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China's economic tribulations

Despite gloomy consumer sentiment and challenging demographics, China remains open for business. How are treasurers adapting to the new economic and regulatory environment?

The Corporate View

Yvonne Teo

APAC Treasury Director

Brenntag

Sustainable Treasury

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Back to Basics

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Question Answered

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Regulation & Standards

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Treasury Talent

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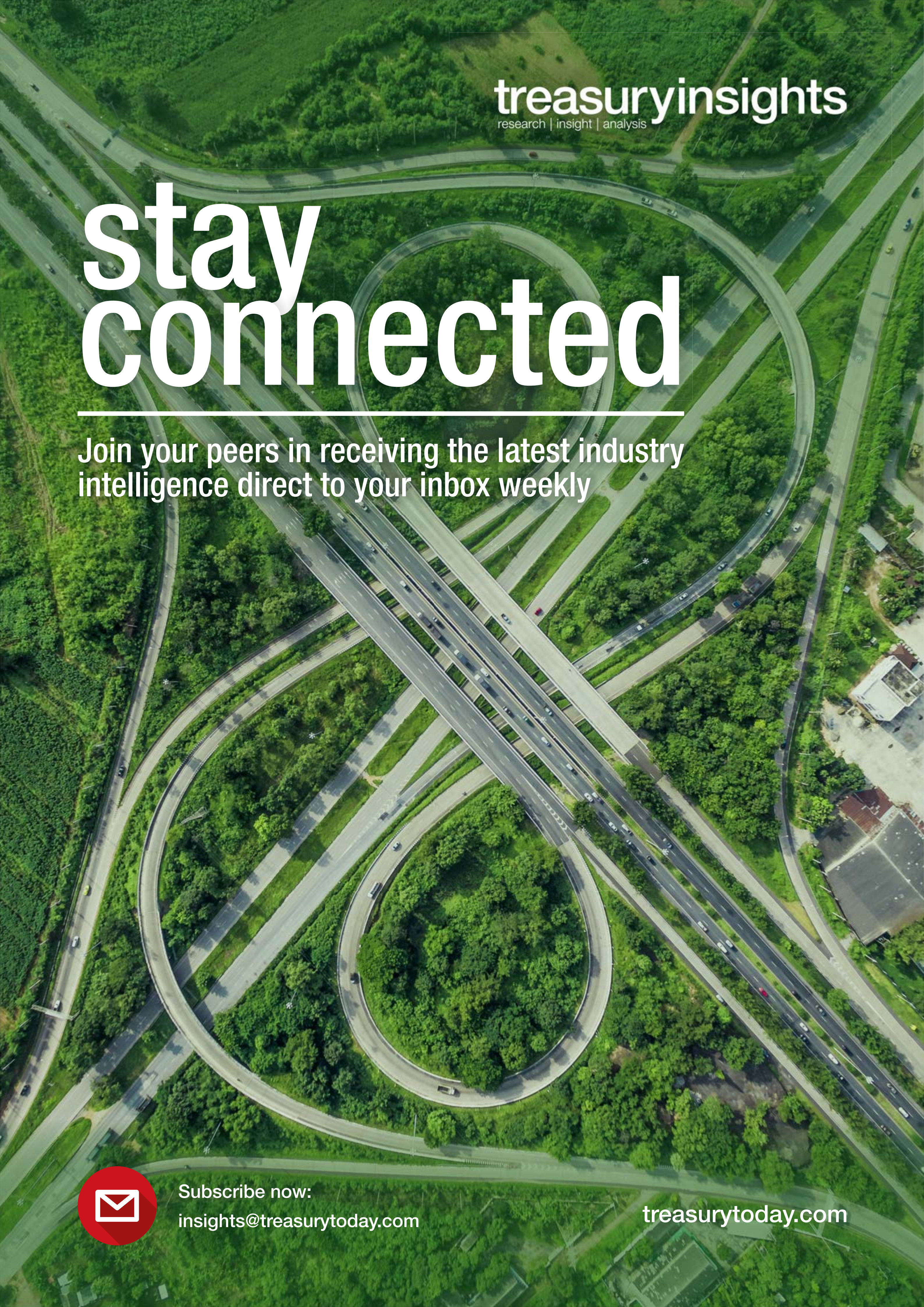
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Everything is connected

Treasury has long had a reputation for being somewhat detached from other functions within the organisation. But surveys show that treasurers are stepping into an increasingly strategic role – and treasury professionals who lack strategic skills may find themselves at a disadvantage where career progression is concerned.

This issue of Treasury Today Asia shines a spotlight on the increasing connectivity between treasury teams and other functions across the organisation. In The Corporate View, for example, Yvonne Teo, APAC Treasury Director of Brenntag, highlights the importance of engaging with both internal and external stakeholders, and explains how this can be formalised with initiatives to simplify treasury topics for non-treasury colleagues.

Building on this theme, our Treasury Talent article explores why the evolving role of the treasurer requires an expanded skillset, with soft skills like stakeholder management, emotional intelligence and effective communication all rising to the fore.

Likewise, there is a growing need for treasurers to understand topics that might sit outside their typical remit. In our Sustainable Treasury feature, we take a look at the important issue of physical climate risk. While treasurers may not be directly responsible for managing this risk, it is increasingly important for treasurers to understand key aspects of this topic, such as amplifying effects and stranded assets.

Continuing the theme of interconnectedness, much focus is being placed on the impact of slowing economic growth in China on other markets. We take a deep dive into the reasons for this slowdown, from structural concerns to the tariffs recently imposed on the electric vehicle and semiconductor sectors. We also explore why many corporates are opting for a 'China plus one' strategy, and what that means for other countries in the region.

Turning to payments, we discuss how the National Payments Corporation of India is working to extend the influence of its instant payment system, UPI, beyond Asia. Last but not least, our article on payment challenges looks at how open APIs and cloud-based systems are enabling interoperability between different payment systems.

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AI

China's economic tribulations

When the world's second largest economy begins to lose steam, a tremor reverberates throughout the rest of the world. Despite gloomy consumer sentiment and challenging demographics, the country remains open for business.

The Year of the Dragon may have begun with a roar, but momentum in China's economy has quickly faded throughout the year. While the first half of 2024 was buoyed by exports, price discounting and much stock building, this situation started to unwind in the second half, as illustrated by the monthly data reports. In addition, problems in the real estate sector continue to rumble on.

Data points from July and August suggest that the momentum slowed further on from Q223, when gross domestic product (GDP) growth slowed to less than 1% on a quarterly basis.

"Recent data suggests that growth in the review activities, including industrial production, retail sales and fixed asset investment, fell below market expectation in August," says Hunter Chan, Economist, Greater China Economic Research at Standard Chartered. "The manufacturing Purchasing Managers' Index has stayed below 50, partly due to recent typhoons disrupting production." He also points to the housing sector and soft domestic consumer demand as the main drags on the economy.

Louis Kuijs, Chief Economist Asia-Pacific at S&P Global Ratings, agrees. "Economic growth has slowed because of a persistent downturn in the property sector and weak domestic demand generally amid low consumer and business confidence. While China is not in outright deflation, there is major downward pressure on prices and the risk of deflation has risen," he says.

Exports are expected to start slowing down over the coming months, according to Sheana Yue, Economist in Oxford Economics' China service. "In terms of the domestic sector, consumer sentiment remains downbeat," she adds. "Plus, we still don't know where the floor will be with the property sector, which is also weighing on households' expectations."

Structural concerns

While China's economic slowdown is not a new phenomenon, the speed of the deceleration is, according to Alicia García-Herrero, Chief Economist for Asia-Pacific at French investment bank Natixis. "Before the Covid-19 pandemic, the main problem was the trade war with the US. But there are also structural issues within the economy," she says, pointing to very low return on assets as a result of overinvestment for many years when China built and produced more than it needed.

"Another reason for the slowdown, which I don't think is fully captured, is that labour productivity – thought to be very high – is decreasing year on year," says García-Herrero. "Productivity is not declining, but the growth is very small. Similar to what happened in Japan previously, the low-end service sector jobs, such as convenience stores and e-commerce, are dominating labour creation. This is reducing labour productivity, which is why China is decelerating."

China is also coping with structural headwinds such as challenging demographics and high domestic debt, in addition to rising restrictions on its international trade and investment links, according to Kuijs.

Consequently, there is much catching up to do for the economy to hit the official 5% GDP growth target. Yue is not convinced that it will grow as quickly as officials would like. "Our forecast is 4.8% GDP growth this year," she says. "We think that consumption will continue to slow over the rest of the year and into early 2025."

While S&P Global Ratings is expecting a slightly lower growth rate, at 4.6%, Standard Chartered also predicts 4.8%. Chan highlights emerging downside risks, such as a more cautious trade outlook in light of the escalating trade tensions between China and other economies.

"The US has imposed additional tariffs on the electric vehicle (EV) and semiconductor sectors, and is also likely to tighten restrictions on China's access to high-end manufacturing and semiconductor items. Europe and other countries are following suit with additional tariffs on EVs," he says.

As the Chinese government is also recognising the possibility of missing the annual growth target, Chan predicts a more supportive policy stance in the near term.

Providing incentives

While Yue isn't expecting to see much fiscal stimulus, she does expect more monetary policy easing following the unexpected interest rate cut in July. "Cuts of 10 basis points are likely in both Q424 and Q125, which are incremental changes compared to those expected from the Federal Reserve's easing cycle, or those already implemented by the European Central Bank and other advanced economies," she says. "As such, the boost from the monetary policy side is not going to be massive."

Government bond issuance is expected to increase in the second half of 2024, due to the need to fulfil annual quotas, but Yue doesn't believe that this will deliver a big step up in terms of funding.

