Issue 283

tmi
1992 29 YEARS 2021

Short-term Investments in 2022

- Life as an Interim Treasurer
- Invoice Financing with Alza

Published in association with
EACT
THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

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COVER STORY

The combination of Covid-19 and a low interest rate environment plus impending regulatory changes has seen corporate treasurers building up high levels of liquidity. Ben Poole surveys the instruments they can employ to increase the efficiency and reduce the costs of their short-term investments.

SPECIAL REPORT

Legacy technology is becoming an increasingly frequent problem for treasurers. Professionals from Bank of America and systems vendors discuss with the Deputy Editor solutions ranging from wholesale 'rip and replace' to methods of keeping software up to date and enabling connectivity to newer applications

INSIGHT

TMI283

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ISSN No: 0967-523X - Issue 283

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TMI TREASURY MANAGEMENT INTERNATIONAL ISSN 0967-523X is published eight times a year by P4 Publishing Ltd, Waney Edge Barn, Foxhill Lane, Playhatch, Reading RG4 9QF, UK. Subscriptions are available on a complimentary basis only. We do not receive paid subscriptions and the magazines therefore have no commercial value attached. Airfreight and mailing in the USA by agent named WN Shipping USA, 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA. Periodicals postage paid at Jamaica NY 11431. US Postmaster: Send address changes to TMI-TREASURY MANAGEMENT INTERNATIONAL, WN Shipping USA, 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA Subscription records are maintained at Waney Edge Barn, Foxhill Lane, Playhatch, Reading RG4 9QF, UK. Air Business Ltd is acting as our mailing agent. While all reasonable care has been taken to ensure the accuracy of the publication, the publishers cannot accept responsibility for any errors or omissions.

> Moving from one job to the next as an external treasury consultant – an interim treasurer – provides the level of variety and excitement that Patrick Kunz is not about to relinquish.

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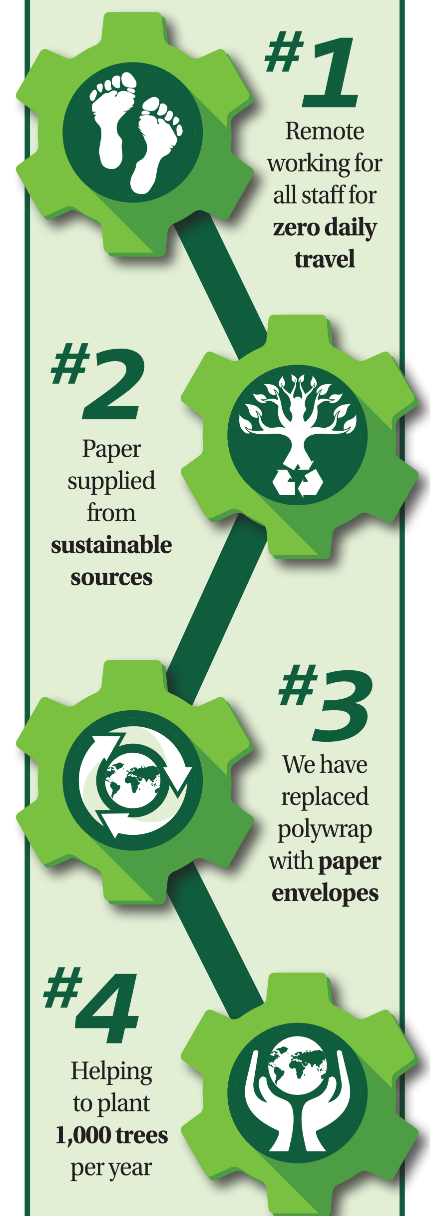

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Why B2B Marketplaces are a Gamechanger for Treasurers

By **Ole Matthiessen**, Global Head of Cash Management, Deutsche Bank

Business-to-business marketplaces are on the rise in almost every industry sector. As the shift to digital sales requires a new payment strategy and innovative technology, corporate treasurers must take the initiative and put themselves in the driving seat to capitalise on this trend.

While shopping online has been popular among consumers for several years, digital sales are still in their infancy in the business-to-business (B2B) space. This will change dramatically over the next few years, however. Research and Markets, an aptly named market research institute, predicts that by 2030, the global e-commerce market will reach $66.9tr.[1] – with the B2B sector accounting for more than three-quarters of the digital sales market equalling $51.2tr.[2].

Companies are not only extending their sales channels, they are also building digital ecosystems around their original product offering. Automobile companies expand their offering horizontally with mobility solutions such as car sharing; machine builders are ramping up their software development and aftersales business by leveraging data on Internet of Things (IoT) platforms; and in the healthcare sector, manufacturers of diagnostic equipment create vertical marketplaces to monetise new goods and services at scale through a convenient integration of smaller medical suppliers.

While buyers on these platforms benefit from greater choice, faster delivery and cost reduction, sellers gain access to a larger number of clients at a lower risk. Given these advantages, global sales conducted via B2B marketplaces are expected to quadruple from $1 tr. in 2020 to $4 tr. in 2025[3].

Yet being part of a marketplace is not enough. Several multinational companies with strong brand recognition or market leadership in specific niche markets aim to become digital marketplace operators themselves. This would enable them to generate new revenue streams from fees on transaction volumes and capture upside through 'as-a-service' recurring revenue. Furthermore, marketplaces provide a great opportunity for manufacturers to sell directly to the customer thereby circumventing resellers and increasing their margins. Owning the interface to the client is becoming even more important as sales channels are shifting from physical to digital.

Driving transformation

For corporate treasurers, B2B marketplaces are a gamechanger because operating digital platforms requires a totally new payment strategy. Payment acceptance plays a key role in the end-to-end user experience, so companies should ensure that they accept a wide range of payment methods and currencies without cutting back on efficiency, security, and risk management. From a treasurers' perspective, supporting digital sales therefore goes beyond just the front-end checkout process. It requires embedding and monetising payment and lending services using innovative payment technology to enable the growth of the business.

However, treasury is not always directly involved in projects to enable embedded payments in new digital business models. The initiatives often originate from the sales department or the business development function, with treasurers sitting in the back seat. Banks can help to empower treasurers to become drivers of business model transformation.

Treasurers' checklist

There are four key factors that treasurers should address when it comes to B2B marketplaces. First, they must tackle the lack of integration between their e-commerce platform, payment service providers (PSPs), the treasury management system (TMS) and enterprise resource planning (ERP) systems as fragmentation can lead to problems with accounts receivable management and reconciliation, cause delays in payment refund, and ultimately frustrate the customer.

Second, treasurers should ensure that legal requirements are met across payment partners. This, for example, includes know-your-customer (KYC) checks, fraud protection and guaranteeing the traceability of flows. While the onboarding of merchants is cumbersome, as it requires KYC checks and data collection, buyers need to be screened according to credit risk processes.

Third, with B2B marketplaces growing cross-border, the foreign exchange (FX) exposure generated from digital sales activities will increase. Therefore, treasurers should consider incorporating platform cash flows into their hedging policy.

Last, but not least, treasurers should examine counterparty risks when choosing their payment partners. While fintech solutions are often quick to be implemented and convenient for the end user, they usually lack global reach and FX capabilities. Once companies start to sell internationally via digital platforms, banks are usually better positioned than fintechs. Furthermore, given the fast pace of change in the payments landscape, it is uncertain whether some startups will even exist in three years' time.

Enabling the payment orchestration

Summing up, the goal of the treasury department should be to create a seamless payment experience for all stakeholders. For buyers, marketplace operators need to accept relevant B2B online payment methods such as credit card or invoice payments, while for sellers, it involves ensuring low-cost payouts in all currencies and automated reconciliation. A functionality that is of particular importance in this context is split payments, which enable funds to be credited to different merchants within one transaction.

Deutsche Bank is currently piloting a marketplace payment engine including features such as single-purchase application programming interface (API), split payments, and currency conversion with a large original equipment manufacturer (OEM) supplier.

OLE MATTHIESSEN

Global Head of Cash Management, Deutsche Bank

The company operates an IoT and software platform on which business clients can purchase apps from software developers that accompany the service offering of the supplier. However, when setting up the marketplace the company faced several payment-related challenges – including the onboarding of partners globally, and ring-fencing their funds on the platform.

The new marketplace payment engine developed by Deutsche Bank now enables the treasury department to streamline bank and PSP relationships, scaling payout and FX processes globally, and establishing governance control at headquarters-level across the group.

This is an excellent example of how treasurers are becoming enablers of business growth. In an even more sophisticated operating model, the treasury department could also become an internal profit centre by internally reselling a white-labelled payment solution to other web store applications or marketplaces. This would be a true gamechanger for treasurers.

Sources:

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2 https://www.researchandmarkets.com/reports/5134756/global-b2b-e-commerce-market-2020-2030-by

3 https://www.finextra.com/blogposting/20234/online-marketplace-payments-to-hit-usd-87-trillion-by-2025#

People in Focus

FRANÇOIS MASQUELIER

Chair of the European Association of Corporate Treasurers (EACT)

The TMI team sends our warmest congratulations to François Masquelier, who was appointed the new Chair of The European Association of Corporate Treasurers (EACT) from 1 October 2021. Our regular readers will be familiar with the many excellent articles he has written for us over the years, for which he has won multiple accolades in our annual Awards for Innovation and Excellence.

François is the Chair of the Luxembourg Association of Treasurers; he was one of the founding members of the EACT and until his new appointment was its Deputy Chair. After six years as Chair, Jean-Marc Servat has decided to step down from the EACT helm, and François thanks Jean-Marc for the work he has done to serve the Association and to be the voice of treasurers in Europe. Jean-Marc has seen the EACT grow and increase its activities and its membership, which now numbers 24 national treasury associations (NTAs) from 19 European Union countries plus Switzerland, the United Kingdom and Russia, with a total of around 14,000 members representing 6,500 groups/companies. The EACT is deeply grateful to Jean-Marc for his vision, dedication, and passion.

The Board is proud of all that has been accomplished in the past six years under his chairmanship, during which the EACT has served NTAs and their members across Europe. Now François wants to bring the EACT up to the next level. He plans to develop an even more collaborative mindset, needed to lead European projects. He will bring his considerable professional experience and energy to the table at a time when the EACT has full confidence in its future and in Francois' leadership to continue growing the Association and expanding its impact.

François is highly qualified to help the Association and its members and intends to work closely with all of the EACT's NTA members. EACT will continue to be the voice of treasurers across Europe and to monitor the different European regulations that may affect the profession. The new Chair's strategy will focus on further fostering collaboration between NTAs and increasing the Association's impact and visibility across Europe and vis-à-vis supervisors and regulators. Treasurers face many challenges in a fast-moving economic environment, and François emphasises that they must transform their departments to become more digital, while also being more resilient in response to the current health crisis. Not least since the latter makes it likely that European authorities will continue to issue new financial regulations to which treasurers will have to adhere. ■

BIOGRAPHY

François graduated from the University of Liège with a degree in Economics and Administration, and is also a graduate of the Solvay Business School, later gaining a doctorate in Tax Law. After working in Brussels for Mitsui Taiyo Kobe Bank (now Sakura Bank) and Eridania Béghin-Say Coordination Center, and in Belgium and Luxembourg for ABN AMRO Bank, he joined the RTL Group in November 1997 as Head of Corporate Finance and Treasury. Two years ago he left RTL to set up his own consultancy company SimplyTREASURY, which specialises in treasury, corporate finance, and enterprise risk management (ERM). François is also the Editorial Director of *Treasury Magazine* and delivers courses for the House of Training in Luxembourg.

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MY LIFE IN TREASURY

The Thrill of the New

By **Tom Alford**, Deputy Editor

Patrick Kunz is an interim treasury and finance consultant. With experience in abundance to share with his clients, he understands that adaptability, a passion for learning, an orderly mind, and boundless energy keep the work flowing in. Here, the self-confessed 'extroverted nerd' shares his pathway to success.

The life of an interim treasurer can be unpredictable. For many a professional, not knowing what's around the corner can feel somewhat uncomfortable. But moving from one job to the next as an external treasury consultant – an interim treasurer – provides the level of variety and excitement that Patrick Kunz is not about to relinquish. As he says himself: "I love it!"

With a string of successful interim assignments over his seven-year career, Kunz has plenty to look back on with pride. Most recent duties have included setting up a treasury function from scratch at Takeaway.com, where on only the third day the world went into lockdown as a result of the Covid-19 pandemic. Many would panic but it's a mark of Kunz's professionalism that he was able to deliver.

Having successfully built and handed over the basis of a new treasury regime to the incoming team at the international online food delivery marketplace, he took on a treasury manager position with global engineering consultancy Arcadis. This was a part-time role that ran alongside an ongoing treasury consultancy assignment with Dutch domestic retail car marketplace CarNext.com.

The latter role briefly saw him take on its Head of Treasury responsibilities, running the department while preparing to hand over the reins to the firm's newly appointed permanent incumbent. This was not before picking up an interim treasury post at cold storage specialist NewCold, helping bring the finances into line for a business experiencing strong growth across Europe, the US and Australia.

The life of the interim treasurer can be somewhat breathless, moving swiftly from one task to another. It demands commitment. "It's definitely not a nine-to-five job," notes Kunz. It's also definitely not a job for those who seek comfort in the familiar.

Indeed, it can be a rather precarious lifestyle, especially in the early stages. Even once established, the timing and selection of new assignments exists in delicate equilibrium. "Of course, every assignment is always critical to the company so it's important that I try to make myself available for them."

Of course, delivering 'on demand' is not always possible. But then not all assignments are as critical as they are portrayed. Part of the skill of the interim is in assessing the client's needs and finding a balance between practical availability, project urgency, and even personal reputation. It can be stressful, admits Kunz, adding that "planning for the longer term is rarely feasible".

Building a career

The capacity to meet the needs of clients in this way is not something everyone can offer. Kunz has worked hard over the years, drawing on many scenarios, building the necessary knowledge, skills, and professionalism to get him through many corporate doors.

The journey towards his successful interim career started with extensive post-university travelling. "Immediately after studying, I had to choose career or travel," recalls Kunz. "I knew that once I was focused on my career, the travel would become harder to do."

Following graduation he flew to New Zealand, "because this was the furthest possible destination and I could make my way back to the Netherlands from there, changing plans as I went". His original year out turned into an 18-month back-packing odyssey across 18 countries. "It was a great time for fun and experiences, but also for building cultural awareness and negotiation skills – in Southeast Asia this saved a lot of money," he recalls.

During his first professional engagement, as a financial analyst at Xerox, Kunz confirmed to himself that a career in accountancy was not for him. However, his next appointment, at Metro Group, the German holding company for several major wholesale and retail brands across 18 countries, opened his eyes to treasury – "the heart of the organisation" – as his calling.

Favouring the cut and thrust of dealing with "real cash" over the accountant's often more abstract view, he says he learnt a huge amount during his four years with Metro, even alerting him to some interesting differences between "real-life treasury and text-book treasury", especially around foreign exchange (FX) rate volatility.

Indeed, Metro Group pulled him into a very broad spectrum of work, from daily cash management to FX trading ("very old school, with three screens and phones") and a wide range of projects, all with worldwide exposure from the outset.

From Metro Group Kunz took up the position of Group Treasurer at Wonen Limburg, a major Dutch housing corporation. After one year, professional wanderlust struck and he jumped headlong into the world of interim treasury. He has not looked back.

Keep learning

The thrill of the new has remained a feature of Kunz's professional life. He has adopted a sustaining mantra: "If you only ever do what you know, you will never learn anything new." Of course, it's the refrain that ultimately set him on course for interim assignments, but he believes that continuous learning remains key to improving in his work and keeping up with the rapidly changing environments of businesses and the economy.

"As an interim, often you are only as good as your last assignment," explains Kunz. "Some roles are filled via HR or recruiters who don't know much about treasury; they tick boxes of requirements, so it's necessary not only to have the knowledge to do the job, but also to be able to connect with the hiring manager and the cultural fit of the company."

However, as an interim treasurer, sometimes securing an assignment is more about possessing the confidence and capacity to learn quickly. Having started his interim career at a relatively young age, and therefore with less experience than some of his peers, Kunz takes a steer from author Astrid Lindgren – "I have never tried that before, so I think I should definitely be able to do that". As an interim manager, he knows he's being hired because he can do what's required. His confidence and passion for discovery means even if he does not have full knowledge of some aspect, he can learn quickly enough to help the client.

First steps

The interim life is by its very nature transient. As one who seeks out new experiences, this is its great appeal for Kunz: complete an assignment, move on.

Of course, finding the first client can be the most difficult step. To overcome this hurdle, he joined the Dutch Association of Corporate Treasurers (DACT), attending many of its networking events. He also approached every treasury-focused recruitment agency, became a hyperactive LinkedIn user, and developed his own website. "The first year was challenging," he recalls. "I had to do a lot of self-marketing to start building my reputation and letting the market know I was available."

The first assignment, a straight treasury consultancy contract with global dairy supplier Interfood, was secured promptly. Without a treasury function in situ, the firm's banking costs for international payments (around 20,000 transactions

> *I knew that once I was focused on my career, the travel would become harder to do.*

PATRICK KUNZ

Managing Director Pecunia Treasury & Finance BV.

annually, mostly in USD) had got out of control and expert advice was sought. The quick win found by Kunz was a cool €300,000 saving in banking fees. But his analysis revealed other issues, alerting the CFO to the value of in-house treasury, which was duly formed. Interfood's treasury remains a loyal client to Kunz.

It's often the case that the work of a good interim will be worth considerably more than the fees levied, as was the case with Interfood. Achieving such a positive result so early in his career saw Kunz quickly picking up new assignments, each enhancing his reputation. As the workload escalated, so the need for marketing himself diminished. After the second year, he found himself having to deflect offers to avoid over-extending his time.

"I have the luxury now that I always have an assignment on the go; it enables me to take on the jobs that I love," he comments. With a diversity of projects capable of sustaining his quest for the new and interesting, "a change of scenery", courtesy of a wide range of companies and sectors, is assured. It's safe to say now that the prospect of a long-haul treasury career with the same company has been eliminated from his agenda.

Today, Kunz has a broad sweep of assignments under his belt. Naturally some stand out as exceptional. Most recently he cites his work with Takeaway.com, delivering real-time cash flow forecasting to a greenfield treasury site as being particularly gratifying. "Starting from scratch, where there is no treasury, is the dream for every treasurer," he comments. "It was challenging to take the elements of treasury that were there and build them into a professional function."

> *If you only ever do what you know, you will never learn anything new.*

Among the many requests for help he receives, Kunz cites treasury management system (TMS) implementations as being especially rewarding. "Within four to six months you can clearly see the change between old treasury versus new treasury. With a new TMS, treasury is usually far more efficient in terms of time and cost savings, and a lot more effective and in control because there is now so much more information available," he says. "It's great to make these improvements, leaving a company knowing it is happy."

Keep learning

With almost every interim project there is something to learn. By engaging in so many assignments, each one different, it both demands and creates a broad skill set, some aspects transferring across all assignments.

At a technical level, the learning curve can be steep, the information not always being available in-house. In some TMS and payments hub implementations, for example, Kunz has found himself having to deep-dive into the client's IT architecture far more than expected. Rapidly learning the nuances of particular databases, virtual certificates, and data security is a necessity just to be able to converse on an equal footing with the client's banks and vendors. While not his core work, his accumulated IT knowledge has often been called upon for later implementations. "I can almost start selling myself as an IT project manager," he jokes.

In addition to bringing technical know-how, the key to a successful assignment is fitting in with the organisation, notes Kunz. This dual-demand dovetails well with his self-confessed status as an "extroverted nerd". He explains that in the first few weeks of every job it's important to assimilate with the culture of the company, learning how decisions are made and by whom, both formally and informally. "I can't be an introvert sitting in the corner of an office if I expect to get a project up and running. I need other people's knowledge and information, so I must be able to talk to them, gain their confidence and ease their concerns."

Kunz understands that engaging with this particular learning curve is especially important when managing change as an outsider. "For various reasons, there is nearly always someone who is against

> *As an interim, often you are only as good as your last assignment.*

change or unwilling to help," he notes.

Particularly with a big project, it's common for affected employees to think they will be burdened with extra work, or even see their job disappear. Sometimes that will be the case, but rarely is resistance so ingrained that Kunz has to escalate his concerns to get the information.

Rarer still is the client that decides to row back on some proposed changes or adopt a less-effective compromise solution to avoid too much of a turnaround, but it happens. It's the client's prerogative of course, but for the interim it can be frustrating. To overcome resistance it is a matter of adapting to the circumstances "and trying to find the win-win for all parties," he states. "Getting the job done is essential, but I feel like I've won the World Cup if I do that and make every stakeholder happy and satisfied with my effort."

Own business

In the past seven years, Kunz has not been without an assignment. When he first formalised his interim service through the company he calls Pecunia (Latin for 'money'), he was taking on mostly full-time assignments, alongside some project-based work. The rise in the past few years of digitisation in treasury has seen the focus shift towards managing technological changes – TMS implementations, payment hubs and other cloud-based platforms – while budgetary constraints in treasury have led to more part-time assignments.

While Kunz considers working for several clients simultaneously to be "more diverse and fun", doing so has revealed a new opportunity. For companies that have significant treasury flows, yet believe themselves to be too small to appoint their own treasurer, he founded TreasuryAbonnement.

Described as a 'treasury-as-a-service' subscription package, he explains that it is aimed squarely at smaller firms, particularly those with sizeable FX exposures and those in growth mode seeking better cash management. To these he offers both treasury expertise (including a free FX rate analysis) and access to a 'lite' cloud-based TMS platform.

With innovative offers such as his 'no-win, no-fee' model, where a percentage fee is applicable only to savings made, it's a side of his business that Kunz is keen to develop. But he admits that with his regular interim work currently demanding most of his time, it is difficult to reach out to the network of CFOs, FDs and controllers who typically take on treasury duties in the smaller business. While bringing on board a junior consultant would be a great help, this person absolutely must be the right fit, and thus he is in no rush. "After all, it's my reputation at stake."

Giving back

Despite his busy schedule, Kunz has always found time to give something back to the community. He is a voluntary board member and treasurer for his local outdoor swimming pool. "I had great times at this pool when I was a kid. The municipality decided to close the pool due to costs unless volunteers stepped up to run it," he explains. Today, with around 80 volunteers running the pool throughout the summer months, it is even making a small profit.

As a volunteer business coach and guest lecturer for Qredits, a private microfinancing and crowdfunding organisation in the Netherlands, he shares his considerable knowledge of business and corporate finance with budding entrepreneurs during their start-up phase. Through this, he also gives guest lectures at high schools and universities, helping potential student start-ups by adding a measure of real-world insight to their academic studies.

The student work is very much a two-way street, with Kunz gaining valuable exposure to generational changes in attitude, especially in the way people collaborate and communicate. "I make time for these initiatives not only because I think it's important to give back to the community but also because it's great fun and it broadens my own business network and understanding."

As part of his professional voluntary effort, he helped start, and now runs, DACT's sub-group platform for its 40 or so interim treasurer members, most using it as a means of networking and sharing experiences and knowledge. "We're competitors but we do help each other," comments Kunz. The platform also attracts occasional guest expert speakers on matters such as personal taxation, insurance and business law, as well as topics of interest to the wider DACT membership.

DACT's technical committee is also on Kunz's volunteer agenda, enabling him to monitor and evaluate new developments in treasury coming from bodies such as the European Banking Authority (EBA) and EU. "It combines well with my interim work as it keeps me up to date with every current treasury development while connecting me with my fellow treasurers."

Going interim

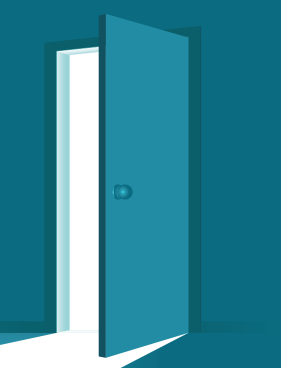
To anyone contemplating the interim way of life, Kunz stresses the need for it to fit the individual's personality. "Anyone considering it must bear in mind that you have to deal with uncertainty and a lot of change," he cautions.

There are practical issues ("sometimes I have to travel more and further then I would like"), and matters of job satisfaction ("some assignments are great fun, others are not"). And of course, many projects are by nature concerned with solving serious problems, often against tight deadlines, which can raise the stress factor. To this can be added the almost constant need to keep up with the trends and changes in the treasury space, and the demands of professional networking and marketing to keep the work coming in.

On the latter, while clients are often grateful to access the expertise of the interim, Kunz says some larger multinationals apply stringent HR policies that can add a layer of complexity to a contract. What's more, with some HR departments placing assignments on their general recruitment boards, it inevitably attracts treasury recruitment agencies. "I can have multiple calls on the same day for the same interim assignment," he notes.

But these are minor issues compared with the freedom offered by Kunz's chosen pathway. By stepping headlong into the world of interim treasury, it not only offers him bountiful opportunities to keep learning and doing what he loves, it also assures plenty of scope for experiencing the thrill of the new, and a guaranteed "change of scenery" whenever he wants it.

> *"Getting the job done is essential, but I feel like I've won the World Cup if I do that and make every stakeholder happy and satisfied with my effort."*



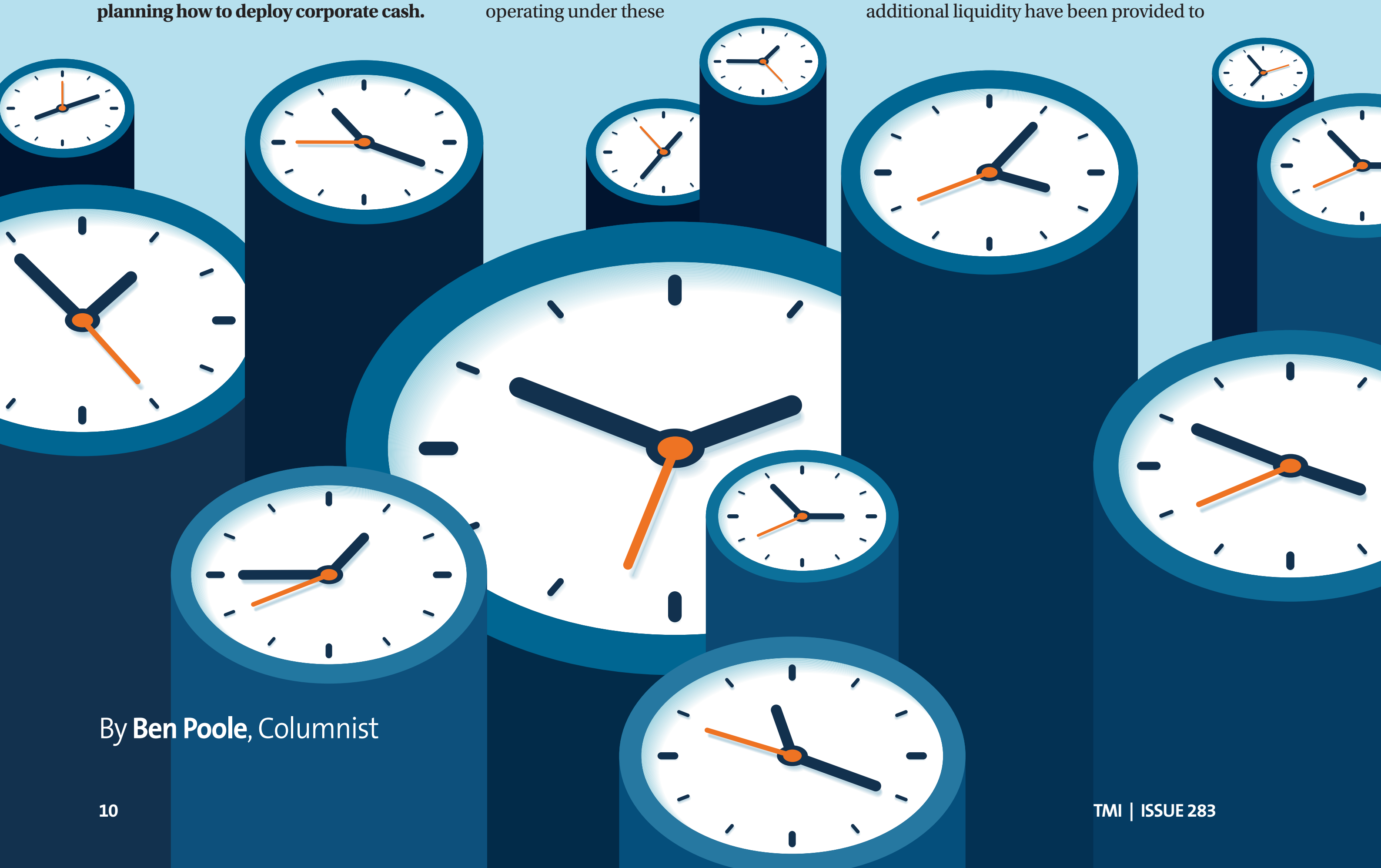
Finding Value for Corporate Cash

Short-term Investments Under the Microscope

A perfect storm of low interest rates, the pandemic, and potential regulation has put pressure on the short-term investment instruments that treasurers rely on for cash management. Add in trending topics such as environmental, social, and governance (ESG) and the role of technology in business, and it is clear there is plenty for treasurers to consider when planning how to deploy corporate cash.

The onset of the Covid-19 pandemic in 2020 triggered a massive increase in corporate cash balances. Treasurers built up liquidity buffers, drew down on credit facilities and were left managing unspent budgets from postponed or cancelled projects. By the end of 2020, US corporates held a record $2.5tr. in cash,[1] for example. In 2021, as businesses have become accustomed to operating under these pressures, the sense of panic may have dissipated, but excess liquidity across all currencies is still a significant factor.

Daniel Farrell, Director, International Short Duration Fixed Income, Northern Trust Asset Management, explains: "Investors, including corporate treasurers, are holding more liquidity, and we've seen record bond issuance levels this year. In addition to that, huge amounts of additional liquidity have been provided to



By **Ben Poole**, Columnist

the market this year through conventional and non-conventional monetary policy, causing that excess liquidity to increase."

For treasurers, a natural reaction to a high level of cash on the books is to look for short-term investment instruments in which to deploy at least some of that cash. However, both internal and external challenges are complicating matters, according to Jim Fuell, Head of Global Liquidity Sales, International, J.P. Morgan Asset Management.

"Challenges around cash flow forecasting have made it difficult for treasurers to do anything with cash other than keep it safe, keep it simple, keep it short, and keep it very liquid," Fuell says. "That's coincided with central banks attempting to address the pandemic, which has resulted in lower rates across the globe. Treasurers are wondering if they're fully maximising the returns they can have on that cash they've got, which may not be earning any yield or even negative yields. That's the challenge."

Poor rate environment drives innovative search for yield

Unquestionably, the low interest rate environment has hampered the ability of treasurers to maximise the yield from their short-term investments. And, despite inflationary trends towards the end of 2021 putting a certain amount of pressure on central banks to raise rates, they have not rushed to do so. Indeed, the Bank of England surprised markets in its November Monetary Policy Committee meeting when it opted not to make its first rate increase since August 2018, and following two consecutive decreases in March 2020.

"It is important for treasurers to take note that we are going to be anchored at these low rates for some time," says Farrell. "There are two ways you can safely earn additional yield – by taking either incremental credit risk or incremental duration risk. Greater yield is attainable for those who are able to move out along the curve and/or go down the credit spectrum."

