tmi
Issue 276
1992 28 YEARS 2020

# Supply Chains of the Future


- Covid-19 and the Building Blocks for Business Resilience
- CEE's Digital Treasury Revolution

Published in association with
EACT
THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

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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. The 2020 US annual subscription price is $400.00. Airfreight and mailing in the USA by agent named WN Shipp ing 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.

> It will be interesting to see whether Covid-19 drives an increase in the use of 3D printing in supply chains, with more production being on-shored or localised as a means to improve business continuity.

**James Binns**, Global Head of Trade and Working Capital, Barclays

Supply Chains of the Future, P8

> The twin forces of the Covid-19 pandemic and Brexit are empowering treasurers to look for greater efficiencies in their operations and deploy digital tools to help future-proof the department. That's a rare mandate – and an opportunity that should not be missed.

**Andrés Baltar**, Head of Europe, Corporate Banking, Barclays

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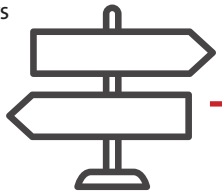

> Having a clear understanding of your treasury system needs enables better communication with TMS vendors during the selection process.

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> Compared with other geographies, CEE remains cost-effective from a human resources perspective.

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**Karen Braithwaite**, Global Head of Transaction Banking, Corporate Banking, Barclays

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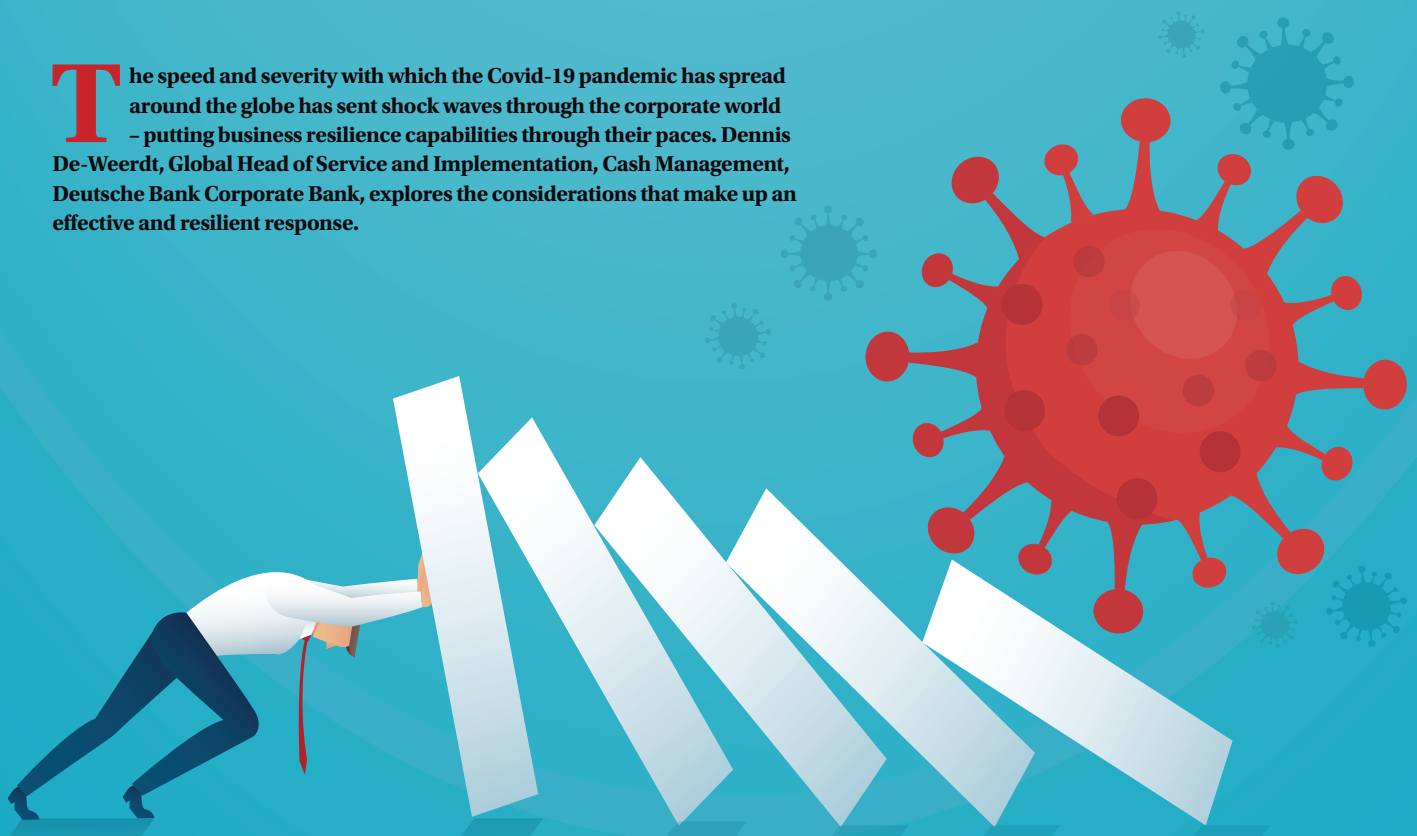
# Covid-19 and the Building Blocks for Business Resilience

By **Dennis De-Weerdt**, Global Head of Service and Implementation, Cash Management, Deutsche Bank Corporate Bank

**The speed and severity with which the Covid-19 pandemic has spread around the globe has sent shock waves through the corporate world – putting business resilience capabilities through their paces. Dennis De-Weerdt, Global Head of Service and Implementation, Cash Management, Deutsche Bank Corporate Bank, explores the considerations that make up an effective and resilient response.**



In the wake of the peak of Covid-19, the need for firm business continuity and recovery measures quickly rose to the top of the corporate agenda. While the lessons learnt about business resilience post-financial crisis have been continuously put to the test – either by extreme weather events, growing political tensions or the volatility of commodity prices – many have still been caught off-guard by the unprecedented nature of the pandemic.

In contrast to other events, the impact of Covid-19 has not been limited by geography or sector. As the impacts have reverberated outwards, with lockdown measures and remote working becoming the norm, comprehensive business reliance plans have proved a 'must have' for any company that wishes to keep the lights on. But what are the key considerations that underly these measures?

## Adapting to remote working

The adaptation towards a remote-working environment has been remarkably seamless and fast – with most professional service companies maintaining, or even improving, business operations and quality of work. So much so that we could even see working from home flexibility become the 'new norm' for many companies globally.

At the heart of the broadly successful transition to the home office lies a host of digital developments. One such development is the rapid uptake in the use of digital signatures. While the solution has been readily available for a number of years – with Deutsche Bank's offering launched in 2018 – the shift from traditional wet-ink signatures has been sluggish. Until now. Here, remote working has coincided with greater interest and uptake of digital signatures – by necessity.

## Fintech synergies

The current environment has also brought valuable collaborations between banks and fintech companies to the fore. In fact, innovative technologies, such as real-time information on the company's FX positions and digital signing, have been incorporated into the business resilience plans of many companies. Supportive technologies, including artificial intelligence (AI) and robotic process automation (RPA), have also played a key role.

One of the biggest challenges in exceptional times is fraud prevention and cybersecurity. Events on the scale of Covid-19 create distractions, upon which fraudsters and criminals are quick to capitalise. So while the rapid uptake of digital measures should be seen as a positive step, it is important that it is accompanied by the necessary security measures.

## Bolstering supply chains

Covid-19 has meant that companies not only need to think about their own business resilience but also that of their entire supply chain. Considerations relating to the viability and sustainability of major suppliers and/or major buyers are top of the agenda.

Already stretched as a result of numerous geopolitical issues, such as the escalating trade tensions between the US and China, companies are now critically revaluating their supply chains – hoping to identify and action changes that will strengthen their business resilience.

For this to be successful, treasury departments need to keep on top of real-time balances and liquidity funding for their suppliers as well as their own company and its subsidiaries. Towards this aim, one technique being increasingly deployed is payables finance, which enables corporate buyers to extend or maintain existing payment terms without threatening supply chain stability.

## A good foundation

As we reflect on the lessons of the past few months, it is worth focusing on not only the challenges but also the opportunities it has afforded. Whether it has been managing authorisations, implementing end-to-end payments tracking, enabling digital signatures, improving connectivity for remote working or placing a heightened emphasis on fraud management, the pandemic has prompted corporates to further scrutinise their processes – digitalising as and where possible along the way.