The government is also looking at how to better support the property sector. "There are rumours circulating – not confirmed yet – that there will be cuts to rates of existing loans, as well as allowing the refinancing of mortgages," says Yue. "The Chinese mortgage system is distinctive, as refinancing mortgages isn't permitted. While [cuts] would be helpful for the typical household, it's not going to reverse the pessimism clouding the property sector."

The authorities need to find a way to prop up home buyer sentiment, according to Yue. "The government realised that it had squeezed the property sector too much, and recent policy measures has loosened its grip. But it isn't willing to completely let go due to concerns about leverage in the sector," she says.

The government is looking at tweaking existing policies to support industries or sectors important for national security reasons, or where China can become a global champion in the future, such as the semiconductor and sustainability industries.

"The authorities have openly announced support for these sectors, which will be where most opportunities originate. However, areas where the authorities felt they had given too much leeway previously – such as the technology, tutoring and property sectors – will not be as dynamic as they were before," Yue adds.

Other government support initiatives include the consumer goods trade-in programme, which increased retail sales, and the industrial equipment upgrading campaign, which encouraged investment in large-scale equipment.

In addition, the national strategy 'Made in China 2025' (MIC 2025) is focused on turning the country into a more innovative driven and high end manufacturing economy, which has resulted in relatively resilient manufacturing investment, according to Chan.

Yet tiny rate cuts or support for developers are small, unstructured tweaks, not comprehensive changes, such as measures to tackle deflation, argues García-Herrero. "This would require a much laxer country policy, which the government has not introduced," she adds.

She believes that the Chinese government needs to announce an urgent set of support measures. "Yet there seems to be a paralysis in the policy-making. For example, it is Yi Gang, former head of the People's Bank of China, urging action, not the current governor. No one in charge is sounding the alarm that this is a much worse situation than it looks," she says.

"[The authorities] are not moving in the direction they should be, in terms of pushing consumption through a bigger stimulus, reforming the economy and protecting the private sector," says García-Herrero. Subsequently, she believes that China will decelerate further.

Treasury operations

According to Damian Glendinning, Chairman of the Advisory Board at treasury consultancy CompleXCountries, a number of corporates have been developing a 'China plus one' strategy to increase growth potential, as well as protect operations from geopolitical turmoil.

"While China will continue to grow, it won't be at the same rate as before. Therefore, many corporates are looking to hedge their bets by exploring other potential locations, such as India," he says. "While corporates aren't looking to shift their manufacturing out of China, they may opt for another country if they are planning to build a new plant."

In addition to economic considerations, corporates have absorbed important lessons from the Covid-19 pandemic, such as the vulnerability inherent in long supply chains. "Companies are now looking to build resiliency within their supply chain by having more than one source for materials or components," says Glendinning. "There is a definite rethink of supply chains taking place."

He also points to mounting sustainability concerns. "Tripping three or four times around the world to make a single, fairly simple product may not be environmentally responsible," he adds. "Plus, doing so has become very expensive as fuel costs increase."

Many MNCs remain fully committed to the Chinese market. However, several trends are converging to transform the operating environment for treasury, including changes to tax and regulations, increased competition from local companies and, of course, the economic slowdown.

"Our business model relies on customer prepayments, which meant we haven't needed to worry about cash flow.

However, due to the reduced availability of public sector funding, we now offer credit or payment terms to customers. This impacts our credit scenarios and we have a risk profile that wasn't present previously," says a corporate treasurer from a European multinational company (MNC), who asked to remain anonymous.

"These issues have been keeping us busy throughout this fiscal year, but will also impact the start of the next fiscal year as well," they add.

Most MNCs have a centralised funding and financing structure, so they borrow at the headquarter level and then put equity into China to operate the business. However, refinancing costs have gone up because of higher interest rates in the West, which is the reason many MNCs are pulling liquidity out of emerging countries to support the headquarter liquidity scenario.

"We're now faced with relatively high refinancing costs, which is why we are focused on liquidity centralisation to support headquarters' leveraged scenario," says the treasurer.

As a result of the clamour around decoupling and de-risking, many MNCs are also worried about renminbi (CNY)-denominated asset FX risk exposure. "There is a lot of talk about how to de-risk this situation. In my opinion, this calls for a domestic set-up, because treasury needs to be sensitive and react to developments in the local market," the MNC treasurer says. "The domestic team can keep headquarters informed and explore potential opportunities in risk mitigation and process optimisation."

Notwithstanding decoupling and de-risking concerns, the European MNC is committed to the China market for the long term. But the in-country treasury team has to be prepared in case the situation evolves to a tipping point where they may need to operate independently.

Corporate treasury is experiencing both headwinds and tailwinds, according to the treasurer. In terms of headwinds, there seems to be greater control over cross-border fund flows.

While China permits cross-border cash pooling, Glendinning has heard from CompleXCountries members that new cross-border cash pooling applications are not being approved. "In 2013 [when China experienced a banking liquidity crisis], the authorities shut down cross-border flows to help the exchange rate and keep cash in the country. Currently, they haven't tried to suspend the structures already in place, but new applications are not being approved," he says.

"[Greater control over cross-border flows] impacts us, as we lend to headquarters on a regular basis to support liquidity centralisation," says the treasurer. "Recent guidance indicated that a company must make a filing if the amount is above certain limits. While there's no real restriction, it is an additional reporting requirement."

In addition, China's State Administration of Foreign Exchange now requires additional risk reserve surplus. "This is an additional cost, which may reduce our FX hedging effectiveness," they add.

With regard to tailwinds, the MNC's treasury has applied for a regional treasury centre (RTC) programme in Shanghai.

In the RTC scheme, the intention is to lower the tax at the transaction level in the CNY operating context to encourage cash flow into China. However, the programme has been under discussion for several years, without clear guidance as to the potential relaxation level that corporates could enjoy. Yet, the treasurer feels that it's important to be part of the pilot and enter into dialogue with the government about their requirements to drive a win-win outcome.

Due to the operating environment, treasury is being pushed to mitigate structural redundancy as much as possible. As such, they are thinking about further streamlining efforts, such as pay and receive on behalf of, as well as a virtual account set-up to centralise liquidity at the lead entity level in China.

Maturing function

There is a major shift in skill sets and mindset required for a treasury role in China. Traditional operational experience is not enough anymore, as a treasurer needs a strategic outlook to understand the changes in the local market and how that relates to the global market, as well as the sector's business dynamics.

A treasurer also needs to have a good technical perspective, particularly artificial intelligence (AI). The MNC treasurer is already using robotic process automation in their payment factories in China, for example, and looks forward to using AI capability in their day-to-day work.

They believe that AI can remove a lot of repetitive, low value-add activities, which allows the treasury team to focus on more strategic analysis. Longer-term, they think it will change the cash flow forecasting capability in the corporate environment.

"Currently, we have to collect data from different functions and business lines to do the forecast. There is much inefficiency in the current set-up, but if AI can capture the information within the systems and allow us to react in real time, then it could improve our decision-making process," they explain.

The treasury is also thinking about further enhancing its onshore infrastructure to centralise and reduce liquidity redundancy at every entity level. "We never get bored – there's enough to keep us busy for the foreseeable future," they add.

Likewise, the role of the treasurer within a Chinese company is evolving simply because of the growing operational complexity, according to Glendinning.

"Many Chinese companies, including state-owned enterprises, now have extensive operations outside of China and they're discovering that having one person in accounts look after treasury in between making their ledger entries doesn't work anymore," says Glendinning, who was previously group treasurer at Chinese technology firm, Lenovo. "There is an inevitable evolution and some of the most sophisticated treasuries are in Chinese companies."

The Year of the Snake will be a pivotal one for the country as its MIC 2025 initiative, which strives to secure China's position a global powerhouse in high-tech industries, comes to fruition. However, Standard Chartered believes that the country's GDP growth is likely to slow further, dropping to 4.5% in 2025.

Looking further out, Chan believes that the overall ageing population in China is likely to be one of the factors to weigh on long-term growth. "But on the other hand, if we read the long-term growth model in a classic economic way, technology enhancement also plays a part," he says. "So the government needs to be transitioning to a growth model that is innovation and data driven to boost the long-term perspective." ■

REGIONAL TREASURY CENTRALISATION: CITI'S VIPLAV RATHORE EXPLAINS THE STEP-BY-STEP PROCESS

Fast growing corporates in the Middle East and Africa are gradually centralising their treasury function. Viplav Rathore, Managing Director, Liquidity Management Services, based in Citi's Dubai office explains the process.

Historically, companies have expanded across the Middle East and Africa, a region that spans countries as diverse as Dubai and Nigeria, by setting up small treasuries on a country- by-country basis, establishing single country operations.

Today there is an increasing initiative amongst MNCs in the region and fast-growing regional champions to introduce a more centralised view of treasury that brings standardisation, policy frameworks and new procedures to bear.

"Developed market MNCs and large Middle Eastern companies, especially in commodities, hydrocarbons and the FMCG sectors, are now established in Africa and the Middle East. We are seeing these groups starting to establish a group treasury structure, often accompanied by an underlying in-house bank (IHB) aspiration," explains Viplav Rathore, Managing Director, Liquidity Management Services, based in Citi's Dubai office where he supports clients across 20 regional markets from Nigeria to Turkey and Pakistan.

Establishing a group treasury involves introducing a new tone from the top, he explains. In a gradual process, HQ will step up the advisory support it offers its single country treasury, often run by just one person taking care of all the treasury needs from hedging to liquidity. In a next step, a large part of the execution and control function shifts to HQ, providing policy frameworks to cloud based platforms.

The final step on this journey involves establishing an in-house bank. But Rathore flags IHB entities have yet to land in the region. "The regulation is still complex," he explains. The gradual trend in regional treasury centralisation is supported by other key themes emerging in the region like demand for working capital optimisation, automation and ESG integration.

The challenge of multiple banks

One of the biggest challenges corporates in the region face is navigating multiple pockets of cash across different countries and legal entities, which sits with multiple banks. Rathore explains that this leads to dispersed cash and presents key funding challenges given the difficulties of moving money out of different markets. He adds that many corporates are still wary and cautious of using multi-bank Swift solutions.