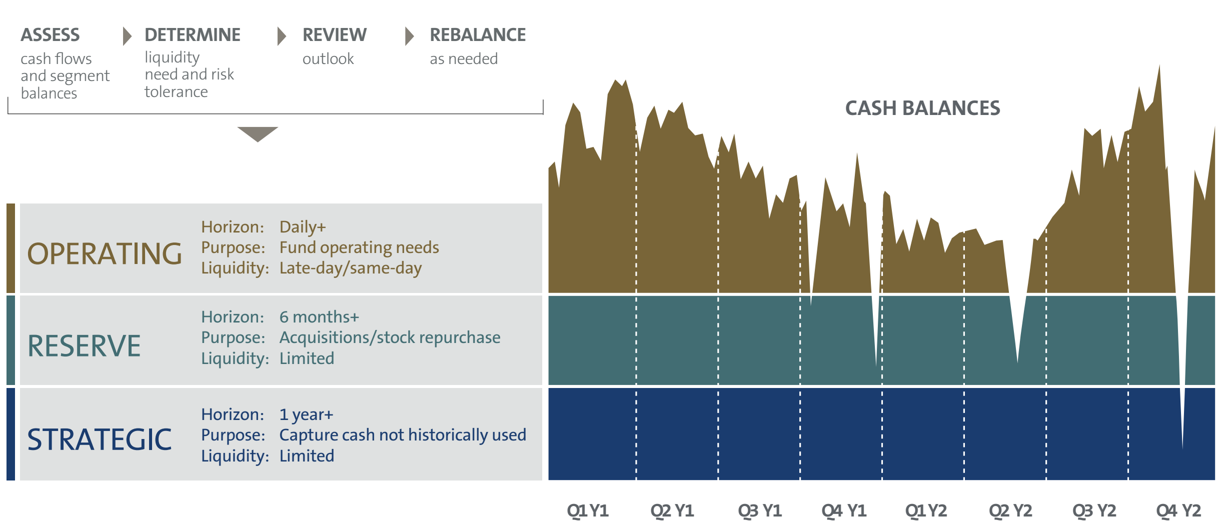
The ability to invest cash in longer-term maturity instruments is somewhat dependent on how good a corporate's cash flow forecasting is, however. Treasurers need to be sure that they can invest non-operational cash for a more defined period to maximise investing in longer dated securities. This is the case even when those instruments offer good liquidity, but particularly when they might not.

"You could look at fixed deposits or call deposit accounts, but they commit you to locking up cash for a set period of time," explains Farrell. "You may achieve a little bit of extra yield that way, but you will sacrifice liquidity, meaning it may not be suitable. More so now than ever, treasurers must be thinking about those uses of cash and what their needs are, in order to allocate efficiently to achieve maximum yield while prioritising the preservation of capital."

Cash segmentation is one tactic that treasurers can apply to this circumstance, where accurate cash flow forecasting enables treasurers to split cash into

> *Before treasurers go out seeking a fund that is labelled 'ESG,' it is vital that they 'lift the hood' of the particular product or fund and understand what it is offering.*

FIG 1 UNDERSTANDING YOUR CASH NEEDS



Source: J.P. Morgan Asset Management, as at December 2021
https://am.jpmorgan.com/gb/en/asset-management/liq/insights/liquidity-insights/leveraging-the-power-of-cash-segmentation/

different buckets, such as operating, reserve and strategic buckets, for example. Once you know you have enough in the operational bucket for day-to-day cash needs, you can build out other buckets of cash that can be specifically deployed in funds and strategies that offer better financial benefits if you can invest your cash in them for a more extended time.

"Cash segmentation is about understanding how long you have your cash and how much risk you can potentially take with that cash to generate returns," says Fuell. "This includes, within that risk, the sort of volatility that you have appetite for."

With corporates seeking to deploy some longer-term cash to improve returns, ultra-short duration bond strategies have come to the fore as a place where treasurers can invest that cash.

Ed Lopez, Chief Revenue Officer, Calastone, notes: "There's a move towards more bespoke cash management as opposed to a straight liquidity fund that's going to give you security, liquidity, and some yield. Ultimately, it's the move to separately managed accounts that leads into the ultra-short bond strategy. It's about getting the enhanced cash that we used to have, but doing it in a bespoke way where you've got a bit more visibility on it. Many asset managers have these initiatives, and we have seen much more activity in the past two years around separately managed accounts than ever before."

Ultra-short bond strategies tend to go beyond traditional money market funds (MMFs) in terms of duration and credit risk while still retaining a cash-like quality when it comes to liquidity. To obtain the real benefits of such a strategy, it is vital to keep the cash invested for the given duration if possible. Treasurers can typically expect a minimum of six months' investment horizon, so you shouldn't need to call on that cash within the next rolling six months, as products such as these can have an element of volatility in their returns.

> *Cash segmentation is about understanding how long you have your cash and how much risk you can potentially take with that cash to generate returns.*

DANIEL FARRELL

Director, International Short Duration Fixed Income, Northern Trust Asset Management

JIM FUELL

Head of Global Liquidity Sales, International, J.P. Morgan Asset Management

Hugo Parry-Wingfield, EMEA Head of Liquidity Investment Specialists, HSBC Asset Management, comments: "Ultra-short strategies are something our corporate clients can benefit from if they can lock up cash for longer, where it meets their objectives and suits their cash operations. They are fundamentally different to MMFs, but we think there's an important place for them in that continuum of short-term cash products that a corporate might look at."

Aside from the incremental duration and credit risk, there are other challenges treasurers need to assess before going into the ultra-short bond market, according to NTAM's Farrell.

"Treasurers should spend time on their strategic cash allocation, splitting out its different needs and deciding whether allocations to strategies such as ultra-short bond funds are a viable option to solve for this low yielding environment," Farrell advises. "Additionally, there is the challenge of being able to address any questions their investment policy committees may have and making sure they are agreed on the acceptable uses of this cash. Both of these issues are not huge hurdles, but they do need to be addressed."

Leaning into liquidity

While yield in short-term investments has long been an issue for corporates, treasurers also faced a short, sharp shock on the liquidity side when the pandemic hit. With access to cash paramount at that time, treasurers raced to withdraw their investments from money market funds. As covered in TMI in October,[2] independent money fund portal ICD saw approximately 80% of its prime money fund assets in the US sold within a few days in March 2020 – and 30% of prime money fund assets in Europe.

Despite these initial outflows, however, MMFs proved up to the task of handling the surging liquidity demand, thanks in part to the regulatory changes put in place following the global financial crisis of 2008.

"The regulatory framework within which short-term MMFs operate does, and did, obligate us to carry a level of liquidity – 10% overnight liquidity and 30% weekly liquidity," says Fuell. "Despite a period of initial market distress, we didn't see anyone fail to deliver redemptions from clients in those funds. There is a level of robustness that exists in the product. There was an amount of stress in the marketplace but money market funds broadly operated as intended."

The liquidity event of March 2020 was over in just a few days, and more than 18 months later, liquidity in the market has loosened considerably. Banks can take more on their balance sheet, including commercial paper, certificates of deposit, and bonds. Having navigated last year's challenges, fund providers have been reflecting on what happened and adjusting accordingly.

"Corporate treasurers, as well as the wider investment community, have learnt lessons from the pandemic," says Farrell. "At Northern Trust Asset Management, we've adapted and made changes to our portfolio management strategy. We are naturally holding more liquidity than we were pre-pandemic, and holding even more high-quality, liquid assets too. We recognise that in the face of an unknown crisis there could again be liquidity constraints, so we've adjusted our strategy accordingly to ensure that we will be able to meet investor redemptions should such an unknown event occur."

Getting 'under the hood' of ESG

The trend towards environmental, social, and governance (ESG) seen in several areas of treasury is also present, increasingly, in the short-term investment space. A special report from Fitch Ratings[3] estimates that assets under management in ESG MMFs increased by around 50% by the end of 2020, far outpacing overall growth in MMFs in 2020 (20%).

"Before treasurers go out seeking a fund that is labelled 'ESG,' it is vital that they 'lift the hood' of the particular product or fund and understand what it is offering," cautions Fuell. "We launched a product in the US that is more specifically focused on social issues, addressing the presence of racial inequality across the country, so there's a product out there that enables corporates to address that particular issue. While it does fall under the umbrella term 'ESG,' it is specific. That's why I encourage treasurers to scrutinise any product with an ESG label, to ensure they are investing in something that complements their goals in this regard."

However, this can be a challenge, as the lack of rigorous standards surrounding ESG, and the ability to match data from the fund to any standard, is easier said than done.

"Getting ESG data is the issue for the industry," says Lopez. "There are some indices and analytics out there, but what is the standard? How do treasurers know they are meeting their corporate ESG goals with the investments that they are making, without having to dig down to see all the underlying investments? It isn't easy. That's an area of our industry that needs to be looked at."

Europe's Sustainable Finance Disclosure Regulation (SFDR) is perhaps the leading example globally of a regulator compelling asset managers to be more transparent about the make-up of their fund portfolios and sustainability-linked disclosures. Despite the benefits that SFDR might bring, the responsibility is still on treasurers to carry out their due diligence.

"SFDR is a focus for every asset manager, but how managers bring that to the fore is probably going to differ from manager to manager," comments Fuell. "In some respects, I'd compare it with how we approach credit and risk management – we all say we're doing it, but then we all seek to differentiate ourselves from one another. Perhaps, over time, ESG will present itself in a similar vein. But the onus is still going to be on the investor to understand what they're putting their money into."

As the SFDR classification is a broad set of disclosure requirements for asset managers, it's for each manager to define how they are setting their own sustainability definition, and HSBC's Parry-Wingfield points out that this is not necessarily a fix-all for treasurers.

"SFDR is not perhaps what an investor would like it to be, which would be to define what it is to be sustainably invested," he says. "I think it helps, and such disclosures are critical, but when you look at that classification across different funds, it doesn't necessarily give you the colour you need to understand how the manager of that fund defines sustainable investment. Hence the need for due diligence and for treasurers to look under the hood of any fund they might invest in."

ED LOPEZ

Chief Revenue Officer, Calastone

HUGO PARRY-WINGFIELD

EMEA Head of Liquidity Investment Specialists, HSBC Asset Management

No call for crypto... yet

While some leading-edge industry disruptors such as Tesla,[4] MicroStrategy[5] and even TMI[6] have added Bitcoin to the balance sheet in 2021 in longer-term positions, the consensus is that cryptocurrencies remain unsuitable for short-term treasury investments. This is partly due to the volatile nature of the value of cryptocurrencies over a short space of time.

"The volatility and the almost speculative nature of it seems incompatible for short-term treasury risk management, at least in its current form," says Parry-Wingfield. "More visible institutional and regulatory recognition will be required to see product development in this space."

That regulatory recognition might, perhaps, be slowly coming on. Bloomberg reported in July[7] that a new regulation passed in Germany allows institutional investors such as pension funds to access 'Spezialfonds,' which can put up to 20% of their holdings into cryptocurrency.

"If governments start to accept crypto as a valid or acceptable form of investment, such as the Spezialfonds example from Germany, things could develop," says Lopez. "If these things become more mainstream forms of investment, there will perhaps be crypto strategies that will be out there in the future. But for right now, crypto is too volatile for treasury short-term investment consideration."

Rate conversation to dominate early 2022

As 2021 draws to a close, the most significant talking point impacting the short-term investment space is how long rates can stay low and for how long central banks can resist the pressures from inflation. Treasurers need to prepare for a variety of outcomes regarding rates in 2022.

"There's been much speculation about central banks hiking rates in the near future, but our house view is that rates will remain lower for longer," says Farrell. "Any type of rate-hike cycles that may come in the next few years will remain very muted. So treasurers should be prepared that we're going to be in this lower-for-longer rate environment."

The risk case to this 'lower-for-longer' view is that the transitory inflationary pressures at the time of writing turn into sustained inflation pressures. Central banks will have to weigh up inflationary concerns versus the longer-term impact on economic growth that any rate rises may have. For treasurers, though, one benefit of rising rates could be the potential for greater yield from their short-term investments.

"There's the potential that treasurers might be managing short-term investments in a rising rate environment next year, depending on the currency," comments Parry-Wingfield. "They will need to ensure they are ready to manage that should it arise, as long as that is in line with their fundamental principles and objectives of managing liquidity."

Regulation will be another key theme for 2022, particularly in the MMF space, as Farrell outlines: "Next year, we should hear what the EU regulatory proposals may be for MMFs. Treasurers should start to think about what these could mean for their investments and what alternatives will be available to them. It's easy for treasurers to think that if MMFs become less attractive, they will move into bank deposits, but with the ongoing trend of surplus liquidity, banks are starting to turn away deposits. Preparing for those changes, and potentially working with their MMF providers to understand those changes and to get ahead of it, would be a prudent course of action."

Beyond that, in the short-term space, technology will continue to play a role in both how fund providers deliver products and how treasurers manage their investments.

"Providers are delivering things like straight-through connectivity, auto settlement with banking partners, banking platforms, and connectivity with treasury platforms so you can see your entire investment suite altogether," explains Fuell. "Then there is the enhanced risk analysis around those investments underpinned by technologies. Scenario analysis comes out of that, looking at your current portfolio and the potential implications of adding another type of investment alongside it, for example. This can highlight the returns that it might bring, as well as potential volatility and additional risk. That's all going to be further empowered by technology."

Automation through technology can also help corporates gain efficiencies and cut costs in their short-term investment plan, which is particularly important in a low-yield, low interest rate environment.

"It's all about reducing costs and increasing efficiencies," concludes Lopez. "Corporate treasurers can look internally at their short-term cash investment processes in terms of how they can make that more efficient. It opens up to additional options for investment as well, if they have fully automated solutions." ■

> *"Next year, we should hear what the EU regulatory proposals may be for MMFs. Treasurers should start to think about what these could mean for their investments."*

Notes

1 https://www.spglobal.com/ratings/en/research/articles/201208-u-s-corporates-hold-record-2-5-trillion-cash-to-meet-pandemic-shock-debt-reaches-7-8-trillion-11762147
2 https://treasury-management.com/articles/mmf-reforms-risk-missing-the-point/
3 https://www.fitchratings.com/research/fund-asset-managers/global-esg-money-market-fund-dashboard-2020-10-03-2021
4 https://www.sec.gov/Archives/edgar/data/1318605/000156459021004599/tsla-10k_20201231.htm
5 https://www.microstrategy.com/en/investor-relations/press/microstrategy-acquires-additional-19452-bitcoins-for-1-026-billion_02-24-2021
6 https://treasury-management.com/news/treasury-management-international-engages-diginex-to-put-bitcoin-on-balance-sheet/
7 https://www.bloomberg.com/news/articles/2021-07-30/germany-to-allow-institutional-funds-to-hold-up-to-20-in-crypto

Big Game Hunting

Cybercriminals Set their Sights on Treasury

Corporate systems and data are increasingly being held to ransom by cybercriminals. The modus operandi of these underworld gangs is also rapidly evolving to exploit vulnerabilities in remote-working set-ups on the back of Covid-19. As such, treasurers must be more aware of – and prepared for – cyber-attacks than ever before. Here, two senior leaders from Barclays highlight the latest cyber traps to avoid and outline how treasury departments can shore up their digital defences.

While it was 'memorable' for many reasons, 2020 was also a record-breaking year for cyber-attacks and data breaches[1]. With the onset of the Covid-19 pandemic, and widespread moves to remote working and learning, the world also witnessed an explosion of cybercrime. Indeed, annual global damages caused by cybercriminals are predicted to reach $10.5tr. by 2025[2].

Against this backdrop, it is understandable that 'data and cybersecurity policies' are the top regulatory concern for 32% of treasurers over the year ahead, according to TMI and Barclays' *European Corporate Treasury Survey 2021*.

Your files have been encrypted!

Currently, one of the most prevalent types of cyber-attack is ransomware, with almost 1,400 confirmed attacks in the first seven months of 2021.[3] Paul Gillen, Chief Information Security Officer, Barclays Europe, explains: "Since early 2020, so-called Big Game Hunting [BGH] ransomware attacks have been emerging as a significant threat to organisations around the world." For those who aren't familiar with the term, BGH refers to financially motivated criminal groups using ransomware tactics, techniques, and procedures (TTPs) to extort large sums of money from organisations – by essentially holding their systems and/or data hostage.

By **Eleanor Hill**, Editor

The 'bad actors' here are very sophisticated cybercriminals, who specifically select high-value targets. "Companies that are highly sensitive to downtime and/or data exfiltration are often targeted. Certain sectors such as biopharma are also under greater threat than others – due to the nature of the prize, with 'kidnapping' of intellectual property [IP] often being high on the cybercriminals' agenda," adds Gillen. "They will hunt down these targets over a matter of weeks and months to ensure the attack is successful."

To give a sense of scale here, in Q4 2020, the average downtime due to a ransomware attack was 21 days[4]. Moreover, the mean global cost of remediating a ransomware attack has risen to $1.5m this year, up from $761,106 in 2020[5]. Clearly, the threat level is by no means insubstantial.

Exposing and exploiting vulnerabilities

Unfortunately, the Covid-19 pandemic has in many ways created a perfect storm for ransomware attacks, says Helen Kelly, Head of Europe, Barclays Corporate Banking. "In early 2020, we saw organisations having to shift to entirely different ways of working, almost overnight," she notes. Employees began working remotely and businesses inevitably prioritised digital channels and direct relationships with customers. This rapid pivot in the operating environment opened up technology vulnerabilities in organisations that had not prepared for these eventualities. For example, employees in some corporates were using their own personal devices to access company systems because their organisation was not able to respond quickly enough with a corporate set-up to use remotely.

And even when remote-working software and protocols such as virtual private networks (VPNs) and remote desktop protocols (RDPs) were in place, cybercriminals quickly shifted their TTPs to maximise their chances of success. "They deliberately played on the themes of Covid-19 and working from home (WFH) through phishing emails," explains Gillen.

Some employers and their employees were in a state of turmoil at the start of the pandemic. This was an unexpected, total change in their business operations and in people's personal lives. Kelly adds: "As such, logical thinking around cybercrime was put to one side in some organisations – and people opened emails and clicked links that they wouldn't have under normal circumstances."

Uncharacteristic behaviour such as this has made phishing emails an extremely effective initial attack vector during the pandemic. "And phishing continues to be one of the main ways criminal organisations open the door into a target company," confirms Gillen.

Evolving threat landscape

Alongside successful phishing attacks, a more sinister trend is growing in the cybercriminal underworld – the rise of initial access brokers (IABs). These opportunistic groups sell access to victim organisations as a service, often collaborating with criminal groups which focus on malware development and execution.

Gillen elaborates: "Many of the major IABs started off as developers of banking trojans, gradually adding network intrusion capabilities by exploiting software and operating system vulnerabilities. IABs have been used during recent major cyber intrusion operations, and in some cases initial access may have been bought or sold by nation-state adversaries."

He also believes that ransomware operators are increasingly working with IABs and learning from high-profile nation-state cyber intrusion operations. "The latest intelligence indicates that the ransomware business model is evolving to focus on supply chain compromises and aggressive extortion tactics. Recent ransomware demands have been as high as $70m and criminal gangs are carrying out around 35 targeted attacks every week."[6]

Ransomware-as-a-service (RaaS) is another growing area of cybercrime, whereby criminals can simply pay other gangs for the services they need to perform a ransomware attack. In addition, distributed denial-of-service (DDoS) attacks have also been used against online services to force higher-value ransom payments, Gillen notes.

Treasury as a target

For treasurers, the threat here is enormous. If a ransomware attack were successful

BOX 1 WHAT IS PHISHING?

Phishing involves a fraudster, posing as a legitimate source, sending emails that aim to trick people into divulging sensitive information or transferring money into other accounts. The emails typically contain a link to a fake website, which will request that you enter financial information, passwords or other sensitive information.

Alternatively, emails may contain an attachment in the form of a document, form or notification. Equally, the email may be designed to contain and deliver malware via an attachment or a link. If the link is clicked or the attachment opened, the criminal will be able to gain access to your system.

Source: https://www.barclayscorporate.com/insights/fraud-protection/phishing/

> *Since early 2020, so-called Big Game Hunting ransomware attacks have been emerging as a significant threat to organisations around the world.*

HELEN KELLY

Managing Director, Head of Europe, Barclays Corporate Banking

PAUL GILLEN

Chief Information Security Officer, Barclays Europe

against a payment system, for example, the impact would be highly significant. Gillen comments: "The business would potentially face regulatory action due to compromised personally identifiable information [PII]. There could also be a loss of monetary assets through theft or ransom payment, and loss of service. In turn, this could lead to reputational damage and loss of customer trust, potentially leading to a further monetary loss through decreased revenue."

Treasurers also need to be vigilant when it comes to the potential payment of a ransom. "Of course, we do not endorse the payment of money to criminal gangs. Payment of ransoms perpetuates the ransomware business model and incentivises further attacks," comments Gillen. "But we are aware of some corporates that have paid ransoms in order to bring impacted services back online more rapidly. The issue to be aware of here from a treasurer's perspective is that some ransomware operators are internationally sanctioned. Therefore, payments to such sanctioned groups may cause an organisation to face regulatory or even legal action."

While ransomware is arguably the most rapidly evolving cyber threat for treasurers to pay attention to, other types of attacks are still out there. Take the aforementioned banking trojans, for example. "These have evolved from information- and credential-stealing malware used to conduct fraud against individuals to sophisticated network intrusion malware, which can be devastating for corporations and open up the way for silent attacks, without a ransom and with no red flags, such as the theft of IP," says Gillen.

Another for the watchlist is CEO or CFO fraud, also known as business email compromise (BEC). Kelly comments: "While this type of threat has been talked about in treasury circles for a number of years, Covid-19 has disrupted workflows to such an extent that BEC has found holes in some corporates' armour in recent months." The social engineering that informs a BEC attack is also becoming more sophisticated and intense. "Senior company executives, including the CFO, are at risk – arguably more than ever – with cybercriminals using online collection through social media and social engineering campaigns to gain personal information on them to help inform BEC attacks," she adds. "Treasury teams should be on high alert right now for BEC."

Meanwhile, invoice fraud also remains rife in treasury, with cybercriminals sending fake invoices or looking to change the bank details of an existing supplier to divert monies into their own coffers. "Unexpected changes in personnel, bank account details or telephone numbers are red flags to watch for here," warns Kelly. "Any such changes should always be double- or triple-checked with the supplier by phone, using the original contact details for them."

Being cybercrime-savvy

This simple action of picking up the phone to a business partner is a critical part of a robust cybersecurity approach in treasury. "It's a cliché, but people are one of the best defences against cybercrime and fraud," says Kelly. Gillen agrees, adding that "Cybersecurity is a team sport."

Best practice, says Gillen, is all about collaboration and trying new tactics – and this is very much the approach taken by Barclays' Chief Security Office. "Cybersecurity is not about looking at one function over another, but examining how they work together and how threats might target the organisation through different pathways. A joined-up approach to cybersecurity is essential – and this extends beyond the four walls of the organisation to trusted business partners."

A good example of this collective action is the trend for data on cyber threats to be shared among corporate communities in a secure manner. "This ultimately leads to more robust threat analysis and improved decision-making around stopping cyber-attacks and fraud," says Gillen.

In addition to collaborating in this way, Barclays also deploys the latest technology behind the scenes to analyse customer behaviour and ensure it truly is the client requesting a payment to be made, for example. Any anomalies that are detected are flagged up to the client to ensure that a fraud is not occurring.

Barclays also places a significant emphasis on education and training, often working hand in hand with organisations to help identify weaknesses in their cybersecurity protocols and bringing employees up to speed on threats to look

BOX 2 CHECKLIST: EQUIPPING YOUR TEAM IN THE FIGHT AGAINST CYBERCRIME

1. Create a programme of ongoing education and training to ensure the treasury team understand how cybercrime works and what they can and should do to protect themselves and the business.

2. Keep on top of evolving threats and communicate that throughout the business. Barclays offers regular webinars that can help as part of an awareness programme.

3. Make sure your processes are robust, that any necessary changes are noted, and that the team is informed of new requirements, for example, multi-factor authentication. Also look to automate treasury processes where possible.

4. Build a culture of openness where people aren't afraid to speak up (and there are mechanisms to enable that) and where cybersecurity is seen as a collective responsibility.

5. Regularly update anti-virus software and install any patches immediately when notified.

6. Make it clear what steps a treasury team member should take if they feel that they may have fallen victim to a cyber-attack. This can facilitate a faster response and potentially reduce exposure.

Source: https://www.barclayscorporate.com/insights/fraud-protection/cyber-crime-employee-awareness/

out for. "Knowledge is one of the most powerful tools against cybercrime and fraud – and I would encourage treasury leaders to hold regular sessions with their teams around the threat landscape," advises Gillen.

Although being up to date on the fast-moving world of cybercrime is important, so too is adhering to the basics of cybersecurity. "Although it isn't the cutting edge of cybersecurity, it is vital to continually pay attention to strong authentication, patching, monitoring, and risk oversight. Treasury will be easier to defend if everyone is taking care of these fundamentals," he notes.

Another way treasury teams can help to keep cybercriminals at bay is by automating processes. Kelly comments: "Reducing manual touch points in processes lessens the opportunities for cybercriminals and fraudsters. Robotic process automation [RPA] can be applied to low-value, repeatable, processes and then artificial intelligence [AI] can potentially be layered on top to deliver more intelligent insights, in a safer environment. It's a win-win."

> *Organisations need to rethink their priorities and be realistic about the threat environment they are now working in.*

Happening in real life

Having the right culture within treasury is also important, believes Kelly. "Team members, no matter how junior, need to feel able to question instructions – even if they purport to be from the CFO or CEO. Reducing any sense of urgency should also be permitted where necessary. It is far better to stop and question payment instructions, and potentially send a payment late, than to send a fraudulent payment on time. In other words, organisations need to rethink their priorities and be realistic about the threat environment they are now working in."

On the subject of reality, Gillen cautions that one of the biggest pitfalls to avoid when it comes to cybercrime is thinking that 'it'll never happen to you' – or believing that 'cyber-attacks are just something you read about in the press.' He comments: "Cybercrime is extremely real. Businesses often make the mistake of thinking they have nothing of interest to cybercriminals. They could not be more wrong. We live in a world where systems, data and IP are immensely valuable assets. Every corporate is a potential target."

This, Kelly concludes, is why "treasurers must take the lead and ensure their team is always ready to deal with the evolving threat landscape. In this digital age, cybersecurity is no longer an add-on to the treasury role; it is the backbone for best practice". ■

Notes:
1 https://www.forbes.com/sites/chuckbrooks/2021/03/02/alarming-cybersecurity-stats-------what-you-need-to-know-for-2021/?sh=6cc0f5c358d3
2 https://www.comparitech.com/vpn/cybersecurity-cyber-crime-statistics-facts-trends/
3 Cyber Defence Alliance, Ransomware-as-a-Service Alerts, 1 January 2021-31 July 2021.
4 https://www.comparitech.com/vpn/cybersecurity-cyber-crime-statistics-facts-trends/
5 https://www.comparitech.com/vpn/cybersecurity-cyber-crime-statistics-facts-trends/
6 https://www.reuters.com/technology/hackers-demand-70-million-liberate-data-held-by-companies-hit-mass-cyberattack-2021-07-05/

Electrifying Your Treasury Team

Autos Embrace the Power of Digital

By **Eleanor Hill**, Editor

Supply chain disruptions. Electric vehicle demand. Computer chip shortages. Infrastructure deficits. The auto sector is facing a host of challenges right now, but it is also the poster child for digital transformation, especially in treasury. Here, two experts from Citi share lessons from leading auto treasuries, which can be applied in any sector looking to become more digital and sustainable.

The 1960s saw traditional societal behaviours thrown to the wind – and kickstarted a revolution in the automotive industry when European car manufacturers began experimenting with mechanical fuel injection systems. This was the first step on a journey towards cars with computerised components.

Today, cutting edge cars run on more lines of computer code than a Boeing 787 Dreamliner[1]. And growth in the electric vehicle (EV) market is only revving up this trend towards digital-first cars, notes Vincent Couche, TTS Sales Head for Industrials, Treasury and Trade Solutions, Asia Pacific, Citi. "Despite the disastrous effect of Covid-19 on lives and livelihoods, not to mention the auto industry as a whole, the momentum behind digitisation and the shift away from internal combustion engines [ICEs] towards EVs has not lost any steam."

Quite the contrary, notes Couche, the strategic importance of shifting towards more digital, automated and sustainable practices in all aspects of business, including treasury, was only strengthened by the global health crisis. Moreover, manufacturers, like Tesla, continue to push the boundaries of what is possible around batteries for EVs, with current research looking to make them available at lower prices, with greater energy density, longer lifetimes, higher safety, and more sustainable materials[2].

New business models

While the shift towards computerised and electronic vehicles looks set to be beneficial for the environment, treasurers in the auto sector are contending with numerous challenges arising from this transition, and exacerbated by the pandemic, says Couche. The first of these is increased M&A.

As car manufacturers seek to rapidly build a strong proposition around EVs, they are realising that they cannot take on all of the transition work themselves. They either need to partner with an expert, or buy another organisation that has the specialist knowledge. "We've therefore seen a flurry of M&A deals recently, meaning that treasury has been tasked with raising the appropriate finance, as well as performing the integration between disparate treasury functions and systems." M&A activity has also been boosted by the pandemic, which saw some companies looking for financial injections.

The second trend is an inevitable shift in the supplier base of original equipment manufacturers (OEMs) as they must now purchase more parts from specialist suppliers. "As EVs evolve, and autonomous driving continues to develop, cars will need more and more lines of code as well as additional sensors and software. In fact, almost 50% of the cost of a new car actually comes from the software," comments Couche. And just as many traditional suppliers are being pushed out by new entrants, so too are numerous outdated commercial practices.

Often, the disruptors work according to different timelines and payment terms. This can translate into working capital shocks if treasury is not well prepared for the transition. "Treasurers must therefore look closely at supply chain practices as the shift to EVs continues apace," he says.

Since many of the new entrants are young tech companies, they may also be relatively fragile from a financial perspective, according to James Mahn, TTS Sales Head for Industrials, North America, Treasury and Trade Solutions, Citi. This means that supply chain finance (SCF) solutions are potentially more relevant than ever. "And given the evolving sustainability environment, building ESG criteria into those SCF programmes is a natural next step," comments Mahn.

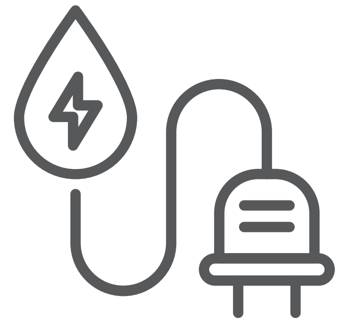
SCF programmes can also be useful in ringfencing strategic suppliers to ensure first choice on the suppliers' goods or services. This could potentially prove to be a make-or-break strategy in an era when car manufacturers are increasingly competing with tech companies for components, not least computer chips.

