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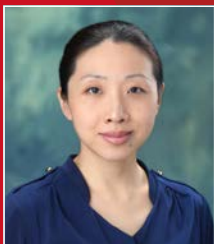
ASEAN stakes out digital future

South-East Asia has long been working towards economic integration, and now the region is looking to the future with a focus on digital integration.



Women in Treasury

Sharon Wang

Director of Treasury
Alibaba Group

The Corporate View

Marianna Polykrati

Group Treasurer
AVRAMAR

Technology

A brave new (virtual) world

Liquidity Management

Getting a better handle on liquidity

Regional Focus

Corporates reassess Taiwan risk

Back to Basics

Targeted approach to payment services

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Zooming to a digital future

Zoom is often given as the example of how the Covid pandemic has changed our lives. Now we can connect with anyone anywhere, creating virtual connections instead of the physical, making working from home much more convenient.

Digitalisation since the pandemic has had a huge impact, and this is something that the Association of South-East Asian Nations (ASEAN) is running with. The region has long hoped for economic integration so that it can function as a single market that can compete with the likes of the US and China. And now ASEAN is looking to the future with a digital integration initiative that lays the foundation for how digital commerce will be done in the future. Zoom highlights the many issues that digital trade agreements need to take into account, such as where data is stored, how freely it can cross borders, how companies should be taxed, and whether each and every Zoom call should be subject to taxation.

Such digital trade agreements lay the foundation for countries to engage with each other and trade freely. This is also the case with the recent trade deal that was agreed between the US and Taiwan, although it has a different significance, a topic that this issue explores.

Zoom also springs to mind in discussions of the metaverse where the virtual and digital can collide. With virtual reality, and the right headset, it will soon be possible to feel like you are in the same room – or on holiday, or in space, if you prefer – with your colleagues, even though you are working at home. For treasurers, it's not just the virtual world of the metaverse that is interesting, but rather the technologies that underlie it and the shift in thinking that is required in the brave new world of Web 3.0, cryptocurrencies and non-fungible tokens.

These are just some of the topics explored in this issue of Treasury Today Asia, along with many others including a feature on payment service providers, how treasurers can effectively manage working capital and liquidity, and also on choosing the right time to set up an in-house bank.

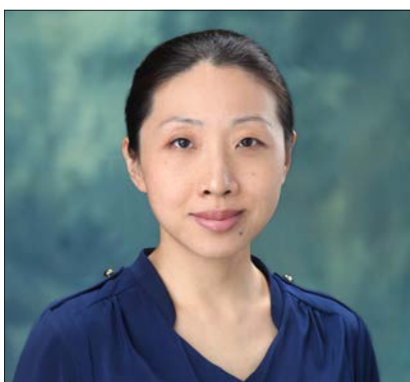
IN THIS ISSUE

INSIGHT & ANALYSIS 4

ASEAN pins hopes on digital agreements

The Association of South East Asian Nations (ASEAN) has long been working towards economic integration, and now the region is looking to the future with a focus on digital integration.

WOMEN IN TREASURY 8



Sharon Wang
Director of Treasury

Sharon Wang, Director of Treasury at Alibaba, talks about her career path, inspiring younger generations and the importance of education.

TECHNOLOGY 12

Metaverse heralds new future for treasurers

For most treasurers, the metaverse seems a long way off but those who don't take the time to understand the virtual technology, Web 3.0 (or Web3), and all that it entails, they could risk being left behind.

SMARTER TREASURY 15

Taking control of liquidity in Asia

As they navigate geopolitical uncertainty and digital disruption, treasury teams in Asia are looking to tighten their liquidity management strategies – which requires intelligent systems, real-time solutions and expert guidance.

LIQUIDITY MANAGEMENT 16

Liquidity management and working capital – a work in progress

Can corporate treasurers adapt working capital levels to disruptive external events as global supply chains continue to be challenged? Does the answer lie in digital technology?

REGIONAL FOCUS 22

Corporates adjust to shift in Taiwan tensions

The recent escalation in tensions between China and Taiwan has prompted many multinationals to reassess the risks of doing business in the region as well as the impact of a potential military conflict.

TREASURY ESSENTIALS

Treasury Insights 7, 11 & 21

Question Answered 26

18 **The Corporate View**

Marianna Polykrati
Group Treasurer

Marianna Polykrati, Group Treasurer of aquaculture firm AVRAMAR, explains why flexibility is a critical quality for treasury professionals and how treasury can benefit from digitalisation and automation.

BACK TO BASICS 24

Picking your payment battles

Competition in the payments space remains fierce, prompting traditional and non-traditional service providers to think carefully about how their offerings fit customers' business models as well as broader industry initiatives such as the G20's cross-border payments targets.

ASEAN pins hopes on digital agreements

South-East Asia has long been working towards economic integration, and now the region is looking to the future with a focus on digital integration. Digital trade agreements are in the process of being negotiated, and, if successfully implemented, could catapult the region to become an epicentre of digital growth.

One of the silver linings of the pandemic was a shift to the digital, where consumers who had not really engaged online soon adapted to digital alternatives in their everyday lives. For the citizens of the Association of South-East Asian Nations (ASEAN) region this was no different, and now companies are poised to benefit from a digital push that will make doing business in the single market a lot easier.

ASEAN is pursuing a digital trade agreement that will mean each market has signed up to the same rules and standards; for corporates, doing business in multiple countries will effectively be the same as a single market. And opportunities abound in the region for companies. According to figures from J.P. Morgan, the GDP of the ASEAN countries combined would mean the economic bloc would be ranked fifth in the world, after the US, China, Japan and Germany. If ASEAN was a single country, its population of over 650 million would make it the third largest in the world. There is plenty of untapped potential in this consumer market, and a digital trade agreement between the countries could potentially unlock it further.

The digital economy in ASEAN is already vibrant, with research by Bain, Google and Temasek stating the region is in a 'digital decade' and notes that e-commerce, food delivery and digital financial services are drivers of growth. The research estimates the internet economy will reach US$360bn by 2025. And the US-ASEAN Business Council recently noted, "digital trade will drive the next phase of ASEAN's economic growth, as more people in the region participate in the digital economy and engage in cross-border digital transactions."

Anthony Toh Han Yang, Research Analyst at the S Rajaratnam School of International Studies, Nanyang Technical University, Singapore tells Treasury Today Asia that the ten nations in the ASEAN community have been tackling digital integration to make the region a digital epicentre of growth. For treasury and finance professionals, Toh comments, this will make their roles more efficient as there will be more opportunity to do their tasks digitally, and there will also be standardisation and harmonisation in tax regimes and customs tariffs, for example.

This is the vision of the ASEAN Digital Economy Framework Agreement (DEFA), which sets out the standards in how the markets can be more connected, and ultimately transform the economic bloc into being a leader with its digital economy. Toh explains that DEFA has its origins in other digital agreements and declarations. He explains what is special about DEFA when compared to the others: "This is the first time in ASEAN history there has been a concretised vision of digital integration," says Toh. He also says, this is the first time the member countries have come together to form a digital economy. "It is a huge thing for ASEAN."

According to the Bain research noted above, the gross merchandise value of ASEAN's digital economy is projected to be US$1trn by 2030. This, comments Toh, is without DEFA. If that regional digital agreement is implemented and takes effect, that figure could be more like US$4trn or US$5trn, he says.

DEFA still needs to be negotiated and earlier this year it was reported that the negotiations would commence in September 2023, two years earlier than initially planned. "The priority is to grease the economy. The regional economy is a conveyor belt – to use an analogy – and to make it more efficient you need to oil it," comments Toh.

Lurong Chen, Senior Economist, Economic Research for ASEAN and East Asia (ERIA) tells Treasury Today Asia that DEFA has bigger ambitions than previous initiatives as it will cover ASEAN's economic partners. He compared DEFA to the Regional Comprehensive Economic Partnership (RCEP) agreement, a free-trade agreement among a number of countries in Asia Pacific. "Simply put, we expect DEFA to be 'the RCEP focusing on digital' or a 'RCEP-type of agreement on digital'." This, he adds, will help ASEAN get a first mover advantage in setting the rules for cross-border e-commerce.

The DEFA negotiations will set general rules for the region as a whole – instead of allowing countries to negotiate a series of their own bilateral agreements – to simplify the terms of trade for the economic bloc. "This will significantly reduce the cost of doing business in the region," says Chen. He adds that Asian economies are highly inter-dependent, linked via an intensive regional production sharing network. "Business, especially MSMEs [micro, small and medium enterprises], can explore foreign markets easily if DEFA can provide 'one-stop' regulation reference. With region-wide rules and standards on payments and tariffs, this will certainly save time for treasury and finance," he says.

Digital trade agreements are necessary because they account for the changing nature of trade. One digital trade expert, who has a deep understanding of such trade negotiations and was speaking to Treasury Today Asia in a personal capacity, explains that digital trade is a subset of trade. There are many definitions of what counts as digital trade, but many refer to the Organisation for Economic Cooperation and Development's (OECD) definition that it "encompasses digitally-enabled transactions of trade in goods and services that can either be digitally or physically delivered, and that involved consumers, firms and governments." This, the expert explains, could cover digital goods such as a download of a digital audio book. Or, it could be a physical service that has been booked online via a digital platform like Airbnb.

Digital trade, the expert explains, is growing exponentially and is the future of trade. While merchandise trade has been declining, digital trade – and its accompanying data flows – have been rising. There is a need for digital agreements because existing trade rules are outdated and don't address many of the issues that arise with digital trade, he says. This includes the issue of tax. With the digital economy, for example, it is possible for a digital nomad to live in various countries, earn a living from their laptop – with their earnings going into their bank account back home – yet they pay no income tax to the countries where they stay and physically do the work. Governments have also taken issue with companies providing digital services to their citizens without having any tax obligations. France, for example, has targeted big tech firms with a digital services tax regime, which it first announced back in 2019.

Another example of how traditional trade agreements are not fit for purpose relates to how the shipping of goods has also changed. Fifty years ago, there would have been fewer, larger items – such as cars – but now a shipment is more likely to contain 100,000 small packages. "Customs around the world were built to expect 100 items, not 100,000 things," says the digital expert. For this reason, agreements need to consider changing the minimum limits on what will be inspected on arrival.

Another important rule, which could actually 'break the internet', the expert explains, is the moratorium on tax for data that crosses borders. In the early days of the internet, there were no tariffs for such transactions – such as a cross-border email – and that has since continued. If that were to change, it could seriously disrupt the nature of digital trade. The expert questions, if every Zoom call were to be taxed, for example, how would that even be tracked? Unravelling one of the basic assumptions of doing business across borders could potentially wreak havoc among countries, hence the need for the terms of digital business to be clarified.

Many current trade rules are outdated, and the digital trade expert points out that the World Trade Organisation's (WTO) rules about e-commerce were first made before the iPhone was invented. The WTO, as a multilateral body, is still working on its standards, which are viewed as complementary – and not in conflict – with other digital agreements that have already been signed.

These other digital agreements include those that Singapore has signed with a number of countries. For example, in June 2022, the city state announced that it had signed a Digital Economy Agreement with the UK (UKSDEA), which covered issues like tariff-free flow of digital content; free flow of trusted data and guaranteed protections for personal data and intellectual property. As the agreement went into force, a number of corporates made comments about the impact it would make. For example, Zakir Ahmed, Senior Vice President and General Manager of Asia Pacific and Japan, for software company Kofax said, "Currently, due to the lack of commonly agreed standards and fragmented systems, companies have to rely on legacy processes that are paper-based. This leads to inefficiency and results in higher costs to companies – for example banks, insurers, logistics – and government agencies – for example customs – repeating the digitisation, extraction and validation in the processing of common documents."

Noah Pepper, Asia Pacific Business Lead, of payments company Stripe says, "Stripe serves millions of businesses worldwide, giving us front-row seats to understand how important it is for firms, regardless of their size or location, to easily and quickly participate in the global internet economy. We're optimistic that agreements like the UKSDEA will set clear, equitable and predictable rules for folk building cross border businesses. Ultimately this can create more opportunity, prosperity and entrepreneurs in the communities Stripe serves."

