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Treasury in 2024

What should treasurers expect in 2024? From geopolitical risk and ISO 20022 to AI and ESG, we review next year's hot topics.

The Corporate View

Viktoria Hadarits, FCT

Assistant Treasurer

Lightsource bp

Seeking regulatory clarity in a warming world

ESG regulations try the patience of treasurers.

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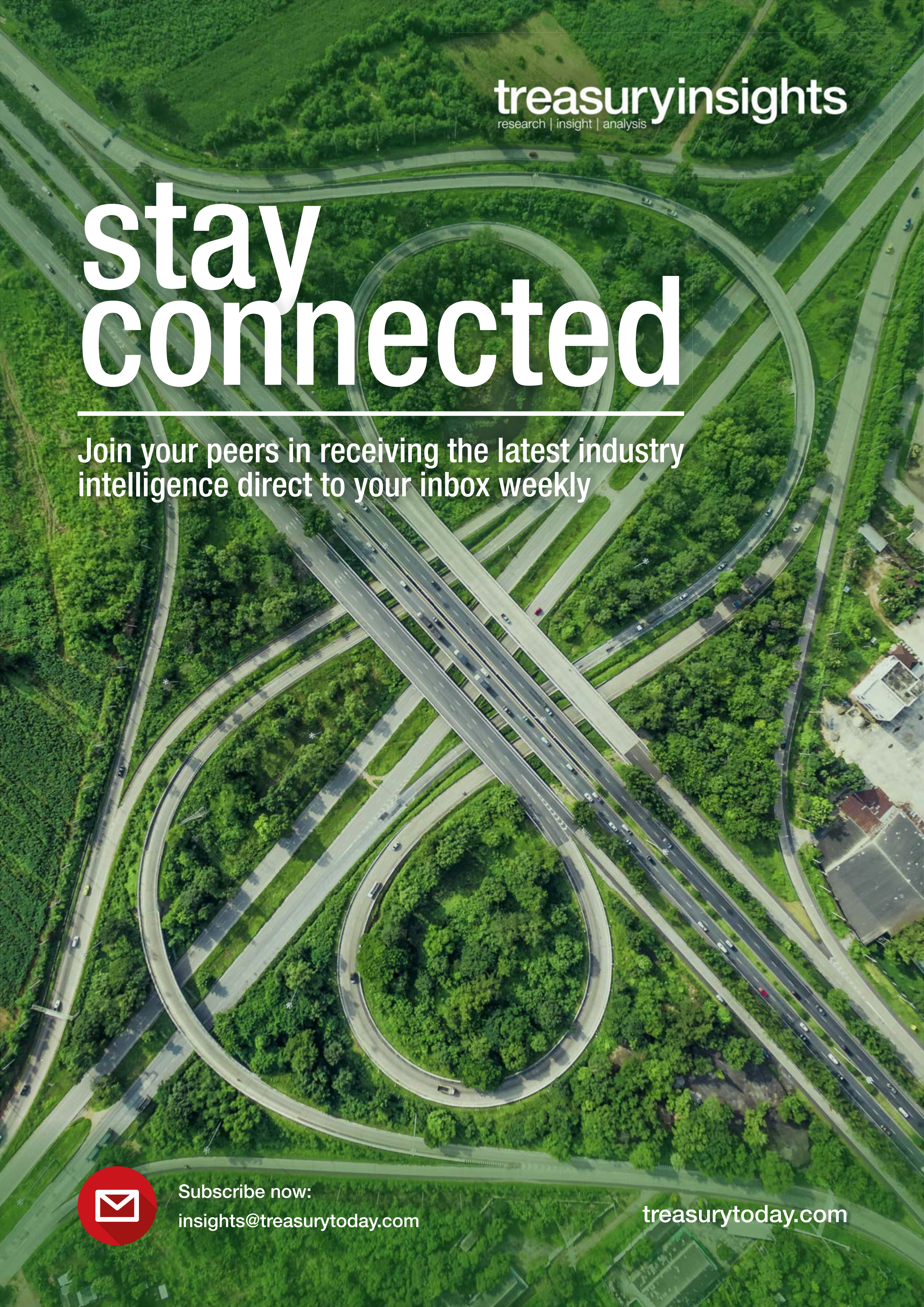
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Strategic Sustainable Treasury

As 2023 draws to a close, this edition gathers key opinions from the industry on where treasurers will be most focused in 2024. In an uncertain world, the treasury playbook is reassuringly familiar as teams prioritise supply chain resilience against the backdrop of geopolitical risk and better cash forecasting.

As this edition goes to press, Dubai is preparing to host COP28 and it remains to be seen whether the conference is able to boost political will for climate action. While businesses wait for comprehensive political leadership, some are forging ahead integrating sustainability across their operations, led by treasury. We speak to Thai Union's Group Treasurer Yongyut Setthawiwat on sustainability endeavour at the world's biggest tuna producer, and hear how the strategy is improving the bottom line and boosting consumer demand for its products.

These pages also explore how the lack of clarity around regulations – particularly related to sustainability – is causing headaches for corporate treasurers, eager to comply. Elsewhere our Corporate View features Viktoria Hadarits, Assistant Treasurer at Lightsource bp, the largest solar developer in Europe. Alongside her passion for sustainability, she explains what drew her to treasury after sitting on the 'other side of the table' and discusses the possibilities being opened up by AI and APIs.

As the energy transition splutters into life, oil producers like Saudi Arabia must adapt. This edition explores the risk and opportunity for companies seeking to take advantage of the desert kingdom's huge domestic market and grandiose infrastructure projects to diversify the economy. The Saudi government says foreign companies wanting access to its market must set up local operations, pay tax and most importantly, employ Saudi nationals. Does the opportunity outweigh the reputational risk, legal uncertainty and challenges of hiring locally?

Our payments feature concludes that despite the proliferation of electronic payment options, cash isn't going away any time soon. While our Question Answered explores transaction banking trends in Asia, finding burgeoning corporate demand for support setting up China +1 strategies. Last, but by no means least, we delve into mental health in the workplace. Working remotely, changing expectations and greater awareness all mean that organisations are doing more to ensure the good mental health and wellbeing of their employees, but stigmas remain and there is still plenty to do.

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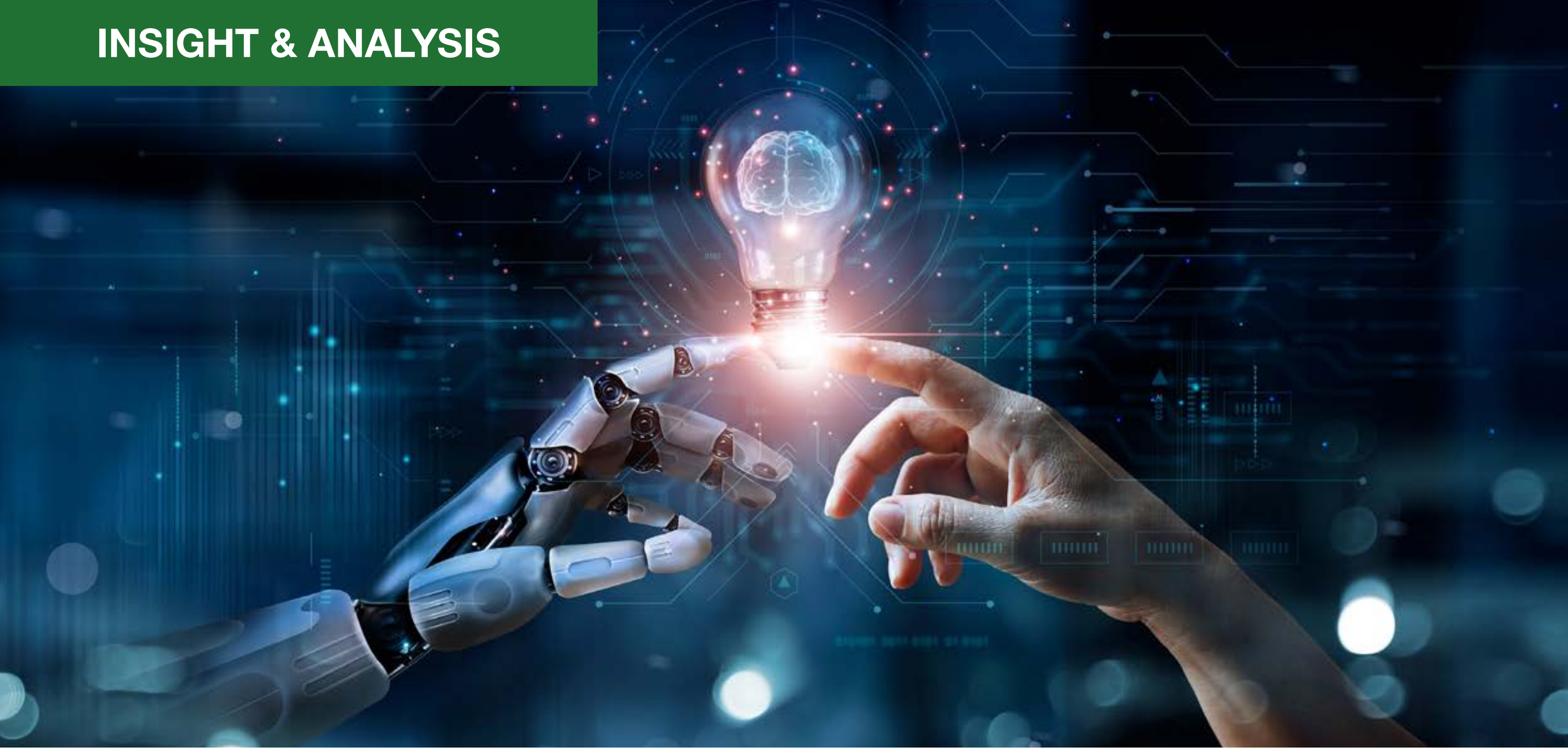
Saudi Arabia is demanding companies wanting to tap its giant domestic market set up local operations, pay tax and most importantly, employ Saudi nationals. Does the opportunity outweigh the reputational risk, legal uncertainty, and challenges of hiring locally?

A bigger catch: Thai Union charts the rewards of sustainability

Thai Union, the world's biggest tuna producer, has integrated sustainability in a process largely driven by the company's overhauled and centralised treasury function. Group Treasurer Yongyut Setthawiwat charts the company's sustainability progress and explains how it links to the bottom line.

Boiling the regulatory ocean

A lack of clarity around regulations, particularly related to ESG issues, is causing headaches for corporate treasurers who are eager to comply.



Treasury in 2024: what to expect

With 2024 just around the corner, what should treasurers be focusing on next year? From mitigating geopolitical risk and supply chain disruption to harnessing technologies like artificial intelligence, we review some of the topics treasurers will be monitoring closely in the coming 12 months.

As 2023 draws to a close, it's once again time to take a look at the challenges treasurers will need to address in the coming 12 months, and the trends and opportunities that they should be monitoring.

And once again, there is no shortage of topics vying for treasurers' attention. While the challenge of high inflation has somewhat abated in recent months, treasurers are now operating in a higher interest rate environment. Geopolitical risk is a notable concern, from the developing Israeli-Palestinian conflict to the prospect of US elections in 2024 – and the last few years have also clearly demonstrated the importance of managing supply chain risks.

At the same time, treasurers are paying close attention to the opportunities brought by newer technologies and are considering how these could help them address perennial challenges – all while considering how treasury can support the firm's environmental, social and governance (ESG) goals.

Getting the basics right

In this increasingly complex macro environment, says Bruce Meuli, Treasury Advisory Executive, GTS EMEA at Bank of America, "this is starting to put pressure on treasuries to really focus on getting the basics right. When I'm talking to clients, they're all thinking about how they can be even more effective and cost efficient than ever before. At the same time, they're looking to build contingency and resilience into their operations, and build the operational capability needed to manage that volatility and complexity."

