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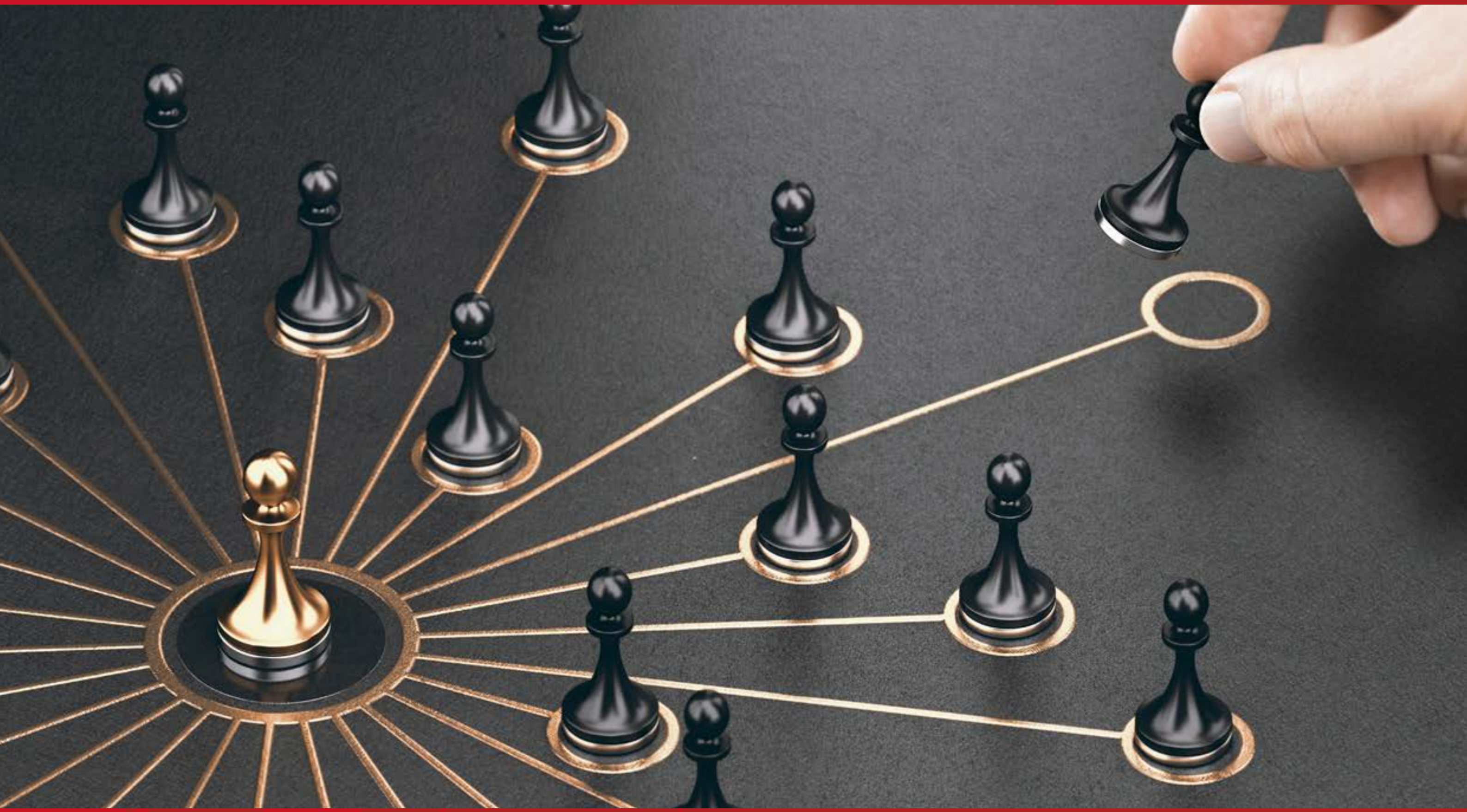

Evolution of the C-suite

The emergence of new C-suite roles is having an impact on corporate banking relationships – so what does this mean for treasury?

The Corporate View

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APAC Senior Treasury Director

Fluence

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Back to Basics

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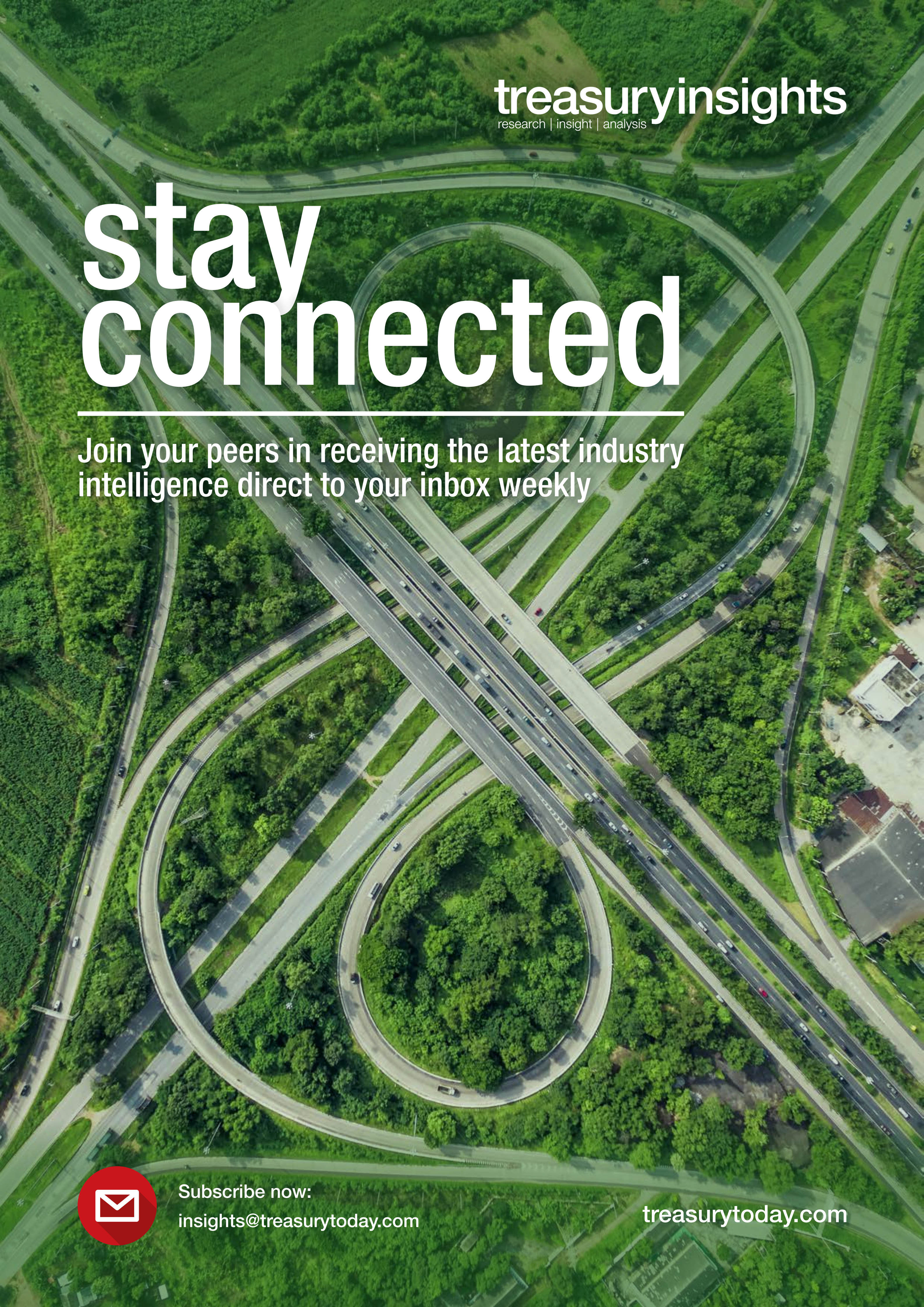
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Collaboration and cooperation

As the role of the corporate treasurer becomes increasingly strategic, the importance of treasury cooperating and collaborating with other divisions across the business is more important than ever. It is a key theme to emerge from this edition.

For example, treasury and procurement may have different or even competing priorities – but there is also plenty of common ground between the two functions, particularly where working capital is concerned. Our trade feature explores how treasurers go about nurturing a closer relationship with procurement.

Elsewhere, our investment feature asks two corporate treasurers based in the UK and Singapore to discuss their contrasting investment strategies. They are distinguished by innovation, sustainability and low risk but are both united by a shared approach to collaboration with other divisions be it IT or Responsible Investment.

In this edition's Corporate View we profile Sarah Symes, APAC Senior Treasury Director at Fluence, the energy storage company. She shares her observations on how treasury departments have become steadily more integrated with other functions across the business. "I think a lot more CEOs and CFOs understand how important it is for treasury to have a seat at the table, and I see them increasingly partnering very closely with their treasurers," she notes. She also offers advice on the importance of cash. "At the end of the day, most companies don't fail because they run out of revenue. They fail because they run out of cash."

Our exploration of the emergence of new C-suite titles and the evolution of CFO responsibilities also touches on the importance of collaboration and relationship building outside treasury. We explore what these changes mean for treasury and ask how treasurers can advance the profile of the treasury function within the organisation.

This edition's Regional Focus travels to San Francisco's Bay Area, home to some of the most innovative companies in the world. We find that the tech mantra of digitisation and collaboration has shaped corporate treasury where in-house technology, strategic thinking and data drive strategy. Still, there is a surprising lack of treasury tech amongst smaller companies where budgets compete with other departments.

Our Market View offers a sobering outlook on future growth, crimped by the retreat of globalisation and a warning that many of the large-scale investments governments need to make around the energy transition will provide relatively little productivity growth.

Elsewhere, we delve into how AI in cash management will transform forecasting but flag implementation risk and the consequences for treasury headcount. Lastly, our Question Answered explores the role of treasury in contributing to sustainable and inclusive corporate growth.

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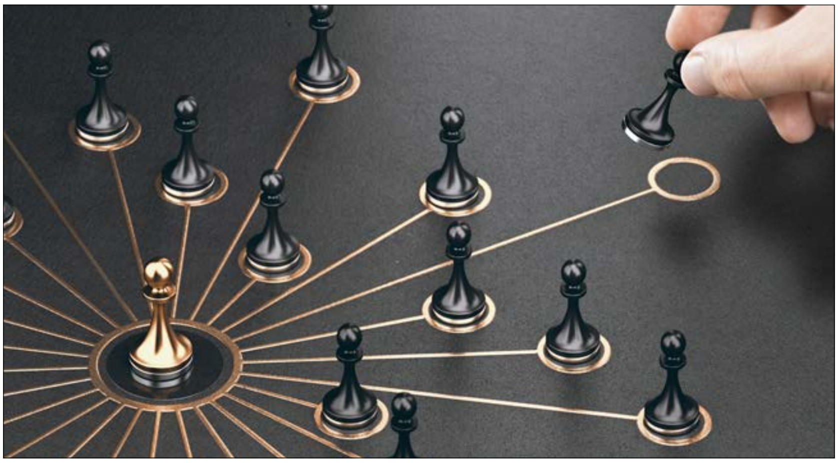


Evolution of the C-suite

From CXO to CINO, C-suite roles are multiplying. So what does the evolution of the C-suite mean for corporate treasurers and banking relationships? And how can treasurers advance their profile within the organisation?

Harnessing AI in cash management

The biggest impact of AI will be streamlining cash and liquidity management, optimising automated processes, to elevate treasury as a strategic business partner focused on data-driven decision making. But what are the risks and challenges to AI deployment?

Building bridges with procurement

While treasury and procurement may have different or even competing priorities, there is also plenty of overlap between the two functions, particularly where working capital is concerned. So how can treasurers nurture a closer relationship with procurement?

How tech, data and thinking outside the box define Bay Area treasury

San Francisco's Bay Area is home to some of the most innovative companies in the world.

Fittingly, the tech mantra of digitisation and collaboration has shaped corporate treasury where in-house tech, strategic thinking and data drive strategy.

The value of shared services centres

The trend toward digitisation and a greater focus on transparency, financial control and reduce costs is driving the centralisation of treasury activities, including cash and liquidity management, in shared services centres.