Multiple bank relationships have led to poor cash visibility that also makes forecasting difficult. Moreover, as the region's companies flex internationally, having the right currency in the right place in real time is an essential pillar to growth. "Real-time treasury has become an aspiration," he says.

Corporates could introduce at TMS and ERP, but Rathore reflects that companies' appetite for "systems spend" is often limited. Many TMS solutions are expensive, and it is difficult to pick and choose the most useful applications. "They have to buy the full package," he explains.

"Clients want to select a solution, but cost is an issue." He says sophisticated corporates that issue debt require counterparty risk systems, a credit system and processes that track bank lines. But not all corporates in the region need this Rolls-Royce support – they just need a cash pooling model and to establish self-funding models.

Corporates in the region also face another challenge: they lack credible counterparties that can overwrite high levels of country risk. "Corporates in the region always struggle to find credible counterparties from a credit risk perspective," he says.

Citi advises clients to focus on addressing the problem they are trying to solve. For example, if they want more visibility, they should look for a balance [sheet] and visibility aggregate solution. If they want to originate transactions with multiple banks, Citi Direct offers the ability to relay Swift messages to other banks. "With Citi Direct, they don't have to log in to multiple banks and can originate transactions from a single platform," he says.

Other centralisation strategies could include introducing savings by reducing the number of bank accounts and costly KYC and maintenance. He reflects that only rarely are these bank relationships linked to credit lines or credible counterparties, and treasury could put the savings into a TMS solution. "A standalone TMS won't sail, but it could dovetail with other transformation benefits that offset the cost of a TMS solution."

He concludes that corporates are also latching on to virtual account solutions. "We have found that clients are able to rationalise the number of bank accounts by setting up virtual account solutions which can then be linked to an ERP. Because they are self-managed the reconciliation happens quickly." ■

Become a treasury influencer

Alongside the usual set of financial and technical skills, other attributes such as stakeholder management, emotional intelligence and effective communication are becoming increasingly important for treasury professionals everywhere – so how can developing soft skills help treasurers gain influence and progress their careers?

The role of the treasurer within the organisation continues to be something of a moving target. François-Dominique Doll, Deloitte Global Treasury Advisory Southeast Asia Leader, says the role of the treasurer "is undergoing significant transformation", and that traditional finance and business skills alone are no longer enough to meet the demands of a modern treasury function.

Citing the **Deloitte Global Treasury Survey 2022**, he says the survey shows there is an increasing focus on soft skills such as stakeholder, emotional intelligence (EQ) and digital capabilities, "driven in part by the pandemic's impact on remote work, heightened liquidity management and the need for scenario planning."

As treasury teams become more integrated with other business units, Doll observes that treasurers are expected to manage diverse teams, collaborate across departments and align closely with broader business strategies.

"Therefore, treasurers today must not only possess technical expertise but also demonstrate strong leadership, communication and influencing skills to navigate complex stakeholder relationships," he says. "These skills, while not always inherent, can be cultivated through continuous learning, leadership training and practical experience in digital environments."

Building out the treasury skillset

Sander van Tol, Partner at independent consulting firm Zanders, agrees that with the expanding remit of the treasury function – and the increased impact of treasury technology on operational treasury processes – "it is essential for treasurers to continuously develop their own skills and competencies." In particular, given the changing nature of the treasurer's role, "there is more emphasis now on stakeholder management, influencing skills and EQ – rather than pure technical and/or financial skills."

But as van Tol observes, the extent to which the skillset of the traditional treasurer is developing depends on a number of factors. These may include the size and service delivery model of the organisation and the maturity of the treasury function, as well as "the more strategic HR view on the treasury function."

When looking at the required skills and competences within treasury, he points out that unlike more general finance functions such as accounting and control, treasury is regarded as a specialist finance function within a multinational company (MNC). Nevertheless, "Treasury is a very diverse function, working with both internal and external stakeholders. So treasurers need to be able to have strategic as well as technical and operational conversations."

What is EQ?

Emotional intelligence – also known as emotional quotient (EQ) – is the ability to recognise, understand and manage one's own emotions, as well as the ability to understand the emotions of others.

The theory of emotional intelligence was proposed in 1990 by psychologists Peter Salovey and John D Mayer. According to psychologist and author Daniel Goleman, emotional intelligence has five key components: self-awareness, self-regulation, motivation, empathy and social skills.

In the context of the workplace, EQ can be an important attribute, both for team players and at a leadership level. People with emotional intelligence will be better placed to build positive relationships, coach teams, resolve conflicts and promote a positive working environment.

They may also have an advantage where career progression is concerned. Travis Bradberry, author of Emotional Intelligence 2.0, **has previously argued** that research shows emotional intelligence to be "the critical factor that sets star performers apart from the rest of the pack." According to Bradberry, only 36% of people are emotionally intelligent – but 90% of top performers have high emotional intelligence.

Raising the profile of treasury

For modern treasury professionals, navigating these conversations effectively is not only crucial to furthering specific treasury goals – it can also help to raise the profile of treasury within the organisation more generally, as well as helping treasurers progress their own careers. In the ACT's **Business of Treasury 2024 survey**, for example, 'leadership and strategic skills' were identified as a barrier to career progression by 45% of respondents.

At a recent Future Treasury and Finance Leaders Forum hosted by Treasury Today in Singapore, attendees discussed different strategies that treasury professionals can employ to communicate effectively with stakeholders. These included anticipating stakeholders' concerns, rehearsing messages ahead of important discussions, and speaking to different stakeholders individually in order to gain buy-in ahead of a group call.

That said, treasury professionals are likely to focus on building different skills at different stages of their careers.

For example, van Tol explains that treasury practitioners in the early stages of their careers tend to focus more on hard skills, such as specific treasury content and knowledge development, as well as on technology-related training. "When they progress through their careers, other competences become more important like project management, negotiation skills, etc," he adds.

Cutting through complexity

A key aspect of stakeholder management is the ability to explain treasury topics to others within the organisation who are not experts in the field. "One of the best qualities a treasury professional can have, in my opinion, is that they can simplify the complex topics we deal with within treasury," observes George Dessing, Executive Vice President, Treasury & Risk at information, software solutions and services provider Wolters Kluwer.

Dessing reflects that at the end of the day, "everyone is a treasurer in their own way, whether it's converting currency for a vacation or by closing a mortgage for the purchase of a house." As such, he says it is crucial for treasury professionals to 'know their audience' when engaging with other parts of the organisation, and to be able to make treasury 'real' for them.

He describes Wolters Kluwer is a company in which people are asked to look beyond their own areas, and to collaborate to find new solutions. "I always tell my team: 'we achieve more by engaging with the organisation than by sitting behind our laptops all day crunching numbers', and I strongly believe that," Dessing adds. "We're stronger together and should always strive to collaborate and share knowledge with the rest of the organisation to support and inspire each other."

Achieving this requires effective soft skills. Dessing explains that treasurers need to communicate clearly, and may need to defend their viewpoints or convince their colleagues about the value of their ideas. "This, in turn, helps reinforce your soft skills and help you learn from any mistakes you might make along the way."

He adds that soft skills are best trained through practice, "so collaborating on even small multi-disciplinary projects is a great way to grow both your knowledge and soft skills as a treasury professional." Where recruitment is concerned, Dessing says he is "always looking for networkers and team players – people who are communicative, stakeholder-sensitive, result-driven and streetwise – and all of this with lots of passion and a smile!"

Stakeholder management in practice

So, what does effective stakeholder management look like in practice? Yvonne Teo, APAC Treasury Director at German chemicals distribution company Brenntag, explains that the treasury team needs to work closely with internal stakeholders including the CFO and controllers. "A lot of the time we need to work closely together, because our remits are somewhat overlapping," she adds. "Of course, treasury also has a specific focus on cash and FX."

When it comes to building relationships with stakeholders, she notes the importance of understanding their goals and concerns, "and finding out how we can meet each other halfway." By doing so, she says both parties will be better placed to support the organisation and optimise its financial health.

According to Teo, effective communication requires frequent touch points and a clear understanding of the goals and benefits of any joint projects. "For a lot of corporates, it's essential not just to focus on revenue, but to think about how we should repatriate dividends regularly and upstream surplus cash back to our parent company, so that the business can continue to grow through continuous investments.

"That's why it's important for treasury to provide advice on clearing certain roadblocks, right from the beginning," she concludes. "We need to be proactive in anticipating problems and solving them, rather than being in a reactive mode and only handling problems when they come to us." ■

Entrepreneurs and 'intra'preneurs

In an interview with Treasury Today last year, Frances Hinden, EVP Treasury and Corporate Finance at Shell, argued that treasury needs more entrepreneurs: "Recruiting people and persuading them treasury is a great place to work can be difficult," she said. "Many people interested in finance either want to work for their own company or not work in a central function managing cash. But we need the entrepreneur mindset in corporate treasury just as much as we need them in the country as a whole."

François-Dominique Doll, Deloitte Global Treasury Advisory Southeast Asia Leader, notes that as organisations restructure and rethink their team roles, the need for entrepreneurial thinking becomes even more critical. "Treasury departments that adopt this mindset can proactively identify opportunities, innovate within their functions, and contribute to long-term business success," he reflects. "By fostering a combination of technical, digital and soft skills, along with entrepreneurial agility, the treasury function can transition from a reactive role to a more strategic, value-creating one."

Sander van Tol, Partner at Zanders, says that he likes to refer to treasurers as "Finance and Risk 'intra'preneurs," adding that treasurers should be a proactive partner and trusted advisor to the business. As an internal entrepreneur, he says treasurers should be looking for opportunities to leverage their specific knowledge of liquidity, capital and risk. "Treasury should become more embedded with the business, offering insights to support top line growth, cost reduction, efficiency and improved risk management," he says.

