July/August 2024

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China's property crisis?

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Deputy Treasurer
Baker Hughes

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Volume 12/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.

Continuous improvement

This latest issue of Treasury Today Asia has much on the theme of making things better, and how to continually search for improvement and adapt to a changing world. The nature of commerce is changing and companies are continually finding new ways to improve ways of doing business. One model that has seen a rapid rise in recent years is the digital marketplace, which many companies are now adopting as a way of connecting with their customers. The feature on this topic looks at what is driving this trend, the benefits and what role treasury can play in supporting a marketplace.

Many of the big-name marketplaces have been born in China, and despite shifting economic winds, the country remains the major trading partner for the rest of the world. This has implications for the internationalisation of the renminbi, and in this issue we look at how the adoption of the offshore RMB – the CNH – is faring, and how Hong Kong has developed as an international financial centre.

Meanwhile, China's banks continue to grapple with problems in the property sector which the government is taking steps to address. However, as one observer comments, any move China makes is often like a Rorschach test – the psychological inkblot exercise – where what one sees confirms what they are already thinking. The narrative about China is often that the banks are on a brink of a crisis, but, as our interviewees explain, this can be driven by a different perspective on the nature of Chinese banks.

Corporates have had to adapt and adjust to the shifting patterns with China, and have looked for continuous improvements in how they manage their supply chains. One of the beneficiaries of this shift has been India. We look at the prospects for the Indian economy and why there are many reasons for observers – and treasurers – to be optimistic about the years that lie ahead.

Also, treasurers are continually searching to improve one of their greatest challenges: trapped cash. In the Question Answered section, we ask a number of experts how they successfully navigated this.

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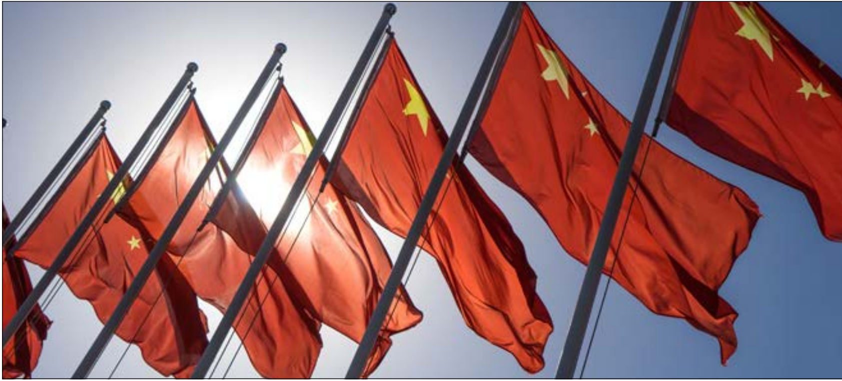

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China stares down banking challenges

China's financial institutions continue to face challenges in the property market, with some saying the sector is on the brink of a crisis. Others disagree and argue that China has the wherewithal to solve any problems before they have a global impact.

The size of China's economy and its banks is awe-inspiring; its growth has been remarkable and, on the flip side, if things go wrong there could be terrifying implications for the wider financial system and global economy.

China's banks continue to face problems with the property sector, with major developers running into trouble, property values crashing, and banks being saddled with loans that may not be repaid. By some estimates, loans to property developers account for 30% of the major banks' assets. Major property companies, such as the largest real estate Country Garden have defaulted on their debt and the government has asked the banks to support dozens of major companies.

The problems also extend to the shadow banking sector, with the asset management firm Zhongzhi Enterprise Group, for example, being investigated for the billions it lent to real estate firms.

Such problems pose a problem for the rest of the world if they spill over into the global financial system. Chinese banks are still some of the largest in the world, and in 2023 held the top four spots, according to S&P Global Market Intelligence's Global Bank Ranking. ICBC is the world's largest bank with US$6.3trn in assets, followed by Agricultural Bank of China in second place. "Despite a downturn in the property sector, Chinese banks retained their place as the largest in the world," says Nathan Stovall, Director of Financial Institutions Research at S&P Global Market Intelligence.

China's banks, however, are bracing for a further tide of bad property loans. According to S&P Global Ratings analysts, the uneven economic recovery is making it difficult for banks to improve their asset quality. Meanwhile, weak home sales are hurting the developers that are surviving and triggering more debt restructuring. "The post-pandemic recovery in the asset quality of Chinese banks has hit a wall. The country's push to promote access to financial services has helped most micro and small enterprise (MSE) loans perform following a moratorium on repayments during the pandemic. Nullifying this improvement, however, are the ongoing strains in the property sector, which have spread to surviving developers," says Ming Tan, Primary Credit Analyst at S&P Global Ratings.

Tan says the property downcycle is poised to continue and notes that during the first two months of this year, property sales in China were down 29.3% from the previous year. "We expect excess supply and weak demand in lower-tier cities to continue. This continues to weigh on the quality of the property of property development loans, including those of surviving property developers," Tan states. Lending to this sector will continue to weigh on the performance of Chinese banks and S&P estimates that the non-performing loan (NPL) ratio for property lending will peak higher and later at 6.4% in 2025.

Myriad problems

The banking sector faces myriad challenges and many are struggling in the Chinese market. In one sign of the difficulties, the Financial Times recently quoted Jamie Dimon, Chief Executive of US bank J.P. Morgan Chase, making private comments at a conference in Shanghai. He reportedly commented on how tough the China market is for banks, and said "Some of the investment banking business has fallen off a cliff in the last couple of years." He did, however, add "I don't worry about that… that will have its ups and downs."