As we look forward, expecting the unexpected will continue to be the order of the day – and corporate clients will need to ensure they have a partner in a global bank that is flexible and quick to react to any potential scenario. ■

> *"Comprehensive business reliance plans have proved a 'must have' for any company that wishes to keep the lights on."*

**DENNIS DE-WEERDT**

**Global Head of Service and Implementation, Cash Management, Deutsche Bank Corporate Bank**

# My Life in Treasury

**The Russian debt crisis of 1998, the dot-com bubble and then the global financial crash didn't faze Paul Byrne. In fact, he describes 2008 as a 'fantastic time' to be in treasury, with all the challenges it brought alongside the opportunities to rebuild businesses and restructure systems. His survival kit includes a can-do attitude, the ability to think strategically, knowing when to take or leave advice – and a pile of good books to read on the road.**

**Paul Byrne**, Group Treasurer, Crisis Restructuring/ Management, Strategic Adviser and Interim Executive

## How did you come into treasury and what attracted you to the profession?

After qualifying as an accountant, I quickly realised it wasn't something that I was particularly interested in doing for the rest of my career. At that time, I was working as a financial controller for Citi and began to gravitate towards the trading floor. I became much more interested in the mechanics of funding the bank and less about debits and credits. I was hooked from that point. I knew I wanted to fund the balance sheet and to manage capital and liquidity, hence the move into treasury.

I have been fortunate to have worked for Citi, SEB, Merrill Lynch (where I was treasurer of their banks throughout the global financial crisis), AIG and PTSB (an Irish bank that failed the European Central Bank [ECB] 2014 stress test, which I got to re-IPO and QBE). These firms gave me the opportunity initially to work on individual transactions, including debt deals, equity raising, balance sheet restructuring, crisis management, deleveraging or M&A, which, over time, became a body of work and experience that has enabled me to continue enjoying what I love to do!

Over time, my roles became more geared towards enterprise level and strategic in nature, enabling me to truly make an impact on the business.

## How has your career progressed through to the role that you hold today?

As I mentioned earlier, I started out as an accountant, undertaking Financial Controller, Head of Finance and Chief Financial Officer roles, before I secured my first true treasury role in 2001 as International Treasury Director. Then, my big break came at the back end of 2005 when I was offered the role as Treasurer for one of Merrill Lynch's banks, Merrill Lynch Capital Markets Bank, and it was largely a derivative shop.

Towards 2007, I was promoted to Treasurer of Merrill's banks. There were eight or nine altogether with an aggregate balance sheet of around US$700bn, and by August 2007 I was in the deep end as the global financial crisis took hold. Overnight funding dried up, ultra-high net depositors were getting nervous and debt markets were locking up and the swap market was broken.

It was the most fantastic time to be in treasury; funding, liquidity and increasing regulatory capital were key and innovation and a can-do attitude were critical. At this juncture regulators, rating agencies and non-executive directors increasingly featured in my life.

Bear Stearns folded, Lehman and Merrill were sold and my role expanded to include some of Bank of America's offshore banks.

All of the challenges that made 2007-8 fantastic had disappeared by the end of 2009 and I was looking for a new challenge when AIG approached me. They had their own issues to deal with having been bailed out by the US Government to the tune of $180bn, which they were aggressively looking to repay by divesting businesses. They approached me to build a treasury function for their Chartis P&C (property and casualty insurance) business in anticipation of an impending IPO in mid-2010.

A change of Group CEO led to a switch in strategy and Chartis was now considered to be core and not for sale. I was now Global Treasurer of Chartis, having built out the global treasury function, re-engaged with debt markets, unencumbered assets and executed a number of liquidity transformation transactions, upstreaming funds to assist with the repayment of the US Government.

At this time, we believed we would be designated as a SIFI (systemically important financial institution) and we needed a robust contingent liquidity modelling solution, which we built and rolled out across the broader AIG Group. In mid-2014, I was appointed Group Treasurer of Permanent TSB. PTSB was a struggling Irish retail bank that was about to fail the ECB stress test, with a 100% encumbered balance sheet. One of my first actions was to position and plan to avert a potential deposit run as a result of the announcement of the ECB results.

I spent 2014 deleveraging the balance sheet, selling €10bn in assets and using these proceeds to pay down system funding and start unencumbering the balance sheet, telling the story to rating agencies (I secured two upgrades) and debt investors. I also re-priced all of our retail liabilities to drive NIM (net interest margins) and a return to profitability in support of the investment thesis.

At the same time, I was on the road meeting and presenting the investment thesis to potential equity investors and generally preparing the bank for its re-IPO which happened in May 2015. The transaction was 10 times oversubscribed, which saw €500m flowing back to the Irish Government.

My final act for PTSB was to print its first unsecured issuance in ten years. With PTSB well on the way to recovery I was approached to become the Group Treasurer of Australian global insurer QBE and to move my family to Sydney. I built a true group treasury function for QBE, simplifying the international treasury functions, centralising risk management, liquidity, credit facilities and debt issuance. Along the way I claimed a couple of world firsts: the first green bond issued by an insurer and the first and only gender equality bond to be issued as an AT1 instrument, which was 24 times oversubscribed.

I have 100% enjoyed my career to date, having managed through the Russian debt crisis in 1998, the dot-com bubble, the global financial crisis and its aftermath. I have had experiences I never could have envisaged as a fresh-faced accountant, from balance sheet restructuring, crisis management, the importance of stakeholder management, of innovation, understanding the art of the possible and a never-say-die attitude.

Treasury is somewhere you can truly effect enterprise-level change and have a great career.

## How have the demands and needs of treasury changed over the course of your career, and what particular skills does the role require today?

As a general observation, the role of a treasurer today is far more strategic and less operational that it was 20 years ago. Given the intricacies of operating in an increasingly complex, regulated global marketplace, I believe the challenge for treasurers is to remain strategic, relevant

*"I have 100% enjoyed my career to date, having managed through the Russian debt crisis in 1998, the dot-com bubble, the global financial crisis and its aftermath."*

**PAUL BYRNE**

**Group Treasurer, Crisis Restructuring/ Management, Strategic Adviser and Interim Executive**

and abreast of the changing environment. It is vital to create and retain strong relationships with debt investors, lenders and markets and to be a trusted adviser to the CFO, CEO and the board.

I believe the three mandatory skills a treasurer should have are:

- The ability to develop a strategic approach combined with a can-do attitude
- The ability to build a good team
- The ability to know when to take advice and when to disregard it

> *Treasury is somewhere you can truly effect enterprise-level change and have a great career.*

### What specific, or perhaps surprising, qualities do you look for when recruiting treasury personnel?

I believe participation in team sports can be an indicator that a candidate will work well in a team environment. I have noticed this particularly in candidates who have played hockey or rugby. Similarly, when I see a candidate who has rowed at school, university or for a club, that indicates to me that they are committed individuals because the very early mornings on the water and the hours spent on the rowing machine require a level of commitment.

### How important do you think a formal treasury education is, as opposed to (or as well as) more general finance or accountancy qualifications?

I tend to look for candidates who have treasury work experience, not a treasury qualification, over a finance or accounting qualification. I am not sold on the transition from accountancy to treasury. Yes, I know I took that route, but my observation is that accountants tend to struggle more to make the switch than some other candidates.

### In your career, what are the major changes that you have seen within treasury in the past five years?

I have been a treasury professional for 20 years, spending most of that time within the financial institution space. When I think of all of the major changes I have seen over the past five years, the key drivers behind all of them flowed from the emotional and financial scar tissue left behind from the global financial crisis, whether this was as a result of:

- The changes in the regulatory/supervisory landscape, where the pendulum swung from one extreme to the other, giving us Basel III with its increased capital buffers, LCR (liquid coverage ratio) and NSFR (net stable funding ratio)
- Recovery and resolution planning, structural subordination, the need for TopCo to be a HoldCo
- TLAC (total loss-absorbing capacity), ALAC (additional loss-absorbing capacity) MREL (minimum required eligible liabilities) and PoNV (point-of-non-viability in Australia)
- The death of wholesale money markets, value of corporate cash to banks, due to B3 prescriptive changes in relation to what 'sticky' liquidity is or can be
- Technological advances that make the job of risk management more about evaluation and interpretation and less about collation and aggregation

### Based on your career so far, what would your advice be to finance professionals who are perhaps in their first treasury role?

Select the firm you want to work for, understand what you want to get from your first role and how the experience and knowledge you have gained will position you for your next one. Be a good team player, learn as much as you can, ask questions, integrate into the team, don't be afraid to share your ideas – and have fun and enjoy the job.

