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July/August 2024

Rise of the digital marketplace

As digital marketplaces become more commonplace, what role can treasury play in supporting this model?

The Corporate View
Royston Da Costa
Assistant Treasurer
Ferguson plc

Women in Treasury
Carol Thurnheer
Manager International Treasury APAC, North Africa, Middle East and Turkey
Haleon plc

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Prepare for change

The next time we go to press, the UK will have had a general election. As the debate heats up and the major political parties battle for the business vote ahead of 4th July, the wish list of UK treasurers is familiar to treasury teams in other jurisdictions going to – or just back from – the polls.

They want the election to produce a clear leader with a strong mandate to make consistent policies that support investor confidence. Our readers list demands like upgraded infrastructure, an overhaul in the planning system; investment in apprenticeships and tax breaks to support new technology and the energy transition.

In the absence of clarity on what the next five years holds, it's not surprising this edition reflects today's cautious sentiment. Like our funding and investment feature, which finds that while some sectors will see an increase in M&A activity this year compared to 2023, geopolitical developments and concerns around interest rate and currency movements are acting as a brake on many potential deals.

One of the most important corporate relationships in times of uncertainty is banking partnerships, often decades in the making, especially when it comes to cash management services. This month we explore how treasurers should frequently reassess whether the relationship remains fit for purpose and are the strongest possible. We determine the optimal number of banking relationships and accounts, the right equilibrium between efficiency and resiliency, as well as the appropriate mix of capabilities and funding support.

It is at times of uncertainty that corporate's also need their treasury in the very safest pair of hands. Fittingly, this edition's Corporate View speaks to Royston Da Costa, Assistant Treasurer at Ferguson. With nearly four decades of experience, Da Costa is a seasoned treasury professional with extensive knowledge of processes and automation. He explains how he is driving Ferguson's strategy on treasury technology.

In our Question Answered feature we explore how corporates operating in regions like Africa and Asia can avoid and free, trapped cash. Sidhanth Hota, Group Treasurer at Airtel Africa explains how managing trapped cash in Africa requires a combination of patience, waiting for regulatory environments to shift, and a preparedness to hustle.

Finally, this edition takes a deep dive into the rise in digital marketplaces as companies develop new ways to connect vendors and their customers. We find out what's driving this trend, the benefits for the different parties involved, and the role of treasury in supporting this increasingly prominent way of transacting.

treasurytoday

treasurytoday.com
Volume 26/Issue 4
July/August 2024

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© 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

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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.

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Rise of the digital marketplace

Digital marketplaces are becoming increasingly commonplace across different industries, with companies developing new ways to connect vendors and their customers. What's driving this trend, what are the benefits for the different parties involved, and what role can treasury play in supporting a marketplace?

Online or digital marketplaces have become increasingly commonplace in the last few years, not least because of the impetus provided by changing consumer habits during the Covid pandemic. The model isn't only the preserve of large players such as Amazon and eBay, but has been adopted by a wide variety of industry sectors.

Indeed, **research carried out by Edge by Ascential** has predicted that by 2027, third-party sales through marketplaces will account for 38% of all global sales growth. The report also notes that the number of third-party marketplaces operating globally has jumped by over 500% since 2007.

"An online marketplace, whether it's for business-to-business (B2B) or business-to-consumer (B2C) transactions, serves as a digital hub that links businesses and individual consumers to other enterprises for the purchase and sale of goods and services," explains Enrico Camerinelli, Strategic Advisor at Datos Insights. "This platform facilitates efficient and streamlined trading between companies and individuals, leading to cost reductions and enhanced opportunities for growth." As Camerinelli notes, marketplaces for B2B and B2C transactions enable businesses and individual consumers to connect with a broader spectrum of potential vendors and clients. "In the current digital landscape, B2B/B2C marketplaces have become a fundamental component of e-commerce and are the most rapidly expanding channel for digital sales."

Digital marketplace landscape

Where the landscape for digital marketplaces is concerned, Dr Stephen Whitehouse, Managing Partner, Head of Payments at Oliver Wyman, says that major players like Amazon, eBay and Alibaba dominate general ecommerce, while specialised platforms like Shein and Depop cater to the apparel industry.

"In the food sector, services like Just Eat, Instacart, Deliveroo and Uber Eats lead the way, while the transportation industry has been disrupted by companies such as Uber, Lyft, Turo, Lime and Bolt," he adds. Other examples include travel and leisure platforms such as Booking.com, Airbnb, Expedia and Trivago, as well as freelance service marketplaces like Fiverr, Upwork and Taskrabbit.

Marketplaces come in many different forms, including horizontal marketplaces that offer a wide range of products and services across different categories, as well as vertical marketplaces that focus on a specific industry, product or service. Whitehouse explains that common sales models include commission models, in which sellers are charged a percentage of each transaction, subscription-based platforms which levy fees for accessing their marketplace, and 'freemium' models, which offer basic services for free with premium features available for a fee. Alongside the proliferation of B2C marketplaces, the B2B marketplace environment is also showing growth. Allison Shonerd, Head

of Global Digital Disbursements, Global Payments Solutions at Bank of America, notes that B2B marketplaces enable transactions between businesses for everything from equipment purchases to office rentals. "This is a huge market, and it's one that has existed largely outside of the digital space until recently, so there's a lot of opportunity for marketplace growth," she comments.

As the landscape continues to develop, Camerinelli argues that the "imminent evolution" for digital marketplaces lies in the integration of financial products and services, achieved through collaborations with banks and providers of financial services. "This represents the next significant step in their progression," he observes.

Benefits of the online marketplace

Against this backdrop, there are many reasons why companies are choosing to adopt a marketplace approach. For one thing, says Whitehouse, there is a significant opportunity for revenue and margin, "which is absolutely critical for retailers in particular, which operate with very small margins." He points out that companies leveraging digital marketplaces enjoy lower entry costs, as digital marketplaces tend to be cost effective distribution channels. For customers, the benefits include an enhanced user experience.

The marketplace model also provides an opportunity to build a trusted relationship with customers. "There are retailers that people visit frequently or infrequently, depending on the nature of the goods," says Whitehouse. "But the idea of a marketplace is that you're there, you're immersed in that brand, on a regular basis." This gives retailers an opportunity to distil that relationship into insight, and monetise it by enhancing the value proposition they offer customers. As Whitehouse observes, "For the retailer, that's gold dust."

On another note, Camerinelli says that leveraging digital marketplaces can enhance a business' supply chain management. "This is achieved by streamlining the procurement process, overseeing shipping logistics, and cutting down on the time and expense involved in discovering and assessing new suppliers and customers. Furthermore, B2B marketplaces offer advantages to smaller businesses that might lack the means to put money into conventional sales and marketing avenues."

Role of the treasurer

As Shonerd explains, one of the core tenets of a digital marketplace is the ability to attract both buyers and sellers. "And from a treasury perspective, a great way to do that is through enabling a really robust and frictionless payment experience," she adds. "As marketplaces become more global, treasuries have to ensure they have a comprehensive global liquidity and cash management strategy, with foreign exchange and payment solutions underpinning that model whereby buyers can buy in their local currency, and sellers can receive disbursements in their own local currency. The treasurer is at the centre of that, making sure that cash is managed appropriately and foreign exchange is optimised."

Agne Masiulyte is Senior Director of Treasury at second-hand clothing marketplace Vinted, which is headquartered in Vilnius, Lithuania. The company's treasury team was founded almost four years ago, and is responsible for managing areas such as banking relationships, FX risk management, liquidity management and investment portfolio management, as well as cash flow reporting. The product team, meanwhile, is responsible for relationships with payment service providers.

By joining the company at an early stage, Masiulyte says she has had the opportunity to start with a blank slate and design a fully centralised function. While the team could have used spreadsheets to achieve an overview of the company's cash, the decision was taken to implement a treasury management system – Coupa – in order to enable continuing growth and support the company as it scales up, with integration to the Bloomberg Terminal. While Masiulyte says the company's treasury isn't very different from treasury functions in other fast-growing businesses, the team works closely with a number of teams across the business, including M&A, accounting and procurement. "And there is also a plan for treasury to take more ownership of managing users' funds, which will be a new area for us," she explains.

Treasury challenges

Working for a digital marketplace can also bring some additional challenges compared to a more traditional company. For example, Shonerd notes that there is an expectation within marketplaces of 24/7/365 availability, which means that treasurers need to be able to forecast, manage and facilitate money movements around the clock. "So enabling on-time cash and liquidity management and payment solutions can be critical."

Benefits of a marketplace approach

Allison Shonerd, Head of Global Digital Disbursements, Global Payments Solutions at Bank of America, explains how different parties can benefit from the marketplace model:

- **Benefits for sellers.** Small and medium-sized businesses can gain almost instant access to a large customer base and a modern user interface, with value added services like payment solutions that would otherwise require investment to build out themselves.
- **Benefits for customers.** Consumers may be more comfortable engaging and interacting with a trusted retailer's marketplace, compared to a standalone ecommerce site. They are able to take advantage of payment choice when making purchases, and may have access to global sellers while still shopping in their home currency.
- **Benefits for the marketplace provider.** The marketplace itself can benefit from the ability to deliver a true omnichannel experience, and from robust data on consumer buying trends and preferences that can inform their own strategy around inventory management. "In many instances, marketplace providers can then unlock additional revenue streams through things like advertising and foreign exchange, particularly as we see these marketplaces becoming more and more global and connecting buyers and sellers around the world," Shonerd adds.

"Digital marketplaces treasuries face unique challenges, including handling high volumes of low-value seller payouts and ensuring timely processing through bank collaboration, with some regions enabling real-time payments requiring advanced system integrations for instant seller withdrawals," comments François Dominique Doll, Executive Director, Global Treasury Advisory Services at Deloitte in Singapore. He notes that effective liquidity management is crucial due to the low-margin nature of e-commerce, necessitating sufficient cash reserves for smooth operations. In Asia, Doll says treasury operations "must adapt to the widespread use of mobile wallets and real-time payments, manage the complexities of cross-border trade with varying currency regulations, and address the prevalent cash on delivery (COD) method, necessitating additional cash flow management compared to pre-paid transactions common in the West."

How can technology help?

According to Shonerd, API-enabled solutions have proved to be particularly key in this space, "both for payments themselves, and also for reporting and reconciliation. APIs can really help to facilitate that around-the-clock ecosystem, including dynamic cash management and payment processing."

