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Treasurers' key digital aspirations

Treasurers are well placed in their organisations to lead innovation and embark on digitalisation projects, but achieving transformation is easier said than done.

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Sultan Boudargham
Chief Finance Officer
Nirvana Travel & Tourism

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The themes shaping our latest edition are a fitting round-up of the enduring issues influencing treasury strategy today – how to extract better returns from cash in a higher rate environment, the impact of China's struggling economy on trade and how to harness real-world impacts of digitisation, all feature on our pages.

This edition explores how treasurers are well placed in their organisations to lead innovation and embark on digitalisation projects. However, although they agree on the importance of technologies like artificial intelligence and machine learning, bringing their digital vision to fruition is easier said than done for all the digital cheerleading from banks and fintechs.

We explore how treasury's appetite for API solutions for real-time bank balance/transactional information and payment status updates continues to grow, while our Question Answered digs deeper into the evolution of payments. With treasury expertise from HSBC and PayPal, we discuss how corporates can harness the opportunities around embedded finance and using payments data to provide better customer experiences.

This edition's trade feature explores the trends driving treasury in the shipping industry in an interview with Michael Kastl, Managing Director, Treasury, Finance and Investor Relations at Hapag-Lloyd. Kastl joined the container shipping giant in 1996 but in all his 25-years in the industry, he's never seen cash levels like today following the sector's record-breaking pandemic profits. With a new focus on investment in a higher rate environment, Kastl says he is more asset manager than liability manager but also warns a more difficult trading environment will impact the industry's fortunes and freight rates ahead.

Shipping experts' observations about global trade flows are also echoed in this edition's Market View. Analysts at ECR Research argue that moribund growth in China could exert downward pressure on prices in the West.

Finally, our Corporate View features UAE-based treasurer Sultan Boudargham whose career break came when he was headhunted to join a fast-growing travel group. He urges our readers to never shy away from a challenge and discusses how the belief and trust of his senior colleagues has supported his career journey. He also explains how technology is transforming treasury and the travel industry and concludes with some advice for those climbing the corporate ladder.

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Treasurers lean into their digital aspirations

Treasurers are well placed in their organisations to lead innovation and embark on digitalisation projects. While they agree on the importance of technologies like artificial intelligence and machine learning, bringing their digital vision to fruition is easier said than done.

Treasurers' personal lives are digital, and they are used to getting what they want when they want it online. At home, they can ask their smart speakers almost anything; their streaming platforms know what television shows they want to watch next; and they use their smartphones – with their unique combination of apps – as a remote control for their lives.

When it comes to their professional lives, however, the digital experience is somewhat lacking. And while the Covid lockdowns introduced Zoom calls and other digital tools, true digital transformation is still an aspiration for many corporates. Many treasurers who Treasury Today speaks to are still bogged down with manual tasks and processes that are based on Excel spreadsheets.

Meanwhile, the treasurers' role is becoming increasingly strategic, and many are expected to take on an advisory role to the various stakeholders in their organisations. Whilst over-burdened with manual work and outdated processes, however, they are unable to use their strategic brains to their full potential.

Added to these challenges, treasurers are working in an environment where the pace of innovation is increasing. Blockchain, digital currencies, artificial intelligence (AI), cloud computing – the list goes on – are just some of the topics treasurers need to wrap their heads around.

Amid this, treasurers have the opportunity to be at the leading edge with digital assets, for example. This is the point that Professor Philipp Sandner, an economist and Founder of the Frankfurt School Blockchain Center, makes. With new technologies such as blockchain, treasurers often underestimate the role they can play in innovation in their organisations. "Blockchain is very often related to finance – this makes the CFOs [chief financial officers] and the treasurers the

people to drive blockchain adoption in companies," he said in a previous **interview with Treasury Today**.

In driving the adoption of new technologies, treasurers need to have good relationships with the key stakeholders in their organisation – something that their roles are already demanding of them. Mark Sutton, Senior Manager at treasury and risk consulting firm Zanders, comments how the role of treasury has expanded significantly in recent years with the "C-suite relying more on the function as a respected voice on a wide range of strategic issues – from climate risk and social issues to the more traditional managing working capital, risk and financial forecasting," he explains.

In mapping out their digital aspirations for the future – and achieving a vision of a digital treasury – there are some key differences with the current state and what they are aspiring to. "It's now about elevating the levels of automation through real-time predictive and prescriptive analytics that enable faster and more informed decisions. In simple terms – the rapid evolution of technology is putting more powerful tools into the hands of corporate treasury to optimise performance," he says.

When asked about what the future of treasury looks like, corporate treasurers often paint a picture that features automation and artificial intelligence in this way. James Zhixin Zhang, Head of Treasury and Corporate Finance, Asia Pacific and China at Siemens Energy, for example, commented in a **previous interview** how automation, creating more efficiencies and gaining better visibility are major trends in corporate treasury. "These trends will continue into the future," he says, "but at the same time I think it is important for treasury to be more strategic, to think ahead, to think more broadly and not be reactive."

Treasurers are agreed on these major trends, but many have different understandings of what a digital treasury actually is. Sutton clarifies what he means by a 'digital treasury': "the ideal digital treasury function embraces both new and emerging technologies that go beyond automation and into the realm of predictive and prescriptive analytics to support informed real-time decisions which deliver elevated operational and financial efficiencies combined with an enhanced customer experience and increased shareholder value."

When asked the same question, Irene Thng, Executive Vice President and Group Treasurer at Toll Group, said: "To me, digital treasury means a robust system – preferably one with data from other systems integrated into it – which portrays accurate and real-time information relating to cash, FX [foreign exchange] and other treasury-related data."

Meanwhile Alexander Seelmann-Eggebert, Deputy Regional Treasurer, Asia Pacific at Nestlé, comments that the ideal digital treasury has reduced operational workflows and increased efficiency and visibility of data through the use of dashboards that can be easily used and understood to make strategic decisions on a daily basis.

Also, a digital treasury simplifies the front-end usage of treasury management systems and also the interface with other systems such as multi-trading platforms and SWIFT.

And there are other definitions out there for what a digital treasury actually entails. Technology company FIS, for example, defines a digital treasury as "achieving a best-in-class, modernised treasury function through the most secure, technologically advanced and cost-efficient means." Treasurers will be using more powerful tools to carry out their traditional tasks, they will also have new aspects to their role, such as preventing cyber-fraud and improving security.

Consultancy Deloitte in its 'Digital Transformation in Corporate Treasury' report notes that digital transformation will look different for each corporate because of the variety in structures and processes. "However, we can still deduce a common definition, which is the adoption of new and emerging technologies into the business, to produce operational and financial efficiencies, centralise the overall reporting and automate processes," the authors of the Deloitte report state.

This feeds into the typical complaints that treasurers have. The areas they often most want to improve are related to regulatory reporting and a lack of visibility. Digital transformation, however, is more visionary than merely going through a list of complaints and checking off as each item is improved.

When asked what treasurers should be aspiring to, Sutton at Zanders comments, "there is no one size fits all view of a digital transformation of corporate treasury because each corporate is different and therefore each digital treasury function will look slightly different." However, having said that, he sets four key pillars that will help each individual corporate treasury function to establish the optimum foundation for a digital treasury. These four pillars are: operational agility and risk resilience; data-driven real-time vision; workforce enablement and elevating the customer experience.

Seelmann-Eggebert at Nestlé comments that the greatest aspirations he has in his role are the automation of front office tasks and data visibility. Also, he'd like to leverage existing solutions – such as Microsoft applications and treasury management systems – but also explore new tools and how they can be implemented in corporate treasury.

Meanwhile Thng at Toll Group's aspirations are related to the use of AI and what this means for the role of the treasurer. "My greatest digital aspiration is to 'outsource' data gathering and compilation to systems, AI and other technological tools. Human brains are reserved for decision-making exercises. At Toll Group, treasury is fulfilling this digital aspiration through a digital transformation journey."

The application of artificial intelligence poses many challenges for corporate treasurers, and is a **topic that Treasury Today has covered previously**. AI, however, remains top of the agenda for many treasurers with their digital transformation.

There are also numerous other technologies that are on corporate treasury's radar and part of the skill of the treasurer is understanding them and knowing where their resources should be invested for the future.

Of the new technologies that are available to treasurers, Sutton at Zanders comments on those that hold the most interest: "artificial intelligence and machine learning are being recognised as a key enabler of strategic priorities, with the potential to deliver both predictive and prescriptive analytics. This technology will be a real game-changer for corporate treasury, effectively re-defining the partnership between man and machine which will push the boundaries on what is possible to create a more integrated, informed and importantly real-time strategic function."

There are numerous tools and technologies that treasurers have to choose from, and Seelmann-Eggebert comments that it is difficult to name just a few of them. "I see a lot of potential or improvement of existing TMS and data visualisation, which is quite basic. AI of course will also impact treasury, but at this point of time it's hard to tell where and how it can/will be used. Another big topic will be CBDC's (central bank digital currencies), however I think there is still a long way to go until multinationals will benefit from those," he tells Treasury Today.

Seelmann-Eggebert also comments on the most exciting technologies and says he sees a lot of potential for improving existing treasury management systems and data visualisation, which is quite basic at the moment. "AI of course will also impact treasury, but at this point of time it's hard to tell where and how it can or will be used. Another big topic will be CBDCs – central bank digital currencies. However, I think there is still a long way to go until multinationals will benefit from those."

It can be challenging, and perhaps even confusing, for treasurers to navigate all the latest technologies and know how to apply them as part of a digital transformation journey. Knowing where to start can be half the battle, and many consultancies and vendors suggest a roadmap, or clear process. FIS, for example, in its e-book entitled '8 Steps to a Modernized Digital Treasury' lays out each of these stages and at each describes what the digital enabler is. The process starts with streamlining bank connectivity, which is enabled by API [application programming interface] technology. The next step is standardising payments, which has the enablers of SWIFT gpi [global payments innovation], blockchain and APIs. Then FIS suggests optimising cash visibility with robotic process optimisation, and also reconciling data with the same technology. The stage after that involves evaluating and managing risk, leveraging artificial intelligence as the digital enabler. Next is optimising bank account administration, then navigating the regulatory landscape and finally, simplifying technology consumption.

These steps above are easier said than done, however. It's often not about the technology itself, but all the people – the stakeholders that need to be brought on the journey – that need to be involved in any digital transformation project. Sutton at Zanders comments, "a very important point is that digital treasury is not a destination – it's a journey, that extends beyond the pure adoption of technology. And whilst technology is the enabler, in order to achieve the full benefits of this digital transformation journey, a more holistic view is required, which also embraces the importance of cultural change like the adoption of the 'fail fast' philosophy that is based on extensive testing and incremental development to determine whether an idea has value."

