treasurytoday

research | insight | analysis

January/February 2024

China+1 landscape takes shape

Many corporates have pursued China+1 strategies. Now, post-Covid a new landscape of beneficiary countries has taken shape.

The Corporate View

Jason Teo

Head of Treasury, South East Asia

LOGOS Group

The year that was

Treasurers reflect on lessons from 2023.

Regional Focus

Treasury in Latin America

Regulation

When regulation becomes an opportunity

Risk Management

No room for FX complacency

Technology

The treasury implications of Q-day

treasuryinsights
research | insight | analysis

stay connected

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

Subscribe now:
insights@treasurytoday.com

treasurytoday.com

treasurytoday

treasurytoday.com
Volume 26/Issue 1
January/February 2024

Publishers
Meg Coates & Sophie Jackson

Head of Events and Projects
Sarah Arter

Senior Advisor
John Nicholas

Editorial
Sarah Rundell

Head of Production & Client Delivery
Samantha Collings

Digital Content Manager
Joanna Smith-Burchnell

Senior Designer
Vicky Scott

Project Assistant
Rebecca Chapman

Founder & Director
Angela Berry

Chair
Richard Parkinson

Switchboard	+44 (0)13 0462 9000
Publishing	+44 (0)13 0462 9017
	+44 (0)79 3943 6343
Memberships	+44 (0)13 0462 9013
Advertising	+44 (0)13 0462 9018
Editorial	+44 (0)13 0462 9003
Production	+44 (0)13 0462 9019

© Treasury Today ISSN 1466-4224

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

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

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

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

Preparing for volatility

Weaving the different threads from the articles in our latest edition together reveals one common seam: risk – and how to navigate it. A fitting topic in our first edition of 2024, a year that could hold more uncertainty than most. War continues to rage between Israel and Hamas and Russia and Ukraine. It's the biggest election year in history with voters going to the polls in countries including the US, Germany, the UK and India. And it remains to be seen if economies will experience a hard or soft economic landing, and to what extent corporate earnings are pounded. It's an uncertain backdrop for companies developing new operations in China plus 1 and 2 strategies in countries like India and Mexico, the focus of our Insight & Analysis feature.

This edition's FX piece explores navigating volatility with hedging strategies with insights from the treasury team at Save the Children and California-based medical products group Intuitive Surgical. Success depends on a good understanding of cash flows and forecasts, and dynamic, managed hedging programmes.

Quantum computers may still be five to ten years away, but a new year marks another step towards the arrival of a technology able to crack the encryption that keeps the internet safe. Such is the threat to cyber security, companies with valuable data, IP or manufacturing processes should prepare now. Treasury Today interviewees urge corporates to get across the cost of upgrading encryption; choose partners and consultants now and trial emerging solutions.

The risk of technology also brings unprecedented opportunity. In our Question Answered feature Onkar Liddar, Assistant Treasurer & Managing Director, Accenture enthusiastically endorses AI in treasury, explaining how the management consultancy has used AI to develop an intelligent cash tool. The treasury utopia of instructing AI to carry out transactions like exchanging a currency or increasing a bond offering, and manage the accounting in the background, is just around the corner.

Finally, for all the unknowns ahead, treasury preparedness for 2024 is captured in our cast back to lessons learnt in 2023. We speak to three treasurers well prepared for whatever lies ahead. Like Singapore-based Jason Teo at LOGOS Group, this edition's Corporate View who explains how he started his career in branch banking.

IN THIS ISSUE

INSIGHT & ANALYSIS 4

China+1 landscape takes shape

Multinationals have been pursuing China+n strategies for a number of years in a bid to reduce their reliance on China. Now in the post-Covid era, many of those strategies remain and a new landscape of beneficiary countries has taken shape.

TREASURY TODAY 8

2023: the year that was

From implementing new technology systems to navigating extreme weather events, treasury professionals from Marsh McLennan, Aliaxis and General Mills discuss their achievements in 2023 and their plans for the year ahead.

REGIONAL FOCUS 14

Treasury in Latin America

Treasury in Latin America presents numerous challenges, from volatile exchange rates to disparate economic conditions. Industry experts explain how treasurers are addressing the challenges, embracing instant payments and enhancing their processes with technology.

TECHNOLOGY 16

Q-day: why it's time to get quantum ready

Companies with valuable data, IP or manufacturing processes should prepare for Q-day now. That means understanding the value of their data, choosing partners and consultants, and trialling emerging quantum-safe solutions.

REGULATION 20

Regulation in ASEAN

The regulatory landscape in Asia is complex, fast-changing; often ambiguous and requires robust internal treasury systems. But meeting the region's regulatory challenges is an opportunity for treasury to excel at cash management, secure tax benefits and cost-saving efficiencies.

TREASURY ESSENTIALS

Treasury Insights 7

Question Answered 22

Market View 24

11

The Corporate View

Jason Teo
Head of Treasury, South East Asia

LOGOS

Jason Teo at LOGOS Group started his career in branch banking and has successfully moved to the other side of the fence – to the buy side, where he is now the one asking for funding.

RISK MANAGEMENT 18

Certainty remains the most valuable currency

The overall negative impact of currency movements for US and European corporates may have declined steadily this year, but there are many factors that could shift this trend over the next 12 months.

New China+1 landscape takes shape

Multinationals have been pursuing China+1, or China+n strategies for a number of years in a bid to reduce their reliance on China. Now in the post-Covid era, many of those strategies remain, albeit for varying reasons, and a new landscape of beneficiary countries has taken shape.

The description of China as 'factory to the world' may soon come to an end, as many other countries in Asia – and the rest of the world – are taking on the manufacturing that was once done in China. For years multinationals have pursued China+1, or China+2 strategies (where they source from one or two other countries aside from China) to diversify their operations. These strategies were put in the limelight during the disruption of the Covid pandemic, and now the long-term effects of such moves are becoming solidified – with a number of countries benefitting from the move away from China.

It wasn't just the pandemic that prompted the shift – worsening US-China relations have been cited by many observers as a driver towards other countries. And the results of that became apparent in 2023 when Mexico overtook China as the largest trading partner of the United States. This has been put down to the impact of increased tariffs on Chinese imports to the US. One consequence of this, note Luis Torres and Aparna Jayashankar, in a paper for the Federal Reserve Bank of Dallas, is that there has been a steep rise in Chinese foreign direct investment in Mexico. Although the share of Chinese investment is very small, it has been rising quickly as Chinese companies seek to get closer to the US market and find a way of avoiding the 'Made in China' label.

There are several reasons why multinationals are moving their operations away from China. Aside from the rising trade tensions between China and the United States, the cost of production has risen as China has become a richer country, which has had a knock-on effect on labour costs. Meanwhile, the impact of the one-child policy in China also means that overall, the workforce is ageing.

For companies that need to nearshore to markets in North America, investing in Mexico makes sense. However, there are many others that are still targeting the Chinese consumer market and wish to continue with their manufacturing in Asia so they get the benefits of proximity to China.

Keeping production in Asia

Chng Boon Huei, CEO of Flexi Versa Group, an electronic manufacturing solutions (EMS) company, notes in a blog that China as the 'world's factory' worked well for many multinationals, and developed markets like the US and Western Europe were keen to outsource production to China instead of doing it themselves. In recent years, however, that has started to change as the costs of doing this increased. And then there was the pandemic, which wreaked havoc on

global supply chains and forced many to reconsider reliance on China. Chng writes that many are choosing a China+1 strategy to reduce dependence on a single market, but it still makes sense for them to stay in the region. "For many global brands China is now also a considerable, and growing, market for their products, so there's a clear need to maintain some manufacturing in the region."

China+1 strategies, or China+n (where 'n' is any number of additional countries that a multinational may choose as an alternative to China) have been in place for many years, but it was the shock of the pandemic that brought them into sharp focus. Sumanta Panigrahi, Head of Trade & Working Capital Solutions, Asia North, Treasury and Trade Solutions, Citi, comments that the supply chain disruptions from the pandemic were unprecedented and had a significant impact on the financial resilience of companies. This has led many corporates to reconsider their supply chains and have less concentration risk. "Coupled with increasingly stringent tariff regimes, geopolitical concerns, and disruptions to shipping lanes, the risks associated with having a concentrated supply strategy in China outweigh cost benefits. Supply chain diversification continues to be a board-driven, secular mitigation strategy being followed by companies," he tells Treasury Today Asia.

China for China strategies

Now that the pandemic is in the rear-view mirror for most companies and countries, the diversification strategies that were put in place during that period remain and it is becoming clear which countries will stand to benefit from this macro shift over the long term. Some observers have commented that in addition to China+1, many corporates will continue to employ a 'China for China' strategy where they continue to maintain operations in the country to support the production of goods that are specifically for the Chinese consumer market. They also point out, that all things considered – such as the level of productivity and capacity of the infrastructure – China is still a very cost-effective place to maintain operations.

The 'China for China' approach, however, has been questioned by observers such as Alex Capri, Research Fellow at the Hinrich Foundation and Senior Lecturer at the National University of Singapore, who argues that the 'China for China' model is now coming to an end. Capri points to the complexities of local regulations for international companies, such as those regarding data security and data privacy, as well as increased competition from local Chinese companies which means that a 'China for China' strategy is no longer viable for some foreign corporates. In a whitepaper published in October 2023 on the topic, Capri writes, "In the 21st century, geopolitics and direct competition with Chinese partners, which by now have grown increasingly sophisticated by indigenising domestic innovation based on foreign know-how, have put the in-China-for-China model under severe strain or even killed it."

The post-pandemic landscape

As these various strategies are employed and post-pandemic landscape takes shape, there are a number of key markets in Asia that stand to benefit from this shift. India, in particular, has emerged as a key beneficiary. Typically, developing economies follow a trajectory of manufacturing and as they increase their GDP [gross domestic product] the economy evolves to other areas such as services, technology or knowledge-based industries. For many years it seemed as if India had skipped the manufacturing stage and opted to pursue the service industry as well as specialising in information technology (IT) instead. A focus on manufacturing, however, seems to be gaining renewed attention in India. At a Milken Institute event in May 2023, Pravin Agarwala, Co-Founder and Group CEO of BetterPlace, a Indian company that provides human resources software, said, "When you're thinking about India as an opportunity, think not only from the IT point of view which is the driving force of course, but think from a manufacturing point of view as well, because that's where the second-largest driving force is going to be."

As well as India, ASEAN [the Association of Southeast Asian Nations] region also stands to benefit from the China+1 strategies as many corporates wish to continue with operations in the region that are still close to China. Mayank Gupta, Head of Trade and Working Capital Solutions, Asia South, Treasury and Trade Solutions, Citi, comments: "We see significant investments into India and ASEAN markets across textiles, semiconductors, automobiles and components, and electronics manufacturing services. As an example, the Apple ecosystem, which was previously largely China-based, has largely been replicated in India."