As van Tol explains, this focus on measurable, attributable value-add will lead to the expansion of the treasury financial partner role, "extending beyond 'traditional' banking services into a broader array of financial services (and financial services technologies/partners) that the company uses across their business operations."

A winning formula

Yvonne Teo

APAC Treasury Director

BRENNTAG

Brenntag is the global market leader in chemicals and ingredients distribution. The company holds a central role in connecting customers and suppliers of the chemical industry. Headquartered in Essen, Germany, Brenntag has more than 17,700 employees worldwide and operates a network of about 600 sites in 72 countries. In 2023, Brenntag generated sales of €16.8bn.

The two global divisions, Brenntag Essentials and Brenntag Specialties, provide a diversified and broad portfolio of industrial and specialty chemicals and ingredients as well as tailor-made application, marketing and supply chain solutions, technical and formulation support, comprehensive regulatory know-how, and digital solutions for a wide range of industries.

Brenntag pursues an ambitious sustainability agenda and is committed to sustainable solutions in its sector and the industries served. Brenntag shares have been listed on the Frankfurt Stock Exchange since 2010, and DAX since September 2021. In addition, the Brenntag SE shares are listed in the DAX 50 ESG and DAX ESG Target.

The world of treasury can seem complex to the uninitiated – but as Yvonne Teo, APAC Treasury Director at chemical distribution company Brenntag explains, treasurers can add value to their organisations by learning how to communicate treasury concepts to non-finance professionals.

Only a few years ago, treasury was viewed within many companies as a distant function that had only limited engagement with the rest of the business. But recent years have seen treasurers around the world play an increasingly strategic role in supporting their organisations.

For Yvonne Teo, treasury is not just a support function, but an integral part of the broader organisation. As APAC Treasury Director for German chemical distribution company Brenntag – a role that she has held since May 2023 – she is responsible for cash management and insurance across the region and takes a particular interest in communicating the role of treasury to others in the company.

Indeed, the importance of building connections with others in the organisation has been a recurring theme throughout her career. "As treasury professionals who have been in the field for a while, many concepts or expectations that might come naturally to us might not be so easily understandable for non-finance folks," she observes. "But it's vital to help other people understand why topics like basic financing principles and working capital management are important."

With that in mind, Teo's unflinching focus on cash management throughout her treasury career has been accompanied by a passion for demystifying treasury concepts and communicating with a variety of other professionals.

Career highlights

Since she was at secondary school, Teo has been drawn towards the topic of accounting, which made for an easy decision when she was choosing her degree major. "I then started my corporate career in credit control. After a couple of years, I got a great opportunity to join a regional treasury team, and never looked back," she recalls.

In 2010, Teo joined CEVA Asia Pacific Holding Co – an industrial services company based in Singapore – and spent seven years working in the company's treasury team. As a senior executive, she was responsible for daily operational treasury activities for the company's business units, as well as reviewing cash positions and ensuring proper working capital forecasting. Highlights of her role included setting up a notional multi-currency cash pool.

Teo subsequently moved to Robert Bosch (SEA), a regional subsidiary of the Bosch group, where she was promoted to the role of Senior Treasury Manager. In this role, her responsibilities included managing and coordinating funding and investments, leading the monthly cash flow forecast process and working closely with local finance teams to support operational banking requirements. She also provided support for merger and acquisition (M&A) activity and worked with local authorities to ensure compliance with local regulations.

Spreading the message

In addition to a typical range of treasury responsibilities at Robert Bosch, Teo also took responsibility for communicating proactively with other parts of the business about treasury-related topics.

"On top of the core cash management topics, I was given more autonomy to lead competence management topics and banking projects," she explains. "I single-handedly organised treasury workshops and training sessions for non-finance folks to create better awareness of working capital management and liquidity management topics, especially during the pandemic."

Teo reflects that this allowed her to think about treasury from a different angle and consider how to make key topics more understandable to people who don't already have a treasury background. "It wasn't easy at first, especially with the public speaking element," she says. "But with good practice, and plenty of support from my team and my boss, I was able to deliver some great workshops and have a good learning experience myself along the way."

While it can be difficult to explain certain concepts in a way that is accessible to non-treasury professionals, Teo took the time to make her workshops informal and creative, "so that people could relate to what we were discussing and feel like they were part of the process."

Focus on cash

In 2023, Teo was given the opportunity to step into a regional leadership role at Brenntag. In this role, she is responsible for activities such as cash management, financing, banking and FX management across the Asia Pacific region, as well as for insurance.

Teo reports directly into the global treasurer in Germany. "We work very closely together, to drive common initiatives with the aim of building a world-class infrastructure," she remarks. "It's important for us regional teams to keep our headquarters informed about the developments in our region, to enable better understanding of our complex region, customising policies and processes that are workable and compliant for this region while enabling business growth."

Teo manages the Regional Treasury function out from Singapore, with two other team members sitting in China and India respectively. They are in-country specialists familiar with local regulations, which is crucial in these heavily regulated markets.

Above all, Teo sees cash as her main focus. "At work, I generally call myself 'the cash lady', so people know that if they need to talk about cash, Yvonne is the one to talk to," she says. "My bread and butter is really about making sure that our legal entities are getting sufficient funding in the right currency at the right time, and making sure that we concentrate surplus cash back to the headquarters in Germany on a regular basis."

In addition, as the company continues to grow through mergers and acquisitions, Teo has a role to play in supporting this activity. "I'm involved in everything from due diligence and funding, all the way to post-merger integration," she says. "Each deal is very different, and so is every integration experience."

Collaboration and communication

When speaking about treasury, Teo is enthusiastic about the topic of cash management. "Whenever people hear me talking about cash, they can see the sparkle in my eyes!" she laughs. "It's exciting that we are able to do value-added work through good cooperation with our banking partners, thereafter, delivering solutions to better help our businesses achieve our goals."

Teo observes that when funding is needed within the business, it's easy to see bank financing as the first port of call – "but actually, that shouldn't be the starting point. We should be aiming to be self-sufficient with our own pool of cash within the company, without over-relying on external funding." Again, she notes that non-treasury professionals may be less aware of this distinction, "which is why competence management and creating better awareness continues to be important."

Likewise, Teo is a firm believer that treasury requires close collaboration with both internal and external stakeholders. "It's important to be familiar with regulatory changes and market outlook trends, so that treasury can provide value-added business partnering support to the commercial organisation," she adds. "We are no longer just a back office – a lot of the time we are part of our project group, giving advice on how we can make business cases more viable."

On another note, Teo is appreciative of the support available through treasury networks such as the Association of Corporate Treasurers (Singapore) (ACTS). "This organisation is generally very willing to provide advice and guidance to any of us within the treasury group," she says. "Quality networking with treasury peers has been very helpful since I stepped into this role: it helps me learn best practices and enables me to be better prepared for possible challenges, especially in the dynamic Asia Pacific region."

Facing down currency challenges

Where challenges are concerned, Teo says there are a number of topics that impact most treasurers, particularly at the regional and global level. "Currency devaluation, high foreign currency volatility and trapped cash are all common problems that are not easy to solve, especially in our region, with some of the more restricted markets.

"For example, there are certain markets where we can't get sufficient hard currency to make payments, so we have to think of alternatives to help the business access the working capital it needs. At the same time, we need to think of ways to help the business avoid long-term trapped cash."

Teo notes that many corporates in the region have been working to address similar challenges through activities such as regular cash repatriation exercises. "Again, it's important to create awareness of currency controls across the business, so that these can be factored in when building a business case or thinking about working capital management topics."

Harnessing efficiency and optimisation

Like many other treasurers, Teo regards technology as key when it comes to enhancing efficiency and improving data transparency. The team has recently completed the migration of its foreign currency execution to its preferred eFX trading platform, a project which was completed within the space of three months.

"In the past, we had to carry out foreign exchange execution via emails and phone calls," says Teo. "That's not an efficient way to operate, and sometimes the time lag would mean that we missed out on certain good margins. By moving this to our eFX platform, we can now trade competitively with all FX banks, with the trades reported automatically to our treasury management system, which improves workflow efficiency and helps avoid errors."

Following this implementation, the next step is a global cash management optimisation assessment. "I've always been a regional treasurer in the past, focusing mainly on the Asia Pacific region," says Teo. "But this year, I've been given an exciting opportunity to look into areas where our global cash management structure can be better optimised."

This will include broadening the regional perspective, better understanding the different regions at a global level, and looking at the tools that different regions can utilise to repatriate cash more efficiently. Key to this initiative is effective communication with the company's banking partners about which products are best suited to help Brenntag achieve its goals in a cost-efficient way.

"We also need to be mindful to keep our tax colleagues involved, because tax is an important consideration when you're sweeping cash across the world," Teo adds. "There are a lot of internal and external stakeholders that we need to check in with to make sure we deliver a successful project."

Embracing technology

Speaking about the role of the treasurer more generally, Teo notes that treasury is evolving faster than ever before – not least because of the rapid developments in technology that she has seen in recent years.

"Technology is advancing at such record speed, alongside economic changes and increasing complexity in financial markets – there are so many different things to consider," she says. "It's clear that we need to embrace technology and discover how it can enable us to do better."

Teo reflects that corporations have access to more data than ever before, with the rise of predictive modelling delivering more real-time information. For treasury teams, there is an opportunity to use this to increase the accuracy of cash flow forecasting and visualise different risk scenarios quickly and easily.

"What we really want to be able to do is run sensitive analysis through a good treasury management system so that we can do better decision making with more accurate data, using machine learning and advanced data analytics," she adds. "There are a lot of buzzwords going around, but what we really want to see is how these developments can contribute to better risk management, so that we can forecast changes that could benefit – or negatively affect – our assets and positions."