TREASURY ESSENTIALS

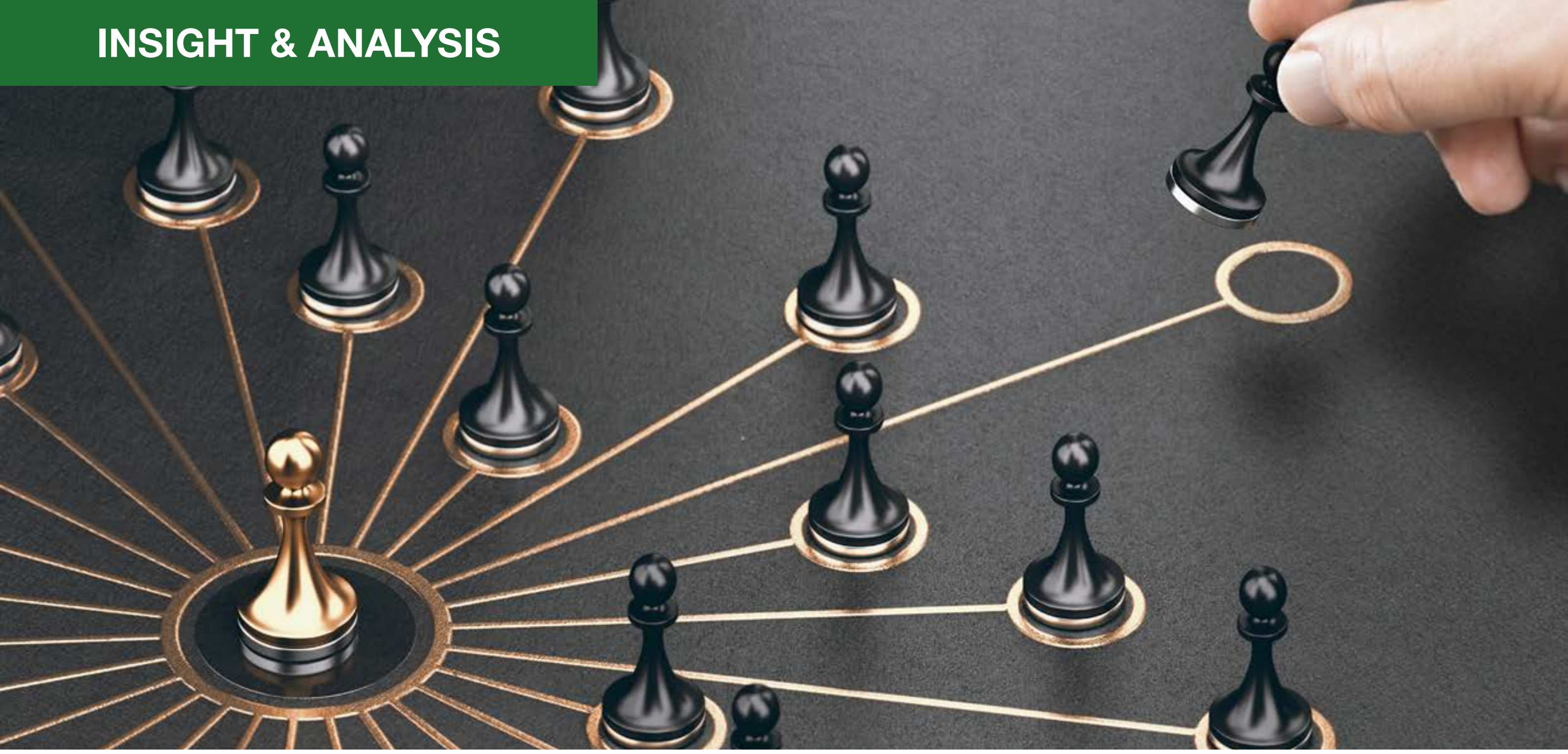
The power of treasury

APAC Senior Treasury Director

Sarah Symes, APAC Senior Treasury Director at Fluence, discusses her career path, the challenges and opportunities of starting a treasury team from scratch, and the role of treasury as a trusted business partner.

How ESG and low risk shapes corporate investment strategies

Corporate treasurers based in the UK and Singapore discuss their contrasting investment strategies where sustainability and low risk shape their approach.



Evolution of the C-suite

Recent years have seen the emergence of new C-suite titles, while the CFO's responsibilities are likewise evolving. So what do these changes mean for corporate treasurers and banking relationships? And how can treasurers advance the profile of the treasury function within the organisation?

It's no secret that the makeup of the C-suite has evolved in recent years, as Stella Choe, Global Head of Corporate Coverage, Corporate and Investment Banking at Standard Chartered, explains. "Today's dynamic business environment – driven by rapidly evolving technology, digitalisation and changing macro conditions – require companies to rethink their leadership capabilities to navigate complex challenges and ensure sustainable growth," she says.

Until a few years ago, the classic composition of the Executive Board was the CEO, the CFO, and depending on the company, "one or more division heads, and perhaps a legal counsel," says Thomas Stahr, an interim treasurer and treasury project specialist based in Switzerland. He adds that with the rapidly growing demands of digitalisation, a CIO "is increasingly being appointed to the Executive Board. This means that IT, which was often managed as a sub-department of the CFO, has developed from a pure service provider into an independent pillar of the company."

Furthermore, an increasingly diverse collection of C-suite titles has arisen in recent years. As Choe explains, these include Chief Sustainability Officer (CSO), Chief Digital Officer (CDO), Chief Information Officer (CIO) or Chief Innovation Officer (CINO), Chief Experience Officer (CXO), Chief AI Officer (CAIO) and Chief Growth Officer (CGO).

Where hiring patterns are concerned, a **survey by LinkedIn** noted that the fastest growing C-suite roles in 2022 included Chief Diversity and Inclusion Officer, Chief Delivery Officer, Chief People Officer and Chief Growth Officer.

Meanwhile a **2021 white paper published by the World Economic Forum** explored 'The Rise and Role of the Chief Integrity Officer'.

But not all of these new roles carry the same weight. As a recent article by the BBC explains, "Not everyone with 'chief' in their title sits with the executives at the top of the pecking order, and not everyone in the C-suite is labelled a chief."

Treasury as strategic partner and innovator

Alongside these changes, the role of the treasurer is also undergoing something of a shift. Ten years ago, treasurers were the primary point for payments, the movement of cash and forecasting within the organisation – but today, treasurers are taking on a bigger role than ever before, argues Sue Caras, head of Global Commercial Banking, Global Payments Solutions at Bank of America.

"Treasurers are at the strategic centre of these large matrix organisations," she says. And while day-to-day partnerships may previously have included areas such as accounts payable, accounts receivable, procurement, tax and accounting, Caras notes that this is now expanding to include a larger group of stakeholders.

"At the centre of that would be the information technology team," Caras notes. "Many corporates also have data scientists. Shared service centres are becoming more prevalent. Treasurers are also working in close coordination with risk management and investor relations." Alongside these changes, another significant development is the emergence of the Chief Sustainability Officer.

As treasury services have become more digitised, decision making has expanded to include a company's technology and payments teams. Caras cites the example of a company that is exploring merchant processing.

"The conversations might begin with the treasury team, but they will quickly pivot to the head of payments or the Chief Technology Officer, who would assess the technology requirements for adopting merchant processing," she says. That could include how to integrate with multiple software vendors, point of sales systems and automated reconciliation processes. "So while treasury might be responsible for choosing the processor, their decision will lean heavily on the due diligence conducted by others around design, cost, the implementation schedule, and what return it will bring to the company and its customers."

Responsibility for treasury technology decisions can similarly extend beyond treasury and the CFO. Stahr observes that the conversion of an ERP from SAP R/3 to S/4HANA often leads to processes being coordinated by the CTO or CIO alone, "especially from the core accounting and operational control applications," with the CFO only responsible for the financial resources. Likewise, decisions about a central treasury system "stand or fall with the opinion of the CIO", who is ultimately responsible for the compatibility of the treasury system within the group's other IT systems.

Evolution of the CFO

Alongside the rise of other C-suite roles, the CFO's responsibilities have also undergone something of a shift. A survey by Accenture found that 93% of CFOs agree the responsibility they've been entrusted with today feels much greater than in the past, while 86% said that the speed of strategic decision making had increased.

According to Caras, the evolution of the CFO's role is having a knock-on effect on the treasurer's responsibilities. "More often than not, we are seeing CFOs asking treasurers to do large scale project work, such as ESG-linked loans, co-ordinating with investor relations, or shareholder meetings," she says. "The shift in the treasurer's role to be more strategic just continues, and it now includes proficiency in digitisation and technology. That's helped free up the CFO to be a partner to the CEO around the overall direction of the business."

Likewise, the CFO is increasingly leaning on treasury to lead innovation. Caras cites the example of a large construction company which was competing for talent in the midst of an industry-wide staffing shortage. "One of the ideas raised by the treasurer was to use a real-time payments model to pay the construction workers faster," she says. "Instead of paying them on a two-week cycle like everyone else, you can accelerate payments on a daily basis or on a project basis, making the company more competitive." As a result of this shift, Caras argues that treasury is increasingly seen as a high value group for the company, which in some cases is resulting in a higher headcount.

Multi-dimensional relationship

Against this backdrop, Sander van Tol, Partner at independent treasury and risk consulting firm Zanders, believes there are two ways of looking at the relationship between banks and their corporate clients. "The traditional view is that of 'relationship centralisation', where all bank-related discussions are primarily focused on the treasurer," he explains. "The treasurer is the main client and decision maker from the banks' perspective and acts as a liaison officer in case other corporate functions need to be involved."

The new view, however, is of a more multi-dimensional relationship. This involves banks broadening their service offerings to their client portfolio, with the goal of being more relevant to the entire financial value chain for corporations. "These new services are targeted to deliver value on the primary business activities of corporates, like offering embedded finance, financial marketplaces, platform-based models, innovative payment services, etc," says van Tol.

"Another dimension is that the traditional banks are also facing more competition from new competitors like neobanks, credit funds and payment service providers. These innovators do not have the traditional relationship with or via the treasurer but focus directly on the business." As a result, van Tol says traditional banks both want and need to cover certain market segments, while broadening their service offerings.

C-suite evolution: the impact on corporate banking relationships

"The evolution of the C-suite has altered the dynamics between banks and corporates," says Marianna Polykrati, Group Treasurer of Greek aquaculture company AVRAMAR. "Banks now recognise the importance of tailoring their interactions to meet the specific needs of different roles within the organisation." For example, she notes that a CTO may focus on the technical integration of new financial services, while a CSO might be more concerned with how these services align with the company's strategic goals.

"I believe that further to the treasurer, the banks shall be interacting with the CFO, for financial oversight; the CSO, for the alignment of the financial services with long-term strategic objectives; the CDO, to drive the digital transformation initiatives; and the CTO, to ensure the integration of technology," says Polykrati. "It is essential for banks to understand the unique perspectives and responsibilities of each role to foster effective collaboration and deliver value."

When a company upgrades its cash management system, she says discussions with the banks should include "the CFO to understand financial requirements, the CTO for technological integration, and the CSO to align the system upgrade with the company's broader market expansion strategy."

Furthermore, she says that implementing a new treasury management system (TMS) requires close collaboration with the CTO for technical deployment, discussions with the CDO to integrate data analytics capabilities, "and consultations with the CSO to ensure that the new TMS supports the company's strategic pivot towards sustainability and green financing."

Holistic approach

According to Choe, a more diverse set of C-suite decision makers creates opportunities for banks to better understand their clients' challenges from different perspectives, and to support their needs more holistically. "We engage multiple C-suite decision makers across a client's global organisation to gain a deep understanding of their business challenges end-to-end," she explains. "Then we deploy our experts and fintech partners to co-create solutions that address the breadth of those challenges.

"For example, we are working with clients, SC Ventures (our innovation, fintech investment and ventures arm), and ENGIE Factory (the startup studio of French multinational utility company, ENGIE Group) to co-create solutions for financing conservation projects through the use of carbon credits."

In particular, Choe says the bank increasingly works with CSOs to help facilitate the investment required for companies' ESG and energy transition agendas. "This includes building ESG-compliant supply chains and supporting businesses such as CleanTech and Electric Vehicles," she continues. "These interactions are tailored to include the wider range of business stakeholders who work with the CSO."

For many of the bank's clients, technology is the driver of the entire business ecosystem. Choe says that for companies which are looking at new digital business models, the bank typically engages chief commercial officers alongside treasury, finance, technology and customer service teams. "These collaborative engagements enable faster go-to-market for digital-first products, subscription economy offerings, and direct-to-consumer distribution models," she says.

Strategic dialogue

At the same time, banks that engage with multiple stakeholders across the organisation will need to tailor those conversations to different departments' specific goals and priorities. "As an advisor to big matrix organisations, we modify our approach according to the department. The priorities of those groups are slightly different, so the positioning and advice we provide needs to be different," says Caras. "For example, in a conversation with the accounts receivable department we might share best practices to automate manual tasks and reduce errors. Whereas in a conversation with the treasurer, we might discuss the ROI of introducing robotics and AI across the company."