While there is much talk about predicting the next black swan event, Meuli notes, "people are realising that you need to build the capability to respond and react, no matter what the environment may be, or what events may occur." The difference, he says, "is that this is becoming more technology led: the maturity of core treasury systems and number of new digital tools is increasing – and so is their application into treasuries."

Navigating the risk landscape

"Geopolitical risk is important to corporate treasurers for the simple reason that it increases business risk," comments Ashley Parker, Head of Corporate Solution Sales at BNP Paribas. "And when business risk increases, companies typically want to reduce their financial risk to compensate."

When markets are more volatile, treasurers need to find new ways of managing that volatility, such as increasing the use of options or collars, says Parker. "They may also need to manage risks that they haven't managed before, such as raw material and inflation risks. Even if the exposures may seem relatively small, once these risks have passed through a certain volatility threshold, they become financial risk parameters for CFOs and Group Treasurers to manage."

Where inflation is concerned, Parker notes that raw material prices may be more settled than they were 12 months ago, "but wage inflation, for example, is still there – and it's affecting corporate margins in some sectors, particularly where the wage bill is a large portion of the cost base." And while higher raw material costs are increasingly being passed through the supply chain with contractual arrangements, "it's much more difficult to pass on higher wages."

Deploying capital effectively

In the current environment of high interest rates, effectively deploying capital is becoming more challenging, says George Dessing, Executive Vice President, Treasury & Risk at Wolters Kluwer. "Driving organic growth by reinvesting into the business therefore becomes an even better use of capital," he notes.

"The M&A landscape, on the other hand, is still competitive leading to high valuations, especially in exciting markets like cloud software and generative AI. This, coupled with high-interest rates, makes finding M&A opportunities that meet our financial criteria more difficult, as funding, as we all know, is not 'free' anymore."

Building supply chain resilience

Until recently, says Parker, a lot of companies designed their supply chains for cost efficiency. "And by that I mean that companies were happy to have a supply chain that was dependent on one or two large suppliers – often in Asia. What we've got now is an environment where companies are prioritising supply chain security." In some cases, this has triggered a re-evaluation of how and where companies source materials, and the ownership of their supply chains.

As they review their supply chain arrangements, a key question for many companies is how to address their reliance on China. For many, the business opportunity is simply too big for companies to reduce this reliance. Others are taking a more cautious approach and are taking steps to mitigate the risks – and a third group are actively diversifying their intra-Asian supply chains into countries such as Vietnam, India and Indonesia.

Making the most of ISO 20022

The transition to ISO 20022 will continue in 2024 – so what does that mean for treasurers? "There are a number of clearing systems which have already migrated to ISO 20022, and there is a timetable of additional clearing systems which will convert in the next year or so," says Alex Wong, Head of Product Management for Corporates, GTS EMEA at Bank of America. He points out that one of the first mechanisms to adopt the messaging standard was SEPA – "and during that time, a lot of banks helped manage the changes that were required, and did the conversion in the background for clients. I anticipate banks will continue to do that."

Nevertheless, he points out the companies that don't take advantage of ISO 20022 won't be in a position to realise the benefits associated with richer and more structured data. For example, when companies make a payment, they can use ISO 20022 to provide information which wasn't supported by legacy systems. This data can then support more efficient reconciliation processes and payment models such as on-behalf-of payments. "But if clients aren't ISO 20022 enabled, that information risks getting truncated or lost," Wong notes.

Perfecting cash visibility and forecasting

Cash visibility and forecasting continue to present difficulties for treasurers everywhere. Unsurprisingly, the 2023 European Association of Corporate Treasurers (EACT) survey identified cash flow forecasting as the main priority for treasurers in the coming 12-24 months.

With the increased cost of borrowing, and the associated greater opportunity associated with short-term investment management, Steve Wiley, VP treasury solutions at FIS, says that treasury departments "are re-evaluating all things liquidity management related, including cash forecasting capabilities, investment and debt management strategies, and working capital management."

Dessing points out that higher interest rates mean that the time value of money is now playing a bigger role than it has in previous years. "In this environment, parties delay payments in order to benefit from the yield on cash," he says. As such, cash management is set to be a high priority for the company's treasury team in the year ahead.

Where forecasting is concerned, Dessing says his team is leveraging an internal Wolters Kluwer product, CCH Tagetik, which provides high levels of cash visibility and insights into forecasts by the company's business units. "This allows the treasury team to extract and centralise as much cash as quickly as possible and thereby optimise cash management," he adds.

Royston Da Costa, Assistant Treasurer at Ferguson, predicts that in 2024 the treasury world could see some interesting breakthroughs in the area of cash forecasting. "We have got a cash flow forecasting process, but we're not using a solution as yet because we are currently reviewing our internal processes," he says. "A lot of corporates have the same challenge that we do, with disparate systems that don't talk to each other."

At some point, says Da Costa, treasurers need to implement technology that will get them closer to their forecasting goals. In 2024, he predicts that banks, corporates and fintechs will increasingly come together to solve the forecasting challenge. "The question is, when will corporates truly begin to engage and implement solutions that address this area?"

Harnessing technology

Increasingly, developments in technology are presenting new ways to tackle longstanding challenges. "For instance, many of our clients are in the process of migrating to S/4HANA, so they're asking how they can leverage that technical upgrade and capability going forward," says Meuli. "They're also looking to complement what they have with best-of-breed applications for specific capabilities, such as reconciliation, cash forecasting, data visualisation and analysis."

Treasury teams are also looking to automate processes using artificial intelligence. As Wiley points out, "2024 will be the first year that technology providers and banking partners begin to offer a multitude of AI, Machine Learning and Robotic Process Automation-related services."

As such, he predicts that treasury adoption rates will increase significantly, with treasurers spending much of 2024 evaluating opportunities and implementing these new technologies.

Da Costa believes that AI will "without question" be one of the most important topics for treasury in 2024. "Up to about five months ago, I was in the camp that thinks AI is hype – I could see there was something that could be useful in the future, but I couldn't quite see where it would add value for treasury," he recalls. "And then I stumbled across Microsoft Copilot."

With AI becoming increasingly democratised, Da Costa says there are numerous opportunities for treasurers to harness this technology – particularly for companies that haven't implemented a treasury management system. "For example, with the payment approval process, you can actually use this Microsoft software to write the program – you don't need to have any programming capability to help you automate that process."

Meanwhile, treasurers will also be looking to unlock the potential of application programming interfaces (APIs), as Viktoria Hadarits, Assistant Treasurer of Lightsource bp, explains in The Corporate View.

Meeting ESG objectives

Finally, ESG continues to be an important topic, with 83% of respondents to the PwC 2023 Global Treasury Survey stating that they consider sustainability in their treasury decision making.

"ESG reporting is at the top of many corporates' agendas, including at Wolters Kluwer," says Dessing, noting that the company's integrated risk management platform Enablon allows the firm to automate the collection of ESG data and embed ESG into strategic decision-making.

"Alongside reporting, it is important, in our case, to align the ESG KPIs in our syndicated loans with firm ESG commitments we have made externally, so as to align the organisation onto a set of targets," Dessing adds. "Science Based Target Initiative (SBTI) targets are potentially a great example of a firm-wide commitment that sustainability-linked loan KPI's can be based on."

As such, the company submitted its targets to the SBTi in early 2023, with a plan to reduce absolute Scope 1 and 2 greenhouse gas (GHG) emissions by 50% and absolute Scope 3 GHG emissions by 30% by 2030, from a 2019 base year. "These are ambitious targets and we hope to obtain SBTi validation in the coming months," Dessing adds.

As well as looking at its own ESG performance and setting targets accordingly, the treasury is also looking at its stakeholders. "We have created an internal framework based on publicly available data which we use to rank our banking partners' ESG performance," says Dessing. "At Wolters Kluwer we have a Supplier Code of Conduct that we ask our suppliers to commit to, and we might want to echo this as a treasury to our banking partners as well." ■

Five topics to watch in 2024

Royston Da Costa, Assistant Treasurer at Ferguson, highlights five topics he believes treasurers should be monitoring in 2024.

1. Artificial intelligence (AI). On the one hand, vendors are increasingly building AI into their solutions, which can benefit treasury. But more interesting, says Da Costa, is the democratisation of AI with the arrival of solutions such as Microsoft Copilot, "which means that treasurers don't need to have that technical programming ability to begin engaging with technology."

2. Cash flow forecasting. In 2024, Da Costa predicts that the treasury world could see some interesting breakthroughs in the area of cash flow forecasting. "Even the banks are now beginning to enter this space," he adds. "While banks don't have access to all of a company's data, they do have access to a good chunk of information, so to some degree they could probably help forecast flows based on the history you have with them."

3. Digital currencies. While cryptocurrencies are too volatile to be of real interest to most corporates, Da Costa says that central bank digital currencies (CBDCs) "are going to have huge potential for treasury," not least because of the potential they offer to transfer funds seamlessly and efficiently. "I think you'll see more countries implementing their own digital currencies, and I think the impact that's going to have will be quite interesting," he comments.

4. Demographic shift. During the pandemic, many people decided to retire earlier than they had planned. "That's quite significant because the new workforce has a different approach and perspective on work/life balance than my generation," says Da Costa. "I think treasurers and corporates have to take heed that for many in this generation, flexible working is almost a requirement, if not the norm."

5. ESG. Where the social component of ESG is concerned, Da Costa notes that progressive companies are working to raise awareness among their staff of topics such as the menopause, "which will make us all the richer by promoting a diverse workforce and acknowledging each other." Turning to the environment, he observes that enthusiasm from banks appears to be waning on topics such as green deposits. "But I do believe energy consumption is a very important topic, and the drive to get to more sustainable forms of energy is only going to increase."

Building a bright future

Viktoria Hadarits, FCT
Assistant Treasurer

Lightsource bp was founded as Lightsource Renewable Energy in 2010. From its humble beginnings as a small UK start-up formed of six people, the firm is not only the UK's largest solar energy company, but has become a global leader in the implementation of solar energy projects. Today Lightsource bp is present in 19 countries and has more than 1,200 employees.

Lightsource bp works with businesses and communities around the world to deliver low-carbon solar energy projects – financing, building and operating utility-scale solar power projects through smart and sustainable solutions.

Viktoria Hadarits, Assistant Treasurer at solar energy firm Lightsource bp, discusses her career path into treasury after sitting on the 'other side of the table', her interest in sustainability and the possibilities being opened up by newer technologies like AI and APIs.

"One of the most exciting things about treasury is that you don't have two days the same," says Viktoria Hadarits, Assistant Treasurer at Lightsource bp. "Every day is different. There are days when you come in and you have a blank sheet of paper – you can design, you can achieve so much, add so much value. Then some days you come in and there is nothing and you go – 'where do we start? How are we going to do this?' It can be super exciting one day and really challenging the next. That's what keeps the job really interesting."

Like so many of her fellow professionals, treasury was not the first stop on Hadarits' career journey. After graduating with a

BSc in Economics from Budapest Business University, Hungary's largest – and the world's oldest – public business school, she went on to gain a Bachelor's degree in international business from Avans University of Applied Sciences in the Netherlands.

Joining ING as a project manager in Hungary, Hadarits worked on the implementation of the Markets in Financial Instruments Directive (MiFID). In this position, her motivation and enthusiasm, combined with her close attention to detail, helped to ensure the successful implementation of the project.

Having met her husband while studying with Erasmus in Paris, they decided to move to Spain. "We moved to Madrid – my husband is Spanish – and although I didn't speak Spanish at the time, being able to speak English and having studied finance and international business meant that I was able to become an FX option broker in the interbank market, working with UK clients," she recalls.