Changing mechanics

Supply chains are also changing in terms of geography, which is the third trend identified by Couche. The pandemic, he notes, caused severe supply chain disruptions and dislocations which highlighted the fragility of a model whereby cars are manufactured on one side of the world and then shipped to the other side. "Nearshoring is becoming popular again, but with production being moved closer to end markets, the working capital mix of the company – and the currencies it deals in – are once again changing. Treasurers are tasked with keeping pace with this metamorphosis."

The fourth trend, says Couche, is a shift away from traditional car finance companies towards newer, more responsible business models. "Captive finance companies have been lucrative for OEMs for a long time – but the ownership approach to cars is changing. Consumer expectations are shifting as they look to address growing environmental concerns and buying a car no longer seems appropriate to many. Instead, consumers are looking for ways to share cars, on a journey-by-journey basis, which has given rise to a proliferation of ride share companies."

With this shift comes a transition from an asset-based financing model to a service-based economy. So rather than receiving regular lump sums, treasurers will be in



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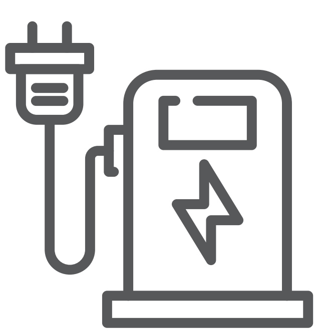

receipt of a greater volume of lower value cash flows. To master this onslaught of flows, digital treasury tools will be essential (more on these later).

Of course, not all consumers are at the point of wanting to give up car ownership, Mahn notes. And among those consumers that do still want to buy a car rather than lease one or use one as a service, behaviour is also changing. Where, pre-pandemic, consumers would typically visit dealerships to make their purchases, more are now likely to buy cars online. "This direct-to-consumer [D2C] model is a change of pace for the auto industry and creates a new dynamic between OEMs and dealers," comments Couche.

Treasurers will undoubtedly be involved in D2C conversations around payment methods suited to the consumer market. Discussions, says Couche, may even take place around the acceptance of cryptocurrencies for the purchase of vehicles, as a means to enhance the D2C experience. Of course, this will have significant cash management implications, ranging from risk management to banking partnerships.

Connectivity rules

If there weren't already enough adjustments happening in the auto sector, connectivity advances are also changing the game: think connected cars, 5G, the internet of things (IoT) and smart cities, says Mahn. And yet again, treasurers are on the receiving end of these trends.

"With the rollout of 5G infrastructure and the increased tendency for consumers to no longer use cash, connected cars and their ability to enable seamless in-car payments are coming into their own," notes Mahn. The contactless nature of these transactions for everything from petrol to parking and charging of EVs, has also seen rising interest in in-car payments throughout the pandemic. Treasurers in the auto sector are therefore learning to tackle a rising tide of micropayments, resulting from connected cars, he says.

Intelligent mobility

Payments are far from the only opportunity for connected cars, though. Numerous monetisation windows exist, Couche believes, especially in relation to smart cities. "Our proprietary research shows that 64% of travel happens in urban areas and the total amount of urban kilometres travelled looks set to triple by 2050. Meanwhile, 30% of traffic congestion in urban areas is caused by drivers looking for parking spaces," he explains.

As such, there is an immediate opportunity for 5G-enabled parking management, whereby connected cars equipped with sensors can share data about congestion and parking spaces in their location. Mahn adds: "Potentially, the cars can even share information about the state of the road, if it needs to be resurfaced, for example. Or about the quality of air around them." In other words, data collected by connected cars will soon become a new source of revenue for OEMs as they sell it to third-parties, including governments.

The latter may also be interested in working with OEMs on autonomous ambulances, believes Couche, which could enable the more socially deprived to access healthcare in an equitable manner. While this sounds like an excellent idea in principle, the challenge for treasurers, Couche says, is the shift from selling to consumers to fleet managers, which will naturally have an impact on the risk assessment of their asset-backed portfolio. "Conversations will need to be had with banking partners as this B2C to B2B shift takes place," he suggests.

Factory of the future

If autonomous ambulances sound like science-fiction, then by way of context, it is important to understand just how advanced factories are becoming. Mahn elaborates: "Smart factories, those embracing Industry 4.0, bring together the best of robotics and people to provide an opportunity to work in a more customised manner. Manufacturers no longer have to produce en masse to make a profit."

The result of a smarter factory is a reduced capital need for any new entrants – which is opening the door to greater competition. This is especially true in the EV space, where engines are much simpler and contain only around 30 moving components compared with the traditional 3,000. Thanks to these lower barriers to entry, a growing number of competitors are popping up to challenge traditional OEMs, according to Couche. "In China alone, we are seeing around 100 car manufacturers currently. This change is happening in real-time, as a result of technology, but is highly dependent on local markets being ready for EVs."

On the treasury side, smart factories typically mean shorter times to market and rapid reaction times, so as soon as a market becomes ready for EVs, capex will need to be allocated to a smart factory in that location, notes Couche. "This can happen extremely quickly, so agility in the treasury department is critical."

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Getting treasury up to speed

Against this backdrop, auto treasuries are understandably chomping at the digitisation bit. Visibility and control over cash are key, leading to data dashboards being particularly popular in the sector, according to Mahn. "Treasurers in this industry, perhaps more than any other, are facing a confluence of external risks and pressures. Control of liquidity and the ability to accurately forecast are paramount. Use of data dashboards and APIs to aggregate information is quickly becoming the norm. Intelligent cash flow forecasting solutions which leverage artificial intelligence are also being deployed as treasurers look to stay ahead of the evolving needs of the wider business through cutting-edge technology," he notes.

The ability to move liquidity in all directions – with the sun and against the sun – and to share liquidity in real-time and to create automated cross-currency sweeps is also critical in this fast-paced environment, adds Couche. "All of these real-time solutions, which Citi has introduced, assist treasurers in better managing the immediate requirements that the digital operating environment entails."

Yet there are slower paced changes to consider too, believes Couche. "As much as technology moves on, the classic need for treasury centralisation and efficiency remains. We have therefore been working closely with many auto clients to restructure their treasury functions, often moving towards shared service centres, and improving operational efficiency through automation and straight-through processing, for example."

The cost reductions, together with the efficiency and control benefits, of such fundamental restructuring can be significant enough to deliver competitive advantage in this increasingly hard-fought sector. But the core message here is that treasurers cannot rely on technology alone to position themselves ahead of the current wave of change.

Couche believes that treasury leaders also need to upskill their talent, and be able to insert treasury into strategic discussions at an early stage – wherever in the world they are happening. "Treasury leaders may wish to consider appointing a member of the team to be the departmental spokesperson in meetings around commercialisation models, ranging from in car payments to D2C. This will ensure that treasury's voice is heard."

As Mahn points out, there is also an ever-increasing need to comply with tax and transparency regulations, as well as data protection laws. "These aspects of compliance should also be on the strategic map for auto treasurers in the years ahead. As local markets become ready for EVs, so too will treasury need to be ready for doing business in those geographies."

Global banking partners can assist here, insists Couche. "As a busy treasurer, it can be tough to keep up with all the latest market developments. A global banking partner with sector expertise can deliver information around regulatory change, as well as evolving EV hotspots. They also have the solution set and technology offerings – that are consistent across geographies – to enable treasurers to stay ahead in a rapidly changing world."

Making a difference

While treasury leaders in the auto sector undoubtedly have their work cut out for them, they are arguably operating in one of the most exciting and impactful industries right now. As Mahn summarises: "With the right technology in place, auto treasurers have an opportunity to deliver a positive impact on profits, people and the planet. They can also help to shape the future of consumer payments and even urban living. It's a large remit, but it's also an incredibly exciting one."

Note
1 https://www.digitaltrends.com/cars/the-ford-gt-uses-more-lines-of-code-than-a-boeing-787/
2 https://www.inverse.com/innovation/tesla-cheaper-electric-battery

Roadmap to ESG in 2025

A Turning Point for Treasury

For environmental, social and governance (ESG) initiatives to become part of the day-to-day activities of the business community, it will take continued strong leadership and guidance. In the final instalment of this three-part series, Bank of America experts use real-world examples to explore the future of sustainable practice, offering insights into how treasury professionals can drive change for good.

By **Eleanor Hill**, Editor

As individuals and organisations increasingly realise the importance of taking sustainability seriously, ESG has rapidly evolved to become the issue of our time. Indeed, a recent report by the Intergovernmental Panel on Climate Change (IPCC) flagged how extraordinary efforts are now required to help to stabilise the planet.

Against this backdrop, Melissa Moi, Head of Asia Pacific Environment, Social, Governance, Bank of America, believes we will see ESG "continue to grow in terms of relevance from a business strategy perspective and from a treasury perspective in the months and years ahead". But how can treasurers prepare – especially when faced with a period of significant global uncertainty?

Growing demand

By 2025, when hopefully the world will be in control of the current health crisis, Moi believes that there will continue to be "a massive push from an ESG-related finance perspective".

From a treasury point of view, it will therefore be essential to look at how sustainable finance can be used as an opportunity. Especially since Bank of

America research has shown how the cost of capital goes up when a business fails to be ESG-compliant.

"Treasurers need to be thinking about ESG now, and how they can plan for a more sustainable department by 2025, for example," says Moi. "This means leveraging ESG financing tools to incentivise more sustainable performance – not only within treasury's parent company and across subsidiaries, but also across supply chain partners."

Achieving this will likely require a fresh look at how investments and funding are managed across areas such as CapEx, M&A and R&D, especially where a business is learning to pivot away from carbon-intensive practices. But far from being a separate part of the treasurer's remit and thinking, the aim is for ESG to be embedded into everyday thoughts and actions.

Moi continues: "ESG is not, and should not be treated as, a standalone business pillar. Rather it is a means through which the whole business can begin to understand the impact of the physical and transition risks posed by being slow to act on climate change and other ESG-related matters. It requires treasurers to fully understand not only what this means in terms of cash management but also how it will affect their outlook across all of their functions, right across the board."

Making the transition

The aforementioned IPCC 2021 report, issued against the global backdrop of increasingly common cataclysmic weather events such as wildfires and flooding, is a call to action for all business leaders, but especially treasurers, believes Venkat ES, Head of Treasury Product, Asia Pacific, Global Transaction Services, Bank of America.

With the cost of capital rising and resources management intensifying, it is time for treasury teams to raise their day-to-day standards, he says. "Realistically, there is no reason why treasurers should not be considering an ESG approach to managing liquidity, including deploying surplus into genuine ESG-related instruments. The cash management products available from banks are maturing at such a rapid pace that by 2025, treasurers should have a whole suite of ESG solutions at their fingertips – offering all of the upside and none of the downsides that are often, wrongly, associated with ESG products."

Of course, notes Venkat, there is a reputational element for the corporate treasurer to consider when engaging in ESG-based finance. If the bulk of debt is ESG-focused, there must necessarily be ESG metrics based on wider corporate objectives and goals. Treasury and the business need to be fully aligned to ensure these are met, says Venkat. "Companies need to be constantly on their toes to ensure a positive outcome. This demands a lot more work on the evaluation journey over the next few years."

Part of this 'work' is to ensure the right key performance indicators (KPIs) are in place, not just in the wider organisation but in treasury too. "It's a fast-evolving space," notes Venkat. "In the past few years, we've seen exponential growth in the response to ESG issues, and KPIs are becoming an integral part of ensuring compliance with ESG commitments. That said, the precise nature of KPIs adopted may vary from industry to industry and company to company."

For example, an organisation Venkat works with that is historically a heavy user of fossil fuels and which now wants to move towards renewable energy, is in the process of defining metrics capable of demonstrating progress on what will inevitably be a long journey. Meanwhile, in the world of real estate development in Asia, where Venkat is involved in a project that is seeking to tackle climate and social issues from the outset, appropriate KPIs must be found to demonstrate genuine progress, as opposed to box-ticking.

"KPIs are becoming an integral part of the goals of forward-thinking treasury teams," he notes. "New pathways are opening up as the message is becoming clearer and stronger, and this is converting into smart goals, with KPIs and metrics now being driven at board level, but also across the finance function and into treasury itself."

MELISSA MOI

Head of Asia Pacific Environment, Social, Governance, Bank of America

Moi adds that investors increasingly have requirements for boards of directors and leaders of companies to understand specific climate-related risks and opportunities. In turn, she says, this creates a new imperative for treasurers and other functions to keep building KPIs into their practices as they develop their roles in helping company leadership respond to ESG. As she says herself: "There should be understanding, commitment and measurable goals related to ensuring integration and risk management from an ESG perspective is tackled head-on within each role."

Within treasury, these KPIs might range from the percentage of surplus cash invested in ESG-compliant investments to the percentage of digital versus

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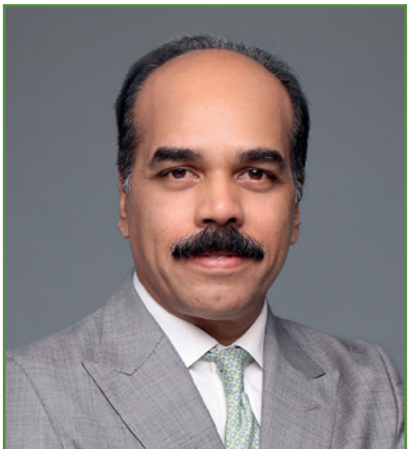

VENKAT ES

Head of Treasury Product, Asia Pacific, Global Transaction Services, Bank of America

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manual operations. The latter is a pet subject for Venkat. "Given the huge shift towards digital channels, treasurers should be able to move away from paper-based processing of routine payments and receipts within the next few years – if not sooner. Really, I'd like to see the vast majority of treasury processes being completely digital by 2025."

New insights and responsibilities

Through this transition away from paper towards digital flows, treasurers also have an opportunity to glean insights that could contribute to ESG reporting. For example, treasury teams have a unique overview of spend and cash flow across an entire organisation, from operational financing to supplier payments and client fulfilment, says Moi. "Some of the regulatory reporting requirements around greenhouse gas emissions, for example, oftentimes require it to be traced, measured and aligned with revenues and spend. It's therefore likely that treasurers could become the central repository for that data; they have access to it and are best trusted to accurately report these metrics."

Furthermore, Moi believes that treasurers should be at the heart of any team working towards a regulatory or investor-mandated commitment to ESG reporting, and should necessarily be party to related discussions, being well-positioned to translate strategic ESG goals into operational practice.

The corporate treasury-driven need for suitable ESG tools is also helping to boost innovation in banking, notes Venkat. It's a welcome challenge, with Bank of America's sustainability-driven deposit account (a normal deposit account that earmarks the funds for ESG-based lending), setting something of a benchmark as others follow. He comments: "Meeting new demands in this way requires a change of technology and a change of focus for us. But it also means we can offer clients flexibility by taking a normal current account and converting it into an ESG-focused deployment, which seamlessly becomes part of their normal day-to-day operations."

The bank is also providing sustainability-related flexibility around payment processes. This is especially welcome in Asia where there is still a significant amount of paper usage, notes Venkat. "It's been challenging to come up with innovative solutions that leverage the latest technologies, like application programming interfaces [APIs] and artificial intelligence [AI], to make sure clients don't need to generate paper documentation, but one area we have achieved great results is in collections."

Developed in partnership with a fintech, Bank of America has a system that deploys machine learning (ML) and AI to assist cash application. "With funds arriving from multiple sources, some cross-border, often you know who paid but you don't know to which invoice it relates," explains Venkat. "Now we are seeing examples where, by digitising the process, matching percentage rates have increased, from the low 30s to the high 80s."

In addition, Moi notes that digitisation of supply chain processes, while not new, has an increasingly beneficial role in terms of sustainability. There is an obvious opportunity to remove paper from the chain but it goes deeper than that, she says. "There is increased attention on how companies manage supply chain-related human rights issues, with many taking responsibility for ensuring ESG compliance within their supply chains," she notes. Digital processes can assist with tracking, tracing, and reporting at every stage.

Social drivers

But with more data and insight, Moi cautions that there may sometimes be rather too much pressure on suppliers to comply. "What we're hoping is that this is taken as an opportunity for large buyers to engage with their suppliers, incentivising their set-up of ESG governance structures, policies and reporting, and encouraging them to adopt a more sustainable way of thinking," she says. "Rather than buyers simply no longer working with suppliers that are unable to comply."

Indeed, in the context of the health crisis, Moi believes that there is an opportunity for corporates to demonstrate support for their trading ecosystems, especially their smaller suppliers. "We've seen some companies, despite obvious issues in their ability to continue operations as normal, make commitments to their long-term suppliers. By doing so, they are ensuring the livelihoods of those making the goods or providing services, and their communities are able to stay afloat."

We recognise ESG as being important to communities and corporate society, and this is why, as a financial institution, we're helping our clients to transition.

Looking a little further out, there are opportunities too to explore how best to encourage smaller collectives, such as farming groups, to adopt ESG thinking through concepts such as priority sector lending. Doing so can ensure these businesses are able to work together to provide raw materials, promoting financial inclusion of SMEs (small and medium-sized enterprises) and, with the right technology in place, providing individual participants with better insight into their cash flows. This not only boosts supply chain strength and continuity for buyers, but it also ensures traceability of goods for more accurate ESG reporting.

"When treasurers and their companies take a step back, they can go beyond thinking of ESG as 'recycling paper' or 'turning off all the lights when leaving the office.' Instead, they can begin to truly understand the impact their actions have across all of their assets," comments Moi. "They can then begin to reveal opportunities for significant change from social and environmental perspectives – with the added benefit of business gains."

Regulation coming

Taking the right ESG action now may also pre-empt regulatory obligation later, or at least lessen the amount of work that is required to become compliant as we head towards 2025. That said, European regulators have a number of changes in the pipeline, notes Moi. The European Commission has already adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD). This amends existing reporting requirements under its Non-Financial Reporting Directive (NFRD) to include all large companies and all companies listed on regulated markets, and requires all affected to publish regular reports on the social and environmental impacts of their activities.

"I think it's likely as well, coming out of COP26 [United Nations Climate Change Conference], that we'll start to see more regulators and governments engaging, given the start of the post-pandemic reset and the 'Code Red' of the latest IPCC report," she comments. "With more regulation will come more reporting."

Another major trend noted by Moi is the increased will in the investment community to sign up to a net-zero commitment by 2050, both by asset managers and asset owners. These stakeholders are naturally pushing for reporting compliance and an understanding of disclosures from a portfolio perspective. "With this comes a requirement for corporates to be able to report appropriately, in terms of their footprint, their policies and their governmental structures."

With all of these levers from governments, regulators and investors, corporates will soon need to at least have baseline reporting capabilities and a basic understanding of how they can align with globally recognised standards. "They will also have to work out how they can engage in conversations to help drive those standards from a practical perspective. This will require the development of their own internal processes to ensure they can respond to all these requirements, because soon they will be mandated," notes Moi.

Shifting times

As all of these factors lead ESG to become more a way of life, Venkat believes transparency in corporate undertakings will become the expected norm, this being built around a clear ESG framework just as accounting standards and principles have defined how financial statements are reported. Many are already on that journey, he says. "Most leading corporates today, including Bank of America, publish annual reports containing a substantial ESG element. The level and quality of content will only improve."

Indeed, momentum is gathering towards open expressions of corporate goals, KPIs and realisations of vision. The pace of progress is quickening because the opportunities and the benefits that this provides far outweigh the effort demanded to make it the part of the governance structure, notes Venkat.

"With all these elements in place, corporates can effectively address the needs of every external stakeholder, including regulators, investors and customers. Internally too, when working practices are guided by ESG principles, including diversity and inclusion, talent will hopefully feel inspired – and this may also be attractive to prospective employees."

Within Bank of America, Venkat notes that ESG thinking steers responsible growth "which in turn drives anything and everything that we do internally and with our clients". From simple current accounts to trade finance and from syndicated loans to project funding it is, he says "for us, a way of life".

With its $1.5tr. commitment to deploying capital to social and environmental issues, and to reaching net-zero greenhouse gas emissions in its financing activities, operations and supply chain by 2050, Bank of America is taking affirmative action.

For Moi, responsible growth is seen within the bank as being an essential part of how it operates as a business. "We recognise ESG as being important to communities and corporate society, and this is why, as a financial institution, we're helping our clients to transition," she says.

The power to make a positive difference places treasurers at the forefront of the corporate response. Acknowledging that "it's not an easy journey, nor something that can happen overnight", Moi explains that Bank of America's work today is focusing on "guiding our clients, supporting them through the transition process, and sharing what we've learnt as we go through the same processes". It is, after all, a shared responsibility to ensure ESG becomes second nature to businesses everywhere.

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

A New Treasury Ecosystem

Leveraging the Evolution of Transaction Banking

Treasury is not an island; it is influenced and supported by the ecosystem that surrounds it. Transaction banks play a pivotal role within this network – and they are continually innovating to enable treasurers to leverage industry developments such as banking-as-a-service. As a result, business models are changing, sustainability is rising in importance, and co-creation is the order of the day. It's time to 'let go of the legacy' – and no treasurer can afford to get left behind.

By **Eleanor Hill**, Editor

The natural world offers many parallels to the business ecosystem. It is a competitive environment where climates can be hostile and unpredictable. In order to survive, and prosper, many species have adapted in incredible ways. Take the Alaskan Wood frog, for example.

This ingenious amphibian enters a semi-frozen state in winter; it stops breathing and its heart stops beating. Surviving temperatures of -60C in this suspended state, the frog then 'thaws out' in spring and continues life as normal. Meanwhile, at the opposite end of the extreme weather spectrum, the kangaroo rat has evolved to survive in the desert without ever needing to drink water.[1]

Corporates and banks are becoming similarly creative in finding ways to adapt to the shifting operating landscape. Jared Smith, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC, comments: "In the past 18 months we have seen a huge push towards digital interaction. While this was the broader market trend, it has been accelerated by the Covid-19 pandemic."

In this rapidly evolving environment, resilient corporates are flexing their business models. "We are witnessing the rise of electronic platforms and marketplaces where both buyers and sellers are able to connect. Direct-to-consumer (D2C) sales are becoming essential survival strategies for organisations, even those that have never contemplated such an approach previously. It's very much a case of evolution in sales channels in order to supplement traditional distribution mediums," notes Smith.

In turn, this shift has created a need for corporate clients to have flexible payment and collection solutions embedded within these platforms. Channel-agnostic collections have become a critical ingredient in modern business, says Smith, in a nod to the bank's Omni-Channel proposition. Having flexible foreign exchange (FX) rate propositions baked into e-commerce platforms is also becoming more important, he believes.

"International buyers and sellers want transparent FX rates. We are operating in a world where 'hidden surprises' in business transactions are no longer welcome. In fact, negative online interactions can now taint entire business relationships. Clarity and visibility are called for in all aspects of online business in order to deliver the best possible customer experience. And accurate, real-time data for all parties in the supply chain is vital."

Embedded finance opportunities

One development that could help corporates to deliver this optimal customer experience that Smith describes, is banking-as-a-service (BaaS). According to Brian McKenney, Chief Innovation Officer and Head of Strategic Initiatives, Global Liquidity and Cash Management, HSBC, BaaS involves banks enabling customers to embed financial services into their own products – hence why it is sometimes called 'embedded finance'.

"The client can offer the bank's solutions to their customers and/or their suppliers – all via seamless API-based solutions," says McKenney. This could range from payments capabilities to lending, insurance and investments – so treasurers may well find this on their radar in the months ahead. "Potentially, this is a great opportunity for treasury teams to collaborate with their colleagues in product design and strengthen the sales proposition by embedding financial services in their products. By doing this, companies in many different sectors could see greater customer conversion and retention, which could ultimately translate into increased, and more predictable, cash flows. Some organisations are also re-inventing their business models on the back of BaaS developments [see box 1] and it's exciting to see treasury teams pivot to adopt the capabilities that transaction banks are offering."

Although the term 'BaaS' feels relatively new, some sectors are already leveraging it to great success – think of food delivery and taxi apps, for instance. Financial institutions (FIs) have also been pioneers in this space, laying the groundwork for embedded finance, says Nadine Lagarmitte, Managing Director, Global Head Financial Institutions, Global Liquidity and Cash Management, HSBC. "Historically, many of our FI clients have provided their customers with services whereby a banking product is consumed as some part of the

> *We are witnessing the rise of electronic platforms and marketplaces where both buyers and sellers are able to connect.*

BOX 1 BAAS IN ACTION

Bringing the concept of embedded finance to life, McKenney cites a hypothetical example.

"Consider the small business sector, globally. These businesses are now operating internationally much earlier in their lifecycle than previously, given the rise of digitisation and the acceleration provided by Covid," he begins. "In this operating environment, we believe that there are several key pain points which BaaS can address to support a small business' international footprint."

Imagine a small retailer based in the UK. It buys materials from China and Singapore and sells its products in six different countries through various e-commerce marketplace platforms. Making and receiving payments in multiple currencies is one of the company's biggest challenges. The business is too small to justify the time and cost of opening current accounts in all the countries where it does business.

"HSBC could work with these marketplaces to offer a BaaS solution such as HSBC's Global Wallet, allowing the small business to hold, manage, make and receive payments in all the currencies it needs. Importantly, this is all managed within the seller portal of the e-marketplace. In other words, the solution offers frictionless international money management," says McKenney.

With this solution, if a customer pays in Singapore Dollars, for example, the business can hold those funds and use them to pay its suppliers in local currency, saving on FX costs and always ensuring that the amount that is sent isn't eaten into by deductions along the way.

"As the seller becomes more successful and looks to drive growth, the business could apply for trade financing to increase inventory for the marketplace of their products, boosting business for them both," he suggests. In addition, "sharing their data allows for immediate decision-making, all from within the marketplace business experience," he notes.

Finally, the business could have access to a virtual corporate card to pay for products and/or services to improve its working capital, according to McKenney. All of these solutions are offered within the customer experience of the marketplace, making it easy and frictionless to access these finance services. "The possibilities are endless," he believes. "By offering these types of financial services and products in this way, partners deepen their relationship with their customers and differentiate themselves from their competitors, whilst also potentially enjoying mutual benefits."

ESG ADDS REAL VALUE

Despite 'greenwashing' being mentioned in the ESG headlines, there is real progress happening in the space, McKenney believes. HSBC's research shows that more than half of investors and three-quarters of issuers say the pandemic has either reinforced their commitment to ESG or made them realise they'd paid too little attention to it.

HSBC Global Research has also found that stocks of large companies with stronger ESG ratings have outperformed the global average by 4.7% since mid-December 2019. For climate-related stocks the gap is even bigger, with performance 13% better than the global average over the same period.

> *International buyers and sellers want transparent FX rates.*

View our infographic for a broader overview of the new treasury ecosystem.

http://tiny.cc/gw1muz

client journey, although, in the past, this might have happened through a separate platform rather than being fully integrated."

Examples of such transactions include sending a digital payment to settle a premium for an insurance policy that has just been purchased; funding a margin call into a trading account with a broker; or securing working capital financing. "But all of these have typically involved leaving the service provider's environment, and separately engaging a bank to buy and/or use this product," she explains.

Now, with embedded finance, the same banking services will be seamlessly integrated into the corporate's platform or ecosystem 'as-a-service.' This will have two main benefits, says Lagarmitte. "Firstly, it will reduce friction and enhance the experience of the underlying customer. Secondly, BaaS will broaden the offering that our clients can bring to their customers, enabling complementary products to be offered at the point of need, potentially generating new sources of revenue."

From a treasurer's perspective, this means that their banking partners are now taking on an additional role – they are becoming potential partners for the broader business, not just the finance function. McKenney comments: "This is a turning point in the traditional relationship between transaction banks and corporates. It's also an opportunity to tear up legacy business models and embed totally new, better and more sustainable ways of operating."

It follows that there could also be competitive advantages and cost benefits from BaaS that are passed down into the corporate's ecosystem – from headquarters down to subsidiaries and vendors as well as customers and suppliers. Take for example a corporate that runs an e-commerce marketplace. Using BaaS, the corporate could team up with their bank to integrate a financing option for customers at the checkout, as well as a separate area on the other end of the supply chain for supplier financing. Theoretically, the corporate running the marketplace could also integrate information from logistics providers into the platform as well, so that suppliers and customers have complete visibility over that part of the chain. And the possibilities do not stop there – as the case study below outlines (see box 1).

"It's about bringing together complementary services in one place, via APIs, and making it as easy as possible for the end customer or business partner to access the services they need to transact smoothly," notes Smith.

Taking ESG to heart

Interestingly, BaaS can also be beneficial in combination with environmental, social and governance (ESG) initiatives. And according to Smith: "Treasurers have a significant opportunity to work with their banking partners to add value to the wider organisation by proactively contributing to ESG efforts."

McKenney agrees, adding: "Forward-thinking treasurers are already embedding ESG into their daily processes, so it's business as usual, rather than a standalone initiative. We know that embracing sustainable practices can offer resilience to shocks, and boost growth potential over the longer term, so building ESG into treasury activities is an essential part of robust future-proofing and adaptability."

As the focus on ESG intensifies, so the range of sustainable solutions open to treasurers is growing too. "While green assets have been the talk of the town for a while, and flows into our green deposits continue apace, what we're starting to see is a rise of the 'S' and the 'G' elements," says Smith. Sustainable deposits are also being created to enable corporate money to be earmarked against both green and social loans originated by banks, for instance.

More innovation is hotly anticipated in the ESG space, from short-term investments to FX. Cross-product ESG innovation is also on the radar. And it's an area where McKenney expects much more interaction with corporates in the months ahead. "ESG-conscious organisations are already challenging the banking sector to be even more creative in our provision of sustainable solutions. They are clearly stating their ESG needs and looking to the banks to deliver cutting-edge solutions. As we head towards 2022, this co-creation dynamic will result in products that not only assist treasurers in their day-to-day responsibilities but also benefit the triple bottom line – people, the planet, and profits."

Combining expertise

Co-creation has already proven fruitful in the digital space, says Smith. "I only see this trend accelerating in the years ahead – it is a critical concept that drives many of our client engagements and subsequent product development."

The important element to note about co-creation is that this particular type of collaboration is based firmly on client needs. "This underscores the notion that while banks may be able to provide a capability map for core parts of their products, innovation in the truest sense is largely client led," emphasises Smith.

One example of this is the collaboration HSBC began in 2019 with Singapore Exchange and Temasek Holdings to explore the use of distributed ledger technology (DLT) in local bond markets. The result was the launch and settlement of the first digital bond issuance on the exchange's digital servicing platform in September 2020, completed for Olam International. The project took the bank into new areas of explorations, says Smith, using an on-chain payments solution which allowed for seamless settlement in multiple currencies and enabled the transfer of proceeds between Olam and its counterparties.

Lagarmitte adds: "We can now look to deploy similar solutions for other clients – that is the beauty of co-creation. Clients often have similar challenges. Some are just more vocal than others, so they have solutions built for them by the bank and its fintech partners."

McKenney echoes this, noting that: "Demanding clients have transformed at a rapid pace. They challenge us as a bank to do better for them every day. While once this might have appeared to be an unusual way to approach a banking relationship, it's now becoming the best way to innovate. We actively encourage open and honest dialogue with our corporate clients – we want to know how we can deliver more for them."

Arguably, he believes: "Co-creation between clients, banks and fintechs will form the basis of solid relationships in this new era of collaborative working – especially where BaaS is concerned. At every point of reviewing treasury operations and looking to optimise, the corporate and the bank should take time to bounce around ideas and look at ways that innovation can be inserted into workflows, or could even transform the business model."