The focus of conversations about fraud risk and cybersecurity will likewise vary depending on whether the bank is talking to the accounts payable team or IT. "These are going to be similar conversations, but accounts payable will be focused on getting fraud out of the system, whereas the cyber conversation is going to be more targeted towards the IT team and the protection of their systems," she notes.

As such, Caras emphasises the importance of having a strategic dialogue with all relevant stakeholders within the client's organisation. "It's about positioning the conversation so that every individual understands the importance, the pros and cons and the benefits of implementing a solution. At the same time, you have to bring that conversation back up to the treasurer so that they can understand what it means for them more strategically across the organisation."

> "Treasury hasn't always evolved enough in this space, leaving certain territories uncovered, like digital payments or marketplaces.
>
> Sander van Tol, Partner, Zanders

Advancing the treasury function

Treasurers may find their role in leading bank relationships is somewhat diluted as a result of this shift. "Unfortunately, treasury hasn't always evolved enough in this space, leaving certain territories uncovered, like digital payments or marketplaces," says van Tol. "That's why banks have developed new relationships and have started talking to areas within the companies who have a certain need or are responsible for key areas like customer experience and IT/data integration."

He argues that if treasury wants to reclaim its leading position in the company/bank relationship, it first needs to advance the treasury function. One way that this can be achieved is by building a more diverse treasury team that includes staff with strong business experience, in contrast to a traditional treasury team which may be composed only of experienced treasury and finance staff. This may mean including non-traditional treasury profiles with a deep understanding of areas such as digital channels or IT.

"Another element to advance is that treasury should also have a clear mandate to own everything in the group related to payments and collections, borrowing and lending and financial risk, including bank relationships, non-bank provider relationships (PSPs, etc), and payment and collection methods," says van Tol. "In a number of firms we've spoken to, treasury teams are still really struggling to even get a basic overview of what is in place in the various business, let alone build the governance and competencies to own/manage it."

Given the evolution of corporate treasury to become a strategic business partner, Choe says treasurers can no longer just focus on managing costs, payments, governance and risks. "They need to become 'finance technologists' supporting C-suite executives in making strategic decisions that enhance customer and supplier experience and facilitate collaboration across their organisation."

Stahr, meanwhile, argues that it is up to treasurers to convince their superiors "that treasury does far more than just being responsible for payment transactions. That treasury ensured the survival of many companies not so long ago in 2019-2021. And that treasury provides considerable measurable added-value for the group, qualitatively and, above all, quantitatively. Treasury will then also receive more attention in strategic decisions."

FTSE 250 KELLER GROUP PROVES TREASURY TRANSFORMATION ISN'T JUST FOR BIG COMPANIES

FTSE 250 Keller Group has just integrated new treasury processes, proving digital innovation and transformation is possible for smaller companies and a vital catalyst for future growth.

Treasury transformation is not just for well-established FTSE 100 corporates. Other large companies can benefit just as much from overhauling their central treasury processes, allowing them to better service the business and to position for future growth.

Like geotechnical specialist Keller Group, a FTSE 250 constituent with operations in 37 countries and a £3bn turnover, where Group Treasurer Sean Privilege has just overseen a wholesale overhaul of the company's central treasury function.

"All our transactions and processes were managed using Excel worksheets, with associated payments made via proprietary banking platforms, tying up a number of finance team members in daily non-value add tasks," he says in an interview with Treasury Today from the company's London head office. "We manually settled everything and confirmed all trades via e-mail."

A native New Zealander, Privilege landed in the UK in 1998, originally planning to travel Europe in a camper van. That changed when he landed a job as a back office analyst with Shell where he ended up staying for eight years, during which time he gained valuable knowledge and experience of treasury best practice. Long tenures at Visa and later John Lewis followed, until he joined Keller as Group Treasurer in 2023. "I was bitten by the treasury bug," he laughs, reflecting on his initial carefree plans.

As soon as Privilege joined Keller, he set about transforming treasury. The process began with selecting Kyriba as TMS, partnering with Finastra to automate trade confirmations and Refinitiv for consistent market data to feed into group systems.

"We are nearly there," he says. "Following an RFP process last year, we kicked off the project in January and are now almost live. The new systems are almost in place, and this will allow us to switch from time intensive and less reliable manual processes to straight-through processing. By reducing manual processes and reducing time spent on daily operations we can spend more time on initiatives that drive greater economic value for the group." This level of rapid transformation is unusual for a FTSE 250 where he says treasury transformation can be "hit and miss."

Although some corporates might have a TMS, few have activated payments or fully integrated ancillary treasury systems, for example. But Keller's quest to professionalise treasury coincides with the company's strong organic growth that required more centralised processes.

Lessons learnt

One of the most important elements in the build was calling in extra resources, including an interim treasury manager and a treasury systems consultant. "A transformation process like this can be time consuming and challenging, and as a small team we realised we needed to parachute in more resources." He says the build was also supported by Keller's "pragmatic and positive" leadership team.

The transformation has attracted upfront cost, but the benefits in control, straight through processing, cash visibility and system enforced segregation of duties is money well spent. "Once the TMS implementation is complete, we can leverage the system to support cash concentration and streamline cash repatriation. We've improved control and our bottom line."

Privilege also espouses the benefits of information management. A new treasury reporting system captures information on trapped cash and FX risk, encouraging finance teams to adopt a new focus when thinking about treasury risk and the bottom line. Visibility around counterparty credit risk has also improved.

New data flowing into the company reveals real-time market analysis providing a "really good view" of risk. "None of this is ground-breaking, but in a short time it's possible to rapidly transform and strengthen treasury processes," he adds.

His next focus is on reducing multiple banking partners across the group. The company's businesses across Europe and APAC each have multiple banking partners and systems. "By strengthening the central treasury function, we can provide a better service to our local teams and this should allow us to rationalise the use of non-relationship banks."

Part of the overhaul will include giving this ancillary business to key banks that are supporting the company, he concludes.

Harnessing AI in cash management

Cash flow forecasting might be the killer application for the deployments of artificial intelligence in treasury in the near term. But what should treasurers be mindful of when implementing the technology? Is AI expected to reduce headcount in treasury teams?

Artificial intelligence (AI) is touching every aspect of our lives and treasury is no exception. Many treasurers across the globe are exploring the potential use cases, as well as the challenges, that the technology presents. "Treasurers can't ignore AI," says Royston Da Costa, Assistant Treasurer at US distribution company Ferguson, who is also a Senior Lecturer on AI at the Centre for Finance, Technology and Entrepreneurship, in partnership with the Association of Corporate Treasurers.

He believes that treasury departments need to embrace AI as part of the current wave of technology change. "In treasury, we are at a pivotal point in the way in which technology is playing an increasingly huge part in our day-to-day operations," he adds.

According to Strategic Treasurer and Cash Management Leadership Institute's **2024 Generative AI (GenAI) in Treasury and Finance Survey** report, treasurers are "unequivocal" in their support for AI and GenAI.

The research found that while only 25% of corporate treasury respondents considered themselves to be 'very familiar' with AI, the vast majority (83%) of those currently experimenting with the technology expected to expand their use.

Cash flow forecasting (CFF), a perennial problem for treasurers, is the top challenge that those polled think AI will address in the near term. Interestingly, more than six out of ten (62%) treasurers were confident that they would roll out AI technology to support CFF needs within two years, while 35% thought they could do it within one year. The survey found that one in 11 are already piloting AI technology for CFF.

Optimising treasury

Da Costa agrees that CFF is an area ripe for AI. "AI has the capability to analyse vast amounts of data. It not only looks at historical data, but can also forecast complex scenarios," he says. "However, not every corporate will jump into using AI for CFF without having a better knowledge of how to use and apply it effectively."

According to Elena Strbac, Global Head, Data Science and Innovation, Corporate and Institutional Banking at Standard Chartered Bank, AI's potential to predict future cash flows will allow treasurers to better anticipate liquidity needs of the business, avoid cash shortfalls, minimise borrowing costs and optimise cash reserves. "The increasing use of application programming interfaces (APIs) among corporate treasuries is an important enabler of AI-powered cash and liquidity models, as real-time data such as account balances and alerts will be key inputs to AI predictions," she adds.

Expanding on Da Costa's point, Strbac says explains AI algorithms can ingest multiple internal and external data sources including balances, alerts, historical cash flows, accounts receivable/accounts payable, macroeconomic indicators, and foreign exchange (FX) volatilities.

"Algorithms can then be trained to predict cash flows, trends and anomalies, or to predict reconciliation discrepancies between payments and invoices in the enterprise resource planning system – ultimately allowing treasurers to better optimise their resources," she says. This is important in the face of high market volatility and uncertainty, according to Nils Bothe, Partner, Financial Services, Finance and Treasury Management at KPMG.

"Treasurers are more mindful of their liquidity to cope in times of crisis. Being able to accurately predict cash flows is critical for effective financial management to make informed business decisions and for eventual long-term success," he says. "With AI and machine learning, it becomes easier to create automated and accurate forecasts to minimise risk and optimise decision making."

In a centralised cash management structure like Ferguson's, AI could prove useful in applying advanced analytics in dynamic liquidity planning and working capital optimisation, according to Da Costa. In addition to CFF, Strbac thinks that AI could be leveraged for stress testing, scenario and sensitivity analysis, to predict the impacts of external market factors and internal financial strategies on the overall liquidity.

Bothe agrees, saying that treasurers are ideally looking for "stress testing at a button". He reports that key treasury management system (TMS) providers are integrating AI into their cash management and liquidity planning modules, making use of modelling options such as autoregressive integrated moving average, additive regression and neural network regression. "Eventually these tools will evolve to cover complex relationships that may be overlooked by humans. There is value in human expertise, but it can now be combined with advanced AI tools to optimise predictions and prepare for unforeseen events," he adds.

Adoption maturity

As indicated by the survey, most treasuries are predominantly at an experimental stage in their AI journeys. According to Strbac, this means they are focusing on developing frameworks that will enable them to measure the impact and success of AI initiatives, identifying the highest priority use cases and building technology stacks that will meet their future AI needs. "More advanced corporate treasuries are already embracing AI, particularly for anomaly and fraud detection," she says. "They are also making advancements with process automation, such as payment reconciliation and payment processing. Traditional rules-based approaches to process automation can still be effective, but combining these with AI leads to more scalable solutions."

Strbac uses the example of checking the quality, completeness and accuracy of payments messages against complex policies and standards. "This may involve a number of deterministic checks, but more complex rules or common errors can be learnt by an AI algorithm," she says.

"AI can then produce a probabilistic alert for a potentially more complex issue to be investigated, providing a smarter layer on top of the rules-based approach that can lead to better data-driven decision making." Interestingly, Ferguson is looking at implementing AI for streamlining a process involving requesting approvers to approve a payment within its TMS solution, reports Da Costa.

KPMG is talking to clients about using specific AI methodologies to identify fraudulent payment patterns that would otherwise be overlooked by humans, according to Bothe. He also points to other use cases, such as transaction tagging, which is matching cash transaction data with bank statement items, and algorithmic trading, which uses AI to autonomously identify and execute trades, manage the risks and order flow. "[The latter] also improves liquidity management by dynamically optimising size, duration and order size based on current market conditions," he adds.

Deployment challenges

In addition to opportunities derived from deploying AI, there are also risks and challenges that need to be factored in. According to KPMG's observations, treasurers remain hesitant to move from the exploration phase to rolling out AI because of data sensitivity concerns, as well as identifying the most value use cases. "The treasury function is a central point of contact for financial information and key figures, and the department routinely collects and processes highly sensitive data. Therefore, treasury needs to pay careful attention to data protection requirements," explains Bothe.

Any deployment of cloud solutions, which are frequently used due to the large volumes of data involved in AI technologies, should be treated with the respective caution, he warns. "It is important to check whether sensitive personal data is stored, where the server is geographically located, whether the data storage meets the company's specific protection requirements, etc," he adds. Unsurprisingly, data protection concerns are paramount when considering ChatGPT and similar publicly accessible AI-powered large language models.

In addition, new ethical demands are placed on treasury due to the use of AI. "Any deployment should be reviewed to determine the extent to which unintended bias or discrimination could occur," Bothe says. He points to the use of AI-based models to predict credit risk, where the models can make predictions based on historical data and other factors such as demographic characteristics and credit behaviour patterns. "These also give rise to new legal issues in terms of liability for AI-based decisions in treasury," he cautions.