Gupta also says, "In Asia, India has been a key beneficiary of diversification strategies, along with markets like Vietnam and Malaysia in ASEAN. In some cases, supporting factors for beneficiary markets include proactive government policies and incentives, the availability of skilled manpower and infrastructure, and the ease of doing business."

'Make in India movement'

India has been driving a 'Make in India' push for a number of years, since Prime Minister Narendra Modi launched a campaign in 2014. The prime minister's office states that policymakers have debated for years how to make India a global manufacturing hub and Modi spurred the initiative to facilitate investment, foster innovation, enhance skill development, protect intellecutal property and build best in class manufacturing infrastructure. Now the effects of such a campaign are taking root and India has been described by many observers as having a great opportunity to seize the manufacturing that would otherwise have been done in China. Ajay Banga, the former CEO of Mastercard and now the President of the World Bank, commented in July 2023 on how India had a window of opportunity with the China+1 strategies of companies. "I think India's opportunity currently is to cash in on the 'China plus one' opportunity," he was quoted as saying by Reuters.

This echoes the sentiments of Amit Baraskar, Vice President and Head – Treasury, Thomas Cook (India) Limited, which were expressed recently in a **Corporate View profile** for Treasury Today Asia. He explained that the economic environment is improving in India and the country is back on course – after the pandemic – to reach Prime Minister Modi's target of becoming a US$5trn economy. Baraskar also commented that India is targeting becoming the third-largest economy in the world by 2028. "Slowly and steadily, India is becoming a world leader," he told Treasury Today Asia.

> We see significant investments into India and ASEAN markets across textiles, semiconductors, automobiles and components, and electronics manufacturing services.
>
> Mayank Gupta, Head of Trade and Working Capital Solutions, Asia South, Treasury and Trade Solutions, Citi

The attention on India has also been highlighted in press coverage of key announcements by major manufacturers. For example, Foxconn, the Taiwanese electronics manufacturer which is a major supplier to Apple, as well as Pegatron (another Taiwanese Apple supplier) have stated they intend to move their manufacturing to India. Pegatron, for example, has been steadily increasing its production outside of China and is expected to focus on India and Vietnam as key locations in the future. Pegatron has increased its presence in other countries in recent years – expanding in Indonesia in 2020, Vietnam in 2021 and Mexico and India the year after, according to news reports.

Some news reports point to the potential of India and how it may be able to replace China as 'factory to the world'. Apple has made several announcements about its iPhones and manufacturing in India – for example, some of the production of the iPhone 14 shifted there in 2022. And in December 2023 it was reported that Apple stated its preference for batteries for the iPhone 16 to come from Indian suppliers.

The rise of the 'ASEAN-six'

Meanwhile, elsewhere in Asia, some key markets in ASEAN have also emerged as key beneficiaries of multinationals' shift to China+n strategies. In July 2023, Agnieszka Maciejewska, Associate Director, Models and Scenarios, Global Intelligence and Analytics, and Anton Alifandi, Associate Director, Country Risk, at S&P Global Market Intelligence, wrote about the risk outlook for companies that are moving production to these markets. Initially, they state, corporates moved to China+1 to pursue lower costs but now the motivation is more about diversification and protecting themselves against the negative impact of worsening US-China trade relations. "South-East Asia's proximity to mainland China, its economic partnerships with the US and mainland China, and relative political stability – Thailand being a notable exception – make the region a preferred China Plus One destination," they write.

The 'ASEAN-six' economies – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam – are emerging as economies that are trading well with both China and the US. They are also part of the Indo-Pacific Economic Framework for Prosperity (IPEF) that aims to facilitate trade with the US and encourage US foreign direct investment. "ASEAN countries view their participation in the IPEF as a way to be included in the broader US strategy to minimise its dependence on mainland China," Maciejewska and Alifandi write. And they add, "The ASEAN-six countries are generally neutral toward US-mainland China strategic rivalry and instead seek to maximise economic relations with both countries."

These ASEAN countries are a key part of corporates' China+1 strategy, and the US has encouraged the expansion of its multinationals into the region. ASEAN's trade with China is now greater than that with the US. If ASEAN economies start to lean towards the US in favour of China, however, this could have an impact on their trading relationship with China. Jeffrey Reeve, Associate Professor with the US Naval War College at the Naval Postgraduate School in Monterey, California, writes in a piece for Global Asia in September 2023: "Washington's support for private sector activity in South-East Asia is particularly noteworthy because all the main C+1 [China+1] recipient states – Indonesia, Malaysia, Thailand and Vietnam – are first-tier strategic priority states for the US in the Asia Pacific. While these countries may welcome closer security ties with the US, they are equally aware that such ties could complicate their relations with China."

The Tiger Cubs

Chng of Flexi Versa Group, comments that there has been a resurgence of the 'Tiger Cub' economies – Malaysia, Thailand and Vietnam – which have been benefitting from China+1. As the CEO of an electronic manufacturing company that is based in Malaysia, he has seen this first-hand.

For corporates that opt for the Tiger Cub economies, they are able to effectively diversify away from their dependence on China and they also get the security and the benefits of continuing to manufacture in Asia. He argues the Tiger Cubs have much to offer. "They do not attract the political interest of the rest of the world, and hence are less likely to suffer shifts in tariffs or even trade sanctions. They benefit from their proximity to China and can leverage much of the supply chain used by Chinese manufacturers. They do not have the volatile labour rates of many regions of China," he writes.

The impact on Chinese corporates

It's not just foreign – or non-Chinese – multinationals that need to consider their reliance on China; it's also Chinese corporates that have diversified. This is the case with the increased foreign direct investment in markets like Mexico that overcome the negative impact of tariffs on Chinese imports into the US, for example. As well as Mexico, Chinese companies have also been expanding their operations elsewhere in Asia – much in the same way as other corporates – to markets like India and ASEAN. This was highlighted with companies like Chinese battery maker Desay that have recently expanded to India.

Panigrahi at Citi comments, "Chinese corporates are also diversifying their supply chains with investments in capacity outside of China. Dependencies and efficiencies have been established over decades between multinationals and Chinese suppliers and they continue to be valuable. Hence, the strategy is focused on diversification for resilience rather than completely moving away from China." ■

NETTING FOREIGN EXCHANGE EFFICIENCIES

Digital advertising, marketing and technology services company S4 Capital Group has achieved a large annual saving by introducing a structured, system-based process for managing and settling intercompany activity.

When Christof Nelischer joined S4 Capital Group as Group Treasurer in June 2022 (the first time the company had appointed a treasurer since it was established more than four years earlier after having grown into a billion-pound business) he found a nascent Treasury function. The company had no treasury-specific technology – no TMS, no electronic dealing platform, and no netting capability. Having chosen GTreasury Netting as its intercompany netting solution, Nelischer set about implementing the company's netting programme with an emphasis on speed and follow-through.

"The strategy established our small but nimble treasury team as the business partner within the organisation that handles all treasury activity," he says. "Keeping system access within treasury only in the first iteration eliminated the significant time and cost overhead that organisations usually expend on rolling out any new system through personnel training, managing user access, etc."

The team worked with S4's divisional controllers, who had no previous experience with netting systems, to establish the process for providing intercompany netting information using the upload template format. Within two days those controllers had prepared a data upload, converted to the desired format via a spreadsheet-based tool, that was then uploaded into the netting solution.

"To test the validity of this initial experiment we treated the resulting netting statements as if they were manually created and conducted a manual reconciliation process to check the system's work," says Nelischer. "Virtually no errors were found so divisional management signed off on the statements."

S4 Capital Group's Group Treasurer refers to a uniquely pragmatic and streamlined strategy whereby the company skipped every aspect of project and institutional overhead in the first iteration that would have slowed it down. The netting programme alone leads to the natural elimination of a high proportion of intercompany FX positions, which accounts for the bulk of its operational FX exposure. The net FX position is then traded out to the market by treasury using an electronic dealing platform.

In terms of risk management, the netting cycle makes for discipline in managing positions and reduces risk by shortening and streamlining the process cycle. According to Nelischer, the cost efficiencies of eliminating FX dealing and consolidating FX more than cover the cost of the technology.

"The economics are a no-brainer," he says. "Even if we had changed our mind and pursued a different technology after our first successful runs with netting, we would have been ahead on money and have paid for the education of introducing a programme. It was worth it to spend the money and make progress on implementation very quickly."

Even with conservative estimates, S4 Capital Group reckons intercompany netting delivers savings of £1m per year.

"While the manual work of performing intercompany netting without technology assistance was not fully done here, the impact of our current treasury automation would have been transformative for the workload," adds Nelischer. "If you look at that workload in relation to the volume of data being processed, controlled, managed and reconciled, shifting from manual to automatic would mean major savings."

Daniel Cugni, Managing Director of GTreasury Netting notes that intercompany netting typically reduces companies' transaction costs by up to 70%. "They also save on the spread paid to banks because FX trading is no longer done at the subsidiary level," he adds. "Non-matched FX is aggregated to larger volumes and dealt at better rates by the treasury centre."

Then there are non-financial benefits such as improved communication between entities for matching or disputing invoices and better visibility over future flows, which allows for better management of cash flows and credit lines and feeds into other areas such as cash flow hedging. Additionally, intercompany netting simplifies monthly reconciliation processes. ■

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

2023: the year that was

From implementing new technology systems to navigating extreme weather events, three treasurers look back at their achievements in 2023 and discuss how they will carry the lessons they learned last year into 2024.

Every year brings its own set of challenges, and 2023 was no exception. From geopolitical tensions to extreme weather events, the events of the last year have impacted treasury teams in myriad ways. But despite the challenges, treasurers continue to seek and implement new opportunities to operate more efficiently, mitigate new risks and optimise cash management.

In the following pages, three treasury professionals from Europe, the US and Asia share their experiences of 2023, and discuss how they are planning to build on these in the year ahead.

Ferdinand Jahnel

VP, Treasurer

Headquartered in New York, Marsh McLennan is a global professional services firm that provides advice and solutions

in risk, strategy and people, across its global businesses Marsh, Guy Carpenter, Mercer and Oliver Wyman. Ferdinand Jahnel, VP and Treasurer, runs three teams in New York, London and Singapore, covering treasury operations relating to cash investments, currencies, financial risk and banking and rating agency connections, as well as capital markets, debt issuance and global pension commitments.

Thriving in a volatile market

In contrast to many firms, Jahnel explains that Marsh McLennan's clients tend to be particularly focused on seeking advice during times of volatility. "So our business has performed phenomenally well in the last year: we've grown substantially and we are investing in our global infrastructure."

And while interest rates present something of a challenge, Jahnel notes they are "actually also a tailwind for our business, because we have a lot of investable cash that benefits from higher short-term rates. That offsets the somewhat higher cost of capital when we go to market and issue new debt, which we do from time to time."