Review and upgrade

Against this backdrop of evolution in the transaction banking space, this is the moment for treasurers to consider taking stock of their current treasury set-up – and challenge themselves, and their banking partners, to improve. Manish Kohli, Head of Global Liquidity and Cash Management, HSBC, comments: "Now is the time to look to the future. With the catalyst of the Covid-19 pandemic at their back, and the advent of exciting solutions encompassing embedded finance and ESG innovations, treasurers have a unique window of opportunity."

From cash flow forecasting tools to real-time data at the touch of a button – treasurers can, and should, challenge their banks to deliver. As Kohli concludes: "This is the era of as-a-service transaction banking. It's time to let go of the legacy and build for an agile future based on digital and sustainable foundations."

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Note

1 https://www.businessinsider.com/these-7-animals-have-crazy-adaptations-to-help-them-to-survive-in-their-habitats-2016-7?r=US&IR=T#kangaroo-rats-survive-without-ever-drinking-water-2

Payments Vision 2025

The Inside Track

By **Ben Poole**, Columnist

Developments such as instant payments, digital currencies, and enriched data services are poised to shake up treasury management. In a recent podcast, TMI spoke to three experts to understand how, by working together, corporates and financial institutions are set to usher in new value-added services that benefit all parties. But treasurers are warned, don't try to implement all these innovations at once!

The pace of change in payments can be daunting for corporate treasurers looking to improve their internal processes. Among the variety of trends that will dominate the next few years, some of the most critical are instant payments, central bank digital currencies (CBDCs) and enriched services from payment services providers (PSPs). They all offer the potential for treasurers to enhance their cash management processes yet present specific challenges and risks.

On-demand treasury

Instant is becoming the 'new normal', particularly in the 56 countries that are already live with real-time payments, according to the FIS Flavors of Fast 2020 report. Faster access to cash and richer data to analyse is an appealing prospect for treasurers, but moving away from the end-of-day and intraday liquidity statements to a 24/7 'on demand' treasury is perhaps an intimidating prospect.

Wim Grosemans, Head of Product Management, Payments and Receivables, Cash Management, BNP Paribas, comments that treasurers engaging with instant payments are doing so on a use case basis. "Where corporates and institutions are actively adopting instant payments is where they see a direct integration with their business processes," he says. "This could be claims handling for insurance, for example, or as an alternative to B2C [business to consumer] acquiring payment service providers. This touches both payables and receivables."

While domestic instant payments schemes are flourishing, repeating this experience with cross-border payments has thrown up several pain points to challenge payments providers. For example, capital markets are not open 24/7, which means instant foreign exchange conversions on cross-border payments are not guaranteed. Additionally, delays can be caused by inaccurate or incomplete data, currency controls and legacy systems that are not designed for the real-time. The range of different local regulations also makes for a complex compliance picture for cross-border payments, adding a further source of friction in the process.

SWIFT launched its Global Payments Innovation (gpi) initiative in 2017 to improve the speed of international payments and has already seen significant progress. Nearly 50% of gpi payments are credited to end beneficiaries within 30 minutes, and 40% in under five minutes. Today, more than $300bn is sent every day via gpi, with payments made in more than 150 countries across more than 2,000 country corridors.

Wim Raymaekers, Global Head of Corporate Strategy, SWIFT, explains that gpi is an excellent example of the financial services industry coming together to address a challenge. "It is possible to see global adoption through cooperation when people see a benefit in the processes," he says. "SWIFT gpi has set several service-level agreements between banks so that everybody knows what rules to play by. This helped increase the speed of processing. Now, more than 95% are processed and credited on the account within the day, if not within half an hour. There are some cases where regulatory requirements still exist on the beneficiary side, which is nothing to do with technology or the beneficiary bank, which can slow things up. However, of course, we still need the regulatory environment because of fraud and compliance."

With developments such as gpi and the more recent gpi Instant, which connects the SWIFT network and local real-time payment systems through integration with banks, corporates are increasingly moving towards a real-time, on-demand treasury. This requires as much instant information as they can gather in order to obtain an accurate picture of their cash positions. Application programming interfaces (APIs) are critical to facilitating this transformation, as they can enable different systems to 'talk' to one another.

Steven Lenaerts, Head of Global Channels and Digital Onboarding, BNP Paribas Cash Management, says that APIs allow for embedding seamless, frictionless exchanges between banks to corporate treasuries, and that demand is growing for this type of service. "Possibly fuelled by the pandemic, we have recently seen much interest in up-to-date access to liquidity positions to optimise liquidity management," he says. "The challenge is that, despite the overall readiness of the different actors in terms of API usage, uptake has been held back by a lack of standardisation."

Standardisation is vital to enable interoperability between multitudes of corporates, banks, and vendors that all want to talk and transact with each other. Given SWIFT's history of enabling efficient communication for the financial world through its payment standards, it is not surprising that the cooperative is also addressing API standards.

"We are very pleased to see that SWIFT has taken up the challenge for API standardisation and is currently driving the instant cash reporting in collaboration with many corporates, vendors and banks," Lenaerts adds. "This is helping the industry to make progress in the space of on-demand treasury, starting with what appear to be the most prevailing use cases."

In addition to API standards, other harmonisation initiatives will also vastly improve the processing of international payments. One of the most significant projects is the migration from the SWIFT MT payment messaging standards to ISO 20022 for the entire industry. With the migration deadline of

WIM GROSEMANS

Head of Product Management, Payments and Receivables, Cash Management, BNP Paribas

"Possibly fuelled by the pandemic, we have recently seen much interest in up-to-date access to liquidity positions to optimise liquidity management."

November 2025, the move to ISO 20022 aims to improve the data richness of cross-border payments. This can support more straightforward and efficient anti-money laundering (AML) filtering and compliance investigations. At the same time, the additional data fields will help reduce the number of rejected or blocked payments due to missing and incomplete information. ISO 20022 also underpins the new SWIFT platform, more on which later.

CBDCs are coming

Central bank digital currencies (CBDCs) are another much talked about development in the payments space. Indeed, they are becoming more or less inevitable – more than 60 central banks have so far begun exploring the concept, according to PwC's CBDC Global Index. Driven in part by the popularity of private digital currencies such as Bitcoin, CBDCs are seen by some as a way for central banks to ensure a safe and efficient payment network that remains firmly within their domain of financial regulation. But with myriad CBDC projects in hand, all moving at a variety of speeds and with different end goals, the role of CBDCs in the future of payments is somewhat unclear.

WIM RAYMAEKERS

Global Head of Corporate Strategy, SWIFT

Raymaekers explains: "There will be many CBDCs out there, so it's a bit like existing fiat currency in some sense. You will need an interchange mechanism to go from the CBDC into an existing infrastructure, maybe supported by an RTGS [real-time gross settlement], or you may have two CBDC systems running on different DLT [distributed ledger technology] systems. Then there is also the question of if you buy a CBDC it may come with a certain price when you buy and sell, and there's a likelihood of FX [foreign exchange] between different CBDCs. While it may use new technology, the fundamentals of interchange and interconnection would still be there."

It is important for corporate treasurers to see some use cases emerging from the various CBDC projects, which will help to provide some clarity on their potential benefits.

Grosemans adds: "CBDCs obviously have local use cases in replacing cash, but they will also play a role in offering new ways to manage high-value traffic from a local market perspective. We also see initiatives out there from consortia, for example, that are trying to leverage on that, or use stablecoins, to try to interlink important currency traffic. This is going to play a role in corporate treasury management, and treasurers have to be ready. It's going to take a few years, but it's going to appear."

From the banks' perspective, interoperability will be a crucial aspect if CBDCs are to be successful, as Grosemans notes. "Another question revolves around whether we are creating new and separate ecosystems with CBDCs, or if we still need to find a way to interlink all of those. This is where the banks, as well as SWIFT, have a critical role to play going forward."

As the many CBDC projects hit maturity in the near future, this is a space for treasurers and their banking partners to monitor closely.

Enriched services and solutions

The third dominant payments trend looking ahead to 2025 is that payment services providers, including the transaction banks and SWIFT, will enrich their services offering beyond pure payments and reporting to offer more comprehensive solutions.

A good example of this trend is provided by the new SWIFT transaction management platform, the first release of which is planned for November 2022. Built on the foundations of SWIFT gpi, this orchestration platform will lay the foundations to achieve ultimately frictionless and instant cross-border payments. It aims to provide progressively features such as upfront validation of beneficiary details, central management of exceptions, an extension of gpi faster payments to lower-value payments and new rich data services based on the ISO 20022 standard.

Raymaekers says: "I see technology as a means to achieve business goals. As long as we focus on that, then it will be a continuous dynamic environment where we need to keep evolving our product propositions."

For banks, technology developments such as the new SWIFT platform offer an opportunity to innovate across the whole value chain. Value-added services include business-to-business (B2B) invoicing,

> *I see technology as a means to achieve business goals. As long as we focus on that, then it will be a continuous dynamic environment where we need to keep evolving our product propositions.*

e-invoicing, reconciliation automation, and even smart schemes that select the optimal payment means for corporate clients. Banks that position themselves purely as payments providers risk losing volumes to more agile market participants, such as fintechs.

Also known as banking-as-a-service (BaaS), this trend reflects the fact that corporate clients are expecting more from their banking partners in terms of the data they receive and the simpler customer experience they demand.

Lenaerts explains: "Banking as a service enables corporates to embed banking exchanges into their corporate processes in a frictionless and efficient way. This can also be for other corporate processes beyond treasury, for example, vetting counterparty bank coordinates prior to storing them in the master vendor data management system. This is not a treasury process, but it can also make use of banking services."

Banking as a platform is also building momentum within this trend. This is where banks essentially become an ecosystem for fintechs and other third parties to quickly and securely integrate via open APIs with the bank to obtain the necessary data to build on top of the bank's existing infrastructure. Banks, in turn, can offer these new solutions through their own channels and even play the role of aggregator for other services.

"There's value in banking as a platform because in recent years there has been an explosion of fintech activity," continues Lenaerts. "It's not always obvious to corporates what the right solutions are for them in terms of service, functionality, and sustainability. Corporates benefit from banking as a platform, as it is essentially a bank offering a catalogue of services offered by the fintech community. The bank involvement provides that extra level of trust and reassurance for the corporate."

That reassurance can also be provided regarding cybersecurity. This topic is top of mind for corporates as fraudsters become more technologically savvy while simultaneously succeeding with simple phishing techniques such as the business email compromise scam.

Grosemans comments: "Fraud is much more complex to solve in the cross-border space. This is also an area in which banks can provide great value to corporates because they have more volume and therefore more data - both payment and non-payment data - available to capitalise on, compared with fintechs, for example. In addition, services like SWIFT's pre-validation of payments can play an important role in reducing fraud."

Key takeaways

As these three trends have demonstrated, several positive developments in the payments space will have a significant impact on corporate treasury management.

"These very promising evolutions in the payments world are going to deliver many opportunities, particularly through leveraging data to provide better help to corporates in the cash management and payments processes," states Grosemans. "But while we are innovating, at the same time we have to ensure we're still getting the basics right. Banks and corporates have a role to play together to get those basics right, particularly with data. We need to make sure that the ISO 20022 migration is a success and that corporates, together with the banks and SWIFT, play the game of structuring and delivering quality data, as that's going to be the basis for everything else."

Banks must continue to innovate to remain competitive but also understand where they can collaborate with partners, as Raymaekers outlines. "In my view, banks should think carefully about what they want to build in-house and then what they would like to add as a value on their platforms – they don't need to do it all themselves. SWIFT offers an example of this in our platform strategy. We are looking to bring fintechs and third parties onto the platform for the richer benefit of the community. Banks can do this for their clients."

Rather than trying to tackle several projects at the same time, the key for treasurers is to first look at their processes and be led by the challenges they need to solve. Lenaerts concludes: "You can't do everything at once, so try to identify the weak spots in your treasury processes and address those first. When you address them, look at the specific use case, limit the use case and experiment with those innovations. Assess the value they add to your processes, mature in that technology and then scale afterwards."

"We are very pleased to see that SWIFT has taken up the challenge for API standardisation and is currently driving the instant cash reporting in collaboration with many corporates, vendors and banks."

STEVEN LENAERTS

Head of Global Channels and Digital Onboarding, BNP Paribas Cash Management

Treasury in 2030

5 Practical Steps for Preparing Ahead

No-one knows precisely what the future holds, but a successful digital treasury team must be able to adjust quickly to the evolving ecosystem – and be able to scale at speed. In this article, four industry experts outline their visions of a digital treasury function in 2030 and explain how to start laying the foundations for these future goals, today. They touch on everything from embedded finance to best-of-breed architectures and innovative ways to offset carbon emissions through treasury products.

By **Eleanor Hill**, Editor

"For tomorrow belongs to those who prepare for it today." Over the years, this African proverb has been transformed into pithy quotes from world leaders and changemakers – and its relevance still rings true, especially in the business world.

Of course, there will always be unpredictable factors treasury teams cannot prepare for. Before 2020, few had predicted a world of global lockdowns and remote-working due to a Coronavirus pandemic. Nevertheless, there are many elements of the future that treasury leaders can start preparing for today:

1. Embrace total automation of day-to-day processes

"Automation is a treasury trend that's been talked about for several years now – because teams spend so much of their time on low value tasks and the management of manual processes. In 2021, we have already seen a number of leading treasury teams looking to embrace technologies such as robotic process automation (RPA) and artificial intelligence (AI) in order to reduce their manual burden, with the aim of only dealing with exceptions," says Conor Maher, Head of Transaction Banking Products, NatWest. In fact, 16% of treasurers surveyed by TMI and NatWest in Q2 2021 stated that implementing AI is currently their number one digital priority.

Nevertheless, a significant proportion of treasury functions are still highly manual – with spreadsheets still surprisingly common, even in large corporates. Nick Pedersen, Global Head of Digital, NatWest Markets confirms this, stating: "Many companies still use Excel for their FX reporting, even if they have sophisticated ERP, TMS and portal set-ups for the rest of their treasury needs."

Ideally, by 2030, Pedersen would like to see the treasurer as the "designer of the FX policy, but with no involvement in its execution", since this would be performed automatically, through an end-to-end journey. "This means that when an exposure of a cash-flow arrives at one part of the organisation an FX trade or a hedge is executed in real-time," he says. "Some of the companies that we work with in the tech sector are fairly close to having this in place today, but as a wider concept, it will take time for other sectors to catch up," he believes.

Maher echoes Pedersen's goals, adding that: "Total automation of the treasury function – from cash management to FX risk management and beyond is the nirvana for 2030. Achieving this goal, or coming as close to it as possible, will free up treasury teams to concentrate on value adding activities such as horizon scanning and formulating new company strategies." At present, the treasurer spends a great deal of time looking in the rear-view mirror, explains Maher, but automation can empower them to look into the future and get ahead of emerging trends.

"This will be critical in the real-time environment of 2030, where end of day processing no longer exists," comments Maher. By then, almost all payments will likely be moving instantly across borders, as real-time schemes come to fruition, SWIFT gpi gathers pace and Central Bank Digital Currencies (CBDCs) potentially come into their own.

Matthew Giannotti, Head of Transaction Services Sales FI & Professional Services, NatWest, adds: "By 2030, corporates will have to adapt to the 24/7 way of life. They will need the ability to make decisions based on intra-day information. So, either treasury needs global teams who can keep a 24/7 eye on the financial markets and the company's cash positions and risk exposures, or they need an automated AI-based tool that can do that for them, and send alerts when action is needed.

Making change happen:
To achieve this level of 'total automation,' treasurers' attention will undoubtedly turn to systems set-ups and the availability of third-party solutions. "After defining their goals and digital treasury vision, the next step is to understand and measure the capability of the treasury team – and assess the need to partner or outsource – in meeting those automation aims."

Also important is the assessment of the existing treasury infrastructure in terms of delivering, managing, processing, and analysing real-time data. With the support of their chosen partner(s) or own IT team, treasury will more than likely need to look at the implementation, or augmentation, of technologies including:

- **Application programming interfaces (APIs).** These are essentially the bedrock of real-time, automated treasury, since they enable the seamless, instant transfer of data between systems. APIs, in combination with open banking (see point 2), can enable multi-bank cash visibility as well as visibility across trade and FX transactions[1]. This information then forms the basis for automated decision-making.
- **RPA, AI and machine learning (ML).** Another cornerstone of automation is RPA. Bots can be used to take on low value, manual processes. AI and ML can then be layered on top to create smart bots that not only automate processes but automate the analysis of process outputs too and assist in on-the-spot treasury decisions.

> *Total automation of the treasury function – from cash management to FX risk management and beyond is the nirvana for 2030.*

UNDER THE SKIN OF TECH ACRONYMS

To find out more about garnering the benefits of APIs, AI, RPA and a host of other digital treasury technologies, download our No-Nonsense Guide to Digital Treasury: https://treasury-management.com/articles/taking-digital-treasury-to-the-next-level-a-no-nonsense-guide/

CONOR MAHER

Head of Transaction Banking Products, NatWest

MATTHEW GIANNOTTI

Head of Transaction Services Sales FI & Professional Services, NatWest

- **Distributed ledger technology (DLT).** Rowan Austin, Head of Trade Origination and Advisory, NatWest, believes that, in the trade space if not in cash management, "DLT will likely supersede all other technologies in terms of dematerialising and automating trade transactions."
  And although DLT might seem like "blue sky thinking" today, it is the obvious way to tackle the manual inefficiencies of paper-based trade, says Austin. "We are already seeing successful pilot schemes using DLT within trade finance, and by 2030, I would anticipate that DLT will be the norm – together with smart contracts which automatically execute when pre-determined criteria are met."

ALL ABOUT OPEN BANKING

For those who have been too busy to give it much attention, open banking is an infrastructure that facilitates the secure sharing of financial information as well as payment instructions – through the use of open APIs. It is quickly becoming a global phenomenon, although the UK is arguably leading the way at present.

In the treasury space, a handful of solutions already exist which leverage open banking rails to provide corporates new ways to send and receive online payments. Payit™ by NatWest is a great example and the benefits include the ability to easily reach non-NatWest customers, no requirement to hold customer data, real-time transactions, and a reduced potential for fraud.

To refresh your memory on the origins of open banking, and the benefits for treasury, our recent article Open Your Eyes to the Benefits of Open Banking.
https://treasury-management.com/articles/open-your-eyes-to-the-benefits-of-open-banking/

Of course, the flipside of automation is the impact on human capital. And this must be carefully considered as part of any 2030 plan.

2. Embed open banking as standard

Within the next decade, open banking should have matured to the point where it is embedded within the treasury psyche. Austin notes: "In terms of treasury advantages, open banking already offers the potential for multi-bank cash, trade and FX visibility at the touch of a button – which dovetails nicely with the vision of a fully automated treasury function. It is also making waves in the payments space."

Elsewhere, open banking also paves the way for other, more existential changes within organisations – and this is where the concept will likely mature most by 2030. The rise of embedded finance (see point 4) is one such trend, while open infrastructures are also shaking up traditional ways of organising processes and systems (see point 3). As such, there are strategic conversations that can be taking place today within finance departments and boardrooms that could lay the foundations for a new, open, approach in the years ahead.

Making change happen:
"Corporates wanting to make progress on open banking should challenge their banking partners to introduce relevant solutions sooner rather than later," says Maher. A few leading banks have rapidly taken up the open banking mantle for corporates, but many have concentrated solely on the consumer side. Giannotti continues: "It's time for cash management providers to start moving more swiftly on the corporate benefits of open banking. At NatWest, we have seen this as an opportunity from day one – investing in services such as Payit™, for example.

> *In terms of treasury advantages, open banking already offers the potential for multi-bank cash, trade and FX visibility at the touch of a button.*

NICK PEDERSEN

Global Head of Digital, NatWest Markets

ROWAN AUSTIN

Head of Trade Origination and Advisory, NatWest

'We're excited by the possibilities that open banking holds and certainly want to be at the forefront of innovation here. But we also rely on our corporate clients to challenge us to solve their true pain points. Through that dialogue, we can create real-world solutions based on open banking that will carry treasury through to 2030 and beyond."

3. Consider a best-of-breed tech ecosystem and fintech partners

With the capabilities of APIs clear for all to see and the evolution towards an open, collaborative financial ecosystem, we may also see more of a best-of-breed approach to technology selection in 2030, believes Giannotti. "Rather than having a single ERP or TMS, treasurers might build their own dashboards, using APIs to plug in the information they need and want – direct from different sources, such as banks, fintechs, trading platforms and market information providers," he explains.

This approach enables the use of multiple specialised systems, which of course, can provide organisations with specialised features – and may prove more satisfactory than an all-in-one solution such as an ERP or TMS (see Fig. 1). Through a best-of-breed set-up, treasury can access the cream of solutions and providers in the market, in a manner that suits them. Pedersen adds: "This is not necessarily a new concept for treasury but newer technologies are making it easier to achieve. And it would be great to see FX systems no longer being out on a limb, but part of a complete treasury tech ecosystem."

Making change happen:
Challenging banks and tech providers will be critical to making best-of-breed a reality by 2030. Working with fintechs may also need to become a more mainstream activity for treasurers and banks alike.

Giannotti comments: "A handful of corporates who we work with are already very comfortable with fintechs – and work with them via bank partnerships or directly. I expect this trend to accelerate significantly as we head towards 2030." Pedersen agrees, adding: "By then, fintechs will be much more established and have the track record to prove to treasurers that they are in this for the long haul – and that they are prepared to work with incumbents and plug in to legacy systems to suit the needs of the treasurer, rather than being entirely disruptive."

While this 2030 vision sounds beneficial from a treasurer's perspective, there are clear hurdles to overcome, cautions Maher. "Best-of-breed currently exists in a microcosm. By 2030, treasurers operating this model will be dealing with multiple contracts with vendors and fintechs, which could cause complexity in terms of responsibility if any issues arise." Austin adds: "Treasurers also need to be extremely careful who they work with. The fintech space is still crowded. Trust is paramount."

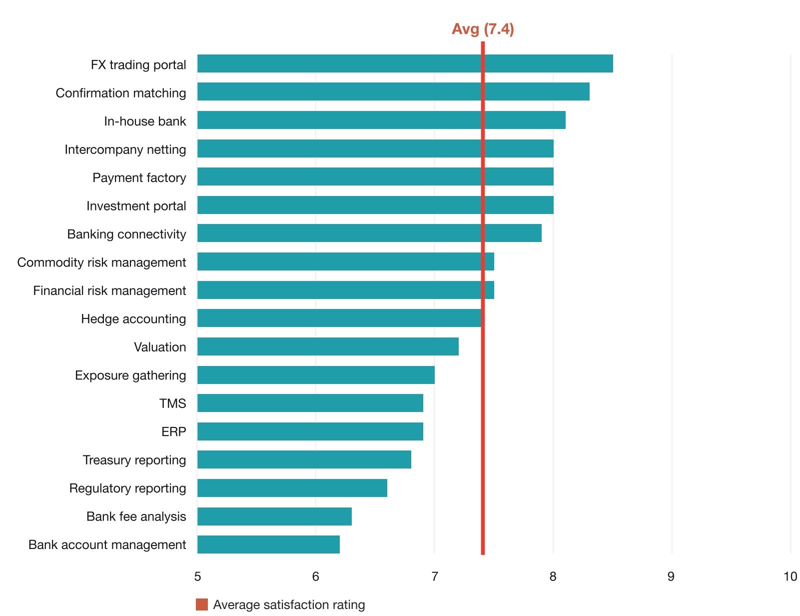
4. Leverage banking-as-a-service

APIs, open banking and fintechs are also fuelling the emergence of 'embedded finance' – or 'banking-as-a-service' (BaaS) – a trend that is expected to change market structures and business models over the coming decade[2]. Maher explains: "In simple terms, this is when a financial service, like payments or insurance, is embedded into a non-financial brand as a means to create a seamless customer experience."

Certain transport and food delivery firms already offer this kind of service within their apps – but this trend is expected to grow enormously by 2030. In fact, by that date, the market for embedded finance is anticipated to be worth $7 tr.[3].

> *It is our role as banks, to rapidly adapt to meet corporate's evolving ESG needs.*

FIG 1 NICHE SYSTEMS ACHIEVE HIGHER SATISFACTION RATES THAN ALL-IN-ONE TREASURY SYSTEMS



Source: PwC 2019 Treasury Benchmarking Study
https://www.pwc.co.uk/audit-assurance/assets/pdf/global-corporate-treasury-benchmarking-survey-2019.pdf

Maher continues: "Embedded finance is not necessarily directly within the treasurer's remit, but it will touch and influence their areas of responsibility, and we see it as a key trend shaping the future environment."

Making change happen:
The onus around making BaaS a reality by 2030 lies on the banking and fintech side. Nevertheless, says Maher, "Treasurers in consumer-facing sectors may wish to engage early with their banking partners around this industry shift. There are also strategic conversations to be had with the board around the value of a seamless digital customer journey in terms of making cash flows more predictable and visible."

5. Push the boundaries of ESG

As we head into the next decade, and board level focus on ESG continues to intensify, Pedersen expects to see much more solution innovation in this area, across product lines. "It is our role as banks, to rapidly adapt to meet corporate's evolving ESG needs," he states.

Austin agrees, adding that "Managing supply chains used to be about drilling costs down as low as possible. Now it's about overlaying ESG and resilience, to create a supply chain that is sustainable in every possible sense of the word." While banks have been innovating heavily in the ESG space of late, with green and sustainable - loans, bonds, deposits, supply chain finance and more – "there is always room for additional experimentation as we head towards 2030," says Maher.

Making change happen:
While there are ESG projects treasury teams can take on internally, such as reducing team paper consumption and choosing banking partners with excellent sustainability credentials, the bulk of innovation will happen in the products space.

Pedersen comments: "Again, this is an area where treasurers can look to push their banking partners to be more creative and to overcome perceived hurdles. When we were working on the solution with Drax there were challenges to overcome before we could get the product to market – but we made changes to the traditional ways of working, and it paid off." Regulators may also need to be lobbied, says Austin, who sees the lack of standardisation in the sustainability space" as a hurdle to rapid progress.

Maher adds: "2030 is a landmark year that many climate goals are being aligned to. Corporate treasurers can no longer afford to think that ESG is someone else's responsibility – nor can their relationship banks. Together, there is a possibility to work towards solutions that can have a positive impact in the real world. Co-creation is the watchword."

Nine-year countdown

With so much change set to happen, being surrounded by the right support system will be critical – including a switched on treasury team. Pedersen calls for "innovation to be baked into the treasury team's culture." While Maher says that, "Having a team that is dynamic and open to change will enable the organisation to flex relatively quickly, to unexpected threats as well as to opportunities such as those outlined above."

But Giannotti cautions that: "The technology transition as we head towards 2030 is in many ways easier than the people changes that will be required." There are social changes that go hand-in-hand with technological ones, he notes. "Some team members may be resistant to change due to fear of job cuts. Others may need training on new technologies, as well as the cyber risks that come with the digital environment, in order to enable them to perform at their best."

The good news is that treasurers, and their banking partners, have nine years until the 2030 milestone is reached. But this is not the time for kicking the can down the road – preparation is needed to be ready for this new environment. Continuous investment and development are essential. And as Austin concludes, "The time for transformation is now."

CUTTING-EDGE ESG INNOVATION AT DRAX

One great example of such innovation is ESG-linked FX derivatives, which have just been launched by NatWest. Thanks to the solution, UK-based Power Generator, Drax, is now applying its long-term ESG key performance indicators (KPIs) to short-term FX trades – including forwards, swaps and options – executed through NatWest and another partner bank.

In practice, Drax's ESG-linked agreements aim to incentivise reduction in carbon intensity on an annual reducing target that is designed to become more challenging if the company constantly over-delivers. That metric is validated annually against information published in its annual report and accounts and independently reviewed for accuracy and reliability beforehand.

Find out more about this project in issue 281 of TMI: https://treasury-management.com/articles/drax-highlights-core-sustainability-credentials-with-novel-esg-linked-fx-solution/

> *The technology transition as we head towards 2030 is in many ways easier than the people changes that will be required.*

Notes:
1 https://treasury-management.com/articles/taking-digital-treasury-to-the-next-level-a-no-nonsense-guide/
2 https://www.tribepayments.com/tribe-blog/fintech-2030-embedded-finance-to-dominate-claim-industry-leaders
3 https://www.altfi.com/article/7722_what-is-embedded-finance

A Tale of Two Treasuries

A Guide to Successful M&As

Mergers and acquisitions are never guaranteed success at any stage of the process. For their part, treasurers will typically face the practicalities of integration and transition, this bringing its own set of challenges. What can be done to avoid the common pitfalls and help optimise immediate and future outcomes?

By **Tom Alford**, Deputy Editor

As businesses increasingly look to mergers and acquisitions (M&As) to drive their growth, treasury will play an increasingly prominent role in the successful completion, integration and, ultimately, value realisation of such transactions.

For this reason, treasury involvement should begin at the earliest stages of M&A due diligence, says Dino Nicolaides, Managing Director, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory. However, he notes, with treasury typically involved in deal funding, that early call to prepare the ground for unleashing synergies from a merger unfortunately seems all too often to be missed. "With business teams so focused on getting the deal done, treasury sometimes gets pushed to the margins. That's a mistake."

Treasury has many interdependencies with functions such as insurance, commodity risk management, tax, finance, and payment teams. While occasionally these fall within the treasury

remit, where this is not the case, Nicolaides believes the correct integration decisions can be taken only when consulting these teams. Indeed, he argues, building new systems in isolation will fail to unlock full M&A synergies.

Plan to succeed

For Peter Zmidzinski, a treasury professional with a number of years' senior international practice under his belt, planning across the board is essential when engaging with M&A. Before founding risk monitoring platform provider SwissMetrics, Zmidzinski's role as Head of Treasury for aviation services firm Swissport International, saw him involved in a significant number of acquisitions and divestments. For him, the key to success requires the elimination of unpleasant surprises, and he agrees that reaching out across the organisation is essential.

To help deflect unknowns, his planning required ongoing "but mostly informal" conversations with the various teams involved in M&A. "My aim was always to find out what's on their radar, and what's already in their pipeline," he says.

He explains that it's important to obtain an early view over basic treasury interests in M&A, such as how deal financing will impact cash positions, and what foreign exchange (FX) risks will be generated. He also says it's essential to seek early involvement in any due diligence around the acquisition target company.

Ongoing conversations with internal partners not only enable treasury to begin early preparation, but it also gives M&A teams time to think about treasury matters, notes Zmidzinski. And there's good reason for this.

"I've been shown sales purchase agreements [SPAs] at the eleventh hour that were calling for payment by cheque; these had to be amended immediately because we don't issue cheques in treasury," he explains. "Treasury should always request early conversations with their M&A teams so we can make the appropriate execution of the sale in good time, without last-minute adjustments. And once we've educated other functions as to how treasury works in this process, they begin to think a lot more about us."