Picking up Bothe's point about data bias, Da Costa adds that it is important for treasurers to remember that AI isn't perfect. "It's flawed by the fact that the data is not always accurate nor diverse. If you look at forecasts that are always skewed to a demographic that had been inputting that data, then you're not going to get the best possible outcome from that data," he says. "However, that's slowly changing."

Strbac identifies other key challenges for treasurers to navigate, such as recruiting talent with skills in machine learning, reinforcement learning and GenAI, in locations that are aligned to business operations and footprint.

From her perspective, working with the organisation's technical architects to ensure scalable tech design for the organisation's AI journey, and articulating the roles and responsibilities in the end-to-end AI lifecycle, in particular between the business, functions, technology and chief data office teams, are also important. She believes that banks can help corporate clients navigate many of these challenges. "Banks can share their knowledge in leveraging AI technologies in finance in a form of advisory service, bringing their in-house AI experts who can provide hands-on guidance. These same teams can work with the corporate treasuries to co-create new AI solutions designed and customised for specific treasury needs," she says.

A potential area for future co-creation could be creating tailored, AI-powered process-check engines between the bank and the client, suggests Strbac. "These engines could identify settlement instructions, payment instructions or amendments; check for completeness against pre-defined criteria; and suggest corrections, before the process fails and requires manual intervention," she explains. "This can lead to improved client experience and an advancing banking proposition that supports corporate treasurers in their move to real-time and just-in-time treasury."

Long-term perspective

One of the biggest challenges is staff's concerns that AI will make them redundant – a particular worry in small treasury teams. However, Da Costa is sceptical this will happen. "AI is not going to make anyone redundant – instead it will enhance our roles in treasury," he says. "It will definitely eliminate the more mundane routine processes, but our roles will evolve to become more analytical." While Bothe believes that perhaps certain job profiles characterised by highly repetitive tasks could be overtaken by an AI system to a certain extent, he believes that there still needs to be the "human factor" for interpreting and making well-informed decisions, and to turn to more strategic tasks. "The interesting challenge in the future will be how to ensure that this level of expertise is always available in a company when the repetitive tasks are being done by technology," he says.

The biggest impacts of AI are expected to be in increasing productivity and unlocking operational efficiencies, according to Strbac. "For treasuries, AI has the potential to drive a more personalised and efficient experience with their banks, for example with digital banking platforms being tailored to facilitate the predicted next best action for treasurers to take, and automatic generation of API implementation code enabling faster connectivity," she says. "In future we may also see banks creating finance-specific AI products, just as tech companies make their AI products accessible to other institutions to use and customise to their needs. This could include AI powered models for predicting early alert default propensity, FX market liquidity or currency volatility," she adds.

Treasurers should be thinking about what they want to achieve in future and how technology can support their journey, advises Da Costa. "Ferguson, for example, has a fairly high level of automation, but we began preparing ourselves for the future – which is closer than you think," he says. "The speed in which technology is evolving means that creating a ten-year plan is impossible, but we can think about the infrastructure we will need to future-proof treasury – and AI will form a big part of that."

The power of treasury

Sarah Symes
APAC Senior Treasury Director

Fluence Energy, Inc. (Nasdaq: FLNC) is a global market leader in energy storage products and services, and optimisation software for renewables and storage. With a presence in 47 markets globally, Fluence Energy, Inc. provides an ecosystem of offerings to drive the clean energy transition, including modular, scalable energy storage products, comprehensive service offerings, and AI-enabled optimisation software for managing and optimising renewables and storage from any provider.

Fluence reported revenue of US$2.2bn for fiscal year 2023 and was ranked 37 in Forbes' 2024 list of top 100 Most Successful Mid-Cap Companies.

Sarah Symes, APAC Senior Treasury Director at Fluence, discusses her career path, the challenges and opportunities of starting a treasury team from scratch, and the role of treasury as a trusted business partner.

"The thing that I love most about treasury is that no two days are the same and I get to work with people around the world," says Sarah Symes, APAC Senior Treasury Director at Fluence. "One day I might be liaising with someone in India on a capital injection and the next day I may be helping someone in the UK to come up with an FX hedge structure for a new deal. I've also worked in industries that are completely different to each other."

But while treasury has been an important part of Symes' life for over a decade, it wasn't even on her radar at the beginning of her career. Graduating from the University of Sydney with a Bachelor of Commerce degree in accounting and finance, Symes initially took up a position with PwC, qualifying as a chartered accountant in 2008.

"As a tax consultant at PwC, I was advising clients in the retail and consumer product sector," she says. "After I obtained my chartered accounting qualification, I decided – like many good Aussies before me – to move to London, maybe for a year or two."

Looking to do something different while she was living in London, Symes took up a position at Goldman Sachs in the operations risk and control team. However, three months after starting with the firm, Lehman Brothers filed for Chapter 11 bankruptcy, heralding the start of the global economic and financial crisis.

The part of the business that Symes was involved in – client asset protection – was suddenly highly relevant. With their assets effectively out of reach, clients of the investment bank were clamouring to gain access to all available funds.

"I had joined the client assets team," she recalls, "the purpose of which was to ensure that all the cash and securities that the bank held on behalf of clients were appropriately segregated and protected. It was all heavily regulated – and with huge volumes of trading activity every day, just identifying what went into the client pool was very complicated."

New horizons

It was during her time at Goldman Sachs that Symes began to develop an interest in corporate treasury. "I had been working alongside our treasury operations teams, because client cash had to be held in different bank accounts separate to the firm's assets," she says. "It was through my interactions with them that my interest in the world of treasury was sparked."

After six years with Goldman Sachs, Symes moved to Hong Kong where she joined the Asia Treasury Team at General Electric (GE). "That's when I actually started my treasury journey," she says. "My role was to advise and support GE Capital's businesses in Asia which included commercial distribution and structured finance, private equity, aviation and fleet financing and consumer credit cards."

In her role at GE, Symes was responsible for managing the treasury functions for the Asia structured finance and commercial distribution businesses, and subsequently leading treasury workstreams for multiple divestments when GE decided to exit all financing businesses. "The treasury division at GE was a well-oiled machine, with cash management specialists, hedging specialists and funding specialists and a sophisticated treasury infrastructure," she recalls. "As my first treasury role, it was a fantastic opportunity to learn how complex treasury organisations are run."

Starting treasury from scratch

After a couple of years at GE, Symes took up the position of Group Treasurer at Speedcast, a remote communications provider operating in 40 countries to provide satellite communication systems and IT services to clients operating in remote locations in the maritime, energy, mining and cruise industries, as well as governments and NGOs.

Symes found that the new position presented both challenges and opportunities. In contrast to GE, Speedcast had "a group treasury team comprising two people – one of which was me. It meant that I had the opportunity to start the treasury function from scratch, setting up regional teams and building out the treasury infrastructure."

At the time, the company was pursuing high growth through mergers and acquisitions. When the time came to refinance its debt facility, the company decided to pivot to the US debt market. "We ran the process to evaluate whether we should go down the path of doing term loans or bond issuances. Once we decided we were going to issue a Term Loan B, we ran the RFP process to choose which banks would help to anchor us in that."

With the existing CFO having left the company, and the new one yet to start, Symes found herself working with the CEO and one other colleague to get the project off the ground. "I hadn't done any debt financing before, so it was truly a baptism by fire," says Symes. "It was such an amazing learning experience, and I've taken the knowledge I gained there to all my subsequent roles."

When the company's ownership changed, and the headquarters moved to the United States, Symes decided to remain in Asia. Moving from Hong Kong to Singapore, she took up the position of Group Treasurer at Vistra, a global corporate services company and fund administrator. In this role, her focus was to integrate the treasury functions for multiple businesses which had been acquired and centralise cash across more than 20 businesses by implementing a cash pooling structure. This enabled the group to undertake further mergers and acquisitions, which eventually led to its US$6.5bn merger with the Tricor Group in 2023.

Pastures green

Having helped to prepare Vistra for its eventual merger, Symes believed that the time was right to take on a new challenge. Armed with the knowledge and skills that she had acquired in three very different treasury functions, she decided to take on the responsibility of developing the APAC treasury of a young company operating in a relatively new industry and joined Fluence in January 2024.

Listed on the NASDAQ since 2021, Fluence is a global energy storage solutions provider that has been playing a large role in the transition to clean energy. Given that wind turbines and solar panels often produce electricity at times when demand for energy is low, the company has developed solutions for storing that electricity until such time as it is required.

Although still very young, the company has expanded significantly since its NASDAQ listing. "From a tactical point of view, it's about navigating the capital and funding needs of a very high growth business," says Symes. As well as the challenges, she observes that working for such a new company comes with some exciting opportunities: "It's like starting with a clean slate. If this was a more established organisation, change would be much harder to navigate."

Transforming treasury

Symes believes that a key part of this change lies in harnessing opportunities to transform treasury, and as such she is looking forward to the prospect of automating manual processes wherever possible. As well as providing efficiency gains, she notes that digitisation can also be harnessed to access data in a coherent and structured way.

Alongside adopting a new ERP, the company has plans to implement a new treasury management system (TMS). "Treasury has to be data driven, and in order to do that we have to automate as much as possible," Symes notes. "There is so much technology available, and yet when I speak to other treasury professionals, many of them still do their cash flow forecasting with spreadsheets."

In addition to the efficiencies that can be gained through treasury transformation, she is looking closely at liquidity structures and how the company can better centralise cash through the new TMS. "Virtually every treasurer will say that market volatility is front and centre of mind," she says. "The question is, how do we manage that in an increasingly challenging world, and put in place practices that can help us prepare for events that may be just around the corner?"

Managing risk

Naturally, risk management is an important area of focus. As Symes points out, "One of the key roles of a treasurer is to manage risk for the company – and that involves having clear and robust policies in place." One major concern is the question of cybersecurity. Like many treasurers, Symes has previously encountered extremely sophisticated attempts to get treasury teams to make fraudulent payments.

Staying on top of new and emerging threats is an ongoing exercise. "Historically, you'd use callback as the mechanism to confirm a new vendor's bank account details, or before making a large everyday payment," Symes says. "To make sure that the payment is going to the right bank account, you would get an independent person to do the call back. But if those calls can be intercepted, we need then to think about how we can protect ourselves."

The role of artificial intelligence in treasury has become a major talking point in the last couple of years. And where fraud risk is concerned, Symes argues that AI has much to offer in helping alert businesses to unusual payments.

"Some treasury management systems are already using AI to identify suspicious payments by analysing what has been done in the past," she says. "They can highlight things that are unnoticed and small, but that cumulatively add up, to protect the company and help with risk management strategies."

Business partners

In the past, treasury has often been seen as a siloed part of the company. But in recent years, Symes believes treasury departments have become steadily more integrated with other functions across the business. "I think a lot more CEOs and CFOs understand how important it is for treasury to have a seat at the table, and I see them increasingly partnering very closely with their treasurers," she notes.

For Fluence, this includes playing a key role during contract negotiations with clients – a role in which treasury advises not only on financing, but also on topics such as FX rates and locking in contract values in US dollars. "When it comes to negotiating contracts, there are nuances," Symes adds. "Clients may be asking for things that we have not seen in other markets."

Symes also has a part to play in the company's budget discussions, where topics that might otherwise be seen purely as treasury concerns are considered in light of the overall business strategy. "As much as we're talking about revenue and margins, we are asking, 'what does this mean for cash? How do we make sure that we've got the right liquidity? Have we got the right banking lines in place?'" Symes explains. "It's a very holistic approach to the business. At the end of the day, most companies don't fail because they run out of revenue. They fail because they run out of cash."

> "The treasury division at GE was a well-oiled machine, with cash management specialists, hedging specialists and funding specialists and a sophisticated treasury infrastructure.

Cash matters

As such, Symes argues that the focus on effective cash management has likewise intensified in recent years. "Cash management has tended to be something that just happens in the background," she explains. "I think that's really changing. More and more organisations are realising the importance of not only protecting the cash, but also making it work for them."

With the interest rate environment of the last year making it easier for businesses to get relatively good returns on their cash, she believes that a shift to lower rates would prompt a re-examination of priorities. "As rates start to get cut globally, treasurers are going to be on the hunt for the best return. And although they might get a two- or three-year fixed deposit at a pretty healthy rate, that would be a relatively long tenor. The question is, would a company want to tie up its cash for that length of time?"