### What would your ideal holiday be?

Before I moved to Australia, I would have said three weeks somewhere warm and sunny with my family. After almost five years of very warm and sunny days, I think a couple of weeks in a winter setting for Christmas with the family would be great.

### What book have you read recently or what film have you seen recently that you would recommend, and why?

I read a lot of books, particularly when travelling with roadshows, and I tend to read a couple of chapters of a biography or autobiography in the morning and a couple of chapters of a historical fiction novel in the evenings – and always historical fiction on the road. At the moment I am reading both *Traitors of Rome* by Simon Scarrow and *My American Dream* by Colin Powell. I am reading Powell's book as I was privileged to meet him and he gave me an autographed copy. ■

***If I can be of any assistance to anybody looking for career advice or to share any learnings from my experiences, I am very happy to do so. Please reach out and make contact via LinkedIn.***

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# Supply Chains of the Future

By **Eleanor Hill**, Editor


## Recovery-Proof Solutions

**The Covid-19 pandemic has highlighted the fragility of supply chains across the globe. TMI speaks to five industry experts to understand how treasurers can help shore up supply chains right now – with quick-to-implement solutions, ranging from dynamic discounting to e-invoicing. We also look at the future of supply chains, given a potential resurgence of domestic sourcing and the rise of sustainability, examining how companies can finance their supply chains to prepare for the economic recovery.**

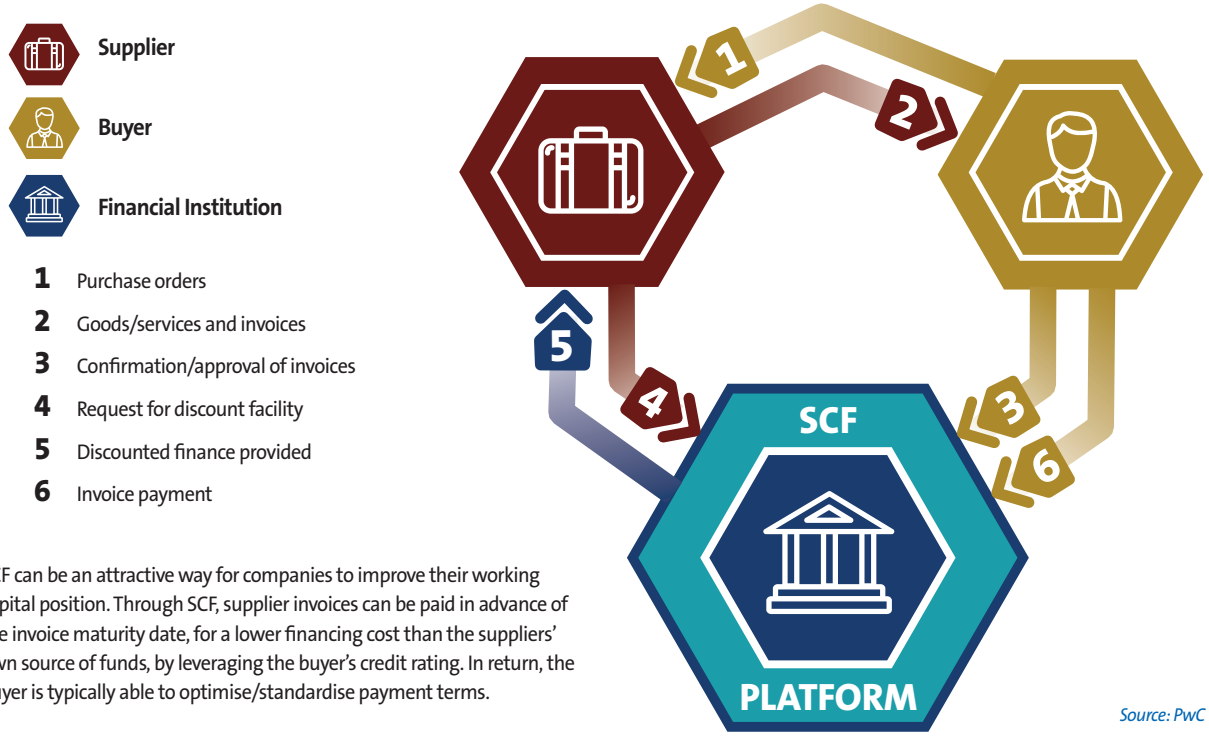
More than 200 of the Fortune 500 have some form of operations in Wuhan, China – the so-called epicentre of the Covid-19 pandemic[1]. This fact alone highlights how reliant the world has become on international sourcing, and how fragile supply chains can become when faced with disruption from unforeseen events.

Although China is now reopening, productivity levels are nowhere near 'normal'. And the Western world is, at the time of writing, largely still in lockdown. It is fair to say that the impact of Covid-19 on supply chains – not to mention purchasing habits – has been immense.

Edi Poloniato, Global Head Working Capital Solutions, Kyriba, a leading provider of liquidity and supply chain solutions explains: "We are experiencing an unprecedented event. Even if some vital sectors, for example agriculture, consumer goods, medical supplies, are seeing significant, and rare, demand surges, all economic players are affected. As a result, purchase and demand are impacted at the same time, which blocks financial chains." Currently, we observe three main demand and supply scenarios:

- **Immediate Demand Surge – Supply Shock**: Sectors providing food, essential personal care and health goods have been experiencing 'stockpiling' and demand in these sectors has gone through the roof because of panic purchases. "Those companies are struggling to meet exponentially increasing and unexpected demand, despite core suppliers pushing the limits of their production capacity," says Poloniato.
- **Mid-term Demand Shock – Supply Shock**: Non-essential industries such as retail and electronics are a part of what the mid-term demand shock – supply shock category. "They are experiencing a lagging demand that will likely bounce back relatively quickly once different parts of the world start coming out of quarantine," he notes.
- **Long-term Demand Shock – Supply Shock**: Non-essential, premium/luxury products and related industries such as automotives, travel, hospitality and tourism are a part of the long-term demand shock – supply shock category and will most likely experience a much lower recovery rate in demand. "As such, they are likely to struggle the most to avoid bankruptcies and serious cash flow crunch while wrestling with supply chain woes," he believes.

## BOX 1: HOW DOES SCF WORK?




SCF can be an attractive way for companies to improve their working capital position. Through SCF, supplier invoices can be paid in advance of the invoice maturity date, for a lower financing cost than the suppliers' own source of funds, by leveraging the buyer's credit rating. In return, the buyer is typically able to optimise/standardise payment terms.

*Source: PwC*

> *With third-party platforms performing dynamic discounting, buyers can use their own funds to assist suppliers.*

James Binns, Global Head of Trade and Working Capital, Barclays, agrees that it is a mixed picture. "As Edi has highlighted, sectors related to food, healthcare, or daily essentials are currently experiencing high demand, so some corporates are looking for additional working capital to help meet that demand. At the other end of the spectrum, in the leisure and hospitality sector, and certain areas of the transport and travel sector, for example, businesses are looking for assistance via government schemes such as the UK's Coronavirus Large Business Interruption Loan Scheme (CLBILS), which helps businesses to access finance up to £200m."

For those sectors that are impacted in less extreme ways, explains Binns, "we are seeing clients use a mix of CBILS (for smaller businesses) and CLBILS with working capital solutions. This is an interesting trend as corporate treasurers are proactively re-evaluating funding solutions, looking beyond the more traditional overdraft and debt-related avenues they have relied on previously".

As a result, Binns believes there is rapidly growing awareness of the funding requirements of supply chains and the sustainability of supply chains going forward. "While buyers are looking to optimise their payment terms, they are equally aware of the need to help suppliers survive the crisis in order to maintain the integrity of their supply chain for the future. Buyers are also becoming more aware of the importance of their smaller suppliers – and the cash flow issues these types of businesses face. Interest in financial solutions to reach the longer tail of smaller suppliers is therefore gathering pace."

## Early payment solutions

Against this backdrop, an increasing number of buyers are looking to leverage reverse factoring, also known as supply chain finance (SCF), solutions for their large and medium-sized suppliers (see box 1), while deploying dynamic discounting (see box 3) for their smaller suppliers.

Poloniato explains: "If the buyer does not want its working capital to deteriorate or if it wants to increase its free cash flow by extending the payment terms, implementing an SCF programme can be an efficient solution. While this days payable outstanding (DPO) strategy obviously 'generates' cash, it does not have to be applied at the expense of suppliers which may especially be feeling the crunch of quarantines, intermittent production cycles and distribution challenges. That is why buyers can help suppliers by offering early payment terms via SCF banking partners."