There are other issues that have also been reported in recent months to affect the banking sector. With the war in Ukraine continuing, there has been the suggestion the US will introduce sanctions on Chinese financial institutions in response to reports that China has been helping Russia with its war effort. In April, President Xi Jinping met US Secretary of State Antony Blinken, who urged the Chinese leader to end military support for Moscow. "I made clear that if China does not address this problem, we will," Blinken was quoted by news outlets as saying after the meeting. This message was echoed by US Treasury Secretary Janet Yellen during a recent trip to China, where she emphasised that any country that aids Russia's war effort in Ukraine could expose themselves to the risk of sanctions.

Imposing sanctions would have serious implications for China's banks, which are vast international institutions that rely on connecting to the global infrastructure to serve the aims of Chinese organisations internationally. While the initial news reports may have caused alarm in some circles, a later report by Reuters cited an official source as saying that the US, although it has had preliminary discussions on the topic, does not have any plans to implement such sanctions on Chinese financial institutions.

Crisis looms?

News media have reported on other issues that are currently affecting the banking sector in China. It is, however, the problems in the property sector that continue to dominate. In January, a Hong Kong court issued a winding up order against the property giant China Evergrande Group, which had been unable to meet its debt obligations. This has been viewed as a symptom of the wider malaise in the property sector – and China's financial institutions which had been lending to property developers. Many believe that these protracted problems in the property sector could spill over into a systemic crisis. For example, Arturo Bris, Professor of Finance at IMD Business School, writes, "The precarious state of China's financial system raises alarm bells for global economic stability."

Bris argues that a crisis is looming that could have major ramifications for financial markets, global supply chains and international trade. Given the disruption in China during the Covid pandemic to international trade, multinationals' business – and the global economy – could suffer major disruption if problems in China's banking sector are not kept under control. Bris writes that a crisis would spark panic and sell offs in the equity markets. And if banks aren't performing well, businesses will suffer as credit conditions tighten and companies will be unable to borrow. This in turn could affect consumer confidence, reduce demand and hurt the real economy. And if China's economy suffers, so does the worlds.

The root of these problems, argues Bris, is in the property sector, and although local provinces are injecting capital through special-purpose bonds, there are also rising consumer credit defaults, especially in real estate, which is creating further pressure on the banks. The major banks, however, are state-owned and there is an implicit understanding – comment many observers – that the Chinese government will step in if necessary. Bris argues this creates a systemic risk and the crisis could be much larger than the US subprime mortgage crisis.

Bris is not the only commentator to think this. Kyle Bass, an investor and Founder of Hayman Capital Management, was quoted by Business Insider as saying, "We think that [China's] real estate losses are US$4trn at least." This compares to the losses from the global financial crisis that were in the region of US$700bn. Bass also said, back in December 2023, "To have a properly functioning capital market, you have to understand the banking system, and their banking system is in freefall right now."

Differing views of China

There are differing views of the state of the Chinese banking sector, however. James Stent, author of 'China's Banking Transformation: The Untold Story' comments that the analysis of Chinese banks often assumes they are similar to Western

financial institutions – which they are not. Stent describes Chinese banks as hybrid institutions: they operate in the same way as Western institutions in their corporate governance, but ultimately their purpose is to serve the real economy and the goals of the Communist Party. "The Chinese banking sector operates to different dynamics and a different purpose," Stent tells Treasury Today Asia. "The Chinese banking system does not exist in and of itself; it is designed to serve the development needs of the country and provide financial services to the people," he adds. In this sense, as Stent also argues in his book, it makes sense to compare Chinese banks to the 'developmental states' of North Asia, such as South Korea and Japan, where the governments were heavily involved in the banking sector so the countries could become developed economies.

China observers are often split on how they interpret events. Peter Alexander, Managing Director of Z-Ben Advisors, compares it to a Rorschach test – the psychological test where individuals look at inkblot pictures to reveal their perceptions. Beijing recently removed thresholds on the minimum downpayment needed to buy homes. The central bank previously had a number of measures in place to let the air out of the property bubble and curb speculation. It was previously incredibly difficult to purchase a second property and the downpayment was high, at 65%. That has now been reduced to 25%. And for first-time buyers, who previously needed 30% equity before they could invest in the property market, now only need 15%.

The move to reduce these downpayment thresholds, and encourage home-buying, is described by Alexander as 'yet another China Rorschach test'. "Whatever your current views on China will determine how you'll internalise Beijing's move to support the local property market," Alexander said in a recent recording. "It is self-evident that an oversupply of property represents a material structural risk to the Chinese economy. Working through the problem will take time. The Beijing leadership and policymakers clearly understand the risk and are being quite methodical in how best to address the issue. That said, I think it is safe to put to bed the entire 'this is China's Lehman moment' hyperbole," added Alexander.

There have been numerous reports of an impending crisis, but China observers will note that this kind of reportage is nothing new; China's banking system for years has been reported to be on the brink of a collapse that could send shockwaves around the global economy. So far, such predictions have failed to materialise.

When it comes to problems in the property sector, Stent says, "The government will prevent the property crisis from precipitating a systemic banking crisis – that would be unacceptable to the Communist Party. Property developers can be allowed to fail, but not major banks."