When the opportunity came to work overseas, she and her husband relocated to London. Although her new role was similar to the role she had held in Madrid, in the London office she found she was the youngest person, the only woman and the only non-native English speaker. "I really enjoyed the adrenaline of the markets," she recalls. "But I didn't enjoy the environment. I felt I wanted to do something different."

Other side of the table

It was while talking to a friend that she first learned of corporate treasury. "I suddenly realised that as well as having transferable skills, I had a deep knowledge of the products and services used by treasury. I was just sitting on the other side of the table."

Possessing the right skills and having the product knowledge were instrumental, she believes, to securing her next role at Virgin. "I went from the banks being my clients to being a client of the banks," she reflects. After joining Virgin in 2013 as a treasury assistant, within five years Hadarits was appointed Group Treasury Manager.

It was while she was at Virgin that her interest in sustainability began to grow. With companies increasingly beginning to question their roles, responsibilities and core purpose, she began to think about her own motivations and question the direction her career should take. At the same time, she had a great desire to deepen her knowledge of treasury.

"Virgin was a very entrepreneurial environment, very exciting, with new investments and divestments constantly happening. It was very fast paced," she explains. "But I was interested in seeing other types of treasury departments. I felt that I needed to broaden my treasury horizons."

By joining the well-established treasury department of FTSE-listed Johnson Matthey, a global leader in sustainable technologies, as cash and FX manager, Hadarits was able to broaden her knowledge of front office operations and sustainability. "They were much further ahead on the sustainability journey. I was able to get involved with a lot of sustainability products used in treasury."

Stepping into renewable energy

In early 2022 Hadarits was offered the chance to be a part of the Lightsource bp treasury department that the company was building. Since the company was in the renewable energy space, she had no hesitation in accepting. "I felt that with my experience and my knowledge of treasury processes, and having worked with some very good treasury professionals, I would be able to bring a lot to the company."

From its beginnings in 2010 as a small UK start-up with just six people, Lightsource bp has experienced extraordinarily rapid growth. This massive expansion – it now has a presence in 19 countries with more than 1,200 employees – was the impetus for the company's decision to create a dedicated treasury.

Joining the company at this time of rapid expansion presented Hadarits with challenges as well as opportunities. "Two years ago, the company realised that it would make sense to have a centralised treasury," explains Hadarits. "In April 2022 I joined the firm as their first treasury professional. Today, we have eight people working in the treasury team – a massive growth in just a year and a half."

This speedy expansion was necessary because up until then, treasury activities at the company had been spread across a number of different departments, including structured finance, payments and accounting. "Now that we have built our team, some of the tasks have been taken over by us," she explains. "Additionally, a lot of new areas of finance have been brought into the organisation by treasury."

Some five years ago, the company became a 50:50 joint venture with BP. Although BP is involved in all strategic and investment decisions at board level, the treasury at Lightsource bp has a free hand in all day-to-day decisions. "Although the two treasury teams are fully separate," explains Hadarits, "we have a very good relationship with the BP treasury team. It means that we have the advantage of being able to consult them and get their insights and opinions."

Current responsibilities

On a day-to-day basis, the team is now responsible for all the usual treasury operations – cash management and cash flow forecasting, liquidity management and debt management, foreign exchange and investments management.

The new treasury has also inherited more than 15 banking portals and more than 800 bank accounts. "With the company growing so fast, and without treasury professionals to monitor, every time the company entered a new country, new bank accounts were set up across different banking providers," Hadarits explains.

In order to consolidate the existing cash management banks, and to reduce the large number of existing accounts, the treasury has been running a series of RFPs. "Now that we have a treasury in place, we are reviewing the bank accounts and all of our global cash management relationships because it just doesn't make sense to have these accounts scattered across so many banks," she says. Taking a regional approach, the treasury has been running RFPs in the UK and EMEA and will be doing the same for the Americas and for APAC.

With such a new treasury department, there have inevitably been some challenges to overcome, chief of which is the lack of a dedicated treasury management system (TMS). Many of the legacy processes simply use Excel spreadsheets. "Although there were good reasons why things were set up the way they were, from a treasury perspective it doesn't necessarily make sense," Hadarits notes. The first priority for the company has been to implement SAP to cover the most pressing finance needs, with a TMS implementation potentially following in the future.

Future projects

Even given the enthusiasm Hadarits has for treasury, her list of current and future projects is impressive. Although the implementation of SAP is centred on the accounting system, rather than being treasury-focused, there is heavy treasury involvement in the project.

Meanwhile, the team's efforts to rationalise bank relationships and accounts continue. "The cash management RFP has been done for the UK, and we are transitioning over all the bank accounts to our one UK cash management bank," says Hadarits. "We're starting now with the EMEA cash management RFP, which will probably take us from now until the first quarter of 2024."

As well as running cash management RFPs to consolidate its cash management relationships, the group has also run an FX RFP. "We're now starting to look at the trade, execution and strategy of hedging," says Hadarits. "That is going to be a new area where treasury is going to play an important role." An FX trading platform implementation is on the agenda for next year. Treasury has also recently started investing in money market funds – "so we now need a trading platform, rather than the traditional approach of calling up funds to subscribe," Hadarits notes.

Last – but not least – is the need for a wide-reaching rationalisation. "Because of the complex organisational structure, there are a lot of intercompany relationships and positions that were created over the years. We are in the process of reviewing these, clearing balances and creating new funding routes."

The way ahead

Digitalisation is high on the agenda. Having implemented a number of automated processes this year, Hadarits is keen to continue moving away from manual processes and finding further ways of embracing automation. It is in the day-to-day operations where she believes automation can be most helpful, creating efficient processes and speeding up processing time up so that treasury can concentrate on the bigger picture.

In addition, Hadarits is mindful of other departments in the company that are facing similar challenges in the wake of the company's rapid expansion. "It's important to recognise that other departments are going through the same evolution," she notes. "We need to work together to make sure that we understand their digitalisation projects – there can be a lot of overlap, especially within finance." As such, she says, "we need to see if we can collaborate with other departments and also make sure that we are not duplicating efforts or stepping on each other's toes."

While the quest for greater visibility is an ongoing challenge, she believes that technology will play an important role in addressing this. "Many treasuries struggle with visibility. We're always trying to get better visibility on cash balances," she says.

"With APIs (application programming interfaces) coming into the picture, you are going to get real time balances in your TMS – and then you can use artificial intelligence (AI) to automate what happens next." For example, she predicts that treasurers will be able to stipulate the minimum balance needed on an account, and then teach AI where to invest the surplus balance.

"I think AI is going to be able to execute a lot of the operational tasks in treasury," she adds, noting that treasurers will be able to continue adding value by providing more input into strategic decisions. "AI presents interesting possibilities, but we will need to make sure that AI is not driving our future – that we direct it to where we want it to be, so that it serves our purposes and not the other way around. It's a tool to make our team more efficient, but not to replace it," she says.

As treasury continues to evolve, Hadarits believes that continuous learning will be extremely important. While she doesn't think it is necessary to be a technical expert in all things digital, she sees the value in learning as much as possible about systems and how they work. "My children are learning coding in school," she says. "I have no knowledge of how to do that, but it might be a good idea to learn some of the basics. It doesn't mean I will become a programmer, but at least I will be able to understand it better."

Striking a balance

One aspect of her role that Hadarits particularly enjoys is the team building element. "Because I love treasury so much, I like to show the team the world of treasury and the variety of options that treasury offers," she says. "Seeing them get enthusiastic about treasury is really exciting."

She emphasises the importance of considering the mental health of team members and striking the right balance between work and personal life. "We are a new department. We have achieved a great deal in 2023, but we still have much more to do," she says. "I like to have a plan in place so that I can show the team the things that we need to concentrate on and the things that we can realistically achieve." As well as covering as much ground as possible, she says, it is also important to take stock of our achievements and celebrate our successes.

As such, Hadarits is a great believer in switching off outside of the office and winding down at the end of the day. Apart from enjoying the time spent with family, she loves running and taking her children to the skate park. She also enjoys crocheting in the evening while listening to podcasts or an audiobook. "I've done a lot of pencil cases," she laughs. "Everyone in my family now has a crocheted pencil case!"

Nevertheless, where the Lightsource treasury team is concerned, Hadarits notes that everyone is fully committed to the company's success. "We believe in the same purpose, which is to deliver sustainable and renewable energy," she concludes. "I think that brings all of us together. That is an important part of why I am at this company." ■

Saudi Arabia: time to commit not commute

Saudi Arabia is demanding companies seeking access to its giant domestic market set up local operations, pay tax and most importantly, employ Saudi nationals. But the opportunity also brings reputational risk, legal uncertainty and a firm commitment to hire locally.

Early next year, Singapore's food and agri-business Olam Group will dual list one of two spun-off divisions, Olam Agri, in Singapore and Saudi Arabia. Olam Agri focuses on growing, processing, and trading commodities and the decision to list in Riyadh is part and parcel of the company's strategic focus on the Middle East, none more so than its ambitions to tap Saudi's 35-million domestic market.

It is the latest thread in a well-defined strategy. Olam has sold a 35.4% stake in the company to Saudi Agricultural and Livestock Investment Company, SALIC, the wholly owned subsidiary of Saudi Arabia's Public Investment Fund (PIF) in 2022. And the company is already a key supplier of commodities into Saudi in line with the government's commitment to build food security via long-term strategic investments around food production and processing enshrined in Vision 2030, its roadmap to diversify the economy away from oil.

"No international company has listed in Singapore and Riyadh before," says Jayant Parande, Managing Director, Global Head – Treasury & TSF (Group Treasurer) at Olam where he has worked in treasury for over 25 years and was part of the team involved in Olam Group's first Initial Public Offering (IPO) in Singapore in 2005. "What's different this time is the scale and size of the transformation," he says. In a sequential IPO, the company plans to list Olam Food Ingredients (ofi) in London and Singapore.

Olam Agri is one of many companies positioning to access the most favourable demographics in the region. Food, consumer, healthcare and entertainment groups – Saudi wants to be a global hub for the games and e-sports sector, targeting gaming companies, studios, and the creation of 39,000 jobs – are just some of the sectors developing Saudi strategies. They are following in the wake of infrastructure and construction groups already breaking ground on a series of vast 'giga' projects. Like the construction of a futuristic city called Neom that will also house a year-round ski-resort, Trojena, slated to host the 2029 Asian Winter Games, and Saudi's giant tourist development, The Red Sea Project.

"People ask if these projects are real and they are absolutely real," says Stuart D'Souza, Founder and Director of Arabian Enterprise Incubators (AEI Saudi) which supports foreign companies doing business in Saudi. "There is nowhere else like Saudi on the planet. The market is characterised by optimism and confidence underscored by the government's flagship Vision 2030 policies."

Getting started

Global companies are not just motivated by the carrot of opportunity. They are also developing Saudi strategies because of the stick of government regulation. Most businesses selling their wares into the country don't operate out of Saudi Arabia. In a hub and spoke structure, many tend to register in countries like the UAE or Bahrain and fly executives into Saudi when needed. Now new rules that foreign entities must register, pay tax, and employ Saudi nationals in a quid pro quo for accessing the market are changing this approach.

In another development, if a company doesn't have a regional headquarters in Saudi by 2024, it won't be eligible to bid for government contracts or those issued by state-owned companies like oil giant Aramco. The strategy is already bringing results explains D'Souza, who says AEI Saudi supported 55 foreign businesses register in the country in 2022 compared to just one in 2019.

"You must set up an office in Saudi if you want to operate there," adds Stefanie Hausheer Ali, Director, Rice, Hadley, Gates & Manuel, RHGM, a Middle East specialist who worked at the Atlantic Council from 2013 to 2023 before joining the consultancy from its Washington DC offices. "Saudi is the biggest market in the region, but people have always commuted to do business. Now the government wants all the money and human resources that sit in the UAE and neighbouring countries to relocate to Saudi."

