Adding Corporate Value through ESG

Practical Treasury Applications

By **Eleanor Hill**, Editor

Environmental, social, and corporate governance (ESG) is rapidly becoming a cornerstone of modern business – and a driver of value creation. In the second of this three-part series, experts drawn from Bank of America's trade, liquidity and digitalisation teams tackle the practical application of ESG into treasury and the wider organisation.

When starting out on the ESG journey, "finding a purpose" marks the first step, says Rakshith Kundha, Head of Trade Product Sales, Trade & Supply Chain Finance, Asia Pacific, Global Transaction Services. Here, the three basics of treasury – liquidity, movement of money, and short-term funding – position the function perfectly to contribute to a more sustainable approach to doing business.

By considering these three components individually, and exploring how each can add value to the organisation, it should become evident that treasury can potentially make a very real contribution to the business's overall relationship with ESG. In fact, there are many practical ways, beyond the obvious area of green bonds and loans, that treasurers can engage in sustainable activities.

Refining investment decisions

One of the most visible areas where treasurers can embed ESG and create wider value for the organisation is

sustainable investing, notes Alvin Poh, Head of Global Liquidity Platform and Head of Liquidity & Balance Sheet, Asia, Global Transaction Services.

He explains: "In the past 12 to 18 months, banks and money market funds have been introducing green and sustainable investment options, linking cash to renewable energy, for example. These are becoming increasingly popular with a range of corporates looking for new ways to drive value through their short-term investments, in what continues to be a tough interest rate environment. And corporates have the peace of mind that their money is safely deposited with their institution of choice – offering additional ESG benefits without compromising counterparty risk."

ESG-related money market funds (MMFs) are also emerging, as part of a recent shift towards a broader ESG perspective in the financial services product set. Here, the impact of corporate behaviour on issues including climate change, education, poverty, equality, and health are being addressed – through ESG portfolios. The robust due diligence performed on these portfolios proved attractive during the Covid-19 selloff, since the funds proved resilient to market shocks.

Despite the attraction of sustainable investments, there are additional checks that corporates might wish to perform before investing, notes Poh. "First and foremost, assessing the increasing number of ESG investment options calls for policy direction," he says. "This should tease out the challenges and opportunities that exist, as they relate to the company's specific ESG goals, compared with traditional investment portfolios."

When considering available ESG investments, it is also vital for treasurers to retain an anchor on quality in terms of the investment itself and the green credentials that are applied to it by providers, as well as the issues being tackled, says Poh. "Many banks use an accredited external ESG assessor to certify whether the funds deployed by the bank meet its sustainability criteria – something all investors should at least be aware of," he adds.

Improving supplier relationships

Another impactful area where treasurers can contribute to the organisation's overall ESG goals is the supply chain.

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Several leading companies have a procurement policy around ESG notes Kundha. "By and large, major companies tend to have labour or environmental policies requiring suppliers to meet certain standards, however many times these may be achieved through disincentives for non-compliance, as against incentives."

This presents an opportunity for treasury to work hand in hand with procurement to implement a sustainable payable finance programme. By setting certain ESG-driven benchmarks, a financial reward for compliance with desired behaviours can be offered.

Kundha explains: "Suppliers that meet the predetermined ESG criteria are able to access more favourable financing rates. Whereas those who do not meet the criteria are able to access only the standard rate. This incentivises positive behaviours across the supply chain – and the treasurer can be in the driving seat."

Banks are increasingly working with leading corporates on such programmes. Getting it right requires consideration of how ESG criteria are monitored. Corporates sometimes find it challenging to independently monitor compliance.

For Kundha, tackling this issue is critical. Fortunately, an increasing number of independent agencies are able to provide credible and coherent ESG evidence, he notes. "Working with reputed agencies is a good way to move forward quickly."

He also urges treasurers to monitor their own organisation's wider activities. By identifying underlying flows that have an environmentally positive outcome, such as energy reduction schemes, the possibility of using new sustainable finance instruments opens up. "There's certainly enough appetite now for such assets," he comments.

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SMARTER SOLUTIONS

An example of the tools that Thind is referring to is Bank of America's Intelligent Receivables® solution. This is an AI-driven matching solution that helps to take the manual work out of reconciling receipts. Intelligent Receivables® scans all remittances for critical information, then enriches the payments with that data and matches them to the corporate's open invoice file. By using this solution, finance teams can enjoy nearly 100% data capture and straight-through reconciliation levels that may reach 90% or more.

Engaging with digital

Aside from financial solutions, digitising paper processes is another area where treasurers can make an immediate ESG impact, says Param Thind, Head of Digital Channels & Revenue Management, Asia Pacific, Global Transaction Services. An obvious place to start removing paper is from day-to-day interactions. This could include the way invoices are issued, payments are made, and how information such as bank statements is received from banks.

Thind comments: "These might seem like small changes, but they all add up, reducing the overall amount of paper usage across the organisation." Unlocking and supporting these incremental improvements have, he continues, been a core element of Bank of America's client education programme for many years. "It helps not just as part of the ESG effort, but also in driving cost and process efficiencies, so whichever way you look at it, it makes a great deal of sense to digitise and automate."

For those who are yet to fully digitise their treasury operations, Thind relays some best practice suggestions from large corporates he has worked with on dematerialisation and automation projects. He believes the starting point must be to look at all existing workflows and paper usage, not just within treasury and finance, but also within connected departments such as procurement and payroll.