Capital buffers

One measure that will improve the soundness of the banks is an additional boost to their reserves. This is a move that is in line with global regulations for banks that are 'too big to fail'. Back in 2015, the Financial Stability Board (FSB) introduced rules for global systemically important banks (G-SIBs) so they would have more of a buffer in the event of a crisis. This was introduced after the global financial crisis when major international banks had to be bailed out by the taxpayers. Now, shareholders and creditors would have to take the hit if banks were in trouble. China's banks were always going to be impacted by this regulation because they are some of the largest in the world. The global regulator, the FSB, gave them ten years to meet these new rules – and that deadline has now come around.

The central bank, the People's Bank of China, has now set those rules for its G-SIBs. ICBC, BOC, CCB and ABC need to have total loss-absorbing capacity (TLAC) equivalent to 16% of risk-weighted assets, and this will rise to 18% by January 2028. Bank of Communications (BoCOM) has since become a G-SIB and has been given an additional two years to meet the deadline, according to Reuters. The rules mean that Chinese financial institutions are raising funds to bolster their balance sheets. Fitch estimates that the banks will raise ¥6.2trn by January 2028.

The South China Morning Post (SCMP) recently reported that ICBC and BOC would be raising ¥30bn each through TLAC bonds in order to meet the requirements. Vivian Xue, APAC Director of Financial Institutions at Fitch Ratings, was quoted by SCMP as saying, "We believe that the issuance of TLAC bonds will help banks establish a new loss-absorbing layer when capital instruments are insufficient to absorb losses, allowing the lenders to bail themselves out, rather than resorting to help from outside. Overall, TLAC bonds will help to enhance banks' total loss-absorbing capacity and risk resilience."

Meanwhile, in April, Fitch Ratings revised its outlook for Chinese banks from negative to stable and upgraded the six major state banks: ICBC, CCB, BOC, ABC, BoCOM and Postal Savings Bank of China. Fitch noted that the state-bank ratings are closely tied to its sovereign ratings for China, which reflects Fitch's "view of a very high probability of the central government supporting the banks in a timely manner in the event of stress."

Government safety net

There are some who argue that the necessity of additional buffers for China's largest banks is a moot point because the major banks are state-owned, and the government would step in to rescue them if necessary. But what if a crisis spirals out of the control of the government? Could contagion take hold where the government is powerless to rein in the panic? Many don't think so. Stent says China's ability to handle a crisis should not be underestimated.

However, China is facing many issues concurrently. This comes at a time when Xi has numerous ambitious goals for China, including investing in the country's defence apparatus, increasing its technological capabilities, creating a more equal society, and becoming independent of the West. "This is placing enormous financial strains on what the government and the economy can sustain," says Stent.

What is different this time, says Stent, is that China is having to handle multiple challenges; rather than focusing and prioritising its course of action as a sequence of events, now it is having to do everything at once. "China has faced many crises and is good at solving them one by one," says Stent. Now, however, the question is: "Can they deal with multiple crises at the same time?" ■

CONSIDERING IMPLEMENTING A TMS? HSBC OUTLINE THE KEY STEPS TO GET RIGHT

Ray Suvrodeep, Managing Director, Treasury Solutions Group, HSBC and Cedric Chambault, Senior Vice President, Treasury Solutions Group, HSBC outline some of the important issues to get right when it comes to TMS implementation.

Much of the success of **implementing a TMS** lies in the vendor-assessment stage, and we advise treasury teams to focus on four key areas: Products, Partners, Processes and Company. Besides a standard fit gap analysis, corporates should look at areas specific to their own context of operations, which may include:

- Availability of file formats for bank connectivity, especially for domestic payments for which there are significant format variances.
- Complexity in payment approval workflows in accordance with payment approval matrix.
- Structured financial instruments (eg loans, FX derivatives) that require specific capture capabilities and calculations.
- Reporting needs and the ease for users to adapt templates as requirements evolve.

Alongside doing away with manual tasks, implementing a TMS presents a valuable opportunity to integrate additional controls like bank account management workflows, fraud prevention functionalities, and sanctions list screening. Companies should seek from their potential vendors a clear roadmap on how to adopt the latest innovations and newest capabilities like real-time payments, APIs, business intelligence or artificial intelligence. That said, these appealing propositions are valuable only if they support the company's actual needs.

The ability of a TMS to integrate with an ERP is a key success factor, but this represents one integration point: integrating with banks (and various bank branches) present multiple integration points. The availability of internal IT resources and any changes in internal systems that may impact project timelines should be identified, with the solution suitability and roll-out strategy across banks and markets clearly established, in collaboration with the implementation teams from the respective project stakeholders (ERP/TMS providers, banks).

When assessing a Software-as-a-Service solution, corporates should review processes that providers have in place to ensure the availability and security of the service, supported by audit reports. Such evidence is company-specific and is to be maintained directly by TMS vendors, independently from the cloud hosting company. The service level agreement (SLA) should include customer support to key users on local business hours, with response times and escalation procedures. In addition to the disaster recovery plan provided in the SLA, companies will want to define and maintain a business continuity plan with a backup solution, such as the access to an e-banking portal, for critical activities like payment execution.

Client reference calls are the opportunity to collect evidence on a vendor's ability to meet particular requirements (eg high volume of bank transactions, payment types and risk management scenarios). Due diligence includes the vendor's financial structure and sustainability, as well as its profitability.

Rather than going for an all-in solution and a "big bang" implementation, companies should first ensure that the right foundations are in place in alignment with business priorities, for example cash and payment management with enhanced liquidity allocation and operational controls. From this they can then scale up and deploy functions in an incremental manner – this could include financial instruments and risk management with optimum funding/investing/hedging decisions. This ensures the core functionalities are properly integrated through each stage of the implementation and allows harvesting actual benefits as the system progressively gains in robustness. While this phased approach may come with a slightly higher sticker price, the actual spend is linearised over the implementation timeline.