Nevertheless, Jahnel and his team have been paying close attention to the economic volatility around the world, "to keep the company safe and make external events as plannable as possible." This includes monitoring the competitive environment between the US and China, as well as looking ahead to upcoming elections in the US and UK.

Supporting M&A

Supporting the firm's acquisitions is another key area of focus for the treasury team. Jahnel explains that around half of Marsh McLennan's free cash flow is allocated to shareholders via dividends and share buybacks, "and the other half pretty much goes back into the business – not so much through capex, because we are a capital-light business, but via acquisitions, which is a strategy that we expect to carry over into the new year." He adds that treasury has an important role to play in supporting M&A, "as we need to fund those transactions and do them in an intelligent way."

TMS implementation

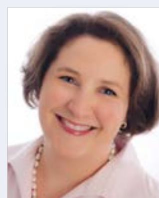
Where technology is concerned, the treasury is currently implementing a new treasury management system (TMS), in a process which began almost two years ago with a best practice analysis and selection process based on a request for proposal (RFP) exercise. The implementation phase began in early 2023, and the new system is due to go live in the second quarter of 2024.

"As you can imagine, this is not just a treasury exercise," says Jahnel. "We have controllership, tax people and internal IT folks that are very closely involved in this process. It's a truly collaborative team effort." With the new TMS replacing an older system that had been in place for over 20 years, the exercise is also likely to result in some process and organisational changes.

Preparing for the unexpected

While Jahnel describes the company's treasury team as a "pretty well-run machine", he notes that any business needs to be alert to any "unknown unknowns" that might materialise. "These black swan events don't announce themselves; they just happen and then you have to deal with it," he reflects. "So, you have to make sure you have enough redundancies built into your infrastructure that you can still run the organisation and keep it online."

As Jahnel concludes, "There could always be something that happens, but I'm typically an optimist – I feel pretty confident that if anything unexpected comes along, we will work through it and succeed."



Séverine Le Blévennec

Global Head of Treasury

In 2021, Séverine Le Blévennec joined Aliaxis, a global leader in advanced piping systems for building, infrastructure, industrial and agriculture applications headquartered in Belgium. Since then, she has been focused on achieving a deep transformation of the treasury function – an ambitious project which spans everything from systems and banking structure to treasury policies and recruitment.

"In the last year, we've implemented a new banking structure for the LATAM region, where we operate in ten countries," she says. "This has involved carrying out KYC, opening accounts and achieving connectivity to our payment hub, Trax. And on the back of this we refinanced the whole region, significantly improving borrowing cost and decreasing FX exposure." In addition, the last year has seen the company select new banks in India and in 15 European countries.

The company went live with its new treasury management system in January 2023. "In the course of the year, we have focused a lot on reporting," adds Le Blévennec. "The operational reports were ready for the go-live, of course, but the dashboards and more strategic reports are being finalised now."

In addition, the company implemented a global notional multi-currency cash pool, which has proved particularly valuable in a rising interest rate environment. "With interest rates going up, this easily pays for many of the investments that we are doing. If you are not too leveraged, and you optimise your liquidity, the business case to invest in treasury transformation is pretty easy to defend," she says.

Goals for 2024

The treasury transformation project is set to continue this year, with key activities expected to include selecting and implementing a new netting tool, and connecting ERP systems to a data lake which is in the process of being implemented. "Data will be automatically uploaded to the netting tool, and people will just have to provide confirmations, with a direct debit at the end, so we will have a process that is automated as far as possible," Le Blévennec explains.

Other goals for the year ahead include implementing new treasury policies and rolling out existing FX and money market

> If you are not too leveraged, and you optimise your liquidity, the business case to invest in treasury transformation is pretty easy to defend.
>
> Séverine Le Blévennec, Global Head of Treasury, Aliaxis

fund platforms into additional regions. In addition, the treasury will be working to support the company's growth ambitions by building relationships with rating agencies and securing finance. "And of course, now that we have selected our banks for EMEA and India we'll go and implement them next year, including the connectivity to Trax for payments and to the global overlay liquidity structure."

Enabling success

When it comes to building on the team's achievements in 2023, Le Blévennec notes the importance of exchanging with people in the business about the transformation project, "so that they understand the vision, what we want to do, the status of the project, how they can help us and what's in it for them in the short and medium term."

Likewise, she says that the TMS implementation was followed by nine months of hypercare. "That doesn't mean that things were going wrong – it was about supporting people in the region and making sure they had the training they needed," Le Blévennec explains. "We know that people are extremely busy, so you have to make sure you can make your project a priority, but in a way that's manageable for them."

She adds, "I'm very grateful for the trust and commitment of my team, both in Brussels and the wider region. Nothing makes me happier than when you close a phase and see that people are so pleased that it has exceeded their expectation – it's great to have that feedback."

Christopher Emslie

Asian Regional Treasurer

GENERAL MILLS

As Christopher Emslie explains, 2023 was a year of change for General Mills' Asian treasury team. "As we came out of Covid, we decided there were things that could be improved," he recalls. "Our big focus in 2023 was therefore on liquidity and making sure that most of our markets had liquid cash, so that we would be ready to face the next challenges."

In particular, the company's Asian treasury team was working on a multi-year project to integrate with the global treasury team on SAP – a project which involved much communication with the company's banks. "We'd previously implemented SAP in the US and Europe, so we decided that Asia would become part of that," says Emslie. "It's basically been about creating a connection point between SAP and our banks, and bringing automation to the fore in order to make life easier for our treasury people on the ground."

Today, he explains, the company's US treasury team can use SAP to access treasury information from additional markets including Asia as well as Brazil. "So it's made us part of that global family, with all that information at our fingertips. And it's made our reporting and our information flows much easier."

However, 2023 also brought some unexpected challenges, including a series of typhoons, as well as flooding in Beijing following record levels of rainfall. "Covid isn't the only black swan event we've faced in recent years – there have been many other events that have really impacted businesses and consequently the treasury world," says Emslie. "After all, if you're not selling, you're not getting cash into your business."

Goals for 2024

This year, Emslie says the Asia treasury team will be looking to improve its liquidity management activities. "We're looking at cash flow forecasting tools and seeing how we can do things better. We're also looking at building our relationships with our banks and talking about the structures we have in place."

Where learnings from 2023 are concerned, last year highlighted the importance of diversifying investment portfolios, as well as being prepared for everything from regulatory challenges to unexpected geopolitical developments. "I think we've learned that it's important to be a bit more open minded and pay attention to what's happening," Emslie says. "That includes surrounding yourself with third party suppliers including banks, insurance brokers and investment houses, and making sure that you're getting the right information. It also means keeping your ear to the ground and seeing what's happening in the markets."

Likewise, Emslie plans to focus more closely on the impact of weather events such as floods and typhoons. "What do you do when your customers can't get to the shops? How do you get your products to market if people can't get to you? I think some out-of-the-box thinking is needed to keep ahead of these types of risks."

Last but not least, he emphasises the importance of simplicity: "You don't want to overcomplicate things, because you never know what's going to happen." ■

Moving to the buy side

Jason Teo
Head of Treasury, South East Asia
(Including Ventures in Korea, Data Centre and Renewables)

LOGOS

LOGOS, as part of ESR Group, is a dynamic and growing logistics specialist with operations across ten countries in Asia Pacific. It manages every aspect of logistics real estate, including investment management, sourcing land or facilities and undertaking development and asset management, on behalf of some of the world's leading global real estate investors. It has approximately 11.3 million square metres of property owned and under development, with a total completed value of over US$22.9bn, across 35 ventures. LOGOS' shareholders comprise ESR Group, APAC's largest real asset manager powered by the New Economy and the third largest listed real estate investment manager globally and its founders, John Marsh and Trent Iliffe.

Jason Teo at LOGOS Group started his career in branch banking and has successfully moved to the other side of the fence – to the buy side, where he is now the one asking for funding.

When it comes to asking for loans, Jason Teo has been on both sides of the fence. He started his career in branch banking where he met people from all walks of life and dealt with their financial needs. Some of their requests were unusual – demanding, even – and Teo honed his soft skills whilst working out whether he could give those customers what they wanted. These days, the roles have been reversed and it is Teo who is making the requests and using those same people skills to find the right bankers and backers who will make his company's real estate ventures a success.

AI is the next growth engine of the world to watch, with A being ASEAN [the Association of Southeast Asian Nations] and I being India.

Teo, like many corporate treasurers didn't set out on a career in corporate treasury. In his earlier days, he was a sales professional for Fuji Xerox products before emerging from university as a finance and marketing graduate and embarked on a career in retail banking, where he got a real feel for how everyday banking operates. His first job was at an OCBC Bank branch in Singapore, where he focused on the personal mass market as well as small-medium businesses. From there he moved to Standard Chartered Bank and focused on a different segment, this time high net worth individuals or accredited investors. In this role he was also exposed to corporate clients and was involved in loan financing, trade finance and investment advisory.

After this role, he found himself at a fork in the road of his career journey. At this juncture, Teo explains, "There are two paths that one can go down. Either you can continue with the private wealth side and manage even higher net worth clients. Or you can go down the management route and take on a bank branch management role."

Teo opted for the latter and pursued his career in branch management and became a branch manager for Maybank Banking Berhad (also in Singapore). In addition to managing and having oversight of about 20 people, he had numerous other responsibilities. These included sourcing new customers through community events and roadshows, keeping existing customers happy, and also reporting positive financial results to his managers. After a while Teo began to feel that the work cycle was like a merry-go-round with targets set, a month-end review, then it was back to zero starting again striving to reach the new month's goals. Teo yearned for a change, he explains. "That's when I thought I should switch from selling to buying and continue to have a nexus with banks."

The switch from selling financial products to buying them was a big change, but one that he adjusted to with ease. With his academic background in finance, and his fondness for studying and unconditional desire to learn new things, he was able to pick up what he needed to know to succeed in his new role. He moved from branch banking into management consultancy, which led him to corporate finance and treasury. "That marks the beginning of my treasury realm," he says. There are a number of commonalities between the two worlds, and Teo explains what lessons he learned from first working in the world of branch banking: "Having a background in banking gave me a helpful perspective of the operations part of the business, as well as the sell side – I know the background of how things work at an operational level. Now I'm on the buy side I'm able to see things more clearly. If a corporate banker makes a pitch and brings someone to the meeting from transactional banking, treasury or the investment team, I have the experience to discern and distil information, whether what they are saying is correct or not."

Teo had an instinct for knowing whether customers or bankers were trying to pull the wool over his eyes, and he wanted to go deeper into the corporate treasury and enterprise risk world. Teo further progressed his career by moving into a group treasury role at The Ascott Limited (a CapitaLand Group company). "This was where I landed my first pure treasury role," he says. His responsibilities covered the entire spectrum of treasury management including managing a loan book in excess of S$3bn, managing the group's cash flow in over 30 countries, notional/physical cash pooling, enterprise risk management and acts as primary dealer for FX/IR transactions. CapitaLand is one of Asia's largest diversified real estate groups and is headquartered in Singapore, and working for such a company was a good fit as Teo had already completed a diploma in real estate management from Singapore's Ngee Ann Polytechnic many years prior. After five years, Teo was keen to pursue opportunities that would expose him to the debt-raising side of corporate treasury life. He then landed a job at CFLD International (a public listed Chinese real estate developer), which is a leading global end-to-end master planner, creator and operator of full-scale new industry cities.