Future developments

Looking forward, she hopes that the latest developments will help treasurers become more proactive in terms of understanding the risks and opportunities facing their businesses and preventing future problems: "This is what we need to bring our treasury infrastructure to the next level. If software can give us automated, quality cash forecasting on a real-time basis, that will be every treasurer's dream come true."

But at the same time, while the treasurer's role is becoming more dynamic and strategic, Teo highlights the importance of keeping the core goals of treasury front and centre. "We need to retain our conventional financial expertise and blend it with modern technological skills to navigate this evolving landscape."

Likewise, she is clear about the importance of keeping treasury's primary focus on cash and liquidity management: "No matter how the world changes, we need to make sure that managing group-wide liquidity and cash flow continues to be our primary responsibility. That means adapting to changing market conditions and developing strategies to maintain our liquidity and the company's financial health."

Staying grounded

Alongside her professional responsibilities, Teo is a strong believer in the importance of striking an effective work-life balance. "I love yoga – I'm a yogi at heart, so no matter how challenging a day is, it's important for me to have at least one hour on the mat after work to give me more clarity," she explains. "At the same time, I enjoy workouts such as high intensity interval training (HIIT) to get my energy up, especially if I'm preparing for something important at work."

Last but not least, she highlights the importance of spending high-quality time with her family. "For me, it's important to dedicate uninterrupted time with my family over the weekends and during holidays, so that I stay grounded," she concludes. "I think it's so important not to compromise on family time." ■

STANDING UP FOR TREASURY

The chairman of the recently formed India Corporate Treasurers Association says there is ample scope for treasury professionals to play a stronger role in their organisations.

The perception of corporate treasury among senior management is an issue for finance professionals around the world.

Surveys refer to the growing importance of the corporate treasury function and the fact it has grown beyond its traditional role into a platform that delivers essential data and analytics. However, this does not mean treasurers always have a strong input into decision making.

“Perceptions differ,” observes Amit Baraskar, Vice President & Head of Treasury at Thomas Cook India. “However, I am seeing a lot more scope for senior management to involve treasury in strategic decision making, which would involve joint efforts in discovering the potential treasury teams have and putting it to the right use while fine-tuning the organisation’s strategy.”

This was just one of the factors behind the formation of the India Corporate Treasurers Association in May, of which Baraskar is chairman. “The need for the association was primarily that corporate treasury as a profession lacked awareness and has not been getting due recognition,” he says. “The key objectives behind forming the association were getting the treasury fraternity in sync and to the highest standards of professionalism and integrity, to act as the voice of treasurers – both within and outside India – and to inspire and mentor treasury professionals to upgrade skillsets and provide forums for networking and sharing best practices.”

Corporate treasurers in India did not have any structured forums where they could meet and share ideas prior to the formation of the India Corporate Treasurers Association. “We were dependent on external bodies to hold events where we could network,” says Baraskar. “Large organisations have networking events for treasury restricted to their group companies, but this is the first one where treasurers provide and control the platform.”

Baraskar says the main challenges facing corporate treasurers in India can be summed up as regulations and regulatory restrictions; time zone (India’s location means it is not really close to any of the major financial centres); and lack of awareness of the pressures faced by treasurers. “The profession is not properly recognised outside the highest levels of corporate India and as a result treasury is generally undermined when it comes to awards and recognition,” he says.

When asked to describe the availability of finance for Indian companies looking to develop and expand, Baraskar refers to the old adage that banks ‘love you the most when you are cash rich and do not need them’. “When you really need the banks, they tend to arm twist,” he says. “But India is a market with diverse approaches giving an opportunity to most companies to avail of sources of funding.”

There are four main sources of finance according to Baraskar:

- **Foreign banks** – most of the global banks are extremely credit conscious and end up funding only those companies where they have a global relationship and credit comfort.
- **Indian public sector banks** – these tend to have age-old credit approaches and end up only funding existing relationships, which means new corporate clientele find it difficult to pass stringent credit evaluations which are more theoretical in nature.
- **Indian private banks** – these work on stringent targets with dynamic credit teams and while they end up taking a few credit hits they do good lending business and, in the process, encourage new businesses to grow.
- **Fintechs** – these have their own creative ways of sourcing and providing finance and are bringing in a paradigm shift in SME and consumer financing, which is a boon to the country’s economy.

“The government has also been introducing initiatives to encourage companies to grow by making funding sources available,” adds Baraskar. ■

Mitigating physical climate risk

As the threat of severe weather-related shocks moves up the risk agenda for corporates, what role should treasury be playing to help navigate through emerging regulatory and supply chain challenges?

The World Economic Forum's Global Risks report is a good barometer for tracking what is top of mind among experts from industry, government, academia and civil society on an annual basis. Before 2011, for example, there weren't any environmental concerns among the top five risks in terms of either likelihood or impact.

However, in 2011 there was a marked shift in the world's perception – four of the top five risks by likelihood were linked to the environment and climate change. In terms of impact, climate catastrophes was viewed as the second-highest impending risk.

In the 2024 edition of the report, five of the top ten global risks ranked by severity over a ten-year timescale were linked to the environment, with the premier risk being extreme weather events.

Traditionally, physical climate-related risks – such as wildfires, floods and droughts – tended to fall under the risk management function's remit, according to Torolf Hamm, Head of Physical Risk at WTW's Climate Practice.

"Disclosure requirements that are emerging in many jurisdictions, such as the EU's Corporate Sustainability Reporting Directive (CSRD), can be linked back to risk management," says Hamm.

However, the advent of reporting regulations has led to treasury potentially playing a bigger role in a corporate's sustainability strategy, according to Gustaf Påhlman, Head of ESG Advisory within SEB's Financial Strategy Unit, which sits with the bank's client relationship managers.

"As ESG regulatory requirements increase, companies are looking to find the best function internally to manage the vast reporting going forward, and treasury has done this type of reporting for many years. Therefore, some treasurers are finding themselves at the centre of reporting on these matters as well," says Påhlman.

"Many are hiring their own treasury resources to be responsible for the sustainability topic – which is a significant change over the past five or so years," he adds.

Joanna Bonnett, Group Treasurer at Straumann Group, which manufacturers dental implants and specialises in related technologies, agrees that treasurers have a role to play. "Treasurers need to understand the corporate sustainability message and company targets, as well as ensure that they have the right financing at the right price point for that business," she says.

While the treasurer may not be the specific function looking at physical climate risk – more likely it is the risk management, corporate development, or estate and infrastructure team – treasurers are naturally interested at this juncture. Bonnett – who participates in the UK's Transition Finance Market Review, which aims to ensure that debt products are available in the marketplace for treasurers to access – believes that treasurers need to be able to translate the corporate thinking into a coherent message for the financial markets.

"It is probably time for treasurers to get more involved and understand what's happening in the business, not only about sustainability, but more specifically about climate change and the risks it poses for their company," she adds.

The role of insurance

Many, though not all, treasuries have insurance within their remits, so having a deep understanding of the sector and potential risks that climate change poses, such as stranded assets or an uninsurable business model, is required. Some treasurers are already having challenging conversations around this topic, Bonnett reports.

Insurance relates to the financial impacts associated with insurable risks, such as extreme rainfall and hurricanes. These financial impacts are evolving because of the frequency and severity of climate change events, as well as the impact on the wider supply and value chain, according to Hamm.

For example, in 2021 European water utility companies were struggling with widespread flooding in Germany, the Netherlands and Belgium. While they were managing their own assets well, third-party liabilities emerged when excessive rainfall hit their reservoirs.

In some cases, the utilities had to conduct emergency drawdowns to release the pressure, which then caused flooding elsewhere and impacted assets in the surrounding areas.

"Many companies don't have amplifying effects on their radar," Hamm says. "We recommend that they should start looking beyond their organisational boundaries to understand the wider context how these amplifying effects could evolve."

In addition, double materiality is an emerging challenge in Europe, as under the CSRD organisations will be required to look beyond the impact on their balance sheet to how they are impacting the environment.

"A risk manager looking to build resiliency against a flood risk, for example, may have the option of a flood wall or a nature-based solution, which may be a better way forward [for the environment] even though it is more expensive. But how do they fund this?" asks Hamm.

> "Treasurers need to understand the corporate sustainability message and company targets, as well as ensure that they have the right financing at the right price point for that business.
>
> Joanna Bonnett, Group Treasurer, Straumann Group

He reports that some companies are exploring using a captive insurance strategy for mitigating financing risk, for example, in the event that insurance becomes harder to access or too expensive. A captive can be a risk-financing vehicle that builds up surplus over time to help pay for more catastrophic risks, such as floods or droughts.

In the context of physical climate risk, Hamm suggests scenario testing – where companies stress test their physical assets and value chain against a climate scenario – is a good first step to visualise and provide strategic insight into where potential issues could arise.

He also recommends combining parametric solutions, which pay out when policy triggers are met, with traditional insurance, particularly to cover assets beyond company boundaries. Certain key suppliers, for example, might be impacted by physical climate hazards more often than in previous years. "It is possible to create more resiliency through the use of parametric solutions," he adds.

Stranded assets

The new regulatory requirements are forcing all companies to look into whether they have exposures or impacts to climate change and nature. For example, the CSRD comes into force in 2026, while the Corporate Sustainability Due Diligence Directive is being applied to the largest companies in 2027, with a rolling implementation deadline for smaller firms.

Asset management and liability is part of an evolving landscape, when considering the risks and/or opportunities arising from the transition to a sustainable economy. "If you're not transitioning in the next ten years or so, then it's too late. Doing nothing isn't an option anymore," says Hamm. "If a treasurer isn't involved in the changing thought process that everyone is undergoing, then they are missing the boat."

Stranded assets are an important issue, according to Hamm. He advises treasurers to review their portfolios, as the footprint and type of assets may evolve in the coming years due to the transition to a low carbon economy. For example, WTW helps clients look at their real estate assets, especially at the investment stage, to determine whether they are fit for purpose.