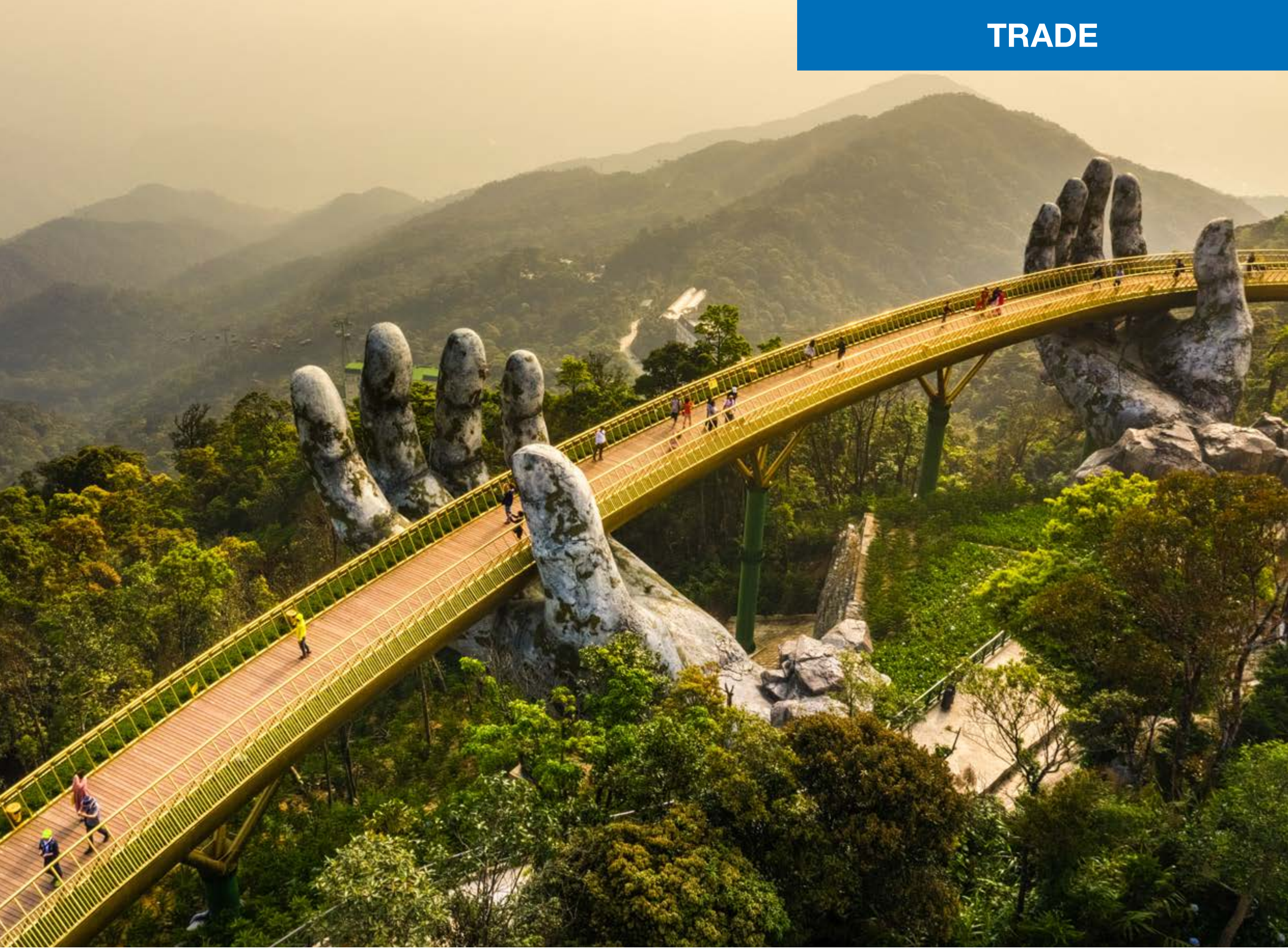
In her view, another important part of the treasurer's role is to educate the various stakeholders of the business. "Just because something has been hedged doesn't mean that there is no downside – it means that that downside has been limited and that the company might not be benefitting from any possible upsides."

Symes believes that as treasury continues to evolve, it is increasingly being seen not just a cost centre, but rather as a department that can add value to the business. "Although it's not our key function, treasury can definitely improve the profit and loss situation of a company," she states. "With the right investment strategies in place, and with the best pricing from the banks, treasury can make money as well as save it."

Last word

Having two young children means that most of Symes' free time is taken up with her family. However, she enjoys learning new skills whenever she gets the chance and has recently learned how to play Mahjong, the Chinese tile-based game. And although she has yet to develop a real love for running, she is proud of the fact that she recently completed her first half marathon.

Reflecting on her career to date, she says that working in treasury creates an "incredibly transferable" skillset, which can apply to any business. "I've worked in four different cities, and four different industries," she concludes. "Treasury is such a dynamic and varied function, and it gives you an opportunity to really understand and partner with the business."



Building bridges with procurement

Treasury and procurement may have different or even competing priorities – but there is also plenty of common ground between the two functions, particularly where working capital is concerned. So how and why should treasurers go about nurturing a closer relationship with procurement?

Treasury and procurement may be two separate functions within the organisation, with goals that are not only distinct, but can sometimes even conflict with each other. But as the role of the treasurer has become more strategic, there is a growing opportunity to build a closer relationship with procurement.

This, in turn, can drive improvements across numerous treasury activities, including cash flow forecasting, bank relationships, and, crucially, working capital management.

"While treasury and procurement cover very distinct functions, they have more in common than people may think," says Thomas Mehlkopf, Head of Working Capital Management at working capital solutions provider Taulia.

"In brief, procurement focuses on securing supply and managing supplier relationships, while treasury manages financial risks, securing the 'liquidity supply chain' and managing banking relationships."

Although these functions often operate separately, he notes there are also areas of overlap, especially when it comes to working capital management. "When connected in the right way, these parts of a business are a powerful and transformative force," he adds.

Nevertheless, the two departments' different core objectives can sometimes result in areas of conflict – and understanding both these alignments and conflicts is crucial when it comes to enhancing cooperation and achieving the overall goals of the business, explains Amit Pathak, Senior Manager at Deloitte Global Treasury Advisory.

"Sometimes there might be a conflict. During disruptions, for example, procurement may want to build more inventory and

Procurement challenges around the world

Procurement teams have faced unprecedented challenges in recent years, from the sourcing issues that arose during the Covid pandemic to the impact of geopolitical conflict and soaring inflation.

KPMG's 2023 Global Procurement Survey found external challenges included inflationary pressure/ increase in commodity prices (83%), the risk of supply disruption (77%) and demand uncertainty (63%).

But the survey also highlighted the challenges for procurement professionals. Internal challenges, meanwhile, included limited data and insights (54%), outdated systems (50%) and a lack of stakeholder collaboration (44%).

Meanwhile, a survey published by Gartner in November 2023 found only 14% of procurement leaders were confident in their talent's ability to meet the future needs of the function.

Spotlight on APAC

Amit Pathak, Senior Manager at Deloitte Global Treasury Advisory, says that "while the Covid days are well behind us, companies in the Asia Pacific region continue to encounter significant procurement and sourcing challenges.

"Geopolitical tensions, particularly involving China, have disrupted supply chains, compelling procurement teams to seek alternative supply sources," he explains. "Trade restrictions, tariffs and political instability in some countries add further complexity.

"Fluctuations in raw material prices, driven by global demand and supply imbalances, are impacting procurement budgets. Procurement is also urged to localise input costs due to sanctions and foreign currency exchange issues."

Meanwhile, despite traditionally low labour costs, rising wages and inflation in countries like China and South-East Asia are posing challenges. "Companies in APAC are increasingly embracing digitalisation and integrating technologies like artificial intelligence (AI), blockchain and the Internet of Things (IoT) for supply chain management, while aspects of trade finance remain largely paper-based," says Pathak.

increase stock levels, while treasury would like to keep the funding costs low and would not like to lock excess funds in the inventory," he says. "Another example may be getting the right trade-off between extending payment terms (treasury priority) versus helping your smaller suppliers' cash flow (procurement priority)."

He argues that an aligned process from the top and cross-functional teams, that takes into consideration the objectives of both teams with a long-term view, can help to resolve such conflicts. "Similarly, payment terms, supplier selection, FX risk management and capital allocation are some areas where treasury and procurement teams need to align the approach to avoid conflicts, or worse, a stalemate situation."

Areas of overlap

Although treasury and procurement often operate separately, the areas of overlap mentioned by Mehlkopf mean there is much to gain by bringing the two departments closer together.

For one thing, the impact of sourcing challenges and supply chain disruption can reverberate far beyond the procurement function. At the same time, working capital management is an activity in which both treasury and procurement have critical roles to play.

Pathak points out that supply chain disruptions and working capital optimisation "have been the top trends impacting the treasury function in the last few years. With supply chain risks top of mind, treasurers are focusing on optimising supply chain finance, and are working more closely with the procurement team than ever before."

Nicolas Helmstaetter, a treasury expert in SAP's Global Treasury, observes that the relationship between treasury and procurement is becoming increasingly important both for efficient and optimised working capital management, and to support cash flow. "At SAP, we are currently undergoing a massive transformation with significant impacts on financials and strategic priorities," he says. "In order to do so, collaborations between different finance departments have been intensified and efforts have been aligned."

United front

There are a number of activities which can benefit from closer coordination between treasury and procurement. According to Pathak, "Anything that involves longer payment terms, paying suppliers on time, managing inventory levels to release working capital for business, or managing the increasingly complex sanctions environment, can benefit from shared input by both functions." He notes that working together on payables issues can not only help supplier relationships on the procurement side, but also help to strengthen bank relationships due to the business presenting a united front.

"Card and payables implementations are generally at their quickest, and adoption has accelerated, when we've had procurement and treasury together in the room," he adds. "As a treasurer, it is critical to have procurement's buy-in, feedback and cooperation when establishing a SCF programme, particularly with an ESG focus."

With a focus on working capital optimisation, Pathak says treasury can extract more value out from initiatives if it has buy-in from procurement for managing inventory levels, supplier terms and purchasing, as well as financing strategies. "Integration between TMS and procurement systems can also enhance data sharing and process efficiency for both teams," he observes.

Helmstaetter, likewise, says working capital management is a cross-team effort that cannot be handled by a single department. "It is important that there needs to be a clear working capital strategy in place," he says. "For example, treasury might vote for extended payment terms to benefit cash flow from a working capital perspective, but procurement might negotiate discounts, and at the same time accept shorter payment terms, depending on how the teams are steered." Without alignment between the departments, he points out that single actions may trigger opposing and unwanted effects.

Beyond working capital, Mehlkopf notes the coordination of procurement and treasury strategies is crucial where cost management is concerned. "With procurement's eyes on supply chains, and treasury's on FX and interest rates, both bring valuable information to predict and manage risk – protecting their company from financial and supply chain disruption," he adds. "Collaboration also enhances financial planning, as procurement holds insight into future purchasing needs and potential cost trends, which can support the treasury function in preparing forecasts and budgets."

> Procurement focuses on securing supply and managing supplier relationships, while treasury manages financial risks, securing the 'liquidity supply chain' and managing banking relationships.
>
> Thomas Mehlkopf, Head of Working Capital Management, Taulia

Building a closer relationship with procurement

It's clear treasury teams have much to gain from building a closer relationship with procurement. As Mehlkopf explains, "It is vital that these functions engage in coordinated strategies, such as negotiating payment terms and implementing supply chain finance supported by shared KPIs. This ensures a strong relationship between teams and establishes a communication cadence – both essential for supporting optimal cash flow and helping the company achieve its long-term goals."

Treasurers are taking note. Pathak observes that more treasury teams are initiating a dialogue and closer collaboration with procurement teams in order to enhance cash flow management, and manage risks or surprises. "Effective cash flow optimisation strategies implemented by corporate treasury can yield substantial savings for the company," he says.

But for some strategies – such as enhanced cash flow management, ESG initiatives and strategic planning and budgeting – "treasury needs the full support of the procurement team."

Likewise, procurement also needs help from treasury teams to be innovative and provide efficient financing options to suppliers, "which can ultimately help with the negotiation leverage."

Achieving this needn't be a major undertaking: as Pathak points out, "treasurers can support procurement naturally through some of their core competencies. This includes efficient cash management, SCF, and know-how when assessing certain suppliers' creditworthiness and financial stability."

Noting that having both functions on the same page can be "a big win" for the organisation as a whole, Pathak says there may be many useful instruments in the treasury toolbox that can help procurement have richer discussions with suppliers and gain a better view of internal spending needs.