This element of cultural change reflects the importance of remembering that people in an organisation need to be included in any digital transformation. Also, the adoption of technology should not lose the human touch. And in an environment where artificial intelligence will be commonplace, it is essential to remember the importance of the human connection and place value on people skills, as Nishedha Gunawardena, General Manager – Treasury, at Sri Lankan conglomerate Aitken Spence, said in a **Corporate View profile for Treasury Today**. "Having really good human skills will be helpful – sometimes you cannot totally depend on an algorithm or a trading platform – I do not think that alone will be enough," he said when commenting on the proliferation of AI.

Remembering the need to bring people along on the digital journey is just one of the obstacles, or challenges, that corporate treasuries can face as they embark on their transformation.

Other obstacles that can appear as roadblocks along the way include resistance to change, a lack of transformation strategy, a lack of agility within an organisation – and ability to change without destablising itself – and new risks that can be incurred with the use of third-party vendors, according to Deloitte.

Sutton also comments on the challenges that organisations face in bringing their digital aspirations to life and focuses on the need for a proper data strategy: "whilst the new and emerging technologies will be supporting critical tasks, assisting with real-time decision-making process, and reducing risk, to truly harness the power of technology, a data strategy will also be foundational. Data is the fuel that powers artificial intelligence. However, most organisations remain heavily siloed, from a system, data and process perspective. Probably the biggest challenge to delivering on the AI promise is access to the right data and format at the right time."

Seelmann-Eggebert believes that managing cybersecurity risks will remain a key challenge in achieving a digital treasury. Also, he notes that the other challenges include the regulatory environment and the compliance and cost considerations that this entails. Another challenge, he says, is to focus on "a few tools that can offer solutions to several issues, rather than having different tools for each individual challenge."

Part of navigating the available tools and technology, as well as these challenges, is knowing which organisations to partner with. When it comes to fintech providers, the Deloitte report notes that many fintechs fail to achieve what they set out to because they fail to truly understand what their customers' needs are.

And this information-gathering process can be difficult on both sides. Thng at Toll Group comments on how she approaches relationships with technology vendors: "when vendors meet us, most of them only showcase the strengths of their systems and reporting capabilities – how powerful they are and why we should use them. I rely on informal discussions with my fellow peers in other companies to understand their experiences with respective systems and if there are any pain points which must be taken into consideration," she says. "Based on my experience, there is no 'one size fits all' and there is no 'perfect system' in the market. One solution could be to build one on our own which caters to the specific needs of Toll, but this could be expensive to achieve."

Such decisions point to the many considerations that go into achieving a digital treasury. And while their personal lives are digital on many levels, treasurers' professional lives are much more complex, with many systems, tools and technologies to contend with. While treasurers are clear on what their digital aspirations are, achieving them will be easier said than done.

Sailing into uncertainty

The container shipping industry, responsible for transporting 90% of traded goods globally, posted record-breaking profits during the pandemic but shipping groups face more challenging years ahead. From rolling out new strategies away from pure container plays to deciding when to invest in green ships or anticipating the impact of geopolitics on trade flows, treasury teams have much to navigate.

Michael Kastl, Managing Director, Treasury, Finance and Investor Relations at Hapag-Lloyd joined the container shipping giant in 1996 but in all his 25-years in the industry, he's never seen today's abundance of cash.

Prior to the pandemic, Hapag-Lloyd had a typical liquidity reserve of US$1-2bn, topped up when needed with fresh funds drawn from financing assets or raising money in the capital markets.

After the pandemic – and before the company paid bumper dividends of US$12bn earlier this year – treasury had around US$20bn sitting on the balance sheet. Such largesse has turned Kastl from liability manager to asset manager, switching his treasury focus to areas like counterparty risk and the best places to assign liquidity.

That means low risk MMFs, investing in overnight repo transactions and a new allocation to a special investment fund

outsourced to external asset managers that doesn't sit on the group's balance sheet as cash or cash equivalent, he tells Treasury Today in an interview from the group's Hamburg headquarters.

"With interest rates at current levels, if you have US$9bn sitting on your balance sheet you can earn a lot of interest," he says. "We currently have a net cash position of US$3.9bn, something I've never seen before."

Elsewhere Hapag-Lloyd has invested in new terminals in North and South America and India via an acquisition of SM SAAM's terminal business and related logistics services, and a 40% participation in Indian terminal operator J M Baxi Ports & Logistics, respectively. The company is also pouring money into the energy transition. It's begun taking delivery of 12 new dual-fuel vessels, using long-term green financing and paying the equity portion off in cash, and is spending money on refitting ships to increase carbon efficiencies.

The pandemic transformed the container shipping industry, showering the sector with unprecedented riches that operators like Hapag-Lloyd are unlikely to ever see again. Lockdown-fuelled demand for goods sourced from China and Asia coupled with a reduction in supply chain capacity and labour shortages, turned container shipping (never much of a money spinner) into one of the pandemic's biggest winners. Not every company publishes its financials, but Simon Heaney, Senior Manager at shipping consultancy Drewry Maritime Research estimates between 2020 and 2022 the industry made a collective profit of US$500bn. "This equates to as much profit in a two-to-three-year window as the industry has made in its entire history previously," he says.

Kastl isn't the only treasurer for whom the amount of cash washing around has led to a different kind of approach. As well as buying new ships and doling out dividends, many groups used their liquidity to pay down debt, repair their balance sheets, boost creditworthiness and deleverage. Danish giant Maersk has invested in broader transport activities, buying airfreight and logistics infrastructure to become an overall logistics provider and French competitor CMA CGM has bought a stake in Air France-KLM as part of an air cargo partnership.

But today the industry is coming down from its pandemic-induced sugar rush. The latest earnings reveal margins are shrinking with analysts predicting companies will lose money in the coming years as global demand for container goods falls. It's a tougher trading backdrop for companies also facing strategic challenges like moving away from a pure container play, judging when to invest in green ships or how shifting trade patterns might impact on their business.

New ships

A bulging order book for new vessels commissioned during the pandemic and up for delivery in the coming years, is set to create overcapacity and push freight rates lower. Drewry estimate 890 new ships coming into the market, equivalent to 28% of current global capacity, and deliveries this year alone are expected to add 1.75 million TEUs (20-foot equivalent unit) or about 6.6% of the total fleet. Rodolphe Saade, Chairman and Chief Executive Officer of France's CMA CGM Group recently warned that market conditions are set to deteriorate with new vessel capacity "likely to weigh on freight rates."

Freight rates will also come under pressure because of state-owned actors in Asia like China's giant COSCO Shipping wanting to keep freight and supply chain costs low to support exports and aid the recovery. "Sometimes, state-owned industries are the most aggressive when it comes to pricing and bringing the prices down because they want to support their exports," explains John McCown, a New York based shipping expert.

But shipping groups have strategies to support their businesses if freight rates sink lower without eating too much into cash reserves. They can reduce capacity by stepping up the pace of getting rid of their old ships, suggests Heaney. "The container industry has been good at ordering more efficient, and greener ships, but it has not been so good at clearing out the old clunkers."

In another approach, operators can slow down crossings so that ships consume less fuel and save money. This approach also includes running additional ships, explains Peter Sand, Chief Analyst at Xeneta, the ocean freight rate benchmarking and market intelligence platform. "During times of overcapacity, operators can extend transit times and add another ship into circulation to prevent rates and earnings from falling."

Another way of reducing cost is to go round the Cape rather than through the Panama Canal, he continues. "You may burn more fuel going round the Cape, but you will save money by not going through the Suez. We are seeing a number of providers seeking to save the US$700,000 fee for a one-way ticket through Suez."

At Hapag-Lloyd, strategies to deal with capacity increases can now include better access to terminals thanks to its recent acquisitions. Shipping groups often run ships at speed to secure access to terminal slots – only once a ship has arrived at a terminal does it have a commitment to berth. Owning terminals helps solve the problem, allowing the company to run ships slower and better manage the imbalance between supply and demand, explains Kastl.

In another strategy, industry experts say freight rates might find support if the sector transports more goods that used to travel in bulk carriers or specialised ships, like refrigerated vessels. Although grain is still moved in bulk carriers, commodities like bagged flour and coffee can go in a container, offering new business opportunities to container groups, says McCown. Container ships also have an advantage over bulk and specialised carriers because they are less likely to travel back empty since their customers are scattered around the world. "Container ships operate at 75% of their total loads and this is an inherent advantage over cargo," he says. "I think we will continue to see the transition from other types of ships to container ships." But it's not an argument that holds much water with Kastl. He believes containerisation has reached its height apart from headroom in some markets like India. "The market has already shifted a great deal here."

Timing the transition

Timing the transition is perhaps one of the biggest risks for container shipping groups ahead. Some of the new ships coming off production lines are dual-fuel, able to run off conventional bunker fuel, a diesel bi-product, LNG and methanol. However, in a sign that operators are also waiting

for more progress in renewable fuels before they sink billions into their next generation of vessels, not all the new vessels are green. "The whole maritime sector is heading towards decarbonisation, but not all these new orders are green," says Sand.

Operators are delaying decision making because of unknowns around which fuel will lead the transition, its availability and price developments. Hapag-Lloyd will use LNG as well as biofuels until the market in green fuels becomes easier to read. Although green hydrogen and ammonia has potential, the legislation around ammonia is unclear, and Kastl is convinced bio and e-methane will most likely become a key driver of the transition. "This is the way to net zero," he says. Only now access to biofuels remains complicated by its scarcity, particularly as other sectors like trucking and airlines jostle for share of the renewables market.

Analysts warn that new green ships starting to come online are relatively small, and say methanol-powered ships are still expensive to build and operate. "Methanol is four to eight times as expensive as traditional fuel," says Sand. "Being a first mover in the shipping industry is rarely rewarded." McCown suggests that investing in green ships too soon could put western groups (facing more pressure to decarbonise from stakeholders and regulators) at a disadvantage to Asian competitors who will catch up once clean fuels are more readily available and today's pricing dynamics have played out. "Operators don't want to pick the wrong team when they are investing for the next 20 years," he says. But as legislation tightens and consumer and stakeholder pressure grows on the highly polluting industry that emits almost 3% of global greenhouse gases, choosing not to invest in green ships could be even more risky. New ships running on fossil fuels with a commercial life of 20-30 years could quickly become stranded assets when the regulatory noose tightens.