Meanwhile, Singapore has signed other bilateral agreements with other countries, and has also been involved in the multilateral Digital Economy Partnership Agreement (DEPA), which was signed in June 2020 by the city state, as well as Chile and New Zealand. Since then, other countries have applied to join, including Canada, China and South Korea. When DEPA was first signed, the Singaporean government stated that the agreement was the first of its kind and represented a new form of economic engagement and trade in the digital era. It also noted that DEPA will facilitate seamless end-to-end digital trade, enable trusted data flows and build trust in digital systems.

ASEAN's digital integration comes in the context of these other digital economy agreements, which have already been signed and gone into effect. For South-East Asia, however, there are particular challenges as the region enters into its negotiations. The discussions will focus on topics such as rules for e-commerce, harmonising rules for cross-border payments and the movement of skilled labour between countries.

One major issue relates to the governance of data, and the requirement by some markets that data must be stored within the country's national boundaries. This data localisation issue has the potential to be a major sticking point. Toh comments that the increasingly divergent data policies of the member countries in ASEAN are a challenge. With the EU, explains Toh, data issues are viewed from the view of a human rights perspective (such as the ownership of personal data) whereas in ASEAN it is viewed as an issue of national sovereignty and security. Singapore and the Philippines want a more liberalised cross-border data regime, explains Toh. Meanwhile Malaysia, Vietnam, Indonesia and Cambodia have more restrictive data regulation. It is a challenge to harmonise these points of view into a single agreement, Toh explains.

The data policies of the countries do not have to be the same, he says, but ultimately they have to be less restrictive and move in a more liberal direction.

Chen at ERIA also notes that data liberalisation is a major challenge, and one fundamental issue is the extent to which data can 'free flow with trust'. In a recent paper he argues with his co-authors that the policy regime for data governance is only at a nascent stage; it is underdeveloped and fragmented across countries. Chen says it will be very difficult if DEFA requires member states to have the same position on issues – such as data localisation – but DEFA should at least increase transparency and interoperability of country regulations and requirements.

Another fundamental issue, notes Chen, is about competition. "No one wants to lag others in digital transformation. We want digitalisation to help narrow development gaps in the region, rather than adding to the digital divide," he says.

ASEAN is also a very diverse region with great disparities in terms of the economic development of its member countries, such as that between Singapore and Myanmar. This has led to a digital divide, where there are stark differences in its basic infrastructure the access to the internet economy. The least-developed countries don't have to be totally equipped to the same degree as the developed markets, but it is important they don't lag behind the others, says Toh.

Since the ASEAN comprises a number of member countries, all with divergent stances on the various issues, it will be a challenge to reach agreement. While the ASEAN digital agreement has the potential to catapult the region ahead of other markets and compete with the US and China as a single economic bloc, this impact cannot be realised if the countries can't get through the negotiations. As with any community – or consensus-seeking organisation – the agreement will move at the pace of its slowest member, and if not agreed, ASEAN could stand accused of being a 'talking shop' that doesn't follow through and implement its declarations and initiatives. This has been an accusation levelled at ASEAN in the past, comments Toh. He adds that the timeframe of DEFA – considering the study groups and consultations that have been lined up as part of the negotiations – will be challenging.

The US-ASEAN Business Council put forward some suggestions regarding the digital agreements. These included accelerating the negotiation timelines; referring to and learning from other digital agreements; ensuring that commitments are binding and commercially meaningful; and building in flexibility to accommodate the region's different stages of development.

One major hurdle is Myanmar, which has recently been beset with its own internal issues, which include a military coup in 2021. Such issues, comments Toh, are more urgent for Myanmar than the topic of digital integration. This, however, does not mean that DEFA can go ahead without Myanmar. "DEFA cannot assert its full potency with Myanmar left out," he says.

Looking ahead to achieving digital integration, Toh points to five indicators that the pundits agree are the most helpful when fostering integration. These are logistics, cybersecurity, digital payments, digital literacy and digital infrastructure. If ASEAN is able to come together and form a digital economic bloc, with all these issues agreed upon, it has the potential to become an epicentre of digital growth.

WHY PAYSAFE AND PAYONEER GAVE A SWAGGER TO THEIR TREASURY FUNCTION

You can't build a great company by having a great treasury – but it's possible to destroy a company with a bad treasury. Panellists at Money20/20 discuss the role of treasury in supporting companies in growth mode.

At global payments solution provider PaySafe, the importance of the company's treasury function working in lockstep with the wider business became apparent when the group was in the process of buying a new building. Speaking to delegates at Money 20/20 in Amsterdam, Steve Delpy, Chief Banking Officer at the PaySafe Group said the purchase was suddenly put in jeopardy because of a scarcity of liquidity in the company. "The business was profitable, and we had the cash, but there was a disconnect between the activities of the company and the business function."

In another story from the frontline, fellow panellist Jody Perla, Managing Director, Global Banking and Payment Infrastructure at financial solutions and payments group Payoneer, said the importance of the company's treasury and finance teams working together in the decision-making process was underscored when Russia invaded Ukraine. The company had to work quickly to ensure its Ukrainian customers could still run their businesses during the war, making sure funds were available. In many ways war in Ukraine shifted the role of treasury at Payoneer from outlier to playing a central role in building a scalable platform for the future, she said.

Companies in growth mode, adding new customers and introducing new product lines, often don't have a well-defined treasury function. But there's an inflection point, after which the most sustainable way to grow a business comes via a vibrant treasury, said fellow panellist Priyanka Rath, Managing Director at J.P. Morgan, who advises corporates on how to bring treasury into their core business function.

The cost of doing business has grown more expensive, raising questions around how to fund products and ensure the best value; a treasury can make strategic decisions that support growth and bring sponsorship from the top, she continued. Treasury needs to come out of the back office into the open, speak the same language as the rest of the business, and develop a proud swagger.

"Much of the role requires people understanding what treasury actually does," Rath explained. "It's not just a department that says no or called upon when people want cash. More companies are bringing their treasury function to the forefront as an active voice influencing business decisions, a far cry from the retro back office they used to be. We are seeing more companies champion treasury, and this is a welcome change – where treasury is at the forefront of driving transformation from within."

A common disconnect is found between the sales and business development functions. For example, sales teams increasingly come up against prefunding and liquidity challenges. Treasury must be part of this conversation, said Delpy. "There are ways to bring funding and liquidity to a deal and often the sales team is unaware of treasury's knowledge. It's about turning treasury from back office into being a business enabler."

The current macro environment should also encourage treasury to come to the fore. Higher interest rates are a chance for treasury to support a business generate returns, reduce debt and support capital management. In an environment of reduced liquidity, controlling cash is paramount. Moreover, panellists said treasury quickly pays for itself. For example, a company without a treasury function relies on banks and incurs charges for handling its cash. "Treasury is a function that pays for itself," said Delpy.

An integrated treasury function can also support companies around compliance and risk. "Very few people have a holistic view of the cost of running a business," said Perla. But treasury can help tie together the cross-border component around payments and opening bank accounts with the regulatory environment. Treasury can guide a company strategically, advise if it should work with its existing bank or a new bank; where there are economies of scale and how to execute successfully.

Panellists discussed the role of treasury in acting as a business enabler rather than simply a control function. Making treasury relevant to the rest of the organisation is crucial and ensuring treasury can deliver by increasing margins. Treasury should ensure the rest of the business knows and understands what it does, get rid of financial jargon and use the right language to make it simpler for people to partner with treasury and enable teams to complete deals. "Treasury needs a swagger. I can make strategic decisions," concluded Rath.

This much I know

Sharon Wang

Director of Treasury

How did you arrive at your current role?

I started my career at Bank of China – I spent two years working as a relationship manager, and another two years in global markets sales. I then joined Intel for four years, followed by roles at Honeywell, BASF and Gibson. So I've worked at different MNCs with different cultures: Chinese, American and European.

In late March, Alibaba announced that the group was going to split its business into six separate units, which led to a change in my role. Previously, I was leading global cash management, treasury operations, treasury mid-office, treasury digital transformation and global bank relationship management. But since 1st May, I have been looking after cash investment, financial risk management, counterparty risk management and subsidiary financing.

Do you think it is more important to have a defined career path, or to be open or flexible?

I believe it is important to have a goal in our life, and a plan for how to make it happen, for example by joining workshops, attending forums and learning from others. I talk to my team members twice a year about their plans for the coming three to five years.

Of course, you don't have to stick to your plan 100% – for example, if treasury is your ultimate goal but there is an opening as a financial controller, it may be advantageous to make that move for a couple of years to expand your horizons. So it's important to be open and flexible too.

What can women do to make their voices heard within the organisation?

Women should stand up and speak up for themselves – if we see something that is not reasonable or not fair, it's important to correct it. That said, in Chinese companies, the majority of finance professionals are women, so in fact I have to make sure that men's voices are heard by team leaders.

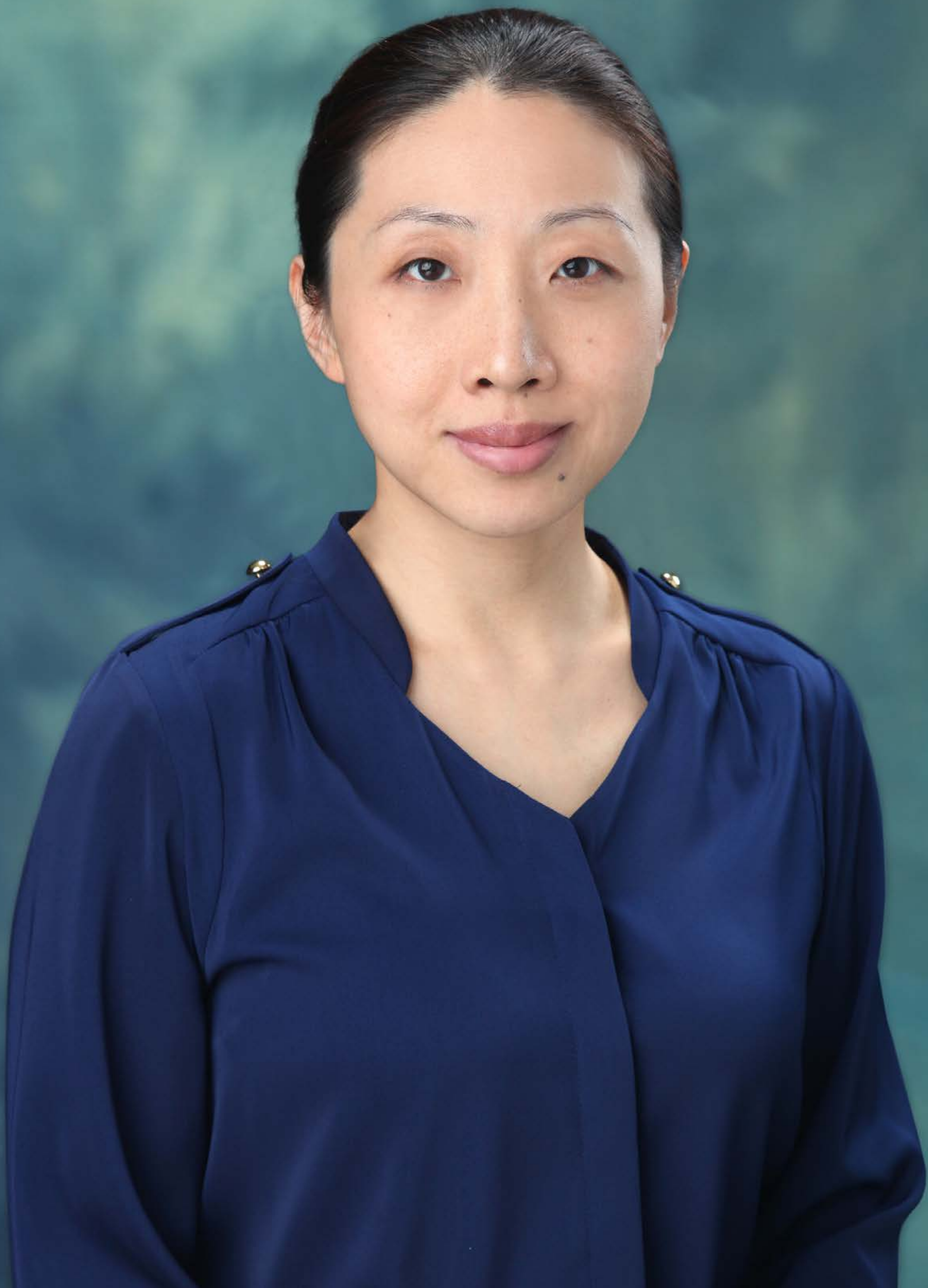
What is your favourite motto or greatest inspiration?