When considering the adoption by end users such as local finance executives, the user interface and the ease of use should enable users to carry their daily operations in a seamless manner. Meanwhile internal communications highlight the benefits of this new system from the users' perspective, this helps to move the cursor from habitual disruption to compelling adoption, and minimise the risks pertaining to change management. ■

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This much I know

Gwendolyn Ng

Senior Treasury & Financing Manager

Headquartered in Paris, France, Danone S.A. is a multinational specialist food and beverage company operating across more than 120 markets worldwide. With more than 96,000 employees spread across 55 countries, and annual sales of over of €27bn in 2023, the company operates in four key areas – dairy and plant-based products, early life nutrition, medical nutrition and bottled waters. Its brands portfolio includes Activia, Actimel, Alpro, Danette, Danonino, Danio, Evian, Volvic, Nutrilon/Aptamil and Nutricia.

How did you arrive at your current role?

I started my career in the transaction banking field, which sparked my interest in corporate treasury. Initially, I wasn't fully aware of the breadth of responsibilities that corporate treasurers handle, but I was eager to learn how companies manage their cash flows, financial risks and investment decisions.

This led me to pursue an exciting opportunity at Danone, where I currently manage treasury planning for Southeast Asia, Oceania and Japan, looking after liquidity, funding and FX exposure management. In addition, I oversee back office activities across the broader Asia Pacific and Middle East region.

What advice would you give finance professionals in terms of establishing and developing a career?

At the beginning of your career, it is OK not to have everything figured or mapped out. I believe that consistently giving your best, embracing challenges and seizing opportunities as they arise will lead you to success.

I also see the importance of finding a reliable mentor who can provide advice and guidance, assist in navigating your career path and support you in your professional journey. I have been very fortunate to have a supportive boss who gives me autonomy, and senior colleagues who have generously shared their knowledge and perspectives.

Would you recommend having a defined career plan or being open and flexible?

While goals are necessary, I feel that it is more important not to be overly rigid in our career plans. Most of us begin with a blank sheet of paper, and our journeys evolve as we accumulate new experiences and knowledge. Along the way, we discover our interests and the areas we wish to develop.

It is difficult to predict the future, especially when conditions are volatile. Things may not go according to plans made many years ago due to unforeseen events like the Covid pandemic, which can be very disruptive, but also bring new possibilities like remote working.

Sometimes, stepping out of our comfort zones and being open can lead to unexpected and interesting career outcomes.

> "By expressing their aspirations and priorities, women will be better positioned to stay in control and steer their careers forward."

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

What is your motto in life or your greatest inspiration?

I have two mottos that are close to my heart. The first one is, "It always seems impossible until it's done." It serves as a constant reminder to me that challenges are a natural part of any endeavour, and that they can be overcome with determination and a positive attitude.

The second motto is, "People will forget what you did, but they will never forget how you made them feel." The impact of empathy and respect resonates far longer than any task or achievement. It gives me a deeper sense of fulfilment and purpose in my daily interactions with others.

Continuous improvement

With a belief in the importance of learning and sharing knowledge with colleagues, Gwendolyn is a treasury professional who keeps a close eye on opportunities to add value to the business. One of her key priorities is to enhance existing processes whenever possible by increasing their efficiency and effectiveness.

In particular, she is a firm proponent of leveraging technology and best practices to optimise the treasury function and support the company's objectives. However, she notes that it is necessary to strike the right balance between the cost of new initiatives, and the benefits they bring to the company. She also highlights the need to evaluate how new systems align with current capabilities to avoid duplication or additional manual steps in process workflows after integration.

"The implementation doesn't need to occur all at once – it can be phased," she explains. "However, maintaining foresight throughout the entire process is essential."

Gwendolyn's belief in continuous improvement is equally pertinent when building a career in finance. Her advice for junior professionals is to communicate their aspirations clearly. "This especially applies to women," she notes. "Some people may hold assumptions about women at certain life stages, and may presume that they are more likely to prioritise family responsibilities over career advancement."

She reflects that by expressing their aspirations and priorities, women will be better positioned to stay in control and steer their careers forward.

> "Remote working options can help both men and women better manage their work-life balance, share their family responsibilities and pursue career goals.

Challenging bias and promoting diversity

Gwendolyn believes that empowering junior professionals to challenge bias is something that needs to come from those at the top of an organisation and at senior management level. "If they can demonstrate their commitment to diversity and make the subject an open topic of discussion, it will create a safer space for juniors to express their perspectives," she reflects.

At the same time, Gwendolyn highlights the growing awareness of – and advocacy for – diversity and inclusion. "Many organisations are recognising the value of these principles – they are incorporating them in their business goals, and embedding them into their culture," she says.

At Danone, various cultural holidays are celebrated, and employees are encouraged to share their traditions and cultural backgrounds. "We have regular dialogue sessions to gather employee feedback and workshops to build awareness of unconscious bias," Gwendolyn explains. "We also have workplace activities such as sports and family events, which bring us closer together. All these initiatives contribute to creating a more cohesive workplace where everyone feels a sense of belonging."