One important consideration is the ability to offer customers a diversified set of payment methods that enable them to make purchases quickly and easily, from credit cards to digital wallets. Sellers, likewise, will need access to a different set of payment methods, as well as tools that give them control over when and how they receive their payments, and in which currency. Bank of America, for example, offers merchant solutions that enable digital payments within a marketplace, alongside solutions such as a Pay by Bank capability in the UK and Europe, which allows consumers to make payments directly from their bank accounts. "On the seller side, we're focused on solutions that put small businesses and consumer sellers in the driver's seat when it comes to receiving payments from marketplaces, including alias-based and digital wallet payment methods," adds Shonerd, noting that these solutions are all underpinned by robust foreign exchange capabilities, and enabled by the bank's CashPro platform.

Transparent banking environment

On another note, Camerinelli notes that digital B2B marketplaces offer an opportunity for businesses to streamline their procurement process and reduce costs. "By implementing a unified system to oversee acquisitions, companies can utilise their purchasing strength to secure more favourable conditions and pricing from vendors," he says. "A digital platform proves to be an indispensable asset for businesses aiming to simplify their procurement procedures and enhance their profitability." Camerinelli argues that treasurers can regard digital platforms as an ideal setting to construct supply chain finance (SCF) plans with their marketplace associates – a model that enables suppliers to receive payment for their invoices sooner while allowing buyers to extend their payment terms. "In essence, the alliances between corporations, digital platforms and banks signify a transition towards a more cooperative and transparent banking environment," he concludes. "Here, banks collaborate with diverse partners to provide innovative, customer-focused solutions that cater to the demands of today's technologically advanced corporate client base." ■

Delivering agility

British online food delivery company Deliveroo connects consumers, riders and merchants across local markets. The company works with approximately 180,000 restaurant and grocery partners, from local independent restaurants to major grocery retailers, and uses over 140,000 riders to deliver food.

Where treasury is concerned, Deliveroo chooses to operate a small and streamlined team, explains Alexander Hent, VP Tax & Treasury. "Besides me, we have an assistant treasurer, a manager and an assistant. They do a lot of the payments and make sure that our sizeable cash balance is invested in deposits and money market funds. We've deliberately simplified the scope of the treasury function – it's quite operational, because when the team was set up we didn't need more than that."

Hent explains that Deliveroo has different teams responsible for different parts of the same money flows. "Anything that's OpEx will be paid through our main banking partners and automated through a procurement system that's managed by procurement and our financial operations team," he says. "But anything manual goes through us. We also collect money on behalf of restaurants and pay them out – that's automated, but it's something that we oversee."

Hent says that one of the main challenges faced by the treasury is less a consequence of operating a digital marketplace, and more about being part of a fast-growing company. "We need to be very agile. For example, when you're entering a new country, people don't always realise that you can't open a bank account overnight," he observes. "To help the business grow, treasury needs to be integrated with the business and have an ear to the ground."

The degree of automation and integration with payment providers like Stripe also means that treasury needs to stay in close contact with the company's payment tech team. As Hent points out, "For any sort of digital distribution model, I think the technical elements – having the right integration with different payment providers, and also integration with banks via APIs – is probably the biggest challenges from a platform perspective."

Where providers are concerned, Hent says it's important to work with providers that share the company's mindset and agility. Compared to fintech providers, he observes that traditional banks aren't able to tailor their offerings as easily, and may lack the necessary geographical scope and efficiency.

"That's just the way they're operated and managed – with a provider like Stripe, you can basically access the whole world," he points out. "We do work with banks, but we're selective about the types of work that we do with them, and very demanding about the service we get and how quickly things are turned around."

PENSION CONUNDRUM: TIME TO TALK ABOUT THE SURPLUS

Trustee and treasury teams responsible for the UK's £1.2trn defined benefit corporate pension sector see their pension funds in surplus for the first time in years. It's now time to weigh up whether to wind down or run on their schemes. Wayne Segers, Partner and Head Pensions Solutions at pensions consulting and administration business, XPS Pensions Group talks through the pros and cons.

Trustee and treasury teams responsible for the UK's £1.2trn defined benefit (DB) corporate pension sector are weighing one of the most important decisions they've had to make in years.

Rising interest rates have made it cheaper for these schemes to meet the costs of their pension obligations. Recent figures from The Pensions Regulator (TPR) reveal that out of around 5,000 DB schemes in the UK, over 3,750 are now in surplus on a low dependency basis with a further 950 schemes approaching surplus.

Tipped into surplus for the first time in decades, DB funds must decide whether to wind the pension fund up or run it on, continuing to operate the pension for the benefit of the business and wider economy.

"The dynamics shifted in 2022 with the onset of higher interest rates. Most pension funds are fully funded and in surplus after years of deficit," explains Wayne Segers, Partner and Head Pensions Solutions at pensions consulting and administration business, XPS Pensions Group.

Segers says many of the trustees and treasury teams he speaks to have spent years struggling to put money into the pension to improve funding levels through decades of low interest rates. Now, the fact they can offload the liabilities to an insurer and dispose of the cash risk the pension fund has on the business should it slip back into deficit, is a source of relief.

Treasury and trustee teams also harbour painful memories of the damage corporate pension funds can wreck on a business in times of market volatility like in 2022. Moreover, treasurers and trustees are also sceptical of government pressure that has emerged in line with their new largesse. Rather than offload to an insurer, the government has weighed in, encouraging companies to keep hold of the pension fund and invest the surplus for the wider economy in productive finance.

The potential

Choosing to run on the pension in a well-managed, low-risk way, could benefit treasury by creating a source of funding to the business, and generating value for members. For example, low risk investment strategies (only targeting a small outperformance like an insurance company) could generate 1% of the value of the surplus. "A £100m pension fund could generate £1m on the surplus for the business or members. A £1bn scheme could generate £10m in surplus," he suggests.

Returns from investing the surplus could be invested in the company or used to offset borrowing costs. Having a pension surplus on the books can support the corporate's credit rating and become a source of funding or be used to offset borrowing costs especially as debt has become more expensive.

Holding onto the pension fund could also allow companies to offer discretionary benefits for members or increase inflation protection, supporting employee retention in competitive businesses.

He notes that treasury is perfectly qualified to apply the same financial controls it deploys to run the business to managing the surplus. Trustees just need a blueprint, or code of practice, around surplus extraction and guidance on how to best manage the assets. In terms of financial rigour, the company and trustees can do things like set clear investment plans for pension schemes, put in checks and balances and rules around monitoring and assessment, he suggests.

"For many years schemes have been a drain on liquidity but now there is an opportunity. Well-managed, a pension fund in surplus can be a positive source of cash for the business rather than a drain," he concludes. ■

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This much I know

Carol Thurnheer

Manager International Treasury APAC, North Africa, Middle East and Turkey

HALEON

Haleon plc is a British multinational consumer healthcare. It is one of the largest consumer healthcare businesses in the world, with brands including Sensodyne toothpaste and Advil painkillers. The company is a global leader in over-the-counter medicines. Haleon was established on 18th July 2022 as a corporate spin off from GSK.

Describe your typical workday

I usually start my day with clear objectives. Ten minutes and a couple of e-mails later, my plan usually ends up in the bin, and I work on something completely different. An extreme example of such a day was 6th March 2024, when the Central Bank of Egypt raised its key policy rates by 6%. As a result, the Egyptian Pound lost 60% of its value in a couple of hours. Egypt is one of my markets, so this required my immediate attention. It's one of many examples of the agility and capacity for change that treasury requires.

Of all the days, Fridays are usually the quietest. I can focus then on moving ahead with my trade finance projects and prepare for the next week. So even though my days seldom go according to plan, I still prepare for the weeks ahead and try to organise as much as I can, which helps to keep me focused on hard deadlines.

What advice would you give to people who want to advance in their careers?

Firstly, it's important to understand your core values. I'm an animal lover, for example. I would never accept a role in a corporate that exploits and harms animals. You need to feel proud of your employer's positive impact on the world. You need to carry out your role with all your heart. You need to love what you do. If you can satisfy these requirements, you'll find it much easier to progress in your career. It still takes hard work. You have to search constantly for new opportunities. And you have to communicate clearly with your manager, supporters and mentors to move to the next level. Stepping out of your comfort zone is key. If you want what others don't have, you must do what others don't do.

What gets you up in the morning?

Two things in particular: my personal growth and inspiring people to be courageous. I like challenges. I like to learn new things. I like to step out of my comfort zone. Without these challenges, I would lose my passion for my job. I try to pursue opportunities without being afraid of failure. Everyone experiences failure from time to time. I'd rather fail while being bold and challenging the status quo than fail without stepping out of my comfort zone and trying to grow.

"I usually start my day with clear objectives. Ten minutes and a couple of e-mails later, my plan usually ends up in the bin, and I work on something completely different."

ONLINE

The Women in Treasury Global Equity Study 2024 invites a wide range of respondents, regardless of gender, to take part. Please share your views and get involved in the conversation.

treasurytoday.com/women-in-treasury/study

Describe your style of leadership

I try to instil a growth mindset in my team members. I encourage everyone to be open, to learn from others, and to embrace change. As a leader, I can create such an environment by focusing on performance, rather than promoting an expert culture.

As a leader, I ask my team regularly where they were six months ago, where they are now, and where they want to be in six months. This simple question promotes a culture based on performance rather than expertise. I also try to understand what motivates a team member. It might be a sense of belonging, autonomy, status, fairness or certainty. By understanding my team members' motivations and finding common ground, I can be inclusive.

If someone doesn't speak up in meetings, for example, I try to make the individual feel welcome to participate. This builds a culture of psychological safety, empowers individual team members and encourages continuous learning and growth. When I assess an individual's performance, I try to eliminate bias as much as I can by gathering evidence from different sources and checking my own thinking. I try to listen and understand the motivations of my team members. By doing this, I can support their career development, which is critical for them and is also key to employee retention for our organisation. A win-win situation for the team and for the company.

What inspires you and how do you inspire others?

Treasury inspires me because it's forward looking. As a treasurer, I can shape the business and build its resilience by managing risks. I can add quantitative and qualitative benefits in the form of financial value and strong relationships, which help us to weather challenging times and endure black swans. Compared to accounting, for example, in which we record and disclose what we've already negotiated and implemented, in treasury, we evaluate and implement forward-looking facilities and instruments.