Meanwhile, "With third-party platforms performing dynamic discounting, buyers can use their own funds to assist suppliers. This enables financing to reach much further down the supply chain than

### BOX 2: THE BENEFITS OF SCF PROGRAMMES

During the financial crisis of 2008, which generated demand shocks and triggered significant global supply chain risk, many companies (especially those in manufacturing and retail sectors) found solace in SCF programmes to help improve their survival rate and future preparedness during the liquidity crunch.

According to Poloniato, Kyriba's customers who adopt a working capital optimisation programme through SCF, benefit from numerous advantages, including:

- **Reducing the cash conversion cycle/supplementing cash flow** – Companies experiencing a third-degree cash flow crunch can extend payment terms with an SCF programme. This will enable suppliers to be paid earlier, shielding them from the negative impact of prolonged payment terms. SCF programmes enable buyers to significantly reduce their cash conversion cycle, freeing up cash flow while also incentivising the participating suppliers with accelerated payments.
- **Providing financial support for suppliers with internal or external funding** – When a critical supplier's financial health is more adversely impacted than the company itself, it may be advantageous for the company to quickly propose early payment programmes to suppliers, either with its own cash (dynamic discounting) or through external funding sources without extending existing payment terms (SCF).
- **Gaining 'preferred buyer status'** – In industries in which suppliers are in high demand, investing in working capital optimisation programmes will pay out a 'capacity dividend' to secure production lines immediately or in upcoming demand surge periods.
- **Supporting alternate supply chain sourcing/diversification** – Companies that need to set up new production facilities or secure/develop alternate supplier sources to avoid high dependencies on a single region or entity will require investment capital. Such capital can be sourced from supply chains when payments are streamlined with working capital management programmes such as SCF.

SCF, and onboarding is typically rapid since the technology is sophisticated and the KYC burden is reduced as there is no bank or 3rd party funding involved," Binns adds.

Colin Sharp, SVP EMEA, C2FO, echoes this, saying: "Financial supply chain solutions need to be available for all suppliers, especially the more delicate small and medium businesses which are underserved by the financial markets. Our Dynamic Supplier Finance enables the support of all suppliers, large and small. Moreover, as James alluded to, the fact that platforms like C2FO are highly digitised, and unnecessary paperwork has been eliminated, means that the lead times to onboard a supplier are vastly reduced. Dynamic Supplier Finance is a highly regarded C2FO innovation, that allows funding from the buyer's own cash, and from our bank and non-bank funding network, providing seamless flexibility to choose the best funding option(s) for both the buyer and its suppliers.

For buyers with cash that isn't generating great returns (not uncommon in current conditions), deploying funds to suppliers through dynamic discounting, and improving gross margin in the process, can be an attractive option – even more so in times of crisis. Michael Rieskamp, MD Europe, Taulia, notes: "Ultimately, all the supplier cares about is getting paid and on time, not whether it is the buyer's own money or money from a bank. So, solutions such as Taulia are gaining significant traction as more organisations see the benefits, and the flexibility for the long tail of suppliers compared with bank-led solutions. It doesn't matter how large or small your business is, and suppliers can be enrolled in as little as 90 seconds."

Flipping between SCF and dynamic discounting solutions is also becoming easier for those buyers running a mix of the two initiatives, says Poloniato. "Technology can help buyers to switch easily from one technique to another depending on their cash situation without impacting their internal procedures and their suppliers. We see examples of buyers setting up liquidity thresholds that trigger the use of dynamic discounting or supply chain finance, for example."

Here, Binns adds that, in future, corporates are likely to want to see SCF and dynamic discounting integrated into a single, bank-agnostic platform, so that buyers can manage the needs of all their suppliers – including the long tail – in one place. "Certainly, our strategy at Barclays is to embrace third-party platforms and we are working to connect to them in the near future. The ultimate idea would be to offer clients connectivity via their platform of choice and to assist in funding the vendors that we already bank via that platform," he notes.

This is music to Sharp's ears. "Being able to mix SCF and dynamic discounting in a single platform will be vital in order to serve all of the supply chain – and for the buyer to meet and exceed internal key performance indicators (KPIs) as they move between working capital, margin and so on," he adds.

Such a set-up is also a priority for Taulia, says Rieskamp. "We have recently

**JAMES BINNS**

Global Head of Trade and Working Capital, Barclays

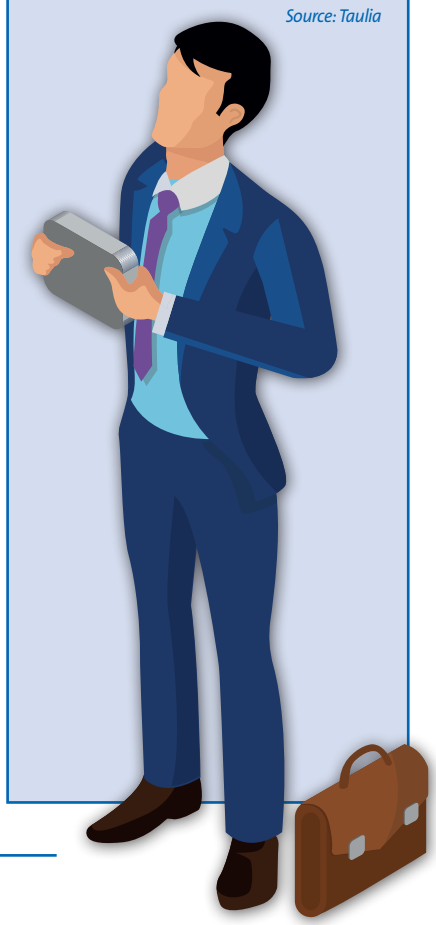
**EDI POLONIATO**

Global Head Working Capital Solutions, Kyriba

## BOX 3: WHAT IS DYNAMIC DISCOUNTING?

For those unfamiliar with the terminology, dynamic discounting is a solution that leverages buyers' unused cash and gives suppliers flexibility in taking payments earlier than the due/payment date, in exchange for a small discount. It is 'dynamic' because it can enable suppliers to strike the right balance between cost and payment date. Generally, the earlier the payment is made, the greater the discount will be.

*Source: Taulia*



announced a strategic alliance with J.P. Morgan which offers the bank's clients both the capability to onboard suppliers of all sizes across the globe and the flexibility to toggle seamlessly between bank-funded and self-funded early payments. This kind of innovation is very exciting – and great news for corporates."

## E-invoicing imperatives

To make the most of such an integrated environment in the future, Rieskamp believes that a renewed focus on e-invoicing is also called for. "Getting paid on time, or early, requires invoices to be sent to the right place, and received in a timely fashion and in the right format. Unfortunately, this isn't always the case."

Everyone knows that paper invoices are inefficient and costly, this is why shared service centres (SSCs) and business process outsourcing (BPO) became so popular – a place where low-cost workers could rekey information from paper invoices into ERP systems. But no one anticipated SSCs being shut down entirely, and the pandemic has completely changed the way invoices are dealt with.

"Many companies have begun emailing invoices as a stop-gap, but this still requires the customer to input data manually into their accounting system, leading to slow approval times and the risk of error. E-invoicing is therefore receiving a great deal of attention and there are solutions in the market that make it very easy to convert old invoice templates into an electronic invoice that suits the format needs of the buyer – with fields like the order number clearly marked," Rieskamp explains.

In response to Covid-19, Taulia has launched an initiative called Rapid Start Invoicing, which can be implemented within seven days. This gives suppliers the ability to submit invoices electronically and enables buyers to digitise their accounts payable (AP) processes, while keeping on top of outgoing payments and keeping employees engaged in the business. "As such, there's a great deal of value in implementing e-invoicing, and it becomes even more powerful when used in conjunction with a solution like an early payment programme," he believes.

Poloniato agrees: "Companies are generally under-equipped with e-invoicing solutions. Invoice processing is still an artisanal and time-consuming process." Furthermore, even organisations which do have a type of e-invoicing solution in place often have a blind spot when it comes to interfacing with ERP (enterprise resource planning) – which could, if done correctly, speed up and streamline the overall process. "In addition, electronic signatures are still rarely used for the validation of purchase orders or quotes, for example, meaning that many organisations are missing out on efficiencies here."