CFLD International has been active in the emerging markets of Asia, and it was this aspect that attracted Teo to the company. Teo was able to work in Indonesia, Vietnam, Myanmar and the Philippines, becoming a frequent flyer around the region. He soon learned the differences between the markets and the nuances in the banking landscape and regulations. "It was really rewarding," says Teo of this time. He adds that having this experience was beneficial to his career as this region is becoming increasingly prominent. "AI is the next growth engine of the world to watch, with A being ASEAN [the Association of Southeast Asian Nations] and I being India; the countries' rapid growth is propelled by many forces including a huge young population with rising income, global shift in supply chain diversity, untapped consumer market and emerging market opportunities – it is a key market not to be missed," he says.

That experience stood him in good stead for his current position at LOGOS, which is a major logistics specialist that manages many aspects of real estate, including the financing and investment, the sourcing of the land, and also finding the tenants for large-scale real estate ventures, such as warehouses. Teo joined the company to set up the Southeast Asia ("SEA") treasury in 2019. "When I came onboard, I was the corporate treasurer," says Teo. Since then, he has been busy building the function and expanding the team whilst also streamlining a number of processes.

The role has many challenges, and the aspect that most excites Teo is securing non-recourse development financing for the company – particularly with its unique needs. He explains that he needs to secure non-recourse loans (where the lender cannot seek direct claims from sponsor/investor and enforce more than the pledged collateral if the loan

defaults), which is what the company needs for its greenfield projects. This kind of lending is tipped in the favour of the borrower, especially if the loan goes south. "Banks usually prefer income-generating stabilised projects – it has lower risk for them," explains Teo. Also, some industrial assets land leases are short (<15 years), which makes securing a loan against them even more challenging. Now Teo finds himself on the other side of the fence, as the customer making demanding requests to the bank – the opposite scenario he was in as branch manager when he was in a position to approve or decline the loan requests that came through his door.

"I'm excited to be doing this job – there are constant challenges," says Teo. In the early days, securing the funding was some sort of a numbers game, with Teo having to try all the banks in the region. Teo works in various markets in the region – including Indonesia, Vietnam, the Philippines and Malaysia – and needs to secure financing large-scale real estate ventures in all of them. For this reason he has to keep his options open because the needs and capabilities of the banks are different in each of the countries. "We have more than 50 banking relationships in the region – including the foreign and local banks – that we had to approach. Once we went through the list we found out each bank's capabilities and challenges, which made it easier as we now have the proprietary list for our new financing. Then we could approach the right banks without going through that painful exercise again," he says. Teo has built up a network with respective relationship managers at the banks and he knows what their lending policies are so it is much easier to navigate securing the right financing with the right bank in the most cost effective way.

This has been enough to keep him busy in his day job, but when he's not working it seems Teo likes to study for leisure. His LinkedIn profile is filled with certifications and qualifications that he has completed. This includes a certification on Climate Change: Financial Risks and Opportunities that he received online (with a perfect grade of 100%) from Imperial College London. Such a course aligns well with his professional work because LOGOS has been proactive in pursuing its environmental, social and governance (ESG) agenda.

The company has been involved in a number of green projects. In September 2023, for example, LOGOS and Tokyo Electric Power Company announced a joint venture to install solar power generation facilities on the rooftops of LOGOS' properties, such as logistics warehouses and data centres.

Another project that puts sustainability at the forefront is currently underway in Malaysia: construction is currently happening for a 177-acre world-class facility at E-Metro Logistics Park in Bandar Bukit Raja, which has the ambition of revolutionising industrial and logistics capabilities in the region. In Singapore, the ground-breaking has already occurred on DSV Pearl, a sustainable warehouse facility, which is owned by Pan Asia Core+ Venture, a private fund that ESR Group and LOGOS launched to target sustainable Asia Pacific prime logistics opportunities.

Although Teo has spent much time with relationship managers at traditional corporate lenders, LOGOS has also developed a partnership with the International Finance Corporation (IFC) and has received a green loan from the organisation. In December 2020, IFC and LOGOS announced that they had partnered to develop a green logistics hub, which was expected to drive economic activity in Indonesia and address a critical infrastructure gap in the country.

Teo has been able to put these projects in the context of what he has learned from his online courses. Meanwhile, there are numerous other lessons he has learned that he can also apply to his day job, and what corporate treasury may look like in the future. To give a taster of the other courses he has taken, there are 11 licenses and certifications, including 'Finance Strategies for Business Leaders' and 'Smart Thinking: Overcoming Complexity'. He has also done some banking and finance qualifications. And if you count all the university courses he has completed, there are another nine. These range from his formal degrees at Upper Iowa University in Marketing and Finance, a Master's in Finance at the City University of New York (Baruch College), as well as the various online qualifications. These include Risk Management for Projects; Financial Analysis and Decision Making; FinTech, Finance and Technology; Entrepreneurship; Data Science Basic R, Computer Science and Programming.

He is always learning and seeking to stay on top of the latest trends. With R, for example, the open-source programming language that is typically used for statistics and data science, Teo explains that he learned it to get an understanding of what the next wave of thinking with artificial intelligence (AI) technology is likely to be. He completed this online certification with Harvard University back in 2018 although he hasn't been able to use it in his role yet. He explains that he took the course because he wanted to learn how data science and data analytics can apply to finance as a whole.

For now, the company is undergoing a transformation of its processes and platforms to prepare itself for the future. Teo's team is hoping to reduce manual inputs and migrate to an in-house system while preparing to implement a group treasury management system, which will be part of the group's plans to rationalise. Since it was acquired by ARA and subsequently by ESR Group, there are plans to centralise various treasury functions and bring them onto a single platform for visibility and control. He is looking forward to having cash visibility and forecasting on a single platform, and will be a landmark project in the near future. This is similar to previous roles that he has taken where he has spent a lot of the initial time closing out unused and unnecessary bank accounts, reducing operational risk, managing the Kyriba/ERP system and streamlining how they operate.

Teo has a lot to keep track of; LOGOS currently has around 32 ventures, all of which have different sets of investors and shareholders. At the moment it is difficult to integrate and rationalise a single view of all the projects – a problem that is not unique and something that other large fund managers also experience. There are numerous banking relationships to maintain due to different capabilities of each bank when it comes to debt financing, although streamlining treasury will mean there will be fewer transaction banks to deal with, rather than working in siloes with multiple contact points. Maintaining such relationships comes naturally to him because of the people skills he developed earlier in his career, although these days the shoe is on the other foot, and he is the one asking for the money on behalf of each borrower of the asset. ■

Treasury in Latin America

Latin America is characterised by its disparate economies and regulatory climates – and the treasury landscape likewise includes a variety of companies with differing needs. Industry experts explain how treasurers are navigating the challenges presented by the region, and harnessing technology to enhance their processes.

From a banking perspective, Latin America is nothing if not diverse. "No two countries are the same," comments Leonardo Gazzo, Corporate, Commercial, and Public Sector Sales Head, Latin America at Citi. "For example, we have fully dollarized economies; we have economies with dual currency, and we also have economies where you can only use local currency." Likewise, different markets have different rules and regulations.

The treasury landscape is also characterised by a variety of companies with disparate needs, including both multinational and local corporates. The latter tend to be more decentralised, both in their physical locations and in their decision-making processes, whereas multinationals tend to follow a more standardised script in terms of their goals, processes and policies. As Gazzo notes, "Where technology is concerned, they tend to have more centralised ERP systems and standardised connectivity models."

Another point of differentiation is between newer and more traditional companies. "New companies have been born centrally, so they have central needs and central management," says Gazzo. "And in many cases, they need new technologies from banks to be able to succeed in their business model."

Challenges and trends

Companies operating in Latin America face a number of challenges, including market volatility and the variety of economic conditions across the region. "The volatility in foreign exchange and interest rates could affect a company's ability to borrow money," says Annali Duarte, head of Global Transaction Services in Latin America at Bank of America. "It could also impact a company's payables and receivables flows. In this environment, financial instruments such as hedges are important."

The regulatory environment is also something of a challenge: as Duarte points out, some countries have restrictions on the convertibility of local currencies and cross-border transfers, as well as on holding foreign currency accounts onshore or leveraging intercompany loans. "Additionally, in some countries, overnight investment options may be limited due to financial transaction taxes," she says. "Therefore, treasurers need to carefully review their investment strategy and establish appropriate cash flow forecasts to cover short term obligations."

Fraud is another challenge, and as such Duarte recommends that treasurers need to be aware of best practices in order to protect themselves and avoid operational losses.

Optimising treasury and harnessing technology

According to Gazzo, centralisation continues to be an important trend in Latin America, together with a strong focus on working capital which has intensified in light of higher interest rates. "We've seen a lot of demand for supplier finance programmes," he says. "In the past, supplier finance tended to be adopted only by certain industries, but now we see this more broadly, with a larger diversity of companies looking at how they can leverage these types of solutions to improve their working capital."

Corporates in the region are also looking to leverage real-time technologies in order to streamline treasury processes, improve their businesses and compete effectively. "If you have a company that manages e-wallets, the instant aspect of how you move money from a wallet to an account is a key driver for success," says Gazzo. "For example, if an airline needs to refund a passenger due to a delay, the traditional option would be to give a credit. Looking at these new options, companies may see opportunities to change that and give their customers better solutions."

Where treasury activities are concerned, Gazzo notes that APIs and instant payments have been widely adopted in the region, and that companies are looking at how best to take advantage of this. "We now have instant payments in the largest markets: Mexico, Brazil and Argentina. Colombia is also looking at which of the models can be leveraged," he comments.

Meanwhile, the high interest rate environment is naturally driving corporate treasuries to seek higher yields, notes Duarte. "They are maximising their cash surpluses into global pools and strategically optimising their liquidity management at a local, regional and even global level. Global pools are much more relevant in today's environment."

Automated investments can play an important role in helping companies centralise their cash, particularly in light of higher interest rates. In Brazil, for example, Citi has built a solution that focuses on offering a higher return on investment in line with local tax regulations. "Another point we are looking at is how companies can centralise their collections with multibank solutions so that they can manage investments centrally at the end of the day," says Gazzo. "Our clients have had a lot of success leveraging this capability."

Treasury centres and shared service centres

For companies setting up treasury centres in Latin America, Duarte says that common types of treasury centre include regional treasury centres that serve multiple countries in the region, as well as in-house banks that centralise financial activities for efficiency. "Additionally, shared service centres help consolidate back office functions, and payment factories streamline payment processes."