For me, the most exciting area in treasury is international treasury, where we combine treasury with a commercial view. We work as a combination of regional treasurers and finance directors. When we investigate a funding request, for example, we need to look at geopolitical context, match that assessment with the business model and cash flows, then form an opinion about the possibilities in this market, from an internal and external funding perspective, and link it with our treasury policy.

> "As a leader, I ask my team regularly where they were six months ago, where they are now, and where they want to be in six months. This simple question promotes a culture based on performance rather than expertise.

In 2023, I got a request to fund the extension of the Panadol line in our Pakistan business. By partnering with a local bank, we found a project finance solution that allowed us to pay European supplier invoices in hard currencies through a letter of credit and repay the loan in Pakistani Rupees. It was a great solution for the local and for our global treasury team, but it required out-of-the-box thinking and collaboration between many different local and global teams.

Thinking on how treasury can inspire the younger generation I turned to my young, awesome analyst, Eunelle Amoroso, who's in a much better position than I am to provide an answer. She identified three areas of great importance to young people.

First, she pointed out the importance of role models and mentorship. A mentor can have a huge impact on a younger person's aspirations and can influence the person's views of the treasury function.

Second, she noted the critical contribution of empowerment and independence. It makes a big difference to young people when a leader fosters a sense of empowerment and independence by teaching them how to make informed decisions autonomously. Finally, a leader can educate young people and enhance their awareness of treasury's scope and importance by sharing knowledge.

Finally, I find huge inspiration from taking my treasury and finance knowledge into the not-for-profit world. I live a privileged life in a privileged part of the world. I'm very grateful for my freedom and security, but I'm also acutely aware that others are much less fortunate. To pay forward what I get for free every day, I volunteer for two charities. ■

Profile

Carol Thurnheer was born and raised in Switzerland. She started her career there before relocating to Luxembourg in 2005. For many years, Carol worked In Luxembourg as a finance director for a US Corporate. She joined Haleon's Corporate Finance team in May 2022 from which she moved into her current role in international treasury.

Getting the banking mix right

Bank relationships are decades in the making, especially when it comes to cash management services. However, treasurers should frequently reassess whether the relationship remains fit for purpose.

Determining the optimal number of banking relationships and accounts is a conundrum that treasurers are constantly revisiting. It is difficult to find the right equilibrium between efficiency and resiliency, as well as the appropriate mix of capabilities and funding support.

Five or six years ago there was a movement towards reducing the number of banking relationships to perhaps one global bank, but that's no longer the major trend, says Didier Vandenhaute, Treasury Consulting Partner in charge of Banking and Cash Management at PwC.

"Corporates are looking for the right balance between efficiency and resiliency, as the more concentrated [their pool of banks] gets, the less resilient they become," he says. "And while financial resiliency comes to mind, especially in light of the US bank failures last year, operational resiliency is equally important, for example if your main collection bank gets hit by a cyber-attack."

As Vandenhaute indicates, the recent turmoil in the US banking sector made many treasurers rethink their optimal balance. "It's no longer as simple as looking at whether the bank is present in certain countries or whether it has the services and IT connections required – you also have to layer in the risk factor," says Sabrina Wong, Treasurer at Veeva Systems, a US cloud-computing company focused on pharmaceutical and life sciences industry applications.

Veeva has kept the same core set of banks, following a rationalisation exercise more than five years ago. It uses two multinational banks, one as its main bank and the other as a backup. "We went through last year's US bank failures cleanly with uninterrupted banking operations. But not all corporates would have been in the same position and, as such, may have now embarked on a few new relationships," she says.

Business model and geographical footprint can also make it challenging to shrink the pool of banks. "While rationalisation continues, for many corporates it's difficult to consolidate down to one banking partner, especially for ones like Pepco, which is based predominantly in Central and Eastern Europe (CEE) and have half of our sales in cash," explains Alan Chitty, Director of Group Treasury, Tax and Risk at Pepco Group, a large-scale variety discount retailer operating across Europe.

"Perhaps a business-to-business operation can rationalise down to a global bank with [limited] operations in the country, but a business-to-consumer operation like Pepco, with largely cash-based sales, needs to have a network in-country."

Pepco has selected regional banking partners where the chosen institutions have a major network. "Our broad geographical footprint, from the Baltics to the Balkans, means that there is no single player that covers the whole region," he adds. "So we have chosen SEB for the Baltics, ING for much of CEE and Raiffeisen Bank International for both Eastern Europe and the Balkans."

Taking this regional approach delivers better service from a group relationship perspective, better pricing through a group request for proposal (RFP), and also better control in terms of access and user rights, according to Chitty.

Relationship review

It is a good exercise for a corporate to regularly revisit and assess its banking relationships, says Baris Kalay, Head of Corporate Sales for Global Payments Solutions EMEA, Bank of America.

"Today, this is becoming more critical driven by two factors. First, in a high inflationary global environment, how treasurers are controlling costs has become very important. Clearly, running multiple banking relationships and bank accounts in a complex global treasury operation is costly, both in terms of monetary cost as well as the opportunity cost of resource allocation with most treasuries running small teams," he explains.

The second driver is also linked to the global economic situation. "In the current high interest rate environment, visibility and control over excess cash becomes the top priority of treasurers in every industry. These can be achieved much more easily when you have a limited number of banks, who have the necessary products and technology, such as forecasting, pooling and connectivity," Kalay says.

There are other event-driven considerations, such as acquisitions and geographical expansion. "If a corporate has acquired a company in another market that hasn't run bank rationalisation exercises, then the former can suddenly have many more banks to deal with," he says.

This is a concern for Veeva as it expands internationally. "It is especially important for us to continually rationalise, as we could see more bank accounts and banking relationships than is efficient," Wong says.

Generally, she likes to keep "a tidy set" of banking relationships. "As a lean treasury team [of three staff], we have to continuously rationalise our banks and bank accounts because we don't have the bandwidth to maintain a dozen different relationships," she explains. "Of course, there are countries where we are required to have a local bank account and others where our core set of banks don't operate, so we will need to have some local accounts as well. But every time

we open a bank account, we have to ask ourselves whether it can be consolidated into one of our existing bank relationships," she explains.

Veeva does an annual "spring-cleaning exercise" looking to see if there is room for consolidation or if the business reason justifies having an extra banking relationship. Additionally, each time it acquires another company, it explores whether it needs to keep the inherited banking relationships. "We typically consolidate them within a year or two," Wong adds.

While Pepco is not presently acquisitive, it is rapidly expanding with a record number of 668 net new stores in 2023. Historically, however, treasury operations haven't been controlled by a centralised team; instead the finance manager in a new country would engage a local bank.

"We want the best relationship, so are now using our regional banking partners," explains Chitty. "When going into a new country, we look at who is present there and hopefully it's one of our banking partners. If not, then we look at the main banks in-country and see if we can bring them into a group relationship."

As mentioned, risk-related events have also come to the fore, such as banking partners pulling out of jurisdictions, bank failures, or mergers and acquisitions among banks. From a risk and policy point of view, corporates need to stay abreast of market developments.

"Formally reviewing banking relationships every year is good practice, however not every corporate does that," says Vandenhaute. "Importantly, they should use a bank scorecard to review the relationship with their banks. The scorecard should evaluate not only the bank's pricing but also its services and support."

Share of wallet

According to Vandenhaute, corporates commonly re-evaluate their bank relationships when they come to refinancing. If a bank is not part of the corporate's core lending group, then it typically doesn't have the right to pitch for many products and solutions that the company may be looking for.

"At this point, the corporate should evaluate not only its funding needs and who is willing to put money on the table, but whether it is the right group of banks to support its broader treasury needs, including cash management, guarantees and payroll requirements. Importantly, there needs to be a balanced allocation of business to make the banking relationship work," he says.

According to Chitty, Pepco has a lending group, with a term loan and a revolving credit facility, which is its starting point for the banks that lend to the company. "We've tried to be transparent with our lenders as to Pepco's journey and when we will repay them, which elicits support from them. Obviously, we want to give them a healthy share of wallet, which is predominantly through foreign exchange (FX). Pepco has a big FX programme of over €2.5bn a year."

The other area that Pepco needs credit for is its US$500m supply chain finance programme. "This is using credits from the same lending banks, which is uncommitted but it generally gives them a good return as well," he adds.

To Chitty's point, Vandenhaute argues that corporates should regularly evaluate wallet allocation as part of their banking relationship review, both in terms of the revenue the bank generates from providing its services and the capital these services consume.

"Both metrics are complex to calculate but will allow the corporate to identify the proper balanced relationship, as well as a relationships that may be at risk. For if a bank doesn't earn enough from its activities to use the capital at risk, for example long-term financing, then it may decide to end the relationship," he says. "Having a scorecard in place will allow the corporate to have an informed discussion with its banks about constructing a balanced banking relationship."

Relevant innovation

In cash management, PwC recommends that corporates should go through a formal RFP process with their banks every five years. "This will ensure that the banks remain in line with market practices and market prices. For example, most banks have been slow in passing on interest rate increases. If a corporate puts them through a competitive RFP process, then they can keep them on their toes," says Vandenhaute.

"Plus, new products and tools are frequently emerging, such as application programming interfaces (APIs), real-time [capability] and new merchant account functionality. Corporates need to continually assess whether they have the right banks, the right service and the right price."

Interestingly, in PwC's Global Treasury Survey 2023, 42% of corporates polled indicated that they are considering a bank rationalisation exercise in cash management in the next two years.

Kalay agrees that treasurers need to consider what a bank can offer from an innovation agenda, especially in the transaction banking space. "Alignment with the corporate's roadmap is important to bring in the innovative, new tools and platforms that the bank can offer, such as cash forecasting tools and seamless connectivity. Efficiency gains are incredibly critical in today's world," he says.

As Veeva grows and scales, the most important thing is having IT connections into the company's enterprise resources planning (ERP) system and being able to push payments out without manually inputting them into the bank's portal, says Wong.

"Some of the bleeding edge technology might not be fully supported across the different systems, such as ERPs, treasury management systems and banks. There's a sweet spot of what is robust and reliable," she adds. "For example, APIs for international wires are not established across all platforms, so can we use them for something as key as payroll? We use old-style Secure File Transfer Protocols because the coverage is more consistent across geographies."