Chinese groups with construction expertise are amongst the cohort setting up local treasury operations, confirms Aditya Gahlaut, Managing Director and Co-Head Asia Pacific, Global Trade and Receivables Finance at HSBC in Hong Kong. A good window into the amount of business construction groups are pitching for, comes in the demand for bid bonds, continues Gahlaut. These bank guarantees, used to provide project developers with reassurance that bidding companies will complete the work if selected, are in high demand. "Bid bonds are a good indicator of the types of projects companies are going after and a precursor of increased economic activity in the future. Around a quarter of the cross-border guarantees that we are issuing on behalf of our Chinese customers are for projects in Saudi."

Legislative uncertainty

For all the cheerleading, service providers warn it's not easy setting up in the Kingdom of Saudi Arabia (KSA) and payback only comes after prolonged periods of planning, patience and presence. Legislative risk is one of the key uncertainties, particularly because new laws are still being written. Positively, D'Souza insists the climate is improving and the government is mindful that sudden swings in policy will chill investment.

For example, new legislation now helps navigate commercial disputes and there is an insolvency framework around bankruptcy. A Civil Transactions Law will codify personal and commercial contracting providing businesses with rules, and legislation is being written around health and safety, IT and insurance. "Like so much in Saudi, the process to transform is a journey. Before Vision 2030 the regulatory environment was less codified and less certain," he says.

"They are trying to create laws around commercial arbitration and consumer protection as well as new banking laws to cover supervision of banks," adds Hausheer Ali who says despite progress, more still needs to be done to reassure executives that in disputes the law clearly signposts how to proceed and signals fair treatment for companies. "New guidelines are helping but they are not complete," she says.

Take loopholes around taxation. In 2021 Uber and its Dubai-based subsidiary Careem reportedly faced a combined tax liability worth US$100m imposed by the Saudi authorities which issued bills dating back several years and which included cumulative penalties. Tax rules can also change rapidly. Like the sudden tripling in VAT from 5% to 15% in 2020 as the government sought revenue in response to Covid and the fall in the oil price.

Companies based in the West will also have to be compliant with their own anti-bribery legislation, drawing up policies in line with values absent in the Saudi market. And Hausheer Ali adds that anti-corruption laws also need stronger guardrails with whistleblower protections in place. "New laws are pending approval and companies are watching to see if they are fair. The risk for many businesses is that the laws are still being written," she says.

Commentators counsel that businesses navigating the risk, particularly around rules or duty on goods suddenly changing without notice or prior consultation, should keep close ties with their embassy and trade teams. "The best way to mitigate regulatory uncertainty is to have access to people directly involved in those sectors," says D'Souza. "It's about seeking advice from reliable, informed sources on the ground."

Reputational risk

Companies working in Saudi also face greater scrutiny from stakeholders and reputational risk, especially in the wake of the global outrage following the death of journalist Jamal Khashoggi, killed inside the Saudi consulate in Istanbul in 2018. The consultancy McKinsey came under fire in 2018 when it looked like its analysis was being used by Saudi authorities to target critics of the kingdom. Last May, Human Rights Watch called on Microsoft to stop its planned new cloud data centre in KSA "until it can demonstrate how it will mitigate potential rights abuses."

Hausheer Ali says reputational risk ratchets up depending on the sector. Companies in hospitality, tourism, or healthcare, for example, are unlikely to incur reputational risk. In contrast, consulting projects for the government should be evaluated on a case-by-case basis to ensure the task aligns with the MNC's values and standards. "A company will have to consider what it is doing to ensure it is not touching these types of [human rights] issues. These issues exist, so each company will have to figure out a strategy and how to mitigate it."

The paper burden

As well as an unclear regulatory landscape, companies must navigate complex bureaucracy. Setting up and selling into Saudi involves burdensome processes around registering a business, leading to correspondence with multiple government departments from tax to local councils and, perhaps most importantly, the Ministry of Labour which oversees strict rules around the employment of Saudi nationals.

Once companies are drawing revenue, they are tied to a flow of liabilities with these departments and authorities around renewals and payments. "It's a question of getting your head around it," says D'Souza whose team of 90 based in Riyadh provide corporates with tiered solutions from practical advice to wrap around care that includes finding employee accommodation and procurement. After a few years handholding, most clients graduate to run government relationships on their own, he says. "Once clients have their own HR teams, government relations and finance teams, they know what their monthly returns will be to various authorities, and licence renewals."

"It is onerous, yes. But define onerous. There are more onerous jurisdictions and markets in other parts of the world. Once companies know how the back office jigsaw falls into place, our clients graduate. We show them the path and before long they are managing their own portals, filing their returns and managing their own compliance," adds Mickey Stewart, Deputy CEO, AEI Saudi.

Saudization

Recruiting Saudi nationals into foreign owned businesses is perhaps the most important part of that jigsaw. Such is the government's priority around building Saudi representation in the labour market, MNC success really depends on understanding and aligning with its sweeping goals around upskilling Saudis and creating jobs. That means tech transfer, nurturing skills in the local population and manufacturing or assembling goods in-country as well as the incorporation of as much local content as possible.

In the government's bid to create employment and increase female participation in the workforce it has introduced percentage quotas around hiring Saudi nationals, applying a traffic light system where platinum is bestin class, followed by green, then red. Depending upon a business's declared and registered activity, foreign companies shown the red light employ too few Saudis and may find they can't file their tax return, or maintain a local bank account. "The traffic light system applies to all businesses," says Stewart.

Employees contracts (with a few variables, the same template is used for most jobs from CEO to a junior) are digitised and sit with the Ministry of Labour. This way the government can track people are paid the salary stated in their contract and declare their national insurance – as well as ensure companies meet quotas around local employment. "It's one way they audit foreign businesses to make sure there are Saudis in the business, and you are inside your percentages," he continues.

Still, the rules vary according to the type of business and operating licence. Saudis are not expected to do menial jobs: a foreign-owned cleaning business would not have a high target to employ Saudis, for example. In another caveat, companies setting up a regional headquarters can be exempt from Saudization for periods of up to ten years. "Corporations exempt from quotas still need to go in with a plan about how they will upskill and train Saudis. Otherwise, they will set up and invest in the country, but when their quotas end, they won't be prepared," warns Hausheer Ali.

Saudization also extends to professions within a business and is referred to locally as enhanced Saudization. For example, all HR executives should be Saudi, and Saudi nationals are increasingly dominating positions in engineering, finance, marketing and accounting roles. It leaves companies with challenges to navigate, for example knowledge transfer to new Saudi employees and how to nurture new skills from scratch. "Many people don't have the right kind of education for the jobs these companies have around data and energy tech. The country is getting there but it will take time," says Hausheer Ali.

She is most encouraged by the jump in the number of women in the workplace, and says it highlights what is possible. Vision 2030 targets 30% female participation in the workforce by 2030 but this has already hit 33% compared to just 19% 2018. "Women are joining the workforce, participating in ways they weren't in a really exciting trend."

Another issue for foreign companies is retention. "Retention is a big issue, as you would expect in any global market, young competent Saudis are very ambitious in a jobs sector full of opportunity," says Stewart. And it's not only retention of Saudi's that can be challenging. Commentators also flag issues for MNCs persuading their own staff to relocate, particularly those with families given concerns about autocracy and human rights, and negative associations with the country amongst women. Others say the kingdom's infrastructure and lifestyle benefits don't compare to rival business hubs, namely Dubai. A narrative that's difficult to change, despite progress on the ground.

The government has responded by making it easier for spouses to have work permits and dependents can now live in-country up to the age of 25, an issue in the past. The lifestyle will also grow more enjoyable with tourist developments in new parts of the country. D'Souza adds new infrastructure is going in to support families like western schools, and he believes expats will increasingly become comfortable living in Saudi.

Perhaps the most important first step for MNC's exploring a Saudi strategy is to visit the Kingdom. Executives and board members arriving in Riyadh are invariably shocked by the pace of change and the difference between the reality on the ground and stereotypes and assumptions. "The best way to introduce confidence is familiarity. There is no substitute for coming to Saudi and everyone always says this is not what they were expecting," concludes D'Souza. ■

A bigger catch: Thai Union charts the rewards of sustainability

Thai Union, the world's biggest tuna producer, has integrated sustainability throughout the company in a process largely driven by the company's overhauled and centralised treasury function. Yongyut Setthawiwat, Managing Director, Group Treasurer charts the company's sustainability progress and explains how it links to the bottom line.

Since 2015, Thai Union, the biggest tuna processor in the world and owner of household brands like John West and Chicken of the Sea, has spent US$100m on sustainable investment. In 2023 the company committed to spend an additional US$200m by 2030. "That's quite a lot considering our 2022 net profit is about US$200m," says Yongyut Setthawiwat, Managing Director, Group Treasurer, for Treasury and Finance Shared Services at Thai Union Group, speaking to Treasury Today from the company's Bangkok headquarters.

Thai Union's sustainability strategy rests on a conviction that policies like the traceability of its tuna catch to certified fisheries, detailed processing data and carbon reduction targets, will give its products a competitive edge that differentiate the company from rivals. European customers particularly demand traceable tuna requiring vessel quotas, monitoring systems and full disclosure around processing.

"Sustainability is no longer just an option for companies. It has become a way to do business globally. Committing to sustainability has already opened new opportunities for Thai Union and will continue to do so, helping drive the growth of the business," says Setthawiwat who has played a pivotal role in the company's sustainable transformation is testimony to both treasury's ability to enforce sustainability and strategic treasury in action.

Thai Union's treasury function is complicated by decades of acquisitions in a concerted growth strategy. It began in earnest in 1997 when the company acquired the third largest canned food brand in the US. A raft of subsequent purchases spanning the USA, Norway, and Vietnam amongst other countries has included factories, consumer brands in key markets, pet food operations, and health and wellness products. Since 2021, the company has focused its acquisitions on food tech, investing in incubators and trends in the food industry. "These acquisitions will help future proof the business," he says.

The steady expansion has run in lockstep with transformation in Thai Union's treasury function in a process that was also accelerated by Thai regulation. In 2015, the company restructured treasury, setting up a headquarters and global treasury centre in Thailand supported by two regional treasury centres in the US and Luxembourg (which moved from France) to realise tax benefits introduced by the Thai government to attract MNCs to the country.

New systems included cash pooling and an in-house bank to serve the company's daily liquidity needs. "Money flows back and forth automatically so that if a subsidiary has a surplus the money comes back to Thailand and if a subsidiary needs money it flows from the centre," says Setthawiwat. In 2015 the company also refinanced all its euro and dollar long-term financing replacing all these separate loans with finance from the company's headquarters in Bangkok. Today the company provides all the financing its subsidiaries require in their local currency, hedging the risk with an inhouse programme that locks in costs and avoids the impact of FX movements. The same strategy also allows the company to manage interest rate risk – for example over 72% of the company's interest rate debt was fixed before interest rates climbed higher.

Thai Union's centralised treasury has played a pivotal role in facilitating Setthawiwat's ability to drive sustainability throughout the company. Around the same time as Thai Union set up a new global treasury centre in Bangkok (2015), the company launched its SeaChange® strategy. Now in its second and third iteration it targets 2025 and 2030 goals around 10 Sustainable Development Goals (SDGs) through 11 interconnected ambitions.

Initially much of Thai Union's sustainable push was driven by regulation, admits Setthawiwat. Thailand was downgraded in 2014 to Tier 3 in US TIPs (Trafficking in Persons) report, the US Government's principal diplomatic tool to engage foreign governments on human trafficking, jeopardising the company's and the country's ability to export to the US. "We weren't doing anything wrong as a company, but we had our operations in Thailand and we realised that if we didn't change, we wouldn't be able to export to the US," recalls Setthawiwat.