For example, the industry regulator the International Maritime Organization has set new emission reduction targets, although they still need to be enshrined into individual country policy. Elsewhere, under the EU's emissions trading framework, shipping groups will have to buy respective emission allowances for each tonne of carbon emitted in European waters from next year. "We are reflecting this into our price calculations and how to pass onto our customers," says Kastl.

Add to this shipping companies meeting their own targets. Hapag-Lloyd targets net zero by 2045 supported by strategies like integrating KPIs around emissions into a 2021 sustainability linked loan.

Perhaps most pressure on shipping groups to invest in green ships will come from their corporate customers, given these emissions count in their Scope 3. Companies including IKEA, Amazon and Patagonia have signed a 2040 ambition statement for zero emission ocean shipping through a collaborative platform, Cargo Owners for Zero Emission Vessels. Today, the transport of IKEA products from suppliers to warehouses and stores around the world accounts for approximately 5% of the company's total carbon footprint. "There is a lot of money at risk and a genuine fear amongst ship owners with older ships that they won't transition in time and will have stranded assets if regulation prohibits them from manoeuvring," warns Sand.

Hapag-Lloyd has launched a green shipping product that offers its customers the ability to ship their goods on a carbon neutral basis, explains Kastl. "Biofuels are available in limited quantities at the moment, but we are very active on purchasing them to be able to offer our customers less carbon emitting transportation."

Trade trends

Like the energy transition, shifting geopolitics also hold opportunity and risk. Shipping routes between Asia and North America and Europe represent around 50% of global shipping lanes but new China +1 strategies characterised around friend-shoring as MNCs diversify their supply chains suggest changes ahead. Research from Xeneta finds that 56% of all containerised goods imported by the US from the Far East in 2022 came from China, down 10% from 2017. The biggest winner of this shift is Vietnam, which has seen its market share almost double, from 6% in 2017 to 11% in 2022.

Emerging manufacturing countries still lack port infrastructure compared to China which boasts four of the five biggest container ports in the world. But as manufacturing operations take off in countries like Vietnam and India, it will create more opportunities for shipping groups around intermediary trading. "If a company sources from China to consumption centres in the west, that is just one shipping voyage," explains Heaney. "The number of journeys will increase because manufacturers in, say, Vietnam or Thailand, will source goods from China, and then ship their final products to Europe. There will be more shipping because of diversification," he predicts.

Moreover, a shorter journey from "friendly" new manufacturing centres in countries like Mexico to consumers in North America, doesn't necessarily mean a dramatic fall in shipping costs, says McCown. "The cost will remain high because less goods are being shipped and they won't use the same big ships. Even though it is one third of the distance it doesn't mean it is one third of the cost."

Kastl concludes by reflecting on his treasury priorities ahead in the notoriously cyclical business. Since 2020, when the new IMO regulation said that ships could only use low sulphur fuels, the company adjusted its pricing mechanism in its contracts from bunker adjustment clauses to a more holistic marine fuel recovery formula. It means the company's risk from ups and downs in fuel pricing can be passed on to customers. "Our hedging activity on fuel prices is now less than what we hedge in FX or on the interest rate movements in our debt positions."

Inflation will dampen global trade, and he says weakness coming out of China will mean lower volumes, and the industry will have to adjust capacity. But higher interest rates are boosting returns on the company's cash pile and the ector has firepower at the ready, whatever the challenge. "Whatever cycle is ahead, the shipping industry is sitting on robust cash positions and is better equipped than in the past."

Future of global transaction banking

The role of global transaction banks continues to evolve, driven by everything from the rise of fintechs to the emergence of new technologies. So how are treasurers' expectations changing? How are banks and fintechs working together? And what could the future look like for global transaction banks?

From geopolitical pressures to the increasing prevalence of subscription models, the business landscape is being reshaped by a number of pressures. At the same time, the role played by global transaction banks is continuing to evolve, driven by everything from the rise of AI to concerns about counterparty risk in the wake of some notable bank failures earlier this year.

In the wake of the pandemic, corporate treasurers are increasingly looking at how to move forward and thrive, rather than simply focusing on survival, says Bruce Meuli, Treasury Advisory Executive, Global Transaction Services at Bank of America (BofA). "They are asking more questions about how they can evolve, and which factors they need to take into account," he notes.

Competition, meanwhile, is ramping up. According to Celent's recent Corporate Banking Technology Insight and Strategy Survey (CTISS) of more than 214 banks globally, Tier 1 and 2 banks continue to experience increasing competition, with more than 60% reporting that it is more challenging to win and retain business than only one year ago.

In this environment, global transaction banks cannot afford to stand still. So, to what extent have banks already adapted to the changing landscape? How are treasurers' needs and expectations shifting in the current environment? And what could the future hold for transaction banking?

Drivers of change

Few would disagree that the world of transaction banking is undergoing something of a transformation. Christine Barry, Head of Banking and Payments Insights and Advisory at Datos Insights, notes that key drivers of change include:

- More demanding and tech-savvy clients who expect greater speed, automation, personalisation and integration.
- The continued emergence of fintech companies.
- A challenging economic environment requiring more data transparency, insights, forecasting and liquidity management capabilities.
- Unexpected events like the global pandemic and regional bank failures.

Naturally, the rise of new and emerging technology is an important catalyst. "The quest for 'intelligent banking' has driven a strong focus on advanced analytics and machine learning (ML) to the top of the priority list, along with process automation and open finance initiatives," says Patricia Hines, Head of Corporate Banking Research at Celent.

Fintechs, in particular, have much to offer with their ability to harness new technologies and develop new solutions quickly – and banks need to take note. "Banks are at risk of disintermediation if they don't partner with fintech companies," says Barry. "They must view fintechs as partners, rather than competitors, and position themselves as a central hub from which corporate treasurers can perform transactions, get advice and export data to external systems." As such, she notes that bank systems must be tightly integrated with fintech capabilities to create a seamless experience across platforms.

Meuli says that BofA's GTS business is increasingly adopting a partnership model that encompasses technology vendors and fintechs. For example, BofA's Pay by Bank online payment solution was launched in 2022 in conjunction with UK fintech Banked Ltd. The solution enables customers of e-commerce companies to make payments directly from their bank accounts.

"There's been a change around the role of a global transaction bank and how they partner and deliver aspects of a service or operational execution," says Meuli.

As he explains, this has increased the complexity of the bank's internal delivery model – "It's not just GTS, it's GTS collaborating with different partners." This, in turn, requires banks to build up their own digital acumen – although as Meuli points out, there is a growing need for banks to provide not just product specialists, but also people who can "sit in the middle, understand the client business, and then communicate that back into product delivery."

Enabling commerce

On another note, Manish Kohli, Head of Global Payments Solutions at HSBC, argues that transaction banking is "a shining example of where the banking industry adds value to how customers do business. It's also at the intersection of true banking and technology."

In the last few years, says Kohli, the role that transaction banks play in their clients' organisations has changed tremendously. "A few years ago, we were looked at as the fulfilment arm of payments, settlement and commerce, as well as enabling liquidity to be managed," he recalls. "But now, when I have conversations with clients, the focus is more on how we can enable commerce for those businesses and help them grow and become more global. So that's a very different type of conversation."

Likewise, says Kohli, the bank now interacts with a broader selection of stakeholders across the organisation: while the treasurer remains the "landing point", the bank also engages

with CFOs, commercial teams, payment engineering people, procurement and HR. "Related to that, clients also look to us in an advisory capacity to find out how they compare to their peers, and where they should focus on making improvements."

Meeting treasurers' expectations

When it comes to selecting a banking partner, many of the priorities that treasurers focus on are longstanding. Citing internal research by BofA, Meuli notes that the top three RFP selection criteria continue to be customer service, pricing and ease of doing business.

A bank's ability to advise corporate clients is another important differentiator: "I have found that treasurers respond very positively to receiving impartial advice – not just based around what you as a bank can do, but actually providing market and industry advice," says Meuli. Recently, he adds, treasurers have also been asking a lot of questions about the impact and risks of generative AI in response to greater levels of interest from the CFO and the board.

In this environment, it's no surprise that treasurers' expectations of their transaction banks are somewhat shifting. "Treasurers increasingly expect a hybrid high-tech and high-touch approach," comments Hines. "The largest banks offer a cadre of former treasury and finance professionals as advisors to treasurers, helping them to develop strategic plans and overcome operational hurdles."

Datos Insights' Barry adds that as global transaction banks evolve from transaction providers to advisors and deeper partners, "corporate treasurers are increasingly looking to their banks for more than simply loans and the ability to make payments. They expect their banks to understand their specific needs and provide a personalised experience."

As Barry notes, treasurers also expect more tools to help them effectively manage their businesses and succeed in a challenging environment. "For example, they require liquidity management tools as well as real-time payments and integrated receivables," she says. "Further, they expect tight integration of products and data not only across the bank but also with any external systems they may be using." Barry says banks should respond not only by broadening their capabilities and partnering with fintech providers, "but also by opening their platforms and leveraging analytics for greater insights to better position themselves to provide data-based advice."

Future role of transaction banks

So, what could the future hold for transaction banks? Hines predicts that "transaction bank winners will leverage their treasury and technology expertise to help their corporate clients to create new business propositions, whether to offer real-time insurance payouts to consumers, support crypto payments in the metaverse, or enable buy-now pay-later financing to equipment dealers."

Addressing competitive pressures is also likely to be a priority. As Hines notes, "The CTISS survey found that whether via open banking, embedded finance, or Banking-as-a-Service, 75% of corporate banking respondents stated that they have a clear strategy with engaging in the open ecosystem."

Kohli argues that the biggest mega trend is the continued move towards a world in which economies are becoming more digitised. Ten years ago, he points out, getting a taxi typically involved handing cash to a cab driver – in other words, a single, analogue transaction. With the rise of ride hailing apps, however, "this has become multiple digital transactions. Your account is debited electronically; the platform keeps a certain percentage, and then sends the driver the remainder."

In an increasingly digitised world, Kohli predicts that clients will increasingly look for new digital connectivity tools including APIs and real-time payment solutions. "Payments will become a greater competitive differentiator," he says. "And as that happens, the whole infrastructure that banks provide will change tremendously. We're talking about 24/7 real-time, always-on, always connected systems that are processing microtransactions, at scale, instantaneously."

Meuli, meanwhile, says treasurers increasingly see transaction banks as part of their end-to-end business execution. As a result, there is a greater need for banks to provide relevant data back to their corporate customers. "It's also about corporates seeing the bank as part of their extended organisational delivery model, and as a partner," he adds. For corporates, knowing that transaction banks will take on that role "de-risks their business and their deployment of technology."