Chitty is also questioning the use of APIs at this stage. "You need to think about the reason for using them, for effectively they are just another host-to-host connection with slightly faster data flow. We don't need that information in real time in our business [currently]," he says. "As such, I tend to move towards consolidated interfaces rather than multiple APIs." ■

A passion for knowledge

Royston Da Costa
Assistant Treasurer

Ferguson is a major distributor of HVAC (Heating, Ventilation and Air Conditioning) equipment and industrial products and services, and the largest US distributor of plumbing supplies, waterworks and fire and fabrication products. The company has around 35,000 employees and reported revenues of US$29.7bn in 2023.

Although the company is headquartered in the UK, its operations are almost exclusively focused on North America and managed from Newport News, Virginia. From here, the US operation serves all 50 states with ten national distribution centres and over 1,500 branches.

For Royston Da Costa, Assistant Treasurer at Ferguson, the pursuit of knowledge is a lifelong passion. He shares his views on the future of treasury technology, the need for vigilance in the face of the cyberthreat, and the importance of keeping abreast of new developments.

"What I find really enjoyable about treasury," says Royston Da Costa, "is that it is very much a people business. To work in treasury, you have to get on with people and interact with internal and external stakeholders, including vendors, banks and other professionals."

With nearly four decades of experience, Da Costa is a seasoned treasury professional with extensive knowledge of processes and automation, driving Ferguson's strategy on treasury technology. He has been an affiliate member of the Association of Corporate Treasurers since 2012, and gained his Certified Treasury Professional (CTP) qualification in January 2024.

A passionate and engaged member of the broader treasury community, Da Costa has received awards for cybersecurity solutions and future-proofing technology, and enjoys sharing his insights in treasury publications. He regularly speaks at international treasury conferences about the need to implement best practice and the importance of furthering diversity and equality across the treasury world.

Path into treasury

As with many treasury professionals, Da Costa didn't start his career in treasury: after college, where he studied computer science, economics and pure maths, his first role was at a merchant bank in the City of London. But after a few years, he realised that banking was not a career that would excite or inspire him. Following a short stint at a finance company, he landed his first treasury role at the fledgling satellite broadcaster British Satellite Broadcasting, the forerunner of BSkyB, which went on to become Sky.

Da Costa subsequently had a brief spell at Gillette before joining PolyGram as a treasury analyst, and three years later he was promoted to the position of Foreign Exchange Manager. When the company was sold to Seagram, he became part of the merger project group (managing the front office daily operations for both companies) that was set up to make sure that all the various processes and systems would transition smoothly. He went on to join Ferguson – then called Wolseley – in 2002.

Initially responsible for cash management, Da Costa's responsibilities have evolved since he started at Ferguson. The company itself has also undergone considerable change during that time. Since Da Costa joined the company, its revenues have grown from around US$7bn to almost US$30bn. Ferguson's geographical reach has also changed significantly: the company was once active in 28 countries, but following a series of divestments it now operates only in the US and the UK.

Although Ferguson has sold off its interests in other countries, the firm continues to acquire businesses in the US. "Even though we're a US$30bn business, the market we operate in is worth over US$300bn," explains Da Costa. "It's a very fragmented market at the moment, so we see a lot of scope there for us." In December 2023, Ferguson plc's board announced that – subject to shareholder agreement – it would seek to establish a new corporate structure that would domicile the Group's ultimate parent company in the US.

With the treasury function now essentially headquartered in the US, part of Da Costa's role is therefore to support the treasury team in the US, particularly in respect of strategic transactions, such as dividend hedging and share buybacks. As Assistant Treasurer for the UK, his chief responsibilities also include looking after the UK intercompany loan structure and driving the treasury technology for the group.

Safe pair of hands

Aside from the people aspect of treasury, what Da Costa enjoys most are the challenges that it constantly provides, and the sheer variety of the work.

"It may sound like a cliché, but no two days in treasury are the same," he reflects. "A few years ago, I saw a chart published by the ACT that outlined 24 different areas of responsibility for a treasurer or a treasury function. These were not just the core functions – things like liquidity management and risk management – but also areas such as procurement and mergers and acquisitions."

In many companies, says Da Costa, CFOs and senior directors allocate finance projects to treasurers when it's unclear who should be responsible for a particular project. "Treasurers are renowned for their ability to take on new challenges," he says, adding that they are also seen as a safe pair of hands due to their responsibilities for handling cash. "And when something goes wrong in another part of the business, say in terms of cybersecurity, treasury can be asked to sort it out."

Da Costa notes that the challenges faced by treasurers can broadly be divided into two categories. On the one hand, there are the factors associated with the macro-economic environment, including interest rate hikes, bank collapses and economic crises. Then there are the day-to-day challenges faced by the treasury, including managing liquidity and risk.

In both cases, Da Costa believes that the most important thing for any business is to ensure that it is well positioned to be able to deal with any eventualities. Citing the Covid pandemic, he explains: "No one knew that it was going to happen. We started our automation journey in 2010, and five years later we implemented our first cloud-based solution, Coupa. By 2018 we had pretty much automated all of our processes."

Fully embracing the concept of business contingency planning (BCP) and preparing for various worst-case scenarios meant that the business was well prepared for a major disruption. And having already been set up to be able to work remotely – albeit for one day a week – the treasury was well positioned to be able to operate normally, at a time when many others were caught by surprise.

Automation and technology

During his career, Da Costa has been a witness to the extraordinary speed at which treasury and its technology has evolved. When he started at BSkyB, everything was done on a spreadsheet – his very first treasury report was a one-page straight spreadsheet and a graph. Meanwhile, the netting process at PolyGram was reliant on the fax machine.

As Overall Winner of the Adam Smith Awards Best Cyber-Security Solution in 2019, Da Costa recognises that the downside to greater automation and digitisation is the potential threat posed by cyberfraud. "Obviously I am a big fan of technology," he states. "But I also recognise its potential to be used by a lot of bad actors." Acknowledging that in the real world no business can be 100% protected from the risk of

fraud, he believes the solution is to have robust procedures in place, and to make sure that these are continually reviewed and updated.

"We must try to make sure that we are not only looking after the risks that we currently know about, but also looking out for the unknown ones," he says. "You may not be able to predict what's going to happen tomorrow, but you can ensure that you've got the right technology and the right processes in place. We can't always get it right, but we can adopt the tools that could help us future-proof the business."

While he believes that Ferguson has the right processes and technology in place, he is all too aware that companies cannot rest on their laurels and assume that they will not be a target. "There are solutions out there which are becoming increasingly more important for treasury," he adds. "There are the banks, of course, and also tools such as vendor validation, which can help us to enhance our processes and make sure that we are paying the right suppliers."

Looking at the treasury landscape more broadly, Da Costa cites cash forecasting as an area that continues to present significant challenges, and that could be addressed more effectively through technology. "And there are also areas that aren't challenges for us today, but could become a challenge in the future, such as digital currency."

While AI is a major talking point for the industry at present, he notes that treasurers should remain focused on the value and efficiency that technology can deliver, rather than on the hype. Looking forward, he says developments such as quantum computing could also present new opportunities to handle and process large amounts of data at speed.

Above and beyond

Alongside other attributes of a successful treasury professional, such as strong people skills and the ability to manage risk and liquidity, Da Costa also emphasises the importance of flexibility. "You need to be able to take on whatever comes at you at any time," he notes.

But while the role of the treasurer continues to evolve, he emphasises that he doesn't see the core skill set disappearing anytime soon. "Treasury is one of those age-old arts which is going to continue for the foreseeable future," he reflects. "On top of that, there are the additional aspects of how the job evolves, the tools that we use and interact with, and the world we live in. The necessary skill set has been enhanced, and treasurers need to be able to meet that standard."

In addition to these core skills, he believes that part of the continuing evolution of the treasurer is to be open to, and adept in using, new technology. "What has been becoming more prominent these days is having a technology skill set," he says. "It's not that you need to be an IT specialist, per se. It's just about being open to technology and being able to use it. I wouldn't consider myself an IT specialist, but I have gained some basic level of knowledge of how the technology works."

Unsurprisingly, Da Costa is a firm believer in pursuing appropriate training and qualifications. "One change I'm seeing is treasurers getting into coding," he says. "I haven't embarked on this journey myself yet, but it does involve AI. I think to some degree, companies like Microsoft are making it easier for everyone – not just treasurers – to develop their knowledge of how to write programmes and automate processes, without needing to know the actual language."

Out of the office, Da Costa enjoys travelling and is a great believer in exercise. Although he finds it difficult to find the time to do as much running as he used to, he thinks nothing of going on a ten kilometre walk with his wife, whatever the weather. Meanwhile, his passion for the pursuit of knowledge is not limited to the professional domain: preferring articles over books, he is keen to keep abreast of new developments and acquire new knowledge whenever the opportunity arises. ■

What is the best advice you've ever been given?

For me, this goes back to my banking days. It sounds so simple, but one of my managers said, "make sure that you understand the basics, and never be afraid of asking what might seem like a silly question." It means that if something becomes an issue later, you should be in a better place to resolve it.

A second piece of advice is not to be afraid of seizing opportunities. And the last is to be honest. In my experience it's always better own up when you've made a mistake, rather than try to cover it up or pretend that it isn't important.

What has been your most enjoyable project to date?

That was undoubtedly the implementation of Coupa, our cloud-based solution, which was part of a very large finance transformation project. It was pivotal in terms of the technology it brought and the connections it offered to the other systems that we were using. It was a huge milestone for me, and by being involved so much in the project management, I learned a lot and gained a number of new skills. It also taught me to focus on the objectives and avoid the temptation to get sidetracked.

What is your favourite gadget or piece of technology?

Whose gadget wouldn't be their phone? They are so important to us. But what I would also like to see is a communication device that you don't have to hold, maybe an earpiece or spectacles. I recently discovered that Google Translate – although it's a bit clunky at the moment – enables you to speak into the phone and translate into another language. It would be great if you could speak into a device, without holding a phone, and get the translation through the earpiece.

Talent, taxes and target market: a trip round Europe's treasury hubs

Europe's cities are jostling to attract MNC, but the continent is not homogenous and different cities offer different opportunities. Proximity to customers and a deep talent pool are the most important criteria.

For a business looking to expand into Europe, selecting the right location is an important step. The decision rests on where companies' customers are based and where they can access the right talent; the cost of compensation and taxes, and the wider business environment that treasury teams will have to navigate.

European cities jostling to attract MNCs looking to set up a European hub all offer safety and stability, cultural riches and a good quality of life. But the continent is not homogenous. When it comes to talent some cities have deeper talent pools than others. Companies must also consider what language requirements they need and how hiring and firing policies differ. It's worth while getting up to speed on the differences as this will impact treasury's ability to scale once landed. Join us for a pros and cons, spin around the continent's treasury centres.