Thind elaborates: "This means breaking down every process where treasury is involved into its component parts. By doing this, treasury leaders can effectively create a process blueprint – which is a worthwhile exercise in itself. Through the creation of this 'master blueprint', treasury shall also be able to identify and bring to the surface, all the cost and process inefficiencies that paper usage creates."

Once the paper processes are identified, the next step is to explore the different systems and solutions available to solve these issues. "This is how treasury can begin to move further towards digitisation – and then digitalisation – adding greater value to the organisation in the process."

After all, he says, there are so many options for digital payment and electronic information exchange today that there is really no good reason to continue using paper. "What's more, a paperless workflow enables the use of new emerging technologies like machine learning and AI [artificial intelligence], thereby driving even greater efficiencies and business insights to support the wider organisation."

Digitisation via CashPro Online

Bank of America's award winning e-banking platform, CashPro Online, offers more than just the capability to conduct online transactions and review account activity. With CashPro Assistant – a suite of digital solutions designed to simplify onboarding and service – clients get a better service experience, including the ability to electronically exchange and sign documents, create and monitor online service requests and track international wire payments in real time, all within one convenient platform.

He continues: "Everyone benefits from the switch to digital. Removing paper reduces the ecological damage caused by

WHY DOES ESG MATTER?

According to Thind, the benefits of proactively embracing ESG as part of business as usual extend far beyond just feel-good factors. "A robust ESG programme typically translates into more sophisticated risk management, access to new pools of capital, an improved corporate brand, and ultimately – sustainable long-term growth."

To read more about why ESG is the future of business – and treasury – read the first article in this series: https://treasury-management.com/articles/why-esg-is-the-future-of-the-business-and-treasury/

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following outdated practices. What's more, digitisation provides a faster and more secure way of conducting business. It also enables cash to be applied more rapidly and for supply chains to flow more smoothly." Nevertheless, these benefits are vastly reduced when people create parallel processes such as printing and physically filing electronically received documents, he warns.

A change in "mindset and culture" is required to stop such practices, Thind urges. And he is hopeful that as new generations arrive in the workplace "they will push forward with digital-only operations".

Of course, the health crisis has been a catalyst for enabling digital workflows, with remote working being mandated in many countries. However, Thind cautions that once office-based working returns "treasury teams, and corporates in general, need to take care not to slip back into old habits". Maintaining the paperless effort requires direction "from the top", with a coherent ESG policy in place to steer progress.

Improving policy approach

On the topic of policies, Kundha believes that any treasury function that is serious about ESG must fully articulate its own ESG policy. Critically, however, treasury's ESG policy must link with the wider organisation's ESG goals – and be implemented across treasury centres in a coherent and consistent manner. A robust policy will guide treasury decisions on funding and investments, for example, but "should not make it an island in terms of implementation," he suggests.

Poh agrees that treasury's ESG vision should always align with that of the wider organisation. "This will drive various internal conversations to ensure across-the-board orientation rather than a series of unilateral approaches." This happens most effectively, he believes, where a cross-functional ESG-focused committee has been established.

The ESG committee should oversee and recommend objectives based on input from all stakeholders. "Each will use the committee's direction to help establish the right overarching position for the business, but also shape that vision into how ESG can be achieved in a direct, function-specific way," says Poh. "And treasurers should most definitely aim to be part of a cross-functional ESG committee as they will be able to provide strategic inputs on the allocation of funds for ESG purposes."

Once defined, the organisational vision of ESG can be leveraged to inform the development of external partnerships going forward, with those that are in greater alignment being most favoured. This relates not only to supply chain partners that might be eligible for sustainable SCF, adds Kundha, but also to all vendors.

Partner value

ESG need not be a solo effort, Kundha notes: "The value brought by working with the right partner is considerable if that partner offers a dynamic range of appropriate sustainable products and services."

Bank of America already has a significant ESG offering. In terms of facilitating paper-free practices, for example, it has introduced electronic document exchange, and digitisation of documentation for diverse activities such as client onboarding, tax processing and cross-border payments within controlled markets. These solutions reduce the need to print and wet-sign documents – and where regulators have relaxed on these matters as a result of the health crisis, Bank of America has reacted quickly to provide clients with cutting-edge solutions.

"Some of the leading regulators, like here in Hong Kong and Singapore, are showing the way," notes Thind. "Our hope is that other countries follow suit because there are so many efficiencies to be found through the use of digital rather than physical documents. And actually, fraud levels can be reduced with the correct cybersecurity and checks."

The bank also plans further roll-outs of its sustainable SCF solutions, and there is more to come in the sustainable investing space too. Kundha believes these solutions will support treasurers as they move beyond the policy and theory stage of ESG and head towards truly putting it into action every single day. "When people ask if we have ESG products, we respond that we consider ESG in everything we do. And we're helping our clients make this transition as well."

Poh concurs: "Talk to your banks because we work with many different companies and have a great depth of experience in communicating and managing change around ESG, particularly when navigating the new digital landscape and Asia's diverse regulatory environment," he says "It's one of the quickest ways to unlock the best knowledge and start adding corporate value through ESG in treasury."

For more information, please visit Bank of America Global Transaction Services

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For quick-fire takeaways, and compelling ESG statistics, view the infographic that accompanies this article.

tinyurl.com/3kcphsa2