Duarte says that companies across LATAM increasingly want to aggregate regional balances and automate cash mobilisation "so that operational risk – and frictional cash – are reduced." She adds: "Complemented by Latin America's proximity to the US, educated human capital and low labour costs have created a positive ecosystem for multinational corporations to set up treasury hubs in the region. These structures help multinational corporations manage liquidity, reduce risks, and achieve operational synergies across their Latin American and global operations."

In addition, she notes that several countries have adopted digital document signatures, real-time payment and electronic tax payments, thereby speeding up the need to adopt new technology platforms.

Location, location, location

While local companies tend to locate treasury centres in their home countries, multinational corporations have more choice. "Mexico is a large country, and many companies are serving the US from Mexico as a shared service centre or treasury centre," says Gazzo. "Costa Rica is very popular, and still attracts a lot of companies, and Argentina is another big market where there is a lot of English-speaking talent." He adds that Colombia was not historically a popular treasury centre location, "but many companies have been setting up there in the last ten years."

Duarte points out that Latin America has become an increasingly attractive investment destination for many US companies looking to de-risk their supply chains and expand their e-commerce strategies. "For Mexico, nearshoring represents the country's best growth opportunity for the next ten years, and it's already having an impact," she says. "The nearshoring expansion has also benefited Central America and the Caribbean.

"For example, Puerto Rico is now a pharmaceutical hub for North America with approximately 80% of global companies in the sector with on-island investment. The Dominican Republic has established expertise in the textiles and medical device sectors, with Honduras and Guatemala also experiencing accelerated growth. Costa Rica is now central to technology and healthcare manufacturing."

Last but not least, Duarte observes that cities such as Buenos Aires, Bogota, Mexico City, Monterrey, Guadalajara and San Jose CR have emerged as decentralised technology and treasury centre hubs which offer "integrated ERP platforms, the streamlining of funding and account control, and the elimination of operating inconsistencies through better liquidity forecasting and FX exposure." ■

Implementing a new banking structure in LATAM

When it comes to managing treasury in Latin America, "There can be a lot of surprises," says Séverine Le Blévennec, Global Head of Treasury at Aliaxis, which operates in ten countries across the region. In the last year, the company has implemented a new banking structure across the region, in a project which included running an RFP, carrying out KYC checks, opening accounts, setting up connectivity to a payment hub, and refinancing with new credit lines.

"To give an idea of the scope of the project, we had to provide/review/execute and sometimes notarise over 400 documents," says Le Blévennec. "We also did an extensive review of our supplier master database: on one hand we reduced the number of suppliers in the region from 50,000 to 11,300 and on the other hand we had to add new fields in the ERP to capture all the required data where we then reviewed/populated 271,000 fields!"

She notes that the region is very paper based when it comes to collections, "so it wasn't possible to have one bank per country with which we could do everything. So we took an approach whereby in each country we have one bank for all electronic transactions and another one for cash collections, local paper instruments as well as salary payments and benefits. It's also a very dollarized economy, so we work with a bank that enables us to wire dollars to the US, and then have all our suppliers paid in USD using local payments in the US, which lowers the cost."

The regulatory climate likewise presents a challenge, as does the lack of harmonisation where banking requirements are concerned. "It's not like in EMEA, where you can fill out one bank account form for all the countries you work with," Le Blévennec explains. "Every country has a different form, and in some countries you have to notarise a lot of documents, which is an additional burden. And electronic signatures are typically not accepted, so it takes more time to execute the documents."

She adds that FX exposures can be significant across the region, which makes it more difficult to hedge FX risk, and "sometimes not really worth the cost". In addition, country risk also needs to be addressed – and Latin America also tends to present more business volatility than other regions. "Some entities may have more volatile revenues, so you may need to do capital injections to go through certain periods," she notes. "Before I joined Aliaxis, our stronger entities were lending to the weaker ones – but then that creates an FX exposure."

Nevertheless, Le Blévennec notes that these challenges can be overcome with the help of strong banking partners that have a thorough understanding of the markets. "The benefits of our project have been really major: they include automation, better funding rates, reduced FX exposure, and a reduction of cyber risk as well," she concludes.

Q-day: why it's time to get quantum ready

Quantum computers may be eight to 15 years into the future, but such is the threat to cyber security, companies with valuable data, IP or manufacturing processes should prepare now. Treasury Today interviewees urge corporates to get across the cost of upgrading encryption, choose partners and consultants; understand their data and trial emerging solutions.

Treasury teams could be forgiven for placing the cyber threat posed by quantum computers slightly further down their list of priorities than more common threats like deepfake or malware. Yet quantum computers, the new generation of super-fast machines that will one day be able to crack the encryption that begins the start of any secure session on the internet, will put the relatively contained operational risk of today's cybercrime firmly in the shade. They call it Q-day, and it's time to get ready.

For the uninitiated, quantum computers are a high-powered type of computing able to manipulate data points a billion times faster than what today's computers chug through. Quantum computers will be able to test billions of different alternatives or combinations all at the same time to find solutions to the world's knottiest problems from debilitating diseases to the climate emergency, solving problems we used to think unsolvable in months, weeks or even days.

There is much to celebrate but the risk of quantum computing may emerge quicker than the opportunities. These computers will also be able to decipher the RSA encryption and elliptic curve cryptography which is responsible for around 90% of today's crypto base. It's used all over the internet and keeps the digital world safe; is found in web browsers, keeps emails secure, enables banking transactions and controls our power grid and government communications.

"Both will be toast," warns Bill Munson, a research associate at the Institute of Quantum Computing at the University of Waterloo, Ontario, Canada. "These codes are based on multiplying very long numbers and then factoring it. It would take today's computers thousands of years to crack it, but when you have a computer that can do it in minutes or hours, you're in trouble." The quantum community estimates it is only eight to 15 years until a quantum computer exists that in the hands of a hostile government, "bad actors" or organised crime spells Armageddon for safely using the internet.

It's easy to see why treasury is worried. Data security is fundamental to handling payments; companies with long supply chains involving multiple partners and constituent parts are vulnerable while the collapse of modern-day smart infrastructure that runs factories, transport networks and cities holds unimaginable consequences. "Unless banks move to quantum resistant cryptography, it is possible that one day we could wake up and there won't be a dollar in any bank account in the world, but the bigger risk is that we will wake up and there will be no lights, power or transportation," says Catherine Johnston, a strategist and consultant at Chieftain Consulting. And even if the cryptography isn't broken, online systems will default to 'off' in an unsecure environment meaning systems may still be rendered inoperable, even if they haven't been hacked.

The sense of urgency grows given that threatening entities including organised crime are already recording encrypted data and storing it to decrypt later. Companies should act now because it is possible to steal data today ahead of the ability to crack it tomorrow, explains Jonathan Legh-Smith, Executive Director for UKQuantum, the voice of the UK's quantum industry. Corporate data is either data in transit,

flowing between partners and internal systems, or stored data where it sits within a company's own servers or data centre and both are at risk, he explains. "Companies need to assess how valuable their data is and over what timeframe. If there is an overlap between a quantum computer breaking into your data centres or tapping into your communications at some point in the future when your data is still valuable, you are at risk." He says strategy should focus on the lifetime data is valuable rather than trying to second guess or time the arrival of a quantum computer. "We don't know exactly when they will come into play, but quantum computers are inevitable."

The solutions

Happily, it is possible to prepare for this daunting new world by changing the encryption that keeps the internet safe. "We know what the fix is: change your crypto," says Munson.

Over the last five year, an international effort led by the US's National Institute for Standards and Technology, NIST, has identified a suite of cryptography algorithms that are deemed quantum safe. Still under development they will, at some point, be available to update into corporate and government systems. "We are close to having the products available – but they don't just crawl into our systems themselves," says Munson. Every company will have to replace its crypto in a time-consuming process that involves new levels of expertise.

Legh-Smith estimates the essential adoption of new post-quantum cryptography will take businesses "a number of years" to deploy once the new NIST standards are commercialised. However, he warns these standards are still drafts and it may take some time to iron out any issues or bugs in their implementation so there is a residual risk to businesses even after they are installed. He also points UK businesses towards **National Cyber Security Centre guidance on migrating to post quantum cryptography, PQC**.

Away from NIST's standards, a complementary solution to post quantum security is also coming on stream. Quantum key distribution (QKD) is a new way of sharing ultra secure symmetric keys, an existing form of encryption that can resist quantum computers. "Businesses can already use QKD as a way of enabling safe encryption now. In the future businesses will be able to deploy both PQC and QKD in their defence against quantum computers," says Legh-Smith.

Witness how HSBC is pioneering quantum protection in FX trading using QKD technology. The bank hopes its HSBC AI Markets platform powered by BT, Toshiba and Amazon Web Services (AWS) technology will mature into a commercially accessible and globally scalable solution to safeguard trades of any value from quantum attacks.

Still, in an added complication, current UK guidance focuses on PQC and advises against the use of QKD. Legh-Smith notes that this guidance is a number of years old and is at odds with many other countries that are actively deploying QKD witnessed in Europe (the EuroQCI project), the Republic of Korea (South Korean Telecom), Singapore (National Quantum Safe-Network), and of course China which is spending more than any other country on quantum research. McKinsey estimated that Beijing had announced a cumulative US$15.3bn in funding for quantum research, more than quadruple the equivalent US figure of US$3.7bn.

First steps to getting quantum ready

Even though businesses can't deploy new cryptographic models until the NIST process develops there is still much to do. Companies should begin by first identifying what crypto they use; assessing if it's vulnerable and what it is protecting. Next, they should list their most valuable assets or corporate crown jewels. This could be intellectual property or data; for an IT company it could be large language models, for financial services, personal data and financial records. For many corporates it is trade secrets like their manufacturing process, design or materials and what makes their business unique.

Companies' IT security teams will already know the cost of upgrading encryption, have chosen partners and consultants; understand their data and be keen to trial QKD. But getting quantum-ready also involves buy-in from the entire corporate function and C suite. This means easier approval of the required investment in people able to put together an inventory and assess the company's risk tolerance.

Re-tooling infrastructure could also be timed around necessary and routine upgrades in hardware and software and with an eye on the time-consuming nature of getting ready. "If the time it takes to install the new technology is greater than time you think it will be until we have a quantum computer, you should worry now," says Tim Spiller, Director of the Quantum Communications Hub at the Engineering and Physical Sciences Research Council.

"Companies and governments need to be prepared to spend money," adds Johnston. "There are relatively few people who are quantum trained so train your existing staff." She also suggests that treasury accept quantum readiness as a cost of doing business. "If your business is a target and you are not ready, you will be out of business if you are hit."

Companies can also use their influence to encourage their tech suppliers to get quantum ready. Corporations need to assess to what extent their suppliers can deliver quantum safe products and services, says Johnston. "If you are buying something that is not currently quantum resistant, ask the supplier if it will be upgradeable and when. Also, does the supplier have a cryptography migration plan that they are prepared to report against?"