London

First stop London, with its deep talent pool and easy access to a large local market. Post Brexit, corporates continue to use their chosen banking partners for every kind of product or service because of the UK's approach to open borders. The city has an innovative financial services sector and is emerging as a crypto and non-traditional finance centre with vibrant fintech's selling everything from TMS to hedging instruments. In another scoop, London has **retained its crown** as the most attractive European destination for FDI into financial services, according to EY.

"There is no other single European centre like London regarding financial services. The city has a long history of global business, and people think they can't afford not to have a presence in London," says Mike Wardle, CEO of the Z/Yen Group, publisher of the **Global Financial Centres Index (GFCI)** which rates the competitiveness of global cities and their ability to attract investment.

On that point, raising money in London's **deep capital markets** isn't always easy for some companies. Like e-therapeutics, a biotech firm developing computational and genetic medicines platforms, which has decided to delist from AIM in the wake of lacklustre investor interest following a capital raise roadshow in February. CEO Ali Mortazavi links the problem to the UK's risk averse institutional investment community – something the government is trying to address in its Mansion House reforms.

"The Board was extremely disappointed by the lack of institutional UK interest in our innovative, technology-driven value propositions. We struggled to get sufficient engagement from the vast majority of the institutions who were approached, reflecting the risk appetite of the UK markets," explains Mortazavi.

For now, e-therapeutics will tap private capital, and Mortazavi says he will consider a listing on the Nasdaq in the future "where the large gap in the valuation of e-therapeutics compared to its US peers can hopefully be narrowed."

Corporates wanting to access customers in Europe from London must also consider the lingering impact of Brexit. For example, goods will carry a duty if they don't qualify as tariff free trade under the EU-UK Trade and Cooperation Agreement (TCA) because they don't fulfil rules of origin requirements.

Brexit has also created challenges around hiring. Although London's talent pool is deep, the end of freedom of movement means foreign workers now require work permits. "There is a time and cost dimension for businesses getting the right talent in place at the right time," says James Caldecourt, Head of International Trade at Deloitte. The government recently brought in higher salary thresholds for skilled workers as part of an effort to cut migration which saw a number of employers withdraw job offers to foreign graduates in the UK.

Luxembourg

Luxembourg, nestled in the heart of Europe, is drawing its share of MNCs. The landlocked Grand Duchy provides easy access to Paris, Brussels and Frankfurt and is the European home of companies like Amazon, ArcelorMittal and PayPal. Elsewhere its Space Resources initiative is positioning the country as a leader in the industry and has already clustered around 50 companies involved in space mining and related technologies.

Luxembourg can lure MNCs with tax breaks via its extensive network of double taxation treaties with over 80 countries. It has also introduced rules around intellectual property (IP) that allow companies to benefit from significant tax reductions on income derived from IP.

It has a strong insurance and banking sector, and a growing reputation around alternative investment and green finance. The Luxembourg Green Exchange is the world's first and leading platform dedicated exclusively to sustainable finance which now includes a full suite of sustainability-orientated products.

Banks are starting to set up shop. Like Bank of America (BofA) which opened a new office in the country a year ago to roll out services to MNCs, and other non-bank financial institutions that have started to arrive.

Luxembourg is the second largest investment fund centre in the world after the US, managing over €5trn in assets. BofA is

eyeing future growth in global cash management services to NBFIs and is busy offering a suite of services like setting up local bank accounts and providing in-country transaction banking products.

"The opening of the Luxembourg branch demonstrates our ongoing commitment to supporting clients in key countries where they have cash management requirements and providing strategic advice with building resilient enterprises," said Matthew Davies, head of Global Transaction Services (GTS), EMEA and Global co-Head of Corporate Sales, Bank of America.

Geneva and Switzerland

Travel south to Switzerland, and Wardle says cities like Geneva are gaining in prominence to leapfrog European rivals in the popularity stakes. Switzerland's draw rests on its favourable regulatory environment, low levels of corruption and strong infrastructure. Other plus points are access to the EU via EEA and a culture that allows companies to remain out of the public eye. According to pharmaceutical group IQVIA, 20% of European biotech companies are now headquartered in Switzerland.

Companies can tap into favourable tax incentives offered by the Swiss cantons if they employ local people, explains Bella Nokes, Founder and CEO of At Home Switzerland which provides corporate housing solutions to multinationals in France and Switzerland. She says deep local talent pools have also flourished off the back of institutions like the Swiss Federal Institutes of Technology. Based in Lausanne and Zurich, EPFL and ETHZ (respectively) have global reputations for AI innovation and contributed to the Human Brain Project. "Switzerland is expensive, but you can hire easily," says Nokes.

Felix Meyer at ABB Limited, the Zurich-based corporate treasury arm of Switzerland's industrial conglomerate ABB Group, agrees. He believes the country's highly educated, experienced workforce, especially in finance and technology, gives Switzerland an edge. "The legal and taxation environment is also corporate friendly and there is excellent infrastructure."

Paris

Paris is an obvious location for MNCs with operations in the Franco-speaking world in Africa and parts of Asia. Paris's position as a financial centre is supported by lifestyle arguments in its favour and tax benefits for new arrivals. Wall Street's biggest banks have moved more than 1,600 people to the French capital in the aftermath of Brexit and are still building out their French operations in strategies that favour Paris over Frankfurt or Dublin.

On the flip side, Paris has a smaller English-speaking talent pool. And a bigger challenge corporates face lies in their ability to let staff go. Notice periods can be a brutal one to two weeks in New York with scant employee protections. Yet that pendulum swings the other way in favour of protective labour laws in France and sky-high dismissal costs for employers.

Treasury Today interviewees say once the probationary period (during which time both employers and employees can end a working relationship) is over, employers must follow protocols that include formal notice periods, additional training or alternative placement within the firm before they can process a termination.

"There is good availability of senior management, but Paris is rarely selected as a European HQ for US businesses," write the authors of '**Where to Land? Selecting your European HQ**,' which offers advice to US companies looking to expand in Europe.

Dublin

Dublin's position as a hub is bolstered by major MNCs and their treasury centres including IBM, Pfizer, General Electric, Google, Microsoft, Meta, Apple and Ikea calling the city home. Dublin's low corporate tax rate at 12.5% acts as another magnet. That said, 'Where to Land' report authors caution against giving too much weight to taxes in a location decision. "Choosing the most favourable location for taxes and then struggling to find the talent you need or being too far from your customers will only lead to a painful waste of time and capital," they warn.

Fortunately, Dublin boasts a deep, multilingual junior talent pool and a liquid job market. With four universities, Trinity, UCD, DCU and the Technological University Dublin, the latter recently upgraded, the city produces 27,000 graduates per year. Dublin also has a reputation for high-quality leadership talent, particularly with VC-backed technology company experience.

Still that liquidity comes at a price. "Companies must be prepared to offer attractive packages when hiring and to defend their talent pool through career progression and development opportunities," flags John James Dunne, President of the Irish Association of Corporate Treasurers.

The IACT recently established a strategic partnership with Trinity College Dublin, introducing a pioneering direct route into treasury through a rotational 18-month Graduate Programme which will develop new and specialised talent and Dunne describes an enthusiastic and vibrant treasury community. "Our broad range of events include our Black-Tie Dinner and our flagship two-day Treasury Management Conference, with recent additions of Young Treasurer and EDI events. The IACT has grown over the past 38 years in tandem with Dublin's well-developed and experienced Treasury industry. Dublin is recognised as a centre of excellence and a destination of choice for Treasury Centres by many sophisticated and complex global companies."

MNCs flying into the city should prepare for a shortage of housing and high cost of living. And air is the only realistic transport to other financial hubs; nor does the city have the depth in capital markets of other financial centres which has led to several indigenous companies moving their stock listing to London or New York.

Other alternatives could include Frankfurt, city of the euro, and home to the European Central Bank and Germany's Bundesbank. It has a renowned university and a network of financial services and strong skills base. But the German financial hub is small by global standards and does not directly compete with other financial centres. Elsewhere Amsterdam has a growing reputation in fintech and as a base for leading creative industries bolstered by companies like Netflix. Government benefits, tax breaks and low real estate costs all feed into location decisions. But the ability to tap talent and customer demographics are, perhaps, the most important factors for MNCs hunting a European home. As Europe's cities lay out the red carpet, it's worth remembering they aren't just competing against each other. Dubai and Saudi Arabia continue to rise up the popularity league tables with compelling tax breaks and easy access to the rest of the world. ■

Technology drives financial inclusion

Financial inclusion overcomes inequalities, reduces poverty and drives economic growth. New technologies continue to be adopted by emerging markets to further these goals, and now some of those innovations are making an appearance in developed countries.

Receiving a salary and paying bills are just two types of transactions that people the world over take for granted. Yet for many in developing countries, who don't have access to basic financial infrastructure, these things aren't possible. Many are still relying on cash, and being cut off from financial services deprives them of other opportunities. Great strides are being made with financial inclusion, however, and some of the technologies that are being used in emerging economies are also being applied to developed markets.

Financial inclusion can aid economic growth, overcome poverty and create a more equal society. As individuals become better connected to the financial services ecosystem, so do the opportunities for the companies serving them. Researchers at MIT and Georgetown University estimate that M-Pesa in Kenya – the oft-cited case of a successful mobile money programme – was able to lift 2% of households out of poverty.

And Wharton management professor Valentina Assenova notes that mobile money has also been a dominant force in sub-Saharan Africa, Latin America and South Asia and addresses "institutional voids" that have traditionally excluded many from accessing credit or the financial infrastructure.

Harish Natarajan, Practice Manager, Finance, Competitiveness and Innovation, World Bank comments that the drivers of financial inclusion are lowering the cost to provide financial services, lowering the cost to access financial services, and creating a demand for and fostering trust and confidence in financial services. "These are positively impacted by various supply side and demand side interventions and backed by strong support from public authorities, and public-private collaboration," says Natarajan.

By improving the infrastructure, everyone can benefit from financial inclusion and some of the interventions that can advance financial inclusion include opening up the market to new players, and digitising large volume frequent payment flows, such as social benefit transfers, salary payments and remittances, for example.