Gwendolyn acknowledges the progress being made on this topic in the corporate sector. In particular, she notes that many organisations promote flexible work arrangements. "Remote working options can help both men and women better manage their work-life balance, share their family responsibilities and pursue career goals without compromising on their personal commitments," she concludes. ■

Profile

After starting her career at Standard Chartered, Gwendolyn Ng joined Danone's Asia Pacific & Middle East (ASPAME) treasury team in 2020. Since then, she has played an instrumental role in developing and implementing new systems and supporting local treasury teams in all aspects of treasury operations and processes. In 2022 she was the recipient of the coveted Adam Smith Awards Asia A Rising Star award.

India targets ambitious economic goals

India's economy is riding a wave of optimism and is on track with its ambitious economic targets, which are expected to bring increased foreign direct investment into the country.

If the number of JCB diggers, excavators and cranes on the skyline is an effective economic indicator, then India is doing well. The construction vehicles are busy in India at the moment, and are part of the government's multi-billion-dollar spending plan to boost the country's infrastructure. This is just one of the observations of Amit Baraskar, Vice President and Head – Treasury, at Thomas Cook (India) Limited, and one of the reasons he is positive about India's prospects for its economy.

India is currently riding a wave of optimism and is bouncing back from the impact of the Covid pandemic. Since then, the economy has been growing rapidly, albeit from a lower base. Swarup Gupta, EIU Lead Analyst for Financial Services notes that 2022 was a good year and in 2023 the growth levelled off. Now, he says, "India is on a more stable growth trajectory." Even better, India is expected to be one of the fastest-growing economies in the world this year. Gupta notes that this growth is likely to continue, and the EIU's forecast to 2028 puts the country on a solid trajectory. There are a number of reasons for this, says Gupta, including a number of reforms to boost the country's logistics – and associated infrastructure development – and an emphasis on manufacturing.

It's not just Baraskar and Gupta who are positive. Recently, S&P Global Ratings revised its sovereign rating for India from stable to positive, which was put down to the country's robust economic expansion. "We expect sound economic fundamentals to underpin the growth momentum over the next two to three years," the ratings agency stated in its update.

Positive indicators

Madan Sabnavis, Chief Economist, Bank of Baroda also tells Treasury Today Asia that there are reasons to be bullish about the Indian economy. He expects growth to be in the region of 7.5% to 7.8% in 2025, which will be equivalent to 2024's figure of 7.6%. Sabnavis notes that during the Covid period, India registered negative growth of 5.8% for 2021. "Since then there has been a smart recovery with the substantial improvement being in corporate performance as well as the small and medium enterprises (SMEs), which have virtually returned to the pre-Covid state," he says.

In India's banking sector, the banks are in a good position, are well-capitalised and gross non-performing assets are around the 3% mark, adds Sabnavis. "Banking parameters like credit and deposits have shown traction and are in a take-off mode," he says.

Meanwhile the government has managed to bring down the fiscal deficit level quite rapidly, explains Sabnavis. "The fact that the government did not go in for any exceptional largesse during the pandemic meant that it has been easier to roll back along the fiscal prudence path. This is unlike the West where the quantitative easing has been on and becomes a little more difficult to roll back. More importantly the push given by the government on capital expenditure has helped to revive overall investment even while private investment lags," says Sabnavis.

These positive signs come in the context of the government's wider ambitions on the global stage. Baraskar previously has spoken about **India's aim to be a top global economy**, and he comments that India continues to be on track with that plan.

After a weeks-long election process, Prime Minister Narendra Modi is expected to continue with the goal of making India a developed country by 2047, which was a promise dubbed 'Viksat Bharat 2047'. This ambition may seem lofty and vague, but the BBC reported recently how the prime minister has been laying the groundwork for an economic boom ever since he first came to power in 2014.

Baraskar commented in the previous interview that India was expecting to be the third-largest economy in the world by 2028. Given its current trajectory, he comments, that looks achievable and there are projections that India could be a US$4.3trn economy by 2026. All the economic indicators

point to unprecedented growth for India for the years ahead, says Baraskar. He compares this to the period of hyper growth that China experienced between 2007 and 2012.

Other signs of India's economic ambitions abound, including the Gujarat International Finance Tec-City (GIFT) special economic zone (SEZ), which has been developed and has ambitions to be a major global financial centre, as well as a smart city with state-of-the-art infrastructure.

There are many other reasons that observers are excited about the prospects for the Indian economy. Sabnavis points to the positive sentiment that also extends to consumers. "With inflation coming down, we do see consumption growing at its trend rate of 10-12% unlike the single digit growth witnessed last year. Given the size of the market, this is really big. Such revival in demand for services like tourism and hospitality has provided a fillip on one side, and we expect consumerism to pick up soon provided we have a good monsoon," says Sabnavis.

Shifting supply chains

India is also benefitting from a shift in global supply chains and the need for multinational corporations to diversify their production away from China. This has been a major boon for India, which Treasury Today Asia has **previously reported on before**. India is well known for its focus on services and IT and now there is a shift towards manufacturing. In a recent report, CNBC quoted Adit Jain, the founder of market research firm IMA India, as saying: "When we look at global value chains, two and a half decades ago, all of it [in India] was focused on shared services, back office accounting, grunge work that could be cheaply done because we have a large, skilled, educated population. But then, slowly, businesses started realising that, hang on, we can actually do a lot more; we can set up high-end research and development." This echoes the view of experts at McKinsey who estimate that most major multinationals have more than half of their global engineering and research and development based in India.