Nelson Mandela said that "Education is the most powerful weapon which you can use to change the world." For every generation, it's so important to understand what's happened in the past, what's happening now, and what could happen in the future. I continue to educate myself, and this is also how I engage with my daughter – I use education as a skill to guide her through life.

"When I took responsibility for digital transformation at Alibaba, it was challenging but also fascinating."

ONLINE

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



Moving treasury forward

When Sharon Wang started her career in international finance, China was in the process of opening up its doors to overseas businesses. "As a young generation back then, we were wondering about what was happening in the world," says Sharon. "So I chose international finance as my major in university."

When she joined Bank of China, Sharon was working on the other side of the table from corporate treasury – "so we needed to understand all the financial-related issues, as well as financial instruments available for people to manage risk, enhance yield or reduce cost."

Back then, says Sharon, the treasury profession in China was at a very early stage of development, meaning that she had to spend time educating her counterparties on financial risk and the instruments available. "And suddenly I wondered, why not just join the treasury profession? As a banker you offer solutions, but you're not that close to the real business problems. As a treasurer, you can see the problems and you can be there for the business to tackle challenges in the real world."

Twenty years on, Sharon is still working in the treasury profession – a career in which she says she never stops learning, not least because of new trends in the market such as emerging technologies. "When I took responsibility for digital transformation at Alibaba, it was challenging but also fascinating," she recalls. "We've been enhancing and enriching our in-house treasury information system, and I was overseeing for the whole process. It required me to be ahead of the curve all the time to make sure we had the right functionality in the system."

Since beginning her new role in May 2023, Sharon has broadened the idea of portfolio management as a means of seeking the optimal combination of risk and return. Her other goals include upgrading the company's financial risk management framework and developing closer relationships with the business.

Inspiring younger generations

Where career development is concerned, Sharon is a firm believer in planning for success. "The advice I give to younger members of the team is to know who you are and what you want, because goal setting is very important," she says. "Having a goal also means having a plan, and knowing which tasks you need to fulfil in the next three months, six months or two years in order to achieve that goal."

Also key for younger generations, says Sharon, is valuing knowledge and making an effort to understand the language of work partners and stakeholders. "Without this common language, you can't understand other people's concerns, or influence them or engage with them. And if you're knowledgeable enough, you will be able to see problems and identify solutions more clearly."

Where diversity and inclusion is concerned, Sharon highlights the importance of promoting awareness of different cultures and nationalities within the team, noting that Alibaba's treasury includes employees from mainland China, Hong Kong and Malaysia.

"Unconscious bias is not easy to identify – everyone needs to work on this," she comments. "It's also important for people to have self-confidence: you can't be limited by others just because you think you are different, or are told you are different. Equally, it's important to have empathy for people who struggle to understand difference due to their background or education."

Sharon argues that team leaders should empower younger employees by creating a safe environment in which people can try, fail and speak up for themselves. "I hold a monthly sharing forum for my team members and others to share skills, experience and knowledge," she comments. "This can also be an opportunity to review any confrontations that may have arisen and understand different people's points of view."

At the same time, she notes that junior employees do not have to hold a leadership position in order to lead a team or project, so her advice is to volunteer for any opportunities that may arise. "And finally, be yourself – I see a lot of junior members who try to pretend to be someone else. While role models can be helpful at the beginning, in the long run you have to be true to yourself."

Profile

Established in 1999, Alibaba is a Chinese multinational corporation and one of the world's largest B2B wholesale ecommerce marketplaces. The company aims to serve two billion global consumers, enable ten million businesses to be profitable and create 100 million jobs by fiscal year 2036. In the fiscal year ended 31st March 2023, Alibaba's revenue was RMB868bn (US$126bn).

Based in Hong Kong, Sharon Wang has spent over 20 years in banking and treasury, and previously worked for Intel, Honeywell and BASF. She has a Bachelor's degree in International Finance from Nanjing University and a Master's degree in Economics from Fudan University. She also holds a Chartered Accountancy with CICPA.

RECESSION OR SOFT LANDING? THE SIGNALS SUGGESTING A SHARP PULLBACK AHEAD

As central banks deliver their latest decisions on interest rates the risk of a recession and stagflation looks more likely.

"I think we are now at a point where it is arguably more pertinent to say what signals are not showing a recession," says Chris King, seasoned corporate treasurer and co-founder of risk management specialist Dukes & King speaking to Treasury Today. "Although we clearly hope there could be a soft landing, the continued data themes, most of which have happened in the last three to six months and have a six-12 month time lag, suggest a relatively sharp pullback."

The indicators he is most concerned about include the depth and now duration of the inverted yield curve which inhibits the issuance of credit due to banks' lending models. Elsewhere, tightening of credit and credit restrictions have come through in Q1 in a major way. King also flags the "major slowing" of China's economy, visible in a sharp pullback in prices in most commodities. Although he notes commodity prices are poised "ready for a recession" rather than actually in recession, they act as a good leading indicator of demand ahead.

All themes are echoed in Euromonitor International's latest Global Risk Index which argues the global economy is now more at risk of stagflation than any other risk.

Its latest analysis forecasts a 30% likelihood of global stagflation, predicting a -5.5% hit on global real GDP if so. A primary cause of the heightened risk, says Lan Ha, Head of Practice, Economies at Euromonitor International, is the war in Ukraine.

"The primary risk driving the global stagflation scenario in 2023 is further disruption to global energy and food supply in the context of the war in Ukraine. This would ignite a resurgence of global inflation and increase the likelihood of more persistent price pressures in the global economy," she says.

All the while increasingly restrictive monetary supply in the world's largest economies is adding to recessionary pressure. Brice Lecoustey, Consulting Partner, EY Luxembourg questions if ongoing rate hikes are the right tool to tackle the underlying cause of inflation given its source in energy and food prices.

"Economic conditions are particularly challenging," he says. "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."

At a consumer level, King notices that the cumulative factors of the impact of inflation and high borrowing costs are now starting to come through. "Each month of elevated energy, food and housing prices impacts demand. We have only just started to see the impact in reduced volumes now. Consumer demand has recently fallen sharply, with demand for construction and consumer products now exhibiting around 25% volume reduction with expectations to fall further through into 2024," he says.

Moreover, in the US particularly, the surplus cash savings accumulated through the pandemic are now being eroded at quite a fast rate, concerning since this store of money has helped prop up the economy over the last few years.

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Metaverse heralds new future for treasurers

Corporates are dipping their toe into the metaverse and selling their digital wares in 3D virtual worlds. For most treasurers, however, this technology seems a long way off but those who don't take the time to understand Web 3.0, and all it entails, could risk being left behind.

Amid the talk and the buzz of the metaverse, it can be easy to forget that people have been living vicariously in virtual worlds since 2003. Second Life was the first virtual world that enabled avatars to connect with others, and live virtual lives doing fairly ordinary things like watching a film or going to a bank branch.

This was a precursor to the metaverse, which many imagine to be a virtual reality (VR) 3D experience where anything is possible. Most people, however, may not be ready for that just yet. The founder of Second Life, Philip Rosedale, said in an interview that virtual reality headsets are like blindfolding yourself and entering a room with people you don't know.

That kind of bravery isn't commonplace and most people won't be reaching for the VR headsets just yet. But there has certainly been a resurgence of interest in Second Life since the metaverse became a buzzword, which was triggered by Facebook's renaming to Meta in October 2021. In fact, a report by J.P. Morgan estimated that Second Life's GDP was US$650m in 2021.

With figures such as these, it is clear that there is a business opportunity with the metaverse, which J.P. Morgan estimates to have a market opportunity of over US$1trn in annual revenues. The bank's Opportunities in the Metaverse report

notes there are opportunities to transact, and US$54bn is already being spent on virtual goods, almost double the amount that is spent on buying music. And when it comes to buying digital assets, the market capitalisation of non-fungible tokens (NFTs) is estimated to be US$41bn. Although these products may be digital, and bought with cryptocurrencies, the money they're making for corporates is very real.

And while the metaverse still seems niche – and only a place for gamers and techies – it is moving from the fringes towards the mainstream. "It is definitely getting bigger and bigger," says Chuck Cummings, Co-Founder and Head of Finance of Bankless Consulting. He adds that this has been accelerated by the shift to online experiences that occurred during the pandemic.

For many, however, talk of the metaverse can be confusing and many are still struggling to understand what it actually is. They often assume it requires a VR headset. Cummings comments that this common understanding of the metaverse probably stems from the first use of the term in the science fiction novel Snow Crash by Neal Stephenson, where the characters donned VR headsets.

So what exactly is the metaverse? Well, it depends who you ask.

Royston Da Costa, Assistant Treasurer at Ferguson, a plumbing and heating products distributor, points to a definition where the metaverse is the next iteration of the internet, and a single, shared immersive virtual space that is persistent – ie it still exists when you're not engaging with it.

The metaverse is underpinned by Web 3.0 technologies and concepts, and by some definitions, the metaverse is part of the evolution of the world wide web. Da Costa points to wider context of the web's development, where Web 1.0 was one-way traffic (a static web page that published information, for example) and Web 2.0 was two-way traffic (like Zoom calls or user-generated content that is uploaded to YouTube). The next stage of Web 3.0 moves into a different realm, one that is open and decentralised, based on blockchain technology where digital assets are tokenised and traded for cryptocurrency, all made possible through decentralised finance.

Some definitions of the metaverse go broader and encompass these Web 3.0 (or Web3) technologies that make interacting and transacting in this world possible. Gaurav Gopinath, Head of Legal at Bankless Consulting, a firm that specialises in Web3 consultancy, comments, "Web3 is not just the metaverse, and the metaverse is not just Web3." He comments there are many definitions of the metaverse out there and it does not have to involve virtual reality. He applies a broader definition of spaces where the real world touches the virtual. This could be gamers playing Roblox games and spending real money, which has been converted into a virtual currency, for example. "The metaverse blurs the lines between virtual and reality," Gopinath says.

The metaverse can be a virtual world where people interact and transact. What makes the metaverse distinct from Second Life is the virtual economy that is being created through the sale of digital assets. Individuals are living out economic lives through their avatars and amassing assets – and buying property – all of which creates huge opportunities for corporates.

While buying goods in a virtual world may not be new, what is different – and significant – is that the virtual worlds of the metaverse are interoperable, and it is possible to take your assets from platform to platform.

It can be easy to dismiss the trading of virtual products – such as NFT art selling for millions – as speculative hype. Could buying shoes that don't actually exist in the real world be akin to overspending on tulips at the height of the Dutch Tulipmania bubble in the 17th century?

Not necessarily. Cummings explains the significance of owning such digital goods. Many consumer brands are creating digital versions of their products – such as Nike trainers – and selling them for real money. The owner is then given digital proof – the token – that they own that particular pair of trainers. Why would someone spend a relatively large amount on such trainers? For the same reasons they do in the real world, explains Cummings. "Humans have a basic need to express their status, compare themselves to others and show off their wealth or uniqueness. People do this online just as much as they do in the real world," he says.

Why this is significant in the metaverse, explains Cummings, is that previously gaming and social platforms were not compatible – it is not possible to take your Facebook friends to Twitter, for example – and if you bought something on one platform, you couldn't take it to another. Now with crypto, and the underlying layer of all these virtual worlds, you can prove digital ownership of something in all these virtual worlds.