Current state

Mobile money adoption continues to grow around the world, and GSMA, an association for the mobile network operators, has tracked this progress in its 'State of the Industry Report on Mobile Money 2024'. Sub-Saharan Africa has the highest levels of global mobile money adoption, which was estimated to have increased gross domestic product in the region by more than US$150bn or 3.7% between 2013 and 2022. "Beyond contributing to financial and digital inclusion, increasing mobile money use has led to higher GDP – particularly among countries in East and West Africa," the GSMA report states. In 2023, registered accounts grew to 1.75 billion, which was a 12% year on year increase.

The report found that international remittances and merchant payments were among the fastest-growing mobile money use cases in 2023. Transaction values for international remittances grew to almost US$29bn, a one-third increase compared to 2022. Also, many individuals are now using mobile money to pay for goods and services: in 2019, in every US$10 of mobile money, one dollar was spent this way. By 2023, this figure had doubled to two dollars in every US$10.

Technology as a driver

Leora Klapper, Lead Economist, Development Research Group, World Bank tells Treasury Today Group: "Technological innovation is without doubt key to enabling inclusion. Some of the biggest impacts to date have come from widespread and foundational technical capabilities." She gives a number of examples, such as the rapid adoption of mobile money in sub-Saharan Africa. "Across the region, mobile money contributed to a near-doubling of account ownership rates between 2011 and 2022. Its exact role varies across the continent, depending on the country. It has played an additive role in some countries – such as South Africa, which had higher-than-average bank account ownership rates to begin with – and an enabler of first-time inclusion in places that began the last decade with low account ownership," says Klapper.

Another example is the government payment digitalisation in Brazil. This initiative saw lower-income households have increased account ownership when Brazil digitised government-to-person payments through its Bolsa Familia Program (BFP), which merged multiple pre-existing conditional cash transfer (CCT) programmes into one electronic benefit card (EBC), which was linked to bank accounts at Brazil's state-owned bank, explains Klapper. "Correlating with that effort, between 2011 and 2021, account ownership increased by 30 percentage points to reach 84% of all adults. That proved a massive benefit for the country during Covid-19, when the central bank launched the Pix payment platform and used it to deliver direct payments into people's accounts," explains Klapper.

"A reliable, convenient and nationally-available digital solution or service created the foundation for many unbanked adults to acquire accounts. Those solutions were able to take hold because the government launched programmes to motivate the use of digital solutions," Klapper adds.

There are other technologies, which have also been adopted in developed markets by various institutions, that are driving financial inclusion. Natajaran highlights the role that real-time payments have had in lowering costs and access to financial services. When used with QR codes, for example, these instant payment systems create new ways to initiate and process payments. Natarajan also points to the potential of open finance, which enables various organisations to have access to data so that it can be harnessed to better appraise risks, compare products and services and automate routine financial decisions.

Adoption of QR codes

Mobile money has driven financial inclusion in many markets, and there is still much work to be done. Aminata Kane, Head of Mobile Money for Africa and the Middle East, Orange writes in a blog post that many emerging markets are still heavily dependent on cash. To address this, QR codes have been introduced, and mobile operator Orange has tested this technology in Senegal and Ivory Coast so that customers pay just by scanning their QR codes, which links to the merchant's phone number and then directly transfers the funds directly into their mobile wallet. This avoids the need for cash and also helps build up the mobile money history for the merchants so they can qualify for small loans.

Expanding internet access, mobile network coverage, and banking infrastructure in rural and remote areas facilitates greater access to financial services.

Hakima El Alami, Director, Bank Al-Maghrib

Orange has also launched microloans in several African countries and has 1.3 million microloan customers in Côte d'Ivoire alone. No formal credit history is required to get a loan and they can get the credit immediately in their mobile wallet (in the region of US$100 and US$2,000) and can pay it back within 30 days.

This is the kind of scenario that is held up as the success story for mobile money programmes, such as M-Pesa in Kenya. Sitoyo Lopokoiyit, M-Pesa Africa's Managing Director, gives a typical example of how financial inclusion can change lives. He gives the case of Mama Lenna, who took US$10 of credit because she wanted to start a restaurant. Every morning she would wake up at 4am go to the market to buy ingredients so she could make breakfast for workers at a construction site. Her business grew, she recruited four other women, and now they have a combined credit of US$1,000 and are able to support 23 dependents. "When we lend out US$14m a day, these are the stories that empower the society we operate in, that empower SMEs, that empower micro-SMEs," Lopokoiyit said in a McKinsey podcast.

Driving further adoption

While much progress has been made with financial inclusion, there is still more that can be done. Hakima El Alami, a Director at Morocco's central bank, Bank Al-Maghrib, tells Treasury Today Group that a number of elements are necessary: "When combined, these create an ecosystem that supports greater financial inclusion, helping to reduce poverty and promote economic growth," she says.

Some of the factors that are necessary include access to digital financial services, which improve access in remote or underserved areas. Resilient payment and digital infrastructure is also necessary. "Expanding internet access, mobile network coverage, and banking infrastructure in rural and remote areas facilitates greater access to financial services," says El Alami. Innovative financial products that meet the needs of underserved populations, such as mobile wallets, microloans and microinsurance also drive and foster financial inclusion. Another pillar is financial literacy and digital education.

Financial inclusion is also underpinned by government policies and regulations, notes El Alami, which includes simplified know your customer (KYC) requirements.

Public-private partnerships between governments, financial institutions and technology companies can create scalable and sustainable financial inclusion initiatives. El Alami notes, trust and security is important to encourage more people to participate in the formal financial system.

Klapper notes a number of ingredients are necessary to drive financial inclusion, which all depend on each other. She explains: "It is very challenging, if not impossible, to own an account if you don't have an ID or other documentation needed to open one. You can't use a mobile money account without reliable connectivity, and it is difficult to regularly use a bank account if you don't live near your bank or have another way of accessing it, such as through a mobile app or the internet. There is also the issue of trust in the system, which is hard to build in places where there is no consumer protection in place."

This is a point that is highlighted in the World Bank's Global Findex database, which tracks metrics for financial inclusion. This database "consistently shows a correlation between not having a bank account and not having a government-issued ID and/or not having your own mobile phone.

In fact, lacking ID is consistently cited by unbanked adults among the primary reasons why they do not have an account – more so for women than for men. Also, about one in four adults say they don't have an account because they don't trust institutions, and part of that trust has to do with feeling like there is recourse in the event that something goes wrong, a process that requires effective and enforced consumer protection," Klapper explains.

Adoption in developed markets

While it could be assumed that institutions in developed markets have access to the most sophisticated financial technology, there are plenty of examples of applications that have been used in emerging markets that are now being applied to more developed economies. For companies that keep an eye on the latest payments technology, it makes sense to keep an eye on the innovations that come with greater financial inclusion.

When it comes to the adoption in developed markets, Natarajan says, "There have already been instances of innovations flowing bi-directionally between developed and developing economies and amongst developing and developed economies." These include prepaid cards and accounts in advanced economies that pre-dated developing of mobile money in the Philippines and then Kenya and East Africa. "Mobile banking in developed markets led to third-party mobile apps used for payments in China and then eventually development of super-apps in China which several other developed and developing economies adopted." There are other examples of technologies being adopted in developed markets, such as QR codes. With technologies such as these, not only has access to financial services been improved, organisations in developed markets have also built on the latest payments technologies. ■

Dealing in uncertainty

Uneven market data and forecasts suggest that while some sectors will see an increase in M&A activity this year compared to 2023, geopolitical developments and concerns around interest rate and currency movements are acting as a brake on many potential deals.

At first glance, deal data for the first quarter of 2024 suggests a significant rebound in mergers and acquisitions after a year Bain refers to as a one where buyers and sellers couldn't agree on valuations and strategic deal multiples sank to their lowest level in 15 years.

According to Barclays, year-to-date global volumes for the first two months of this year were up by two-thirds over 2023 – driven by the natural resources and technology sectors – while S&P Global Market Intelligence's latest report states that the total value of first quarter global M&A deals was up 18.5% on the same period last year.

GlobalData was even more bullish, suggesting that deal value in the first three months of 2024 was up 38% year-on-year. LSEG valued the deals completed globally at almost US$800bn over this period.

But of course this does not mean that no mergers were completed last year. For example, in February 2023 Advent International and Wilbur-Ellis concluded an agreement to combine their life sciences and specialty chemicals solutions businesses Caldic and Connell into a single business with combined sales of around €3bn.

Wilbur-Ellis Treasurer, Tamara Anthony explains that the rationale for divesting Connell was that although it was already profitable it could perform even better in combination with a larger player. "This allowed us to benefit from having ownership in the Asian market while focusing our energy and

> With a higher cost of capital and greater regulatory scrutiny further complicating the M&A landscape, we expect joint ventures, strategic alliances and minority investments to feature through 2024.
>
> Jana Mercereau, Head of Corporate M&A consulting Great Britain, WTW

resources on being a North America agricultural and nutrition business," she says.

One of the key tasks was the divestiture of Connell as one of the borrowers and guarantors in the company's credit facility, which required the consent of the lender group.

"We had to develop the financial models of what the business would look like with Connell carved out, making sure that we could meet our financial metrics going forward," says Anthony. "There were also some commingle business activities where we had to set up new companies which required significant legal and tax planning to efficiently spin-off Connell and continue core business operations."

All this work took over a year to complete. From a treasury perspective change of control provisions in Connell's credit and other agreements had to be addressed and liquidity sources managed. Anthony worked closely with her counterparts at Caldic and Connell to ensure all exposures were covered at the new business.

Having accumulated considerable experience in managing acquisitions in her previous roles at Cisco, Lam Research Corporation and Avaya, Anthony says the ability to have the right people and advisors at the table to help understand the key issues and how to resolve them is vital.

"There are always unique challenges relating to taxation, legal and regulatory," she says. "Where there are dependencies, you need to be able to work collaboratively and that is where third-party advisors who do this regularly become very valuable partners."

Current market data is not uniformly positive either. GlobalData refers to a fall of 13% in deal volume year-on-year in Q124 with all regions recording a drop in deal volume from the previous quarter, while LSEG observes that mid-market deals (US$500m or smaller) were down by a fifth in value and a third in number compared to Q123.

"A focus on technology – particularly AI – will continue to build and provide impetus for mid-market deals and bolt-on acquisitions that help boost overall activity levels as strategic and financial buyers take advantage of better-priced opportunities for growth," says Jana Mercereau, Head of Corporate M&A consulting Great Britain at WTW, who expects the energy sector to see M&A activity as companies look to catch up with their net zero goals and transition into the renewable energy space.