BASIC DUE DILIGENCE CHECKLIST

At a strategic level assess:

- Organisational charts and company/treasury structure
- Systems architecture and mapping
- Processes, procedures and controls, especially for reporting
- Existing people and skills

At an operational level:

- List of banks and bank accounts
- List of guarantees/contingent liabilities
- Outstanding derivatives
- Essential FX exposures/movements
- Working capital key performance indicators (KPIs)
- Change of control clauses in all documentation (to know what needs replacing)

Due diligence

With the M&A team having firmed up an acquisition target, teams from both sides will begin discovery talks. When a deal is agreed, various memoranda and non-disclosure agreements (NDAs) will be despatched and signed by the relevant parties. Up to this point, it's likely that treasury will have minimal direct involvement. Once the deal is agreed, due diligence begins in earnest for all.

"This is typically a very structured process," notes Zmidzinski. "We want a lot of information about the company we are acquiring; we're trying to uncover as many skeletons in their closet as possible, while they try to hide them!"

Preparing a treasury-specific due diligence checklist is recommended. "It's an opportunity for us to find out matters such as which banks they use, how many accounts are held, what the team structure looks like, and what its risk exposures are," he comments.

Having a view across each treasury function exposes differences, enabling the acquiring team to start thinking about what the merged treasury might look like. It also enables assessment of any new risks that may arise from the merger, and an understanding of where best to focus treasury resources once the deal completes.

DINO NICOLAIDES

Managing Director, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory

A key component of the evaluation of shared information draws upon the treasurer's sector experience. Zmidzinski recalls that Swissport's familiarity with the aviation sector affords it a deep understanding of how each industry player operates. "We're then able to use our experience to find the right data so we can benchmark an acquisition target against ourselves and other businesses; it always helps reveal any of those skeletons."

The hope is for openness and honesty from the outset. However, says Zmidzinski, sometimes treasury needs to apply pressure to obtain the necessary information. "It was always a bit more difficult around working capital and cash-collection data, but as a cash-based business, we needed to know detailed DSO [days sales outstanding] and payment behaviours, but sometimes details were deemed too sensitive to disclose."

With this data likely only to be revealed post-closure, using the principle that "if you don't ask, you don't get", Zmidzinski found that if treasury pushed harder, sometimes core preparatory information was forthcoming.

As an example, he says that when acquiring, the legal change of control can trigger the annulment of certain financial agreements. "If you don't question, prepare and plan sufficiently, you could find yourself scrambling around at the last minute for financing or account replacements, when what you need to be doing is ensuring business continuity."

Post-closure, treasurers may unearth undesirable issues such as details about guarantees – contingent liabilities – that are embedded, badly recorded or that have simply not been disclosed. Treasury needs to report these while managing the underlying risks. As such, at the earliest opportunity, it's important to seek a list of every risk and guarantee in place, and to be able to quantify and understand what triggers each of those, as they could represent a significant peril.

PETER ZMIDZINSKI

Founder, SwissMetrics

Where sometimes answers are not immediately forthcoming, it is possible that the M&A team driving the process may become impatient. "Treasury may need to be a little bit 'commercial,' accepting that we'll get the information later," counsels Zmidzinski. "But if we're missing information that is super-important for us – such as the target company's position on contingent liabilities or derivatives – we must stress that the risk quantum could be huge, so we must at least know the range we're dealing with."

Need for speed

Mergers are fraught with pitfalls, and the most common that Nicolaides sees is the failure to integrate functions quickly enough. "The longer integration is left unaddressed, the more money is left on the table," he warns. This may not sit well with upstream stakeholders such as investors.

"A slow reaction will often see legacy systems kept for far too long," notes Nicolaides. "It means maintaining separate reporting packs, with manual- and labour-intensive consolidation processes that can never be fully accurate." The subsequent lack of visibility across fundamentals such as working capital that this presents is in itself a major risk for any entity.

A delayed decision on the structure of the merged entity has a further damaging effect. "Mergers can create a lot of job uncertainty among staff," warns Nicolaides. "When this is experienced for an extended period, it has the effect of pushing people to look for new jobs. Delays can easily result in the loss of good human resources."

Smooth change

The nature of M&A means staff on both sides will have many questions before the merger closes, often regarding their own jobs. Treasury is no different, with concerns typically raised around how the function will be organised post-merger.

When tackling change management, transparency and timeliness are key to announcing any new structure, system and approach, notes Nicolaides. "Strong communication is essential throughout to establish the least possible uncertainty and demotivation among staff," he continues. "But it's beneficial when management consult with staff early on in the decision-making stages because employees who have been consulted and listened to are more likely to support those changes as they become reality."

For Zmidzinski, too, "it's important to quickly reach out to the teams on the opposite side, to discuss and plan immediate, mid- and longer-term goals". The immediate treasury aim, he states, is always to ensure business continuity. "At the very least, salary and supplier payments need to continue seamlessly

ACQUISITION FINANCING AT APEX

Over the past four years, global financial services provider Apex Group has successfully completed 21 acquisitions. Marcus Worsley, Group Treasurer, Maxwell Johnston, Head of M&A, and Simon Gatland, Group Financial Controller, reflect on their experiences.

Treasury will work closely with the corporate finance team and the M&A lead at the outset. During the financing discussions, treasury must be involved in projection models and will be playing a crucial role in deciding the appropriate financing facility, based on a variety of factors, such as size of the transaction or leverage profile.

Treasury is essential in ensuring that all facilities are in place, with liquidity available to accommodate the fluid nature of M&A transactions. Furthermore, with cross-border M&A continuing despite restricted travel, treasury plays a key role in advising the board on how, when and what instruments will be used to hedge the transaction once a firm commitment is in place, as well as executing these hedges.

This activity coincides with close liaison with the finance team. Hedges can range from vanilla forwards and option trades through to more complicated structured products to manage the foreign currency exchange risks. In our experience of successfully completing transactions in countries where there are more complex currency capital controls in place, treasury is required to work with its partner banks and local counsel. They will be able to facilitate the foreign exchange and get the appropriate documentation and approvals with the central banks so that the transaction can be settled at the greatest rate achievable to the group.

Treasury also works with company secretarial, finance and tax teams to implement the right legal entity structure, and if a new entity is required, it will be called upon to facilitate the opening of any bank accounts or facilities internally or externally required. In addition to this, treasury is also responsible for the hedging, forecast, and settlement of any future deferred payments or earnouts to the prior sellers.

across the acquired business. But it's important to quickly gauge the mood of treasury and finance personnel, tackling any fears and concerns they may have."

In a large acquisition with a substantial treasury set-up to consider, he believes that meeting the incoming team in person will help build relationships and gain a deeper understanding of operations. "You also begin to get a good feel for local talent at this point," he notes. "And no matter what the eventual outcome is, there's always an opportunity somewhere in the organisation for the right skills, that's why in Swissport we always tried to create roles to retain the best."

Methodologies

When seeking M&A synergies, analysis of processes is a key early element of success, says Bob Stark, Global Head of Market Strategy, Kyriba. In a merger that is likely to present significant change –typically seen where a large business is acquired – he says the first action of the treasurer will be to map the combined organisation from a treasury and liquidity process perspective. This enables easier identification of any new conditions that are likely to emerge as the targeted operating model unfolds.

A change in capital structure, for example, where perhaps financing the acquisition required additional sources of liquidity, may make the business significantly more vulnerable to fluctuations in interest rates. The absorption of multiple new bank accounts or currency exposures may add risk and complexity to existing treasury processes.

"Treasury needs to understand the expectations for enterprise liquidity, capital allocation, and risk mitigation to carry out its changed set of responsibilities," Stark explains. "Each function and process needs to be assessed against the updated vision for treasury and liquidity management."

It may not always be necessary to integrate every aspect of treasury immediately, or at all in some cases. Indeed, the directional strategy of the merged organisation may dictate that certain business activities will cease or be divested. The treasurer should be part of strategic planning to ensure treasury's limited integration resources can be appropriately focused.

This will also help treasury create and maintain a roadmap of how the combined entities will evolve. Confirmed timelines and prioritisations covering personnel, structure, governance, and systems will ensure key treasury functions and interdependencies are well managed.

Integration with internal and external systems is another important consideration, as the separate organisations will have managed data and processes in different platforms for treasury, payments, and business intelligence. A good assessment looks at each treasury function against what is required of treasury in the future. Where new integrations are required, the approach might start with bank connectivity as it is critical to ensure that bank reporting and payments are uninterrupted. For Stark, "focusing initial efforts on the most impactful functions for the business will ensure planning efforts drive integration success".

Once treasury has a full understanding of what the new combined organisation will look like, Stark suggests a review of whether the existing technology stack is sufficiently flexible and adaptable to support treasury's new responsibilities and business requirements. "Don't assume that your existing toolkit will be fine just because it suited the old organisation," he warns.

Indeed, as the direction and needs of the merged business are clarified, Stark says treasury should consider if it has a suitably "composable" treasury system to ensure treasury processes continue to be fully automated. This includes bank connectivity, integration to enterprise resource planners (ERPs), and the evolving network of connected systems that treasury requires to strategically support the business.

Stark further points out that any proposed technology selection should be driven by the new business requirements: "technology is an enabler of change and should never become the focal point of a transformation". That said, as business integration progresses, he believes that

POST-ACQUISITION INTEGRATION AT APEX

Once the transaction has closed, the job of treasury is not over, note the Apex Group commentators. We then progress to a 60 to 90 day programme of bringing the treasury elements of the newly acquired business into the group's programme. This will include all banking, cash management, hedging, investments, and risk management.

Alongside this, treasury has responsibility for all working capital with the group, so all of the entity's billing, credit control, and payments need to be centralised into the main central team that reports to treasury. Doing so often requires staffing changes, adaptation of reporting lines or migration of workloads.

Fundamental initial integration steps include ensuring that cash and working capital are available at the outset after completion, with treasury able to access working capital and extract cash efficiently to ensure the group is maintaining its lowest achievable weighted average cost of capital.

Once we've achieved that, treasury has the ability to drive working capital as needed, in order to maintain and improve the cashflow conversion ratio, free cashflow ratio and day sales and day payables outstanding: these are key KPIs and reports that treasury use to manage the group's liquidity and overall working capital.

Treasury will also work closely with the integration and group finance teams. This is to ensure the internal working capital facilities are in place and the accounting and reporting structure is mapped on to the group's main enterprise resource planning (ERP) system and accounting ledger.

Over the medium term, the business will be fully integrated into the central billing team, and the main ERP and billing system, along with credit control. The business will concurrently be integrated with the payments and accounts payable (AP) teams, and system-wise on to the group's vendor management and purchase order (PO) processing systems in conjunction with the ERP. This ensures that the same policies and procedures remain standardised across the group.

there are many advantages to the adoption of new and emerging technologies in the context of M&A.

Application programming interfaces (APIs) for instance, enable easier connectivity between the core systems, banking platforms, and new data sets of the two businesses. APIs open treasury platforms for later adoption of artificial intelligence (AI), itself facilitating increased automation, improved visibility and control across the combined organisation, and even real-time processing.

Stark cautions that the incorporation of new people and processes could increase organisational exposure to fraud. This can force an often heightened need post-merger for enhanced governance and compliance processes around core finance functions such as payments.

Many CFOs are demanding additional review of payments enforcing a quarantine and additional review of non-compliant and suspicious payments which, he suggests, build additional resilience against internal and external fraud schemes. Similarly, integration of sanction-list screening can help mitigate potential compliance issues, especially where the acquired business exposes the combined organisation to new clients and territories. These can be short-term measures until functions can be standardised and controlled group-wide.

Standardisation

An M&A is often driven by the possibility of synergies between the two businesses. One of the most effective ways to leverage these is by standardisation of systems, policies, and procedures across the combined entity. In this context, treasury often presents a perfect opportunity for optimisation.

For companies looking to go on the acquisition trail, thinking ahead in terms of treasury systems is therefore advisable. Having the foresight to implement technology capable of scaling up to meet the needs of a growing business will yield positive results.

"Using Excel spreadsheets or Access databases is not good enough. You have to have a system that you can roll out everywhere it's needed if you're taking this route to growth," says Zmidzinski. Of course, for a treasurer seeking a business case for new core technology, M&A activity may even prove the perfect catalyst for new funding.

Standardisation can facilitate tighter controls, greater operational efficiency, and reduced dependency on individual personnel. However, Nicolaides points out that the decision to take this path should be more nuanced, taking a steer from future strategy. "If the strategy is to eventually divest part of the business, then it might not be prudent to spend time on it. I'd suggest at least running a cost-benefit analysis of process standardisation for every major component."

KPI advantage

Efficiency assessment should be a continuous process regardless, but, says Nicolaides, once a newly merged treasury function has been set up, a broad sweep of key performance indicators (KPIs) must be established. These should be based on the objectives of the new treasury function, suggests Nicolaides.

KPIs in the context of M&A can be categorised in three ways. The first set, which cover a strategic and risk appetite viewpoint, are commonly used. They should aim to detect whether the new treasury policy is sufficiently effective for the newly merged business. As an example, by measuring FX volatility and noting the degree to which potential losses are mitigated by new policy direction, amendments can be made.

The two other types of KPI, which Nicolaides believes are often overlooked, are nonetheless crucial to successful M&A for treasury. The first measures the operational efficiency of the merged treasury and may, for example, provide a view of how many FX deals are amended, the accuracy of cash forecasts, or even how dormant accounts are managed.

"Useful, but even less commonly deployed among merged treasury, are the qualitative KPIs," he notes. These can measure the quality of relationships treasury builds with its banks and other key stakeholders. A metric measuring the time it takes for a query to be resolved could, for example, indicate the level of support group treasury offers to its regional counterparts.

Prospects

Recent EY research has found that global M&A activity reached an all-time high in the first six months of 2021. Record M&A volumes have been driven by very supportive macroeconomic conditions, with the lower cost of capital supported by a low interest rate environment. For treasurers, a well-managed series of mergers, with timely interventions, presents a range of opportunities for strengthening operations, and boosting influence across the organisation.

SIMON GATLAND

Group Financial Controller, Apex Group

BOB STARK

Global Head of Market Strategy, Kyriba

SCF Optimisation in Three Words: Supplier Relationship Management

Treasury and procurement should be strong partners, especially when it comes to managing supply chain finance. Yet despite the advantages for all parties of such programmes, often there are not enough hours in the day to get the best from them. Enter the third-party supplier relationship manager. Andrew Burns, Vice President Europe, C2FO, explains.

By **Tom Alford**, Deputy Editor

With the best will in the world, any programme of improvement that involves the participation of two exceptionally busy corporate functions such as treasury and procurement, and potentially thousands of external partners in a modern supply chain, is asking a lot.

Take supply chain finance (SCF), for example. The potential advantages are well laid out for buyer and supplier, yet with time and resources stretched to the maximum on both sides, managing a programme so that it delivers the best possible results is often challenging. As a result, relationships can suffer and, in the worst-case scenario, supply chains can be broken with disastrous consequences.

The vast majority of early payment and SCF programmes are signed off by treasurers, but then handed over to procurement for implementation. With neither function able to educate, onboard and systematically manage suppliers beyond a small, select group, many suppliers are left to struggle with liquidity issues. The threat is all too real, and during the pandemic, many supply chains became severely compromised at an alarming pace.

But there is a way to ease the pressure and ensure SCF reaches the parts it needs to quickly: the third-party supplier relationship manager (SRM). It's a role that only select SCF providers such as C2FO offer as part of their programme. While SRM is well known to most procurement professionals, the concept remains largely unfamiliar to most treasurers. For Burns, as VP of Europe for C2FO, the world's largest platform for working capital, serving more than one million businesses globally, it's time to address this oversight.

SRM role

Even where a large company has incorporated a category manager into its procurement structure, handling multiple supplier relationships effectively remains a challenge, he notes. Obviously, strategically important suppliers will be mainstays on procurement's radar. However, time constraints on category managers often dictate that the remainder go largely unnoticed, along with their financial needs.

The objectives of procurement cover responsibility for cost-cutting, negotiation of payment terms and the internal provision of working capital metrics such as DPO (days payable outstanding). These downward pressures often sit uneasily with the constant push for more innovation to be delivered by suppliers. With weaker cash flow, they may struggle to innovate, and even survive.

Procurement needs to reach out in a more effective way to its supplier base, to ensure continuity and creativity, especially in testing times. By inviting a third-party SRM to become an attachment to the procurement organisation and charging it solely with the execution of the operational work that supports procurement's strategic duties, the pressure is eased significantly, says Burns.

Something as seemingly mundane as keeping up-to-date details of the right contact person for procurement activities is challenging when thousands of suppliers are on the system. To be effective, rolling out an SCF programme needs the details of every supplier's finance decision-maker to be correct.

Only then can the value of a programme that offers early payment be explored in context of the firm's actual and current liquidity needs. Target the wrong person, and an explanation of the programme's value, and consequently the opportunity it could present to buyer and supplier, will most likely be lost. As Burns notes, if suppliers don't know about an SCF programme, it will fail.

In addition to finding the right decision-makers, SRMs have a vital role in building an understanding of which suppliers would most likely want to participate in SCF. This requires knowledge of the industry in which each is a player, and the pressures they face at any given time.

Armed with sector-specific information, it then falls to the SRM to speak with the identified individual in each target supplier. The aim is first to explain the value of the programme to that company. For those who decide to enrol, there is help with registration if needed, and a full explanation of how the programme works. Thereafter, it is about maintaining the relationship, providing regular information and updates to help each supplier leverage SCF in the context of its own current financial needs.

The resource demands of this stage are often where internally managed programmes fall down, notes Burns. Indeed, he says, SCF success is built on actively managing each relationship and by taking the time to build trust through strong and effective communication of key information. "Ultimately it is the supplier's choice whether or not they want to exercise the option to accelerate their invoice payments; if they don't fully understand the process, they won't do it," he explains. It takes time and effort to reach that simple goal, but it does not stop there.

As part of the active relationship, the SRM alerts the supplier to invoices already approved for early payment through the platform. This helps suppliers optimise their collections processes, but rapid notification also provides valuable forecasting and planning information. This can be especially useful when the offer of early payment comes at a point that enables the supplier to offset a temporary (perhaps cyclical) squeeze on its liquidity.

ANDREW BURNS

Vice President Europe, C2FO

SCF is nothing new, but Burns believes C2FO's SRM model is unique. "The conversations that our network of SRMs develop through ongoing interaction with suppliers are incredibly important," he states. "Our SRMs are the oil that keeps the whole supply chain mechanism working."

As a neutral third party, SRMs remove any kind of negotiation leverage that may be obstructing the relationship between a buyer and its suppliers, notes Burns. The SRMs' status helps build trust, which in turn helps reveal the true liquidity needs of each supplier, he adds. Indeed, he continues, most decisions to accelerate payments flow from these conversations. Onboarded suppliers are able to call upon their SRM for impartial expert advice on the best course of action under changing market conditions.

> *Our SRMs are the oil that keeps the whole supply chain mechanism working.*

Treasury and procurement benefits

The immediate benefit of SCF for treasury, especially in an ultra-low interest rate environment, is a higher return on cash when it's deployed as a discounted early settlement for suppliers. If third-party funding is needed to help with working capital as part of an SCF programme, then that is available too. This, says Burns, gives a lot more flexibility in the achievement of treasury key performance indicators (KPIs), whether the focus is on margin improvement, cash flow and DPO, or both.

"From a treasury perspective, the C2FO programme is simple and effective. It's a decision to allocate a certain amount of free cash, or use our funding network, which can be flexed on a daily or even hourly basis," he explains.

From the procurement side, the programme removes financing costs that are normally factored into the supply chain because suppliers typically fund themselves through mostly non-negotiable and expensive bank loans.

"By offering an alternative, lower-cost financing, it creates a new area of value and cost savings for procurement, with no regulation or complexity to navigate," notes Burns. "And suppliers are able to arbitrage their costs by using an early payment mechanism that gives them quick access to liquidity."

Fixing the past

In addition to buyer time constraints, the high overall administrative costs of onboarding faced by providers – not least the raft of background know your customer/anti-money laundering (KYC/AML) activities and contract work required for each supplier – has all but consigned SCF programmes to the highest-value suppliers only.

"At C2FO, we've built a model that requires none of the onerous administrative work, so we can reach out to every supplier and onboard them quickly," says Burns. The model sidesteps the traditional receivables purchasing approach in favour of leveraging the suppliers' relationships with their buyers. "It's more akin to a cash management model," he comments.

Of course, normal cash management checks still need to be made to ensure payments are not sent to watchlist countries or organisations, but there is no requirement for deep KYC/AML processing. Onboarding suppliers without all the usual documentary demands means the process can be managed entirely digitally.

As Burns explains: "When a supplier comes to our website, there's a click-through agreement, and then they're straight in." Once on the platform, the supplier can choose an appropriate discount for early settlement; this uses a market-led pricing range that effectively undercuts the supplier's traditional, bank-led funding options.

Each priced invoice can be offered on the platform to the relevant buyer, which can elect to accept the offer from its supplier or not. The source of funding could be the buyer's cash or a funding partner in C2FO's network, but it is the buyer's choice.

It is unrealistic to expect a traditional category manager within a large corporate to reach out to a wide range of supplier sizes and complexities, and engage in conversation about early invoice payment. It's why most suppliers are not contacted about SCF. And yet clearly there is much to be gained by doing so.

"In C2FO, we segment our SRM teams to cover organisations of different sizes, from enterprise-level corporates to the smallest players. We then take a bespoke marketing and educational approach to each supplier, and that enables us to reach out to all of them in the most effective way," says Burns. "It's an effective approach that often yields above a 50% supplier conversion rate."

One C2FO client, global electronics giant Philips, has 20,000 suppliers spread across 100 category managers. It had an existing SCF programme but knew it was underserving a large portion of its supplier base. By augmenting that programme by C2F0 and its SRM approach, Philips reported that in the first 60 days it had onboarded a further 1,509 suppliers in 60 countries, with return on investment (ROI) achieved in less than 30 days.

UK building supplies major, Travis Perkins, won the Best SCF Award with TMI in 2019 for its work with C2FO. With more than £4.5bn in annual cost-of-goods spend across more than 6,000 small and large European suppliers, its early payment programme and SRM service was championed by Treasury, collaborating with Procurement, IT, Security, Accounting and Legal teams. The programme achieved ROI in seven months, contributing to the sustainability of its supply chain.

Positive outlook

"SCF is a mature product, so the challenge now is how to extend it to more suppliers," says Burns. He notes that more suppliers are, for example, being offered reduced early payment rates if they achieve higher environmental social and governance (ESG) scores. "It's certainly a constructive alternative to punishing them by withdrawing trade for non-compliance," he says.

However, many more companies should understand that suppliers of all sizes and values need to secure liquidity when required, and that an effective SCF programme can help reduce supply chain risk. But the success of these programmes depends upon internal collaboration, making sure the time, effort and expectations of procurement are aligned with treasury and vice versa, states Burns.

"Partnership with a third-party SRM team is key to enabling the entire background workflow of any SCF programme to be managed," he says. "By easing procurement's workload and treasury's working capital pressures, many more suppliers can be brought into the organisation's supply chain ecosystem, to the benefit of all." ■

> *In C2FO, we segment our SRM teams to cover different sizes of organisation, from enterprise-level corporates to the smallest players.*

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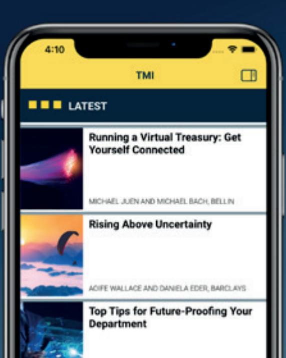

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How to Gain Visibility and Take Control of Payments and Cash

When it comes to payments, cash, liquidity and spend management, bank system independence is both desirable and achievable. Coupa's Rajiv Ramachandran, Senior Vice President, Product Strategy & Management, Coupa Pay, explains why and how.

In a global economy, where political, social and economic uncertainties persist, the effects of such disturbances are witnessed first-hand, and on a daily basis, by treasurers. But even in more predictable times, where businesses of all sizes and types now depend upon a global supply chain, disruptions can divert from strategic direction.

This is why, as a company grows organically and through mergers and acquisitions (M&A), the need to retain control and understanding of commercial relationships is important, notes Ramachandran. But, both domestically and overseas, he acknowledges that control is becoming ever more necessary and demanding. Indeed, whether with suppliers, subsidiaries, contractors, employees or banks, these relationships carry increasingly weighty obligations.

This means having what Ramachandran refers to as "timely visibility" over every important interaction. In particular, as the lifeblood of business, he believes that a view of cash and payments wholly across the organisation's ecosystem, is dictating how well those stakeholder obligations, and indeed the relationships themselves, are managed.

New approach

The broad sweep of variables faced by treasury are taken as "a normal part of

By **Tom Alford**, Deputy Editor

doing business," says Ramachandran. But to be fully prepared for every challenge and opportunity, he believes it is now necessary for companies, and especially treasury and cash management, to create a new operational model. It is, he explains, one "where data is visible and secure across the entire business but where, at the same time, local teams have sufficient control and flexibility to manage their own nuanced needs".

For this to happen, a unified technological approach is required. "You cannot have visibility over just one channel or part of your business, or just your main banking partner, you need it across the full spectrum of your operations," he advises.

"For Coupa, as a provider of SaaS-based spend, treasury and payments solutions, it is our role to deliver this connected world," says Ramachandran. "It's all about offering flexibility in a changing world."

It is, he adds, also part of Coupa's vision to enable customers "to see the unified picture that is the reality of their global business today". Indeed, when a business is, for example, based in Europe but has some of its key banking relationships in Latin or Central America, or across Asia, timely visibility is no longer just useful, he believes it to be a "must-have".

Without the level of visibility afforded by a single platform, he states treasurers will rarely be in a position to answer fundamental questions from the CFO about current liquidity and working capital. "And if that is the case, they will struggle to provide the right financial solutions to their organisation."

Because controls over payments and invoicing processes are seldom common among spreadsheet-based, and even best-of-breed point solutions, a lack of traceability potentially gives rise to incidences of fraud. "But where a common platform such as Coupa is deployed, permissions are clearly established for each activity, with one user-record and full auditability spanning every application," says Ramachandran.

Moving beyond the challenge

Solving problems is not the sole point of delivering single-platform visibility. It can be about facilitating growth too. The approach that Coupa uses is based on its well-established maturity model, explains Ramachandran. "It's a journey, and the first step for the client is the realisation of where they are on that pathway." This may present as an uncomfortable 'reveal' for some companies, he notes, but accepting that what it is doing is sub-optimal is essential to move forward.

In practice, using multiple security devices to access multiple banking portals to download a series of disconnected spreadsheets just to know what the current cash balance is on any given morning is an affliction recognised by many treasurers.

However, what many do not recognise is that they can do something about it. "Working with highly manual, reactive and siloed processes suggests that they are doing the best they can just to keep the lights on," comments Ramachandran. "It really need not be like this."

As an integrated platform provider, he believes Coupa is offering something of a lifeline to such businesses in terms of their future growth. It provides the foundations for digitising the treasury back office, which starts to generate centralised control while still allowing local units their freedom to respond to local needs, he explains.

"Our conversations with customers tend to begin with an understanding and acceptance of their current state, but quickly go on to help them achieve digitisation of their core operations, then onwards to optimisation," he continues. "The digital platform is therefore vital in helping treasury connect the components of its business as it goes forward."

Within the scope of core operations, visibility over the full range of payments activities – from spend management to actual payment processing – cash flow and working capital management, rapidly brings controllable elements under central scrutiny but, importantly, it also enables scalability. When control over the fundamentals is achieved, optimisation becomes a realistic prospect and this is when growth is back on the agenda.

"Clients can start thinking about currency exposures and risk management, cash pooling options and payments route optimisation," notes Ramachandran. "They can start building their approach to their cash conversion cycle, working capital position and their supplier relationships. From thereon it becomes one of planning continuous improvement."

Sharing experiences

The optimisation phase is where working with a provider such as Coupa has a distinct advantage. To set targets and gauge improvement requires a range of key performance indicators (KPIs) and credible benchmarks, drawn from internal and external data.

While a connected platform can provide key internal metrics on which to base the push for optimisation, the strongest

RAJIV RAMACHANDRAN

Senior Vice President, Product Strategy & Management, Coupa Pay

Ramachandran is responsible for the overall product strategy and management of Coupa Pay - Coupa's Payments, Treasury and Working Capital Platform. Over the past four years he has led the launch, growth and adoption of Coupa Pay in one of the company's most successful product campaigns.

Having spent more than 20 years in the enterprise software industry, Ramachandran is highly experienced in SaaS solutions, cloud and on-premise-based integrations of financial platforms and streamlining B2B processes.

Ramachandran holds an MBA from UCLA Anderson School of Business and has multiple patent-pending innovations against his name.

boost comes from access to comparative data drawn from across the sectors and geographies in which the business operates. This concerns data drawn from sources both domestic and international. It is this wider reach that Coupa has purposefully dubbed 'community intelligence,' says Ramachandran.

"It offers customers the possibility of seeking background information, such as payment performance, to support certain decisions. This is useful, for instance, when they start working with a new supplier with which the community has already engaged," he explains. "As a resource, it is growing daily, in line with the expansion of our community."

The promise of advanced technologies such as artificial intelligence (AI) and machine learning (ML) is taking this function even further on the Coupa platform. Deploying ML to determine patterns of payment behaviour can flag up any new payment that appears to be an outlier in terms of historical performance. But it can also be used to enhance cash forecasting too, says Ramachandran.

With the pandemic impacting revenue streams, accurate forecasting of cash positions has become a matter of almost existential importance for many businesses. The heightened awareness of the importance of cash forecasting is, he feels, now permanently on the agenda.

"But while businesses are really looking for predictability, many are not sure how to predict their cash flows," he notes. "So, what we have built, using AI and ML, is the means for clients to analyse their own data over any time series, with the ability to predict with more than 80% accuracy."

Furthermore, as part of the community intelligence experience, Ramachandran adds that aggregated and anonymised data is now being offered to clients to help them see how closely their cash flow management and forecasting activities match various key demographics, such as by sector or geography. From this benchmarked external performance data, he says Coupa is also able to provide "prescriptive insights" to each customer to hone their approach.

Taking the next step

It is part of the Coupa remit to maintain its customer-education programme around key market trends and challenges, and how its platform is changing to meet their needs. "We are motivated by our customers' success, and we define success through a series of quantifiable, achievable and timely goals that we define and measure in our platform," says Ramachandran. A customer seeking a 60% uptake of a new electronic invoicing programme across its supply chain will be able to clearly see its performance in this respect, and respond accordingly.

"We're helping customers lay down the blueprint of their vision," states Ramachandran. "We're helping them define and understand their success metrics, implement the right product to achieve and exceed those metrics, and then constantly monitor progress so they derive the value they are seeking."

With a customer community that is "somewhat vocal" regarding the value it obtains from the system, some using the Coupa Pure Insights rating tool, he reports that the vendor is subject to a constant source of input from active users. "It's a journey for us too. The community we are building and organising around is starting to see the value of their involvement, and we are learning a lot from that."

In his final assessment, Ramachandran believes that the digitisation of treasury is now nearing the top of the itinerary. "The pandemic exposed what was always known – that paper-based processes and siloed operations are not working – but it did so at such a high level that most now understand that this is no longer just about inefficiencies. It has really exposed problems with business fundamentals."

While inefficiencies may in themselves be survivable, he argues that failure to attend to inadequate fundamentals will increasingly become a threat to survival. "It's leading companies to set their back office on the right path, and rather than building a solution from scratch many are realising it's possible to acquire a simple-to-use, easy-to-adopt single platform."