The classical model of economic development is for countries to emerge from agrarian to industrial societies with a focus on manufacturing. From there, they develop into services. India leapfrogged this manufacturing stage, explains Gupta and benefitted from the success of its technology giants like Infosys and WiPro and its IT services and outsourcing industries grew out of that success. However, Gupta says, the government has come to the realisation that it makes sense for certain goods to be manufactured on home soil. One such example is semiconductor chips which, for strategic reasons, the government has focused on manufacturing onshore.

Digital transformation

Another reason to be optimistic about India's economy is its digital transformation, which has taken many forms, including its identity scheme and its digital payments infrastructure, as well as the digitisation of government services. In a population of approximately 1.4 billion people, this is no mean feat. With the country's digital transformation, the poorest people in the interior regions can now get access to government and financial services, including United Payments Interface (UPI) – the real-time payments system – as well as the ability to pay via QR [quick response] codes.

With the move to digitised government services, and the adoption of the universal ID, "There has been reduced corruption and it has curbed the leakage from welfare schemes," says Gupta. Nowadays, benefits can be transferred digitally directly into the accounts of beneficiaries – a much more efficient process than paper-based methods and cheques. Previously, Gupta estimates that only 20% of payments were getting to the intended beneficiary; now it is more in the region of 95% to 100%, he says. "Digital governance has saved 1.1% of GDP," Gupta adds.

For multinationals operating in India, this means they need to be digitally savvy to connect into the infrastructure that is now readily available – for payments as well as the management of data processes that have now been digitised.

Net-zero goals

While India has been building the infrastructure that is necessary for a digital economy, it has also been eyeing its climate goals, with an ambition to be net zero by 2070. Mark Whelan, for the Institutional division at Australian bank ANZ, commented after a recent visit to India that the country is only just getting started with its ambitious economic goals. There are a number of noticeable improvements underway, he wrote in a recent piece. On the topic of environmental, social and governance (ESG) goals, Whelan noted how India has benefitted from significant investment in renewable energy. In 2024, he writes, more than 70% of India's new power generation came from renewable sources. This in turn is providing opportunities for multinationals in India.

Foreign direct investment

Many observers are expecting multinationals to also benefit from an inflow of foreign direct investment (FDI). Sabnavis expects FDI flows to increase as investment opportunities are leveraged. He also notes that the FPI [foreign portfolio investment] flows to government debt will increase as India's bonds get included in the J.P. Morgan bond index (in June) and Bloomberg (in January 2025). "Therefore, positives can be seen on our balance of payments with fundamentals keeping the rupee steady," he says.

In terms of its FDI, EY notes that India has seen a consistent rise in the last decade. Despite the impact of the pandemic, there was an inflow of US$84.8bn in FY2021-22. EY expects this figure to increase and estimates that the country could attract inflows of US$475bn in the next five years. In a survey of business sentiment, the professional services firm found that 71% of those surveyed said they planned to invest in India in the next three years. Meanwhile, 96% were optimistic about India's growth prospects. The positive sentiment was put down to the opportunities from India's growing consumer market, and accompanying domestic consumption. Also, many are optimistic about India's potential given the shifting global supply chains where multinationals are now favouring manufacturing in India over the likes of China. Many are also enthused by the country's digital transformation.

All these factors bode well for India, and for corporate treasurers this means there will be plenty of growth and investment as foreign companies ride this wave of optimism, which in turn will drive India's trade and manufacturing. Also, this comes at a time when India has also been asserting itself on the international stage – amid much geopolitical uncertainty – as a nation that seeks peace and cooperation. These efforts, comment Baraskar, will aid India's trading relations and help it in its ambitious economic goals. ■

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.

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.

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."

"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."

The joy of treasury transformation

Varun Wadhwa
Deputy Treasurer
Baker Hughes

Varun Wadhwa, Deputy Treasurer at Baker Hughes talks about his treasury career, explaining that treasury transformations that combine his knowledge of banking and treasury are the most compelling part of the job.

> I enjoy problem solving, particularly complex risks in a global set up. In treasury every day is a new day to learn something different including different markets. There is a new element to treasury every day, and this really keeps me going.

Varun Wadhwa, Deputy Treasurer at Baker Hughes, an energy technology company, started his career in banking when he joined Citi's Management Associate programme, working across cash management and foreign exchange operations out of Citi India's HQ.

After three years, he seized the opportunity to take a customer facing sales role, leaving Citi for a role as VP Payments and Cash Management Sales at HSBC, selling banking solutions to HSBC's clients.

Fast forward to 2012, and his enduring draw to work for a corporate meant he left banking to join GE's corporate treasury function. The move also gave him the chance to broaden his experience outside India, working across GE's EMEA and APAC operations.

"This was my way to get to the other side of the table and bring my banking knowledge to a corporate to solve complex problems and create a win-win with banking partners" he recalls in an interview with Treasury Today.

"One of the first projects I led at GE involved creating 25 cash pools across 25 currencies across EMEA and APAC." He says this project called on his understanding of transaction banking and emerging markets and involved leading on RFPs.

At the same time, the company was expanding into emerging markets. "GE was entering Myanmar, and I got the opportunity to travel there and setup banking infrastructure."

It was at this time he also got involved in a new project around cash transformation.

Initially tasked with mapping as-is cash processes, the project developed into a wider brief involving optimising a number of bank accounts and strengthening cash controls.

He also worked on establishing a business case for GE's in-house bank capability and set up a shared service treasury centre in Budapest. "I was responsible for training and going live with the shared service centre in a one-year role," he says.