Barriers to progress

While the future may be bright for transaction banks, there are nevertheless a number of obstacles banks will need to address. For example, Barry cites ageing technical infrastructures, the need for a more tech-based versus product-based sales strategy, the speed at which technology is evolving, and the growing presence of fintech companies.

As Hines warns, "Large corporates and multinationals with tens of banks and hundreds of bank accounts often turn to well-funded third-party treasury technology firms, whether for treasury management systems, payables automation, receivables automation, cash forecasting, payment factories, etc." She argues that this could leave bank partners "solely as a distribution channel for bank statement and balance data, and a connectivity partner to payment rails."

Meuli says banks will need to continuously invest and keep focusing on the right solution models to bring to market. He points out that continually improving technology delivery for clients "is always a major focus – leveraging internal technology capabilities, partnering with strategic technology providers and delivering seamlessly to clients."

Regulation, meanwhile, is likely to continue to be a significant pressure point for transaction banks. "In many cases, regulators will ask for the localisation of data and processes. This can run counter to how global banks operate, with consistent global platforms and shared service centres," says Kohli. "So, when countries have more nationalistic requirements – all for good reasons – it can put pressure on banks, and on their multinational clients." Finally, as business models increasingly focus on direct-to-consumer, always-on models, "The challenge will be to keep up with our infrastructure that has historically been built for batch-based systems, with large value, low volume transactions," says Kohli. "We're now moving towards 24/7, high volume, low value transactions."

To support this shift, it's essential that banks invest in their infrastructure and resiliency, Kohli concludes. "With clients' demands changing so rapidly, the challenge for banks is to keep up and make sure that we're bringing new solutions to market that can solve our clients' global needs."

Technology and ambition drive treasury at Nirvana

Sultan Boudargham

Chief Finance Officer

UAE travel group Nirvana was founded in 2007 and offers accommodation, hotel booking, online ticketing and travel management services. Nirvana Travel & Tourism serves customers worldwide and seeks to revolutionise the travel and tourism industry by investing in technology to enhance the way it provides services. Services include Corporate, Leisure, Private Jets and Events Management, and the company targets ambitious plans to expand globally.

Sultan Boudargham's career break came when he was headhunted to join a fast-growing travel group in the UAE. Never one to shy away from a challenge, he discusses how the belief and trust of his senior colleagues has supported his career journey, explains how technology is transforming treasury and the travel industry, and gives some advice for those climbing the corporate ladder.

This July, Sultan Boudargham, CFO of Abu Dhabi headquartered travel group Nirvana Travel & Tourism, oversaw a unique partnership between one of the region's largest travel companies and payment group Mastercard that allows Nirvana customers to tap into digital, end-to-end payment processes when they are booking flights, hotels or other travel services in the region.

Supporting Nirvana's treasury function's move away from traditional collection and payment methods to digital processes defines his role as CFO and increasingly informs his outlook for the whole sector in a region where old-fashioned payments still dominate. "I believe that IT is the main driver of growth in the travel industry and my focus has always been on enhancing IT solutions to grow the company," he says in a reflection of a passion for change and progress that has shaped his career from the beginning.

Like many treasurers and finance officers, Boudargham didn't set out on this career path and nor did he seek a career in travel. His first taste of treasury came in an accounting role, born from necessity as he sought to support himself while he studied electronic engineering and IT in his native Lebanon. To cover the costs of his education, he worked in a local audit firm. It was 2005 by the time he graduated, and political instability triggered by the assassination of the former Lebanese Prime Minister Rafic Hariri, meant it was difficult to find a job at home. He decided to move to the UAE where he landed a job as a cashier in a small travel and tourism company, Al Jaber Travel, in downtown Abu Dhabi.

Within two days he was promoted to the accounts department where it wasn't long before he turned his IT expertise to overhauling the company's antiquated accounting processes. "This was my chance to make an impact and introduce new software. I was promoted up the ranks and stayed with this company until 2012," he recalls.

His next move up came when he was headhunted by the CEO of Nirvana Travel who was scouting for a chief accountant for the fast-growing company. Back then, Nirvana was still small and primarily focused on bespoke corporate travel. Today the company comprises four independent entities and is one of the UAE's biggest online travel and logistics service providers with more than 70 branches worldwide. Nirvana is a leading travel agent for Emirates and Etihad and a key service provider for many UAE government entities and Boudargham draws a direct link between his own career growth and the company taking off.

It is a fitting juncture in the conversation to discuss the importance of changing jobs when the path ahead becomes blocked. As an Accounts Receivables Manager at Al Jaber, he was itching to get higher up the ladder, but a promotion was impossible because other, more senior colleagues, were ahead of him in the queue for promotion. "I couldn't have got any higher up the ladder," he says.

It also leads him to reflect on the importance of luck, and why we should seize opportunities when they arrive. The unexpected invitation for an interview with the CEO of Nirvana changed the course of his career path. "I took the call and attended the interview. We have chances to change in our life which we either grab or lose." That pivotal interview also engrained in him the value of relationships and the importance

of seizing and nurturing relationships that are based on an instant synergy and connection. His first meeting at Nirvana was easy and smooth; he felt immediately comfortable sharing his ideas and ambitions, particularly around the role of technology in treasury. Now he describes his relationship with Nirvana CEO Alaa Al Ali like family. "We have become so close he is like an older brother to me."

Empowerment

It wasn't long before Boudargham was empowered to use his financial and technical experience to support Nirvana's growth. For example, he has overseen the introduction of an innovative new search and booking platform in a partnership with Citi and Mastercard that has streamlined the company's payments operation, improved working capital and increased liquidity. As well as creating more breathing space in terms of working capital, the process has facilitated faster reconciliation and booking turnaround time, a critical element to Nirvana's growth. "People want to be able to just click a button to search and book online," he says. The overhaul has included a new booking engine or platform that uses APIs to connect Nirvana's customers to travel industry suppliers like hotels and airlines around the world. "It ensures our agents have the maximum content available to sell to our customers," he explains. "The aim is that a customer can ask for anything, any service, and we will be able to offer it."

Instant payments are crucial to solving the main challenge and bottleneck to customer service in the region, he continues. "If a customer requests a service, it's our job to procure it and pay the supplier to ensure we don't lose the hotel or the flight, but it's not that easy a process. Bottlenecks appear in wire transfers to pay suppliers overseas to the extent it can take two days for money to reach a hotel by which time the chances are it is fully booked." One of the challenges inherent in the new platform was convincing suppliers to use the payment solution. He spent time explaining its benefits, particularly with local airlines. "Suppliers were reluctant to accept the payment solution," he says.

Leadership

Nirvana's adoption of the new technology and preparedness to innovate has highlighted the importance of leadership, something Boudargham has benefited from and strives to emulate. Alongside his CEO, he credits Nirvana's shareholders for backing the overhaul in the company's payments and booking platform. Indeed, his career progression has depended on senior colleagues believing in him. "I had their full trust and freedom to explore and develop the new platform," he says. "You must think outside the box to come up with innovative solutions. Lots of people are thinking faster than you and will overtake you. You have to think and figure out innovative ideas and solutions to improve your working experience."

He is particularly mindful of the difference between a leader and a boss. A leader, he says, is a person who charts a ship to its destination; a leader shares and works with colleagues, imparting a belief in the task at hand so that everyone falls in behind. "A leader combines humility, wisdom and knowledge," he says. In contrast, a boss "sits in a chair giving orders," adding that leadership is inspirational and liberating. "If you are ordered to do something, you will never do it from the heart. Because my CEO trusted me and gave me the freedom to try something, he has pushed me to achieve what I have done."

One aspect of his character that stands out is that much of Boudargham's recent technological knowledge – particularly keeping up with the pace of change – is self-taught. He keeps up to speed with treasury tech by studying at home, spending time on social media, meeting people and staying in touch with providers. "I am very aware of the importance of staying across what's happening," he says. It helps, he says, that he is "more of a listener than a speaker," and he says that as his network grows, so does his ability to connect with other people to garner insights, innovation and creativity. "Every time you connect with people new ideas appear around how to solve problems, and what might help," he reflects.

Boudargham says that having time on hand to spend his evenings researching and studying is partly a consequence of his young family (his children are two and five) living in Lebanon since the pandemic. "We thought it was better that they live in Lebanon in a house with a garden rather than in a big city," he says. He hopes they will return to live in the UAE this September. "It is hard living away from your family," he says. "I get free time to think, but being with my family is much more important."

The future

The future doesn't only promise longed-for reunification with his family. Looking ahead, Boudargham wants to use the technology and solutions he has developed at Nirvana to support other businesses in the region build automated, end-to-end payment solutions, transforming corporate billing processes. "Treasury should depend on technology at a high level," he says. "A treasury department is only fully functional if it can ensure timely payments and reconciliations that are risk free."

For many companies in the region, the relationship with their customers is still based on local purchase orders and billing processes in a traditional environment. He says that overhauling these complicated payment processes involves working with local banks, many of which continue to resist new technology and common standards. His treasury wish is for a different payments system that connects the different banks together in a seamless journey, allowing companies to enhance sales volume and reduce burdensome reconciliation. "If a local corporate wants to pay a supplier in Singapore, why does the payment have to go via their local bank, the central bank, a corresponding bank and a beneficiary bank?" he questions. "It's such a long road for that payment to reach the right destination. I want to support automated payment processes for other businesses with the solution we have developed at Nirvana."

He is also keen to explore the role of AI in helping research holiday destinations in the service industry. "I envisage that AI will really help agents find more options and solutions for customers. The travel industry is so big, and using AI will help agents meet customer requests and research attractions."

Alongside automation and integrating new technology, he says his focus will remain on risk management and thinking strategically as he continues grow treasury at Nirvana. He will also seek to nurture diversity at the group, not only gender diversity but also by encouraging young people into the profession. He concludes with a nod to his other, growing passion. "I would like to travel more too! I love the UK, Canada and Australia, particularly."

The rise of sustainable investing

Treasurers increasingly have a role to play in supporting their organisations' sustainability and ESG objectives – and many are now turning their attention to cash investments. Three experts share their views on the rise of sustainable investment and what this means for investors and asset managers.

It's no secret that the importance of sustainability and ESG for corporations has risen significantly in recent years. In 2021, 70% of respondents to Treasury Today's Global Sustainability Study said that sustainability was reflected in their core values, while 76% reported that sustainability was a board-level issue.