A metaverse report by Deutsche Bank outlines how this could work in practice. A retailer, for example, could drop an NFT to a customer's wallet as a reward, which allows their avatar to wear a jumpsuit in the metaverse. And the customer could redeem the reward for a physical jumpsuit to wear in real life. That jumpsuit could carry a chip that is linked to the NFT and allows the retailer to see where its garment is being worn and when; if this customer is an influencer, for example, they could be sent more rewards.

Consumer brands have already been doing this kind of thing and launching products and services specifically for the metaverse. Fashion brand Zara, for example, released its Lime Glam clothing collection for avatars in the Zepeto virtual world in 2022. In commenting on this news, fashion magazine noted, "We are living in a world where what we look like online is becoming just as important as our IRL [in real life] appearance." Zara also released virtual nail polish for avatars to wear with the new clothing line.

Entry into the metaverse can be for a number of reasons, notes the Deutsche Bank report. The jumpsuit example could be a promotional exercise that enhances a customer relationship and loyalty to the brand. And the Zara collection example is a way to create a new revenue stream for the retailer. Alternatively, a company could enter the metaverse to create a new channel for communication, such as a bank opening a branch in a virtual world.

Virtual technology is fast catching on, and companies are already applying it to enhance their existing offerings. Da Costa points to tools such as Matterport 3D virtual viewings that allow real estate agents to conduct virtual property viewings. Seizing such opportunities requires a shift in thinking for companies, and an awareness of the potential of such technologies. Part of

> There is not a magic pill that anyone can take. What we can do is make sure that you are suitably equipped
>
> Royston Da Costa, Assistant Treasurer, Ferguson

this is being open and forward-thinking. Da Costa illustrates this kind of approach with how his company Ferguson was able to adjust to the pandemic. When lockdowns occurred, the company was not thrown into disarray because it had already done its thought exercises – and business continuity planning – and had already prepared for an eventuality where its employees would have to work from home. Although at the time no one predicted there would be a pandemic, the company's preparedness meant it was able to adapt quickly.

When it comes to the metaverse, Da Costa says that the technologies and the possibilities are not really touching treasurers' world, unless they work for gaming companies or businesses that are directly operating in the metaverse. He argues, however, that treasurers need to wake up to the possibilities because of the pace at which the technologies – and applications – are developing. Treasurers need to be aware and be prepared, he says. "There is not a magic pill that anyone can take. What we can do is make sure that you are suitably equipped," Da Costa comments.

When dealing with the kind of future that the metaverse heralds, there may be a shift in thinking required by treasurers. Cummings explains that the major difference with the metaverse is the use of cryptocurrency, which is required for processing any transactions. This can be a steep learning curve, and it is becoming increasingly difficult in the context of regulators taking harsher action, such as the charges that the Securities and Exchange Commission filed against crypto exchange Binance in June 2023. This is making it harder for people to acquire cryptocurrency and to buy and sell digital assets, says Cummings. Also, it is becoming harder for businesses to get accounts that link to crypto exchanges because of the compliance burden on banks in the face of regulatory pressure.

Another challenge for treasurers, which is different from how traditional treasuries are run, is with the accounting. "Accounting is a new kind of challenge for this space," says Cummings. He explains that because crypto is usually volatile, it can be difficult to account for its value when it is changing so frequently. Although there are software solutions in the market, it can still be difficult to integrate them for the purposes of tax reporting.

As the legal expert at Bankless Consulting, Gopinath makes a broader comment that the rules – both accounting and legal – have been set up for the traditional way of doing things. One concern is that with applying old rules to a space like the metaverse, it runs the risk of hampering innovation and holding back progress, he says.

Companies have the opportunity to buy and sell digital goods in the virtual worlds of the metaverse. And they also have the chance to apply the technologies – such as VR and headsets – to new ways of working.

On the practical side of what the metaverse could mean in the course of a working day, Da Costa points to the development of working practices from the pandemic and how many working patterns have adjusted to the virtual world. This, Da Costa believes, falls into the realm of the S of ESG [environment, social and governance] whereby the S – social – can be about creating working practices that are flexible, for example. He argues that the younger generation that is now coming into the workforce is not willing to compromise on flexible working, and also prioritises their mental health.

With flexible and hybrid working policies – eg two days in the office – there is more potential for employees to get immersed in the metaverse. If you take a loose definition of the metaverse – where the virtual and the real collide – then even Zoom calls are in the metaverse. And if you take a definition where the metaverse involves virtual reality, that Zoom call can take on a different dimension with a VR headset on. Zoom calls could then feel like you are in the same room as your colleagues. Or you could have a meeting on the beach in the Bahamas, or an office on Mars – whatever takes your fancy.

Another application of virtual technology, explains Da Costa is with digital twins. This technology creates a virtual representation of something that a company has created or has an interest in, such as a city, a financial system or a complex product. A digital twin is created, which can then be stress tested. In theory, a digital twin could be created of a corporate's treasury operations and then tested with different scenarios, such as a natural disaster, oil price shock, supply chain disruption and so on. This could be really valuable to treasurers, says Da Costa, as they will be able to visualise – in real time – what would happen to their cash balances in such scenarios. "Seeing things is so much more memorable and powerful," he says.

In the face of such new and powerful technologies, the discussion can focus on how humans are becoming disconnected from each other, or may become unnecessary and irrelevant in their current roles. This is not how Da Costa sees it, however. He doesn't think that avatars, virtual worlds, AI and machine learning are replacing the need for humans, or the human experience. Rather, he believes such technologies help foster effective communication with colleagues in the virtual world, and then free up time for treasurers to build relationships and connect in the real world.

Treasurers who are thinking of getting involved in the metaverse would still be in the early stages of the technology adoption curve (the model that consultancy Gartner outlines as having five stages: innovators, early adopters, early majority, later majority and laggards). Cummings argues that with the metaverse we are still in the early adoption phase. He urges everyone to dip their toe in and understand how it works. He cautions that things won't always work as expected, everything won't be fully robust, but that is part of the process of understanding a new technology in the early stages of the adoption curve. By the time everybody else jumps on board with the metaverse, it may be too late for some to get properly involved.

And Da Costa's advice to treasurers about the metaverse? "Embrace it, but don't forget the basics – you need to be fully versed in the fundamentals of treasury management," he says. And finally: "If you are not prepared to move you will get left behind."

Taking control of liquidity in Asia

Companies in Asia are looking to increase the efficiency of their liquidity management practices while minimising risk. This requires a combination of intelligent systems, real-time solutions and expert guidance, says Citi's Sandip Patil, Asia Pacific Liquidity Management Services Head and Digital Assets Lead, Treasury and Trade Solutions.

Sandip Patil
Asia Pacific Liquidity Management Services Head and Digital Assets Lead, Treasury and Trade Solutions, Citi

Treasury teams in Asia are facing high levels of uncertainty in today's market, for a number of reasons. Geopolitical risks and rate hikes introduced in the wake of the Covid pandemic, continue to put pressure on companies. At the same time, companies are navigating digital disruption to their business models, driven by the rapid rise of ecommerce and real-time models.

"These trends are visible everywhere, but they are even more prominent in Asia, simply because of the amount of digital infrastructure we have, and the widespread adoption of digital tools by the population," comments Patil.

As a result of all these factors, companies in Asia are looking to tighten their liquidity management strategies – not least because access to loans is becoming increasingly restricted and costly. By optimising their liquidity in-house, companies can use their own cash to meet internal needs and improve the yield on any cash surpluses, including those trapped in different jurisdictions in Asia Pacific.

"If they release trapped cash, companies can then retire expensive debt on the balance sheet, or avoid raising additional equity," says Patil. "With the capital they release, they can also deploy new technologies and digitise their ecommerce infrastructure." But it's not just about efficiency gains. As Patil explains, "Liquidity management also helps companies manage liquidity risk. You don't want a situation where one of your entities doesn't have the cash it needs at the right time, and consequently isn't able to make a tax payment for instance."

Localised solutions, intelligent systems

For Citi, the best way to help companies in the region is by giving them localised solutions in each individual market. "Whether that's in India or China, we're going deeper and offering them our RMB or INR solutions across different legal entities, centres and currencies," says Patil. "Clients can then manage their liquidity pools in a fungible manner across entities." When companies are left with a cash surplus, they can move this from the individual country to a regional or global treasury centre. "To the extent that regulations allow, we upstream that liquidity, give clients all the reporting they need, and help them invest that liquidity in the most suitable manner depending on their tenor and risk appetite."

Increasingly, says Patil, treasuries are expected to support ecommerce by enabling cash flows on a 24/7 basis – "and they also want to manage a lot of their liquidity passively." As such, there is a growing appetite for intelligent systems and platforms, partly because of constraints in accessing the right talent, as well as concerns around human error.

Furthermore, navigating different regulations in the region is a challenge that can be addressed with more intelligent systems. "Our approach, and our clients' preference, is to automate everything," says Patil. "This includes putting platforms in place and making them self-service so that clients can change these parameters from time to time, based on their underlying business conditions."

Innovation and automation

Citi has addressed these needs by creating a new generation of real-time liquidity solutions, such as On-Demand Sweeps and 7-Day Sweeps, that are already being used by over 100 clients. Meanwhile, products like cross-currency swaps and cross-currency target balancing are helping clients manage FX and liquidity risk. The bank has also launched a range of products that offer multi-banking capabilities – "so we can aggregate clients' balances on their Citi accounts with balances from other banks."

For companies with a net cash surplus, Citi is also bringing new investment products to the market. "Where investment solutions are needed in-country, we're now automating a lot of that," says Patil. For example, the bank is introducing new platforms that offer automated sweeping into vehicles ranging from time deposits to money market funds and commercial paper. To meet the growing demand for sustainable investments, Citi has also launched products including green deposits and sustainable deposits in certain markets, with further developments currently underway.

Navigating market developments

Alongside product innovation, the bank is focusing on offering complementary services such as digital onboarding and data-led initiatives, as well as providing advisory services. As Patil notes, "Clients are a lot more curious about what's happening in specific markets, industries and countries. They are also looking to benchmark the efficiency of their liquidity management against their industry peers and seek advice on how to become more efficient."

This advisory element encompasses everything from regulatory to accounting practices. For one thing, companies are keen for input when it comes to pinpointing which types of questions they should be asking their tax advisors. They are also looking for guidance to help them navigate the region's evolving regulatory landscape and understand how regulations apply to their specific business models.

"By virtue of our longstanding relationship with regulators, we are in a position to get some of the complex questions answered on our clients' behalf," says Patil. "And of course, the more intelligent your platforms are, the better you can fulfil regulatory obligations and avoid problems that may arise in the future." By launching digital onboarding capabilities for all of its liquidity management products, he adds, Citi is not only helping clients navigate the region's regulatory challenges, but also giving CFOs and treasurers the tools they need to make well-informed decisions.

Liquidity management and working capital – a work in progress

In an environment of rising interest rates, economic slowdown and fragile supply chains, corporate treasurers have challenges in effectively managing working capital and liquidity. Digital technology may be the answer.

In April, the International Monetary Fund (IMF) predicted a pronounced slowdown in economic growth in advanced economies, falling from the 2.7% recorded in 2022 to an estimated 1.3% in 2023. The baseline forecast for global economic growth is 2.8% in 2023 and 3% in 2024. There are myriad headwinds for the global economy, including rising inflation and interest rates, elevated public debt to GDP ratios (a legacy of the COVID-19 pandemic) and supply chain disruptions and geopolitical tensions.

PwC's Working Capital Study 21/22, states that the COVID-19 pandemic exposed the slow reaction of supply chains to external shocks, leading to a significant rise in net working capital (NWC) days. "This lack of agility in adapting working capital levels to disruptive external events is a concern as we face continued challenges in the global supply chain," the report states. "The heightened complexity and lack of visibility over most supply chains also mean that the move from 'just in time' to 'just in case' planning in order to manage supply risk may bring further working capital challenges. That is why 65% of executives in our survey named working capital efficiency as the main objective for change management and restructuring activities."