"From a transition perspective, the property may already be outdated and require retrofitting. In addition, the market value

> We promote the circular economy because it is one way to tackle environmental challenges and future proof the company in light of physical climate change risks.
>
> Gustaf Påhlman, Head of ESG Advisory, SEB

may drop due to the higher frequency and severity of floods, which is a big topic in the UK," explains Hamm. "Due diligence needs to look at future climate conditions."

In the real estate space, where SEB has seen the most progress in terms of transparency, many companies are now conducting physical climate risk assessments property by property, to understand what capital will be needed to renovate the property so that it doesn't become a stranded asset, according to Påhlman.

Treasury or risk function?

In Bonnett's opinion, climate risk – as in stranded assets – doesn't sit within treasury. "The financing attached to a stranded asset does, but not the actual asset," she says.

However, treasurers need to understand physical climate risk from a lending perspective, she argues. "If, for example, a treasurer at a large agribusiness is not able to finance a specific crop, then what will the company do with the land? Will it need to suddenly shift business models, or is treasury already talking to the banks about transitioning and selling those stranded assets?" she says. "One company's stranded asset may be a lucrative asset for another business. It is important for treasurers to be proactive and forward thinking."

Mustafa Kilic, CEO of consultancy firm Pirimo Risk Management Services, has had experience on both sides of the divide when he was head of regional treasury and group risk and insurance manager at a large European manufacturing company.

In 2007 he led the team building the corporate's first enterprise-level risk function. "While climate risk wasn't at the top of our risk agenda, we did have oversight of it, as well as catastrophic and cyber risk," Kilic says.

"Our primary goal was to ensure operational continuity, chiefly by mitigating the risk of relying on single suppliers for specific components. For example, one Japanese manufacturer produced 100% of our condensers, a critical refrigerator component."

A tsunami hit Japan following an undersea earthquake in March 2011, resulting in the Fukushima nuclear disaster. As a result, the Japanese supplier couldn't provide any components for more than half a year.

"Because we had already diversified our suppliers, we had negotiated prices, conditions and quality approval processes, so all the agreements were in place and we could continue [operating without disruption]. It was estimated that this decision saved the company almost a year's earnings," Kilic says. While not strictly a climate-related shock, he argues that the same methodology can be applied to physical climate risk in supply chains.

He believes that the responsibility for mitigating weather-related risk should sit with the risk manager, due to the role's complex and expanding remit.

"At that time, I was in the treasury and managing our risk before becoming group risk manager. However, now risk is much more complicated than ever before – it's not just a side job," he says.

"Previously, treasury was involved with risk management through insurance policies, but today risk management is much more than an insurance policy."

At the same time, Kilic believes that there must be some people inside treasury focusing on enterprise level risk. He also advocates strong collaboration between the risk function and treasury, finance, commercial, logistics and so on.

The next step

In its advisory service to clients, SEB is trying to flip the discussion from discussing reporting and a company's environmental footprint, for example, to looking at how changes in society, technology, regulation and prerequisites for doing business will impact its financial performance.

"Regulation is picking up on that outside-in impact scenario, as seen in the CSRD's double materiality assessment," says Påhlman.

In addition, the Swedish bank is engaging with its clients on the circular economy topic, which treasurers find more tangible and perhaps easier to discuss compared to biodiversity, for example. This is important for the next iteration of the corporate sustainability strategy.

"If the focus on carbon emissions was effectively ESG 1.0, companies are now moving onto 2.0 or 3.0 and taking a longer-term perspective on biodiversity, water and so on, which are issues created and/or impacted by climate change," says Påhlman.

To this extent, companies need to figure out how to deal with the potential scarcity of the raw material that they are currently dependent on.

"We promote the circular economy because it is one way to tackle environmental challenges and future proof the company in light of physical climate change risks," he says. ■

Accounting for payment challenges

Payment service providers might have identified the key stages on the roadmap to wider use of account-to-account payments, but work needs to be done to increase customer acceptance.

The Capgemini Research Institute's world payments report 2025 refers to an industry set to be reimagined with account-to-account or A2A payments challenging the dominance of traditional payment cards.

More than one-third of the European payment executives surveyed for the report expect A2A payments to significantly offset card transaction growth across Europe by 2027.

According to Mathieu Altwegg, Head of Product at Visa for the UK & Ireland, there are three main issues that need to be addressed in order to maximise customer adoption of A2A payments, the first of which is delivering a consistent user experience.

"We then need to create a level of trust so consumers understand that the solution is safe," he says. "Finally, we need a strong element of consumer protection, which typically articulates itself as a formal resolution process for managing disputes."

Visa recently announced the launch of Visa A2A to address these issues and bring consumer control and protection to account-to-account payments. The service will introduce a formal dispute resolution process and use biometrics to add new levels of security.

Altwegg acknowledges that the payment rails have to be secure if consumers are to adopt them at scale and notes that the payment industry has deployed advanced artificial intelligence fraud detection models to help identify potential fraudsters and scams happening in real-time.

"It is also important to onboard the right players and have appropriate requirements in order for beneficiaries to participate," he says. "The best way to fight fraud is to layer

> It is important to onboard the right players and have appropriate requirements in order for beneficiaries to participate.
>
> Mathieu Altwegg, Head of Product, Visa

different fraud detection solutions, one of which is ensuring that you know who is participating on your network."

Altwegg explains that the first two use cases Visa is looking to support with Visa A2A are bill payment and subscription, which are typically recurring payments.

"Businesses are increasingly adopting subscription-based models to drive consumer engagement and loyalty," he says. "Complementing variable recurring payments with the right user experience puts the customer in control, for example by allowing them to set payment limits or making it easy to cancel mandates."

Utilita Energy is one of the companies that have signed up to Visa A2A, which is expected to go live early next year. By combining Visa's experience in developing and operating payments systems at scale with its technology partner, Procode, the utility company expects to be able to bring new services to its customers more quickly.

"This is about offering our customers more choice on how they pay their bills, in a way that is flexible, secure and provides more control," explains Ian Burgess, Chief Technology Officer. "We are very excited to be working with Visa on an industry-led solution to unlock the full potential of open banking and A2A payments in the UK, in particular variable recurring payments."

Variable recurring payments – and particularly commercial variable recurring payments – are poised to play a crucial role in advancing A2A payments in the UK according to Todd Clyde, CEO of Token.io.

"Key factors influencing their widespread availability are still being determined, with the Payment Systems Regulator expected to publish updated proposals this autumn, but demand from merchants and payment providers is undeniable," he says.

Variable recurring payments are also a viable option for monthly bills and subscriptions. Some of these payments are made by card-on-file (continuous authority) and so would also drive the growth of A2A payments.

"However, recurring payments that are currently paid by direct debit or standing order are already A2A transactions over BACS or Faster Payments and so switching to variable recurring payments would not in itself drive the growth of A2A payments," observes Andrew Ducker, Senior Payments Consultant at Icon Solutions.

International money transfer company OA Pay has been using A2A payment for more than two years explains Chief Technology Officer, Graham Allathan.

"This was driven by our goal not only to optimise costs but also provide customers with diverse payment options across multiple corridors using a robust and scalable API-based infrastructure," he says.

The company had to enhance its infrastructure by integrating approximately 50% more API endpoints to enable and support the open banking framework. But Allathan says 40% of his customers now use open banking and that once a customer switches they continue to use it, leading to a gradual rise in the average transaction size.

The Capgemini Research Institute's report states that regulations have played a crucial role in driving innovation and ensuring consumer protection and that as a result, the payments ecosystem is more connected, harmonised, efficient and secure than ever before.

However, it also acknowledges that progress towards open banking is limited by differences in regulatory frameworks and market initiatives with issues including non-standardised APIs, limited control over data use, and a lack of incentives to share data with third parties.

Australia, Brazil, India and Singapore are identified as the countries leading initiatives to make data more accessible and convenient for individuals and companies.

A new report from Juniper Research notes that slow adoption of open banking is especially notable in markets that have not enabled legislation for the open sharing of data and information between financial institutions and open banking players.

A key question for proponents of A2A payments is the extent to which interoperability of real-time payment systems across different countries – and a global standard for A2A payments – are realistic objectives.

"In Europe, we have the infrastructure to build pan-European A2A payment schemes thanks to the open banking framework that is regulated by PSD2, which should be further improved upon by PSD3," says Lena Hackelöer, Founder and CEO Brite Payments. "The framework provides a strong foundation for interoperability across European borders, although achieving this at a global scale is a much more complex challenge."

The widespread adoption of ISO 20022 as the underlying message standards for most, if not all, A2A payment schemes around the world will ease some of the technical burden, but there are bigger obstacles – including political barriers – which mean such interoperability will be challenging agrees Rob Hudson, Head of International Banking and Payments at FIS.

Progress is being made toward regional standardisation, which could serve as the foundation for global A2A interoperability in the future according to Oriol Tintore, Co-Founder and Co-CEO of Belvo.

"For instance, Brazil's Pix system and Europe's SEPA network have laid the groundwork for cross-border payments by standardising A2A payment processes within their regions," he says. "In Latin America, while systems like SPEI in Mexico and Pix have been successful within their respective countries, they operate under different regulatory frameworks and technical standards, making cross-border A2A payments more challenging."

Pratiksha Pathak, Head of Payments Services at RedCompass Labs is more optimistic, suggesting that global movement towards real-time payments in the form of initiatives such as FedNow, SEPA Instant, UPI and Faster Payment shows that countries are keen to implement more efficient payment solutions.

"On the technology side, open APIs and cloud-based systems are making it easier to connect different payment systems, allowing real-time, cross-border payments," she says. "Major developments in global standards, such as ISO 20022, are signalling that interoperability is a top priority with all of the G20 pushing for better cross-border payments."