The Covid-19 crisis is therefore an opportunity for organisations to recognise the need to speed up their e-invoicing process, believes Poloniato. "Not least since electronic invoices will become mandatory in B2B exchanges between some countries, like France, within the next three years."

Despite the obvious benefits, building the business case for e-invoicing is not always quite so easy, says Jordan Novak, SVP, Market Innovation, C2FO. "The problem with many of the processes like e-invoicing is that the benefits are typically soft or intangible and the costs in time and resources to convert are high. We have a Fortune 10 client that has only 1% of its invoicing left in paper format. It is cheaper for them to have 500 employees accept, scan, and enter these invoices than convert that 1% to e-invoicing!"

## Rethinking risk

An area that all the experts agree will be advantageous to focus on as a result of the Covid-19 crisis is improved risk management and mitigation in the supply chain. Binns comments: "Given the growing awareness of concentration risk within supply chains, we expect to see greater focus on contingency planning post-crisis." Where concentrations exist around particular countries or particular suppliers, he believes large suppliers will now be looking to diversify their supply chains in order to mitigate or at least minimise that risk. This could potentially

> *"Coping with additional demand will be tough – and the right funding needs to be in place to help see them through the rapid change of pace."*

### BOX 4: GOING GREEN

As companies review their supply chain risks and financing arrangements, and potentially sign up new suppliers, there is an opportunity to improve the sustainability of supply chains – in terms of Environmental, Social and Governance (ESG) goals.

"One of the things the global stay-at-home orders have shown us is the impact economies have on the environment," says Novak. "From the suddenly clear waters of Venice to the bright blue skies of Delhi, we've been shown a glimpse of a cleaner world. I think this will drive companies and governments to incentivise ESG-led programmes to a greater degree."

And with the growing demand for SCF, corporates and banks can do more to ensure ESG principles are embedded in these programmes from the get-go, believes Binns. "Equally, with buyers looking for new vendors, in a bid for diversification and risk mitigation, it is more than likely that there will be an element of ESG consideration during the selection process."

Rieskamp agrees: "I believe sustainability will be a continuing trend in the financial supply chain space. Yes, we will see more ethical and green criteria being built in to SCF solutions, but we will also see the social aspect of ESG coming to the fore as buyers act on their responsibility to financially support suppliers – from the biggest to the smallest."

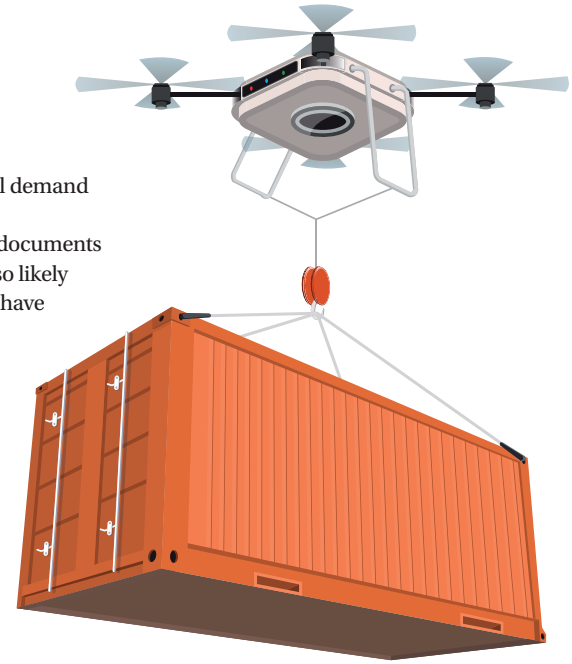
mean bringing new suppliers onboard.

Increased risk in global supply chains could also see companies rethinking where they source products from, and whether technologies such as 3D printing might be advantageous. "Of course, it's an emerging technology and it is more relevant in certain sectors, such as white goods, components and toys, but it will be interesting to see whether Covid-19 drives an increase in the use of 3D printing in supply chains, with more production being on-shored or localised as a means to improve business continuity," notes Binns.

The financing of 3D printing is also thought-provoking, he says. "First, there is a certain amount of financing required for a local 3D printer. Then, there is intellectual property (IP) being sold, in terms of programmes and patterns to operate the 3D printer and make the required item, which will result in a trade finance need to support these cross-border IP flows. This will be an interesting area for treasurers to watch."

Another point of development linked to contingency planning is the potential for logistics providers to hold and manage inventory. Binns comments: "I believe we will see an uptick in inventories being held, given the renewed focus on blockages and breakages in global supply chains, but corporates may not wish to hold these additional inventories in their own warehouses. Instead, they might prefer to hold the inventories near-shore, with a trusted logistics partner." This trend is likely to be a particular focus once recovery begins, and global demand begins to spike.

Elsewhere, the digitisation of documents in physical supply chains will also likely accelerate as companies look to have greater visibility and control post-crisis, adds Rieskamp. "Track and trace capabilities from source to destination are becoming much more important. This ties in nicely with digitisation of the financial supply chain through e-invoicing, which I believe will play an important role in enabling corporates to be nimbler throughout the recovery period."



## Recovery readiness

Preparing for the economic recovery is in itself a challenge, with the risk of being under-resourced weighing heavily on corporates' minds. "As and when recovery begins, suppliers will need funding like they've never needed funding before because their liquidity buffers will have been eroded by the Covid-19 crisis," explains Binns. "Coping with additional demand will be tough – and the right funding needs to be in place to help see them through the rapid change of pace. At the same time, average credit quality is likely to have decreased, so there will be an increased need for risk mitigation between different trading counterparties as well."

He highlights the potential for a return to more structured documentary trade and the use of instruments such as letters of credit, both sight and usance. "These are highly effective supply chain finance and risk mitigation tools and the accounting

**COLIN SHARP**

SVP EMEA, C2FO

**JORDAN NOVAK**

SVP, Market Innovation, C2FO

**MICHAEL RIESKAMP**

MD Europe, Taulia

treatment is relatively simple and efficient. So, I hope that corporates will give greater consideration to the power of some of these tried-and-tested solutions, in the right situation, as recovery takes hold," says Binns.

Meanwhile, the role of governments, export credit agencies, and the various trade agencies, will be critical in ensuring that the banks have the right level of credit appetite and credit limits behind them to be able to support the recovery. "Without the right funding in place, supply chains will not be efficient and they won't be able to cope with the rise in demand again. Ongoing collaboration between government, trade bodies and banks will be vital, therefore," cautions Binns.

Sharp echoes this and highlights the need for multiple players to support financing during recovery. "Supply chains will need to be viewed as an ecosystem, some of which can support the working capital goals of the buyer and some of which need support from the buyer," he says. "The ability to access a diverse pool of funding – bank and non-bank – will be important. As markets ease and corporates have an excess of cash from the protective measures currently being employed, they will want to deploy cash effectively: the ability to mix seamlessly between buyer cash and third-party funding in a simple experience for the supplier will be vital. This will also allow more effective steering of EBITDA, working capital, free cash flow and supply chain risk as internal KPIs and goals continually change. Pre-invoice funding will also be important as the volume of purchase orders increases in line with economic activity."

Novak adds: "The key for companies will be dealing with the pandemic hangover and putting financing programmes in place that are flexible enough to pivot immediately in shifting economic conditions." He notes that, during recovery, "every supply chain system and solution needs to be able to respond as quickly as those companies which shifted manufacturing from cosmetics to hand sanitiser and drive value deeper, up and down the supply chain. This means true innovation, true on-demand technologies. It will not be good enough in a recovering, fragile global economy to build infrastructure to support a single strategy or a single side of your fulfilment channel".

Looking at the bigger picture and thinking broader is also one of Binns' key pieces of advice. "For years, I've encouraged large buyers using SCF to look beyond their own working capital ratios and their own funding to the broader supply chain ecosystem. I hope that one of the positives coming out of the crisis will be much greater awareness of what an optimal provision of funding across supply chains looks like – and that large, investment-grade buyers will continue to recognise their role in influencing the ecosystem to the benefit of their suppliers. In the medium and long term, the benefits of such an approach to a large buyer – and their suppliers – will be much greater than short-term gains made through pushing out payment terms, for example."

Poloniato is starker in his guidance around preparing for recovery. "One thing is certain: when we come out of the current crisis the world will be different. Some experts predict that this is just a preview and, unless we seriously change our course of actions and priorities, this is just the first in a series of crises. Our new normal will be punctuated with an even flow of quiet periods and prolonged crises."