When GE merged its oil and gas business with Baker Hughes the next transformation landed on his desk. Wadhwa had already moved across to GE's Oil & Gas division with business operations in 120 countries so in 2017 he found himself in poll position to lead the carve out of GE Oil & Gas from overall GE, setting-up day one treasury processes to ensure continuity of business once the merger was completed.

"Once GE decided to sell its majority stake in the company, we were tasked with setting up a standalone treasury function for Baker Hughes," he says.

The roll out of the new treasury function required him to establish a 50-member project team and a business case for a multi-million investment across people, processes and technology that included integrating a new treasury management system, Quantum and payments and bank reporting platform Trax as well as setting up a shared service centre that won several treasury awards.

At the same time, he worked on establishing a currency-based banking strategy and implementing a follow the sun cash pooling structure that freed up significant cash for the company and improved automation across accounts payables, accounts receivable and inter-company processes. He says the experience instilled in him the importance of treasury working with other parts of the wider business to deliver maximum value.

More recently – and now Deputy Treasurer at Baker Hughes – Wadhwa has partnered with sourcing to create a multi-ERP and multi funder supply chain finance programme with Taulia designed to optimise working capital.

He has also overseen an initiative around the repatriation of cash across emerging markets that combined setting up new intercompany processes and understanding of regulatory processes across different jurisdictions.

His other career highs in recent years have included leading refinancing of a US$3bn RCF and supporting treasury due-diligence and integration of various M&A's including spin-offs and JV formations.

He's also managed the company's insurance programme; multi-billion debt book, share repurchases, interest rate and FX risk, pensions and looked after trade finance. "Over time I've got the opportunity to work across all functional areas of treasury," he reflects.

Wadhwa is appreciative of the global exposure that GE and Baker Hughes has afforded him, counting stints in the US, UK, and Budapest amongst others. But he finds overseeing large scale transformation the most thrilling part of the job because it brings his experience of banking and treasury together.

Treasury transformations also require the ability to change – something he says he is inherently comfortable with. "Delivering a world class treasury function is always exciting. Taking something from scratch and developing it is really enriching."

"I enjoy problem solving, particularly complex risks in a global set up," he concludes. "In treasury every day is a new day to learn something different including different markets. There is a new element to treasury every day, and this really keeps me going." ■

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. ■

The rise of offshore RMB

The development of CNH was a significant milestone in the internationalisation of China's currency, with Hong Kong now positioned as the largest centre for conducting offshore RMB financing. How can corporates benefit from using offshore RMB, and how could the CNH financing business develop in the future?

China continues to dominate world trade, despite recent efforts in some quarters to delink economies and supply chains from China. In February 2024, the **Asian Development Bank's Chief Economist Albert Park told CNBC** that China is "still probably the number one trading partner for the majority of countries in the world," describing the narrative about delinking China from the global economy as "overdone".

Against this backdrop, the question of how to navigate the complexities of China's financial landscape continues to be important, both for companies that are present in China, and for those that include Chinese companies in their supply chains. And one of the most significant features of this landscape is the internationalisation journey that China's currency has undertaken in recent years – including the development of China's offshore currency, CNH.

Understanding RMB

The terminology used to describe China's currency is more complex than most. In a nutshell, the currency's official name

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>
> Vina Cheung, Global Head of RMB Internationalisation, HSBC

is renminbi (RMB), which can be translated as 'People's Currency'. The principal unit of account for RMB is the Chinese yuan (CNY). In practice, RMB and CNY can be used interchangeably. There are also two types of renminbi, CNY and CNH. Whereas CNY refers to renminbi that is traded onshore in mainland China, CNH is renminbi that is traded offshore.

The journey to internationalise China's currency has been complex. In 2009, in the wake of the global financial crisis, a pilot project was introduced to allow cross-border trade settlements in Shanghai and four cities in Guangdong. Subsequent developments have included the creation of offshore renminbi centres, initially in Hong Kong and then in Singapore and London.

Today, China is the world's second largest economy, and the largest trading nation, observes Venkat ES, head of Asia Treasury Product, Global Payment Solutions (GPS) at Bank of America. As such, "RMB (CNY) has been used in trading, investment and treasury management activities for many large MNCs that have direct presence or supply chain connections in China."

Offshore capabilities and the importance of Hong Kong

ES explains that since China launched its 2009 pilot scheme for offshore trade settlement in Hong Kong, more offshore capabilities have been added for CNH, including:

- Expansion to 20 other global centres for trade settlement.
- Launch of direct cross-border CNY payments between mainland China and all 20 offshore locations.
- Cross-border liquidity management through nationwide pooling schemes and launch of the Shanghai Free Trade Zone.
- Allowing offshore CNY for portfolio investments into China.
- Offshore CNY bond issuance (for financing).
- Offshore FX market (for conversion to any other currencies).
- Enabling fully-fledged transaction banking capabilities in CNY, "ie accounts, deposits, payments and receipts, (including real-time payments in Hong Kong), fixed deposits, CDs and other investment products."

In 2023, says ES, the offshore CNY settlement market increased to around 12 million transactions, equating to US$66trn in value.

Vina Cheung, Global Head of RMB Internationalisation at HSBC, observes that "Hong Kong is the largest offshore renminbi centre, with the deepest offshore RMB liquidity pool, clearing approximately 80% of global RMB payments." She says that with China now the world's second-largest financier, "Hong Kong as an established international financial centre is the ideal conduit for settling RMB-denominated cross-border transactions in trade, project financing and capital raising."

While Hong Kong has been a traditional hub for regional and global treasury centres for Western multinationals, says Cheung, "its market infrastructure and offshore RMB capabilities have allowed it to develop into the preferred regional treasury hub for Chinese corporates with regional and global ambitions."