Timothy Bartlett, Liquidity and Investment Products Director, Global Payments Solutions, HSBC, says post-pandemic, corporate treasurers have focused less on liquidity concerns, such as the stockpiling of cash, and more on addressing issues in the supply chain, such as navigating the impact of supply chain hold-ups including lessened supply and higher prices.

Henrik Lang, Head of Global Liquidity in Global Transaction Services at Bank of America, says some of the working capital issues that arose during the pandemic have been addressed "but not all, as we saw following the stress in the US regional banking sector and the uncertainty around the debt ceiling. There are more liquidity strategies that could be considered to manage through disruptive external events."

Andy Schmidt, Global Industry Lead – Banking at CGI agrees. "Many corporate treasurers are still working through the issues the pandemic caused. These issues have been further complicated by inflation and higher interest rates along with real-time payments. We tend to forget the importance of working capital and liquidity management in a real-time environment," he says.

Corporate treasurers are looking to pay as late as possible to maximise their own interest income and minimise the working capital they need to use to meet certain payments. It is a case of "earn as much and pay as little as they can," he says. This creates a dynamic on the bank side of trying to support corporate treasurer clients that on the one hand make the bank money, but on the other, cost them money, he adds.

An issue raised during the NACHA payments conference in the US during April this year was visibility in payments systems, says Schmidt. "Payments are increasingly made in real time, but banks' accounting systems are run looking at information that is hours old. Corporate treasurers have an appetite for real-time account updates. They want to see where their liquidity is and be able to do something about it, such as move credit or sit on certain payments."

Another theme that emerged from the conference was the idea of integrating accounts payable and receivable to build intelligence into payments systems. This will enable corporate treasurers to decide which payments to make and when, says Schmidt. "It is all about visibility, and some corporate treasurers are closer to this than others."

Lang agrees that visibility is an important goal for corporate treasurers. "On the plus side, the pandemic led to an exponential adoption of digital payment tools, giving corporate treasures greater visibility into their liquidity and ability to mobilise cash more easily to satisfy working capital needs."

However, he adds, the market stress in the first half of 2023 revealed to many corporate treasurers that they needed to review and update their investment and counterparty management policies. "Some of the more common policies include implementing exposure limits to certain investment types or counterparties, and shortening or extending the tenor of investments," he says.

Peter Dehaan, Head of Business Development, Cash and Liquidity Management, SmartStream Technologies, says intraday liquidity is now "front and centre" of discussions the company has with its bank treasury clients. "Prior to the collapse of Silicon Valley Bank intraday liquidity management had been de-prioritised by banks. Now it has been re-prioritised."

Silicon Valley Bank – the largest bank by deposits in Silicon Valley – collapsed in March 2023, and marked the second largest bank failure in US history after Washington Mutual's collapse in 2008. Dehaan says US regulators are likely to tighten regulations following the collapse, putting more focus on stress testing and the availability of liquidity and the different pools in which it can be trapped.

"Many banks in the US in particular are managing a significant amount of transactions on Excel spreadsheets and this should not be done on Excel," says Dehaan. "There will be costs involved in moving away from spreadsheets, but by doing so,

bank treasurers will find themselves in a more comfortable position that gives them greater visibility over liquidity. They will be working with actuals, rather than projections. In a rising interest rate environment, they will be more informed about where to place the right amount of liquidity at the right time."

Now, more than ever, says Bartlett, the key driver for managing working capital is ensuring access to the cheapest sources of funding with utilisation of a corporate's own funds being the most efficient. "Managing the working capital cycle is a balancing act at the best of times, but more so in a high interest rate environment and where supply is limited. This is because it is difficult to accurately forecast payables and, consequentially, receivables if there is uncertainty around production of finished goods due to interrupted supply of raw materials. The ability to utilise self-funding, combined with accurate cash flow forecasting, is essential."

Lang says in the current economic climate there are three main challenges for corporate treasurers in effectively managing working capital and liquidity: gaining intraday visibility of liquidity positions, accurately forecasting working capital needs and efficiently mobilising liquidity. "With regards to visibility, having intraday visibility of global cash positions is always a challenge, especially if liquidity positions are spread across multiple bank providers, currencies and geographies," he says. "In the current climate, the cash flow forecast needs to be dynamic and be able to support a wide range of market scenarios including broad based market stress. Finally, on mobilising liquidity, getting liquidity to the right place at the right time at the lowest possible cost is a challenge especially for corporations managing working capital needs across multiple legal entities, geographies and currencies."

Digital technology is playing an increasing role in helping corporate treasurers to get a better handle on their working capital and liquidity management. CGI's Schmidt says digitising processes gives corporate treasurers greater command and control over liquidity and working capital, enabling them to be more proactive in finding funding when it is required. "When a corporate treasurer is pressed for cash, he or she wants to be able to identify which primary relationships they need to maintain and whether there are payment discounts they can take advantage of, for example," he says.

HSBC's Bartlett says the real-time forecasting, payment functionality and receivables reconciliation that the latest digital technology offers, enable treasurers to stay ahead of potential issues such as funding gaps, lack of liquidity and monitoring of accounts receivables. "In turn, digitisation enables corporates to have the ability to tactically adapt their strategy quickly and in fast enough time to circumvent a major issue. This is a luxury that customers were not afforded in the era of manual instruction and paper reconciliation," he says.

Lang notes that there are more digital technologies available to corporate treasurers "than ever before". These technologies include application programming interfaces (APIs), mobile applications, machine learning, predictive data analytics and artificial intelligence. "APIs have significantly reduced the cost and implementation timeline of system integration between bank providers and clients, for example," he says. "Also, app-based mobile banking applications give corporate treasury teams on-demand payment and liquidity capabilities that they also enjoy in other areas of their life." Finally, he says, machine learning and predictive data analytics can make cash flow forecasts more dynamic and accurate.

Bartlett says an ideal working capital and liquidity management set up will be largely dependent on a range of factors, including industry segment, size of the business, number of markets and customers involved. "Whilst there are industry benchmarks, there is no hard and fast rule for any one corporate," he says. "Moreover, the ideal working capital set-up is constantly changing dependent on both internal and external factors. Generally speaking, it is prudent to achieve the right level of payment terms with suppliers in the context of a suitable credit period without pushing up costs, whilst ensuring customers are given enough time to pay at a price that is affordable, but ensures account receivables are timely enough to meet account payable obligations."

For the treasury department to manage working capital and liquidity management efficiently, they must be able to rely on the right information from their own enterprise resource planning and treasury management systems, as well as input from their banking partners and the rest of the organisation. "Significant restructuring suggests a 'Big Bang' approach and that is normally a hard sell at a Board level because of the expected associated costs and complete overhaul of technology and systems which are not easy to implement whilst maintaining business as usual. An incremental change might solve for all of the above, but of course it takes longer to realise the overall benefits."

Lang agrees that an ideal set up will depend on many client specific factors including corporate financial goals, funding needs, corporate structure and risk appetite. However, there are at least two common characteristics that apply to most ideal liquidity management set-ups, he notes.

First is a high level of automation – physical cash concentration and notional pooling structures are often favoured by corporate treasurers as they allow a high level of automation, reducing cost and the likelihood of human error. Second is flexibility and control. "Market conditions can change quickly; therefore the best liquidity structures offer corporate treasurers configurable features that they can manage via digital tools. For example, they can add, cancel or modify physical cash concentration relationships, adjust intercompany borrowing and lending rates."

Some treasury departments are making small, incremental steps towards their target state liquidity structures. More established, sophisticated treasury departments already operate a highly efficient liquidity structure, he says. "However, regardless of their size or evolution, all companies realise the cost implications of an unfunded overdraft in the current interest rate environment. Likewise, trapped cash that stays uninvested overnight can be a drag on firm profitability. Therefore it is critical to have a highly automated liquidity structure in place such as an automated overnight sweep."

All companies should have plans to implement a longer-term liquidity structure, he adds, but trying to achieve too much too quickly can result in significant costs and resource challenges. "A more practical approach would be to gradually introduce changes in smaller increments and realise benefits early. For example, corporate treasurers could start by initially focussing on a few accounts or entities. Alternatively, they could consolidate large currency pools that can be easily mobilised and invested to enhance yield. Another idea would be to prioritise and add those legal entities and accounts to the automated sweeping and notional pooling structures that are frequently overdrawn due to their working capital needs."

Making waves

Marianna Polykrati
Group Treasurer

AVRAMAR was born in January 2021, when four leading companies Andromeda, Nireus, Selonda and the fish feed company Perseus, joined their collective expertise into one unified company. Today, AVRAMAR is the biggest aquaculture company in the European Union operating across the Mediterranean from Greece in the east to Spain in the west, and offering a wide species portfolio consisting of Sea Bass, Sea Bream, Pagro Maggiore and Corvina. Its vertically integrated value chain provides full traceability and ensures superior quality of every fish, from egg to plate. With an annual production of around 80,000 tonnes of fish per year, and exports to customers across 40 countries, AVRAMAR is an employer of around 2,300 people, with annual revenues of approximately €500m.

Marianna Polykrati, Group Treasurer of aquaculture firm AVRAMAR, explains why flexibility is a critical quality for treasury professionals, how treasury can benefit from digitalisation and automation, and why the transformation of the CFO's role is opening up new opportunities for treasurers to become strategic partners within the organisation.

Today, Marianna Polykrati is a highly experienced treasurer with an impressive career history which includes roles in the banking sector, as well as key treasury roles at several major Greek food companies. But while Polykrati is passionate about the opportunities and challenges that come with a career in treasury, the world of finance wasn't always on her radar. Polykrati originally considered careers in medicine and psychology, but it was when exploring alternative options that she found that corporate finance was a much better fit for her skills and interests.

"This was one of the best lessons I've had in my life – realising that you have to be flexible and constantly investigate alternatives that might suit you better," she comments. "This has helped me in my career as a treasurer as well, because when you're in a tight situation you have to be able to think outside the box and consider a wide range of options, rather than focusing on one single solution."

After completing a degree in accounting and finance at the American College of Greece, Polykrati moved to the US to do

a master's degree in finance at the Boston College Carroll School of Management. "And when I came back, I was ready to start exploring a career in corporate finance," she recalls.

Like many other finance professionals, during the period, Polykrati's career began with a focus on the banking sector. Her first role was that of relationship manager at Emporiki Leasing, where she worked with medium-sized Greek companies that ranged from small retail stores to large manufacturing plants.

"During that time, I familiarised myself with the criteria that banks used for financing corporates," she says, noting that this is very critical when operating as a treasurer today. "Next, I explored venture capital, learning more about how investors evaluate companies and enter and exit investments."

Working for Emporiki Venture Capital, Polykrati was responsible for projects in Cyprus and Russia, as well as restructuring Greek companies. Her role included overseeing the complete cycle of investments from deal flow generation and preliminary screening to due diligence coordination and exit formulation. Subsequently, however, Polykrati decided to make the leap from a career in banking to the world of corporate treasury. "In the corporate world you are in the heart of the real business, with production, people and facilities," she observes.

Polykrati says she felt very strongly about making this move, which has proved instrumental in shaping her subsequent career. "I switched to the corporate side, and I've now been in treasury for 16 years," she says. "And every year, I am still learning new things, which means my job is never monotonous."

Embracing M&A and corporate restructuring

Starting as an assistant to the general manager for a small corporation, focused on accounting and bank relationship management, Polykrati later joined the major Greek food group Vivartia, which was formed in 2006 by the merger of Delta, Chipita, Barba Stathis and Goody's. "I was involved in the merger process that involved bringing together all these different entities and cultures, supporting a lot in the transformation," she recalls.

During her time at Vivartia, Polykrati's focus was on financing new acquisitions, strengthening the company's cash and liquidity management, as well as exploring capital markets funding and improving risk management. At a later stage, and after another corporate restructuring involving the demerger of all the entities, the task changed to redesigning the group treasury function and training and educating the four new entities to be more autonomous in cash and liquidity management, corporate financial management, capital markets funding and risk management and controlling, while optimising treasury activities across those areas.