With this in mind, he believes organisations should strongly push for working capital programmes to shore up liquidity preparedness while improving their odds of success when the tide turns. "Remember it's not a matter of if, but when. The winning companies will be those which can increase both their financial survival and success rates," he concludes. ■

## BOX 5: THE END OF JUST-IN-TIME?

"The crisis is certainly a catalyst to review and rethink supply chain models," says Rieskamp. "People have seen how vulnerable global trade is and how reliant businesses are on every link in their supply chain remaining connected. I imagine that just-in-time (JIT) manufacturing will be reviewed, as the risks are so high. I can see much greater attention being paid to managing risks in physical supply chains, generally.

Novak also believes that JIT could suffer "JIT had its time in the sun in the 2000s and really showed its limits over the past few months. Having inventory, warehouses, and bricks-and-mortar stores showed the value in infrastructure, reduced stock keeping units, and generalisation of product. JIT will still have its fit, but it has definitely taken a hit in this environment."

Nevertheless, Sharp says that JIT is unlikely to change significantly due to the negative inventory cost implications, but he believes diverse sourcing will be more prevalent, "with more supplier relationships to manage in more geographies as reliance on China reduces in favour of multiple sourcing locations and cheaper labour e.g. Vietnam and Mexico". This shift will have implications for SCF geographies and currency coverage too, he cautions.

*"Remember it's not a matter of if, but when. The winning companies will be those which can increase both their financial survival and success rates."*

***Note***
*1 https://www2.deloitte.com/global/en/pages/risk/articles/covid-19-managing-supply-chain-risk-and-disruption.html*

# A Turning Tide for Trade

By **Eleanor Hill**, Editor

**Ebru Pakcan has recently been appointed Global Head of Trade, Treasury and Trade Solutions, Citi. In this candid interview, she speaks about the impact of the coronavirus pandemic on trade, and airs her views on the digitisation of trade – from the milestones already reached to the areas still requiring improvement. She also shares her best advice for treasurers when preparing for a return to 'normal'.**

***Eleanor Hill (EH): We can't ignore the impact of Covid-19 on trade. What have been the major knock-on effects to supply chains, in your view?***

**Ebru Pakcan (EP):** The situation is very dynamic but, broadly speaking, we see a three-stage impact. The first phase was the immediate shock to the global system. In the early part of 2020, Asia was significantly impacted by the virus. Financial markets then began experiencing volatility as questions arose over manufacturing capabilities in Asia and the robustness of global supply chains. The situation intensified as Covid-19 spread across the Middle East, Europe and US and companies grappled to ensure they had sufficient access to liquidity, and solid supplier relationships.

The second stage saw organisations focus on the creditworthiness of

customers, and the impact of the crisis on global demand. As such, companies have been carefully reassessing credit limits for their clients and rethinking risk solutions. They have also been modelling the potential knock-on effect to demand and attempting to forecast their receivables as reliably as possible.

The third phase is adapting to the new normal as best as possible. Now that companies have assessed the potential impact on suppliers and buyers, they need to determine how much demand they are willing to supply in the months ahead – and what is realistic, factoring in a potential second wave of the virus. This is by no means an exact science, but companies would do well to start planning with six to 12 month horizons in mind.

***EH: You mentioned that companies are rethinking their risk mitigation tools. Could you expand on that? Which types of trade finance products are proving popular?***

**EP:** In general, we are seeing a move back to basics. Over the last few years open account trade has rendered many 'traditional' trade finance products more or less obsolete. But in this heightened risk environment companies are being more cautious. Where new supplier relationships are being put in place as a result of disruption to existing supply chains, it is not possible to perform due diligence through physical site visits. Buying organisations are therefore reliant on digital due diligence, but this isn't quite the same – so they are looking for added risk mitigation too. As a result, we are seeing traditional tools such as guarantees come back into favour.

We are also seeing creative approaches to supply chain finance, ranging from leveraging government liquidity schemes to dynamic discounting. Buyers are trying to keep their supply chains stable and assist suppliers through the crisis in any way they can.

***EH: Looking slightly longer-term, how do you think the trade landscape and international sourcing might change as a result of Covid-19? Will we see supply chains shortening, for example? And will just-in-time models still be popular?***

**EP:** There is no doubt in my mind that we are going to see a long-term impact. Even before Covid-19, the challenging trade relationship between the US and China was driving certain industries and markets to reconsider international sourcing in the context of supply chain resilience.

The pandemic has heightened this re-examination of existing set-ups, and there is likely to be an uptick in domestic manufacturing in geographies such as the US as a result. But companies also have to take into account the cost of sourcing closer to home, where labour and parts are often more expensive. At a time when economic growth is already under significant pressure, margins will be squeezed, so the cost of manufacturing will be under close scrutiny.

Another behavioural change I expect to see over the longer term is the shift towards digitising supply chains. E-commerce was already growing at 15-20% annually, and now that countries across the globe are in lockdown, virtual shopping is accelerating. Organisations that did not previously interact with their customers through digital channels are swiftly realising the benefits of doing so. Businesses and consumers are becoming much more familiar with buying goods and services online. It is reasonable to expect that digital demand will continue post-crisis, so companies will likely be re-assessing their sales and distribution strategies as a result.

***EH: How is the digitisation of trade progressing? Where is there still room for improvement?***

**EP:** Trade is an enormous ecosystem, with so many different players – from port and customs authorities to corporates, banks and insurers. Aligning all of those stakeholders in a digital world is incredibly tough when trade has been paper-based for eons. Digitisation is a long journey that no single institution is in charge of.

Our approach is to focus on the parts that Citi can directly influence. As such, we've made significant improvements in our back-office processing to improve data management and data mining, as well as deploying optical character recognition (OCR) and artificial intelligence (AI) capabilities. This means that, once documents or instructions make their way into the bank, they are more or less 99% digital from that point.

With our own operations digitised, the next step is to determine how to digitise the interface between Citi and the rest of the ecosystem. This is a complex task, but we have made great progress in terms of improving the digital interface between the bank and our clients, via electronic banking channels, SWIFT FileAct and application programming interfaces (APIs). We expect to see greater uptake of these digital solutions going forward, which will help to further the digital agenda.

The hardest part of the journey involves the rest of the ecosystem – which is out of individual institutions' control. There are a number of consortiums that are driving progress in a collaborative way, however. These bodies have impressive visions for the future of trade, but execution of those goals is tough, given the scale of the task in hand. More work is certainly needed in this collaborative space to help achieve a truly digital trade ecosystem.

> *"Trade is an enormous ecosystem, with so many different players – from port and customs authorities to corporates, banks and insurers."*

Finally, I see a need for a review of trade rules and standards to ensure they match the digital environment. The International Chamber of Commerce (ICC) and World Trade Organisation (WTO) have been proactively engaging with the trade banks, coming up with practical suggestions and ideas – especially in reaction to the Covid-19 crisis. But I would like to see a playbook being created for the industry that details the digital future of trade, and also outlines appropriate actions in times of disruption, such as the pandemic.

***EH:* Finally, if there was one trade development you would urge corporate treasurers to keep an eye on, what would that be and why?**

**EP:** Putting aside Covid-19 for a moment, I would say that there is room for treasurers to work more closely with their banks to support more growth in their business by ensuring they have integrated digital solutions in place to enhance their cash forecasting as well as their cash collection and reconciliation processes. Effective receivables financing solutions will also be critical, and I believe there are more options that banks and treasurers can explore here.

Returning to the Covid-19 world though, I believe treasurers should also keep an eye on the long-term future. However long this crisis goes on and whatever the new normal looks like, there will be a return to a 'true normal' at some point. Corporates need to plan for that because, when demand and supply rapidly increase again, coping with that will be an interesting challenge. Inventories will not necessarily be there, suppliers might be crippled, and the workforce may not be at the same levels of productivity as before. So, the question is: how do you adapt to returning to the true normal – and what do you need to think about right now to make sure you're prepared for that? It's a good problem to have – a swift return to growth – but it's important to plan for that early on.

> *"It's a good problem to have – a swift return to growth – but it's important to plan for that early on."*

**EBRU PAKCAN**

Global Head of Trade, Treasury and Trade Solutions, Citi

# New Europe Awakens

## A Fresh Look at Post-Brexit Treasury

By **Eleanor Hill**, Editor

**Despite the challenges, the UK's departure from the EU is an opportunity for corporates on both sides of the channel to re-engineer treasury workflows, overhaul legacy processes, and revamp treasury models. Andrés Baltar, Head of Europe, Corporate Banking at Barclays and Daniela Eder, Head of Payments & Cash Management Europe, Barclays, share up-to-the-minute insights on best practice treasury post-Brexit and outline how leading corporates are positioning their organisations for growth in the 'new Europe'.**

Turn back the clock to 2016 – the year that music legends David Bowie and Prince passed away and Donald Trump became president of the United States. On 23 June that same year, the UK voted to leave the European Union. Brexit negotiations swiftly became the order of the day for politicians, and corporates began planning for all potential exit scenarios.