Building awareness is one of the biggest challenges, but this is growing. In the UK over the last ten years, academic institutions, industry and government have invested around £1bn in a national quantum technology programme with government commitments to invest a further £2.5bn over the next ten years in line with the publication of its Quantum Strategy. Some of the world's biggest tech companies, including Google, IBM, Microsoft and Honeywell, are investing in quantum with an ecosystem of start-ups following in their wake. McKinsey estimates investors poured a record US$2.35bn into quantum start-ups last year.

Spiller concludes with a nod to the risk that these new quantum algorithms could be broken in the future in a cycle of repetition. "It is difficult to prove that someone won't develop new quantum algorithms that could break in the future – it's difficult to prove a negative." But he says this shouldn't be a cause for inaction now. "We have a route forward technologically that we know is robust. Now is the time for people to start to move towards this and make these changes." ■

Certainty remains the most valuable currency

Treasurers would do well not to assume that this year's benign FX market conditions will continue into 2024 amid persistent conjecture around interest rates, inflation and geopolitical developments.

Kyriba's latest currency impact report confirms the falling negative impact of foreign exchange fluctuations on North American and European corporate earnings since the end of 2022. Overall losses from currency movements in Q123 totalled US$11.16bn, the lowest level since the first quarter of last year.

However, the authors of the MillTechFX UK CFO FX report 2023 warn against complacency ('it is likely currency volatility will be prevalent over the next year') and HSBC Global Research's currency outlook strikes a similarly cautious note, suggesting that FX will have to navigate many sources of uncertainty over the next 12 months including central banks lowering their policy rates and a busy election calendar.

California-based Intuitive Surgical's primary currency exposures for revenue are the euro, pound, Japanese yen, Korean won, Taiwan dollar and (for expenses) the Swiss franc. For its balance sheet, the major currency exposures are the above currencies plus the Indian rupee, Mexican peso, Chinese yuan and Canadian dollar.

"Our first action when evaluating currency exposures is to determine if there are any operational changes we can make to mitigate currency exposures," explains Brian King, Treasurer and Head of Investor Relations, Intuitive Surgical. "We evaluate legal entity functional currency, intercompany currency, conversion of cash balances, and timing of settlement of intercompany balances and other payments."

Intuitive Surgical has two main programmes for minimising the impact of currency volatility on its P&L. The first is its cash flow hedge programme, where it forecasts future revenue and expenses denominated in foreign currency and enters into derivatives that are designated as cash flow hedges against those forecasted transactions.

The other programme is the balance sheet hedge or remeasurement hedge programme, where the company enters into derivative contracts that are not designated to revenue or expense and mitigate remeasurement exposure of net monetary assets and liabilities on its balance sheet.

"We don't have a policy that determines when we should re-evaluate our hedging strategy," says King. "However, we track and measure various metrics within our balance sheet and cash flow hedging strategies at least monthly. If we determine there are large deviations in hedge effectiveness or coverage, we re-evaluate our existing strategy and make an assessment of whether we should make any changes to currencies covered or types of revenue to include/exclude. Changes in accounting rules have also been an opportunity for us to re-evaluate our hedging strategies."

FX risk management is also a major issue for Save the Children, a global membership organisation comprising of Save the Children International and 30 national members that raise money from donors in their home country.

Treasurer Edward Collis explains that in 2022 the movement raised £2.5bn globally, of which approximately £1.5bn was spent by Save the Children International.

"We receive mainly G20 currencies, primarily dollars, euros and pounds, which we broadly sell for our functional currency (US dollars) and then we go and buy the local currency," he says. "We fund the local country offices in their own currency twice a month." Most of these local currencies are challenging to hedge given limited local FX liquidity – in some of these jurisdictions there is effectively only a dollar spot market.

"The degree of uncertainty in terms of cash flow also makes it quite difficult to hedge all the currencies we handle," adds Collis. "However, we do have a hedging programme for sterling since Save the Children International's headquarters are in the UK and a material portion of our overheads are in sterling. Although we receive pounds in donations to Save the Children UK, we have quite a substantial sterling spend that is larger than the pounds we get from Save the Children UK."

The organisation's hedging programme is a rolling forward vanilla programme that goes out a little bit over 12 months to reduce volatility on budgeted cash flows. Its currency management strategy is reviewed once a year, although Collis notes that the hedging policy has not been reviewed since before the pandemic and is currently under review.

Approximately 80% of publishing, business intelligence and exhibitions group Informa's cash flows are USD or USD denominated. The company looks to mitigate volatility in its financial ratios (such as leverage) and cash flow by broadly aligning the currency of its debt to cash flow currency observes Group Treasurer Richard Garry.

"We are constantly reviewing the effectiveness of our strategy and formally meet with other colleagues in the business to review effectiveness every month," he says. "We also undertake a fundamental strategy and policy review annually, which is formally reviewed by our treasury committee."

The MillTechFX report referred to a drop in the number of UK corporates hedging their FX risk, although there was an increase in the number that had implemented longer hedge windows.

"Companies are returning to medium-to-longer-term hedges and we have seen some of our clients even consider 18 month strategies again," says Abhishek Sachdev, CEO of Vedanta Hedging. "Although typically based upon vanilla

forward contracts, we are seeing an increase in the use of more exotic options for the periphery of corporate exposures – typically 10-20% of currency requirements."

Helen Kane, Risk & Exposure Fellow at GTreasury observes that the most common risk in hedging is sizing the exposure. "Your ERP can detail the exposures on your books, but the exposures that impact margin (and are responsible for making or breaking profitability) aren't as easily determined," she suggests. "This is the hidden FX – the rate changes that keep reported revenue flat when sales have beaten their plan or increased costs too quickly to adjust pricing to protect margins. To hedge this, we are challenging financial planning and analysis to forecast not only how many units will be sold in which period, but where in the world those sales will be made."

Companies with the most successful hedging strategies tend to have a good understanding of their cash flows and forecasts and employ dynamic, managed hedging programmes that are often a combination of forwards, options and swaps.

That is the view of Daniel Jack, Senior Trader at Monex Europe, who says this approach allows for downside protection, as well as being opportunistic and taking advantage of favourable market moves.

Eric Huttman, CEO of MillTechFX says companies are also taking action to mitigate the risk associated with only having one or two banking partners. Research published by the company between July and October noted that 88% of North American and 73% of UK-based CFOs were looking at diversifying their FX counterparties.

"This year's banking crisis highlighted the importance of having access to multiple counterparties and it is now widely known that a bank's failure can cause serious short-term liquidity issues," he says. "Should a banking counterparty no longer be able to function as an FX provider, this can affect vital expenditures such as payroll and supplier invoices, even if only for a few days."

Many corporate FX risk programmes leverage data analytics to minimise the hedging decisions they need to make observes Bob Stark, Head of Market Strategy at Kyriba. "A quantitative assessment of currency risk exposures can reduce the need to use derivative instruments, taking greater advantage of natural currency offsets," he says. "Further, analytics such as parametric VaR (using mean-variance analysis to predict future outcomes based on past experience) offers greater hedging efficiency, which improves coverage and reduces transaction costs."

Stark reckons it is critical for CFOs to align with internal stakeholders to mine ERP and internal systems for detailed FX exposure data to better quantify the impact of currency movements on balance sheet, income statement and cash flow data.

Amol Dhargalkar, Managing Partner at Chatham Financial agrees that most companies will attempt to mitigate FX risk through natural offsets within the organisation, but acknowledges that for the majority of companies those strategies cannot remove as much risk as they would like.

Jack suggests that to effectively manage currency risks, companies must gain a comprehensive understanding of their FX exposures across various business segments, geographies and trading activities. This involves:

- **Thorough data collection** – gathering accurate and timely data on revenue, expenses, debt and other FX-sensitive factors.
- **Regular monitoring** – continuously tracking FX movements and their impact on company finances.
- **Dynamic risk assessment** – regularly reassessing FX exposures and risk tolerance levels in light of changing market conditions.
- **Integrated risk management** – integrating FX risk management into overall risk management frameworks.

Dhargalkar also refers to the importance of gathering data effectively and observes that corporates are looking to automate as much as possible, ideally through an API between their different ERPs and their risk system. "Additionally, they are looking to be proactive in their FX strategies by utilising business intelligence tools to have all appropriate data at their fingertips for senior stakeholders," he says. "Leadership is looking for the ability to answer FX-related questions quickly and having all of their data available in an easily digestible platform is key to managing risk effectively."

According to Huttman, the ability of a corporate to achieve a complete view of its FX exposure is largely determined by whether it has a centralised or decentralised treasury system. "Many medium-sized or multinational corporates may have multiple treasury centres across the globe, which makes it difficult to have a complete view of FX exposures since each centre will be responsible for its own FX trading," he explains.

Operationally, this approach might make sense for a larger organisation by enabling it to be more responsive to changes in different regional markets, since local teams would have more control. However, from the perspective of having a clear view of FX exposures, some organisations may consider a centralised treasury system the better option.

"Under this structure, FX trading can be carried out centrally – making it easier to view and manage currency exposures," adds Huttman, who says technology is also crucial. "ERP and treasury management systems play a vital role in providing finance and treasury teams with the information they need to ensure capital is in the right place at the right time. For many it is therefore a pre-requisite that their FX trading infrastructure can integrate seamlessly with these systems."

Alex Kearney, Corporate UK Dealer at Ebury says an understanding of upcoming currency requirements will allow clients to conduct an FX audit with their account manager, which will include forecasted amounts sold or purchased, budget and target rates, and the impact of seasonality.

"They also need to ascertain a level of risk aversion – for example, very risk averse would mean hedging 75%-100% of exposure," he adds. "Once they have built out a strategy they should set periodic review point to assess its effectiveness."

Kane notes a difference in approach between public and private companies where the latter are focused on the cash coming back to their parent, while the former seem to focus more on optics. "Interestingly, this can lead to very different hedge programmes, especially when elaborate tax structures are involved," she concludes. "It is surprising the number of public companies hedging money they owe themselves, creating hedge positions that are at odds with their economic exposure." ■

Asian regulation: a cash management challenge

The regulatory landscape in Asia is complex, fast-changing; often ambiguous and requires robust internal treasury systems. Meeting the region's regulatory challenges is also an opportunity for treasury to excel at cash management, secure tax benefits and cost-saving efficiencies.

From a treasury perspective, navigating regulation in Asia, especially southeastern economies in ASEAN like Thailand and Vietnam, can be a bigger headache than other treasury challenges in the region like transacting in multiple emerging currencies, limited hedging options, capital controls and cultural and linguistic diversity.