Corporate restructuring has been a recurring theme in her treasury career: "I have managed to be involved in a lot of corporate restructuring during my time in treasury. M&A is one of the areas that intercorrelates a lot with treasury, and treasurers can really add value and make a difference."

Embracing new challenges

Following the demerger, and the split of Vivartia's operations to its original form, Chipita was sold back to its previous shareholders in 2010. "I remained at Vivartia initially, but three years later I joined Chipita," says Polykrati. The Greek confectionary company specialised in selling packaged croissants and other snack brands, with a presence in over 50 countries. As Group Treasurer of Chipita – a role that she held for nine years – Polykrati was responsible for the group's capital structure and liquidity management, including financing arrangements, managing foreign exchange risk and coordinating cash management across the group.

Polykrati's other responsibilities at Chipita included ensuring compliance with the relevant regulatory, legal and tax frameworks, managing overseas trade financing activities, and evaluating and implementing supply chain finance and trade finance projects.

In 2022, when Chipita was acquired by American multinational food giant Mondelez International in a US$2bn deal, as the treasury function became centralised, Polykrati decided to take the opportunity to have a sabbatical. "I was initially planning to stay out for one year, but as it always happens when making plans, it was cut short because I had some very interesting proposals," she recalls. "Several opportunities actually came up, but the most challenging and interesting role came from AVRAMAR."

In particular, says Polykrati, she was interested in continuing to work in the food sector and aquaculture was a good fit, particularly as it is a sector she feels that Greece should be developing. "I believe that Greece needs to continue growing and developing in the field of agriculture and aquaculture, as this is something that Greece has quality products to offer, alongside with tourism and shipping," she comments.

Nevertheless, she also points out that aquaculture is a challenging sector to work in. "The role also reminded me of my early time in Vivartia, because AVRAMAR was created with the merger of companies. We have a great mixture of people and cultures, with new ideas coming into the group and doing some fascinating things."

Harnessing digital opportunities

In April 2023, Polykrati joined AVRAMAR as the Group Treasurer. The company's treasury team consists of 13 people located in Greece and Spain. Within the company, treasury is responsible for cash management, liquidity management, debt management, accounts payable and accounts receivable.

Today, says Polykrati, the focus of the treasury is on reorganising the department to improve the way that treasury works, while also increasing the strategic role of the department within the organisation. "The areas that I'm focusing on today, alongside capital structure, are debt management, cash management, improving costs, supply chain finance and in general finding other areas of improvement," she adds.

At the same time, there is a significant focus within the company on using technology to improve and automate treasury's day-to-day activities, for example with the use of treasury management systems and cash flow forecasting tools. Polykrati notes that modern treasury management systems offer a lot of solutions for treasurers looking to streamline their day-to-day activities, while data analytics are also playing a key role in enabling treasurers to collect and

use data in a more meaningful way, for taking more strategic decisions and adding value to the company.

"Technology is not only having a TMS or cash forecasting system – there is also the option to use APIs that connect directly with the banks to receive all the data," she explains. "And with data analytics tools, you can then start to see the behaviour and patterns that will help you prepare your cash flow forecast." Nevertheless, says Polykrati, "all these tools are efficient and reliable as long as you keep a well-maintained ERP."

In general, says Polykrati, treasurers often find it difficult to gain buy-in for digitalisation projects within their organisations, typically for two main reasons. "Firstly, only a few really comprehend what treasury does due to the role's specialised nature. Then there is the question of convincing people of the need to digitalise activities."

Fortunately, she says that AVRAMAR has proved very proactive when it comes to understanding the need to digitalise cash management and cash flow forecasting. "We are currently evaluating this, and one of our next projects will be to digitalise and automate treasury." This may include the use of APIs to improve and speed up bank connectivity, as well as using technology for cash and risk management.

Facing down challenges

The last few years have brought more than their fair share of challenges for treasurers around the world, and like many of her peers, Polykrati cites risk management as one of the most significant challenges she faces in her role. "Knowing how to manage risk effectively is an ongoing challenge," she notes. "It's important to understand where interest rates are going, and how you can minimise your borrowing costs when interest rates in Europe are rising. Then there are FX fluctuations and the increases in raw materials and commodity prices due to the extraordinary circumstances we've seen over the last three years globally, from COVID to the energy crisis. So for sure, trying to manage financial risks is one of the things that keeps treasurers awake at night."

In addition, says Polykrati, safeguarding cash flows in this unstable environment is always a major challenge, as is the growing concern about counterparty risk – not least because of the effects of the recent turmoil in the banking system following the failure of US banks Silicon Valley Bank and Signature Bank. "Checking on all the positions and bank exposures that you have is particularly important in times of uncertainty," she adds.

Role of the treasurer

Where the role of the treasurer is concerned, Polykrati says that in recent years, "things have changed a lot, from being an accountant – a cashier, as it is sometimes described – to having a much more strategic role." She argues that one of the reasons for this shift is the fact that a lot of CFOs are transforming their own roles while more specialisation is needed within organisations, especially for handling risk factors, which is "creating much more space for the treasurer to transform as well."

At the same time, says Polykrati, treasurers are increasingly being invited to join executive committees and advisory boards within their companies. "I think the fact that we are able to evaluate the risk of a project as a board member means that treasurers have a valuable role to play here."

Alongside the transformation of the CFO's role, Polykrati notes that treasurers are increasingly responsible for leading different types of transformation. Blockchain, though quite complex and ambiguous in its use, still needs to be investigated and regulated prior to being a tool for treasury, but it does have the potential to help simplify several aspects of treasury operations. Digital transformation is one – and in addition, Polykrati highlights the role treasurers are playing in advancing the focus on ESG and sustainability within their organisations.

"We hear a lot about sustainability and about ESG," she reflects. "I believe treasurers are the ones that first took a lead in focusing on the impact of ESG coming from the market and from financial institutions. We started to build checklists of how our companies are engaging in ESG and sustainability. And now, with the growing focus on ESG financing, we are taking the lead here as well."

Indeed, sustainability is a key focus for AVRAMAR. Polykrati says: "We adhere to a business strategy that is committed to using sustainable and responsible aquaculture practices. This commitment is to our customers, our community and our planet. We systematically implement policies developed for the purpose of sustainable development, enhancing the social, governance and environmental awareness and responsibility of our employees and, indirectly, other stakeholders. In this way, we embed sustainability in how we do business."

Building networks and embracing downtime

Beyond her role at AVRAMAR, Polykrati is also a board member of the Hellenic Association of Treasurers (HAT), a professional association formed in 2020 for treasury professionals and related professionals in Greece and abroad. "We are counting 185 members today, out of which 75% are located in Greece, and the remainder work outside of Greece – predominantly in the UK and the Netherlands," says Polykrati.

She notes that the initiative has proved successful in creating a professional network for its members and enabling the treasurers of Greek corporations to share ideas and gain insights from their colleagues overseas. HAT also provides a range of training and education opportunities, as well as holding annual summits with expert speakers in Athens. "It's a great initiative that I believe will benefit treasury professionals for years to come, and I'm glad to have been amongst the first to get involved," Polykrati comments.

She adds, "As I was lucky in my professional career and had mentors myself, mentoring young professionals, students in universities and high schools has been, and shall always be, one of the areas in which I enjoy spending a lot of my free time as well."

Last but not least, while much of her time is taken up by professional commitments, Polykrati nevertheless emphasises the importance of downtime and relaxation. "When I'm off duty, I enjoy playing tennis and taking part in athletics and exercise," she comments. "I also enjoy socialising with friends and colleagues from my professional network – those two things help a lot when it comes to striking a balance and relieving oneself from the work stress."

IS YOUR TREASURY SAFE FROM TIKTOK?

Some governments have banned the Chinese social media app TikTok on work devices, which has left many wondering whether their data and privacy are really at risk, or whether the Chinese company has simply been caught in a diplomatic spat.

When you install an app on your phone, do you read all the terms and conditions? Does anybody?! For some social media apps, however, the details in the small print could have serious implications.

The UK, US, European Commission and Canada have recently banned the Chinese social media app TikTok from government devices, India has banned the app outright and the US is currently debating whether to also ban the app altogether. The fears are rooted in how data is collected and shared, with many claiming the app poses a national security risk because the Chinese government potentially has access to the data.

There are also fears of data being passed onto other malicious actors. For corporate treasurers, this could mean, for example, that all the data from their work phone – such as location, search history, contact lists, keystroke information, biometric data, and more – could be used to inform a bank scam and launch a phishing attack that target's their company's funds.

Amid this, it is difficult to assess whether TikTok – which has over one billion active users worldwide – is riskier than other social media apps, or whether the app's owner ByteDance has been caught in a diplomatic spat, with some of the usual charges of espionage being levelled against a Chinese company.

The US is considering whether to go the route of India and ban the app altogether or force the company to spin off for the US market, a proposal first suggested during the Trump administration. TikTok has been described as a 'Trojan horse' used as a means for the Chinese government to access sensitive data, and other accusations go further. For example, US politician Buddy Carter said during a recent Congressional hearing, "I don't speak for everyone, but there are those on this committee, including myself, who believe the Chinese Communist Party is engaged in psychological warfare through TikTok to deliberately influence US children."

The company's CEO Shou Zi Chew, in his testimony to US Congress, denied this and said accusations of spying were a mischaracterisation. ByteDance has also denied it has shared data with the Chinese government.

As Benjamin Dowling, Lecturer of Cybersecurity at the University of Sheffield, points out, spyware is something quite different from the usual use of social media apps – spyware extracts data from users without their consent, which is a different issue from the privacy policies users are consenting to. Dowling argues TikTok's privacy policy isn't much different from the likes of Instagram or Facebook. And Citizen Lab Research stated in a report TikTok's behaviour is not overtly malicious.

In terms of location data, for example, Dowling explains in a piece for The Conversation, TikTok collects data up to 3km sq, which is inferior when compared to the precise location Instagram pinpoints. This can have malicious purposes, however, such as stalking. Also, Dowling says that user data can be used to build profiles of users, which could be used – in combination with artificial intelligence and machine learning – for phishing attacks (where social engineering is used to target a victim and to fool them into handing over large sums of money).

The privacy issues came to prominence in April 2022 when ByteDance changed its policy, which enabled staff in China to access the data of users in Europe. This caused alarm bells to ring, especially in light of news reports that ByteDance employees were using data – such as location – to spy on US journalists to root out their sources.

Amid these concerns, what is the best approach for multinationals and their corporate treasurers to take? Is it worth banning the app altogether, even on personal devices? Dowling concludes the onus should be on users to manage their own privacy and decide for themselves whether the risks are worthwhile.

Corporates adjust to shift in Taiwan tensions

The recent escalation in tensions between China and Taiwan has prompted many multinationals to reassess the risks of doing business in the region as well as the impact of a potential military conflict. In the short term, many will have to adjust to a new norm of elevated tension across the Taiwan Strait.

It's not just the Taiwan Strait that lies between mainland China and Taiwan; there is also a figurative and metaphorical gulf between them. While the source of tensions between them is not new, events in recent months have signalled a shift in the increased pressure from China to reunify with the island, and Taiwan's response by its pro-independence leadership.

Recent flare-ups have been triggered by high-level diplomatic engagement by Taiwan, and a reminder that the Taiwan Strait is a flashpoint that could potentially bring the world's major powers into direct conflict with each other.

Companies – and corporate treasurers – with business interests in Taiwan and the mainland have been watching events closely and reassessing their risk in the process. The ratcheting up in tensions was prompted by US House Speaker Nancy Pelosi's visit to Taiwan in August 2022. In effect, the US was treating Taiwan as an independent country, something that China finds unacceptable. China reacted with military drills that reportedly simulated an attack on Taiwan. The message was clear: if Taiwan declares its independence, China will push for reunification – by force if necessary.