It marked the beginning of the company working with the government to develop standards, particularly around labelling and new systems to support catch numbers and vessel movements that would put the company and Thailand's wider seafood industry on a par with developed nations.

These efforts also aligned with European IUU regulation (illegal, unreported and unregulated) that applies to all vessels sailing under any flag in all maritime waters. "In a way, legislation was being used as a trade barrier," he reflects. "But we also needed to admit that as a country we had a real problem if we didn't solve could impact our future. We are the largest tuna producer in the world, and we needed to lead the change."The company's sustainability endeavour also means it is now ahead of competitors en route to net zero. Thai Union currently targets a 42% reduction in Scope 1, 2 and 3 emissions by 2030. Other targets include extending its responsible wild-caught seafood commitment to mackerel and sardines.

Elsewhere Setthawiwat is exploring different ways to reduce its Scope 3 emissions focused on exploring how to engage all its suppliers in a low carbon roadmap. Early analysis includes exploring the benefits of a sustainable supply chain financing programme with embedded KPIs, he says. "We don't differentiate with our pricing yet, but we are exploring how we can support our suppliers around sustainable working capital financing and are working with our banks."

Thai Union itself benefits from being in the supply chain of other groups. Like Walmart's supply chain finance programme that enables it to tap discounted financing by reducing its carbon footprint.

Cheaper borrowing

In 2021 Thai Union became the first company in Thailand to issue a sustainability linked bond in a process that involved new treasury processes like justifying which KPIs to target and educating investors. All new issuance in 2024 and 2025 will be blue finance attached to KPIs picked from 11 commitments in the company's 2030 targets. Setthawiwat estimates treasury will pick three to four of the 11 following discussions with its banking partners and says KPIs will also be selected according to their materiality, the ability to collect data and verification, and benchmarking processes. "As well as talking to our banking partners we will gather third-party opinion and talk to the sustainability team before we go to market. It's important that treasury and sustainability are truly linked."

In one important evolution of strategy, treasury no longer ties sustainable-linked borrowing to a specific project or issue. "We found it challenging keeping track of these multiple, often small projects, that only required a small investment," he says. Now, all blue finance is tied to KPIs linked to SeaChange® ambitions and targets which the treasury team can monitor and verify in its quest for lower borrowing costs. "This is a better way to borrow and allows us to really commit to the KPIs."

For example, the KPIs in the company's existing blue borrowings commits the company to coming in the top ten of food companies listed in the Dow Jones Sustainability Index – Thai Union is currently listed in the DJSI for the ninth consecutive year and is ranked number one in the food products sector of the index – and to reducing Scope 1 and 2 carbon emissions by 4% annually.

A third KPI enshrines the company's commitment to buying tuna from vessels that have on-the-water monitoring including electronic monitoring facilities, so the company knows exactly what happens on the boat. To date, meeting these targets has reduced the cost of borrowing by between 5-12 basis points. It has also opened the door to a larger cohort of investors who are focused on sustainability enabling the company to realistically plan for 75% of its long-term finance which will be blue finance by 2025. It's part of a strategy to capitalise on favourable pricing and conditions as banks increasingly focus on sustainable finance in line with their own lending targets. "By being first we can better access that pool of investment. By comparing Thai Union to other companies that don't have our level of sustainability, we have more marketing power."

Advice to others

Setthawiwat's key advise to other treasury teams positioning to lead on sustainability is to ensure strategy is supported by a robust programme with clear KPIs to hook onto. "It mustn't just be a PR exercise," he warns. "Otherwise, the finance function can't align with the targets, and it becomes too challenging for banks and investors to engage. If you are committed to a real programme, it makes it easier to talk to banks and investors." He also counsels on the importance of treasury nurturing a "deep understanding" of a company's sustainability objectives and the underlying importance of sustainability to the future of the business.

Setthawiwat notes Thai Union's size has impacted strategy, making integration more challenging given treasury must monitor progress and disclosure across global operations – for example, each one of the company's factories has the same greenhouse gas target. He concludes that having sustainability endorsed from the top has been central to strategy success. "Our CEO is Chair of our Sustainable Development Committee. It reflects our belief we can extract an opportunity from sustainability and we are now seeing recognition of what we have done from around the world." ■

ESG trends in Asia Pacific

Kamran Khan, Managing Director, Head of ESG for Asia Pacific, Deutsche Bank

We support our clients who issue all kinds of ESG related debt including SDG-linked and green bonds as well as green loans where we mostly come in as structuring advisor – anyone can bring money. If we are marketing a sustainable corporate bond to investors, we help the corporate with targets and frameworks. Elsewhere we offer corporates a variety of ESG-linked derivatives that include tools like currency hedges. The structure comprises an ESG commitment against the pricing of a hedge, and it's a very effective tool. The pricing is instantaneous so if a company doesn't reach the ESG target, they pay the price immediately. We have seen that the trading side of a corporate treasury division is very sensitive to losing money in this way, and corporate reputations can quickly get damaged, so the instruments commit the issuers in very meaningful way.

Our centre of excellence out of Singapore is also involved in due diligence linked to M&A activity supporting Asian acquisitions by MNCs. The process works the other way too. For example, an Asian company acquiring a listed European business will need to brush up on sustainability for consumers, investors and regulators and these companies might consider doing transactions to improve their profile.

We are seeing new sustainable manufacturing facilities spring up in countries like Vietnam. Almost 50% of global sourcing and manufacturing happens in Asia. The sales of MNCs are now also increasingly shifting towards Asia. We need to find a way to incentivise emerging nations to keep going up the ESG ladder because no amount of recycling in the west will save the planet if Asia does not join the global sustainability movement.

We also advise clients on the transition. We think about the transition in three layers. First, the asset mix – any new investments should be transformed into cleaner businesses. Next, it requires a focus on existing operations and what companies are doing to make them efficient and clean. Third, corporates look at who they sell to and who they buy from to clean up their supply and distribution chain.

One of the most important league tables shows the top global banks financing fossil fuels around the world. We want to be as low as possible on that list. We are currently at 24 and our position is continuing to improve.

Discussions between developed and emerging economies have focused on the extent to which rich companies will pay climate reparations to poor countries, but now the debate has moved on.

Fast emerging economies want access to markets and rules of the games they understand. For example, India wants to know how green steel is defined – does that mean it is only made from renewable energy, or does it depend on a technical formula based on patents that belong to companies in Europe? These countries are worried sustainability is going to be used as a trade restriction. It's a similar issue with plastics. The definitions and sustainability standards of many economic sectors were originally identified in the EU ESG taxonomy and other EU regulations.

Emerging markets were neither at the table nor were the ground realities of emerging markets considered in the analysis. The fast-emerging markets such as Brazil, India and China are now increasingly at the key tables, and they don't want the global sustainability standards developed without their involvement in the process.

Boiling the regulatory ocean

Concerns over the impact of climate change is driving regulatory focus on the environment, social and governance (ESG) performance of financial institutions and corporations. ESG is increasingly dominating corporate treasurers' regulatory compliance agenda, but clarity is lacking.

As alarm bells ring louder about the impact of climate change and as governments seek to strengthen corporate governance and transparency, the regulatory environment will continue to evolve. ESG issues are increasingly dominating the regulatory agenda and in turn, the way financial institutions and corporations approach business. Governments around the world are introducing ESG-related requirements that place a significant reporting burden on companies and their treasurers.

Deloitte's Global Treasury Survey, published in November 2022, identified ESG as a key regulatory trend. Treasury's involvement in applying an organisation's ESG agenda was mainly focused on promoting a diverse and inclusive workplace (the social aspect of ESG). More than half of the respondents identified this, with 42% saying they were involved in issuing sustainable debt instruments, and 38% following ESG requirements proposed by their financial institutions.

The survey notes that ESG discussions are making their way to the boardrooms and are increasingly interconnected with the financial market through debt instruments with new covenants, measurements and reporting. "Similarly, corporate treasurers are reviewing their investment policies to include more sustainable instruments and taking a proactive role in the 'net-zero' agenda," it says.

Since 1st January 2021, premium-listed commercial companies have been required to make "comply or explain" disclosures in their annual reports in relation to recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). This requirement was subsequently extended to standard listed companies. In October, the TCFD issued its final annual status report on adherence by corporates and financial institutions to its recommended disclosures on climate risks. The TCFD will become part of the International Sustainability Standards Board (ISSB), which released its climate risk disclosure standard in June 2023.

The TCFD report says 58% of companies disclose in line with at least five of its 11 recommended disclosures (up from 18% in 2020). However, it observed that climate disclosures remain a rarity in financial reporting.

While corporate treasurers are "very anxious" to comply with rules and regulations, a recurring theme is that it is often difficult to know exactly what the rules and regulations require, says Damian Glendinning, Chairman of the advisory board of consultancy CompleXCountries and former treasurer at Lenovo.

"Treasurers are very literal people and it is much easier for them to comply with rules and regulations if they know what it is they are meant to be doing," he says.

At present, one of the biggest pains for corporate treasurers, he adds, are requirements around know your customer (KYC) guidelines and regulations. KYC is an element in various anti-money laundering and counter-terrorism financing regulations globally and falls under the governance aspect of ESG.

KYC requirements are designed to fight illegal activities that use the financial industry to move or hide money. The remit of KYC policies has been extended in the past few years in recognition of the interconnectedness of the global financial system. Financial services institutions are required to verify the identity, suitability and risks involved in each of their business relationships with all of their customers, be they large multinationals, SMEs or consumers.

Although most corporate treasurers have "given up complaining" about KYC requirements as they recognise the extent to which banks have to vet their customers, says Glendinning, there are two problems that remain. "First, there is no defined standard for banks to meet their KYC needs. Most attempts to enable corporate treasurers to share data on KYC have had limited to no success. Treasurers have to share the same data with many different banks and also the same data to different functions within the same bank," he says.

Further, the KYC disclosure process is "incredibly intrusive", he says. "If you are a signatory on a bank account, you will be asked for a copy of your passport, mortgage or rental payments, phone bills etc. This is not a good discussion for a corporate to have over and over again with the CFO and/or CEO."

Royston Da Costa, Assistant Treasurer, Ferguson, says treasurers would benefit from more clarity around KYC. "The problem with KYC, and the reason that it remains an outstanding issue, is that it is very difficult for banks to agree anything in terms of a format for reporting. We can't boil the ocean and have to progress one step at a time," he says. "Agreeing a single format would be really helpful for treasurers."

Corporate treasurers must respond to each request for KYC information from their financial institutions or risk delays to their transactions, according to international financial messaging cooperative Swift. "Global and multi-banked corporates can receive large volumes of individual KYC requests from each of their different banks, putting a strain on their business relationships," Swift says.

Swift has set up the KYC Registry, a central repository that stores current KYC information for a company that a financial institution can download, which allows the standardised exchange of nearly all KYC information and reduces the burden of the KYC process on both the financial institution and the corporate customer. Glendinning says KYC rules often create conflicts with requirements under the EU's General Data Protection Regulation. "If you need a copy of someone's passport, you are not supposed to retain it on file. In turn, this is one of the problems KYC utilities face – that, together with the absence of a clear standard, which means they all want different things, and general banking secrecy rules."

During a session at the recent Eurofinance conference, Glendinning said panellists argued in favour of virtual accounts as a way to greatly reduce the amount of KYC work banks need to do and hence reduce the amount of requests for information that corporate treasurers receive. "I find it interesting that KYC is used as a sales point for virtual accounts. While it may be true, it seems to be putting the cart before the horse," he says.

In a recent article on its website, Société Générale's Elise Hoyet, Head of Virtual Account and Payment Factory Solutions, noted that virtual accounts don't require the complete KYC needed with "real accounts."