By facilitating end-to-end data transparency and traceability, and connectivity with banking partners, subsidiaries and customers, every stakeholder begins to have at their fingertips a set of common processes around payments, cash, liquidity and spend management.

Ramachandran concludes: "When treasurers see the advantages of going from an operational outlook to one of connectedness and continuous optimisation, that's when they move beyond keeping the lights on to thinking and becoming one of the most strategically important functions in their organisation."

> *You cannot have visibility over just one channel or part of your business, or just your main banking partner, you need it across the full spectrum of your operations.*

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Excelling at Invoice Financing with Alza

Czech e-commerce firm Alza's award-nominated invoice financing programme demonstrates that supply chain finance is not purely the preserve of billion-dollar multinationals. By offering financing to all its suppliers, the company is primed to support both its own rapid growth and the resilience of its supply chain.

By **Ben Poole**, Columnist

European e-commerce firm Alza, which is headquartered in the Czech Republic, has experienced rapid growth over the past decade. While its annual turnover stood at €225.78m in 2010, it cracked the billion-euro landmark in 2019 reaching €1.14bn. Despite, or perhaps because of Covid-19, the unaudited figures for 2020 show even more growth, with the year's turnover hitting €1.412bn.

To cope with this rapid growth, the company had to onboard an increasing number of smaller goods suppliers to populate its virtual shopping aisles with everything from televisions to toys and from mobile phones to smart home appliances. However, Alza soon found, it was not always receiving as many goods as expected.

Jiri Ponrt, Financial Director, Alza, explains: "These suppliers were afraid to say that they had a problem with working capital. They didn't have enough money to pay their suppliers and deliver the number of goods we wanted. We assumed that they could go to banks or factoring companies to solve this issue, but it soon became clear that many of them were too small to get a loan and didn't have a long credit history behind them that would satisfy the bank. They also said that they found factoring companies too inflexible."

Finding a solution

Ponrt knew Alza could offer some form of assistance to the smaller suppliers but wanted to employ an approach that fitted with Alza's forward-thinking and digital outlook.

"My original idea was to find a traditional factoring company that would have a little bit of flexibility for these smaller suppliers, but that would have simply been the traditional factoring

offering," Ponrt recalls. "While there was merit to this idea, it was a little backwards-looking. Then I was at a conference speaking with a Roger key account manager and an idea took hold. One of Roger's shareholders is a major EDI [electronic data interchange] provider, and is the same provider we use for invoicing."

Roger is part of the Komerční banka (KB) Group and is licensed by the Czech National Bank. With application programming interfaces (APIs) to connect to any internal financial system or enterprise resource planning (ERP), Roger offered Alza the type of solution it was looking for: something online, automated, and simple for its suppliers to use. As such, Alza and Roger launched Alza Invoice Financing (AIF), which Roger operates through its wholly owned subsidiary Invoice Financing.

The AIF process is straightforward for both the supplier and the buyer. Once a buyer makes an order, the supplier sends its goods and invoice via EDI to the buyer. In the moment the goods arrive to the distribution centre of the buyer the invoice is pre-confirmed by the buyer in the EDI system and thus in AIF system as well. The supplier sells the invoice to Roger and receives 75-100% of the invoice value immediately to its account. The buyer pays the invoice value to the AIF account by the contractual due date. If financing for less than the nominal value of the invoice has occurred, a surcharge minus a fee is sent to the supplier by Alza as soon as the buyer settles their commitment.

Ponrt continues: "The solution is very flexible, suppliers just need to approve the contract once, and then everything is done online via a dedicated supplier website. We have a dedicated team member that helps the suppliers, and we have also worked on the internal education across our business because these suppliers are mostly meeting our purchasers from the sourcing and purchasing department. We have to educate our people so that they can offer this solution to help the smaller suppliers."

Expanding the scope

With the AIF solution up and running, Alza offered a much-needed level of working capital support to its smaller suppliers. But then Ponrt and his team began to realise the potential that a tool such as AIF could also have for medium-sized and large companies that have their own cash flow and working capital targets.

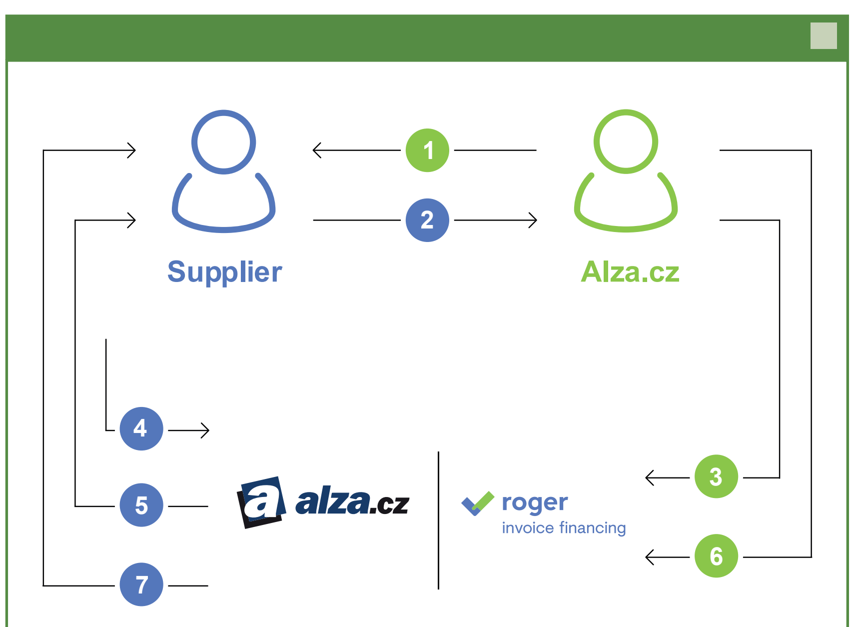
"Larger firms might not be affected by the seasons in the way a small supplier can be, for example, but they might have a reporting deadline and require financing as a result," Ponrt notes. "Equally, they could have closed a big deal and need to get money from their customers earlier. Realising this, we extended the programme, understanding that we would probably need a different approach for these bigger companies. As a result, we created three tiers, which all have slightly different conditions. In the upper tier, for the largest companies, we offer lots of other services. For example, we can offer 100% financing if we are satisfied with the company. We are also happy to explain to the C-suite how we do the financing."

Establishing such a flexible and technologically advanced financing programme has not been without its challenges. Those suppliers who had all of their business running through a traditional factoring company caused some challenges that had to be resolved.

"This is a pain because you have an invoice which has one set of bank account details, and then you get an email or a fax requesting the funds to be sent to a different account," says Ponrt. "Of course, you do not know if this is a scam or not, and it can be challenging to verify that. An even bigger issue here is that everything goes via our EDI, including the payments, so when the account details don't match, we have to stop the process, investigate, and do everything manually, which is clearly far slower and less efficient."

Ponrt found that almost 50 companies were operating this way and had the task of advising them of the disruption this caused

> *The solution is very flexible, suppliers just need to approve the contract once, and then everything is done online via a dedicated supplier website.*



to Alza's smooth process by adding time, cost and confusion.

"We impressed upon them that we want a fair, open, and transparent process that is also secure for both sides," Ponrt says. "Some discussions took longer than expected, because the businesses might have been used to working in that certain way for 10 or 20 years. Now we are sending them SMS messages to sign and giving them options to tick a box if they don't want a certain invoice financed – working in such a highly automated manner took a bit of getting used to for some of them."

Benefits all round

Having instigated the AIF programme, Alza has strengthened its supply chain by ensuring that the supplier gets paid precisely when needed. At the same time, the risk of fraud from a fake invoice is mitigated through the buyer's role in the approval process. The company was also able to use its existing EDI system to run the programme rather than invest in costly new technology.

On the supplier side, the most apparent benefit of the AIF programme is the working capital optimisation that it provides. Suppliers can set the maturity of the invoices according to their buyer's needs to reflect the turnaround time of the goods, which enables a shortened cash conversion cycle.

"This programme enables the small suppliers to grow, because they can immediately deliver the goods to us at a higher volume, where previously they might have needed another two or three years to generate the money to grow enough to be able to do such business," Ponrt notes. "They know they can deliver to Alza and have no hassle with working capital. In our experience, if a supplier starts to use this programme, they will commit to using it. Sometimes they will try it with two or three invoices to see how it works and then, a couple of months later, we will see that they've selected automatic' on the system to finance all of their invoices automatically."

Expanding the supplier concept

The AIF programme initially launched to suppliers in the Czech Republic and Slovakia, with Hungary added in the second half of 2021. As well as expanding geographically, Alza's finance team has also been keen to expand the programme beyond goods suppliers.

"As we had been linked to EDI, we primarily looked to onboard suppliers of goods to the programme, but a couple of months ago we extended the programme to suppliers of services as well, which do not usually invoice using the EDI format," explains Ponrt.

To make financing options available for services suppliers, Alza connected its internal ERP system directly to the Roger system and database, opening up the possibility to finance non-EDI invoices from services companies, such as those suppliers in logistics.

"We have between 30 and 40 suppliers in the transport and logistics space, supporting movement between our warehouses, branches, and our self-collection points. Firms like this did not use to work with us as they were not supplying goods, and there wasn't an EDI invoice. For example, they were used to handling their working capital through loans and freight payments for discounts, so we thought that our invoice financing could give them a great new financing option. We opened this up to logistics firms a couple of months ago and already have the first one signed up and many other companies are thinking about it."

As the company with the highest marketing spend in the Czech Republic, Ponrt naturally also saw an opportunity to expand the AIF programme in this direction.

"We are looking to offer this solution to our marketing suppliers. Some are multinationals, but many of them – such as graphics studios – are small players. While this programme started by focusing on the suppliers to our goods, we are now in a great position to provide financing options to any supplier of Alza, across our entire business."

The project's success saw the Czech Republic's Treasury Association (CAT) nominate Alza for the European Association of Corporate Treasurers (EACT) Award 2021, with the project reaching the shortlist of the final six corporates. With the rapid growth of both Alza and its invoice financing solution, the company looks set for even more success in the years ahead.

> *Larger firms might not be affected by the seasons in the way a small supplier can be, but they might have a reporting deadline and require financing as a result.*

JIRI PONRT

Financial Director, Alza

Ponrt joined Alza in 2014 as CFO and has also acted as interim commercial director for the Czech Republic e-commerce store. He is currently responsible for the corporate's financial management and its customer and supplier financial services.

His experience includes financial management roles at a number of major companies including Nutricia, the baby food division of Danone, and he has also held positions in trade marketing.

Ponrt studied at the University of Economics in Prague and is a member of the Association of Chartered Certified Accountants (ACCA).

Transactional FX

Maximising Efficiencies and Unlocking Cash Management Opportunities

As the speed of global commerce increases, and the desire for transparency across all areas of business intensifies, more treasury teams are discovering the benefits of automating their transactional foreign exchange (FX) workflows. In this article, two senior leaders from Barclays Corporate Banking explain the drivers behind the rise – and democratisation – of transactional FX solutions, with a strategic eye on the cash management implications of this trend.

By **Eleanor Hill**, Editor

"Great things are achieved through lots of tiny, unglamorous milestones." This quote from Professor Michael Bliss, a distinguished Canadian historian known for telling the complete story behind the discovery of insulin, was not originally intended for the ears of a corporate treasury audience. Yet the sentiment closely echoes the thoughts of Gibran Maqsood, Director, Transactional FX Sales, Europe, on the topic of transactional foreign exchange (FX).

"There are two broad areas within FX that concern treasury. First, there is the strategic or discretionary side which involves hedging – often very significant – currency exposures. Then there is the day-to-day, far less 'glamorous' aspect of international payments and receipts, which can be called systematic or transactional FX," Maqsood explains. "While the latter typically involves relatively low-value transactions, the cumulative effect on both cash- and risk management can be significant. And in today's operating environment, treasurers have a great opportunity to review and optimise their transactional FX processes."

Time for change

Elaborating on the catalysts currently shining a spotlight on this area, Loic Merlot, Head of Cash Management in France, Belgium and the Netherlands, says: "With the growth of cross-border trade and the boom in international e-commerce, the need for organisations to manage the FX flows associated with those transactions has increased enormously." And although Covid-19 and Brexit put a dampener on global trade flows in 2020, there has been an impressive rebound in 2021[1].

What's more, the cross-border business-to-consumer (B2C) e-commerce market is anticipated to record a compound annual growth rate of nearly 28.4% from 2020-2027[2], suggesting that efficient management of transactional FX will only become more important in the years ahead.

Merlot continues: "Covid-19 has also led to a greater call for visibility and transparency among corporates, in order to aid accurate forecasting. Naturally, this includes visibility over the FX pricing attached to international payments and receipts. And with solutions such as SWIFT gpi's Tracker providing this level of granularity, corporates have witnessed the art of the possible – and many are now searching for comparable transparency across all areas."

Elsewhere, regulation is also driving greater focus on transactional FX, believes Maqsood. He cites the FX Global Code, which is maintained by the Global Foreign Exchange Committee (GFXC), as a prime example. As a set of global principles of good practice, the code is intended to promote a robust, fair, liquid, open and appropriately transparent wholesale FX market. "The code has implications for both banks and corporates, as suppliers and buyers of FX services. As a result, banks are placing even greater scrutiny on all areas of FX and enhancing their solutions around transactional FX. At the same time, treasurers are re-examining their behaviours and pinpointing areas ripe for improvement – and transactional FX is emerging as an area that is receiving a lot of interest now," he notes.

Backing this up, the results of the TMI and Barclays' European Corporate Treasury Survey 2021 show that 58% of treasurers are currently considering automating their low-value FX payments with their banking provider.

"This re-examination comes at a time when payments and collections processes are already shifting because of the growing use of real-time instruments and the advent of emerging technologies", adds Merlot. "Increasingly, corporate treasurers are exploring the benefits of technologies such as robotic process automation [RPA], artificial intelligence [AI] and application programming interfaces [APIs], and virtual accounts, as they look to prepare for the era of truly real-time treasury."

Out with the old

With these maturing technologies, and a mandate to review and improve their operations, treasurers are also questioning how they can optimise their cash management processes. Merlot explains: "Given the increased speed and complexity in their operations, treasury leaders are understandably asking themselves whether they really need bank accounts in myriad countries and currencies. Inevitably, they would prefer a way to streamline their cash management structure, reduce internal costs, better manage their balance sheet, and minimise FX risk by taking it at the most appropriate moment in any given transaction."

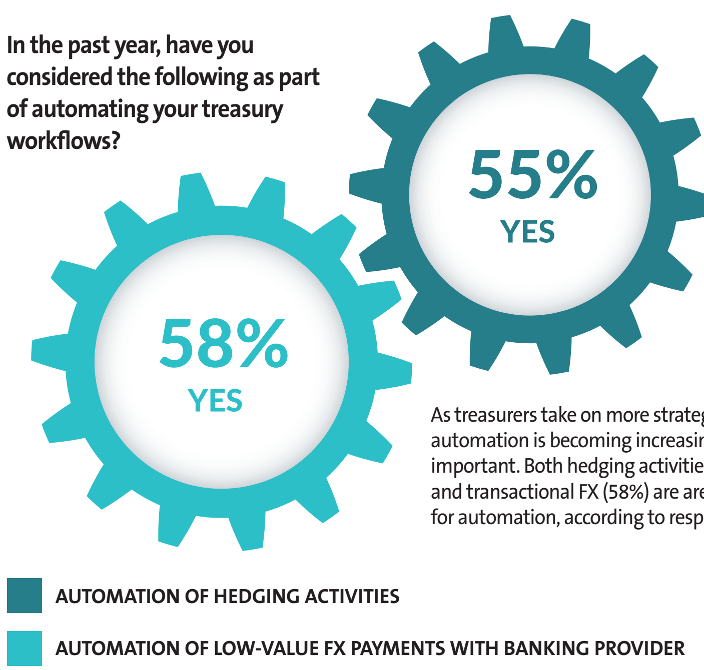
This final point highlights the issue of inefficiencies in treasury workflows – and how this can impact transactional FX. Maqsood elaborates: "Corporates that have not yet taken the time to optimise their transactional FX typically take a very manual, piecemeal approach to it. This can result in numerous process inefficiencies and also leaves room for error."

Take the simple example, he says, of a business whose functional currency is the euro, but who needs to make a supplier payment in US dollars – on Friday. "In a manual environment there are several steps that go into making that payment. First of all, someone will need to book an FX trade,

> *A few years ago, automation of FX-related processes, and transparency around those flows, was reserved for only the biggest corporations.*

FIG 1 THE RISING POPULARITY OF AUTOMATED TRANSACTIONAL FX SOLUTIONS

In the past year, have you considered the following as part of automating your treasury workflows?



As treasurers take on more strategic roles, automation is becoming increasingly important. Both hedging activities (55%) and transactional FX (58%) are areas ripe for automation, according to respondents.

Source: TMI and Barclays' European Corporate Treasury Survey 2021

GIBRAN MAQSOOD

Director, Transactional FX Sales, Europe, Barclays Corporate Banking

> *Taking transactional FX seriously can result in operational and economic efficiencies, while increasing speed and accuracy, and reducing risk.*

to sell euros and buy US dollars either by calling a dealing desk, or by logging on to an FX platform. Realistically, for Friday delivery of the payment, this would take place before the payment date, let's say on Thursday (although this could be even earlier, depending on the process workflows of individual organisations). The US dollars would then be credited to the corporate's account, and the euros debited, and various post-trade processes will be performed, including confirmation - it may also be necessary to manually reconcile the US dollar credit and euro debit. Then, once settlement has taken place, the banking platform or payment channel must be accessed to actually make the payment."

From this explanation alone, it's clear to see that the process is cumbersome (see fig. 2) and can take anywhere between several hours to several days due to the FX conversion, despite the fact that real-time payments can move in a matter of seconds. As a result, the corporate not only has to contend with operational risk due to the manual touchpoints but has also taken on additional FX risk (between Thursday and Friday in this particular example).

"Furthermore, if many similar payments like this are being aggregated and converted at once, like a weekly run of US dollar payables for example, the risk of the currency moving against them can become significant," cautions Maqsood. Merlot adds that the corporate also has to "find somewhere to park that US dollar cash until they require it, which comes with additional complications". And although this example relates to an outgoing payment, the process for incoming funds carries similar manual burdens and economic risks.

Of course, there are many ways in which transactional FX solution can be set up – the above is just an example. "Sometimes we see automated solutions working in tandem with a traditional [or manual] FX execution solution," explains Maqsood. "However, we see more and more corporate treasurers opting to implement integrated transactional FX solutions, which primarily target the low-value high-volume FX environments," he comments.

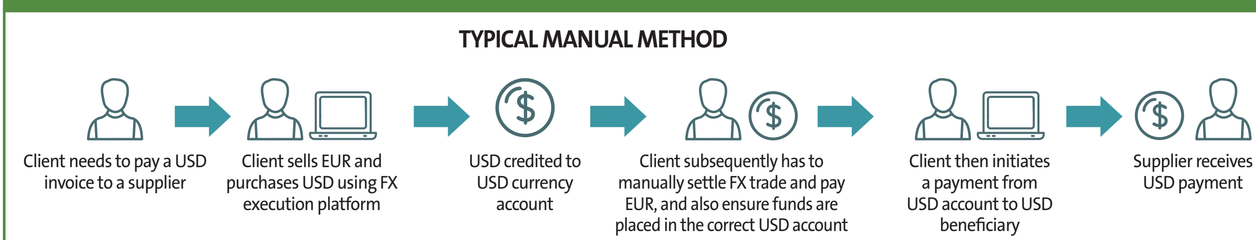
In with the new

An integrated, automated, solution which runs on a fully straight-through processing (STP) basis can potentially offer a much more efficient solution for transactional FX. With such a set-up, the currency conversion is performed at the point of sending the payment, rather than a few days previous (see fig. 3) and touchpoints are minimised as everything can be performed from the buyer's banking platform, with no new technology or additional system implementation required.

"While the operational benefits of the STP approach are clear to see, some treasurers might initially question the value such a solution brings in terms of the FX rates," says Maqsood. "Those that have been used to manually managing their FX risk will be used to very tight margins on their FX. In the integrated solution, the pricing might appear slightly wider – but on the other hand, the margins are locked-in and totally transparent, which complies with growing governance requirements. Therefore, the overall value that can be derived from transparent FX pricing – across all sizes of transaction – and an STP environment, arguably outweighs any opposing views."

There are additional cash management benefits too, says Merlot. "It can be time consuming and expensive to

FIG 2 MANUAL TRANSACTIONAL FX WORKFLOW



Economic and Operational risk: *Potenially multiple users at each stage (for FX and Payment) timing mismatch between USD credit and payment leg being actioned, inefficient use of resource to fulfil payment run* maintain multiple foreign currency accounts – especially if this involves multiple bank relationships and notional pooling structures. The beauty of an integrated and automated transactional FX solution is that the corporate no longer has to hold on to foreign currency; they simply convert it at the time of the transaction. This also means that corporates have a few extra days to hang on to their original currency and can potentially invest it for a little longer."

This approach can enable corporates to streamline their cash management structures, reduce banking and legal fees, and improve cash forecasting thanks to simplified FX workflows. Merlot adds that the STP set-up also removes the need for a complex IT infrastructure since everything can be executed on one platform. As such, the potential for errors and fraud is also vastly reduced – and reporting can also be enhanced, with consolidated information available at the touch of a button. In a nutshell, says Merlot, "taking transactional FX seriously can result in operational and economic efficiencies, while increasing speed and accuracy, and reducing risk".

Simplicity for all

Despite the universality of the potential benefits, there is, of course, no one-size-fits-all solution. "Whether a corporate is looking to build an entirely new cash management structure, or to optimise their existing one, a transactional FX solution should exist as an integrated part of that ecosystem. The ideal set-up will vary from corporate to corporate, depending on the objectives of the treasury team," explains Merlot. "Nevertheless, for those corporates sharing the goal of simplifying account structures, by automating transactional FX at the point of inception, the corporate can ultimately achieve a single account solution that allows them to make and receive payments in multiple currencies – with minimum hassle and maximum benefits."

Maqsood agrees, adding that with such solutions we are entering an era of FX 'democratisation'. "A few years ago, automation of FX-related processes, and transparency around those flows, was reserved for only the biggest corporations. Now, it is becoming available for businesses of all sizes, and across all types of FX transaction."

Over the coming years, Maqsood expects to see many more requests for proposal (RFPs) seeking transactional FX solutions. "By integrating and automating their day-to-day FX payments, treasurers have an opportunity to become better strategic advisers to the board as they are freed up from manual processes and can bring greater efficiency, alongside deeper FX insights."

Merlot echoes these thoughts, concluding that in a world where the external operating environment is becoming increasingly fast-paced and complex, "sometimes, the greatest sophistication can actually be found in simplicity".

LOIC MERLOT

Head of Cash Management in France, Belgium and the Netherlands, Barclays Corporate Banking

FIG 3 AN INTEGRATED AND AUTOMATED TRANSACTIONAL FX WORKFLOW

EXAMPLE OF INTEGRATED FX PAYMENTS APPROACH USING STRAIGHT-THROUGH PROCESSING (STP)

Economic and Operational efficiency: *FX execution and payment leg initiated simultaneously, reduced impact on manual resource required, automatic capture and reporting on all deals*

Notes:

1 https://unctad.org/news/global-trades-recovery-covid-19-crisis-hits-record-high

2 https://www.prnewswire.com/news-releases/cross-border-b2c-e-commerce-market-to-be-worth-us-4-195-4-billion-by-2027-with-double-digit-cagr-of-28-4-over-2020-2027--zion-market-research-301366038.html

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We Need a Better Solution

A Treasurer's Legacy Tech Escape Plan

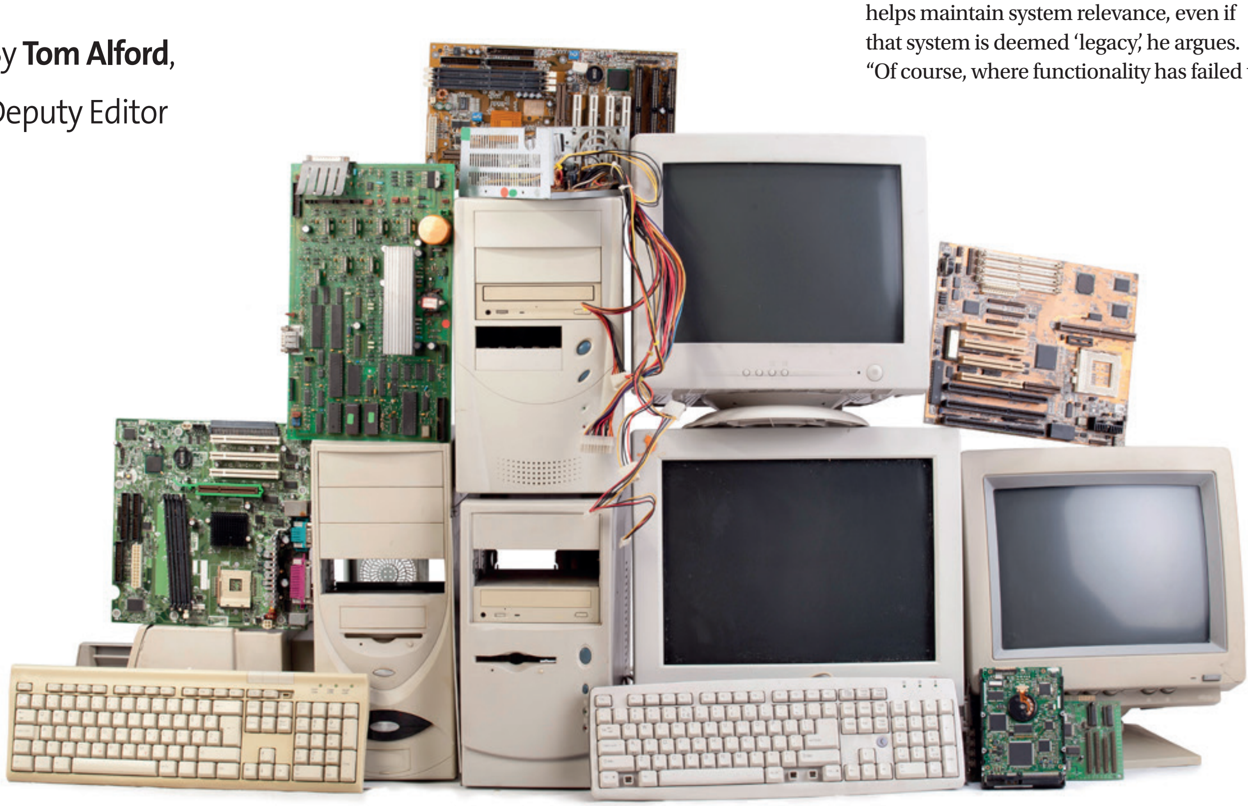
The phrase 'legacy technology' may invoke images of ancient and unstable IT systems that must be replaced as soon as possible. But is this always the case, and how easy is it to move away from such systems? We sought views from a number of specialists.

By **Tom Alford**,
Deputy Editor

Although the notion of 'legacy technology' makes for a rather open interpretation, it has at least one consistent characteristic, notes Kevin Heins, Global Head of Advisory and Complex Client Solutions, GTS, Bank of America. "It says outdated and potentially obsolete software and technology, where the underlying architecture may limit the expansion of purpose of the original application."

It's a view shared only in part by Adrian Rodgers, Director, ARC Solutions. He contends that "legacy technology is not automatically a negative", but qualifies this by asserting that the critical part of his definition is whether or not the original vendor has kept their software up to date, particularly in terms of enabling connectivity to newer systems.

Openness to integration with the work of other vendors, especially specialist fintechs, helps maintain system relevance, even if that system is deemed 'legacy', he argues. "Of course, where functionality has failed to



keep pace with user need, or where system support has become poor or non-existent, there is a clear case for moving on."

Taking a straightforward view of legacy, Bob Stark, Global Head of Market Strategy, Kyriba describes it as a "closed system". If it does not integrate easily with others, or it requires IT support to ensure new functionality or connectivity is available to its users, then he believes it is a problem in the making. "Technology is an enabler first and foremost, and if it struggles to adapt and scale to the changing requirements of the business, then its time is running out."

Saying goodbye

While Rodgers accepts that "sometimes there may be no reason whatsoever why treasury should not build on top of an existing stack," he cautions that "this must never be the used as a way of taking the easy way out of a problem". Doing so, he warns, "will only serve to lock you further into legacy" that one day will become a problem.

Citing a client with a large in-house bank that repeatedly delayed changing its technology, Rodgers acknowledges the reality of change, saying "some organisations are so big, and their technologies so business-critical, that change is a frightening thought for them".

Unfortunately, closed legacy technology can prove difficult or impossible to extend. Inhibiting the flow of new real-time data streams because, for example, APIs cannot be connected, will present a significant loss of treasury opportunity, even around basic activities such as managing bank signatories or receiving statement data. This is when the argument for change should become more compelling.

Reasons for replacing a system tend to fall into one of three categories, notes Stark. Until recently, it was likely to be either the relationship with the vendor no longer being satisfactory, or the functionality no longer being sufficient. Increasingly likely now though, he says, is the lack of ability of a system to integrate with other streams of information.

Borrowing the Gartner term 'composable financial management systems,' Stark has observed CFOs beginning to build their own finance IT teams, driven by a need for greater data integration and wider sharing across platforms. "If you don't have the ability to support that model from a technology perspective, in my opinion, you have a serious legacy system issue."

However, even if challenges arise, it still does not necessarily make legacy technology a problem to be immediately and unconditionally removed. A disparate and seriously limiting collection of spreadsheets may indeed need upgrading now, but Heins suggests that if legacy refers to vital systems that are deployed organisation-wide across multiple processes it could well be "difficult, risky and expensive to replace". This requires a lot more planning than a simple shopping list.

Resistance is strong

While users of an ageing core systems may wish for a rapid upgrade, the idea of ripping

BEL GROUP: TRANSFORMATION IN PROGRESS

When family-owned global dairy product firm, Bel Group, sought to bring to order what was already a centralised treasury operation, it had made serious inroads into centralisation with its Paris-based shared service centre. However, most of its subsidiaries had no overseeing treasury function. With exposure to more than 15 currency pairs, and a significant volume of intercompany cross-border sales, and more than 1,500 market transactions annually, treasury was facing a challenging future.

It was clear that treasury's needs were being hampered by "too many" systems, according to Benoît Rousseau, Group Treasury and Insurance Director, Bel. With no treasury-specific IT to call upon, an "unacceptable" amount of time and effort was required just to maintain system connectivity and scheduled upgrades, he reports. "For a company like us, finding an integrated software-as-a-service (SaaS) solution was really key to our future progress."

Rousseau conducted a detailed review of the market, eventually selecting Kyriba. The vendor was already well known to him as a bank communication and cash management system but less known for its risk management capabilities. Accepting that Bel might discover some points of compromise in this respect, the fully-integrated nature of Kyriba's platform was the decider. "Instead of adopting a best-of-breed approach and working yet again with several different providers, we were happy to change our way of management to make sure Kyriba gave us the level of integration we need," he explains.