Interoperability is already happening in Southeast Asia where A2A payment schemes are jointly developing cross-border capabilities between PayNow (Singapore), PromptPay (Thailand) and DuitNow (Malaysia), for example, observes Adam Lee, Chief Product Officer at Boku. "It is still early but evidence suggests this is absolutely realistic," he says.

However, Michael Seaman, CEO of Swipesum says that the US population will only adopt A2A when it is convenient for them in their everyday lives – and for that to happen, A2A payments must be available in the software they use for transactions, which will only come after bank adoption.

"Only about 10% of banks have adopted FedNow and I'm guessing it would have to be above 80% for us to experience this payment method in our daily lives," he adds.

Canada is moving toward an open banking framework, while Brazil has launched an open banking initiative with regulatory backing. But concerns around data sharing and misconceptions about open banking being complex or risky have slowed adoption in many markets.

While UK consumers may already be using the account aggregation feature of their mobile banking app or have been credit checked for a loan using open banking to get reference data, Hudson recognises that consumer awareness needs to rise.

"Regulation in the form of PSD2 is helping to create more competition in the market, as is the requirement for Apple to open up the NFC component in its phones for usage by actors other than Apple itself," he says. "This kind of regulatory intervention can aide long-term adoption through competition."

Regulatory compliance remains a challenge, especially in countries with evolving financial systems. "Nonetheless, companies are addressing these challenges by offering compliant, easy-to-use platforms that help businesses navigate local regulations and build consumer trust through secure and transparent A2A payment options," says Tintore.

> "The [Payment Services Directive] framework provides a strong foundation for interoperability across European borders, although achieving this at a global scale is a much more complex challenge.
>
> Lena Hackelöer, Founder and CEO, Brite Payments

Lee suggests that support from central banks is a key factor in encouraging wider use of open banking schemes targeting B2C payments as they need to ensure the user experience is simple, the process is demonstrably secure, and the pricing to merchants is persuasive.

"A second factor is the degree to which incumbent payment methods are already entrenched into consumer/merchant habits," he adds. "For instance, if merchants insist on the anonymity of cash or consumers insist on the loyalty rewards of credit cards, even a more convenient alternative will face resistance."

There are third-party tools that have pre-built the infrastructure for A2A, RTP and FedNow payments, significantly cutting down on engineering costs. The problem is that without bank adoption, not all customers can access them.

"I have seen other fintech platforms that offer 'free' A2A payments," warns Seaman. "However, since there isn't bank adoption users have to pay by card – which the fintech has significantly marked up. These fintechs are truly high-rate merchant service providers promising A2A payments that don't work yet."

In the UK, the Competition and Markets Authority has already announced full compliance of the open banking roadmap by the CMA-9 group of banks. Providers of open banking services, also known as third-party providers, must also be authorised or registered with the Financial Conduct Authority to provide payment or account initiation.

"Ongoing work is required for consumer protections for any new type of payment service under the open banking umbrella though," says Ducker. "Open banking already has a disputes mechanism as part of its framework, but each subsequent new payment service will bring potentially new angles to consider."

Financial institutions and fintechs need to educate customers on secure transaction practices, such as verifying the recipient's details before authorising payments and being cautious of unsolicited communications, suggests Pathak. ■

Taking a wider view of instant payments

Despite the success of UPI domestically, the National Payments Corporation of India will have its work cut out to extend the system's influence beyond Asia.

The growth of India's instant payment system UPI is undoubtedly impressive. PwC's Indian payments handbook refers to 57% growth in transaction volume and 44% in transaction value in the last financial year and the system now accounts for over 80% of total retail digital payments in India – a figure expected to rise to 91% by 2029.

UPI's ease and convenience of use have positioned it as a preferred choice for a plethora of everyday transactions, eroding the small value transactions stronghold traditionally held by cash and debit cards explains Abhay Prakash Singh, Research Analyst at Euromonitor International.

"Rising smartphone penetration and enhanced mobile internet connectivity is making it easier for Indian consumers to access and use UPI-based payment services that remain free from merchant discount rate charges," he says.

One of the main challenges of sending remittances – especially peer-to-peer or cross-border payments – is the high cost involved. These include currency exchange costs, intermediary charges and regulatory costs. "The average cost of sending money across international borders can be up to 6.4% of the transaction amount," says Guhaprasath Rajagopal, Head of India Payments at J.P. Morgan. "UPI can make a significant impact on transaction economics given the strong Indian diaspora and the country's position as the largest market for inward remittances."

Amit Baraskar, Vice President & Head of Treasury at Thomas Cook India outlines some of the benefits from a merchant perspective. "It is an almost zero cost payment mode for customers and easy to track for the receiver, which has made it one of the preferred modes of accepting payments," he says. "It has become particularly popular as a means of paying for retail goods and services."

Despite its rapid growth, Baraskar acknowledges that UPI still has significant untapped potential among female consumers in India. However, he still expects its use to grow rapidly over the next few years and refers to estimates of US$11trn worth of transactions by 2030. "We should see similar levels of growth across other parts of Asia from 2026," he says. "This typically happens when neighbouring countries discover a tool that is simple, extremely cost effective and value adding. Once it becomes a success those sitting on the fence would have no option but to follow suit."

Baraskar describes the UPI One World wallet – which was used for accepting payments from delegates at the G20 summit in New Delhi in September 2023 – as a potential game changer. "Credit cards on UPI are another major development," he adds. "If a person can access credit and also pay by UPI, the combination becomes unbeatable presuming costs are reasonable and clearly understood by payers. This is an evolving area and should pick up some aggressive growth from next year."

Users can already link their RuPay credit card to UPI apps for secure transactions without needing the physical card. One of UPI's emerging applications is enabling Indian tourists to use their apps while travelling abroad, thanks to partnerships and cross-border integrations. "Indian tourists can simply scan QR codes at participating merchants in countries like Singapore, the UAE, Bhutan and Nepal, making payments as easily as they would back home," says Pushpa Marwal, Analyst at Forrester. "This offers a seamless and convenient way to transact while avoiding the hassle of currency exchange or using international cards."

There has been a significant increase in the availability of the UPI model across Asia observes Arun Kini, Managing Director Payments APAC at Finastra. "UPI has partnered with Liquid Group to make the payment option available across ten markets in Asia using the QR code model for merchant payments," he says. "There is also a tie up with Singapore for cross-border remittances, with Malaysia and Thailand also likely to enable it."

Expansion beyond its domestic market has always been a key objective for the National Payments Corporation of India (NPCI). Merchant payments via UPI are now live in Singapore, France, the UAE, Sri Lanka, Mauritius, Bhutan and Nepal and person-to-person remittances are supported via the UPI-PayNow link between India and Singapore.

NPCI International Payments (NIPL), the international arm of NPCI has partnered with the Bank of Namibia, the Central Bank of Peru and the Ministry of Digital Transformation of Trinidad and Tobago to assist them in developing UPI-like real-time payment systems. In June, NIPL signed an agreement with QNB to launch QR code-based UPI payments across Qatar.

Rajagopal notes that NIPL was incorporated in 2020 specifically for the deployment of RuPay and UPI outside of India and refers to the latest annual report from the Reserve Bank of India, which states that the central bank would work with NPCI to take UPI to 20 countries with initiation timeline of 2024-25 and completion timeline of 2028-29.

UPI is a key component of Viksit Bharat 2047, the Indian government's vision to transform India into a developed nation by the 100th anniversary of its independence.

In a recent research briefing, Aditi Routh, an economist at the Federal Reserve Bank of Kansas City noted that there were 30 third-party application providers participating in UPI and that these apps were more popular than those offered by the major banks.

One of the factors behind this trend is that fintech payment service providers offer more comprehensive services to merchants (such as sales analysis and business management solutions). In some cases they provide consumers with credit lines on a UPI payment akin to BNPL.

Routh also observes that non-banks and fintechs are also enabling the expansion of UPI merchant payments beyond India. "Nonbanks and fintechs have played a critical role in the growth of UPI and will continue to be essential for its future development," says Joe Jelinek, Research Director at Kapronasia. "Many of the most popular UPI apps – such as Google Pay, PhonePe, Amazon Pay and Paytm – are provided by nonbank entities. These platforms have driven UPI adoption by offering user friendly interfaces and additional features on top of the core UPI functionality developed by banks."

PhonePe and Google Pay dominate the UPI ecosystem in India, with PhonePe holding a 49% market share and Google Pay 35%. "A large majority of person-to-person and person-to-merchant payments are routed through these fintechs rather than traditional bank apps," says Jelinek. "Although UPI has its own app, BHIM, it has seen limited adoption compared to the fintech alternatives."

Fintechs have also shaped the UPI landscape by integrating features like auto-debits and international payments, although regulatory challenges can impact their operations as seen with Paytm's recent issues with the Reserve Bank of India regarding licensing and compliance.

Marwal agrees that nonbanks and fintechs have played a huge role in the development of UPI. "Companies like Google Pay, PhonePe and Paytm have not just helped popularise UPI among consumers – they have also created seamless, engaging user experiences that have boosted adoption," he says. "Their ability to innovate on top of UPI's infrastructure has completely transformed how people and businesses interact with digital payments in India."

But this does not mean that nonbanks and fintechs will have an easy ride. According to PwC, new third-party application providers and the emergence of new use cases – such as UPI integration with credit cards and credit lines – are likely to increase processing demands on core systems. It recommends exploring the deployment of UPI infrastructure on cloud platforms for transaction processing.

Another notable challenge is the QR infrastructure required. "In India it is interoperable, but that is not the scenario in some of the countries outside India [that have been targeted for expansion of the service]," adds Rajagopal.

The big question moving forward is whether UPI could become a truly international system and take significant market share from more established rival operators.

"NPCI has already enabled UPI payments in a number of countries through pilot projects and partnerships," says Jelinek. "However, transforming UPI into a global system will require overcoming significant challenges, such as aligning with the regulatory frameworks, technical standards and user preferences of different nations."