One of the initial drivers for corporate adoption of virtual accounts, she added, was to avoid the burden of KYC, as it was an obvious benefit. "Today, a more important driver for corporates is the possibility of creating a more agile structure underneath their physical layer of bank accounts."

In the same article, Edwin Hartog, Head of Global Transaction Banking, Netherlands, wrote: "Treasurers can cut out a lot of physical accounts and replace them with virtual accounts. This not only gives the benefit of lighter KYC but also enables faster concentration of balances. Corporates can quickly pull their balances together at a header level or at the main level defined in the company structure."

During his discussions with treasurers, Glendinning says concerns were raised about anti-money laundering (AML) requirements. "Payments are often held up and a corporate treasurer will not know why," he says. "Under AML rules, if a bank comes across a suspicious transaction, it is duty bound to hold up that account and is not allowed to say why, in order not to alert the initiator of the transaction that it is under investigation. At present on AML, it is best to avoid receiving payments from customers with Arab or Russian sounding names. These may be perfectly innocent, but they are more likely to raise red flags in the banks' compliance departments." While corporate treasurers are anxious to comply with the principles of AML legislation, there needs to be greater clarity and communication so they can understand what is going on, he adds.

There is additional focus on governance for corporate treasurers in the UK as a review of the UK Corporate Governance Code was launched by the Financial Reporting Council (FRC), with the submission deadline for comments closing in mid-September 2023. The FRC describes the review as a "limited revision aims to enhance the Code's effectiveness in promoting good corporate governance". Changes include a revised framework of prudent and effective controls to provide a stronger basis for reporting on, and evidencing their effectiveness; improving the functioning of comply-or-explain; and revisions to reflect the responsibilities of the board and audit committee for sustainability and ESG reporting, and associated assurance in accordance with a company's audit and assurance policy. The FRC intends to finalise the new Code by the end of 2023.

A crucial aspect for all corporate treasurers in dealing with ESG matters is data availability and quality, says Andy Schmidt, Global Industry Lead – Banking, CGI. "It is difficult for corporate treasurers to get an accurate picture of their ESG performance if they do not have the right data," he says. "One of the problems is that banks, regulators and corporates alike have a desire for an 'Athena' moment, where a solution jumps out at them, fully formed. But we all need to build the right tools together. Mistakes will be made, but over time, fewer mistakes will happen." The ISO 20022 standard, a single standardisation approach (methodology, process, repository) to be used by all financial standards initiatives, will help, says Schmidt. "Over time, corporate treasurers will be able to leverage information in a common format. Reporting standards will also help."

Schmidt says banks are focused on determining their corporate clients' Scope 3 emissions – indirect emissions that occur in the upstream and downstream activities of an organisation, such as purchased goods and services, business travel, waste disposal and transport and distribution. This will provide an opportunity for banks and corporates to move to more sustainable supply chains, he notes. "As more corporates start reporting and more banks assemble that data, more informed discussions will take place. A bank can use this as a 'matchmaking' opportunity, introducing corporate clients to more ESG friendly suppliers, which will help them to reduce their Scope 3 emissions," he says.

Tackling ESG rules and regulations will require a collaborative approach, with the ideal being dialogue between regulators, banks and corporates, he adds. Like Glendinning, Schmidt says there is a lack of clarity about the most appropriate framework for Scope 3 reporting. "I think there is an opportunity for transaction banks to shine here – they have the data and risk analysis capabilities that can give a global view of ESG. Banks cannot compel their corporate clients to act in a certain way, but they can certainly help to influence them."

Schmidt believes ESG reporting and compliance will require an "iterative approach" and there should be a "certain level of forgiveness for corporates and banks as they are trying to do the right thing, but maybe not in the right way to begin with".

Recognising that ESG compliance is "just another data exercise" and part of larger initiatives to improve data quality and usage will help corporate treasurers to recognise that they "have the muscles they need and most of the tools to drive the right insights – insights that they can act on," says Schmidt.

Regulation and legislation are focused on achieving a particular objective and regulators are not necessarily concerned with how user friendly a regulation might be for the people out there, notes Glendinning. "Compliance can be difficult for corporate treasurers because most regulations are not designed or driven by treasury to start with. Yes, treasurers are all about compliance, but they also face practical issues such as getting cash from A to B. This can be very challenging."

On a more optimistic note, Da Costa reflects that the European Market Infrastructure Regulation (EMIR), which laid down rules on over-the-counter derivatives, central counterparties and trade repositories, was "very painful" for treasurers to comply with. However, EMIR compliance procedures now run automatically in the background at most treasury departments. "Many of these regulations were quite intrusive for treasury departments but they have delivered strong benefits to treasury, ensuring controls are robust and fit for purpose." ■

Corporates shift gears with mental health

Working remotely, changing expectations and greater awareness all mean that organisations are doing more to ensure the good mental health and wellbeing of their employees. However, stigmas remain and there is still plenty more that corporates could be doing.

Good or bad, it's something we all have – whether we are aware of it or not. Mental health is something many individuals are better at managing, and now organisations are paying more attention to what they can do for their employees.

Although there is still a stigma surrounding mental health, corporate attitudes are changing. Alistair Carmichael, Expert Associate Partner, People and Organizational Performance Practice and McKinsey Health Institute leader at McKinsey, comments there has been a real change in recent years. "The conversation today is different to what it was five years ago. Today, organisations increasingly recognise the importance of addressing mental health as a critical component of overall wellbeing, benefitting both employees, employers and society at large," Carmichael tells Treasury Today Group.

Carmichael adds that the pandemic – and its accompanying growth in remote and hybrid working – has driven some of the change. He refers to research by the McKinsey Health Institute that found that in the UK, 27% of employees reported experiencing burnout symptoms in 2022. "Many employers responded by investing more into mental health and well-being than ever before. Across the globe, four in five HR [human resources] leaders report that mental health and well-being is a top priority for their organisation," Carmichael says.

The pandemic accelerated a growing awareness of mental health, says Bernie Wong, Principal and Senior Manager of Insights, at Mind Share Partners, a non-profit in that US that is focused on workplace mental health.

At the same time there has also been a shift in attitude on the part of employees, who are now re-evaluating their priorities after the pandemic, which forced them to work differently. Wong comments on the other issues they face: "Workers are struggling with costs of living, income inequality, layoffs, forced returns to offices, and still a lack of autonomy, flexibility, and work-life balance," all of which is driving a shift in their relationship to work.

What's more, organisations are expected to be providing an environment that is conducive to good mental health and wellbeing – and the younger generation that is coming into the workforce expect it. Frank Ng, Vice President of Marketing for Intellect, an Asian mental healthcare company that provides access to coaching, therapy and a self-care app, comments that most 20-year-old to 40-year-olds expect a company's employee value proposition to include mental health wellbeing and support, he says.

Mental health in Asia

Although the younger generation are putting a different emphasis on mental health, and making greater demands of their employers, there are some trends in Asia that make the handling of mental health different from other regions. Quintus Lim, Associate Director at the Milken Institute's Asia Center and author of the 'Framing the Issues: Digital Mental Health in Asia' report, comments, "Stigmas and lack of awareness are very strong across Asia, including developed countries." One issue is a generational divide between the younger generation and their elders who typically grew up poor. "Diligence is identity, whether or not one derives purpose and fulfilment. This can create a lack of sympathy towards the younger generations, exacerbated by superstitions and their own lack of education," Lim explains. The upshot of the stigmas and lack of awareness is inadequacy, he says, with long waits for brief consultations.

The cost and speed of mental healthcare are problems that Ng and his colleagues at Intellect are solving. "If it is affordable it can take a long time to get an appointment with a psychotherapist. Or if an instant appointment is possible, it is extremely pricey," he tells Treasury Today Group. Intellect tackles both of these problems at the same time, he comments. The platform can be incorporated into a corporate benefits scheme and opens up new standards of access, such as same week appointments with fully-vetted counsellors. "We want people to get help as fast as they need it – if you are in crisis you cannot wait," Ng adds.

Solutions to Asia's mental health problems are possible because of the technology that is now available. Ng argues that the nature of the problem has not changed – the need for mental healthcare was always there – even before the pandemic local institutions in Singapore, for example, were overwhelmed. "The problem has always existed, but the attitude from employers has changed – before they viewed this as something that the employee could deal with themselves. Now they're more likely to think 'I am providing physical health medical benefits, why not mental health?'," Ng says.

A Big Brother solution?

With the shift to companies – rather than only individuals – taking action with mental health, it raises the question of whether corporations are going too far? Is this a bit too much like Big Brother, where an all-powerful entity watches and controls every move – and even every thought? Should mental health be the concern of companies and not just individuals? McKinsey's Carmichael thinks it should be. "A mentally healthy workforce is more productive, creative and better engaged. When organisations prioritise mental health and leaders role model genuine care, productivity and performance are boosted," he says.

Wong comments on the connection of work to mental health, and the role that employers have taken: "Historically, employers approached mental health as an individual health issue. 'We'll connect you to therapy, we'll give you a meditation app, we'll even throw in some days off to help you figure out your mental health issue', without understanding the core foundations that underlie mental wellbeing – that is, work itself." Wong at Mind Share Partners adds: "Work itself determines our mental wellbeing. So much of our lives are tied to work – our salaries, access to healthcare, how we schedule our days, our life education and life aspirations. Burnout itself is fundamentally rooted in poorly managed working conditions and work culture as defined by the World Health Organisation."

When companies have attempted to address mental health issues with certain benefits or services, they often haven't been used because of stigmas and discomfort about the prying eyes of their employers into their personal thoughts and feelings. Lim at Milken Institute comments that one of the issues in Asia is the low uptake of programmes that employers have traditionally offered. "Employees avoid employee assistance programs to avoid detection – the uptake was in the single digits," he says.

On the Big Brother question, Ng comments that is linked to a dilemma that organisations have faced in the past. He explains that traditionally many organisations have had in-house psychologists to help their workforce, for example in hospitals, or the aviation industry. However, doctors or pilots may be unwilling to seek support during a work crisis when the professional is a fellow colleague – they may fear being recognised or their confidentiality being breached. For that reason, many companies now are keen to establish such services through a third-party provider, says Ng.

Action for corporates

Even when companies do put programmes in place, it can be difficult to get their employees to use them. This is in part due to the stigma surrounding mental health and the unease that managers have discussing it, and the reluctance of employees in bringing it to their attention. Also, some employees may not be aware that the services exist. There are many steps, however, that organisations can take to improve the mental health and wellbeing of their employees.

When it comes to improving access to services, Lim offers some recommendations to organisations. Lim comments that there are a number of things that large companies can do to improve the wellbeing and mental health of their employees. He says the 'look and feel' matters if wellbeing initiatives are being wielded as a competitive advantage. "Does the space feel safe to employees? Are they perceiving privacy and anonymity?" Lim asks. Also, he advises companies to "obey the spirit of the intervention". He has more questions that organisations can ask themselves: "Are wellness sessions held on company time, or are employees made to wake up early/work overtime afterwards? Have effective steps already been taken to reduce overwork? Are employees convinced these efforts are sincere?"

Wong believes that a back-to-basics approach is necessary. "Therapy is table stakes. Perks are exactly that – simply perks. To truly shift our growing mental health crisis, we need core, human needs addressed, like liveable wages, protection from harm, and a voice for workers. We need safety and support around mental health. And we need healthy, sustainable cultures of work," he says.

Also, it is important for employers to be focused on solving the right problem. "I've seen employers provide meditation booths for workers who don't have the time to use the bathroom," says Wong.