China and Taiwan's entangled history goes back decades. "What we are dealing with is the unresolved outcome of the Chinese civil war," Rupert Hammond-Chambers, President of the US-Taiwan Business Council, tells Treasury Today Asia.

That unresolved outcome is rooted in the events of 1949 when Mao Zedong's Communist forces took control of the mainland and established the People's Republic of China. Meanwhile, the government of Chiang Kai-shek – and his supporters – fled to Taiwan. From there Chiang established his Koumintang government and engaged with international leaders as the representative of the whole of China. The international community later shifted its view and began to recognise the leader of the People's Republic of China instead. Since then, Taiwan's status – and whether it is part of China or an independent state – has been confused and unresolved. For many years, Taiwan was led by a Koumintang government that favoured reunification with China. Now, however, Taiwan is led by Tsai Ing-wen, the leader of the Democratic Progressive Party (DPP) which favours independence from China.

These issues from the civil war, says Hammond-Chambers, have festered and China has not done anything about it. Now, however, China is in a period of ascendancy and believes it has the economic and military power to resolve the situation, says Hammond-Chambers. He adds that Xi Jinping is different to China's previous leaders; the others were more practical and were not looking for conflict, whereas Xi has not been afraid to challenge the existing order. The current situation is very serious, says Hammond-Chambers, and it's not an exaggeration to say the situation could flare up and bring US and China into a direct conflict.

This escalation in tensions has an impact on corporates' appetite for doing business in Taiwan, although the fears appear to be more muted than one may expect. In a 2023 Business Climate survey of its members, the American Chamber of Commerce in Taiwan (AmCham) found that anxiety about the cross-Strait tensions was moderate, at 2.8 on a scale of 1 to 5. And, of the companies surveyed, 67% said that China's military drills in 2022 had not affected their operations.

In terms of optimism about Taiwan's economy, there was a decline. The survey found that 71% of respondents expressed confidence in the economic outlook for the island, but this was a 16 percentage point decrease compared to the year before. Vincent Shih, AmCham's chairperson, stated, "Confidence remains strong overall, but it has been adjusted downward from the heady days of late 2021."

Meanwhile in April, S&P Global affirmed and maintained its ratings for Taiwan, and said the outlook was stable, reflecting its assumption that "cross-Strait relations are unlikely to seriously disrupt Taiwan's economic stability over the next two years." S&P analyst YeeFarn Phua continued: "While rising

geopolitical tensions pose risks to Taiwan's export-reliant economy, they are unlikely to derail long-term growth in its competitive manufacturing sector." Also, the researcher noted, "We believe cross-Strait relations will not deteriorate toward a major military conflict. Close economic and trade linkages between mainland China and Taiwan support this assessment. Such conditions remain conducive for economic stability in the region."

While there may not be any prospect of a military conflict in the near term, many companies have been reassessing their risk, particularly in light of Russia's invasion of Ukraine. This has prompted questions about whether something similar could happen to Taiwan, along with the ensuing disruption to businesses and their supply chains. The Financial Times reported that the demand for political risk insurance to cover a conflict in the Taiwan Strait has risen sharply, and the president of the EU Chamber of Commerce said that it's not that companies are anticipating an invasion, but rather they want to check what the impact of a war would be.

When it comes to assessing what the impact of the tensions in the Taiwan Strait mean for companies, Hammond-Chambers says there has been a debate around decoupling and how companies can be less reliant on trading with China. This, Hammond-Chambers argues, is impractical as China is an important engine of economic growth. "We want China engaged as a productive player in the global economy for all our markets – for us and for them," he comments.

Also, notes Hammond-Chambers, companies are paying a great deal of attention to derisking, particularly in terms of supply chain disruption. The semi-conductor industry has already suffered disruption in recent years, with a global shortage wreaking havoc on the auto sector, for example. Taiwan plays a critical role in the semiconductor industry, with the Taiwan Semiconductor Manufacturing Company (TSMC) producing almost all of the world's high-end chips, as Treasury Today has previously reported.

If Taiwan were involved in a military conflict, the disruption to global supply chains would be immense. This has prompted calls for TSMC to diversify so that its operations are not focused in Taiwan. On the other hand, it is in Taiwan's interests to have the risk concentrated in this way because if TSMC was harmed, the consequences would be catastrophic for everyone. This has been described as Taiwan's 'silicon shield', a term that was first created by author Craig Addison in a book that outlines how, as the world's supplier of chips, Taiwan is protected from a Chinese attack.

On the role of this silicon shield, Wang Chih-Sheng, Secretary-General of the Association of Chinese Elite Leadership, was quoted as saying: "TSMC will make countries around the world confer Taiwan with an increasingly higher status. Taiwan now has an absolutely indispensable role in geopolitical competition. Through this process, the company has become a shield. If TSMC is attacked by China, it would cause the whole world to condemn and oppose China."

In the face of Chinese pressure, many governments and companies have accommodated China's requests so they can continue to do business on the mainland. According to those Treasury Today Asia spoke to on the condition of anonymity, this extends to companies not being allowed to describe Taiwan as a country on their website. If they do, the implicit threat is they won't be able to do business in mainland China.

Under these circumstances, Taiwan is often not treated as a sovereign state that can engage in diplomatic relations with other countries. The US, however, has recently been strengthening ties with Taiwan. In June it signed a trade agreement under the Taiwan-US Initiative on 21st Century Trade, which provoked the ire of the mainland. China warned politicians in Washington not to sign a deal "With connotations of sovereignty or of an official nature with China's Taiwan region," according to news reports.

When the trade negotiations were concluded in May this year, the US Trade Representative Katherine Tai said, "This accomplishment represents an important step forward in strengthening the US-Taiwan economic relationship.It demonstrates how we can work together and advance mutual trade priorities on behalf of our people."

The agreement comes in the context of many policymakers around the world accommodating China's demands. Although the deal is modest, it does signal confidence in Taiwan, comments Hammond-Chambers.

Ultimately, he argues, China's goal is to absorb Taiwan – ideally without any military conflict – by pressuring it with a sense of inevitability. What governments around the world can do to alleviate that pressure is to indicate their confidence in the market by signing trade deals with Taiwan.

Taiwan has also been involved in discussions about joining the CPTPP, [the Comprehensive and Progressive Agreement for Trans-Pacific Partnership], which grew out of the Trans-Pacific Partnership initiative after the Trump administration pulled the US out of the TPP pact. Taiwan applied to join the CPTPP in September 2021, but China got in first with its application a few days prior, making the decision for the members more complex because of the political sensitivities involved. Other countries have a tightrope to walk with their relations with China. Jennifer Hsu, Research Fellow, Public Opinion and Foreign Policy Program at the Lowy Institute previously told Treasury Today Asia that Taiwan could, for example, become a sticking point with Australia's relations with China. Taiwan had made good case to Australia about its accession to the CPTPP and, if China were also to join, it would be expected to meet stringent requirements.

In a piece for the Asia Pacific Foundation of Canada, Hugh Stephens and Jeff Kucharksi write that China's and Taiwan's accessions raise many issues and it is a critical decision for the future of the bloc and the relations among its members. Stephens and Kucharski explain that Taiwan used its status as a separate customs territory to apply to the CPTPP – which was also the basis for its membership to the World Trade Organisation – which allows the members to avoid the thorny issue of Taiwan's independence and doesn't require them to technically view it as a state.

This kind of dilemma is a balancing act for the member states, but it points to the wider issue of how to approach and think about cross-Strait tensions. Hammond-Chambers advises people to think of it in the same way as the Cold War when there was a prolonged period of heightened tensions that everyone became accustomed to. This, he says, is going to require an adjustment to the high state of anxiety and tension, as well as the derisking that goes along with it.

Picking your payment battles

Corporates have never had more choice when it comes to payment methods, but banks and fintechs alike are wary of pushing every solution at their disposal for reasons of cost and offering options that customers don't actually need.

Research published by Coalition Greenwich in April found that reduced cost remains the most important factor when awarding business to payment providers, and businesses are increasingly comfortable working with so-called alternative service providers. Just over three quarters of the corporates surveyed were using non-bank or fintech providers for payments, while 60% of the remainder said they would consider using non-traditional providers in the future. Within five years these firms estimated that such providers would be handling 42% of all payments.

A popular response to the question of whether it is cost effective for businesses to accept funds from a wider range of payment methods is that it is not a case of whether it is cost effective, but rather whether it maximises the chances of concluding a sale and receiving the money in the most efficient manner.

Toine van Beusekom, Strategy Director at Icon Solutions, says the focus should be on creating the optimal customer experience. "While innovation can result in more choice, selecting and implementing solutions that address specific customer payments pain points – rather than create more problems – has never been more vital," he adds.

If customer experience is at the top of corporates' strategic priorities, accepting multiple payment methods are becoming the table stakes for enabling customer adoption and retention. However, this approach may outweigh the unit economics of opting into each individual payment method.

"Therefore, it is equally important for businesses to periodically analyse and review customer adoption in order to rationalise payment methods," says Sara Castelhano, EMEA Co-Head of Payments and Commerce Solutions at J.P. Morgan.

Customers want to pay how they feel most comfortable, so failing to support popular alternative payment methods may lead to abandoned baskets, lost sales and diminished market share. But Castelhano reckons customers can be influenced in a particular direction.

"There is an opportunity for businesses to incentivise consumers to adopt cheaper payment methods," she says. "For example, offering a percentage discount if they pay by bank account and/or putting the option at the top of the checkout screen could change buying preference and drive down costs for the business."

Making it easier for clients to pay helps generate sales, but Nancy Pierce, Managing Director Payment, Global Payments Solutions at HSBC acknowledges that this has to be balanced against the cost of investment.

"Businesses should assess which vehicles provide the most reach and acceptance for their particular client segments," she suggests. "Businesses as well as banks will have to 'pick their bets' on emerging payment methods."

Earlier this year, Oman Air introduced a new international payments process designed to increase efficiency and security. The global disbursement solution developed by HSBC delivers simultaneous multiple currency payments and an improved track and trace function for every transaction via a centralised treasury hub in Oman. The service enables Oman Air to process foreign currency payments through a single bank account, using HSBC's global network and FX rates. The airline says this reduces its dependency on other third-party banks and lowers the cost of processing these payment types, as well as the time taken to do so.

The solution is expected to affect a significant reduction in the working hours spent on payment creation and reconciliation, as it enables Oman Air to process multiple currency payments at the same time, provides detailed status reports and allows for tracking and tracing of every transaction.

"It provides us with simplicity, expediency and security," says Abdulaziz Al Raisi, Oman Air Chief Executive Officer. "We are confident that it will enable us to achieve a more streamlined international payments procedure."

Although modern payment solutions are generally cost effective, accepting every possible payment method is unlikely to be economic for most businesses, says Steven Anderson, Head of Product Management, Enterprise Payments for Fiserv in EMEA. The key is to establish the right mix of payment methods to meet customer preferences and expand market reach. A recent example is a project Fiserv completed for Salt River Project (SRP), a community-based, not-for-profit organisation providing affordable water and power.

For over 20 years SRP offered customer a cash bill payment option through company-managed kiosks at 69 locations across central Arizona. However, it realised it needed a more cost effective and accessible alternative.

The Fiserv service validates billing accounts and notifies SRP of payments in real time across more than 600 locations in its coverage area. This enabled SRP to retire its kiosk network, which was not equipped to provide change or accept large amounts of cash.

"It has been a game changer for our business," says William Patchett, Manager of Revenue Accounting at SRP. "It has allowed us to streamline our operations, reduce costs and expand our reach."

The service is already processing and depositing between US$4m and US$5m worth of in-person payments per month and that figure is expected to continue to grow. Of course, different payment systems will have different fee structures

and utilising multiple payment methods can lead to higher reconciliation costs. Businesses need to factor in these fees when determining their payment acceptance mix.

"In the near future, we envisage the emergence of 'umbrella schemes' encompassing more than one payment method and including 'all in one' fees, which could streamline payment acceptance for many businesses," says Anderson.

