too much and they are biting off more than they can chew. "The ones that have failed have been trying to do too much at one time," says Carl Wegner, CEO of Contour. He likens it to the evolution of Amazon. "Amazon started with books, built a network, then did other things with it," he explains.

Another comment that many make is that people get distracted by the latest technology – particularly blockchain – and go ahead with developing a solution without considering properly the business problem they are actually trying to solve. A frequent comment in the industry is that people are creating blockchain solutions in search of a problem.

Despite this, however, it may not be the blockchain itself that is the problem. Many 'blockchain for trade finance' projects have failed, comments Wegner, but people often make the mistake of attributing the failure to the use of blockchain. "Blockchain projects have failed and non-blockchain projects have failed," he says, adding that a high proportion of start-ups fail and many of them were not built on blockchain.

"It's not really about the technology. The technology is not the goal – it's about the service that is being digitalised," says Wegner. And he is clear on the business problem that he is solving for, and which service he is making digital. Contour, which is headquartered in Singapore, is a decentralised trade finance network that focuses on digitising letters of credit (LCs) and overcoming the problem of them typically being more than 30 pages of paper. "We are still mailing pieces of paper across the world to transfer the title of goods – it is crazy," says Wegner. "Everyone likes what an LC does; no one likes to do LCs. They like what they do, but they are a pain to manage."

Contour, Wegner explains, is a communication and workflow documentation platform where everyone can collaborate in real-time. Several parties can dynamically look at a letter of credit and everyone can see in real-time if any changes have been made, a bit like Google Docs without Google. Parties can share information without any single party – including Contour – owning the network or controlling the data. And each party can keep their data secure while still enabling the sharing of information to make the LC's journey go smoothly.

In trials, Contour was able to reduce the LC processing time by up to 90%. It is not a zero sum game ie if you get paid quicker you have to pay quicker, says Wegner. The benefit comes in the certainty of knowing when a payment will arrive, which enables a treasurer to use their cash as efficiently as possible.

Another platform that is clear on the business problem it is solving is Olea, a joint venture between Standard Chartered and Linklogis. It is a technology platform that connects importers and exporters with a range of trade ecosystem partners such as banks and investors. "The ambition is to create a different kind of supply chain solution," Amelia Ng, CEO of Olea, tells Treasury Today Asia.

Typically, SMEs struggle to get trade finance, and institutional investors have shied away from trade finance. Olea bridges this gap with its blockchain platform and acts as a matchmaker that brings the parties together. Ng explains the platform goes further down the chain and can serve smaller companies. Meanwhile, the platform is able to connect such companies with banks and private capital. "Traditionally banks have been the majority of the funders of trade finance, and now we can see that private credit is becoming a force," says Ng.

One reason institutional investors have not got involved in trade finance, explains Ng, is that there are different formats and requirements for how the assets are reported. In the past this would have taken too much work, but it is now possible for such investors to connect to the platform. And things are easier for companies needing finance as they treat the platform as a one-stop shop to access funds from multiple sources, rather than dealing with each institution separately as they would have done in the past.

To get everyone onboard, however, is a challenging task and getting people to change their old ways takes time. Ng says she is focusing her efforts on getting bank partners on board, focusing on regional banks and global banks that want to expand their supply chain offering in Asia. Olea's technology platform is built for the challenges of a changing global trade ecosystem – balance sheet lite and interoperable.

Building any trade solution requires determination to get the scale and network effect that is necessary to succeed. Ruddenklau at KPMG comments, "The big learning for trade and supply chain finance is to pick your battles and have specific use cases. You need to pick smaller areas that are viable and profitable," he says. Any fintech in this space needs to be clear on where they are playing in the value chain. "It is really critical they do not try to be everything to everyone," he comments.

And when it comes to adoption, banks and treasurers shouldn't be taking a 'wait and see' approach. If everyone did that then no solution would get past this industry-wide inertia and the immovable giants with scale won't ever adopt the innovation that is being developed by the smaller high-growth players.

"With any new technology, adoption is a journey," says Wegner. And it's best that treasurers get involved and understand the technology when their bank is getting involved in it, says Wegner. This is better than waiting until everyone else is using it, or waiting until the solution has all the functionality they need. Wegner likens this to not adopting online banking years ago because its functionality was simple; without taking those initial steps the solution could not have been developed into what it is today. "Start now, learn how you will have to change your decision processes. Do not wait until it is perfect – it is never going to be perfect," says Wegner. ■

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 startups. 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?"

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

treasurytoday.com