"Another tool is the close ties that the treasurer has with the business's core banking group," he concludes. "Opening up that element to the procurement team, when appropriate, could be critical."

Building bridges within the organisation

Nicolas Helmstaetter, a treasury expert at SAP Global Treasury, notes the following topics are key when it comes to building closer relationships with other departments:

- **Holistic financial management.** Treasury requires visibility across the business to effectively manage the organisation's overall liquidity (risk). Relationships with departments like Controlling, Tax and Accounting ensure treasury has the necessary information for accurate financial planning and analysis and vice versa.
- **Agility and responsiveness.** Closer relations with various departments enable treasury to respond more effectively to changes in business conditions, such as shifts in revenue forecasts or extraordinary expenses.
- **Strategic decision-making.** Access to insights from different areas of the business allows treasury to contribute to broader strategic initiatives, ensuring that impacts on liquidity and cash flows, for example, are integrated into company-wide decision-making processes.
- **Risk management.** Building cross-departmental relationships enables a comprehensive approach to risk management by identifying and mitigating risks that come from different parts of the business.

How tech, data and thinking outside the box define Bay Area treasury

San Francisco's Bay Area is home to some of the most innovative companies in the world. Fittingly, the tech mantra of digitisation and collaboration has shaped corporate treasury where in-house technology, strategic thinking and data drive strategy.

San Francisco's Bay Area is a cradle of technological innovation and home to some of the best-known companies on the planet. It's no surprise the culture of digital transformation that defines these companies has invariably trickled down to shape highly efficient treasury functions too that in turn fuel growth. An exploration of treasury in the region also reveals a close camaraderie, sense of community and collaboration, and social responsibility.

Digital transformation

The treasury function at Workday which provides cloud-based software solutions for companies' HR, payroll, finance and supply chain needs, amongst others, is certainly cutting edge. But it is not just attributable to VP, Treasurer, Alice Xu's self-confessed aversion to manual processes.

Workday's tech savvy treasury underscores the trend in the region of corporate treasurers integrating their own, homegrown technology. Like the way Workday's cash management is automated using a Workday product that supports daily liquidity management, cash forecasting and bank account signatory management. "When there is a chance to use a new product, we always raise our hand," says Xu speaking to Treasury Today from the firm's Pleasanton offices. In another example, she explains how Workday Prism has provided a dashboard that gives her 100% cash liquidity globally, daily.

"It was the weekend on the eve of the pandemic, and I was hiking. My CFO sent me a text asking how much cash we had. I went to the Workday app, opened the dashboard and sent her our investments and cash position."

Despite the integration of already vanguard technology, she says her key priority remains harnessing technology and processes that will support future growth at the company, grown from a US$200m business to a US$7bn company during her 11-year tenure. "My focus is on finding the technology the company needs to do things more efficiently. We have set up processes that worked well in the past but now it's a question of stepping back and seeing if the technology that got us to where we are today will work tomorrow."

Large companies like Workday can apply their own tech in treasury, but it's not the case at smaller firms where more often than not, treasury tech budgets compete with other departments and many struggle to fast- track efficiencies. For Tobias Miarka, Head of Corporate Banking at Coalition Greenwich it's a source of surprise that companies that understand the power of tech are slow to integrate it in their own processes. "Often it is a case of treasury knowing what they need, but not getting the funds," he says.

He also notices that although the region's tech companies know the power of technology, acquisitive groups are slow to integrate new treasury systems of acquired companies into a single, overarching treasury function. "In many cases, acquired companies in the group continue to use different systems bought together on spreadsheets so most of the reporting bridging different systems will be done on Excel."

Strategic treasury

Treasury in the West Coast is often defined by a strategic and central focus and many treasurers enjoying a seat at the corporate table. Treasury is asked to look further into the future and viewed as a centre of analytical excellence: treasurers are asked to not just run the firm but transform it, acting as a catalyst for change and innovation, says Miarka. "The day job is being compressed to make room for strategic tasks."

However, the concept of strategic treasury is relatively new. Workday's Xu observes that young companies in the area don't always know when to set up a treasury and at many smaller firms, people still struggle to understand what treasury does. These companies may not feel the value of treasury, requiring treasurers to explain its value, getting involved as a risk and business partner via collaboration and communication. It could manifest in cross functional projects like providing finance for an M&A transaction, supporting the capital structure or risk mitigation, she suggests.

"It's my job as a treasurer to help people understand what our role is. We don't just make wire transfers and manage bank accounts. We are a strategic partner to the business."

A data dominated future

One word unites all interviewees pondering the biggest influence on Bay Area treasury ahead: data. Treasury teams in the region are taking a leading role supporting companies to store, access and interpret data to drive corporate growth across different divisions. "The focus has shifted to not only thinking about having a better machine but also thinking about what you put in that machine," says Miarka.

Witness how data management at San Jose-headquartered tech group Cisco has become a central function within treasury that is transforming how the company utilises banking information. Treasury is now compiling a data lake for the benefit of different divisions throughout finance, explains Debbie Kaya, Senior Director, Treasury, Global Cash and Operations at the company. "When it comes to banking data, data consolidation and use, treasury is leading," she says.

Brett Turner, founder and CEO of Trovata, is also banging the data drum. The San Diego-based treasury solutions provider has the largest library of direct corporate banking APIs and Turner believes many companies still struggle to access rich, real-time multibank data.

He explains bank data is often accessed through outdated methods like file-based services (SWIFT, ISO formats) or direct host-to-host connections, all of which are difficult to onboard, maintain and update. These methods lack the modern tech benefits that APIs provide, and even when legacy treasury solutions claim to support APIs, they often convert the data into traditional file formats, losing valuable metadata.

He argues that companies shouldn't bear the burden of ensuring their IT and treasury systems can access timely operating data for cash flow and liquidity management. "You never question whether your company has all your emails, but this is the reality for corporates with their bank data," he says. "Yet cash is the lifeblood of every business, and data is the foundation for creating the next generation of services."

He expects CFOs and CIOs to increasingly rely on their treasury teams for real-time data to inform daily decisions. Treasury teams that adopt cloud-native solutions with API-based connectivity methods can then leverage AI to gain insights, improve efficiencies, reduce costs and manage risks, he says.

Skills

New technology like AI is driving efficiencies that will impact hiring in the region – a survey by Coalition Greenwich found only 10% of treasury respondents are planning to add additional staff to their treasury department. Moreover, strategic treasury in the Bay Area also requires new skills. "There is an element of change in the type of person firms are looking for," reflects Matthew Noujaim, Senior Consultant – Corporate and Investment Banking at Coalition Greenwich.

"Excel on its own is not good enough," agrees Xu, who explains next generation treasury skills have evolved to require business acumen and strategic thinking. New technology means teams spend less time compiling and reconciling data and more understanding and interpreting it to support the business make the right decisions. "The ability to think outside the box and collaborate are key skills."

She needs a team that embrace and understand new technology; she doesn't require the ability to write Python code, but she does want curious minds, open to exploring the evolution of treasury from TMS to AI. It means a preparedness to change from old to new practices and embrace new product offerings in a fresh mindset.

"It is more about attitude," agrees Cisco's Kaya. "Curiosity, flexibility, critical thinking, the ability to connect dots and people, and a willingness to learn regardless of the mode. It's about jumping into the deep end. A person can be taught skills, but they can't be taught attitude."

Competition for skills in a small community (fanned by the fact most graduates seeking a role in finance favour investment banking and tech over treasury and Noujaim and Miarka's observations that treasury does need a rebrand to reflect its strategic scope) is also accentuated by centres of tech innovation springing up in all major US cities.

Digitisation, the emergence of modern tech stacks and the cloud means it is possible to build companies anywhere. "Entrepreneurs can set up shop wherever they like," reflects Turner, himself a serial entrepreneur.

"It used to be the case that VCs wouldn't want to go to, say, Florida if they were based in Palo Alto but now everything is remote and board meetings are on Zoom."

Other issues shaping treasury in the region include challenges raising money, and companies having to do more, with less. Today's leaner times mean corporates are focused on profitability and staying disciplined around core fundamentals.

The collapse of Silicon Valley Bank has also reshaped treasury thinking, visible in ongoing concerns about the viability of banking partners.

Treasury teams are more questioning of counterparty risk management in a new landscape where Fintechs now compete for cash management and payments business, and private finance has muscled in to put pressure on smaller banks.

As the cost of banking creeps higher, partly in consequence of regulation, many treasury teams are striving to reinforce relationships by offering additional business in a deliberate attempt to support trusted partners.

"Treasurers are conscious of the economic stress on their banking counterparties and want to make the relationship work," says Noujaim who underlines that rather than paying higher fees, companies are seeking to give more opportunities and wallet share to their existing banking partners without increasing their own total spend.

At Cisco, the collapse of SVB reinforced treasury strategy to always transfer legacy bank accounts of acquired companies to new, central processes.

"When we acquire it is our goal to move these companies quickly into Cisco processes, systems and global banking partners. Sometimes we would get push back or requests for extended integration timelines, but we don't anymore," says Kaya.

Similarly, Xu concludes the crisis left long-lasting change at Workday where her team always track how much risk treasury has with each counterparty, and she regularly counsels on the importance of maintaining multiple bank relationships, "not putting all your eggs in one basket" and the importance of "a Plan B" in another affirmation of treasury in the region being able to change, innovate and adapt.

How ESG and low risk shapes corporate investment strategies

Two corporate treasurers, one in the UK and one in Singapore, discuss their contrasting investment strategies where sustainability and low risk guide their approach.

The ability of sustainably minded corporate treasurers in the UK to put their cash to work in green investments is getting more difficult because banks are struggling to find the opportunities to invest the money.

"The problem we have, is that banks don't have much capacity to put money to work in green investments – they can't find the projects to invest in, and there is a limit to what classifies as green," reflects Richard Abigail, Group Treasurer and Head of Corporate Finance at Knight Frank. "Banks also cap the amount an individual corporate client can invest in green deposits because they want to ensure they offer a stake to all their clients."

The global real estate consultancy has five-to-six green deposits with banks, but that doesn't cover the £100m Abigail would like to invest sustainably. It means the company has pushed large amounts into sustainable focused MMFs and still has around 15% of its total cash held in 'brown' current accounts for day-to-day liquidity needs.

Abigail's comments confirm anecdotal reports that one of the main UK clearing banks is no longer accepting green cash because it can't find the opportunities to put the money to work.

They also offer a window into the ambition of Knight Frank's sustainable investment strategy that Abigail has shaped since taking over the treasury team three years ago and which echoes wider sustainability endeavour throughout the group spanning emission targets in its buildings, to electric vehicle use. "Treasury set out to make our cash green," he says.

Knight Frank has around £100-200m to invest in a typical yearly tax cycle that builds up through the year. The money, mostly partners tax contributions, used to sit in an overnight deposit account with the company's main clearing bank before Abigail took the helm.

He began by dividing the portfolio into three seams comprising core cash for essential liquidity, designated cash for tax payments, and strategic cash for a rainy day but also on hand for acquisitions or opportunities – like the company's recent acquisition of Australian residential estate agent McGrath.

Treasury committed to invest all cash sustainably, splitting the money into two types of investment products comprising green deposit accounts with relationship banks (around 30-40% of the total portfolio) and four MMFs. The sustainable MMFs are SDFR Article 8 funds that enshrine ESG and managed by relationship banks and where Knight Frank invests via the ICD platform.

The large allocation to MMFs is partly a consequence of the absence of short-term opportunities in green deposits. Banks are reluctant to take green deposits for anything less than 90 days because they are re-investing the money long-term, but this doesn't suit Knight Frank's liquidity requirements, he explains. "Most green deposits are three-month tenors, but we need shorter-dated stuff too and MMFs allow the flexibility of daily or weekly withdrawals," he says.

He also likes MMFs because he won't lose too much yield if rates drop. "The yield curve is flat and inverted because everyone is expecting rates to drop so we want to keep investments short term."

A central element of strategy at Knight Frank is to invest cash through products that also nurture its key bank relationships. "I like relationship banking. I'm an old school treasurer, and the relationship is more important than the cheapest price for a BACS or the lowest cost response to an RFP," says Abigail.

He estimates the difference in performance from investing in a green deposit with relationship banks over a 'brown' account with a different partner is typically 2-5 bps. "It's not much to give away," he says, in another nod to treasury valuing the relationship more than the investment return. "We don't always get the best rate of return in our green deposits, but part of the rationale is to keep our bank relationships tight."