More recently, **PwC's 2023 Global Treasury Survey**, which polled the views of 375 treasury department respondents, found that 83% of respondents consider sustainability in their treasury decision making, although only 16% have a defined policy with formal measurements in place. "For the respondents who indicated that they did have sustainability policies or considered it as part of decision making, the focus primarily centred on their investment of excess cash," notes the report. Asset managers, likewise, emphasise the growing focus that treasurers are placing on ESG and sustainable investing. Hugo Parry-Wingfield, EMEA Head of Liquidity Investment Specialists at HSBC Global Asset Management, notes a "significant increase" in the importance being placed on ESG and sustainable investing, in line with the wider focus on sustainability globally. "Many corporations have implemented sustainability objectives at a company level which has also driven key goals and metrics for treasury teams," he says.

While this dynamic is reflected by the "proliferation of products" available to investors, Parry-Wingfield says this can also create challenges for treasury teams when it comes to assessing potential investments to ensure they align with their companies' specific sustainable goals.

Differences in appetite

"ESG and sustainable activities are an important consideration for many corporations," says Alastair Sewell, Investment Strategist at Aviva Investors. "That being said, there are differences in appetite and approach across regions."

Among the firm's core set of investors, says Sewell, "we see an increasing appetite for integrating sustainable investing and ESG considerations into their cash investment activities." He adds that a good indication of this interest is the share of money market funds aligning themselves with Article 8 under the European Sustainable Finance Disclosure Regulation (SFDR). "Well over half of all LVNAVs, or low volatility net asset value money market funds (MMFs), were Article 8, by assets as of end June 2023," he says.

Jim Fuell, Managing Director, Head of Global Liquidity Sales, International at J.P. Morgan Asset Management, says that while the firm is seeing broader ESG objectives trickle down into group treasury, "this has generally been more qualitativein nature. Engagement on the topic has increased and most corporate investors are keen to understand more about SFDR and the specific approach J.P. Morgan Asset Management is taking."

Sustainable Financial Disclosures Regulation

The EU's Sustainable Finance Disclosure Regulation (SFDR), which came into effect in March 2021, aims to improve sustainability-related disclosures – and help investors make informed choices – by placing disclosure requirements on financial market participants and financial advisers. As such, the regulation is intended to limit possible greenwashing, "where financial products marketed as sustainable or climate-friendly, or claims about financial business' involvement, do not in practice satisfy those standards."

The SFDR addresses both 'outside-in' sustainability risks – in other words, events or conditions that could affect the value of and return on investments – and 'inside-out' risks relating to the adverse impacts such investments could have on the environment and on society.

Under the rules, financial products may be classified as Article 6 (funds with no ESG focus), Article 8 (funds that have environmental and/or social characteristics) or Article 9 (funds that have sustainable investment objectives).

An Article 8 fund is defined as "a fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices."

Looking under the hood

Since the implementation of SFDR, Fuell says corporates are beginning to make use of these standards, "versus an investment manager's own ESG criteria."

"Clients want to see what's under the hood," he adds. "The number of deep dive sessions we have provided to investors has increased with clients keen to understand more about our differentiators and how we are actually making a difference."

One significant development is the addition of sustainability or ESG considerations to treasury investment policies. Parry-Wingfield observes that treasurers are formally incorporating ESG into their investment policies and engaging with product providers to evaluate what solutions are available.

"There has been a dramatic increase in ESG and sustainability-focused products, from deposit solutions to money market funds, providing treasury teams with easy access to products they are already familiar with," he says. "As regulation and industry standards in this area are still evolving, assessing these products to ensure they are aligned with their companies' sustainability objectives is likely to remain a key focus for treasurers."

Sewell says that while the addition of sustainability or ESG considerations to treasury investment policies is "clearly not universal yet", treasurers seem to be taking steps towards the more formal integration of ESG considerations into the asset side of their books. "Given the widespread usage of green, social or sustainable instruments on the liability side of the balance sheet already, we see it as a very natural progression to add an ESG or sustainability focus to the asset side of treasury," he notes.

Addressing investor appetite

So how are funds addressing investor appetite for sustainable investing? "We have invested significantly in our responsible investment capability," says Sewell. "By building responsibility into all our investment processes, we aim to improve our risk management and investment performance, while at the same time helping to create more sustainable investment solutions fit for the future."

He adds that Aviva Investors engages actively with the issuers it holds, promoting positive change. "This can be on cross-asset thematic activities – such as biodiversity – and at a more micro level in relation to an issuer-specific development," he says.

"In our money market funds, our approach goes beyond ESG integration in the credit process and sector screening, which we believe has limited impact due to the high concentration of financial issuers in MMFs," comments Parry-Wingfield. "Our ESG MMFs follow a best-in-class investment strategy that eliminates the worst ESG performers, resulting in a significant proportion of issuers being eliminated as a demonstrable sustainable investment outcome."

According to Parry-Wingfield, these solutions have resonated with investors: "we have reached over US$7bn (USD equivalent) in our ESG liquidity strategy since first launched less than two years ago, with solutions available in GBP, EUR and USD."

Supporting sustainable investing

Within the short-term investment market, Fuell says J.P. Morgan Asset Management is addressing investor appetite for sustainable investing through a number of mechanisms, and is working to align its commitments as a liquidity provider with key EU ESG-related regulations. These mechanisms include:

- **Alignment with SFDR.** Where SFDR is concerned, says Fuell, "we have recently uplifted the majority of products within our international platform to Article 8 under SFDR. We have done this by focusing on the social factor, which we believe is highly applicable to the underlying issuer base in the liquidity space (traditionally banks), more so than the environmental factor which is less applicable to financial names." In addition, says Fuell, "we do not see sufficient issuance of front-end green bonds/green commercial paper to make a meaningful contribution to our funds at this point in time."

  He notes that the cornerstone of the process involves high level issuer exclusions, "which are then followed by a commitment for a majority of the issues we purchase to promote good E/S factors, aligned to the SFDR regulations."
- **Proprietary social screen.** In addition, J.P. Morgan Asset Management has added a proprietary social screen to this process. "This is an eight-factor, quantitative model called Employee Engagement & Diversity (EE&D) that has been developed in partnership with the Sustainable Investing Research & Data team within J.P. Morgan Asset Management," says Fuell. "We have implemented a requirement for a majority of rated assets to exhibit 'good' EE&D credentials, and view this as a way we can create meaningful value through ESG for short term investors."
- **Driving positive change.** J.P. Morgan Asset Management also seeks to engage with the weakest EE&D issuers in its universe, Fuell adds. "These engagements are conducted in partnership with J.P. Morgan Asset Management's Investment Stewardship team, leveraging a dedicated Diversity Engagement Framework that has been built specifically for EE&D. Through this mechanism, when combined with the size of our business, we aim to drive meaningful positive change in the social credentials of the underlying issuers with whom we invest our clients' liquidity."

Future developments

Various developments are likely to continue shaping this area. For one thing, Parry-Wingfield says that improvements in the availability and quality of ESG data should better support sustainable investment objectives in the future. As such, HSBC Asset Management is "seeking to drive change by engaging issuers to publish high quality, consistent Scope 3 data or, where required, improve the quality of any Scope 3 published data, which should become increasingly important to consider as regulations and reporting requirements develop."

Where regulation is concerned, Fuell notes that the Markets in Financial Instruments Directive (MiFID II) is likely to become an increasingly important focus area "as this becomes a requirement through distribution models, as regulators will likely provide greater clarity on requirements for Principal Adverse Impact (PAI) considerations and retail clients, alongside corporate investors, also assess their minimum commitments to sustainable investments."

Looking forward, Sewell says interest in sustainable investing in treasury is expected to grow overall – "Although we do also think there will be variations across regions and industries in terms of both appetite for and approach to adopting sustainable investment techniques in treasury." Where green, social and sustainable instruments are concerned, Sewell notes that the market is "nascent", but more issuers are coming to market. "Over time we could begin to see these instruments, such as green commercial paper, featuring more prominently in MMF portfolios," he says.

But while the coming years are likely to bring plenty of developments, from regulatory developments to a new supply of instruments, at this point many treasurers are at an early stage of exploring sustainable investments. As Parry-Wingfield observes, "Whilst there are treasury teams today who have already set clear sustainability objectives, many are only now starting on that journey."

Corporates drive API innovation

Treasurers are making greater use of application programming interfaces to improve financial information flow, particularly those focused on maximising the value of their ERP systems.

Treasury appetite for exploring API solutions for real-time bank balance/transactional information and payment status updates continues to grow. There is also increasing acceptance that the business case for custom development is weak, pushing treasurers towards solutions offered by treasury system vendors or the major cash management banks.

"Especially for cloud solutions, vendors leverage the API technology in trade platform integration and bank connectivity for payment order transfers, cash balance updates and payment status updates," observes Michal Šárnik, Senior Manager at Zanders.

In many cases, treasury teams are leveraging a TMS or ERP in combination with dozens of banks spread across the globe and need APIs to help streamline the flow of information between these banks and their back office systems, explains Joerg Wiemer, Co-founder and CSO of TIS.

"But because API development within the ERP environment has been slow and connecting with dozens of individual bank APIs is difficult for corporates to manage on their own, sometimes the easiest approach is to leverage the APIs of a third party," he says.

According to Šárnik, integration with ERP platforms is still rare. However, one of the most interesting applications of APIs at multinational healthcare company Fresenius is between its SAP ERP system and the company's self-administrated data lake.

"Prior to the API we used the upload and download function for Excel-based files," explains Christopher Zimmermann, Head of Treasury Operations at Fresenius. "Now we have highly automated Power-BI reports based on our data lake, where we store and process data from various sources and databases."

The company has discovered that the timeframe for installing, testing and implementing an API varies widely. The implementation referenced above took less than three months, whereas for another API the complexity involved means it could take ten months or more to find a suitable solution.

"Apart from the financial benefits, the time saving and improvement in data quality and availability are significant," says Zimmermann. "When looking at our liquidity management, for example, we can monitor our cash position in various currencies with all our banks very closely and even reduce the minimum cash that is needed for operational activities. In addition, many tasks were previously either non-existent or had to be performed manually."

Citi client Toyota Financial Services (the North American captive finance arm of Toyota) has built a centralised platform by compiling an API stack to enable subscription management, billing and payment services for end customers including customer and merchant onboarding. The APIs have been designed to be payment processor and customer/merchant agnostic.

"When Toyota entities are preparing to integrate with the platform they can access and set up all requisite APIs within just two business days for testing and validation," explain Jyoti Swain, Domain Information Officer Treasury, Billing & Payment and Arindam Das, Information & Digital Systems Toyota platform Factory Owner.