Wong argues that companies should prioritise two things, the first of which is a culture of safety: "The ability for someone to not only share and seek support should they experience a mental health challenge of any kind, and also show up as their genuine, authentic selves. That includes conversations around mental health stigma and around identity, equity, inclusion and belonging." The second priority, says Wong, is a healthy and sustainable culture of work – which is where most companies fall short. "This means true work-life balance or integration. Autonomy, or the ability to self-determine, the where, when, and how of work, along with flexibility. And this also means recognition for the work you put in, fairness around work practices, healthy communication practices and more," he says.

He also adds that employers need to stay the course on diversity, equity and inclusion. He points to studies conducted by Mind Share Partners that found that historically marginalised identities at work faced worse mental health outcomes, were more negatively impacted and less supported by their workplace, and, as a result, less engaged.

Ng at Intellect also points to the need for organisations to consider all types of workers when they offer mental health services and not marginalise their employees. Benefits should be available to everyone not just full-time employees or more senior white-collar workers. Part-timers, contract staff and others should all have equal access to the services, Ng says.

Where companies do offer services and programmes, Lim at Milken Institute says it is important for their effectiveness to be monitored and outcomes being measured. Carmichael at McKinsey also says it is important to improve how employee health is measured and says organisations should regularly engage employees and measure mental health to get a real-time snapshot of employee wellbeing.

Also, Carmichael says, "A one-size-fits-all approach doesn't work. Organisations need to prioritise foundational levels of support and provide tailored assistance for individuals. For example, a simple but effective way of doing this is asking employees what support would help them."

As well as this, there are plenty of opportunities for leaders to drive material change, Carmichael says, such as effectively addressing toxic behaviours. This involves "taking the courageous step to take an honest look at your workplace behaviour and cultivate supportive, psychologically safe work environments." ■

Taking note of payment preferences

Banks may be pushing digital transactions but for many businesses cash remains king.

Advocates of a cashless society would do well to remember Mark Twain's famous quote upon learning that his obituary had been published and acknowledge that the demise of cash has been greatly exaggerated.

UK Finance's latest payment markets report shows that the number of cash payments made last year was almost 7% higher than in 2021 as fears about inflation and the rising cost of living encouraged greater use of cash as a way of managing budgets.

More than 70% of respondents to a YouGov/Payment Choice Alliance survey conducted in June supported making it a legal requirement for businesses to accept cash.

The ECB's December 2022 study on the payment attitudes of consumers in the euro area notes that cash remains the predominant payment method at the point of sale and for person-to-person payments in the Eurozone (used in 59% of transactions).

These figures should come as no surprise since nervous consumers have turned to cash in the past. In the month after the bankruptcy of Lehman Brothers in September 2008, for example, the net value of euro banknote issuance was equal to the total for the previous 12 months.

It is perhaps ironic that Sweden has been in the vanguard of cashless payments given that it was the first European country to issue bank notes.

The Swedish central bank's 2022 payment report notes that 34% of the consumers surveyed had paid with cash in the past month, down from 50% in 2020 and 79% in 2016. Only 8% paid in cash for their most recent in-store purchase compared with 40% in 2010.

However, the report also acknowledges that not everyone has access to digital payment and that the ability to buy vital goods and services using cash must be protected.

Dr. Martens accepts cash in all its retail stores in the UK and EMEA. But when the company decided to open its first retail store in Stockholm it was deemed an ideal location for conducting some on-the-ground research around retail payment methods and preferences.

"Sweden is one of the few economies that has moved rapidly towards cashless – in fact, it is almost there," explains Mark Hirst, Group Treasurer, Dr. Martens. "However, after canvassing a large population of retailers in Stockholm, we decided to launch with cash on opening and monitor usage/uptake for the first three months."

He observes that the cost of accepting cash in Sweden is an extreme outlier – in other words, it is off-the-scale expensive when compared to other payment methods.

Hirst says Dr. Martens is having an internal dialogue with its retail colleagues about moving towards cashless in markets where non-cash payments are well established and cash is not mandated by local regulations or legislation.

"At the moment we are undecided about whether to launch cashless in markets that allow it, such as the UK and Sweden," he says. "We believe in giving customers choice at the checkout and often customer behaviour is a reflex when it comes to payment. They will express a preference for a particular payment method and while we see cash declining in all stores year-on-year, we wish to avoid creating negative friction for customers when it comes to their checkout experience."

Hirst also makes the point that a degree of friction is positive and can be deliberately inserted or engineered to serve a purpose or use case, such as the additional information provided at checkout on fees relating to BNPL.

"It is becoming increasingly difficult to work with banks and security companies when it comes to handling and processing cash," he adds. "Bank branches are closing and security companies are unreliable due to staff shortages. Costs are rapidly increasing and we are finding that many banks can no longer be bothered with the hassle of dealing with cash."

Patricia Arvanitakis, Global Head of Cash Management at CA-CIB agrees that individuals want to have the freedom to choose how they will pay for transactions.

"Clients with retail activities have the greatest need for cash handling services and it is quite painful for them since it is only a very small part of their cash flow but they have to pay a lot for the service," she says. "A cash handling policy is critical for businesses to maintain accurate bookkeeping and minimise the risk of waste, fraud and abuse."

Bank of America refers to two trends in the US that are related to the current inflationary environment. The first is an increase in the average value per deposit, and the other is an increase in demand for solutions that reduce costs and provide security for employees who handle cash.

"This has accelerated the movement of cash handling services away from branches to smart safes, or cash vaults and cash automation solutions," says Liba Saiovici, Head of Global Receivables at Bank of America. "Cash vaults and cash automation solutions support large transactions and as average deposit value goes up, these solutions become more cost beneficial – especially when considering wage inflation and higher fees for armoured carriers."

She says the bank works with business customers to find the best solution for their cash handling needs, taking into account the cost of transporting cash to a branch versus the cost of alternative deposit solutions, the value of deposits, the need for change orders, security considerations and the hours of operations of the client's business.

Responding to consumer demand for cash payments while also reflecting the growth of other payment methods is an important challenge for NatWest according to Chief Payments Officer Mark Brant.

"Though the cost of living will certainly be contributing to some customers using cash, we expect cash to remain a vital payment method over the longer-term," he says. "Recent customer research we have undertaken shows that its use is sustained across a broad range of income and age groups, challenging conceptions about cash users."

NatWest's cash handling services differ according to the type of customer. Large national retailers arrange for deposits to be securely transported directly to its cash centres, whereas the bank offers cash centre solutions for smaller customers including 'Bank to You', a collection and delivery service which negates the need for customers to contract separately with cash carriers.

Simon Kaptijn, Director Cash Advisory & Structuring at ING Transaction Services refers to regional variations within Europe, with higher demand for cash handling services in southern and eastern Europe.

It is important to note that while some countries might have realistic aspirations to become almost entirely cashless, cash is still extensively used for in-person payments in major markets such as North America.

However, all these markets face similar challenges in terms of banks reducing the number of branches they operate and not wanting to handle cash deposits in those branches that remain open while maintaining a high level of service for their business and commercial clients.

This was one of the factors that led Clip Money to develop a network of self-service kiosks in shopping malls, big box stores and grocery chains across North America where businesses can make deposits to any bank account using RFID embedded deposit bags with a unique code without having to visit a bank branch or use a cash pick-up service.

"We have developed the only multi-bank deposit system in North America, enabling businesses to deposit and receive next day credit into their bank account of choice," explains Joseph Arrage, CEO at Clip Money. "Prior to this, business customers of a particular bank would have to either make their deposit in-branch or use an armoured carrier service, which is an expensive, long-term commitment."

With a shared system, multiple businesses can make deposits to accounts in many different banks. This is important because the fragmented nature of the US banking market means large companies could have hundreds or even thousands of separate accounts across many different banks, a set-up which is costly and difficult to manage.

Customers can assign permissions to employees authorised to make deposits and make changes to these permissions via an online dashboard. They also receive reports if a store does not make a scheduled deposit.

Clip recently signed a partnership agreement with NCR that will make its services available across over 2,500 ATM locations. "This is an important milestone for us because we are on a mission to build the largest deposit network in North America," says Arrage, who is keen to stress that the company is partnering rather than competing with banks.

"Our deposit network reduces bank cash processing costs per transaction, which is important because as cash usage declines, the unit cost of delivering cash handling services will rise," he adds. "It also accelerates business cash flow as funds are secured and processed once the money has been deposited."

Zennan Green, Global Director of Thought Leadership & Content at cash technology solutions provider Glory Global Solutions, agrees that there will always be people who want (and need) to use cash.

"In the current environment people are turning more towards cash as a budgeting tool to help them keep track of spending," he says. "This is especially true for smaller value payments in convenience stores, grocery and discount stores and food service outlets, but we also see high levels of cash usage in pharmacies and even among some of the clothing chains."

One of the reasons why businesses seek to reduce the amount of cash they take in is that it is effectively worthless until they can get it banked and release the liquidity, which is why having access to a bank branch locally is so useful.

"Banks need to scale and right-size their branch networks to match the volume of the business going through them, but that can make it harder for businesses to bank their money quickly," says Green. "One solution that reduces the impact of unbanked cash is local cash recycling. Enabling consumers to access cash over the counter means businesses can offload some of the cash they have taken. Not only can this help to reduce costs, but it can also help with access to cash and increase the circulation of money in their communities, especially where access to bank branches or even ATMs may be limited."

Enabling consumers to access this cash creates a local cash cycle, increasing the 'velocity' of cash between each transaction by reducing the time, costs and distances compared to moving cash between businesses, banks, cash centres and ATMs. Such a local cash cycle also brings associated environmental benefits.

"We have also seen the emergence of shared infrastructure solutions such as OneBanx, Clip Money, and services offered by post offices, which allow customers to deposit and withdraw cash regardless of which bank their account is held with," says Green. "In addition, many of these facilities are available outside regular bank opening hours, making them more convenient for businesses." ■

Transaction banking in Asia

What do corporates in Asia want from transaction banks?

Jason Teo

Head of Treasury SEA
LOGOS Property Group

The key things we look for and evaluate in our transaction banking relationships include the bank's overall relationship with the company beyond just the treasury team. We also evaluate our transaction banking partners ability to help us open accounts; partners' KYC processes and escrow account set up and fees. We look for ibanking platforms and the availability of intuitive dashboards to support cash management/visibility and lastly, we consider our banks' concentration risk, account related fees and availability of interest-bearing current accounts.

As a group, we open multiple bank accounts in different jurisdictions across ten countries with strong focus in APAC for the purposes of land or company acquisitions, setting up ventures, limited partnerships and project SPVs. We are seeing more stringent requirements from banks in areas of compliance due to respective in-country regulatory issues they must adhere to, particularly around enhanced KYC/UBO/source of funds. We do often find the regulatory challenges of doing business conflicts with the ease of opening accounts.

We have more than 40 transaction banking relationships and would like to rationalise moving forward for ease of operation. We do hope our transaction banking partners could offer platforms around consolidating KYC, compliance and support us in mitigating regulatory issues. We also need international banking partners that are prepared to bank with us regionally, going into new uncharted territories which may potentially present more risks. Cognisant of the fact not all banks are prepared to step foot into every market, we still wish for a holistic advice from our banking partners in new frontier markets as the company expands further in AI (ASEAN + India).

At LOGOS Group, we have a high-performance lean treasury team and we speak to most of our bankers on a daily basis. Not all correspondence is formal, some communications could be on WhatsApp, where we might have conversations around waivers or discounts, or pre-emptive approvals. In the past, we haven't looked for specific support around cash management and liquidity from our transaction banking partners, but this will change as treasury centralisation has its benefits for the entire group. In previous treasury roles I've held, cash management/liquidity was a priority, hence the capabilities of banking partners supporting cash/notional pooling, yield enhancement products, payments gateways and technology integration to company's ERP are some of the key considerations.