"With a higher cost of capital and greater regulatory scrutiny further complicating the M&A landscape, we expect joint ventures, strategic alliances and minority investments to feature through 2024 as companies respond to market disruption by sharing and mitigating risk," she adds.

In terms of factors that increase the chance of a successful transaction, Mercereau references the ability to manage talent risks in a tight labour market "which if left unchecked can quickly undermine deal value."

IPO pipelines are well filled with over 300 companies in North America and over 100 in Europe considering listing – but in 2025 rather than 2024 as markets need to stabilise even further.

That is the view of Jens Kengelbach, Senior Partner and Managing Director at Boston Consulting Group and global leader of the firm's M&A practice, who expects 2024 to be a transitional year despite the abundant dry powder of financial investors and the need for transformation across many industries.

"The need for continued digitisation across industries means activity in the technology sector will most likely be higher," he says. "Secondly, the energy transition and decarbonisation of the global economy means energy companies and related sectors will streamline their portfolios and invest in carbon-free technologies through transactions. Thirdly, the increasing focus on the circular economy is driving deals in industries such as consumer products, fashion and materials."

Signs of normalisation, such as more stable interest rates, decreasing inflation and less volatile markets, have made it easier to establish valuation expectations. But while vendors and buyers are becoming more positive about M&A, deal processes are likely to take longer due to the need for enhanced diligence to thoroughly assess all perceived risks and benefits.

"Private equity houses are increasingly facing pressures from rising debt costs and investor expectations for returns, complicating efforts to raise new funds," says Akshay Singh, Managing Director in the transactions services practice at FTI Consulting. "Some firms have found temporary relief by opting to refinance and extend leveraged loans, hoping for a market recovery."

Singh notes that sectors such as TMT, healthcare (including pharma) and energy are already experiencing strong activity, while consumer and retail remain quiet. "The drive to remain competitive through emerging technologies – along with other trends – is likely to result in high M&A activity in the tech and related sectors as companies seek to transform their offerings, reduce costs and enter new markets," he adds.

In 2015, solar tracker and software solutions provider Nextracker was acquired by manufacturing company Flex.

At the beginning of this year Flex announced that it had completed the spin-off of all of its remaining interests in Nextracker to its shareholders.

This process required Nextracker to build out a treasury function from scratch with a hard deadline as Flex retained the existing treasury department following the separation.

"Our team was quite lean at the outset," explains Nextracker Assistant Treasurer, Ilkim Saracel. "Initially, we only had a single treasurer (myself) on our internal finance team so over the next five months we hired four additional personnel from overseas and one from the US."

The treasury team was given nine months to get the new treasury operation up and running, but allowing for holidays the effective working timescale was seven months.

"Mapping out duties, regions and limitations was important to determine the right size of treasury and ensure that there was a contingency plan in place," says Saracel. "Compounding our lean team structure was the critical process of vetting and selecting the right partners to support our technology needs and banking relationships."

Another major obstacle was the fragmented and decentralised nature of how treasury processes had been handled previously. The team discovered inefficiencies whereby stakeholders across various countries all weighed in on treasury decisions and activities such as FX trading.

"The sheer magnitude of revamping and implementing entirely new treasury systems, policies, workflows and personnel responsibilities in just a few short months cannot be overstated," says Saracel. "Seemingly small setbacks or delays risked derailing our aggressive timeline."

The risk of delay should not be underestimated. McKinsey research suggests that almost one-third of the largest global acquisitions by deal size experienced delays attributable to factors beyond their control over the last two years – a figure that has doubled since 2020.

The main causes of these delays included increasingly complex integration due to more cross-border transactions, obstacles to securing shareholder approval, and greater scrutiny by regulators extending the time needed to advance from announcement to approval.

"Historically, most M&A transactions fail to create the promised value for their stakeholders," says Konosoang Asare-Bediako, Senior Investment Banker for Mergers and Acquisitions at Absa Corporate and Investment Banking. "This systemic failure can be attributed mainly to a lack of strategy and the acquirer paying too much for the target. M&A must happen with the right target at the right price to deliver stakeholder value."

Saracel says her team learned some critical lessons along the way, such as that establishing a cross-functional steering committee to lead the treasury transformation was vital for maintaining momentum.

"Breaking the work into smaller pieces and continuously re-evaluating allowed us to adapt quickly," she adds. "The steering committee had to set hard deadlines and ultimatums to keep decision-making on track.

The sheer magnitude of revamping and implementing entirely new treasury systems, policies, workflows and personnel responsibilities in just a few short months cannot be overstated.

Ilkim Saracel, Assistant Treasurer, Nextracker

Most importantly, we had to make coordinating across all internal teams and external partners an ongoing priority."

Looking ahead, FTI Consulting expects deal activity in all sectors to increase over the next three to six months as a result of the significant amount of private equity dry powder needing to be invested and a convergence of buyer/seller valuation expectations.

Barclays' global M&A team note that corporates are leading the way in the early stages of the M&A rebound as they see a strategic need to transact and are likely to continue to press their short term advantage.

The bank also acknowledges that private equity firms are under pressure from limited partners to return capital before they commit to new funds, although improving debt capital market conditions will present increased opportunities to monetise assets.

GlobalData has a more subdued take, observing that though the prospect of rate cuts in certain markets and a generally improving growth outlook could see an increase in activity, mega deals will continue to face hurdles – especially in the US where antitrust concerns have been a focus of regulators.

Ongoing challenges such as weak global economic growth, geopolitical instability and uncertainty surrounding this year's US presidential election will continue to impact deal making suggests Mercereau.

"At the same time, recession fears are fading and predictions for a rebound in M&A completions are backed by the recent sharp rise in IPO activity," she says.

While there are signs of an upcoming increase in deal activity, economic conditions are still challenging, with high inflation and interest rates coupled with subdued consumer spending and elevated debt levels, resulting in increased interest costs.

Moreover, the geopolitical landscape remains uncertain and upcoming elections will have an impact on investment activity.

"Despite these challenges, corporates and private equity firms still have the option to pursue alternative financing avenues in response to the current high interest rate environment," concludes Singh. "This includes private credit and bespoke equity structures." ■

Dealing with trapped cash

How should treasury approach the problem of trapped cash?

Sidhanth Hota
Group Treasurer
Airtel Africa

The most common reason for trapped cash is a lack of currency convertibility, and challenges finding hard currency which may be a factor of investor appetite, regulatory backdrop and other factors. The reasons for a lack of dollars varies country by country, and the solutions are also country specific. Witness how 12 months ago, there was a notable lack of hard currency in Nigeria that resulted in uncertainty for businesses trying to plan. It was difficult to calculate the rate of return on investment or plan capital expenditure.

A few months ago, along with other supportive macro-economic factors, Nigeria's Central Bank came up with new regulations to promote better FX price discovery which included having to devalue the currency. Devaluing a currency is a painful process, and businesses may take some level of losses if they aren't hedged. But having better certainty and price discovery gives investors the confidence to invest because they are more confident of being able to repatriate the returns of their investment. It also has a long-term benefit for the economy.

Kenya is another example of how the exchange rate and currency scarcity can be dynamic. Between 2021 and early 2024 Kenya's currency was subject to meaningful devaluation and currency availability was sometimes reduced due to certain macroeconomic factors. In the last four months the Kenyan Shilling has seen meaningful appreciation against the US dollar and there is a marked improvement in foreign currency availability. Corporates in frontier markets, may have periods of trapped cash and uncertainty and navigating it involves a certain amount of hustle. This means calling on banking relationships for support until macroeconomic factors correct and foreign currency becomes more available.

Our treasury is entrenched with global, regional as well as local banks. Sometimes local banks have the largest network to find you solutions to navigate volatility in these markets, including trapped cash. Once a currency corrects and the economics turn more favourable, we look to find solutions for utilisation of the trapped cash. This is the art of managing esoteric currencies in Africa.

When it comes to hedging, we prefer deliverable hedges, although they may cost slightly more since they hedge exchange rate as well as convertibility risk – aka having deliverable FX at the end of the term. Sourcing the currency can be a meaningful portion of the risk in some emerging markets.

Businesses need a local bank presence and expertise, but to drive more sophisticated solutions they also need strong global relationship banks that can design bespoke products. It is therefore important for us to have the right balance, and a multi-bank approach. We notice in Africa some regional banks have very developed technology that is equal or better than global banks working off legacy systems.

Smartphone penetration is less than 50% in Africa and much behind the rest of the world. African countries have some of the youngest populations in world. We have to manage the volatility, but this is part of our business model because we recognise the exciting opportunity to continue our growth and the growth of digital and financial inclusion in the continent.

Robin Tabbers
Director
R&P China Lawyers

For numerous foreign companies operating in China, efficiently repatriating profits earned in the country has been a persistent challenge. Leveraging NAV loans is one way businesses in China can strike a balance between accessing the necessary capital for growth and maintaining liquidity. NAV plays a crucial role in capitalising companies, particularly during their early stages in China. One significant aspect of this is the utilisation of NAV loans, wherein a loan of up to 200% of the capital can be obtained. This approach offers distinct advantages, as the loan can be repaid easily, resulting in less cash being trapped within the Chinese market.

Dividend distributions have been the conventional approach to bringing funds back home, but the process isn't always straightforward and can be costly. Foreign-Invested Enterprises (FIEs) in China typically face a 25% corporate income tax (CIT) on their gross profit, and an additional 5 – 10% withholding tax when remitting dividends offshore, subject to any applicable double taxation agreement (DTA).

Moreover, dividend payments can only be made if the previous years' losses have been offset, and FIEs are required to set aside 10% of their annual profits into a reserve fund until 50% of their registered capital is reserved. As a result, a considerable amount of cash gets trapped within China.

To mitigate the extremely delayed remittance of dividend and lack of interim dividend distribution options, foreign investors have been considering alternative approaches to dividend payments. One such method is charging their Chinese subsidiaries service, management or royalty fees, which allows for greater flexibility and avoids some of the limitations

imposed by dividend payments. However, it is important to note that taxes, specifically CIT, may be once more generated in the shareholder's home country as a result of this fee income.

A more flexible and tax-efficient alternative is leveraging outbound intercompany loans. This method allows companies to repatriate remaining cash while providing the flexibility to reinvest back into China when necessary for business expansion.