The APIs help Toyota Financial Services businesses scale more effectively by allowing them to add new features or services without the need for extensive internal development, facilitate secure access to data stored in different company systems, and create personalised and integrated experiences for customers across websites, mobile apps and third-party platforms.

"Toyota platform APIs are a foundational element of our digital transformation efforts, enabling us to modernise legacy systems, adopt cloud technologies and embrace new digital business models," adds Swain.

James Krikorian, Vice President and Treasurer of Krispy Kreme Doughnuts explains that his global treasury has evolved over the six years since he joined the company.

"At that time I was responsible for the US and UK equity markets – now we are in more than half a dozen countries as far afield as Australia, New Zealand and Japan," he says. "When we started to really take control of cash it was clear that I needed some technology and after assessing a number of global banks and fintechs we decided to go with Trovata."

Reinforcing the message that this would be a long-term commitment was an important first step. "It is hard enough managing treasury on a daily or weekly basis, never mind longer-term," says Krikorian. "I made it very clear that if we were going to invest in APIs, we would have to execute a multi-year contract not unlike those we have with our global banks."

Krispy Kreme now uses APIs for all its cash forecasting globally across multiple banks and currencies.

"It is essentially a data lake, like a search engine for banking transactions," he adds. "Banking platforms are not particularly suitable for searching for transactions. These APIs essentially harmonise and consolidate where our banking data is kept and enable us to search back not just days or weeks but years to meet the demands of external and internal stakeholders."

The implementation process was pretty straightforward in that all the heavy lifting was done by the fintech and Krispy Kreme's domestic bank. The value lies in the forecasting mechanism of using past flows to predict future flows.

"Our business is pretty predictable," says Krikorian. "We are in the doughnut business so Fridays tend to be busier than Wednesdays, for example, and I use this real-time data to inform future cash flows. Short, medium and long-term forecasting used to take up a lot of my time – now I can periodically stress test it to make sure nothing has changed, which is important for a company that is experiencing double digit organic growth."

The APIs enable the collation of data from the host of foreign entities the company has with different banks around the world into a single data lake.

"The primary benefit is having an accurate cash forecast because money is expensive," says Krikorian. "I happen to be in a debt position, so I never want to have cash hanging around unnecessarily and the way to achieve that is by having optimal cash and by definition optimal forecasts."

The company's next objective is to create a single ERP system globally to further unlock some of the benefits of shared services and notional pooling.

"When I started we had roughly US$650m of global revenue – today we are over US$1.5bn," says Krikorian. "I don't have any more resources than I did six years ago, but I have better processes and partners that can allow me to fit more volumes and flows through sturdier pipes."

Expense management solution vendor Moss uses APIs from Deutsche Bank for payments and real-time reporting to automate internal and customer-requested transfers.

"Working with fintechs as payment service providers we are used to easy-to-understand API documentation and sandbox environments to ease implementation," says Maximilian Traugott, Head of Business Operations. "With Deutsche Bank being a global bank with the resulting legacy systems we were braced for a tough ride and indeed the API documentation was more complex, technical and sometimes opaque, while required deployments might happen within a week rather than a day. However, the extremely hands-on support from the project and technology teams meant the implementation took no longer and weekly touchpoints, clear tracking of open to-dos and sparring more than balanced the points mentioned above."

The benefits include maximising customer control over both their funds and spend, and the time saved by the internal payment operations team who can now focus more on value adding tasks, such as monitoring and ongoing improvement of the payment platform.

The above examples – and the following comments – underline the scale of the battle for API leadership.

When it comes to APIs, banks build the best that they can. However, these software interfaces tend to have a lot of issues and don't move very fast. That is the view of Brett Turner, CEO of open banking platform Trovata, who says this creates a number of issues for companies that want to get information directly from their banks.

"The banks are saying the only way to do that is if companies build the APIs themselves, which they are never going to do," he says. "In many cases they get hardly any IT resources to begin with and their company is not going to spend three or four months and then implement an ongoing programme to continue to update and manage those APIs."

The focus of the API development programme at FIS is on connectivity with solutions that treasury departments can benefit from, for example establishing API connectivity between its risk management and treasury solutions. "Externally, we have worked with banks, trading platforms and rate providers to streamline client connectivity," explains Steve Wiley, VP Treasury Solutions.

TIS plans to further expand the number of APIs it offers with third-party systems and banking partners. Its other priority is to extend the benefits of these APIs to areas such as the automation of direct debits, recurring payments and cash pooling or sweeping. "We have also just introduced a new tier of APIs for vendor master data screening that can directly exchange sanctions screening and security data with corporate ERPs and banks," says Wiemer.

ION Treasury has been focused on expanding the API in Wallstreet Suite so customers can more easily get data out of the risk management system and into business intelligence tools.

"We have also re-engineered our treasury and risk management solution to be a set of independent components that share data through APIs and created an integration hub to sit between third-party applications and our treasury management systems," says Chief Product Officer, Michael Kolman.

One of Fiserv's key initiatives involves the migration of all its API products into a unified portal for everything from API discovery and trial to credential management and support services explains Alvin Cho, VP of Product & Engineering, Digital Innovation & Transformation.

From a bank perspective, Patrick Langeveld, open banking expert at ING refers to an uptake in demand and implementation from Nordic clients exposed to an advanced payments system, while Philippe Penichou, Global Head of Sales, Wholesale Payments & Cash Management at Société Générale says corporate interest has grown strongly over the last 12 months.

"While fraud prevention is a key topic, the ability to make urgent payments outside of the normal workflow done via standard ERP procedures is more broadly interesting, mainly for marketing reasons in the B2C space," adds Penichou.

Deutsche Bank recently launched an API that enables automatic validation of beneficiary details in real time, before a payment is executed observes Kerstin Montiegel, Global Head Client Access & Services at Deutsche Bank. "Our most recent API clients come from the insurance sector, life sciences and automotive," she says. "Real-time treasury is increasingly becoming mainstream."

The accessibility and packaging of API connectors has room to grow for corporates according to Bob Stark, Head of Market Strategy at Kyriba. "However, the digital footprint of a corporate treasury app is becoming lighter and we will continue to see progress as treasury teams are presented with more opportunities to use an API instead of legacy data transfer methods," he concludes.

African fintechs make business pay

Structural weaknesses in the continent's banking sector have enabled alternative payment service providers to steal a march across Africa.

Bank-led payments initiatives have had mixed success in Africa. One of the most ambitious schemes is the Pan-African Payment and Settlement System or PAPSS, designed to enable instant, cross-border payments in local currencies between African markets.

But while 41 commercial banks have signed up since the system was launched by African Export-Import Bank (Afreximbank) and the African Continental Free Trade Area at the beginning of last year, the system only covers nine of the continents' 54 countries.

In August, South African interbank, low value real-time digital payments service, PayShap, revealed that more than 800,000 transactions had been recorded with a settlement value in excess of R660m since its launch in March.

More than 300,000 ShapIDs (linked to participating account holders' banking profiles and removing the need to share bank account details for payment) had been registered by the end of July.

The majority of the joint ventures announced since the beginning of 2023 are between fintechs and non-bank financial service companies. For example, payment gateway MFS Africa partnered with Western Union in March to enable individuals and businesses across the continent to receive money from over 200 countries and territories to their mobile wallets.

The following month, Access Bank confirmed that it had expanded its AccessAfrica remittance corridors in conjunction with MFS Africa, extending its reach to potentially 400 million

> Nigeria ranks sixth among the countries with the most significant volumes of instant payments worldwide, with US$3.7bn in transactions in 2021 according to ACI Worldwide.
>
> Wiza Jalakasi, Africa Market Development Director, EBANX

mobile wallets and more than 130 banks across over 35 African countries.

In July, WorldRemit introduced Naira currency remittances for Nigerian customers through bank transfer, airtime top-up and at cash pickup locations. More than US$20bn was remitted into Nigeria last year by the nearly 1.5 million Nigerian migrants around the world, making it the eighth largest remittance receiving country globally.

Telecommunications firm Airtel Africa and Mastercard announced in August that the former's 100 million-plus mobile phone customers would be able to transfer and receive funds internationally within 14 African countries by accessing and connecting to wallets in over 145 markets around the world. The deal made sense given the high percentage of Mastercard customers who initiate international payments through mobile apps.

Entertainment company MultiChoice Group, payments platform Rapyd, and private equity firm General Catalyst announced a joint venture early this year aimed at developing an integrated payment platform for Africa.

Called Moment, the service (which has not yet gone live) claims it will be the first truly pan-African payments network, collecting and disbursing across more than 40 African countries and enabling real-time payments across more than 20 countries across the continent.

For many businesses in Africa, accounts payable and accounts receivable processes are still managed manually, observes Yele Oyekola, Co-founder and CEO of B2B payments start-up Duplo.

"Reducing the time for collecting payments, reconciling payment data and managing vendors/suppliers is where we are seeing innovation," he says. "AP and AR automation is revolutionising the business payments landscape in Africa by improving efficiency, transparency and accuracy in financial operations."

MDS Logistics, a leading provider of integrated supply chain solutions in Nigeria started working with Duplo to address issues created by inefficient expense management. The company struggled to disburse funds for expenses to fleet workers in the field without mixing up their personal accounts with provisional accounts and when reviewing statements at the end of the month it was difficult to tell which expense was correct and which wasn't.

MDS Logistics now has visibility into the expense operations of its stations across the country, improving internal control and accelerating the pace of payments. "We have improved internal control and a simple process for handling bulk payments," explains the company's Finance Director, Jaouad Rahou.

Many African businesses' back office operations remain manual. A report on the payments markets of Ghana, Kenya, Nigeria and South Africa published by Duplo in July revealed that only half of the businesses surveyed were using semi-automated payment systems.

M-PESA is a good example of applying lessons learned in the consumer payments space to the business market.

The M-PESA Super App enables more than 800,000 businesses and organisations to provide an embedded app where customers can access their products and services complete with payment integration and the company is also rolling out a business version of the app.

"The number of businesses and organisations that accept payments through our dedicated business payment solution has grown to more than 900,000 from 350,000 just two years ago," says Sitoyo Lopokoiyit, Managing Director M-PESA Africa. "Remittances continue to be a key growth area, especially remittances within the African continent."

The popularity of different payment methods varies across the continent. Wiza Jalakasi, EBANX Africa Market Development Director observes that in Kenya, mobile money dominates with 76% of the population owning a mobile money account according to data from the Communications Authority of Kenya.

"In Nigeria, bank transfers are the preferred digital payment method," he says. "Nigeria ranks sixth among the countries with the most significant volumes of instant payments worldwide, with US$3.7bn in transactions in 2021 according to ACI Worldwide."