The next wave in transaction banking support for corporates will be around instant payments and facing non-bank counterparties with the advent of Fintech and Techfin players as industry disruptors. There is still a lag in corporates' ability to transfer funds immediately. Technology is also a key area of support, for example around seamless integration with APIs and open banking concepts. As we progress along the automation journey, both banks and corporates will benefit from the efficiency and thereby, reducing operating costs in the long run.

Tim Lee

Head of Transaction Banking
Greater China
BNP Paribas

Managing working capital remains the key focus for corporate treasuries in Asia Pacific. The current fast evolving interest rate and foreign exchange environment poses a unique challenge for multinational corporates in the region, where they have to ensure access to adequate cash levels to fulfil day-to-day working capital requirements across a diverse range of fungible and restricted currencies.

At BNP Paribas, we work with many European companies trading in Greater China and Southeast Asia, using Hong Kong as a procurement hub. The pandemic and various geopolitical tensions in recent years have prompted many companies to rethink their business resilience and supply chain strategy.

Across the retail and manufacturing sectors, businesses must manage the higher commodity prices and longer inventory holding period. We work with them to provide the appropriate trade and supply chain financing to bridge their working capital needs and secure the buyer and seller relationship. Many corporates are investing in expanding their manufacturing base beyond China. Looking across the region, Indonesia and Vietnam are popular options because of the availability of cheap labour and lower costs.

With the divergence of interest rates across different currencies, treasurers are seeking opportunity to optimise the overall borrowing cost and limit foreign exchange exposure. For example, many exporters are increasingly opting to keep and manage their USD receivables in Hong Kong to take advantage of higher yield and borrow in RMB.

Hong Kong is also a financial hub for Chinese corporates accessing offshore liquidity through debt and equity capital markets. Effectively managing cash flow and liquidity, onshore and offshore, is critical for these companies. To support their international expansion, we help these corporates set up cross-border cash pooling structures and roll out treasury integration projects to provide better visibility and control of their working capital across entities and geographies. Looking beyond Greater China, the shift to real-time payments in many Asia Pacific markets has prompted treasurers to devote more resources to integrate and automate their treasury operations. We are constantly in conversation with our clients, working with their IT teams and fintech companies, where required, to co-create pragmatic solutions that meet the unique needs of their business. For many corporates, ESG has become an operational imperative. Here in Hong Kong, we are deeply involved in rolling out sustainable supply chain finance programmes for our clients who are mostly international retailers. This involves close collaboration with their finance, procurement and sustainability teams, to first define KPIs, gather data and analyse their supply chains. We then develop a structured outreach programme to their suppliers to educate them on sustainable practices and bring them onboard. In this region, businesses have varying degrees of maturity in their ESG journey. Sustainable supply chain programmes can help address a business' scope 3 emissions, and I believe banks like BNP Paribas have an important role to play in supporting our clients' transition journey.

Aditya Gahlaut

Co-Head of Global Trade and Receivables Finance,
Asia Pacific
HSBC

Manoj Dugar

Co-Head of Global Payments Solutions,
Asia Pacific
HSBC

On the trade side, supply chains continue to evolve. More corporates are adopting "China+1" and diversifying to other countries in the region. This plays to HSBC's strengths as we are present in 19 markets in the Asia Pacific region. We are, for example, able to help Chinese corporates set up either directly or via joint ventures in markets such as Vietnam, Thailand, Indonesia and the Philippines.

There's also a growing demand from our corporate clients to help support their supplier ecosystem. In the past, efficiency was the biggest factor when choosing suppliers, but now it's a combination of efficiency, resilience and sustainability. Corporates are looking to build more strategic relationships with their suppliers, which includes requesting banks to put in place supply chain finance (SCF) programmes both for pre- and post-shipment needs of the suppliers. This is great for transaction banks such as HSBC to come in and make our banking relationships stickier. SCF, which was a push product for us when we started offering it about nine years ago, has become a pull product. Pre-covid, we managed about 150 SCF programmes; that figure has since grown to about 480. These programmes give us access to nearly 40,000 suppliers and represents a huge opportunity for us not just to provide post-shipment finance but also to support them on their procurement and manufacturing requirements.

Sustainability is another emerging use case of SCF that expands the programme's benefits to support the client's sustainability or CSR objectives. Our clients are spending time with their suppliers to determine the best KPIs, putting in place supplier-tiering criteria to support their sustainability objectives, while banks such as ourselves, are supporting them by incentivising suppliers through differentiated pricing based on their achievements against these KPIs. Sustainable supply chain finance is another example of how companies are building more long-term, strategic relationships with their suppliers.

On the payments side, higher-for-longer interest rates have underscored the importance of working-capital optimisation. Companies need to ensure they have good visibility of their underlying liquidity so they can reduce their debt level and enhance the yield on their balances. Technology such as APIs can help companies access real-time information on their balances, which also supports the liquidity piece Meanwhile, real-time or on-time treasury has become a reality as companies move away from the batch-based processes of old. Asian corporates are increasingly investing in TMS and ERP systems and over the past 12-18 months we have seen growing client interest in treasury centralisation and optimisation – as well as the use of technology to streamline processes.

We are supporting clients as they roll out online commerce strategies, which capitalise on the proliferation of real-time payments and allow them to grow their customer base. We are also helping our clients monetise their payments data, using real-time information to improve efficiency and fine-tune their strategies. For example, greater insights into transaction flows, supplier concentration or FX risks provide opportunities to improve treasury management. In forecasting as well, the use of data helps corporate treasurers to better analyse receivables and payables and optimise working capital and allow immediate reconciliation to manage liquidity risk. ■

Next question:

"How will AI change treasury – where is it used in treasury now, and where will it be used in the future?"

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

Why a polycrisis means more downward pressure on asset prices

The highly prolific economist and historian Adam Tooze popularised the concept of 'polycrisis', referring to a complex and simultaneous accumulation of economic, (geo)political, socio-cultural and/or ecological crises.

Tooze mainly uses this concept to describe the period following the 2008 financial crisis, when the world was faced with a host of challenges:

- **Financial crisis:** the 2008 crisis and subsequent recession were at the heart of the polycrisis as they severely disrupted the global economy.
- **European debt crisis:** this crisis started in 2009 with countries such as Greece, Ireland, Portugal and Spain experiencing enormous debt problems and financial instability.
- **Geopolitical tensions:** these have risen sharply, with conflicts in, for example, Ukraine and the Middle East, and mounting frictions between great powers.
- **Migration crisis:** the flow of migrants and refugees into Europe created another dimension of the polycrisis, with challenges in terms of humanitarian aid, social cohesion and political turmoil.
- **Climate change:** the consequences of climate change and the (lack of) response to it pose serious threats to the planet and global economy.

The concept of polycrisis stresses the interconnectedness of crises and how they reinforce each other. Combating a single crisis is difficult enough, but dealing with multiple, simultaneous crises poses an extraordinary challenge for governments, companies and society as a whole.

Far from unique

Tooze sometimes makes it seem as though this multitude of interlinked challenges is unique to the world, but this is certainly not the case. For example, books were published recently on Germany in the year 1923. If there ever was a polycrisis somewhere and in a certain period, it was there and at that point in time: the speed and multitude of interacting crises resulted in widespread confusion and uncertainty. In the space of one year, Belgium and France invaded the Ruhr area, inflation turned into hyperinflation, major social unrest erupted, politics was in turmoil, separatist movements seized their opportunity and Hitler initiated a failed coup.

According to historian Charles Emmerson, these events teach us a few lessons:

"Crisis breeds crisis; democracy is hard work; scapegoating needs to be addressed early; norms, once broken, are hard to repair; the socio-economic effects of inflation can be deadly. And, when a large portion of the population questions the fundamental legitimacy of a regime, that regime is inevitably at the mercy of events."

Examples of this are clearly visible nowadays:

- The financial crisis of 2008/2009 partly laid the foundation for far-reaching polarisation, doubts about the economic model of the US/the West, the rise of Trump, etc. These developments, in turn, helped give Putin the idea that he could invade Ukraine, with last year's further escalation of the war triggering another inflationary shock, and so on.
- The storming of the Capitol was partly due to Trump turning his supporters against moderate politicians.
- Political developments in the US, India, Hungary and Turkey, among other countries, reflect that democracy can never be taken for granted.
- In Argentina and Venezuela, for example, massive inflation is partly responsible for the fact that 40% and half of the population, respectively, live in poverty, while the societies of these countries have become disrupted.
- The most urgent macro question investors and companies are asking themselves is whether the global economy has landed softly with ongoing growth and a (persistent) decline in inflation, or whether we will experience a crash with potentially deep recessions in the West.

The answer to this question largely depends on the effects of monetary policies of major central banks.

However, the economic outlook also depends on the interplay of problems and challenges with which policymakers, companies and the rest of society are grappling, including geopolitical tensions, impending brakes on free trade, climate change, the costs of the energy transition, populism and political polarisation.

A rude awakening

Governments are now in for a rude awakening in at least two areas:

In recent years, 'mainstream' politicians have been fully committed to the energy transition and addressing climate change. People were constantly told the green transition would be accompanied by jobs and wealth creation. However, the transition costs were often conveniently ignored: the switch to green energy will initially cost vast amounts of money and people who lose their jobs in traditional, polluting sectors will not immediately be ready for a job in the 'green' sectors. In this context, Gideon Rachman aptly quoted an anonymous activist: "They talk about the end of the world. We are talking about the end of the week." This has also dawned on politicians, because climate and energy targets worldwide have been adjusted downwards.

Free trade is another area in which policymakers are adjusting their policies. For many decades, especially the positive aspects of free trade have been emphasised and overestimated, the costs of tariffs and so on have regularly been overestimated, while multinationals have been able to play countries and workers off against each other.

At this point, steps are being taken to revise the assumptions of free trade models – eg the unrealistic assumption that employees who are dismissed in 'old' sectors can easily be employed elsewhere in promising sectors under the same (or even higher) wages. In addition, attempts are being made to focus more on externalities, such as environmental damage.

Darkening skies

The aforementioned developments were reflected in strikes in the US automotive sector, for example. The situation of employees in this sector had generally improved only marginally in real terms and they fear Chinese EV competition (in any event, building an EV will require less labour than building a car with a combustion engine). Companies, on the other hand, have engaged in large-scale share buybacks, have made mega profits and the situation of top executives has improved by 40% in the last few years. It would not be surprising if a shift from profits to wages materialised, partly due to political pressure.

Moreover, the US and Europe are taking more initiatives to raise corporate taxes in order to pay for social services, defence, and so on. Governments will have to seek new/other sources of revenue, as financing costs have increased due to the sharp rise in interest rates. As a result, companies are being hit from several sides: higher wage costs and a higher tax burden. At the same time, global economic growth will probably remain fairly low. Furthermore, even if they wanted to, central banks are barely able to provide stimulus. Indeed, despite the downtrend, inflation is still high in many territories. The factors that exert downward pressure on growth will ensure the economic pie will not grow, or it will grow far less rapidly than many countries were used to.

As a result, fiscal policy is increasingly becoming a zero-sum policy, certainly because the easy way out – additional borrowing – entails more and more drawbacks (in the form of higher interest charges and crowding out effects). This will continue to lead to social tensions and considerable political struggle over budgets and it will produce economically suboptimal outcomes. After all, the pockets of society that are becoming more dependent on government money are increasing in many countries and political parties will be more likely to listen to these groups for electoral gain. This will ultimately result in higher taxes for other groups – such as companies and the wealthy – or on imports. This will make entrepreneurship, domestic investment and trading less attractive, which means the economic pie will grow even less.

In short, the political, social and economic climate for shares does not look particularly favourable. However, the situation is not hopeless, because, in the long-term, productivity growth will increase considerably as a result of AI and robotisation. Until then, however, we expect more downward pressure on asset prices. ■

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