Worried about risk, Wearnes dials back on higher yielding products

Investment strategy at Wearnes, the luxury auto retailer headquartered in Singapore and operating in eight markets across Asia Pacific, is shaped by a new sense of caution. Today's challenging geopolitical and macro backdrop means Group Chief Financial Officer Katherine Tan has repositioned for the lowest possible risk.

Like her decision to peddle back on an allocation to Contango Investments to investing the majority of the portfolio in short-term deposits and T-bills instead in a bid to ensure exposure only to "basic fundamentals" rather than more structured products that gave a slightly higher yielding fixed income return.

"We used to venture into these types of structures but today we have less of an appetite for them. We are less adventurous compared to last year because from where we sit in Asia, we believe global markets are fragile," she says, citing enduring regional wars, the US election and the impact on the auto industry of environmental and sustainability issues as key concerns.

> We are an acquisitive company and seek to expand into new brands. Our belief is that all cash-like investments have their limits. It's better to invest in the business itself for a better return for the long term.
>
> Katherine Tan, Group Chief Financial Officer, Wearnes

Although the majority of the investment portfolio is held in US and Singapore dollars, she says the company is still exposed to volatile regional currencies, sensitive to the macro environment.

Still, despite the low risk approach she notes the portfolio which is benchmarked against straight treasuries has thrown off more income because of higher interest rates.

Cash is only managed in the short and medium term (three to six months) and invested in fixed income and diversified MMFs. Strategy is shaped around agility and the ability to switch in and out of the current market environment, as well as the guiding principle to always have enough on hand to acquire new businesses when the opportunity arises.

"We keep it short so we can deploy quickly when we see opportunities. We are an acquisitive company and seek to expand into new brands. Our belief is that all cash-like investments have their limits. It's better to invest in the business itself for a better return for the long term."

Security and capital protection are her primary concern, and investments are managed internally but based on fund manager's proposals. "We like a direct investment approach," she says. Although she seeks diversification as a balance to risk, Wearnes' direct approach avoids the risk of the portfolio becoming over-diversified in the hands of a fund manager.

"You can end up in a basket floating with the market and there is no ownership on direction. If we invest in something, we are very clear on the view and direction we want to take. For this reason, we tend not to go into portfolios that are over diversified."

Tan oversees a lean finance team of three staff. Together they spend an estimated three days a month on investment strategy. "We know the positions we are in, and when they mature, we check where the market is and re-enter to lock in for the next week or month. We just keep going on products we are familiar with."

The value of shared services centres

Against a backdrop of regulatory change, market volatility and digital transformation, treasurers are embracing a centralised model to drive efficiency, enhance financial control and reduce costs. What factors do they need to think about when considering where they should locate their SSC?

Centralisation is a longstanding trend in treasury, driven by digitisation, globalisation and a greater focus on transparency, performance and control. Increasingly, corporate treasurers want to improve oversight of their global cash and liquidity positions, while also boosting efficiency, tightening internal controls and cutting costs.

Treasurers looking to consolidate various operational treasury processes have often set up shared services centres (SSCs). Activities include, for example, bank account management, accounts payable (AP) and accounts receivables (AR) processing, and financial reporting.

"SSCs are entities designed to streamline operations by pooling resources," says Tesy Mathew, Group Head of Cash Product Management, Global Transaction Services at DBS. "Large organisations with operations across multiple jurisdictions can enhance efficiency and reduce costs by centralising certain functions common across regions into a single location."

Through centralisation, corporates can enforce greater financial discipline, such as standardising credit terms with suppliers, maintaining disciplined payment cycles, and leveraging shared expertise from a centralised team, according to Mathew. "This centralised approach not only enhances financial control but also enables centralisation of the funding and liquidity management of the entire organisation," she adds.

Ray Suvrodeep, Managing Director – Treasury Solutions Group and Liquidity Solutions, Global Payments Solutions (GPS) at HSBC, adds, "As cash and payment flows become more centralised, self-funding can help improve financial performance, while enabling debt to be paid back at group level. Centralised visibility can also allow for improved hedging and investment policy execution at group level.

"Defined centralised policies can also help working capital to be managed more efficiently and increased straight-through processing of AP and AR can allow for tighter and more timely monitoring of days payable outstanding, days sales outstanding and automated reconciliation."

Making it work

Séverine Le Blévennec, Global Head of Treasury at fluid management solutions provider Aliaxis, which operates in more than 40 countries, is a strong advocate of SSCs for operational treasury processes. "A SSC delivers several benefits including knowledge continuity, harmonisation of processes, controls, policies and systems, and the ability to manage a larger number of entities and/or countries," she says. "It is also possible to reduce costs, depending on where the SSC is set up. But while reducing costs is the main reason many companies decide to set up a SSC, the real benefits are derived from driving greater efficiency – if done correctly," she adds.

Le Blévennec believes that having a strong team leader is critical for the success of a SSC – "someone who can act as the glue between various activities". To ensure the SSC continues to be relevant for the business, such a leader will need to be agile to adapt processes, policies, entitlements, scope of the activities and so on, as the company and environment evolve. "This will also help to motivate SSC staff, which is important to retain a group with a high level of specialised knowledge," she adds.

"People that work in SSCs shouldn't be treated like robots; they too need interesting work or the SSC will experience a high turnover in staff," she advises. "Therefore, treasury should first ensure that technology is optimally deployed – don't use the SSC to do activities that can be automated, such as manual bank account applications."

Then it becomes possible for treasury to set stricter delivery times because the SSC staff are less distracted by other priority topics and can perform better in certain activities, such as user management in ebanking systems, according to Le Blévennec.

"If user management is small part of a treasury analyst's job, each time they need to remember how to set up a new user and perhaps call the bank to refresh their memory. However, in a SSC there are experts that do it more often and, as such, have a set routine and documented process – they don't need to reinvent the wheel each time," she says.

The benefits were evident when Aliaxis onboarded new banks in Latin America from its SSC in Costa Rica. "We changed our banks in ten countries at a time and it was important to have this team effort delivering on the treasury project. And at the same time, we had to do a comprehensive overhaul of our master data, which the SSC team was able to do together in record time," explains Le Blévennec.

"The project would have dragged on if we did it by coordinating ten countries, with each cleaning up a small amount of data, liaising separately with IT, and so on," she adds. "Such projects can easily get stuck without that team spirit and collective pride in their accomplishment."

First steps

According to Le Blévennec, the ideal time to consider a SSC is when treasury is embarking on a system or process review, or when the business is growing through an acquisition, for example. "Treasury can reflect whether centralisation could bring added benefits, such as being able to manage certain activities more effectively, rather than reducing head count," she says.

"If it is done well, treasury staff should see value in having that type of activity moved to a SSC. They should be relieved there are some things they don't need to do, so they can focus on more strategic activities," Le Blévennec adds. She believes there needs to be a critical mass of staff in the SSC, for example six to ten people, to attract and retain a high-calibre leader.

Suvrodeep recommends the journey starts with defining the right business case, which requires some bandwidth within typically resource-constrained treasury teams.

"It requires both time and expertise to define the target model along with complete cost-benefit analysis that is expected to demonstrate the return on investment of such transformation journey," he says. "Centralisation is an end-to-end strategic project, which can only commence with full support from key stakeholders internally, including HR and tax partners."

Mathew agrees. "This shift introduces a new way of working by centralising the people and processes, impacting both internal and external systems and stakeholders," she says.

One of the biggest challenges to centralising treasury operations, according to Leo Gil, Vice President of Product, Bottomline Technologies, is aligning the underlying technology. "Unfortunately, many technology providers offer a 'big bang' solution, which also means big dollars and a long time to get value from that solution. The conversation can quickly shift from needing a SSC to connect a corporate's finance teams to trying to boil the ocean and do everything at once, which will take years to implement," he warns. "Instead, treasury should look at finding the right technology pieces that will deliver as value incrementally along the centralisation journey," Gil advises.

Other challenges that need to be addressed include complex regulatory requirements in multiple regions, particularly around data, and compliance considerations around outsourcing, as well as risks associated with operating out of a single location, says Mathew. "It is crucial to carefully evaluate the costs of these changes against the potential benefits that centralisation can offer," she advises. Furthermore, finding the right team skillsets can also be a challenge depending on the location, according to Suvrodeep.

Prime location

There are many criteria to factor in when considering where to set up a SSC, but Suvrodeep emphasises that selecting the location should be informed by the main objectives around having the SSC in the first place.

"Government incentives, including favourable regulatory provisions, tax schemes and policies around investment in education and human resource development can play a role," he says. "In addition, good quality infrastructure, such as physical and digital connectivity, political and economic stability, country credit ratings, and so on are important factors too."

Mathew adds geographical proximity to key markets is important, to enhance communication and collaboration. In Asia, for example, India, China, Malaysia and the Philippines are prime locations for SSCs, she reports.

For Le Blévennec, country risk is very important, as is whether the country has a high standard in education. "Having people who can speak English, for example, will typically help when communicating with the rest of the organisation," she says.

Other things to consider are salary costs and whether the company has in-country operations so the SSC is connected to an existing entity.

Suvrodeep adds: "Often the existence of other SSCs in similar industries is taken as an indication of availability of talent pool. If there is already a SSC present performing functions such as accounting, procurement and so on, the treasury team often decides to co-locate treasury and payment operations teams there."

Le Blévennec returns to her point about creating a sizeable team to ensure continuity. "Having a critical mass in the SSC is also important in a country where talent competition is high and there is much staff turnover as people move from job to job for better pay," she says.

Gil, on the other hand, is not convinced that location remains a big issue for most corporates, except when there are regulatory requirements such as data localisation laws. "Location will depend on what the company needs and regulatory requirements, but I think it is less of an issue today," he says.

Future-proofing operations

Le Blévennec believes SSCs will help treasury make treasury more resilient. "In operational treasury, a SSC helps to have harmonised controls, processes and systems," she says. "When setting up new systems, processes and policies, if there are people sitting in 50 different countries in charge of applying them, it's difficult to have oversight of new joiners to ensure that everyone is properly trained."

Gil agrees SSCs are the right way forward for many large corporates. "We call it connected finance – which brings together all the teams that touch treasury, similar to scrums in tech development," he says. "These teams are connected in their activities, but still have disparate processes and technology. Therefore, connecting finance in a SSC is the way to future-proof treasury."

SSCs are also evolving. For example, data analytics is a key area of innovation within the SSCs, according to Suvrodeep. "Treasuries can benefit in their decision-making process from SSCs providing data analytics support such as risk modelling, cash flow analysis and forecasting, and so on," he says.

He believes new technologies – artificial intelligence, machine learning and cloud-based services, which can support data centralisation and automation at the SSCs level – will allow treasurers to add a layer of future proofing. "We can expect that treasury technology techniques will drive greater operational and cost efficiency, as well as providing better visibility of cash and risk positions," he adds.

Mathew argues that future-proofing treasury involves more than just implementing a SSC. "It requires a collaborative effort across the entire organisation to ensure that the treasury function is equipped to manage emerging challenges and opportunities," she says.

"This calls for the active participation of the treasury team, along with key business functions such as accounting and finance, technology, sales, procurement and collaboration with banking partners," she adds.

Sustainable and inclusive growth

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

Marianna Polykrati
Group Treasurer
Avramar Group

Sustainability is central to Avramar's mission and future growth as an aquaculture company. We have three pillars that guide our sustainability efforts: better fish, better lives and better planet. Our 2023 sustainability report outlined our approaches in areas including circular economy and waste management, ecosystem and biodiversity conservation, and climate change and energy use. Importantly, we have a sustainability manager which illustrates how important environmental, social and governance (ESG) considerations are to Avramar.

In Greece, the treasurer was the one initially engaged in sustainability, as the first point of contact for the banks regarding ESG reporting. Most corporates didn't have sustainability officers at the time, so we were the ones receiving the banks' questionnaires, which differed from bank to bank. We then engaged internally with each business department, from engineers and procurement to sales, legal and HR.

Fortunately, as of February, after an initiative from the Hellenic Bank Association (HBA) and in cooperation with bank members and Teiresias, HBA released a unified and common ESG reporting checklist for the creation of a common 'depositary' of interbank data, with the questionnaire tailored to each company's specifics, including industry, size, personnel, and activities. The 'esgr' questionnaire is still sent to treasury which then sends to the sustainability officer if a company has one, or the treasurer completes it through investigating internally.

While the whole company needs to be involved for a sustainability programme to have high levels of success, I believe that treasurers are strategically placed to promote ESG because of the close cooperation with all the business teams. Externally, we have relationships with financial institutions, investors, shareholders, suppliers and customers. This means that we understand how tap into sustainable financing solutions and alternatives, such as a supply chain finance (SCF) programme, as well as sustainability-linked bonds and other green investment proposals, such as investing short-term cash in green deposits.