She adds, "Western multinationals have adopted a more prudent approach in recent years, with careful assessment of factors such as the cost of RMB financing, the products with which to hedge RMB-related risks, and the solutions with which to manage and optimise RMB surplus liquidity."

From trade settlement to financing

Trade settlement has been a key aspect of RMB internationalisation. In the past, companies trading with suppliers in mainland China would conduct trade using USD, but following the introduction of the cross-border trade settlement programme in 2009, corporates have been able to settle foreign trade in RMB.

There can be significant advantages to this approach. A Corporate Handbook published by BNP Paribas, **All About RMB**, notes that when dealing in foreign currencies, Chinese entities bear the FX hedging costs. "As such, they include in their prices a flat buffer fee which lacks transparency. This buffer covers the FX exposure hedging price with Chinese banks; moreover, the FX hedging is usually not perfect, and there is a residual risk left."

The report notes that this buffer is no longer needed when settlement takes place in RMB – so overseas corporates may be able to achieve a price discount of 1%-3% when dealing with their Chinese counterparts in RMB. Other benefits include the opportunity to extend payment terms, which are typically limited to a maximum of 90 days when trade is settled in foreign currencies.

Where offshore investment products are concerned, one significant milestone was the creation of the dim sum bond market in 2007. Dim sum bonds are denominated in RMB and are typically issued in Hong Kong.

They present an opportunity for investors to diversify their foreign currency holders, and companies can also use the proceeds of dim sum bond sales to settle cross-border trades.

In terms of financing, companies may be able to access cheaper financing costs in RMB compared to USD. Given current interest rates in EUR/USD, ES notes that CNY/CNH now represents a cheaper alternative for corporates and institutions looking to borrow. He adds that increased lending in CNH presents an opportunity to increase its liquidity and the use of CNH in transactions across businesses.

More initiatives are needed to encourage state-owned enterprises with RTCs in Hong Kong if the use of CNH financing is to increase, alongside education for MNCs and SOEs.

David Keong Fatt Wong, Director of Global Treasury Advisory, Deloitte

Nevertheless, CNH funding is not always the most attractive option. David Keong Fatt Wong, Director of Global Treasury Advisory at Deloitte in China, says the firm has helped state-owned enterprises to set up regional treasury centres in Hong Kong in order to serve their companies outside of China.

"We do not see any CNH financing in their programmes for short or long-term requirements – they'll still rely on project financing or structured financing in USD, for which the cost of funding is still pretty attractive," he says, adding that more initiatives are needed to encourage state-owned enterprises with RTCs in Hong Kong if the use of CNH financing is to increase, alongside education for MNCs and SOEs.

Future developments

Cheung predicts that the development of the CNH financing business could enhance Hong Kong's resilience as an international funding hub.

"Due to the linked exchange rate system, Hong Kong's bank lending faces challenges when US interest rates are high, just like now," she notes. "Diversifying into other currencies from economies with divergent monetary policies, such as RMB, could help mitigate this vulnerability."

She adds that a diverse funding hub with more businesses in RMB can spur on financial innovation, encouraging the development of new financial instruments, products and services tailored to the RMB market.

ES, meanwhile, points to the digitisation of RMB in order to facilitate further interoperability between China and Hong Kong, with CNH positioned as a parallel currency to the Hong Kong dollar (HKD) in order to facilitate transactions.

"Currently in the retail space, most transactional functions have both HKD and CNH options," he observes. "If this can be expanded for corporates in the future, CNH may become more commonly used in local markets."

Other notable developments include the rise of China's central bank digital currency (CBDC), the eCNY. First piloted in four cities in 2020, the digital currency has now been rolled out to a number of provinces and cities, and has around 260 million wallet users. The pilot has also recently been expanded in Hong Kong.

ES explains that future expansion could see the eCNY used more broadly in the retail and wholesale space, which could reduce the need for human involvement in cross-border transactions via the use of smart contracts.

Finally, ES predicts that if capital controls in China are further relaxed, "it may give corporates and institutions added confidence in holding CNH/CNY for longer in HK/PRC," as an alternative to using Swift FX transactions followed by immediate repatriation. ■

Why use offshore RMB?

When it comes to using offshore RMB – in other words, CNH – there are a number of factors to consider. As ES explains, CNH provides an opportunity for MNCs to reach a large base of suppliers and end customers in mainland China by enabling final settlement in CNY through the cross-border settlement schemes.

In addition, he says CNH "improves pricing transparency for end customers as well as remitters since there is no FX conversion involved (both onshore CNY and offshore CNH are effectively the same currency and can be directly settled with any beneficiary or remitter in China through cross-border settlement)."

A further benefit is that using CNH "significantly shortens the settlement cycle, including real-time and 24/7 settlement", with Hong Kong including CNH as a currency for its real-time scheme, FPS. Also significant is the rollout of 24/7 settlement by China for its domestic e-payment scheme, CNAPS – this applies both to low value (BEPS) and high value (HVPS) payments.

In addition, CNH offers enhanced access to financing and investment opportunities, as well as the ability to consolidate liquidity from mainland China into offshore markets using an automated cross-border pooling schemes – "including either the nationwide scheme or the Shanghai free trade zone scheme."

As a result of these factors, ES notes that companies across both corporate and FI segments, and in both onshore and offshore markets, have leveraged the offshore CNY settlement system to gain access to mainland China.

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.

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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**

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