There is also likely to be internal resistance in markets where there would be concerns that adopting UPI for domestic systems could give NPCI too much control over domestic payment networks. For this reason, while cross-border payments may see more integration with UPI, widespread adoption for domestic use (especially in developed economies) appears less likely.

"UPI is most likely to gain traction in South and Southeast Asian nations with economic or geopolitical ties to India," says Jelinek. "These smaller countries, often more dependent on India, are already beginning to adopt the system. Larger nations and those with their own established instant payment systems, such as Pakistan, may be less inclined to adopt UPI domestically."

Marwal describes NPCI's international strategy as bold and realistic but agrees that it comes with a number of challenges. "UPI has been a tremendous success in India, largely due to its simplicity, real-time processing and cost-effectiveness," he says. "The scale of adoption proves the system's robustness and international interest is already growing, with countries like Singapore and the UAE integrating UPI for cross-border payments and NIPL working to expand its reach."

"That said, scaling UPI globally will require addressing a few key issues. Regulatory alignment across different countries is essential since each market has its own payment infrastructure, security protocols and compliance requirements. NPCI will need to collaborate closely with central banks and regulators to ensure UPI complies with local standards while maintaining the features that make it unique."

Each country operates under its own regulatory framework for payments, so aligning UPI with local laws, especially around data privacy and security, will be key. Moreover, UPI has to prove that it can coexist and complement the existing payment systems in these countries rather than directly competing with them.

Another challenge is competition. UPI will face established international players like Visa, Mastercard and various local payment solutions. NPCI will need to differentiate UPI, possibly by emphasising its lower transaction costs, faster settlement times and unique value propositions such as financial inclusion, which is something many countries are keen on. "Technologically, UPI's scalability is a major strength," adds Marwal. "It is built to handle high transaction volumes and its open architecture allows for seamless integration into different national payment systems. Additionally, with India's growing influence globally through its digital public infrastructure initiatives, UPI's international visibility is steadily increasing."

David Armstrong, Managing Director of PayXpert (which in August 2022 became the UK's first acquirer for UPI) says the company is developing its UPI solution to support both e-commerce and physical retail stores in the same way it supports Alipay+ and WeChat Pay. "I believe the National Payments Corporation of India's ambition to make UPI a genuinely global system is a realistic aspiration in terms of transaction acceptance," he says. "There are many schemes that have also focused on global acceptance for international travellers, although this does not mean that it will replace existing payment solutions, particularly in more mature payment markets." ■

Navigating challenging supply chains

What are the key issues impacting supply chains and how can treasury prepare?

Thomas Mehlkopf

Head of Working Capital Management
SAP & Taulia

Companies across industries spanning car manufacturing, semiconductors and pharmaceuticals as well as sectors like fashion are increasingly focused on how they should reconfigure their supply chains in response to geopolitical tension and shipping bottlenecks.

Supply chains are shifting from global to (globally connected but) regional, witnessed in the auto sector bringing suppliers back to Europe. But this raises challenges around economies of scale and higher production costs. We can see the change is underway through shifting flows in supply chain finance in fashion which are moving from Asia to new suppliers based in countries like Poland and Turkey.

As companies shape new regional supply chains, they often strive to have at least two suppliers to ensure diversification, but this also creates pressure on costs. Solutions to this include dynamic discounting which effectively reduces the cost of goods sold.

Companies are also creating larger inventory for strategically important goods. To offset the impact of this balance sheet extension, we are seeing a spike in demand for inventory finance. Every customer we see enquires about inventory finance, seeking to keep their balance sheet clean and ensure they can continue to meet customer demand.

There is also a very high focus on free cash flow which is where Supply Chain Finance programmes combined with Payment Term Harmonisation initiatives can help. Similar to the risk diversification on the supply chain side, we see more and more treasurers diversifying their SCF programmes by working with multiple banks. It provides additional security. Banks regularly re-evaluate their relationships with customers as well as their overall strategy and geographies. This can impact treasurers and their SCF programmes if operated globally by just one bank.

Another trend we see is corporates focus more on data across their supply chain. Procurement, inventory and logistics all need to be able to see the same data, including financial data, in real-time. For example, data on late payments is one indicator if a company may be financially struggling and require liquidity where early payment programmes such as Dynamic Discounting or SCF can help. By connecting sales and procurement data and their forecasts, predictions can be made as to which raw materials might be short on stock in the future and require extra attention.

AI offers the potential to use data and draw the right conclusions to frame working capital strategies.
But companies will only be able to harness the power of AI if they have rich data sets. This is where working capital platforms with millions of suppliers on the network can provide huge value given that large amount of data.

We would like to see more innovation around ESG. There are sustainable finance programmes out there, but we need regulators and financial institutions to align reporting standards to truly scale them.

Gopul Shah

Director, Corporate Treasury and Trade Structured Finance
Golden Agri-Resources

Companies across the board are coming under increasing scrutiny for ESG risk. This is compounded by growing regulations covering areas including deforestation, emissions reduction, energy consumption and climate disclosures. As a seed-to-shelf agribusiness, Golden Agri-Resources (GAR) needs to ensure our supply chain will be ready to comply with emerging trends around ethical, resilient and sustainable supply chains. This applies equally to our own plantations and our suppliers, among them hundreds of thousands of smallholder farmers.

GAR's Social and Environmental Policy (GSEP), established in 2015, has set a benchmark for sustainable, responsible practices across our supply chain and is one way we're addressing these issues to ensure customers can rely on deforestation-free supply.

Wherever commercially feasible, many supply chains are also shifting towards local sourcing and nearshoring to improve resilience and lower their carbon footprint. By using renewable energy, investing in green technology and shortening supply chains, businesses can improve sustainability standards, their carbon footprint and efficiency.

GAR has spent over a decade mapping, analysing and improving its supply chains to ensure that palm oil production is resilient, sustainable and decoupled from regulatory and deforestation risk – all the while meeting customer demands. We have expanded the traceability of our total palm oil supply chain in Indonesia to achieve 99% Traceability to the Plantation (TTP), and we have 100% traceability to our own estates. We're using this experience to extend traceability into other non-palm commodities such as sugar, soy and coconut.

Palm oil traceability data is available to our customers through the blockchain-powered **GAR Traceability Platform**. This is vital due diligence ahead of upcoming regulations like the European Union Deforestation Regulation and will prepare our supply chain for future developments like the UK Environment Act.

This data doesn't just allow us to demonstrate deforestation-free status. It helps us to understand our operations, suppliers and smallholders so we can support them in areas where improvement is needed to ensure their practices are more responsible, more sustainable and even more productive.

Collaboration across the supply chain, including smallholder education, is key to making this work. That's why we have committed to train 100,000 Indonesian smallholders in sustainable palm oil agriculture by 2035.

Agricultural supply chains have significant potential to support decarbonisation efforts and play a role in the carbon economy. Plantations support a huge amount of organic material that can sequester carbon, as well as provide nature-based solutions and biomass energy sources to replace fossil fuels, ensuring food security while contributing to renewable fuel supplies.

The implementation of carbon-related regulations, carbon taxes, carbon credits and carbon trading are also likely to generate new sources of cash income that can facilitate the repayment of coupons or loans, using verifiable carbon certificates. Carbon linkages also provide investors and lenders with a clearly measurable and verifiable payoff mechanism which plugs the shortcomings of green or sustainable loan obligations.

Mark van Ommen
Partner
Zanders

Alongside well-known issues facing supply chains like the pandemic and war in Ukraine, other more subtle developments are increasing supply chain complexity.

Like the fact corporates must consider ESG metrics in their sourcing and companies have ESG ratings and external validators. Elsewhere, the growth of e-commerce and D2C businesses has put different requirements on sourcing and logistics, and a different way of selling and delivering a service. For example, selling to consumers and smaller buyers puts more emphasis on using card providers and payments service providers (PSPs) rather than banks. These processes need to be integrated into the ESP and TMS, but in many cases these new ways of paying have developed outside treasury which has limited visibility.

Businesses, including treasury and finance teams, are building more robust supply chains. Firstly, by creating diversification of the supply chain, such as for example China+1 policies where they do not solely produce in China, but also in countries such as Vietnam, Indonesia and the Philippines. Friend-shoring is also on the rise. We see companies taking a less cost-focused approach when designing their supply chains and focusing on sourcing that is sustainable from a long-term perspective.

Other strategies prevalent in certain industries include inventory build-up where companies are moving away from Just-in-Time methods. Then there is vertical integration, which can range from light-touch partnership approaches to full acquisition of companies in the supply chain. Supply chain finance also provides affordable credit to suppliers by leveraging the group's strong credit rating, supporting resilience in the supply chain.

We have seen some early initiatives to extend SCF beyond the direct supplier further into the supply chain to support smaller suppliers that struggle to access affordable funding.

Data analytics can play a role supporting supply chains with scenario planning. Using predictive analytics, supply chain risks can be modelled, not unlike in advanced financial risk management. Combined with implementing more flexible sourcing and production processes, this type of forward-looking scenario approach may allow corporates to respond faster and shift their sourcing when required.

In large organisations, the data needed to monitor and manage supply chain risks is often spread across a complex system landscape and not seamlessly integrated. Any data strategy needs to be closely aligned with group finance and IT functions to make sure the required data, not just related to supply chain but also other areas of treasury, is available in standardised, real-time and analysable form.

Supply chain complexities are driving corporates from prioritising low-cost sourcing to focussing more on sustainability and perceived risk. Advantages include simplified logistics, more insight into ESG components of supply chain and reduced impact of geopolitical risk but it may cost more. That said, traditional manufacturing countries such as China have seen the cost of labour increase, reducing the arbitrage opportunity. ■

Next question:

"What are the main issues facing corporate treasurers in India?"

Please send your comments and responses to **qa@treasurytoday.com** by 18th December 2024.

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