Undoubtedly, there are many benefits to incorporating ESG. For example, a company will be able to deliver better value for the shareholders, as well as access a wider pool of interested investors when it has sustainability embedded in its DNA.

Treasury can, with many relatively simple actions and initiatives such as integrating sustainability into its daily operations, build its green credentials. The most important is automation and digitalisation, ie going paperless, reducing CO_2 emissions by minimising travel and enhancing diversity in their teams. The goal is to have more efficient and sustainable processes – it's akin to a deep self-reflection to see how we can change and think differently.

Among our next projects is to investigate a potential SCF programme to ensure suppliers are sustainable and also see how this can help lower our costs and how to incorporate sustainability in our debt financing. Across industries, I have observed how the treasurer's role has become more strategic over time. Our daily interaction with all departments provides us with valuable insights and knowledge of internal problems and risks. Plus, we have the opportunity to exercise our unique characteristics as good problem solvers and risk managers, and we are highly proficient in regulatory compliance.

Bruno Mellado
Global Head of Payments and Receivables
BNP Paribas

Sustainable and inclusive growth has become a cornerstone of corporate strategy, transcending mere corporate social responsibility initiatives. It is now viewed as essential for long-term viability and competitiveness. As such, corporates are aware of the mounting pressure from stakeholders, including institutional investors who increasingly use ESG metrics in their investment decisions.

Climate change mitigation, biodiversity preservation and social equity are no longer peripheral concerns but central to business planning. Companies recognise that sustainability drives innovation, enhances brand value and helps attract top talent. Moreover, it is becoming clear that sustainable practices often lead to cost savings through resource efficiency and waste reduction, directly impacting the bottom line.

For corporates, this involves a comprehensive overhaul of business models and operations, including setting targets for emissions reduction, embracing circular economy principles to minimise waste and ensuring ethical labour practices throughout global supply chains. Companies are increasingly adopting the UN Sustainable Development Goals as a framework for their sustainability efforts.

In terms of inclusion, businesses are not only focusing on workforce diversity but also on fostering inclusive product design and expanding access to underserved markets. Many are integrating sustainability into their research and development processes, creating products that address environmental and social challenges. To embed these parameters, companies are revising their governance structures, creating dedicated sustainability committees at the board level and linking executive remuneration to ESG performance metrics.

Treasury's involvement in sustainability is expanding, but unevenly. The most recent European Association of Corporate Treasurers' survey shows ESG is gaining importance, yet 20% of treasurers are not involved in ESG processes. However, many treasurers are becoming key players in sustainability strategy with top actions including reducing business travel, revising processes for sustainability and issuing green bonds. Additionally, treasurers are increasingly involved in sustainable capital allocation, green investments and ESG risk assessment. They are participating in sustainability committees and integrated reporting. At BNP Paribas, we observe treasurers' expertise being valued in evaluating financial implications of sustainability scenarios.

This is because treasury brings a unique set of skills and perspectives to the sustainability table. Treasurers can access sustainability-linked credit facilities, implement ESG screening in investments and design sustainable supply chain finance programmes. They can promote inclusive financial practices and develop products for underserved communities. Treasurers are already structuring innovative instruments like sustainability-linked bonds, tying interest rates to ESG targets. Importantly, treasury's role spans from leveraging banking relationships for green products to fostering diversity within their department, effectively extending ESG practices beyond direct operations.

The importance of sustainability in treasury operations is set to grow exponentially. As ESG factors become increasingly material to financial performance, treasurers will likely become central figures in driving sustainable finance strategies. With proliferating sustainable finance regulations, treasury will be crucial in ensuring compliance with new disclosure requirements. Treasury professionals' skillsets will need to expand to include deep understanding of ESG issues and sustainable finance principles. Ultimately, we anticipate sustainability becoming so integral to treasury that the distinction between 'traditional' and 'sustainable' treasury functions may blur entirely, transforming the role of treasury in corporate strategy.

Csongor Mathe

Product Manager/ESG Lead
TreasurySpring

Navigating the landscape of ESG and sustainability principles over the past few years has felt a bit like hiking through the Alps – full of peaks and valleys. Despite these fluctuations, and while progress is being made far and wide, the pursuit of a more sustainable future remains of utmost importance and one of the greatest challenges we face – one could say it's akin to climbing Mount Everest, to extend the mountain analogy even further. Governments, non-governmental organisations and regulators all have crucial roles to play in this journey, and companies are no exception. Accordingly, sustainable and inclusive growth has become a focus for various corporations aiming to create long-term value that benefits not just shareholders, but also society and the environment.

The essence of this philosophy is that economic development does not have to compromise the well-being of future generations and that all stakeholders can share in the benefits of corporate success. This shift is driven not only by regulatory requirements but also by the realisation that sustainability initiatives can drive innovation, reduce costs and enhance brand reputation. At the company level, this can involve reducing carbon footprints, managing resources responsibly and promoting energy efficiency, for example. Treasury can contribute and make an impact in several key areas, while maintaining the cornerstones of security, liquidity and yield. These include (but are not limited to):

Synchronisation of goals: aligning the treasury policy with the company's overarching ESG framework can be a valuable first step for treasurers. When doing so, it is advisable to tailor these efforts to reflect the company's core values and operations. For example, a manufacturing firm might prioritise improving supplier ESG performance by encouraging greener practices across its supply chain.

Green financing: by issuing a form of a sustainable loan or bond, treasurers can fund projects that contribute positively to the environment, such as renewable energy initiatives and climate change adaptation. Reflecting the growing interest in these types of financing, 62% of treasurers surveyed in our latest sustainable finance survey, conducted in partnership with the Association of Corporate Treasurers and the London Stock Exchange, are considering including ESG features in their next financing.

ESG-friendly investments: our sustainable finance survey also revealed that 66% of respondents consider ESG cash investing to be either very or somewhat important to their organisation. This underscores the increased importance treasurers place on integrating ESG criteria into their investment decisions. Doing so ensures that corporate funds are directed towards companies and projects committed to sustainable practices.

Managing this complex environment presents challenges for treasurers amid conflicting standards, evolving regulatory frameworks and heightened scrutiny on greenwashing. However, more clarity and consistency may be on the horizon with increasing regulation and market consolidation, as seen in the sustainable bond market. Recognising that incremental positive changes, when scaled over time, can lead to lasting long-term impact is key – after all, even Mount Everest is conquered one step at a time.

Next question:

"What are the key issues impacting global supply chain networks and trade routes and how is treasury navigating them?"

Please send your comments and responses to **qa@treasurytoday.com** by 20th September 2024.

A tale of a global reversal

It was the best of times… The era of workforce growth, globalisation and ultra loose monetary policy is over. In today's new climate characterised by a contraction of the workforce and deglobalisation, expect structural upward pressure on inflation and real interest rates and downward pressure on asset prices. Moreover, the transition to renewable energy and navigating the impact of climate change will result in large scale investments that provide relatively little productivity growth.

The past decades have seen various positive structural developments for the economy:

- Workforce growth.
- Globalisation and the rise of China. Because China opened up to foreign companies and international trade from the late 1970s, Western companies were able to take advantage of a huge reservoir of cheap labour in China. At the same time, the strong emergence of the Internet, container transport etc, allowed for far easier and cheaper communications and transportation of goods. This gave companies the opportunity to produce at low cost in China and sell the products in the West. As China's prosperity increased, China also turned into an increasingly important sales market.
- The aforementioned developments left inflation and wage increases under strong downward pressure. At the time, central banks pursued increasingly loose monetary policies to prevent a prolonged period of deflation. This resulted in low to negative real interest rates, rising asset prices and continued credit supply growth. As a result, consumers still had the means to consume more, even though production largely moved to low-wage countries. In addition, interest charges as a percentage of income remained low due to the low interest rates.
- The services sector grew significantly faster than the goods sector, meaning that demand for commodities increased less rapidly than the economy and high commodity prices had a smaller negative impact on economic growth.
- Finally, after the Cold War, governments spent less on defence and the US, as the undisputed superpower, assumed the role of ensuring a 'rules-based international order' in which international trade could thrive.

The above developments had considerable benefits for Western financial markets:

- Savings of China and many other emerging Asian economies have consistently been higher than consumption. The excess savings largely ended up in Western capital markets. This contributed to downward pressure on real interest rates and upward pressure on asset prices.
- Due, in part, to increased life expectancy and government policies, workers have started saving more for retirement. This has also increased the supply of capital, thereby reinforcing the downward pressure on real interest rates.
- Ultra-loose monetary policies have created considerable upward pressure on asset prices.
- Corporate earnings improved. Due to said developments, the cost of key corporate expenditure items (wages, capital costs, commodities) increased only moderately or even declined while companies managed to increase their sales as central banks and governments boosted the economy significantly.

It's becoming a worse time

However, we are now at a turning point where many of the above positive developments are reversing.

This is largely due to demographic trends. To start with, the final cohort of the baby boom generation will reach retirement age in the next few years. This baby boom generation is relatively large in the West; subsequent generations are smaller. This means the following for many Western countries:

- The workforce is already shrinking or this is imminent. Immigration provides relief in many countries at this point. In many countries, however, policymakers aim to curb immigration.
- Populations will shrink (over the next few years) if fertility rates do not rise and policymakers manage to curb immigration.
- The baby boom generation will be dissaving on a large scale. This will stimulate the demand side of the economy far more than the supply side. It will also slow down or may even reduce the supply of excess savings flowing into financial markets.
- The group of pensioners is growing relative to the number of working people. This means that a larger proportion of the government budget will go to pensions and healthcare. This leaves less money for investments that can stimulate future growth.

Globalisation brakes

The changing geopolitical climate is also contributing to the turnaround from a largely positive climate to gathering clouds:

- Tensions are rising between the West on the one hand and China and Russia, among other countries, on the other, prompting countries to ramp up their defence budgets. Defence spending is usually detrimental to productivity growth and has an upward effect on real interest rates.
- Geopolitical tensions are leading to deglobalisation; countries want to reduce dependence on other countries, so they are outlining policies to build or expand their own production of 'strategic products'.

ecr research

- The above may also lead to deglobalisation of capital flows as governments adopt policies to retain more domestic capital for fear of freezing/confiscation or to expand their own capital markets.

Non-productive investments

Finally, there are developments that require large-scale investment but which will provide relatively little productivity growth. In addition to more spending on defence, pensions and healthcare, it mainly concerns the following factors:

- The transition to renewable energy. This requires many investments, both for generating sustainable energy and transporting it.
- Measures to absorb the impact of climate change (eg sea level rise, increasing drought) on the economy.

Investment in these items will stimulate economic growth in the short term, but will negatively affect the growth capacity of the economy in the longer term. Because they will put such a large drain on available capital, real interest rates will rise more than they otherwise would have, jeopardising other investments.

Consequences for economy and markets

Overall, declining workforce growth/contraction of the workforce and the trend of deglobalisation will result in more structural upward pressure on inflation and real interest rates. This will increase the downward pressure on asset prices.

Slowing globalisation, ageing populations/tightening labor markets and the energy transition/climate change have a negative effect on economic (trend) growth. Ageing populations reduce the workforce and will ultimately lead to population shrinkage in many countries.

Deglobalisation has a negative effect on productivity. First of all, countries can and will specialise less in sectors where they have a competitive advantage. Secondly, it will become more difficult for companies to achieve economies of scale if exports become more difficult. Thirdly, countries will be more inclined to erect import barriers, which will reduce competition.

The latter reduces the drive to innovate and exerts downward pressure on the economy's growth potential.

We believe that, for the time being, governments will invest a great deal of money in sustainable energy and measures to address climate change, without making significant cutbacks on other spending.

Public deficits will consequently remain relatively large, contributing to ongoing labour market tightness and upward pressure on commodity prices.

In summary, we believe that, over the next decade, demographic trends and globalisation headwinds will produce a far less positive climate for equities and long-term bonds than has been evident in recent decades due to the following factors.

- More downward pressure on the growth capacity of the economy.
- More structural upward pressure on inflation.
- Fewer excess savings finding their way into the asset markets.
- Growing concerns about public finances.
- More upward pressure on the prices of key inputs for companies, namely higher labour costs, higher interest charges and higher commodity prices.

Compared to the returns of the last decade, investors should price in far lower returns on equities over the next decade. This also applies to (government) bonds – especially those with long maturities. In contrast, over the next decade, we expect a better performance from commodities and hedges in general (gold, but also real estate).

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