Not only is regulation voluminous and fast-changing. It's often ambiguous, subject to trends in protectionism and requires robust internal treasury systems. And aside from global standards like ISO 20022 or managing the IBOR transition, it invariably requires a country-specific knowledge. But meeting the region's regulatory challenges (which broadly fall into exports and payments buckets) is an opportunity for treasury to excel at cash management and secure tax benefits and cost-saving efficiencies.

Taking money out

Reflected, perhaps, in the investment pouring into the region as MNCs establish businesses in countries like Vietnam, Thailand and Malaysia in China+1 strategies, the rules around moving money into Asian economies are more relaxed than the frameworks around taking money out.

Export-related regulations include strict timeframes around when money from export proceeds is delivered back into the country. Like Malaysia's requests that exporters operating from the country bring the proceeds back into Malaysia in either foreign exchange or ringgit within six months of the original shipment.

And regulations don't just govern export proceeds flowing back into economies in a timely fashion. Exporters must also navigate multiple rules around how they use export proceeds in some countries. Take Indonesia's July 2023 circular 'Foreign Exchange Export Earnings from the Business, Management and/or Processing of Natural Resources' that stipulates foreign exchange pouring in from the country's natural resource exports is deposited in special accounts.

Companies must put 30% of their foreign exchange revenue into a special account for three months and although it is possible to use these funds as security for loans or collateral for FX swaps, use is limited and funds must be tied up for the duration.

"Laws vary country-by-country, but the main gist is that these types of regulations exist in many countries whereby any foreign exchange coming in as export proceeds must be deposited with a licenced bank before companies can do anything with it," says Standard Chartered's Ankur Kanwar, Managing Director, Head of Cash Products, Singapore and ASEAN/Global Head Structured Solutions. He adds that in a treasury benefit, many regulators do give tax incentives for holding export proceeds in country with the interest on the proceeds taxed less, say at 0-10% compared to a standard rate of 20%.

Signs of change

Foreign exchange is another regulatory pain point with some currencies in the region with no convertibility and others with some form of managed float. But recent regulation signposts more relaxed and flexible rules for money transfers abroad in some economies. For example, the Bank of Thailand has removed complex paperwork for companies making foreign exchange payments outside the country. If corporate clients comply with their banks' KYC processes, they can freely operate and make foreign exchange payments without paperwork.

"It goes beyond just making international payments," enthuses Kanwar who says some of Standard Chartered's clients operating in the country are already making use of it. "It means treasury teams can start including balances from Thailand in liquidity structures. Treasury can move Thai Baht, convert it into dollars and include it in a pooling structure on a daily basis. It's more far reaching than just the FX regulation being simplified."

Elsewhere, Thailand is also supporting the use of local currencies (JPY, IDR and MYR, for example) as an alternative to managing exchange rate risk to mitigate the impact of US dollar fluctuations. And in another sign of increasing flexibility for companies, Thailand is also expanding the scope of its Non-Resident Qualified Company (NRQC) programme (designed to allow some foreign companies more flexible processing of transactions) to allow more MNCs engaged in international payment transactions to participate under the NRQC umbrella.

The recent relaxation of FX regulation in South Korea is another sign of encouraging change – and flags the treasury gain from being across regulatory change. Government reforms, in effect since last July, include expanding overseas remittance-without-documentation thresholds and easing reporting on large scale foreign currency borrowing. Over the last year, the government has also softened double taxation by excluding 95% of dividend earnings from abroad from being taxed in Korea after they have been taxed in the country

> Singapore has become a gold standard in terms of payments regulation and now countries in ASEAN are trying to do the same.

Ankur Kanwar, Managing Director, Head of Cash Products, Singapore and ASEAN/Global Head Structured Solutions, Standard Chartered

of residence, part of an effort to induce large Korean corporates to bring back their overseas income.

Even Vietnam, which prohibits any inter-company lending, has launched a pilot programme that is exploring alternatives around permitting restricted liquidity management.

Sustainability

Sustainability is also climbing the regulatory agenda for regional corporates. For example, the Hong Kong Stock Exchange requires all listed companies publish an ESG report and stipulates companies report climate-related disclosures in line with the TCFD framework and the new ISSB climate standards. It's a sign of European and other international sustainability rules taking effect in local markets with a real impact on the region's home-grown companies, explains Hanim Hamzah, KPMG Asia Pacific Regional Leader for Legal Services.

"The social and governance elements of ESG are increasingly front and centre like AML regulation, whistle blowing and modern slavery, driven partly by bank requirements." Similarly, laws that originated in Europe governing personal data protection (PDPD) are being enacted across the region like Vietnam's Decree 13/2023/NĐ-CP dated 17/4/2023 on Personal Data Protection (PDPD) effective from 1st July 2023. Commentators also highlight burgeoning demand from acquisitive, listed Asian company hunting opportunities in Europe for regulatory guidance, mindful that European regulators will dig into ESG compliance in any merger or acquisition. Cyber risk is also adding another layer to the regulatory map as governments put in place new cyber security laws to keep pace with the roll out of digital solutions.

What can treasury do?

Positively, commentators point to examples of companies working with the regulators to secure some relaxation in the rules. For example, Kanwar cites Malaysia's preparedness to extend the time limit on repatriation of export earnings from six months to 12 months depending on certain circumstances. But the process rests on companies building up a relationship with the regulatory authorities.

The importance and benefit to companies operating in the region of building credibility with regulatory authorities by accurately reporting flows is echoed by Sandip Patil, Head of Liquidity Management Solutions for Asia North, Australia and Hong Kong at Citi. "Regulatory approval to transact across borders is often tied to the comfort companies build with the regulator," he explains.

For example, he notices that it is getting easier for some companies to move limited liquidity in specific currencies in and out of China and other restricted markets. Sure, it comes with caps and thresholds and must be attributed to specific purposes, but he says it offers proof of the benefits to treasury teams of working directly with regulators in the region.

But it is this grey area, and the absence of clear frameworks and transparency, that is often more of a headache than benefit for companies. It gives corporates leeway, but the ambiguity is not necessarily helpful. Again, commentators note that things are starting to change as some jurisdictions develop clearer frameworks often led by Singapore, spearheading clarity around payments regulation particularly.

Singapore's new Payments Service Act, launched in 2018 and with subsequent upgrades, clearly lays out a payments landscape detailing which licences companies must apply for; what activities are permitted, and the controls corporates need to put in place. "Singapore has become a gold standard in terms of payments regulation and now countries in ASEAN are trying to do the same," says Kanwar. "There is still a long way to go but rules around exports, foreign exchange, payments and liquidity are getting clearer and more transparent."

Singapore is also leading by example in a new Quick Response Code Scheme (SGQR+), an enhanced QR code payment system that will enable merchants to accept 23 payment methods by signing up with just one financial institution. It recently issued guidelines on participation, giving existing SGQR members a transition period of six months to ensure they have enough time to get the new technology in place and make any changes to their business processes and arrangements with their merchants.

Solutions

Banks are rolling out automated tools to support compliance. For example, Standard Chartered's payment workflow tool Payment as a Service (PaaS) supports Indonesia's 30% rule, taking 30% of export proceeds, and sending treasury daily reports on how much money is accumulated. After three months funds are automatically moved out. "It is an example of one of the tools we've launched to cater to the regulatory scene and help corporates manage payment challenges," says Kanwar.

Elsewhere KPMG's Hamzah counsels on the importance of corporates leaning into strong players on the ground with a country-by-country knowledge that reflects the nuances and requirements in each market. "Finding a local partner is very important." She also echoes advice that companies can benefit from working with federal government departments (for example, Malaysia's Ministry of International Trade) for better treatment and protection.

Robust internal processes are also important for companies' managing complex regulation alongside meeting group liquidity, risk, and operational objectives. But for all the enduring complexity, the region's dynamic growth and evolving business models is also accelerating the pace of regulatory change for the better, visible not only in fast-changing efforts to simplify FX and repatriation guidelines, but in the rules for new business models such as e-wallet providers. ■

AI in treasury

How should treasury integrate AI?

Onkar Liddar
Assistant Treasurer &
Managing Director
Accenture

Accenture's treasury is based on SAP which runs alongside the ERP of the organisation. This has been an important baseline in our digital journey because it has created a single instance data lake or source of truth that we trust and has enabled us to leapfrog into using advanced technologies.

We have begun by developing what we call intelligent cash. This is made of three components, the first of which is a comprehensive dashboard, easily available to everyone in the finance function, which lays out where our cash is and in which currency; with which counterparty or if we have a cash holding that doesn't align with our guardrails.

The second element comprises forecasting. In the past, forecasting would involve taking historical data and streamlining it. Now we use sophisticated algorithms developed by our own data scientists and consultants applied to each individual cash flow around, say, accounts payable, receivables or tax. The machine learns and evolves its algorithms, and our latest GBP forecast was spot on for the short and medium term – it forecast what actually happened. The machine is so sophisticated it can forecast better than what our people have historically been able to do.

Forecasts lead to the third component where the technology is helping us take business decisions and decide the best course of action. For example, it tells us whether to reduce our holding in a particular currency, taking into consideration its own forecasts and external data sources like the FX rate. The machine does the grunt work and people can spend less time on operations and more on thinking about risks that could happen. It also speeds up the velocity of our cash, and treasurers always need money to move quickly and without friction.

There are already many companies that profess to sell the perfect intelligent cash tool but I haven't seen a fintech out there yet that can really do this. Tools like SAP can facilitate it, but the risk with using fintech is that treasury ends up tailoring its process to fit their model, rather than the other way around. Treasurers are also mindful of how much data they send to a third party to process on their behalf because fintech and technology like ChatGPT requires putting data in the public domain and this is not the right approach for a corporate treasurer. The technology is also developing so fast, tools are unlikely to keep pace with changes in the market. Still, treasurers can't integrate AI internally and in isolation because it is complex and they have such a busy day job, so the best approach is to use trusted advisors with a proven track record.

Treasury can't operate on systems alone; it is a context-based discipline and experts will always be required to make final decisions. What AI gives treasury is an opportunity to upskill people in an environment that is becoming increasingly challenging. Take our growth for example, as the business grows, our exposure to currencies, bank accounts, partners and integration work (Accenture is very acquisitive) makes having the right money in the right place at the right time increasingly challenging.

I envisage a point of time where we can engage with the technology using prose. The machine will suggest courses of action and identify issues and we will also be able to instruct it. Once we have identified risk and interacted with it, we will be able to instruct it to exchange this currency; issue a bank guarantee, downsize debt or increase a bond offering. The tool will carry out the transaction and manage the accounting in the background in a utopia for busy corporate treasurers.

Treasurers need to determine where they stand in terms of technology, conscious that it is fluid and changing so fast that they don't tie themselves in. My advice is to set out a clear roadmap for how you want to operate in the future and start building towards that goal. AI is a fast-moving space; it will be as impactful to how we operate today as was the loom in the industrial revolution. It is transforming our industry.