Bob Stark, Vice President of Strategy at Kyriba, describes the G20's focus on improving the cost and efficiency of cross-border payments as a welcome development for CFOs and treasurers.

"Our corporate clients are optimistic that continued progress can be made to ensure that at least 75% of cross-border payments can be settled in one hour by 2027 to meet the G20's primary target," he says.

The G20 has also targeted a global average cost of payment of no more than 1% by the end of 2027. But Nicolas Cailly, Head of Payments and Cash Management at Societe Generale Global Transaction and Payment Services, observes that payment processing is not a trivial matter and that banks must invest significant resources to make it work efficiently. He suggests that by leveraging technology and revolutionising the world of correspondent banking with initiatives such as SwiftGo or Immediate Cross-Border Payments (IXB) – a joint project between EBA CLEARING, The Clearing House (TCH) and SWIFT – banks will be able to provide these services and limit the cost of payments.

"But they won't succeed alone," says Cailly. "The G20's ambition will not be reached without the public authorities reinventing the way the financial industry is expected to control every payment. The G20 has 20 different sets of rules in terms of sanctions screening and AML controls with over 30 different screening lists to be compliant with local regulations requiring different rules and reporting when it comes to payments."

He accepts that ISO 20022 will help streamline and automate some of these processes, but thinks that will not be enough. "To meet the G20 objectives in terms of cost and level of service they will have to agree on simpler, harmonised, compliance expectations," adds Cailly.

Castelhano also refers to the importance of consistency, suggesting that the goal should be a standardisation of process rather than a sustainable margin.

"If we set targets to address the four key challenges (cost, speed, access and transparency) recognised by the Financial Stability Board, that is only addressing the symptoms at the surface," she says. "While this is a good starting point, the real focus should be on the cause of these symptoms, which is the lack of visibility over existing practices and access to robust payments data."

According to Castelhano, the higher cost of cross-border payments can be largely attributed to the variability in regulatory requirements (such as exchange controls of different countries) and business practices at the beneficiary's location leading to longer processing times.

"The public and private sector should work together to establish a baseline for all the different payment types and customer expectations to set metrics that would bring clarity and act as an anchor against which revised targets can be set," she adds. "A baseline of current costs – particularly in relation to the different payment types in the retail segment – should be established as an anchor for any future targets."

When thinking about this from an account-to-account perspective, if mandated, a global average cost of payment of no more than 1% by the end of 2027 could be achieved because of its speed-to-market and real-time functionality observes van Beusekom. "However, businesses will only succeed if they first transform their payments estates because they will have a higher volume of transactions to deal with," he says.

From the perspective of total payment volume, Ecommpay's Chief Revenue Officer, Moshe Winegarten suggests the average cost of payment is likely well below 1%. "This is because the top 10-20% of businesses are merchants posting 80% of the volume of payments and they are able to buy it at a massively economical rate," he says. An obvious talking point in any discussion of competition in this area is whether we have reached peak collaboration between banks and non-banks in the payment services space.

"As the digital economy is only in the foothills of development, there are going to be many more opportunities for traditional players and fintechs to collaborate," says Amit Agarwal, Global Co-Head of Payments and Receivables at Citi TTS. "Entirely new digital business models will be created, perhaps in the metaverses or web3 and the internet of things. The market for payment services in the digital world is likely to grow quickly and there will be niches for all players to explore."

While there is still fragmentation across regions, we are likely to see more collaboration as new entrants look to build greater scale and respond to regulatory scrutiny. That is the view of Rijuta Jain, Payments Management Executive, Corporate Liquidity at FIS, who suggests there is an opportunity for banks to respond to consumer demand and modernise in a managed way.

"Banks already work with non-banks as customers, suppliers, aggregators and ecosystems in which to distribute their products more efficiently and there are probably even more ways to partner to leverage each other's strengths," agrees Pierce.

Combining the strengths and expertise of banks and non-banks can create impactful propositions, suggests Annelinda Koldewe, Global Head of Wholesale Banking Payments at ING. "As the payment industry continues to evolve, it is likely that the need for collaboration and partnerships between banks and non-banks will continue," she says.

Open finance is still in its early stages and the market requires further innovation and investment in AI and machine learning, for instance, to provide more integrated products for enhanced and more secure customer experiences, says Indranil Bhattacharya, Principal Consultant at Capco. "The implementation of common digital identities for use between banks and non-banks for various products, including payments, is one good example," he adds.

As revenues fall for the payment transaction, the need to 'squeeze the pips' on every piece of the value chain will be apparent. "Non-bank providers will enable costs to be eliminated via services such as PaaS and data analytics," concludes Anderson. "Even a 1% improvement in straight through processing stats will provide significant improvement to the bottom lines of banks and non-banks alike."

In-house banking

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

Sélim Ul Hasan

Head of International Treasury, Finance

Solvay

Solvay set up an in-house bank (IHB) to optimise cash management and liquidity availability, reduce operating costs – both internal and external – and improve risk management across FX, counterparty risk and compliance.

Our current IHB landscape is the result of several iterations over the past four decades. Today it is characterised by a centralised and comprehensive system that covers cash pooling POBO/COBO (payments-on-behalf/collections-on-behalf,) intercompany funding, FX hedging, and centralised treasury information and reporting.

Our journey began in 1984 when the company began factoring accounts receivables limited to cross border flows, centralised FX hedging and main affiliates financing. Between 1984 and 2000 we gradually expanded our factoring activity. This included factoring domestic Belgian accounts receivable (AR) followed by factoring domestic AR for the main European countries and POBO for accounts payable (AP). Next, we created Solvay Finance North America.

In 2000, we changed our system to SAP FI. This involved creating automated interfaces with affiliates ERP systems and setting up internal bank accounts. We expanded POBO processing, leading to restricted usage of local accounts. This in turn led to affiliates accounts cash pooling and generalisation of the affiliates financing. We implemented Swiftnet in 2010 which involved a simplified and secure H2H connectivity. At this time, we also expanded COBO/POBO to additional countries. In 2013 we created a shared service centre, optimising the end-to-end POBO/COBO process. Our evolution in APAC includes Chinese currency cash pooling, centralised FX hedging and rolling out Swiftnet for local accounts. We implemented a full factoring process in 2016.

Between 2018-2022 we have embarked on further bank accounts rationalisation programmes, decreasing banks relationships and bank accounts from around 1200 to about 600 and we have also introduced a TMS.

By introducing an IHB we have solved a variety of challenges like resolving the problem of "trapped" cash in subsidiaries, and the complexity and effort of accessing this cash – or even knowing it's there. We have improved cash management, ending inefficiencies and reduced our borrowing costs. We have also reduced treasury operating costs and end-to-end processing costs and improved risk management.

Setting up an IHB requires close coordination. Internally, this manifests between customer collection and credit teams, purchasing teams and HR to minimise disruptions to routine cash operations. IT divisions also rely on the setup of specific systems and tools and the interfaces between them. Externally, treasury teams need to coordinate with banks and customers.

There are clear hard savings like bank account management fees, but also savings that are more difficult to measure. Such as the optimisation of the usage of available cash, and the ability to use the best source of funding, regardless of where the ultimate cash need is.

Overall, we have reached a stage where our IHB is part of our ecosystem. Since every iteration relies to some extent on the previous layers, it's very difficult to estimate actual payback of the whole setup today. Still, our IHB has bought substantial cash and non-cash benefits to the group.

The company is currently exploring how to separate into two independent and publicly traded companies. This would require us to split the in-house bank, so each new group is fully equipped.

Bas Duynisveld

Head of Business Treasury

AkzoNobel

AkzoNobel set up an IHB in 2010, around the same time as I joined the company as a Senior Treasury Analyst. The company was seeking an economy of scale and more centralised approach, replacing a fragmented landscape where different parts of the businesses had their own banking relationships. Setting up an IHB involved changing the company's banking partners at the time, many of which were local banks.

We switched to a global group of banking partners, all of which had supported and committed to our revolving credit facility. These banks were given the first rights on pitching for new business, and we issued new mandates to banks around the world.

Our IHB is split into two models – an open economy model and a closed economy model. The open model comprises Europe, North America, and some Asian and Middle Eastern economies where it is easier to get cash in and out, and it is relatively easy to centralise funds on a day-to-day basis. With this model we have sweeping in place so that every day we zero balance the accounts of local participants, sweeping and centralising cash into our Amsterdam-based pool.

In our closed economy structure, we don't centralise funds every day. However, we do process all the daily fund flows in and out of various countries from a trading perspective so that from a treasury angle we centrally manage all the flows, processing balances and making sure we can provide all the financial services to all corners of the business. In this way cash flows are managed but are not actually "on our books."

One of the most important elements of an IHB is ensuring a solid legal framework. Legal issues define the agreements with our internal parties, and we have built a framework for transacting with our internal parties using service-level agreements that we review on a timely basis. Because we centralise not just in euros, our main currency, but in many other currencies too, this involves a high level of risk management, making sure we manage the right FX risk at the right time.

Operating an IHB requires a strong team, plus the capacity for scope and volume. We are a decent sized company, and a centralised operation makes sense. It has bought significant benefits from a corporate finance perspective. Daily centralisation of our cash position allows us to keep all our money in one pocket and make borrowing and investment decisions from one location.

Operationally we have a central point for processing payments run by our IHB that is homogenous across the company. For example, a payment coming from India will go through the exact same process from entry to approval and being sent to the bank, as a payment from France. There is a value in having standardisation that really supports our IT systems because we don't have to develop new systems all the time.

We have centralised a lot of our payments volume via our payments factory, but we still need to integrate new projects and acquisitions into this structure. We started by integrating our payment factory processes in countries where we have our biggest payments volume, but we are now extending this out and adding smaller countries. This is very much how we see the IHB developing.

Iris Rousselière

Global head treasury transformation – Treasury Advisory, Redbridge Debt & Treasury Advisory

The vast majority – 90% – of our clients don't start directly with setting up an IHB. Instead, they begin by setting up a pool, eventually move to a payment factory, or, in a best-case scenario, add virtual accounts. Only after taking these steps do they transition to an IHB by adding a collection factory.

Given how much easier it is to set up an IHB from the start, why do clients go down this route? Most corporations are created by external growth or are the sum of multiple legal entities. When creating a legal entity, clients start by setting up the legal and financial documentation – not with cash management.

Additionally, the negative rates of recent years have worked against companies setting up an IHB. Many clients sought to avoid the cost of their liquidity on the main currencies by trying to spread their cash across the business, rather than centralise it.

The heart of in-house bank concept is the centralisation of all external bank relationship in one legal entity which also ensure payments and collections on behalf of all group's legal entities.

What are the limiting factors companies should consider setting up an IHB?

1. **Tax administration**: some countries refuse to proceed with tax refunds if the bank account is not held by the legal entity entitled to it.
2. **Technology**: virtual accounts can be powerful because they help to automate the cash reconciliation, key to the IHB concept with a lower cost and they also track the transfer pricing respect. However, the fact that the virtual IBAN root is tied to the country of the physical account issuing it, limits the implementation of virtual accounts.
3. **Change management**: there are several ERP configurations that must be completed to implement an IHB, and from time to time this can slow down or discourage the change within the organisation.

What is the potential benefit of this set up?

The savings realised from an IHB implementation can be quite significant. For example, working with a client that had an annual revenue of US$5bn we were able to save up to half a million dollars per year on EU bank charges. In another example, we estimate savings will reach more than US$7m in FX, bank fees, and yield per year for another client, a worldwide group with US$28bn annual revenue. The first project includes virtual accounts in the limits allowed by transfer pricing and tax regulations, while the second project is only based on physical accounts. Because of this, we could further increase the ROI of the second project for our client.

Setting up an IHB involves five key steps. Design a structure, organise a review of the structure with your Tax, TP and audit partners. Present that structure to IT and accounting to obtain their input and sign-off to the project. Next select you bank partner(s) and finally create a dedicated project team and begin.

Next question:

"How is the way we pay changing and how is the payments ecosystem evolving?"

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

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