There are two primary schemes for extending loans to offshore affiliates: loans in foreign currency regulated by the State Administration for Foreign Exchange (SAFE) and RMB loans regulated by the People's Bank of China (PBOC).

Companies such as Coca-Cola have successfully utilised the PBOC scheme, enabling them to send a RMB250m loan to an offshore affiliate within a mere tenworking days. Reports also indicate that medium-sized companies have successfully repatriated cash using this method. In comparison to dividend distribution, outbound loans offer two significant benefits: greater flexibility and a deferral of the 10% dividend withholding tax. As with any business practice in China, variations exist between cities and even districts, and individual banks maintain their own approval policies. It is crucial to consult with legal professionals and your bank at an early stage to determine the specific local requirements when utilising intercompany loans to release trapped cash.

In addition to intercompany loans, two other recent developments deserve a mention. Multinational corporations established in the Shanghai Free Trade Zone can now establish a two-way RMB cash pooling system, integrating their onshore RMB cash flow generated throughout China with their global cash pool, subject to certain restrictions. Some major MNCs have already implemented such cash-pooling systems with reputable banks.

Another method for utilising trapped cash involves providing it as collateral for loans obtained by offshore affiliates. While this was previously achievable by providing a guarantee to a PRC bank, the process has become much more streamlined.

Marion Reuter

Regional Head of Transaction Banking Sales UK/Europe
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Desiree Pires

Head of Corporate Sales, Markets, Europe
Standard Chartered

One of the biggest risks of trapped cash comes from significant depreciation in the local currency. Any devaluation will erode the value of the cash that might be trapped in country, but it may be possible for corporates to hedge this risk.

Traditional FX hedging solutions are not available in all countries because many lack a liquid forward market. However, non-deliverable forwards are being offered by banks in an increasing number of currencies and could be used to hedge an exposure. We are also seeing a growing FX options market in some emerging market countries, including Africa. In certain cases, these may be an attractive solution from a cost perspective when compared against the cost of rolling forwards, especially given the potential for significant currency moves in these markets.

Corporates also have other options away from traditional hedging. Longer-term, companies could consider agreements with suppliers or customers requesting payment in chosen currencies that reduce the risk of trapped cash, or can be used to offset and reduce net exposures. MNCs can also navigate the problem by keeping funds in a stable currency. But this is complicated by restrictions on opening non-resident accounts.

Working with local banks can also help. A mix of local and international banks can support MNCs sourcing additional pools of liquidity in certain markets, although it does depend on the underlying requirement. For example, whilst more than one bank may help with FX liquidity, multiple local banks from a cash management could result in process inefficiencies and increased operational risks.

Partnering with different banks involves bringing different account statements into one system and there will be local banks that are not on Swift. They can't send structured MT940 messages which makes it difficult for treasury systems to pick up the information in an automated way. This means that even though technology like ERPs support corporates doing business in the region, sometimes it doesn't.

Still there are digital solutions. For example, it's possible to automate cross-border currency payments that reduce the administrative burden for treasury and avoids having multiple currency accounts, especially for minor currencies.

Another trend we see is that companies are setting up regional treasury centres to manage Africa more regionally where also the Middle East and especially Dubai are upcoming locations. This works well in combination with a team on the ground.

The local team play an important role meeting documentation and central bank requirements that require people on the ground with an oversight of the local market. The centralised team based in the Middle East can then take decisions on the materiality of the different risks in the context of the group as a whole, leveraging group wide relationships. ■

Next question:

"Companies talk about the importance of sustainable and inclusive growth. What does it mean, and how is treasury involved?"

Please send your comments and responses to **qa@treasurytoday.com** by 12th July 2024.

Chaos in the new Middle Ages

Tensions between China and the US are likely to increase rather than decrease and could turn into a decades-long struggle. Political analyst Andy Langenkamp explains that even if Biden wins the US election, chaotic and strained China US relations and wider geopolitical and societal trends reminiscent of the Middle Ages, will continue.

"The most important characteristic of the world is, in a word, 'chaos,' and this trend appears likely to continue," Chinese leader Xi Jinping said in early 2021. This observation is in line with a recent report by the US think tank Rand, which describes the current situation in the world as neomedieval on the basis of five trends that have strong similarities to the Middle Ages:

- Weakening states: governments struggle to maintain legitimacy as they struggle to maintain levels of prosperity, services, security and opportunities for their citizens.
- Fragmenting societies: national unity is generally undermined by polarisation, discontent and culture wars.
- Unbalanced economies: growth will increasingly be concentrated in a few sectors, and this will exacerbate problems of entrenched inequality and stagnant social mobility.
- Ubiquitous threats: the proliferation of risks – such as natural disasters, pandemics and violent non-state actors and war – creates a sense of permanent threat.
- Informalisation of warfare: armed forces increasingly consist of professional troops supplemented by private security companies, mercenaries and armed militias. Older combat methods are being revived, as we have seen in the trench warfare in Ukraine.

So, once powerful governments are struggling to hold the reins; politics is more polarised, attitudes have hardened and willingness to compromise is seen as a sign of weakness. Inequality, social unrest and divisions have increased.

Inequality is also rising in China and economic growth is slowing. Leaders increasingly rely on repression to maintain order and authority. China's internal security budget has exceeded its defence budget for more than a decade.

Because of this state of affairs, China and the US do not seem to be in a position to engage in full battle with each other any time soon. The weaknesses of the two states and the internal challenges they face make it too risky to enter into a direct conflict; also because rulers cannot assume that citizens will rally behind a war effort that requires real and sustained sacrifices. In the process, other threats – a possible next pandemic, climate change, political unrest – will compete for attention and resources.

The result is likely to be a (very) protracted, low-intensity conflict, rather than an all-out war. This is not to say that we will not see intense escalation. For example, a Chinese blockade of Taiwan is a possible scenario. In all likelihood, however, the battle between China and the US will be fought in a grey area of, for example cyberspace and economic arenas.

Peak China?

Some analysts are convinced that China is already at or past its peak. This is too premature a conclusion. And even if China stagnates, it is still an immense power that will shape the course of the world in the coming decades; especially if America is terminally ill, as Xi Jinping and others in the Chinese elite seem to believe.

Supporters of the Peak-China theory base their conclusion on weakening economic growth, the ongoing crisis in the property sector, outbound capital flows and unrest within the defence establishment.

The above problems are indeed serious, but certainly do not mean that the situation will only get worse for Beijing from now on. First of all, economic power does not equal geopolitical power. So even if China were to continue to struggle economically, this would not necessarily mean that its role on the world stage is waning. In any case, Xi will show no sign of taking a step back. In 2021, he said China is closer to the spotlight of the world stage than it has ever been and is in the process of its rebirth. China's intelligence chief added "the East is rising and the West is waning."

Moreover, the supposed signs of weakness do not even have to mean vulnerability. Xi has increasingly made himself and the CCP the centre of politics, the economy and society and has neutralised potential competing forces. And the ease with which Xi sidelined his confidants in China's defence and foreign affairs departments may be a sign of strength rather than vulnerability.

Also, the economic weakening seems to be partly a conscious choice by Xi. The old growth boosters – property, infrastructure and processing trade – will only make China more vulnerable if it continues to rely too much on these elements. Beijing therefore chooses to shift its focus to green energy, EVs and batteries and accepts that this means it must initially suffer some pain. As Evan S. Medeiros writes in Foreign Affairs, "Xi has embraced austerity and tried to revive the spirit of sacrifice, self-reliance, and egalitarianism that characterised earlier eras of Maoist rule."

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It should not be forgotten that while China may be swallowing some bitter pills, it is a superpower in many fields and whose advance is not yet over:

- China is the world's largest exporter and creditor.
- It leads the way in industries that will be essential in the coming decades, such as EVs and batteries.
- It is (by far) the leading player in the market for rare earths and other essential commodities.
- It has one of the largest and most advanced armies in the world, and it conducts joint exercises with more and more countries and provides training to a growing number of states.
- It has more embassies and consulates than America.
- CNN's Chinese counterpart has twice as many foreign bureaus as CNN, and China's news agency Xinhua has 180 offices worldwide.
- China is anchoring itself ever more firmly on the international diplomatic, economic and military world stage through the Belt & Road (2013), Global Development (2021), Global Security (2022) and Global Civilization Initiatives (2023).
- The BRI is firmly embedded in UN structures and roughly 150 countries have joined it. For example, Huawei supplies 70% of all 4G technology in Africa.
- The GDI targets development in a broad sense (poverty, climate policy, healthcare, food security) with now over 50 projects and support from over 70 countries.
- According to Beijing, the GSI aims to prevent a Cold War mentality, bloc formation and unilateralism and, at least in words, has the support of more than 100 countries and international organisations.
- The GCI has been the least successful so far. This initiative argues that different cultures and varying levels of prosperity also call for a variety of political and economic models.

Head-on collision?

In the US, many are getting restless in the neomedieval climate, with an immensely strong China despite all its difficulties. China is therefore one of the few dossiers on which Democrats and Republicans can still regularly find common ground. However, this only goes so far. Within the GOP, there are also quite a few voices claiming that despite a fairly hard China line, the Biden administration is still far too soft on Beijing. Matt Pottinger (who served on the National Security Council under Trump) and Mike Gallagher (Representative from 2017-2024) write: "The Biden team's policy of 'managing competition' with Beijing risks…bilateral stability at the expense of global security, and diplomatic initiatives that aim for cooperation but generate only complacency. The United States shouldn't manage the competition with China; it should win it." According to Pottinger, Gallagher and the like, Beijing is still able to gain ground far too easily on the global chessboard via support for Russia, cooperation with North Korea and Iran, (disguised) support for Hamas.

Hardliners argue that America must first ramp up tensions by taking a harder line against Beijing in order to bring about more stability and calm in the longer term. This includes sharply increasing defence spending, restoring US primacy in Asia and more American troops within firing range of China. But it also includes removing China's permanent normal trade relations status so that an even more protectionist policy can be pursued towards China. Also, US society as a whole should wake up to the fact that China is an enemy, which would prompt Americans to stop using TikTok altogether, for example.

Given the above, tensions between China and the US are likely to increase rather than decrease (and they will likely turn into a decades-long struggle). And not just if Trump wins the election and Republicans take over (for the most part) in Congress. Biden recently said: "We don't let tyrants win; we oppose them. We don't merely watch global events unfold; we shape them. That's what it means to be the... indispensable nation. That's what it means to be the world's superpower and the world's leading democracy." Such statements leave little room for China. ■

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