Fast forward to 2020, and the UK has now officially left the EU, but is in a transition period until the end of the year. Critically, however, no Brexit 'deal' has yet been reached and ongoing negotiations have been overshadowed by the global Covid-19 pandemic (see figure 1). Baltar comments: "Corporate treasurers' attention has been diverted away from Brexit by the immediate need to focus on cash and liquidity as a result of the coronavirus crisis. This is understandable, but given the treasurer's risk management responsibilities, Brexit must also remain firmly on the radar."

In fact, Baltar believes it is time to revisit Brexit plans that were formulated in the wake of the referendum four years ago, and to refresh them for the current environment.

"Much has moved on since 2016," he notes. "While uncertainty remains, the opportunities that Brexit presents are becoming clearer and leading companies are making the most of the momentum. Treasury digitisation has also accelerated, which is helping corporates to put in place an optimal cash management set-up – one that is flexible enough to change with the shifting operating environment."

This assertion is confirmed by a new research report published by TMI in partnership with Barclays, which surveyed 300+ treasury professionals and CFOs on current European treasury challenges and opportunities. According to the report, entitled *New Europe: Is Your Treasury Fit for the Challenge?,* 18% of respondents have used the momentum of Brexit to re-engineer treasury workflows, while 19% have benefitted from greater scrutiny over counterparties, given the need to review business relationships.

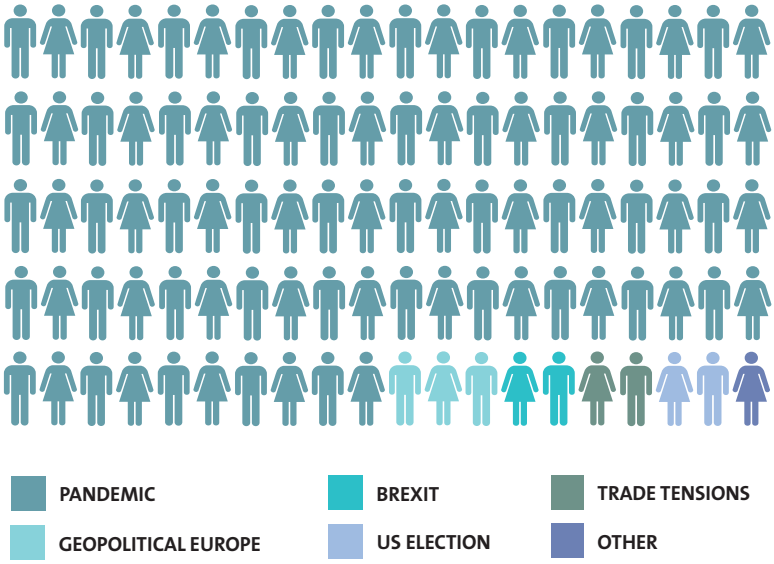
"It might seem counterintuitive, but now is the perfect time to step back and take a fresh look at your treasury operations. The twin forces of the Covid-19 pandemic and Brexit are empowering treasurers to look for greater efficiencies in their operations and deploy digital tools to help future-proof the department. That's a rare mandate – and an opportunity that should not be missed," Baltar comments.

But what exactly are leading corporates doing to prepare for Brexit? And where might efficiencies be found?

## Making the move

"By and large, clients have approached Brexit in a very organised fashion – breaking down the potential impact on treasury into 'buckets' such as: liquidity, payment access, banking partners, location of operations and legal entity status, for example," says Eder. "Initially, one of the major concerns for corporates and banks alike was the potential loss of passporting rights. This led organisations to review the location of their operations, with some choosing to create new European hubs. Banks were particularly fast movers here, and Barclays is no exception, with the expansion of Barclays Europe in Dublin. Many large corporates have also reviewed their European operations, but as the survey results show, some are still contemplating their options (see figure 2)."

**FIG 1: RESPONDENTS' NUMBER ONE GEOPOLITICAL CONCERN FOR 2020**




*Source: TMI and Barclays research report: 'New Europe: Is Your Treasury Fit for the Challenge?'*

Indeed, one in ten respondents with treasury operations in the UK are either considering moving them to elsewhere in Europe, or are in the process of doing so. "Some corporates are shifting treasury operations away from the UK to locations such as Ireland, the Netherlands and Luxembourg, to ensure they can carry on business as usual, regardless of the outcome of Brexit," observes Baltar. "But there are also strategic opportunities within such moves, ranging from more advantageous tax regimes to innovation and optimisation incentives.

"At Barclays, we see Brexit as an opportunity to serve our clients in the UK and the rest of Europe even more seamlessly. Alongside the expansion of our European base, we have invested in a new, streamlined European platform for clients. The user-friendly platform delivers a standardised client experience across Western Europe, and that consistency is precisely what corporates from the UK, US and Asia have been requesting. Europe is a key trading partner for them, and they are looking for a bank that has a presence across the region in order to facilitate optimal cash management."

Interestingly, 35% of survey respondents are reviewing the location of their bank

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accounts to prepare for the 'new Europe.' Baltar elaborates: "Access to European payments systems is critical, and this is one of the main drivers behind corporates moving bank account locations. There were long discussions around whether or not the UK would remain part of the Single Euro Payments Area (SEPA), which understandably made many corporates nervous – so some acted early and made the move.

"Nevertheless, the European Payments Council has now agreed that the UK will remain part of the SEPA scheme[1]. Corporates with euro accounts in the UK can also access TARGET 2 for high value payments via their banking partners – Barclays, for example, routes these payments through our Frankfurt office."

## Seeking out efficiencies

Some cutting-edge treasuries are also considering the use of virtual bank accounts instead of physical ones as they constantly review their bank account structures and efficiency. According to Eder, "While virtual accounts have long been used to create efficiencies in the receivables space, they are now being used in the form of virtual ledgers to enable corporates to replace physical bank accounts and easily set up an in-house bank offering payments-on-behalf-of (POBO) and receivables-on-behalf-of (ROBO)."

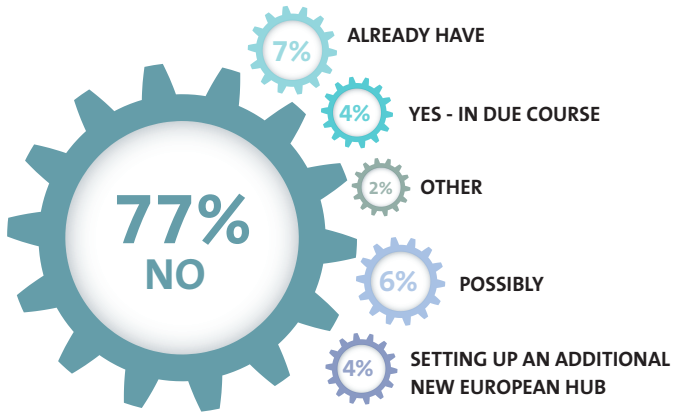
For those unfamiliar with the terminology, a virtual account management solution enables the sub-division of a physical bank account into numerous notional 'virtual' accounts. These virtual accounts function exactly the same way as a physical bank account – but have virtual IBANs. "At Barclays, new virtual accounts will in the future be opened or closed through a self-service portal, empowering treasurers to optimise their account structures at the click of a button," says Eder.

Alongside virtual accounts, cash pooling is also in the spotlight. Baltar notes: "Just over a fifth (21%) of survey respondents are looking to review their cash pooling, which is prudent given both Brexit and the Covid-19 crisis. As the world has been reminded, liquidity is key to the survival of companies, and treasurers will increasingly be expected to update the board with accurate forecasts and even intra-day balances.