Jalakasi describes South Africa as an interesting market where changes in consumer behaviour have driven a shift in payment adoption, especially for online transactions.

"Despite a high card penetration rate, South Africans are increasingly switching to electronic fund transfer to buy goods and services online due to high levels of card fraud," he says. "We estimate that roughly 30% of ecommerce transactions are paid with instant electronic fund transfers, and when combined with mobile wallets and regular transfers that rises to 60%."

Jacques Soussana is Secretary General of Nexo Standards, which standardises the exchange of payment acceptance data between merchants, acquirers, payment service providers and other payment stakeholders.

He observes that many projects in the payment space have attempted to replicate M-PESA over the last decade. "Instant credit transfer in an open loop system is the main driver for payments in Africa," he says. "Any payment ecosystem player looking to provide solutions in Africa must be aware of this as the current preferred method of payment."

Reducing the time for collecting payments, reconciling payment data and managing vendors/ suppliers is where we are seeing innovation.

Yele Oyekola, Co-founder and CEO, Duplo

A key trend identified by Soussana is that for interoperable systems managed by central banks in Africa to simplify account-to-account payments or money transfers, both C2C and C2B. The African Central Bank Association has established a project to connect all existing and future regional instant payment systems on the continent using ISO 20022.

According to Subramaniam Ramachandran, Director of the Payments Practice at Volante Technologies, the most innovative segment of the African payments market is the digitisation and automation of cross-border and real-time payments.

"These solutions often leverage advances in messaging standards such as ISO 20022 or smarter routing services to enhance transparency, reduce transaction costs and mitigate the complexities associated with these types of payments," he says. "This is not only transforming how businesses conduct transactions but also contributing to the growth of regional and global trade by facilitating smoother interactions between suppliers, distributors and other business partners."

Ramachandran adds that a number of African countries are investing in modernising their payment infrastructures to enable faster, more efficient and secure cross-border and domestic payments.

Kobus Volschenk is Group Treasurer at Motus, a South Africa-based automotive group that employs more than 19,250 people across Africa, Europe and Asia and won the Best in Class Treasury Solution in Africa category at the 2023 Adam Smith Awards.

"At this stage we are still very dependent on the banking platforms for payments," he explains. "We don't have a single ERP system, so we are not organised around one ERP that can push approved payments into a banking platform of our choice and make payments from there."

"We use different ERPs in the import business compared to some of the dealers. Because we represent so many of the OEMs, they each prescribe which dealer management system to use and while we try to be creative in terms of individual arrangements, generally it is still the case that we would approve something on the ERP, dealer management system or importer management system and then load a payment or payment batch on the banking platform."

While he acknowledges that there are fintechs doing interesting things in this space who could add value, Volschenk says that as a banked funded organisation it is important to consider not only what is good for the company in each individual situation, but to take a broader view and consider what it is that these banks do for the business.

"Our interaction with banks is an everyday occurrence when we sell a vehicle – in South Africa, for example, more than 90% of vehicle sales are financed by a bank," he says. "So we also need them to support our clients. We have a close relationship with our partner banks and they have been supportive when fintechs have approached us with offers of better pricing."

However, Volschenk also sees the value in being able to bridge the gap between disparate ERP systems more effectively and acknowledges that fintechs will play a part in that process as well as improving flows from the accounting back office system into the banking system.

"There are also some operational efficiencies that could be extracted if the ERP systems talked directly to the bank via host-to-host, although some of the processing has been optimised in our business through the use of robotic process automation," he says.

Given the growth of payment services across Africa it is not surprising that domestic banks have been keen to partner with payment service providers.

"Collaboration between African banks and fintechs in the merchant acquiring and payment infrastructure markets is on the rise," says Omoniyi Kolade, CEO of online payment gateway SeerBit. "Banks possess the customer base and distribution networks that can help them thrive in the payments industry, but they entered the payments arena later and are often faced with challenges due to their size and speed of adaptation."

This trend has been further driven by the rapid growth of mobile and digital technology adoption across the continent and the need to cater to the unbanked and underbanked populations.

"M-PESA has been partnering with banks for more than a decade," says Lopokoiyit. "In 2013, we partnered with NCBA Group to launch M-Shwari and later with KCB Group on KCB M-PESA to enable any customer to create an M-PESA-linked bank account where they could borrow and save through their phones. More than 30 million phone-based bank accounts have been opened through these partnerships."

Other partnerships between banks and payment providers include Flutterwave and Wema Bank in Nigeria, who have come together to provide Flutterwave merchants with virtual account numbers for individual payments to merchants.

"Another example is the development of federated open banking APIs in South Africa, led by Capitec Bank," concludes Jalakasi. "Fintech Ozow pioneered the use of instant electronic fund transfer in South Africa using reverse engineering methods to orchestrate transactions on behalf of customers using the banks' internet banking infrastructure. Banks in South Africa are now developing their own open banking APIs to support instant electronic fund transfers use cases in response to the demand generated by players such as Ozow, and adopting best practices by collaborating directly with them."

OLAM'S JAYANT PARANDE TALKS TREASURY IMPLICATIONS OF SEQUENTIAL IPOS

Treasury at Singapore's Olam Group, one of the world's biggest agricultural commodity traders, is being overhauled as the company prepares two sequential IPOs in Riyadh and London. Group Treasurer Jayant Parande explains the scale and size of the transformation underway.

Preparing to IPO is a complex task for treasury. As Singapore's food and agri-business Olam Group prepares to split into two separate entities and lays the groundwork for two sequential IPOs, the treasury team have been hard at work.

The listings are the fruition of a transformational restructuring at the company. Olam Group has been adding value to the commodities it grows, originates and supplies around the world for years by manufacturing ingredients that it then sells to global food companies. Today, this arm of the business has grown large enough to stand on its own, and for the last two and half years the company has been steadily carving out two separate entities, Olam Food Ingredients (ofi) and Olam Agri, which will remain focused on growing, processing and trading commodities.

These distinct divisions are now seeking to IPO, led by Olam Agri which recently announced it is targeting a Singapore and Riyadh dual-listing in the first half of 2024. ofi, which will list in London and Singapore, will follow suit on a sequential basis based on prevailing market conditions.

"No international company has done this before," enthuses Jayant Parande, Managing Director, Global Head – Treasury & TSF (Group Treasurer) at the company where he has worked in treasury for over 25 years and was part of the team involved in Olam Group's initial IPO in Singapore in 2005. "What's different this time is the scale and size of the transformation."

Key tasks

One of the key tasks for the treasury team has involved separating out Olam Group's debt portfolio between the two new entities. "We have had to make sure the debt is domiciled in respective operating entities," he explains in an interview with Treasury Today from the company's Singapore office.

Olam Group's diverse debt portfolio rests with multiple banks; it also comprises bond issuances, sustainability-linked offerings, DFI-linked loans and trade finance facilities which had to be re-organized under ofi and Olam Agri umbrellas. The process requires consent from each lender and has also involved securing a bridge finance facility from a group of banks to cover any obligations should one of the lenders not consent to the move. "We have had to make sure the entire portfolio is where it needs to be," he explains.

As the IPO process starts to gather momentum, the treasury team's primary focus remains managing the global banking position and aligning the diverse group of lending institutions to the strategic focus of the company. Olam has a group of around 30 global banks comprising co-relationship banks alongside others who support the group across multiple touchpoints like FX, trade finance, working capital and derivatives.

Alongside the IPO, Olam Agri will demerge from Olam Group to ensure it can tap the full benefits of the valuation. Olam Group will not hold a stake in either of the future companies to ensure the maximum value from the IPOs, explains Parande. It means the treasury team has had to also work through two consent processes for approval for two demergers – both of which have been successfully completed.

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Tapping payment opportunities

How are payments evolving and what steps should companies take to tap the opportunity?

Kaiwan Turel
Director
Treasury Solutions Group,
Asia Pacific
HSBC

The payments landscape has undergone structural changes over the past few years. New infrastructure such as real-time payments systems, new regulations such as allowing non-bank payment service providers (eg, e-wallets) to access these networks directly, as well as the ambition of and competition among industry players, have transformed the sector. Until recently, there was a huge mismatch between what was possible and what was happening, but we are now seeing the commercialisation of the infrastructure as adoption from big corporations to SMEs accelerates.

When I started my career, payments infrastructure was characterised by one-way, time-bound payments either as a batch or file-based that provided limited visibility. Once people had paid for their goods and services, the transaction was over and treasury teams were focussed on reconciling payments efficiently by the end of the month.

Because real-time payments systems are available 24/7, with near-instant settlement and same-day reconciliation, it has revolutionised the way businesses transact. Leveraging technologies such as APIs, companies can devise innovative straight-through processes in which payments are a part of an overall customer experience. Real-time payments are also helping bring the unbanked into the financial system. For example, HSBC partners with companies in Egypt to facilitate direct payments into e-wallets.

E-commerce has taken off on the back of digital payments. We increasingly support companies that have been relying on traditional distribution models to move to a D2C (direct-to-consumer) model that no longer depends on intermediaries. We are observing this trend across a wide range of sectors including logistics, pharmaceuticals distributors, the auto industry and insurance companies. There is certainly an element of the old guard reinventing themselves.

As companies move into the D2C space they are looking for scalability, capacity and variety in terms of how they collect payments because their customers want options. For example, companies need to support customer purchases via bank transfers, QR codes, credit cards and e-wallets in different locations across their physical, online and mobile stores.

One notable change we at HSBC have observed is that we no longer just speak to a client's corporate treasury team. We also speak to their strategy and business development teams because they are also supporting how these new systems work and connect.

Changes in how we pay means MNCs must adapt their treasury function to become more strategic and resilient, ie, putting technologies, particularly APIs and RPAs, to effective use in payment and transaction flows and treasury processes, leverage data optimally, supporting the broader supply chain and addressing risks of payment errors, information security and fraud. As businesses pivot to D2C models, 24/7 collections and payments on demand, treasury teams must be able to adapt. We have clients who have seen the number of digital payments they process jump significantly. Add payroll on top, and it's a big responsibility leading to increasing levels of specialisation for the treasury function.

The transformation in payments has implications for working capital management and the efficiency of processes, particularly because the cost of capital is now higher. Because interest rates remain elevated, there is increased focus on self-funding, better management of receivables and driving efficient realisation and use of internal cash. Digital payments are also changing the way companies can engage with their stakeholders to tap into competitive advantages, for example by using supply chain finance to support their broader ecosystem.