Having made the selection, the 12-month implementation project kicked off with a number of cross-functional workshops. These explored Bel's requirements and specifications around cash management, bank communication and risk management. Having finalised details, the physical implementation work commenced.

"We've put a lot of internal resources into this project," says Rousseau. Indeed, to be able to dedicate some of its internal treasury team to the project, Bel brought on board a team of interim treasury professionals. To cover some areas of technical expertise, the firm also worked with an external integration specialist.

Rousseau is anticipating considerable savings in terms of maintenance, along with more fluid connectivity with its banks and its SAP ERP platform. There will still be some work to close the system's functional gaps for Bel, but this too is in hand. With Rousseau acknowledging that Kyriba's specialisation is not risk management, the implementation is an opportunity to collaborate with the vendor, particularly around FX risk. Bel is now offering its observations and feedback on how this module can be developed, for itself and other users.

Bel is also engaging with Kyriba on the iteration of a new automated artificial intelligence and business intelligence-based fraud module. It goes further: "Today, most of our FX transactions are managed through a single platform, so now we're looking for a single electronic platform to manage all liquidity products too," Rousseau explains. He is also taking the opportunity, while minds are project-focused, to expand his review to cover all internal processes and documentation impacting treasury. "This is not about a like-for-like replacement. What we have clearly identified and are undertaking is a transformation."

and replacing will often raise concerns for the IT team. Replacement, as Rodgers notes above, can indeed be fraught with problems. Herein lies a necessary weighing up of the risk between replacing and not replacing.

A broad argument for replacement today is based on connectivity. Momentum is being driven by the rapid rise of, and demand for, online services and real-time data provision. It's a situation that notably accelerated during the pandemic as business customers – B2B and B2C – were forced online, and finance teams desperately sought updates on liquidity and cash positions to stave off collapse.

For Heins, this situation has created a degree of change inevitability for many corporates where their old architectures are on-premise applications lacking the ability to integrate with new cloud-based offerings. "If you don't upgrade at some stage soon, the business will eventually lose the ability to stay in touch with developments, in terms of both technology and client expectations," he cautions.

Despite strong drivers, some resistance to removing legacy technology persists, even those in sectors most affected by digitalisation such as retail. Not least of the reasons why is an unwillingness (or inability) to bear the cost, complexity and commitment to deliver transformation.

The lack of budget for upgrading is "an absolute classic barrier", comments Rodgers. "It's particularly an issue where treasury is run as a cost-centre." And where treasury faces a CFO who is only interested in keeping costs down, he says "they will never get excited about increased efficiency and service capacity".

ADRIAN RODGERS

Director, ARC Solutions

A number of client examples from Rodgers reveal where the treasurer has been "desperately in need of a technology upgrade, yet the CFO does not understand why". Their refusal to acknowledge a real need persists, even after providing independent evidence that organisations have suffered financially because they didn't have the appropriate treasury systems.

As Rodgers himself notes, "a mistake in accounts payable is survivable but a major meltdown in treasury may not be". With some optimism, he feels old-school denialist thinking may be nearing the end of its tenure, and that those entering the office of CFO now will have had some exposure to treasury, or even been treasurers themselves.

But even with senior executive support, expectations must be managed to avoid disappointment. It may be the case that the first upgrade, from spreadsheets to a TMS, yielded huge savings in time and effort. Subsequent upgrades, notes Stark, are more likely to focus on transformation and new capabilities rather than purely productivity gains.

"Effective treasury system projects don't stop once they've automated key tasks. The treasury team that continues searching for process improvements, including integrating multiple systems and processes together, will uncover significantly more benefit than those that remain content with only saving hours of time."

In terms of project commitment, organisational changes and turnover at the management level can have a detrimental effect. Agreeing to budgetary and resource requests for a major systems overhaul that delivers only perceived incremental advantages is a crusade only of the brave. Often, it may be felt, it is best to focus on resolving other more immediate issues, leaving treasury upgrades for future incumbents to tackle.

As this attitude continues, so risks may intensify, notably around the continuity of core processes. Where system integration is not tackled, rapid enterprise-wide visibility of financial data is not possible. The potential harm to the understanding of working capital and liquidity positions forced by being unsighted in this way is immense. And yet Heins says he still bears witness to treasuries that are struggling to secure the agreement and the budget to upgrade.

Building a case

Stark believes focusing overly on cost as a barrier is itself a "symptom of legacy thinking". The real focus, he suggests, should be on "value realisation". It is, he explains, about what can be added to either the top or bottom line, based on having transformed the treasury operation using, for example, real-time information, or improving cash and liquidity through more precise forecasting.

If no such benefits are presented, then the upgrade conversation will be short. However, real improvements can have ROI (return on investment) figures attached; these will boost the business case. "Don't think of the shift from legacy as a cost, but as an investment that will yield certain benefits and an ROI," Stark advises. "It's a figure that enables CFOs to crystallise where treasury transformation should be on their priority list. And cost goes away quickly once you really understand what you're looking to accomplish."

Rodgers offers some practical case-building illustrations where, for example, quantifiable cost-benefit analysis might show that four FTEs undertaking cash allocation could comfortably be reduced to two by implementing matching software, based on a specified cost over a defined period. In addition, software deployment could remove practices such as manual keying and error-correction, demonstrating that efficiency also positively impacts security and control measures.

Managing change

Because every major IT project can present risks, treasury should consider adopting a proven methodology to aid safe migration away from legacy technology. Heins proposes a four-pillar approach that requires the following to be addressed, attaching equal importance to each:

- Set a clearly defined strategy
- Provide adequate funding
- Set aside appropriate resourcing
- Deliver superior project management

A "softer element" that enhances user experience should be added too. "If a business is investing in a major technology upgrade, offering the best user experience for every stakeholder is essential to make the most of that investment," he explains.

At a practical project execution level, Rodgers often reminds project teams that effective data management is vital. "For a system that has been in service for a long time, some of that data will be redundant, and some incorrect. It generates a data-cleansing imperative that must run in parallel to that of the data migration, where retention and accessibility are possible challenges."

Indeed, he argues that cutting over to a new system and simultaneously switching off the old one requires caution. At least 12 months of comparative data will be required alongside that required for audit, compliance and legal reasons.

"It may be obvious to some, but the archiving and accessibility of data from certain systems is something to be borne in mind," says Rodgers. "For a professional project manager or consultant, this should be just another item on the checklist of important actions. For a busy treasurer looking forward to a brave new world, something so obvious can go unheeded."

Partners

One way to ensure data accessibility is retained is to extend the legacy replacement consultation to multiple stakeholders across the organisation. Collaboration with colleagues is particularly important in a project that integrates treasury systems into the wider technology environment – to

> *If you don't upgrade at some stage soon, the business will eventually lose the ability to stay in touch with developments, in terms of both technology and client expectations.*

ARCELORMITTAL: NEXTGEN BUILD

With its multi-system treasury and trading architecture no longer delivering expected levels of service and risk management, the Paris-based group treasury of Luxembourg steel production giant ArcelorMittal knew the time had come for a major technological upgrade.

The firm's IT team had kept the existing fragmentation of in-house and vendor systems in operation across a group-wide intranet for around 15 years. However, this set-up required an increasing amount of maintenance and audit work, says Laurent Koenig, Treasury Head of Operations, ArcelorMittal. With a number of applications no longer being supported by their vendors, he says the goal was clear: find an integrated solution that could become the heart of treasury for at least the next 20 years.

The primary objective was optimisation of ArcelorMittal's front-to-back global trading, liquidity, funding, regulatory reporting, and foreign exchange (FX) and commodities hedging activities. With its financial risk management carried out mostly using Excel, Koenig was keen for the team to build "something far more robust".

To achieve its goals, group treasury embarked upon a two-year quest for a single-vendor, single-platform successor. "We certainly took our time," recalls Koenig. Using the services of KPMG to guide the search, an extensive request for information/request for proposal (RFI/RFP) process was initiated. Calypso's integrated suite of trading and risk applications was eventually selected, alongside its implementation partner, Synechron.

The nature of ArcelorMittal's business means it hedges many commodities. "It's a pain point for us," Koenig explains, noting that "it's often difficult to record trades, so having a customisable system like Calypso is essential". That said, he is adamant that customisation will be strictly limited. "This way it makes it a lot easier for us to document, support and upgrade."

The implementation project will replace most of the applications currently in use by ArcelorMittal's group treasury. However, it will retain one of its core systems for pure cash management activities, Koenig "feeling quite at ease with that system".

Calypso will focus on front-to-back trading operations, interfacing directly with existing settlement functionality. Jérôme Plainchault, Director, Synechron France, says his team will rely on a standardised Calypso platform architecture and messaging formats to deliver the project's remit. "There will be times when we do need to customise for the ArcelorMittal implementation," he notes. "We just need to find the right balance between what's proposed natively by the system, and what the client wants."

The aim is for the entire group treasury to be live by 2022. Access by ArcelorMittal's global community of subsidiaries is under review, not least from a licensing standpoint. The company currently provides user-rights to its existing intranet facilities to more than 1,000 individuals. For Koenig, this means finding "the most economic operating model of integration".

As might be expected, the cost effectiveness of day-to-day running is also part of his equation. "We believe that with the Calypso system we can produce a lot more EBITDA [earnings before interest, taxation, depreciation, and amortisation] than we currently are," he says. "We hedge all our residual financial exposures, so feel we need this integrated system to enable us to generate stronger results here too."

Despite a few early challenges – this is a huge 'rip and replace' project necessitating a massive change management programme – Koenig remains focused on the benefits of improved connectivity, stronger system management and, through full process integration, enhanced financial risk management across the group. After all, he says, "we are building for the next generation".

deliver real-time information sharing, for example. Here, the conversation with functions such as finance, procurement, tax, accounting and the business, should explicitly reveal the needs of all up and downstream partners.

At the sharp end of most major projects, a principal player will be IT, notes Rodgers. While the CFO will most likely have the final say on the decision to buy, treasury will need to partner with IT on evaluation, transition and ongoing support. The latter may be a delicate matter.

An organisation with an SAP or Oracle ERP system, for instance, will often see the whole of its IT support function focused on that core system. Treasury may be able to justify why it does not want SAP or Oracle, but IT will always ask where treasury will obtain support because often it will no longer be available in-house, warns Rodgers. "Almost certainly if IT does not have the skills, resources or incentives to assist, treasury will have to find a way to plug those gaps," he comments. While vendor support should be available, it's essential that the relationship be built on solid ground from the outset.

Still at the sharp end, "perhaps one of the most worrying indicators of potential project failure is when the treasurer refuses to or cannot give up their day job," adds Rodgers. Depending on project size and scope, it may therefore be prudent to call upon expert assistance when assessing the impacts of change, and planning and executing the implementation work. Similarly, if resources and relevant experience and skills are not sufficiently available in-house, then third-party help may be necessary to achieve the most effective outcome.

It may even be beneficial, depending on how well treasury is staffed, to bring on board an interim treasurer for additional team bandwidth, either taking on the day-to-day work of treasury or, more likely, to act as a dedicated treasury project managing resource. "It's all about speed to market," suggests Heins. "The quicker you can complete the project, the quicker you can achieve ROI."

Future vision

For many businesses, a legacy system that is subject to constant patches and work-arounds to keep it functioning in an increasingly digitally connected world will eventually become a liability, and it will need to be replaced. The escape plan may simply be to provide like-for-like capabilities in treasury. However, says Stark, it may see a more seismic shift from disparate point solutions or basic task automation, to the multiple connected nodes of process automation. Here, solutions such as artificial intelligence can bring considerable commercial and operational advantages, alongside a range of new capabilities.

BOB STARK

Global Head of Market Strategy, Kyriba

LAURENT KOENIG

Treasury Head of Operations, ArcelorMittal

Where legacy technology and processes often involve basic systems of record that capture transactions and offer simple, siloed viewpoints, the right upgrade can deliver more sophisticated systems of engagement, capable of connecting all available internal and external platforms.

"This is when treasury becomes a data-driven strategic player, connecting with and deriving insight from multiple sources of information across the organisation," Stark comments. "It's how vital enterprise-level decisions are made and, perhaps more critically in the current stressed environment, how treasury begins optimising enterprise liquidity."

Whatever the reason for change, technology often presents as a shifting set of goalposts. For treasurers, trying to keep up or make a judgement as to when to change can be a source of frustration and confusion. To better understand the market and relevant developments in this space, the resources of banks such as Bank of America should be fully leveraged by corporate clients, says Heins.

Banks can work with clients on streamlining processes and automation, and determine practical ways to make legacy upgrades smoother, he explains. "The investment we make in innovation in Bank of America is always brought to focus through an 'outside-in' lens. It's a collaborative approach that helps us understand how our clients want to work with us. We see it as a key differentiator. By working together, we can keep building technology that is smart and fit-for-purpose, for the client and for us, across every market and use case."

There is no doubt that moving away from legacy technology represents a major commitment. It's a realisation that can be made more palatable if seen as an opportunity to evolve, rather than a trial to be endured.

Although Heins cautions that when building for the future, "system adaptability, scalability and connectivity are critical", with appropriate planning, funding, resourcing and project management, he believes that businesses of all shapes and sizes can begin moving towards a more future-proof technology stack. That's when legacy technology really becomes a thing of the past.

ISO 20022 Migration for Corporates

Start Planning Now

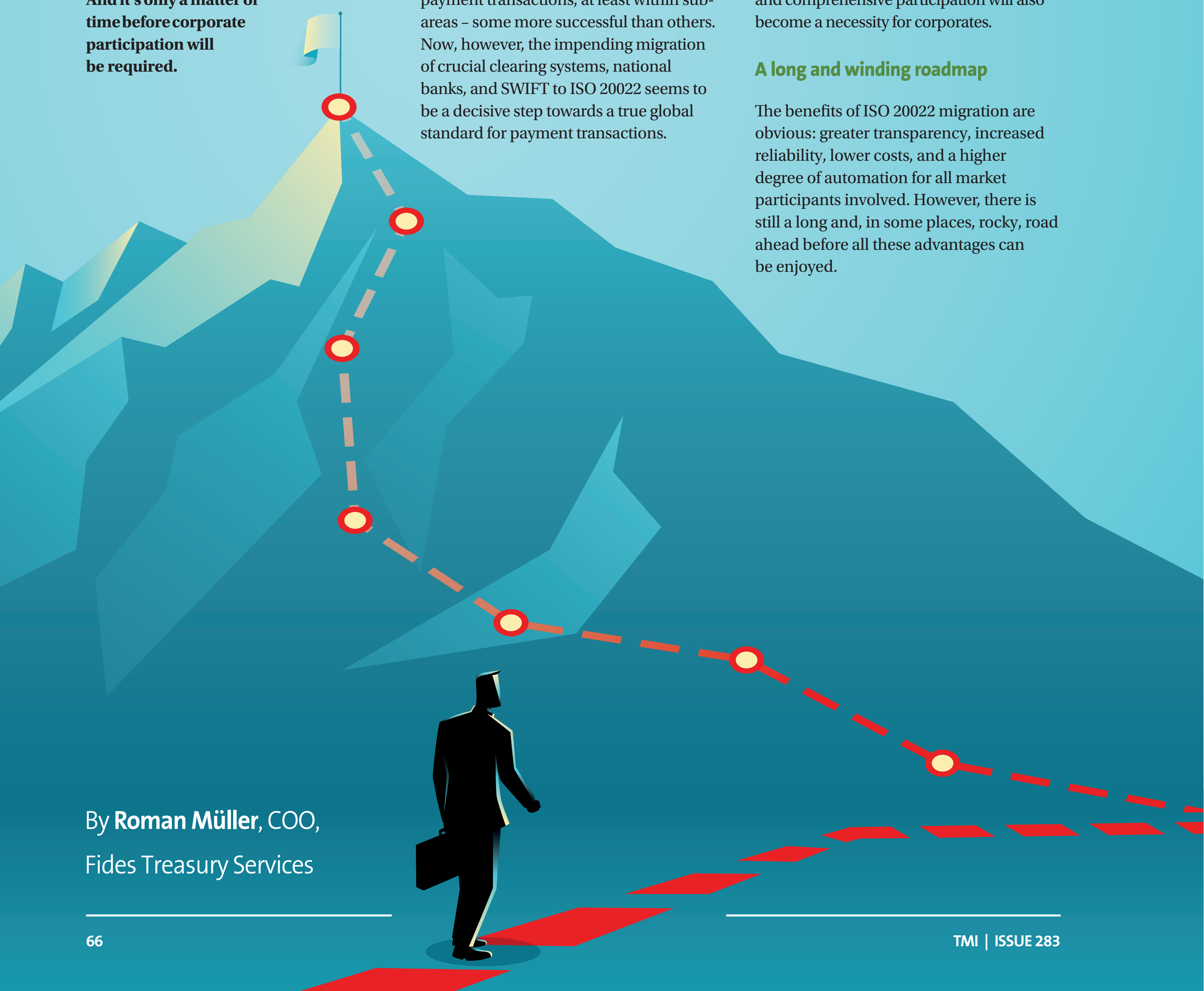
The impending migration of crucial clearing systems, national banks, and SWIFT to ISO 20022 seems to be a decisive step towards a true global standard for payment transactions. And it's only a matter of time before corporate participation will be required.

'Standardisation' and 'migration' are terms that have become virtually inseparable from the field of payment transactions. Over the years, payment systems have seen an incredible range of initiatives aimed at establishing uniform standards for payment transactions, at least within sub-areas – some more successful than others. Now, however, the impending migration of crucial clearing systems, national banks, and SWIFT to ISO 20022 seems to be a decisive step towards a true global standard for payment transactions.

At first glance, it may seem as if the effects of the migration are limited mainly to banks and the payment systems themselves. And at least with regard to the basic technical and infrastructural aspects, this is actually the case. However, before long, prompt and comprehensive participation will also become a necessity for corporates.

A long and winding roadmap

The benefits of ISO 20022 migration are obvious: greater transparency, increased reliability, lower costs, and a higher degree of automation for all market participants involved. However, there is still a long and, in some places, rocky, road ahead before all these advantages can be enjoyed.



By **Roman Müller**, COO,
Fides Treasury Services

When viewing the initiative from a global perspective, it immediately becomes clear that the various payment systems all have different approaches and timetables as to how and when to carry out the migration. For example, Europe's largest clearing systems, TARGET2 and EURO1, are implementing their migration with a 'big bang' in November 2022. Although SWIFT is also launching its migration at the end of 2022, it is planning a transitional period lasting until 2025. Several other systems have yet to designate a timeframe for the migration.

Implementation will be accompanied by technical and procedural challenges – especially for globally active corporations – and will also involve corresponding difficulties with co-ordination. Given these factors, combined with the migration not being mandatory, most potential participants are dragging their feet.

That said, it would be ill-advised for companies to assume that they are safe just because there is no obligation. Sooner or later, these standards will also become the new standard for the client-bank relationship through a variety of ways. This fact is clearly demonstrated in the case of Germany, for example, where the ISO 20022 migration is also being made mandatory for companies through amendments to the data transfer agreement (DFÜ-Abkommen).

Be proactive

A comprehensive end-to-end implementation by all participants is ultimately essential if all stakeholders are to benefit from the migration. This also means that companies need to act to address not only their processes and the format migration itself but also the accompanying changes regarding the structuring and generation of their data.

Some measures must be planned proactively. Even if the direct instructions and migration requirements for client-bank communication are downstream, or delayed relative to the migration of interbank communications to ISO 20022, time is of the essence. Companies should begin communicating with their banks early enough to understand their plans and the resulting corporate requirements.

The expense and impact of migration should not be underestimated, which is why it is all the more important to have a professional partner to provide optimal support for the corresponding analysis as well as implementation.

Flexible solutions

Fides offers extensive capabilities and possibilities to guide companies in making the necessary adjustments, and provides targeted support for client-side migration activities. We provide optimal support for new developments and offer flexible, individualised solutions:

- **Format flexibility:** Even if the bank has already carried out the change to the new account statement formats (e.g. CAMT), Fides can still handle older formats (e.g. MT94x) and maintain these differently for each bank or account, or harmonise them in all directions in accordance with client specifications. We can also facilitate the individualised conversion of all globally active payment transaction formats to a single target format. This pertains not only to the reporting side but also to the payment-initiating formats.
- **Structured information:** We structure and format information in accordance with the requirements of the recipient bank. This enables clients to continue to send unstructured information.
- **Data allocation:** In the event that the client is not (yet) able to process the expected fields in their formats to the bank, Fides can activate dynamic data mapping.
- **Static data enrichment:** In cases where certain statistical information cannot be supplied by the client, Fides can supplement or modify this information in accordance with fixed or dynamic rules.

Depending on the status of a company's internal enterprise resource planning (ERP) systems and treasury management systems (TMSs) adjustments or even a major release may be necessary. Fides can provide support by working with a business and its third-party providers to plan and implement the adjustments optimally within the overall business context.

ROMAN MÜLLER

COO, Fides Treasury Services

Müller is COO of Fides, the global leader in multibank connectivity and communications. He is responsible for overseeing the maintenance and development of front- and back-end processes, supporting the company's growth and strategic development, and managing the company's day-to-day operations.

www.fides-treasury.com

> *The benefits of ISO 20022 migration are obvious: greater transparency, increased reliability, lower costs, and a higher degree of automation for all market participants involved.*

MMF Reforms Risk Missing the Point

Money market funds are once again in the cross hairs of regulators in the US and Europe following a brief liquidity crunch in March 2020. Sebastian Ramos, Executive Vice President, Global Trading and Products, ICD, discusses the risks that over-zealous reforms could pose to the popular short-term investment instruments.

By **Ben Poole**, Columnist

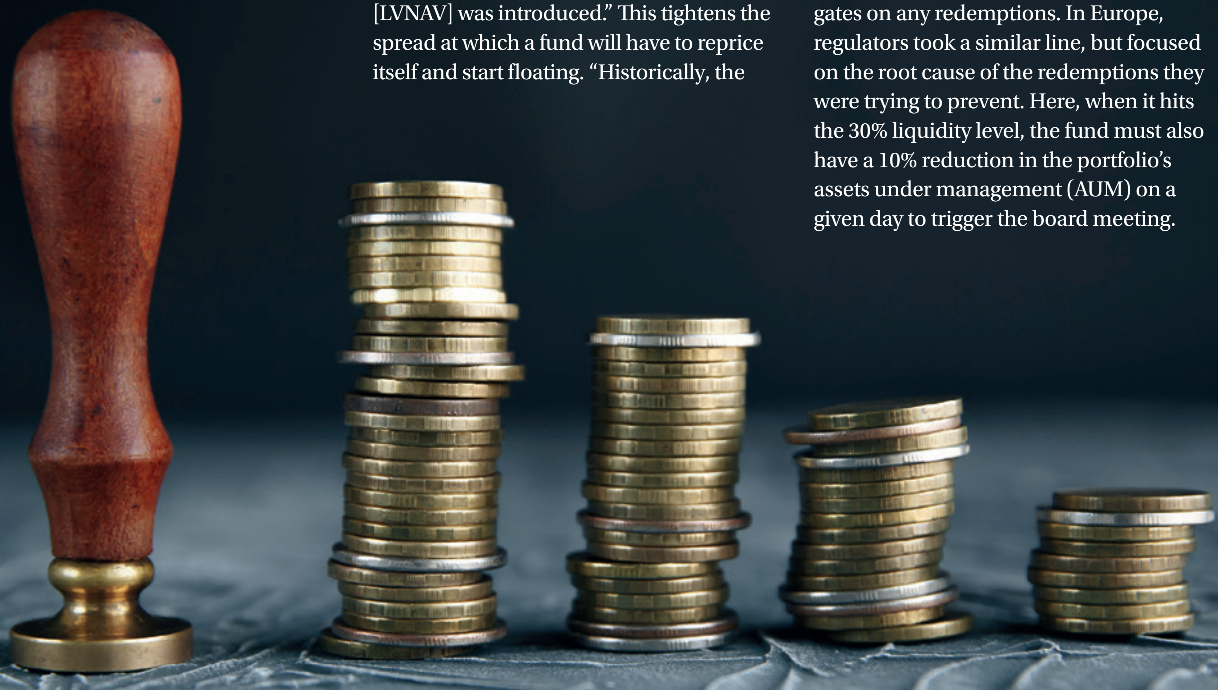
During the global financial crisis of 2008, the original money market fund (MMF) - the Reserve Primary Fund - 'broke the buck.' As a result of its net asset value (NAV) falling below $1 for the first time, after the crisis both US and European regulators moved to amend the rules for MMFs.

This process had two stages in the US. The first targeted the underlying cause of the crisis by focusing on quality of portfolio, duration and portfolio transparency. The second focused on firming up an approach to liquidity and implemented the floating net asset value (NAV) for MMFs in the US.

In Europe the approach was similar but not as strict as in the US. As Ramos explains: "Rather than imposing a floating or variable NAV, a low volatility NAV [LVNAV] was introduced." This tightens the spread at which a fund will have to reprice itself and start floating. "Historically, the funds had used penny-rounding with the fund having to reprice itself if there were a 50 basis point deviation of market value compared with the amortised cost value."

What the regulators did for LVNAV was to narrow that spread to 20 basis points. Ramos continues: "In the US, funds now have to float out to four decimal places based on its mark-to-market value. Whereas, in Europe, regulators essentially kept the NAV stable but instituted a tighter band at which mark-to-market had to reflect or be in line with the amortised cost valuation."

Europe also took a slightly different approach to liquidity. In the US, the rules mandate that if the liquidity of a fund drops below 30%, the fund's board must determine if it wants to impose fees or gates on any redemptions. In Europe, regulators took a similar line, but focused on the root cause of the redemptions they were trying to prevent. Here, when it hits the 30% liquidity level, the fund must also have a 10% reduction in the portfolio's assets under management (AUM) on a given day to trigger the board meeting.



This 10% AUM drop is more indicative of a mass withdrawal or 'run' on a fund, as opposed to simply dropping below the 30% liquidity level.

"These are the two main differentiators," says Ramos. "There's a similar thought process, but the withdrawals that we saw when Covid-19 was declared a pandemic were much more significant in the US, in part because of the way the regulations were structured in the US versus the way they were in Europe."

Testing the reforms

The duration of withdrawals from MMFs in March 2020 due to the Covid-19 liquidity crisis was relatively short, with heightened redemptions occurring for around five to seven days.

"It was not like another credit crisis, it was about liquidity," explains Ramos. "While there were large outflows, they were fairly orderly. But there was significant concern that if everybody was pulling out from the prime MMFs then there could potentially be a loss of liquidity. This could come from a gate preventing withdrawals from the fund, or redemption fees impacting the principal that investors could recover."

Across the board, but more significantly in the US, there were redemptions out of prime MMFs and an asset rotation into government MMFs, where there were fewer concerns about liquidity due to the credit quality of the portfolio as well as how the rules treat liquidity in such MMFs.

"Everyone was moving out of prime MMFs, where there might be some liquidity concerns, and into government MMFs as the primary liquidity vehicle of choice," Ramos recalls.

Once again, there were some marked differences between the US and Europe in this respect. In the US, there were significant outflows of prime MMFs. At its peak, ICD saw approximately 80% of its prime money market assets sold within those few days in the middle of March 2020. In Europe, it was significantly less, at around 30%.

"The 30% liquidity rule in the US made everyone concerned about potentially not being able to access their cash and losing liquidity in the vehicle," says Ramos. "This would be only temporary, but any constraints were of concern to investors. The effects of that on redemptions were much more significant in the US. In Europe, we saw fewer withdrawals among our client base."

During the days of 'money fund madness,' the US government stepped in. The Federal Reserve restarted its Commercial Paper Funding Facility and the next day instituted the Money Market Fund Liquidity Facility as a backstop. At that point, the significant withdrawals eased. Looking back at that period, the main issue that ICD observed was the impact of the 30% liquidity rule directly tied to the potential imposition of fees and gates.

"In the US, there were three funds that got to the point where they were breaking that threshold," continues Ramos. "Instead of dipping into the 30% liquidity buffer designed specifically for this purpose, two funds decided to purchase securities out of the portfolio, to avoid hitting the 30% mark. These funds were more concerned about having to meet as a board and the fallout from the potential for fees and gates than breaking that threshold. This created an artificial red line where there's a liquidity buffer that's created to help with large redemptions and meet liquidity needs, but which certain funds were uncomfortable or unwilling to tap into. Effectively, their liquidity became strained because of the way the rules were structured."

In Europe, due to the LVNAV, none of the NAV in the funds moved. While there was some deviation in terms of market value, it never got close to the 20 basis point collar. By contrast, in the US where funds were already priced out to four decimal places with a variable NAV, the NAVs went down for a few days.

"The NAVs in the US fell to the point where clients in the funds were concerned about potential losses," says Ramos. "Temporary dislocations in the mark-to-market value of the securities, which was going on across the marketplace, were impacting MMFs as well. That potentially contributed to redemptions being far more significant in the US than they were in Europe."

Regulatory responses

Following the events of March 2020, regulators on both sides of the Atlantic have been looking closely at the liquidity

SEBASTIAN RAMOS

Executive Vice President, Global Trading and Products

> *If everybody was pulling out from the prime MMFs then there could potentially be a loss of liquidity. This could come from a gate preventing withdrawals from the fund, or redemption fees impacting the principal that investors could recover.*

provisions and exploring the potential for restructuring. In Europe, regulators are analysing the benefits of taking the same approach as the US and essentially getting rid of LVNAV and moving to a variable NAV for MMFs.

"What's interesting about the European approach now is that we saw what happened due to the differentiation between the US and Europe in March last year, and I'm not sure that's the direction they should want to go," cautions Ramos. "You have to remember that there are already variable NAV MMFs in Europe, and they are significantly less utilised than the LVNAV MMFs, in part because of the way corporations like to use these products. They like a more stable value where at all possible, which makes it much easier from an accounting perspective. Also, they want to feel comfortable that they can have access to their cash and there aren't going to be liquidity concerns around fees or gates, for example."

Public commentary on the regulatory proposals in both the US and Europe has passed, although the ultimate reforms that might come about as a result of the events of last year are not yet set in stone. Overall, MMFs continue to be a valuable investment vehicle for those managing cash and short-term investments. They have distinct advantages in some areas as part of an investment portfolio from a diversification perspective, and they can also offer competitive yields in the marketplace.

"We hope that in trying to prevent similar issues arising, the regulations don't make it so that the funds are significantly less attractive," Ramos says. "One area that clients will go to is bank deposits, as well as looking to raise money from banking partners, and that could have a couple of effects. It could obviously create more concentration in an already systemically important area. Potentially it could also have the side effect that smaller companies, and those with less of an embedded relationship with their banks, will face more difficulty in placing deposits and raising funds. Big MMFs still perform as an important source of liquidity for those investing but also for those looking to raise cash as well."

Finding the right balance

As part of the regulatory review, ICD has written to the US Securities and Exchange Commission (SEC), the European Securities and Markets Authority (ESMA) and the Financial Stability Board (FSB). The letters stress that the main issue that caused most of the redemptions were the liquidity provisions funds faced, to the point where they were uncomfortable in tapping that extra buffer when they really needed it.

"Our focus has been on ensuring that regulators clearly understand that what happened last year was a liquidity issue," states Ramos. "You can clearly see the differentiation between the rules, and then what happened in the market, in the US versus Europe. Additionally, on the European side, we want to illustrate what happened to MMFs from a variable NAV perspective as well, and how that exacerbated the issue in March 2020."