Nils A. Bothe
Partner, Finance &
Treasury Management
KPMG

The ability of treasury teams to apply AI depends on access to vast data sets from which algorithms then support treasury processes like cash forecasting, confirmation matching, transaction tagging and much more. But this data needs to be accessible and in the right format, and I believe treasury is sometimes struggling to get a seat at the table as corporates set their data strategy. IT departments typically lead on the data strategy, setting up data lakes and warehouses. If treasury is to make use of at least part of this data – predictive cash forecasting is a good place to start – treasury needs to be part of the initiative from the beginning to articulate how the data is stored and in which format. Treasury departments also

need to ensure they have sufficient access to the data. Not all companies have consistent data strategies, and we notice some companies are doing it with their own resources and IT departments, while others look for external help. Integrating AI into existing treasury technology is the next step and depends on the kind of data and formats. Treasury will need to consider how to feed AI into TMS processes and API interfaces and decide whether a hybrid landscape that uses a specific AI tech is preferable. TMS are mostly standard solutions so integrating AI development initiatives will follow prescribed processes. But it will be interesting to see how the vendor market responds to developments. Vendors won't engage with a new piece of software unless there is demand in the market and although some vendors are already investing in AI solutions, it remains to be seen how they will be adopted by corporates.

And a lot of our clients are still hesitant about AI. Many are watching what others are doing in a wait and see approach. This reticence is linked to the availability of data, particularly around predictive forecasting, and the expected benefits. Still, AI is not something that treasury can simply switch on and reap the benefits right away. It is a question of beginning and allowing the algorithms to improve over time. Our recommendation is to hone on a particular business case; start deploying it and learn as you go.

We advise clients to develop a roadmap. If they have a treasury solution coming to the end of its life cycle, they could use that point to upgrade, re-evaluating if it is the right TMS or if another solution fits better with innovations in AI. A roadmap means learning about what's out there, developing a strategy to make use of certain AI components backed by a solid business case. Like digitisation, AI is not something of itself. It needs to follow an economic case.

The deployment of AI will eventually lead to the management by exception principle. It will free up human resources to deal with exceptions, where AI can't help. Humans will be able to concentrate on more high value tasks, but it might be difficult for treasury to retain the knowhow and talent to deal with exceptions if the technology is doing an increasing portion of the daily tasks.

Tanya Kuznetsova

Director, Treasury and Cash Cycle Transformation
Baptist Health Care

When I think about AI, I always try to look at it as the combination of two distinct work streams, but which also work in parallel. One part of AI involves data processing and modelling, working with structured and unstructured data to apply algorithms that deliver forecasting calculations. The other stream involves Natural Language Processing that models our language and speech.

The data processing models have been around for a while in treasury – banks have been using them for years. The most important element of data modelling involves understanding its limitations. These limitations are only just starting to emerge and can be viewed in different ways.

Take Facebook as an example, everyone knows it monitors our feeds, and feeds back to us more of what we have already seen. The technology doesn't let us see different things unless we proactively search for something new, and this limits our perspective. The same is true of the data that treasury will be and is using – it won't flag new risks and can limit perspectives.

Take the fact insurance companies use advanced technology to assess risk by installing devices into cars to monitor a driver's behaviour. This tech then feeds into data models. Does this data give insurers information that is helpful, or does it take into consideration things they don't need? Treasury can't just apply the data and forget about it. Treasury must also apply due diligence.

Due diligence is also important to avoid AI hallucinations. In language models the technology predicts the next word, but it doesn't understand what it is saying. It's possible that the AI comes up with something that doesn't exist, and we can't tell if its real or fake. Fake news is intentional, but AI is just doing its job. It's possible to embed preferences, like asking the AI to always quote a source to verify what it says. But this is also difficult because we don't know if the source is true or fake. Again, treasury needs to be careful that the information it takes from AI is real.

The reality is that AI is here, and everyone must get on board. The key is to learn about AI and learn how to collaborate with it so that treasury can perform better. Very soon, simplified language models will eliminate the need for any translation between financial and IT language; the technology will understand what we tell it through speech recognition and write code to program it.

Open AI, the company behind ChatGPT, is currently building the enterprise business applications on top of the language processing models. AI Assistant is an example of this today, offering an agency that allows people to collaborate with AI; have it understand what they ask, and perform various functions based on API connectivity with systems. In my opinion, strategic involvement will be democratised, and all treasury staff will be included. The person who does the work knows best how to improve it – when it comes to AI companies should work with treasury and give treasury time, capacity and a voice to contribute to organisation's wellbeing. ■

Next question:

"What key issues will impact the corporate bond market in 2024?"

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

2024: a transition year or repeat of 2023?

2023 was the year in which the expected recession did not happen and the risk of inflation subsided faster than assumed.

According to many economists, there won't be a recession next year either. There are good reasons for this:

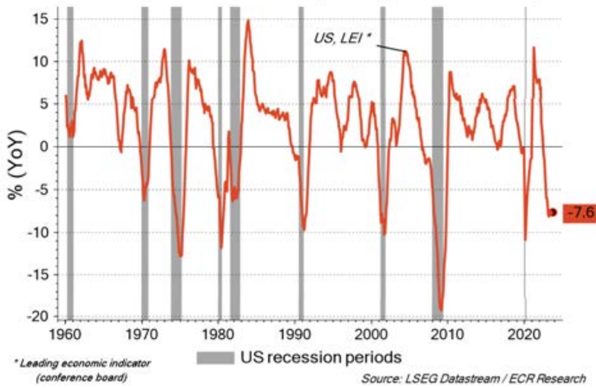
- Many economists expect inflation to decline further. This means that central banks will be able to cut their rates substantially. Moreover, it will lead to an improvement in real purchasing power of households.
- House prices have held up well in most countries. There seems little reason to expect a sharp decline in prices this year, as long as unemployment does not rise sharply, housing shortages persist and mortgage rates seem to be declining rather than rising. As long as house prices remain at current levels or continue to rise, consumers will have the confidence to keep up consumption.
- Governments have no intention of tightening fiscal policy to any great extent (apart from fewer support measures to offset high energy prices). Compared to last year, the impact of fiscal policy on growth will diminish, but a persistent large budget deficit will continue to support the economy and employment (basically, the larger the public deficit, the greater the need for personnel). In already tight labour markets and with the prospect of a shrinking workforce due to ageing populations (and increasing resistance to immigration), this will be one of the reasons for companies to hold on to staff they would otherwise lay off in times of a weakening economy. As a result, stubbornly large deficits (in)directly ensure that labour markets remain tight and that consumer wage income is rising sharply.
- The Chinese authorities are coming under increasing pressure to boost the economy on a larger scale. If they fail to do this, there is a risk that the persistent decline in house prices and deflation will lead to a balance sheet recession, from which it is very difficult to escape, as Japan has shown. The best remedy is to combat the negative effects of a balance sheet recession as early as possible through ultra-loose fiscal policies.

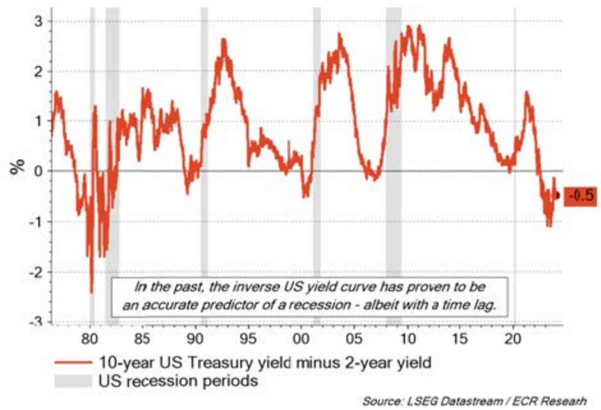
The risk of extrapolation

The major risk is that last year's situation will be extrapolated, while there are also good reasons to assume that economic growth will be far weaker this year, and that a recession will be likely:

- The spending of savings accumulated during the corona pandemic and the considerable improvement in supply chain problems have supported economic growth in 2023, as have loose fiscal policies and lower energy prices. However, many households have run out of additional accumulated savings. Supply chain problems are behind us and companies are working hard to get through their backlogs. These factors are therefore unlikely to boost the economy, or only to a very limited extent.
- The negative impact of tighter monetary policies was mitigated by the fact that, in recent years, many companies and (US) households have borrowed at fixed low rates over longer periods. As a result, some companies and consumers have, on balance, benefited from higher interest rates because they received more interest on their bank balances, while interest charges remained the same. This positive effect is unlikely to disappear, but it will diminish, partly because more companies will have to refinance maturing loans this year, and generally at far higher interest rates than the ones they are paying now. This also applies to many

ecr research





governments, which see interest charges rising to ever higher levels because of stubbornly large deficits and because cheap loans will have to be refinanced at higher interest rates. Higher interest charges will negatively impact investment activity, for example, and increase the pressure on governments to curb deficits.

- The downside of lower inflation is that it increases upward pressure on real interest rates (the economy responds primarily to changes in real interest rates) and it leads to more downward pressure on nominal economic growth. This is negative for corporate earnings growth, while debts will increasingly weigh down the economy.
- Forward-looking indicators such as the PMIs and bank lending, economic leading indicators and the inverted yield curve have been pointing to a recession for quite some time.

An economic tipping point

There are several developments and triggers that could tip the economic outlook in the market and fuel fears of a hard landing for the economy.

The most important factor is that the positive spiral – in which asset prices (especially house prices), tight labour markets and economic growth reinforce each other – could turn into a negative spiral. The economy is already moving towards such a tipping point; economic growth is weakening, labour markets are becoming less tight, and property prices are slowing if not declining (the latter applies mainly to offices and, in a number of countries, house prices are also in a downtrend). However, at the rate things are going now, it could be a few more months or quarters before the positive spiral turns into a negative spiral, certainly if central banks ease monetary policy as a result of further weakening growth and consumers use their increased purchasing power to consume more.

However, there may also be triggers that bring markets to such a tipping point more quickly:

- A scenario in which the Chinese government does too little to stimulate the economy early next year, sparking concerns about China entering a debt-deflation spiral, with old debts weighing increasingly heavily due to declining (asset) prices, causing the economy to weaken.
- A scenario in which a large bank or investment fund gets into trouble due to massive losses on property investments, for example, causing banks and investors to put a brake on new loans.

In our view, one of the key questions for this year is whether and how quickly a tipping point will be reached, with the positive spiral turning into a negative economic spiral. We expect this shift over the course of this year. In this case, the economy will deteriorate faster than most economists and investors anticipated at the end of last year, as a result of a negative spiral of lower growth, declining asset prices and rising unemployment. ■

INTERESTED IN OTHER MARKETS?

Go to www.ecrresearch.com and request access to 18 different reports & services. Clear views and concrete market predictions, based on the world's leading research.

MAARTEN SPEK

Senior Financial Markets Analyst
+31 (0)30 23208000
m.spek@ecrresearch.com

Independent research on asset allocation, global financial markets, politics and FX & interest rates

treasurytoday.com