Can Balcioglu
Vice President, Treasurer
PayPal

As many companies expand their business models to place e-commerce as a more prominent feature in their retail strategy, treasurers must consider certain challenges such as ensuring systems integration for a seamless omnichannel shopping experience for their customers, accommodating a variety of payment methods and managing activity through new geographies and currencies.

Whether a company's business is digital, omnichannel or a platform/marketplace, choosing the right payments service provider to partner with is one of the most important decisions a CFO or treasurer must make.

To navigate the complexity inherent in the payments ecosystem successfully while providing the best experience to your customers, companies will need payments processors who will provide a stable, secure and scalable platform that is able to support growth across multiple channels and geographies.

Based on our experience, a few important factors to consider for a company in making this decision include:

- Look for a provider that can provide a transparent pricing model to help you manage your costs; however, refrain from choosing based on cost alone as there are many other factors to consider.
- Ease of integration of your systems to the payments platform provided by your processor is key.
- Your payment partner should help your company meet customers across different channels and devices and allow your customers to use whatever funding source or method they want to use.
- Look for a provider who can improve approval rates to boost your bottom line while providing services to proactively reduce fraud and chargeback risks to help manage losses.
- If you are servicing customers internationally or have expansion plans into new geographies, it is imperative that your provider is able to connect you to local payment schemes globally. Your payments provider should be a trusted partner to you as you navigate the complexities of FX conversion, compliance with local regulation and tax rules, for example.
- Finally, look for a provider that will offer a variety of value-added services and capabilities, to support your business as you grow into new offerings and verticals.

The pandemic accelerated the shift to new digital business models such as D2C, Direct to Store and B2C/B2B online marketplaces. Here are a few factors treasurers will need to consider with regards to payments under these new business models.

- **Systems integration:** it is not unusual for companies to have fragmented systems for their existing sales channels; supporting new sales channels will require additional systems investment for better integration with these existing systems.
- **Managing losses:** expanding into new digital channels will require treasurers to manage a higher volume of smaller transactions, which can increase chargeback and fraud costs.
- **Managing FX risks:** directly selling to customers online is a cost-efficient way to access international markets; however, expansion into new countries brings new challenges for treasurers. For example, companies will have to think about presenting prices in local currency to boost sales.
- **New payment methods:** selling through new digital channels and international markets brings in new customers who will have specific expectations when it comes to payment methods they want to use. It is a significant burden for companies to try to offer these local payment methods by themselves, without the help of a payment provider with appropriate expertise.
- **Safeguarding customer data:** businesses expanding into new jurisdictions will have to ensure they comply with all local customer data safeguarding and privacy requirements in line with local regulations.

Payments data (data that can be collected from customers managing and moving money) can offer valuable insights into customers behaviour and needs. This data can be used to increase customer engagement, unlock new streams of revenue or manage risk better. However, safety and security are critical factors when utilising this type of data.

Recently, we are seeing the rise of "embedded finance" – essentially companies providing their customers with a financial product during a non-financial commerce experience.

While this concept is not new, digitalisation of commerce brings about many new opportunities in this front. Shopping carts, various software solutions, digital wallets all provide companies who are advanced in their digital journey to interact with their customers and provide financial products as a natural part of their experience.

These products range from transactions and deposits accounts to payments and lending related services. Such add-on services can provide companies with valuable data and insights about their customers.

Technology companies and other non-financial institutions with a large base of captive customers (eg online retailers and marketplaces) are using embedded finance to provide better customer experiences, increase engagement and sales and gather additional customer data that can be used to offer improved or new products.

For example, PayPal enables merchants to offer a BNPL product to their customers during their online shopping experience – this, in turn, maximises customer engagement, increases sales for the merchant and provides a better retail experience for their customers.

Read more online

Next question:

"Transaction banking in Asia: from cash management to supply chain management or support with cross border trade, where are the region's corporates most focused?"

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

Crisis in China

Investors have recently been preoccupied with the question as to how much further interest rates will have to rise before inflation is properly curbed. The majority believe central banks have approached the end of the rate hiking cycle as inflation is declining and economic growth has declined considerably almost everywhere, while the European economy is shrinking according to the August PMI data.

There is something else at issue here. During the corona years, consumers shifted their spending patterns from services to goods. This is why higher inventory levels were required in the goods sector, certainly when all manner of supply lines – especially computer chips – were disrupted.

During this period, prices of goods – and food – rose exceedingly rapidly. The situation has since changed drastically, with consumers spending as much on services as they used to. Also, most supply lines for goods have been restored. This is why there are too many rather than too few stocks of goods at this point.

By far the most important supplier of manufactured goods is China. The current inventory correction is therefore hitting the country hard. However, there are all sorts of other factors that are slowing down economic growth in China:

- China is starting to be faced with a shrinking workforce and a declining population.
- Debts in China have risen enormously. Total debt/GDP ratios are currently around 300%. If they exceed 270%, this is generally regarded as a highly risky situation. This means that Beijing is not keen to provide the economy with fiscal and/or monetary stimulus.

A deflationary spiral

At this point, there is a risk that a self-sustaining deflationary spiral will be triggered in China as a result of declining commodity and house prices, high debt and declining economic growth.

Beijing will therefore have to make the very difficult choice of whether to provide renewed fiscal and monetary stimulus or unleash a deflationary spiral.

A number of other factors also play a role here:

- The excessive rise in debt has mainly been due to massive speculation in property – both by consumers and governments. How useful is it to inflate this balloon even further if one knows that, one way or another, air will have to escape from the balloon at some point?
- President Xi Jinping has repeatedly shown that he does not have much economic insight. He would rather teach the speculators a lesson and curtail the influence of the private sector while increasing the role of the Chinese Communist Party in the economy. This is why, according to his instructions, a great deal of time will have to be spent on re-educating the Chinese by teaching them far more of his values.
- Increasing Western sanctions against China are not helpful either, as is the pressure on Western companies to reduce their dependence on China by reallocating some of their supply chains to other countries.

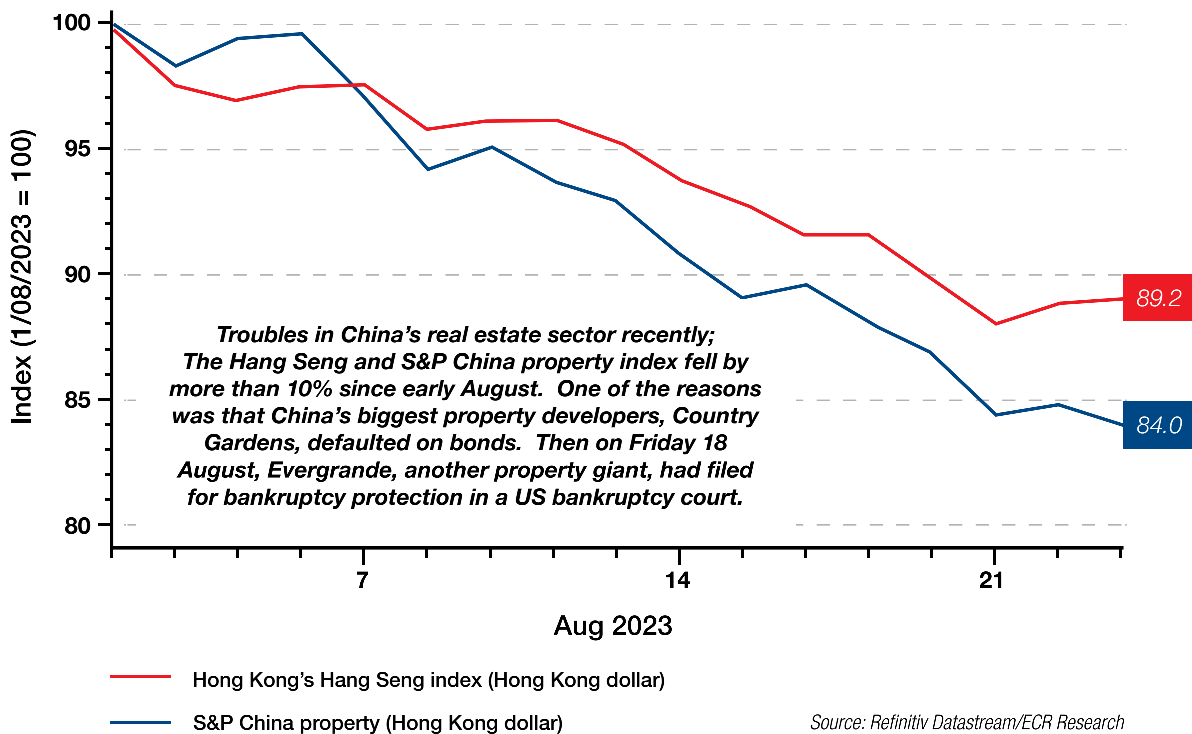
As a result of all this, China is once again starting to exert downward pressure on prices in the West due to the following factors:

- Lower import prices in the West, because Chinese manufacturers are looking to boost sales and the Chinese yuan has declined in value.
- Less increase or even a decline in commodity prices. Indeed, China is a major consumer of commodities.
- Europe and many Asian countries export a great deal to China. This is becoming increasingly difficult now. Incidentally, the US is less affected by this, as US imports from China are very high, but exports are fairly low.

Most analysts assume that there will be sufficient monetary and/or fiscal stimulus to prevent an economic crisis, but not enough to avoid lower growth and downward pressure on prices. In other words, for Western central banks, but especially for the ECB, this will provide additional support in the fight against inflation. They even have to monitor China closely to prevent the country from plunging itself and, with it, the whole world, into an economic crisis.

ecr research

Early warning signals of an accelerating property crisis in China?



The Chinese yuan

Amid all the challenges the Chinese government and economy are facing, a weaker currency would be helpful to support the struggling export sector. The yuan has already weakened quite considerably in the summer months, due to increasing interest rate differentials and an outflow of foreign capital.

However, a weaker yuan also comes with some caveats. First, China is a major importer of commodities, which are priced in dollars. A weaker yuan will push up import prices, negative impacting the purchasing power of an already hesitant consumer. Second, China would like to weaken the role of the dollar as the worlds reserve currency, while increasing the role of the yuan as a reserve currency. There are a number of preconditions for the yuan to become a dominant reserve currency, one of them is the yuan becoming a strong and stable currency.

It therefore seems best to keep USD/CNH around 7.30 as far as possible for the time being. Given our outlook for EUR/USD, this means that EUR/CNH will gradually decline from around 7.90 to around 7.60. However, as soon as a recession erupts in the US, the yuan can be pulled down with the dollar and the rate may far exceed 8.00.

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