Ramos points out that in 2016 when the second round of reforms were made in the US to adopt a variable NAV and support liquidity fee and gate provisions, there was a significant move away from these funds as a result.

"They dropped around $800bn in terms of size and importance in the marketplace," he recalls. "As European regulators think through whether they want to impose a variable NAV, we want to highlight that those funds already exist in Europe and are underutilised. If this is implemented, something similar to the US could happen within Europe, with many investors choosing not to use these products as a cash alternative because of the floating NAV."

> *Our focus has been on ensuring that regulators clearly understand that what happened last year was a liquidity issue.*

The point of the letters that ICD has written to the SEC, ESMA and FSB is to highlight where past regulation has had unintended consequences on the performance of MMFs, and urge the regulators to reflect on these as they propose yet more reforms to the money fund market. Ramos has a regulatory wish list but is also realistic regarding what can be done.

"In a perfect world, we would love to see the tie of the liquidity requirements to the fees and gates to go away," he reflects. "At the same time, we're pragmatic in that we don't think that regulators would say they need to fix the regulations and, as a result, regulate less. There would have to be some form of give and take.

"Increased liquidity requirements, above 30%, could be a component of that. Ideally, we'd also like the regulators to take a second look at the floating NAV and whether that's really the approach to take. We don't think that's necessarily on the table in the US, but in Europe we certainly would want them to take a close look at the impact imposing floating NAV had on these products in the US – both when it was imposed and also how it operated in the liquidity crisis in March 2020."

The European Securities and Markets Authority (ESMA) published its Consultation On EU Money Market Fund Regulation – Legislative Review on 26 March 2021. ESMA sought public comment until 30 June 2021. It is expected to publish its opinion on the review of the MMF Regulation in the second half of 2021. On 30 June 2021, the Financial Stability Board (FSB) published its Consultation report: Policy Proposals to Enhance Money Market Fund Resilience, for which it sought public feedback until August 16. The FSB expects its final report to be published in October 2021.

To further discuss the impacts of money market fund reform with ICD, please contact team@icdportal.com

Asyad Group: Full Speed Ahead with Bottomline for Treasury

Evolving from an almost entirely manual treasury set-up to one where the latest technology is being deployed has advantages far beyond process efficiency. TMI talks to Muhsin Alrustom, Group Chief Financial Officer, Asyad Group, to hear just how far ahead of the game its Bottomline TreasuryXpress system is taking it.

By **Tom Alford**, Deputy Editor

Sometimes great changes inspire even greater progress. When Oman Shipping was brought under the wings of the Omani government-owned Asyad Group, its vital treasury technology project would soon reach beyond its own domain and into the entire group of 15-plus maritime, port, free-zone and land-based logistics businesses.

Under the guidance of Alrustom, a project to implement the Bottomline TreasuryXpress platform – which he'd initiated in his former role as Group Treasurer for Oman Shipping – took on heightened importance.

Indeed, as his promotion to CFO of the newly combined business was announced, he was already developing plans for the centralisation of treasury.

As part of his expanded remit, Alrustom has inherited a set of responsibilities that will underpin the continuing transformation of the group under the Asyad branding. With the implementation of TreasuryXpress within Asyad Shipping already providing much-needed coherence to that firm's treasury activities, it made perfect sense to him to push for a wider roll-out of the platform. Now it is set to deliver coherence and a range of other improvements to the whole group.

The genesis of the project is to be found in the dominant manual processing that had long-afflicted Asyad Shipping's treasury operations. In particular, with minimal internet banking, payments instructions were having to be printed, signed, scanned and sent for onward processing. Implementing web banking could have helped, but the nature of the shipping business meant this was never a straightforward option.

ASYAD GROUP

Asyad Group is a $4bn government-owned logistics business based in Oman. Its wholly-owned maritime entity Asyad Shipping operates a fleet of 60 vessels enabling various services to be offered including the transportation of crude oil, liquefied natural gas (LNG), chemical products, dry bulk, and containers. It previously operated under the name of Oman Shipping before being incorporated in the Asyad Group.

> *With this kind of power at the touch of a button, treasury has gained a seat at the decision-making table.*

As a shipping company, Asyad operates globally across multiple sectors. It currently has a fleet of 60 vessels. As per industry practice, these are typically registered in offshore jurisdictions such as Panama and the Marshall Islands, flying so-called 'flags of convenience.' This makes each vessel a special-purpose entity (SPE) in its own right. Each has its own bank account and financing structure which, given the size of facility needed for each vessel (a VLCC or Very Large Crude Carrier may cost in the region $120m) is often arranged through banking consortia.

With around 35 banking relationships and more than 200 accounts covering the fleet, and manual processes dominating, when Alrustom arrived at Asyad Shipping (then Oman Shipping), he quickly realised that cash flow visibility was limited. "It would take four days just to provide the latest cash balances," he recalls. "The team found this particularly frustrating."

From business case to selection

While there was no overriding event that spurred him into action, Alrustom could see that lack of visibility meant accurate forecasting and rapid decision-making was heavily compromised, and that this was exacerbated by the delays and errors caused by manual sign-off for payments. "The biggest hurdle for us was the visibility of information, not being able to pool cash and to invest it with the right bank at the right time, or draw down on our facilities and match the maturities of our investments with our cash needs," he recalls.

All this made it readily apparent that not only would treasury processes and procedures require restructuring but also that a treasury management system (TMS) was needed to harness the advantages of the restructure.

So alongside tighter definition of each treasury role, with essential segregation of front-, middle- and back-office duties, the incoming system would need to complement the integration between the firm's existing enterprise resource planning (ERP) system and its multiple banking partners – and eventually deliver a central treasury function.

But the changes that TreasuryXpress would bring were not all about tackling the negatives. Alrustom's goal has always been to move treasury from its traditional status as a cost centre, to that of a "cost-saving centre", with a longer-term aim of establishing the function as a profit centre. Selecting the right system – with the necessary level of scalability to fulfil its eventual role as a group treasury system – was a vital part of his plan.

Given his long-term background in international treasury, Alrustom was well-acquainted with the TMS market, having first-hand experience of some systems. Although he had in mind a long-list of "usual suspects", being part of a government-owned organisation demanded an exceptionally rigorous selection process be adhered to. "We had to go through a highly transparent RFP [request for proposal] and tendering process," he remembers.

This process ensured that once the need had been identified, and Asyad's procurement team had drafted the tendering document, the list of vendors could be approached. The next phase applied a host of commercial and technical criteria, with a detailed scoring mechanism, to ensure all needs could be met. With TreasuryXpress making the cut following a successful proof-of-concept demonstration and detailed Q&A session, it was awarded the contract in mid-2019.

Project kick-off

With the new TMS being integrated with the existing ERP for cash management and payments functionality, alignment with all 35 banks and the 200 accounts was required to ensure SWIFT messaging (mostly MT101s and MT940s) could be fully incorporated. This was a major undertaking, with the team opting for a phased rather than 'big bang' implementation approach.

The practical project work was controlled in the main by Alrustom who, with significant experience of core treasury system implementations (both ERPs and TMSs), was able to plan and manage proceedings, in partnership with a dedicated team from TreasuryXpress.

The first phase covered cash management and debt management. In effect, the new front office was set up to deal with cash management, financing, and funding strategy. This frees up the middle office to take on debt management, risk management, and compliance, while the back office handles treasury operations such as payments, funding, and cash calls from the other operating units. It also ensures IT safeguarding procedures around the new TreasuryXpress platform.

With the team efficiently restructured, and individual members assigned to leverage their abilities, the initial goal to achieve full visibility across all bank accounts and the group's hedging and debt portfolio took around six months, with all SWIFT MT message flows at this stage being aligned with TreasuryXpress.

With alignment of systems, all Asyad Group signatories need only to log into one platform, which means irrespective of the bank from which a payment is being originated, the process is largely identical. The only missing part at this stage was the payment factory, says Alrustom. "Given that we now have phase-one connectivity between the banks and TreasuryXpress, the second connective tier between the ERP and the TMS is now progressing," he notes.

Indeed, this is where the majority of the expected project issues have arisen, says Alrustom. With the file formats for payments, and the reverse during reconciliations, differing for each bank, it was deemed "a bit challenging", he admits , but states that all was duly managed by the ERP provider and TreasuryXpress. "From my prior experience of implementations, none of this was surprising, and we had a strong team on both sides to mitigate these issues."

As a minor niggle, it was necessary for TreasuryXpress to reconvert the system language to Asyad's preferred English from the Arabic that was provided. And with the group operating as a USD-denominated entity, the switch from the Omani rial was also requested and, in all cases, delivered.

Beyond the basics

While providing full cash visibility and aggregation of positions are worthy goals, TreasuryXpress has enabled Asyad Group to go further. Its fleet renewal strategy is a case in point. As part of the group's robust business planning, its shipping portfolio in particular demands careful control. With more than 60 vessels under management, each bearing considerable value, at some point individual assets will need replacing. Not least of the reasons for keeping vessels of this type in prime condition, and under a certain age, is that Asyad's customers, including several oil majors, demand it.

Fleet renewal is thus an ongoing and costly practice. "Having visibility over funding and cash, the cost of financing, and the maturities of our loans, has really helped us in terms of timing the sale of assets and refinancing facilities," says Alrustom.

"In 2019 alone, we were able to refinance five of our facilities with a combined saving of over $21m. That would not have happened if we didn't have the visibility that TreasuryXpress gives us," he states. With this kind of power at the touch of a button, treasury has gained a seat at the decision-making table. "It's certainly transformed the view of the treasury function within the company."

Indeed, one of the most strategic activities within Asyad Group is the implementation of centralised treasury. This brings the diverse group of logistics-focused entities under one umbrella, with an in-house banking facility already established.

For Alrustom, having specialised services provided by head office treasury to all the other business units has significantly reduced the number and cost of transfers and other bank services. While this minimises interactions with the banks, he says it elevates remaining interactions to a more strategic level.

In-house banking, and in particular its "game-changing" cash-pooling functionality, has also facilitated appreciable savings in terms of lending capabilities within the operating units. Furthermore, it has enabled optimal treasury investments in both short- and longer-term portfolios. In fact, with a financing income of more than $12m reported in Asyad Group's 2020 annual statement, Alrustom is convinced of the benefits of in-house banking which, he again acknowledges, "would not have been possible without the TMS".

Advanced thinking

Treasury's cost-centre status may have been consigned to the past but progress continues. "Digitalisation has proved its worth to us," notes Alrustom. With TreasuryXpress now part of the Bottomline family, he says access to payments expertise and advanced technologies is something he is seeking to leverage. "We're in the logistics sector and we can see it's moving to become very asset-light and technology-intensive," he explains.

Artificial intelligence (AI) is likely to become a key part of that expansion. Before the arrival of TreasuryXpress, about 80% of the team's work was operational, and 20% analytical. "The aim is to reverse this state," says Alrustom.

He understands that the adoption of AI could generate some initial nervousness about job security, but knows too that it can enable value-added work to become the norm. Indeed, he comments, "we still need the treasury expertise of the individual; AI will just help us in making sound judgements".

What's more, with blockchain's successful incorporation into smart trade contracts, in digital letters of credit for example, Alrustom is looking to TreasuryXpress to assist Asyad Group's further expansion into the realms of integrated logistics provision. Knowing that he has already assured the group's progress with his move to integrated and centralised treasury, it's very likely that the partnership will succeed here too. ■

MUHSIN ALRUSTOM

Group CFO, Asyad

Alrustom has more than 15 years' experience in the logistics and maritime sectors and, as a finance professional, has operated and developed financial processes and systems, and managed corporate financing, hedging, and liquidity needs.

Prior to joining Asyad earlier this year, he was General Manager of Treasury, Oman Shipping Company following a tenure in Dubai as Treasury Manager, Oman Trading International. He has also held positions at DP World, which included a two-year stint at the company's European regional office in London.

Alrustom holds a degree in accounting from Sultan Qaboos University as well as professional qualifications from the Institute of Management Accountants and the Association of Corporate Treasurers.

> *We still need the treasury expertise of the individual; AI will just help us in making sound judgements.*

Tackling the Complexities of IBOR Transition

Time is running out for treasurers to complete their interbank offered rate transition projects with the deadline of December 31 2021 rapidly approaching. A recent TMI webinar with Salmon Software brought together three experts to discuss the complexities ahead, examine how treasurers can ensure they are prepared for them, and review the role technology can play in supporting this transition.

By **Ben Poole**, Columnist

A significant number of corporate treasurers have yet to start their preparations for the changes that will be triggered by the interbank offered rate (IBOR) transition deadline at the end of the year.

That was the finding of a poll, which aimed to gauge how corporates have progressed towards the transition, conducted among treasurers during a recent TMI webinar. Given the options of 'not started,' 'partially started and confident on deadlines,' 'started but having issues,' and 'fully completed,' the majority of attendees were split into two camps: those that have started and are confident of deadlines (41%) and those that have not yet even begun (38%).

"It is rather surprising to see that quite a few of the audience haven't started yet," commented Svenja Schumacher, Assistant Director, Treasury Advisory, Deloitte. "The very first task on everyone's 'to-do' lists should be the identification of exposures, which can take quite some time. Some exposures are easier to identify, for example, if you think of debt contracts or derivative contracts, most of those are stored in a TMS [treasury management system]. But you could also have less obvious exposures, such as lease contracts, intercompany contracts, things that could be hidden outside of treasury within the organisation."

As well as identifying all IBOR exposures that exist within their organisation, treasurers must also ensure they have the right technology in place to handle the new requirements.

"Treasurers need to check if the system that they're using is ready to accommodate

the new way of capturing the information from their transactions and deals," said Tassos Dimopoulos, Director of Project Management, Salmon Software. "They also need to start testing well in advance of the deadline so they are comfortable that all the elements, from accounting to tax, settlement calculations, and accruals are in place."

The webinar also featured a direct treasury perspective from Shaun Kennedy, Group Treasurer, Associated British Ports (ABP), who explained that ABP had begun its IBOR transition project back in 2018 and is aiming to be ready before the deadline.

"I'm fairly confident that we've given ourselves the best shot to get everything completed by the deadline, but there's certainly plenty to do," explained Kennedy. "What has surprised me, going through this, is just how difficult it can be to move into a compounding interest in arrears process. We have achieved a lot in terms of understanding our exposures, looking at our documentation, understanding the formulas and the options around risk-free rates [RFRs], and making sure that we have systems in place that are going to do what we need them to do. I spend quite a bit of time with our treasury accounting colleagues to make sure they are aware of what's going on and I also liaise regularly with our banks and other financial counterparties. I believe we're as ready as we can be, although it still feels as if we still have plenty to do in just under six months."

The scale of change

Perhaps the most important point to consider about the IBOR transition is that it is not as simple as swapping one rate for another. The new risk-free rates (RFRs) differ dramatically from IBOR rates, where in any IBOR transaction treasurers are dealing with a single rate that is known from the beginning, regardless of frequency, giving time to calculate settlement and to calculate accruals. This is not the case with the RFRs.

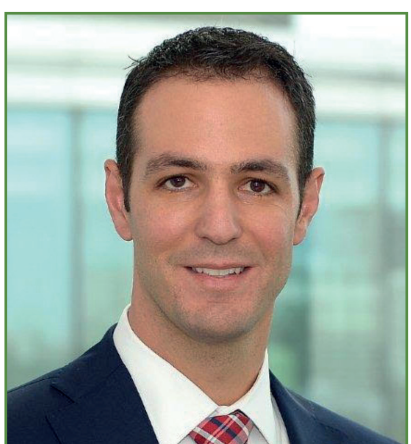
Dimopoulos noted: "The calculation with the new rates is much more complex, because we're talking about a daily compounding. Then, if you think of a deal that has a monthly fixing instead of a single rate, you're talking about something in the region of 20 to 25 different daily rates that need to be used in the calculations. If we're talking about a quarterly deal, it must be somewhere in the area of 60 to 70 different rates – it grows as we go. On top of that, that is something that happens in arrears, so if we introduce a lag of five days, we have five business days to calculate our settlement and settle it with the bank. That is a huge change, and one that is not very easy to manage if you try to do it manually to any degree."

The point about manual processes is critical. With rate calculations increasing so dramatically, the time spent on this by treasurers who are using spreadsheets would also increase exponentially, as would the potential for costly errors.

"If a treasury team is continuously using Excel, they will need to employ more people just to monitor sales, and then the operational risk increases exponentially," warns Dimopoulos. "Besides that, the Bank of England has suggested rounding on 16 decimal places or more for SONIA [sterling overnight indexing average] calculations, and Excel is designed to handle only up to 15 digits per number, everything else is rounded, so you don't have 100% accuracy. With the size of transactions that corporate treasurers deal with, this is a serious problem. You need to have the right treasury technology in place, alongside updated processes, to have confidence in calculating these new rates."

Schumacher agreed with Dimopoulos that it is vital for treasurers to be fully engaged with the intricacies of the new calculation methodologies. She added: "Treasurers need an understanding of the ins and outs of cumulative and non-cumulative compounding, examining look-backs with and without observation shifts, and checking what the standard is in their various contracts - the debt market and derivative market may not have the same standard and you may introduce a mismatch if you just follow through what has been suggested by the banks. It's important to update your processes, for example with LIBOR fixing in advance you previously may have had a couple of months to get ready to make the payment. Now, with risk-free rates compounding in arrears, it's just a matter of a few days to calculate your interest and get ready for the payment."

From the treasury perspective, Kennedy explained the challenges that he and his team have addressed as part of their IBOR transition project: "Treasury has been hugely involved in this process because we understood the potential impact on our treasury arrangements across all products. From a TMS perspective, we knew where our exposures were, what we didn't have in the system was what the fallbacks were, and what they were likely to do in the event of LIBOR cessation. We had a good understanding



TASSOS DIMOPOULOS

Director of Project Management, Salmon Software

SHAUN KENNEDY

Group Treasurer, Associated British Ports (ABP)

that the fallbacks in all our products were not sufficient, they did vary by product, and this was something we needed to look into."

Review the technology

Having the right treasury solution to support IBOR processing and the transition to the new RFRs is essential for treasurers to have the visibility they need into their exposures. In a snap poll of the webinar viewers, around 20% said that they had completed a full review of their treasury technology and were happy with the outcome, while a majority reported that this was currently under review at their organisation. That left around 25% of participants who either did not know whether their technology supported IBOR processing, or knew for certain that it did not and that they required a solution.

Once the requirements were understood at Salmon, the technology firm began planning the process of transitioning and capturing the daily compounding. It soon became clear that it would be difficult, if not impossible, to try to shoehorn a solution into the company's existing functionality due to the differences between the new RFRs and IBOR.

"We had to take a step back and redesign quite a few areas of the system," explained Dimopoulos. "We had to introduce new modules to capture the loans and the swaps of our clients, we had to redesign our accruals modular accounting output to be able to capture this new reality. We also understood that some corporates wouldn't be looking for a full-blown treasury solution. Some will just be looking to get away from Excel calculations, particularly smaller corporates, so we have also started developing a web-based application that will purely be focused on these new elements of calculating the daily compounding and capturing the loans, for example."

SVENJA SCHUMACHER

Assistant Director, Treasury Advisory, Deloitte

Companies already using a TMS would be wise to review the technology in place to check that it has the capabilities to help and not hinder life in the post-IBOR world. "Having a good treasury management system is crucial," commented Kennedy. "This move to having daily risk-free rates places even greater importance on that, and we've seen, in our treasury contracts, that we've already moved to SONIA. We started by building some models in Excel just to get our heads around the change and having conversations with the team at Salmon about what we were moving towards, but the reality is when you go into the detail of it – for us we're looking at 150 different contracts. It's just not feasible, particularly when they all happen to settle on Boxing Day every year. This creates a really painful few days just before Christmas. It just wouldn't be possible without a system in place."

Salmon also had to ensure that the solution it developed was flexible enough to react to, and include functionality for, any additional requirements that could arise over the coming months and years.

"We had to ensure that any additional element of calculation could be easily captured – we may be talking about a lag or a lag with a shift," explained Dimopoulos. "But there are other proposed approaches where we have to make sure that if a client has even a single loan that is using that approach - anything from indexing to averaging, for example – then we have to make sure that it can be easily introduced, if it is not already in the system."

Kennedy agreed: "The conventions are evolving all the time. There are different options out there, in different currencies, even in the past 12 to 18 months. Initially we weren't looking at floors, for example, because we'd been looking at swap transition. But when we started to look at loans, floors became an issue in terms of how they would be done in the SONIA RFR world. You do need to have flexibility in the system to manage this."

The devil is in the detail

The webinar session also highlighted how quickly the IBOR transition deadline will be with us, the complexities that treasurers need to understand about the new RFRs, and how technology can support treasurers in this new world.

Kennedy observed: "It seems like a small change – we're just moving from knowing the interest at the beginning to knowing it at the end, and just compounding it – in principle this should be straightforward, but it's really not. That's probably the main thing that I've learnt in the past few years, just how complex really small changes can be. But they are essential, and they're ones that we do need to make. I also think they are positive for corporates, in the grand scheme of things."

The takeaways from all three panelists stressed the importance of treasurers addressing this transition as soon as possible. Schumacher said: "My key learning about the IBOR transition is that the devil is in the detail. As soon as you scratch the surface, you come across additional challenges. My best piece of advice would be to get engaged with the education around the topic, get your hands dirty and dive into the details to make sure you're not worse off in the end."

Kennedy, having been on the IBOR transition journey himself, urged treasurers to play a key role in this change within their organisations. "Take the lead on your transition, decide what you want from risk-free rates, and then tell your banks and your financial counterparties that's what you're going to do. That means spending the time to look into it and think what's best for you. There's not necessarily a one-size-fits-all approach, but there are recommendations."

Dimopoulos concluded: "While we're talking about a deadline of December 31 2021, that's not the end of the process. That is just the beginning of the change. I would relate it more to a marathon than to a sprint. Of course, we have to sprint to December 31 to make sure there is something in place. But from that point on, in the coming months and years, there will be many more changes introduced – and we all need to be ready for them."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The Future By Design

Lim Soon Chong took over as DBS' Group Head of Global Transaction Services on 1 August replacing John Laurens, who will be retiring at the end of the year. Lim, who also continues in his role as Head of Digital for DBS' institutional banking group, spoke to TMI about his new position, and the role technology will play.

With experiences in a range of areas including financial risk consultancy, bank capital and prudential policy, macroeconomic surveillance, monetary policy research and international financial cooperation prior to joining DBS, and across consumer, wealth, risk management and corporate treasury spaces in DBS, Lim has an undeniably broad view of banking. It's perhaps no surprise then that, as a technologist too, his view of the evolving digital landscape in treasury is similarly all-encompassing.

And with a notable acceleration of the adoption of technology in transaction banking throughout the pandemic, while it's clear to him that most organisations now accept that digitalisation is the way ahead, most also accept that recent events have pulled the digital agenda forward by several years.

For DBS, which invested earlier than many banks in the digitalisation of its platforms, applications and architecture, the freedom from the constraints of legacy technology has enabled it to scale up its offerings markedly. "It's enabled us to drive further adoption and help our clients with the demand for new connectivity, products and services," he confirms.

However, with the impetus to help client adoption now gaining across the wider financial services industry, he sees a somewhat "uneven" response emerging. This has translated into spikes of activity in certain processes and products where corporates see the greatest necessity, and other areas still facing an uphill battle. It's an area of concern that he intends to address.

Adding human value

Digitalisation is often celebrated as a panacea for process inefficiencies and as the key means of optimisation. Lim takes a more nuanced view.

By **Tom Alford**, Deputy Editor

The relationship between bank and client is typically assisted by a solution set that has capitalised on better storage, bandwidth and computing power, he notes. These elements are very effective in tackling routine tasks and transactions, and there are certain value-added human activities, such as providing transactional quotations for clients, that can also be considered as repetitive that he believes are "entirely capable of being supplanted by technology". Additionally, "higher-order client activities", such as balance sheet optimisation and cash flow forecasting, can also leverage new technologies.

"However, for some activities that are less routine or repetitive, the flexibility of the human mind and empathy of human spirit is still needed," he notes. Of particular interest here is relationship management, where building trust is vital when helping clients to make the right choices. "It's in these kinds of higher-order cognitive and empathetic tasks that technology is not yet capable of resolving, even with the promise of AI (artificial intelligence)."

Bridging digital islands

In the trade and supply chain space, the digitalisation of documentation has been welcomed by many as a means of easing issues created by an historical addiction to paper. But Lim observes some areas where the technology roll-out is incomplete.

"So much of what we've seen so far has created 'islands of digitalisation'," he says. It's a state that has come about through the delivery, by banks and vendors, of bespoke client solutions that are not interoperable. A further deficiency in the digitalisation agenda, he notes, stems from the implementation of partial solutions.

A business may have digitised its invoices and letters of credit, but not yet digitised its customs submissions or capital control reporting requirements. By creating breaks in the chain, it triggers inefficiencies and increases risk of error and fraud.

Furthermore, Lim believes that the digitalisation of trade and supply chain finance documentation will remain an "incomplete" exercise as long as movement of physical goods along logistics chains are not similarly represented through structured digitalised data. A digital bill of lading is a clear example of necessity here, he says, adding that there needs to be a "twinning of physical and financial supply chain process digitalisation".

While DBS continues to double down on its digitalisation efforts in this space, Lim states that the bank's key interest is in considering the whole picture, finding ways to "bridge the islands of technology" that have emerged in the wider corporate financial space.

"We're pursuing more interoperability and end-to-end smart processing for corporates, not just around financial documentation but also for credit decisioning, fraud detection and analytics covering the entire value chain."

Collaborating and engaging

Finding the right solutions for clients by adopting a holistic approach requires DBS to adopt a "collaborative mindset", says Lim. The bank is already part of a number of industry initiatives, including Singapore's Alliance for Action (AfA) on Supply Chain Digitalisation. Participation is aimed at supporting the notion of "physical and digital twinning" of financial and logistics processes.

"We're also co-creating with our partners to understand and digitalise their workflows," says Lim. "And there are a number of industry platforms, including blockchain-based solutions, that are aiming to accelerate and enhance digitalisation efforts, so we're keeping a close watch on those and engaging with developments in this space too."

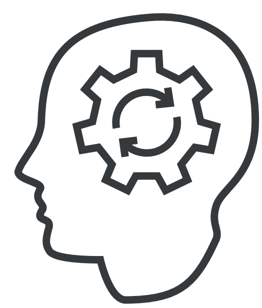
With development of some of the industry's digitalisation effort still at an early stage, Lim acknowledges that DBS cannot, or indeed should not, tackle the work on its own. "As an industry, we need to solve the problems of truncation and interoperability, and the twinning of financial and logistics, and this can only be achieved through partnership," he states.

Describing the environment as one of "co-opetition", where competing companies form strategic alliances, he feels collaboration is the only way forward. "As banks, clients, suppliers, logistics firms, insurers and other stakeholder agencies, we must all work together to form an open and agile response to the changing needs of the industry."

The current level of activity between partners indicates that significant effort has already been put into achieving results,

LIM SOON CHONG

Group Head of Global Transaction Services, DBS



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says Lim. However, while building an "ecosystem of ecosystems" is the ultimate goal, he acknowledges that with so many interested parties, it is not always easy to set the direction, or indeed co-ordinate the best approach. "The outcome will have to evolve organically," he declares.

As part of its response, DBS has a three-tier framework, helping to orchestrate, create and participate in ecosystems. "With all these initiatives, it means being a much more open organisation," notes Lim.

"Of course, we see ourselves as a standard bearer, but there is healthy competition across the industry, and no single player is able to dictate the rules of the game. We all need to stay engaged with the market, understanding and responding nimbly to changes, including the growth of its ecosystems and platforms."

Shifting mindsets

Every year DBS runs a digital trends survey among its clients. Based on the survey's preliminary findings, Lim confirms that the digitalisation agenda in the Asia-Pacific (APAC) region is advancing rapidly, but there are multiple technologies and ecosystems coming into view too.

"While understanding their need to digitalise, treasurers will be facing an increasingly complex choice around where to start, how to approach it, and who to partner with," he notes. "It means they will have to think a lot more about how to use their 'seat at the table' as they seek to influence and bring the entire company with them on the digital journey."

One way treasury's influence should be exerted, believes Lim, is in shifting the mindset within the company where it sees digitalisation purely as a means of lowering transactional costs. Instead, he suggests steering it towards one where it is enabling optimisation. "Truly leveraging technology is about taking a longer-term view of how to enhance the balance sheet, not simply confronting the here-and-now of transactions."

Technology is often cited as an enabler, but for Lim, while "digitalisation means better data, better data also means more dollars". By making a direct link to profitability, he refuses to limit the power of digitalisation solely to its potential for efficiency and resilience.

However, he advises that successfully leveraging data demands that before realising the dollars, the treasurer must master the appropriate technologies and connectivity in every relevant channel, and then be able to convert that data into usable insights. "And for many, thinking about data, analytics, insights, and value will mark a whole new approach to digitisation."

Help on the journey

With some treasuries still driven by spreadsheets, it is incumbent upon a digital-first bank such as DBS to help such clients pick up the pace. "It's why, when we think about digitalisation, we really have to think about it from the clients' point of view; we cannot be thinking in terms of 'digital for digital's sake'," states Lim.

If it is so clear that digitalisation is going to be helpful, then questions must be asked as to what is stopping some clients from adopting it, or at least switching to a digital form of interaction, he adds. One of the main constraints reported by treasurers, he notes, is limited connectivity options afforded by other parts of the business.

In response, Lim says DBS clients are presented with three choices of digital connectivity. Application programming interfaces (APIs), e-banking through mobile and internet banking, and host-to-host are now standard, with blockchain-based network connectivity under investigation.

Perceived cost of adoption is a barrier for some, and this should never be dismissed by providers. To this point, Lim says providing tools such as APIs and software development kits (SDKs) enables clients to start their own technology journey, in their own time. "We know it can take time to digitalise, so for us it means having patience, empathy and the right tools to help them on that long voyage."

Meeting the future

That said, with the DBS digital trends survey indicating that more than 80% of large corporates, and 67% of small and medium sized enterprises (SMEs) in APAC have started their digital transformation journeys, it offers confirmation that this is the way forward. The challenge now for every provider in this space is to deliver solutions to clients that work and are wanted.

"We use a 4D Framework (Discover, Define, Develop, Deliver) that places us very much in the realm of design thinking, using customer immersion to validate our hypotheses before we launch any new digitalisation effort," explains Lim. "Our track record has given us a lot of confidence, and this year we will hit record numbers of transactions via our electronic banking channels," he adds.

With the bank expecting to facilitate more than 100 million digital transactions in 2021, with 60 million comprising API calls, he says the numbers demonstrate DBS' investment in digitalisation is starting to pay off. "Coupled with our design-thinking and validation process, it gives us every confidence to continue, and there is a lot more we can do with our clients."

Of course, having only recently assumed his new position in DBS, Lim has a great deal on his plate. "My first task is to plan how to plan," he comments. Paying tribute to the success of his predecessor, he says he must now "survey our strengths and then align our organisational resources to serve the changing needs of our clients and opportunities in the marketplace". Digitalisation, he concludes, will remain to the fore. ■

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