"Moreover, cash pooling should be a journey of continuous improvement. Setting up a cash pool is only half the work – it ought to be regularly reviewed to ensure it is operating in an optimal manner and accurately reflects the changing needs of the business. Now is the opportune time to perform this kind of 'stock take.' "

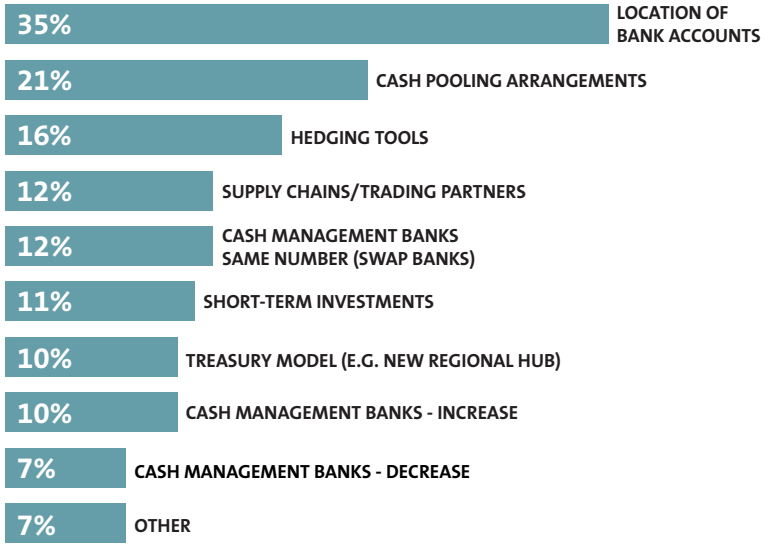
Finally, Brexit could also be an opportunity to review and improve supply chain partnerships (12% of respondents agreed), as well as the financing of the company's supply chain ecosystem, believes Baltar. "Supply chains are dynamic, so the way the supply chain is financed should be dynamic too. Treasurers should be asking questions of themselves and their banking partners: are the best working capital solutions being deployed, or are there more efficient solutions available? Could cards have a role to play alongside a supply chain finance programme, for example?"

**FIG 2: RESPONDENTS CONSIDERING MOVING UK TREASURY OPERATIONS TO EUROPE**




*Source: TMI and Barclays research report: 'New Europe: Is Your Treasury Fit for the Challenge?'*

**FIG 3: TREASURY CHANGES BEING MADE AS A RESULT OF BREXIT**




*Source: TMI and Barclays research report: 'New Europe: Is Your Treasury Fit for the Challenge?'*

Eder adds: "As risk managers, it is incumbent upon treasurers to ensure that the company's treasury structure, and all of the areas treasury controls or influences, including supply chain finance, are fit for purpose. This means keeping a close eye on Brexit negotiations, even at a time when the world's focus is elsewhere."

Baltar echoes this, saying: "While the pandemic will likely dominate discussions in the months ahead, it is important that treasurers re-engage with the realities of Brexit." In practical terms, this means dusting off Brexit preparation plans from several years ago and refreshing them to reflect any regulatory, tax, and/or operational changes. "Re-igniting dialogue with banking partners should also assist treasurers to see the bigger Brexit picture by examining the relative 'fitness' of the company's cash management arrangements, as well as pinpointing potential efficiency opportunities," he concludes.

**ANDRÉS BALTAR**

**Head of Europe, Corporate Banking, Barclays**

**DANIELA EDER**

**Head of Payments & Cash Management Europe, Barclays**

***Note***

*1 https://www.europeanpaymentscouncil.eu/news-insights/news/epcs-follow-brexit-after-ratification- withdrawal-agreement*

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# The SWIFT Way to Build a Treasury Function from Scratch

By **Ben Poole**, Columnist, TMI

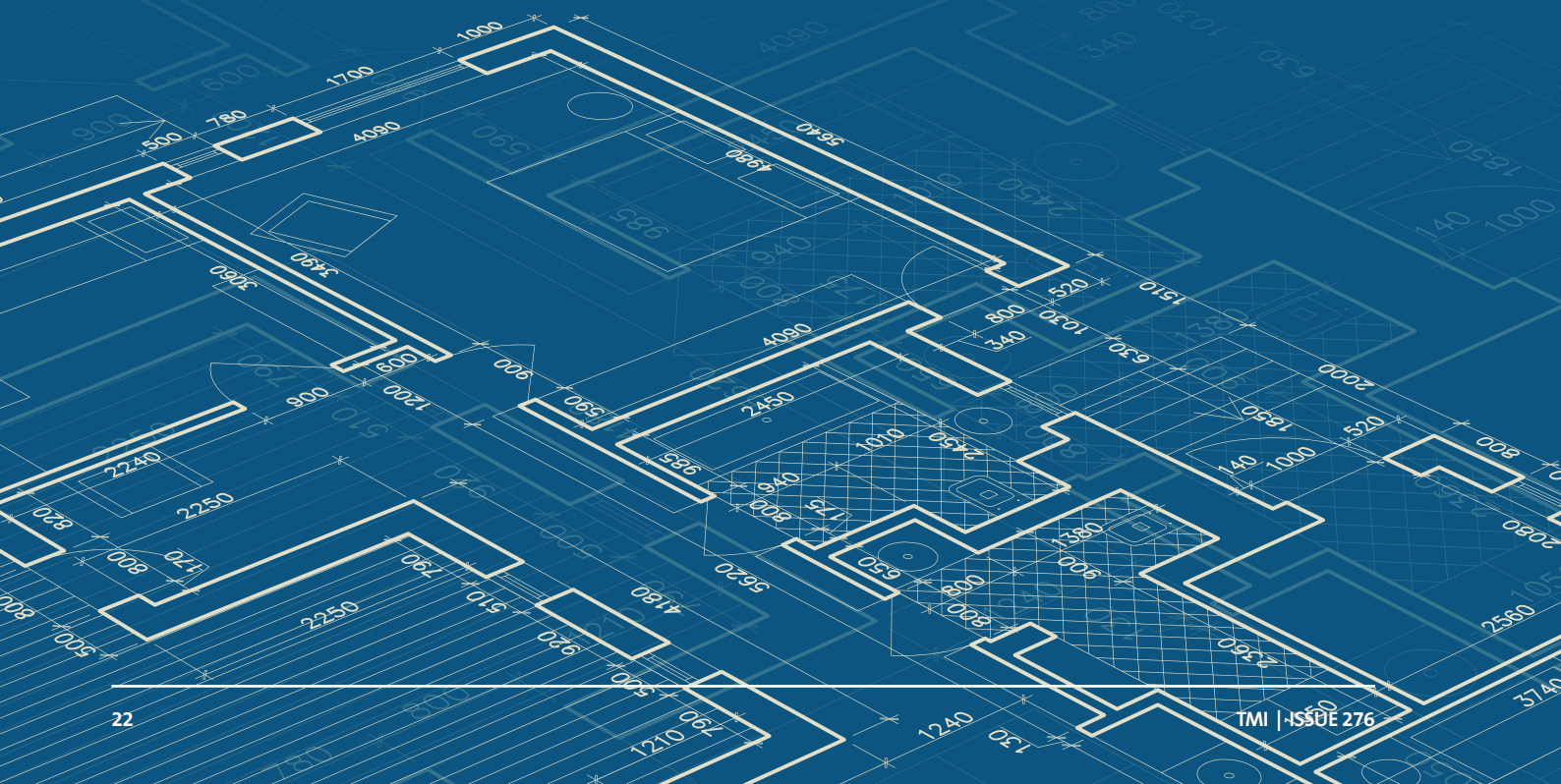
**Establishing a dedicated treasury function from the ground up requires a great deal of hard work, strategic thinking and, in the case of Fareva, vital connectivity links to be built in a short space of time. Here, Thomas Papier, Fareva's Group Treasurer, explains how he teamed up with BNP Paribas to put in place the essential cash management plumbing for his new treasury function, alongside leading-edge cash centralisation and optimisation projects.**

Family-owned group Fareva is a major CDMO (Contract Development and Manufacturing Organisation) in the areas of cosmetics, pharmaceuticals and make-up, as well as industrials and homecare. In the space of 30 years, the company has grown exponentially to become a global group with circa 39 sites across 12 countries, posting turnover of €1.81bn in 2019 and with more than 12,000 employees worldwide.

Thomas Papier, Group Treasurer, joined Fareva around five years ago. "When I came on board, there wasn't a treasury department as such. We now have a treasury team operating from the corporate headquarters in Luxembourg, and it's been such an amazing journey to get to this point. It was great to start with a blank sheet of paper and be able to choose best practice workflows and systems from the outset."

## Connecting the dots

From the start, Fareva had BNP Paribas on board as one of their global banking partners,so it made sense to appoint



BNP Paribas as one of the company's four main cash management banks. After all, with just one other full-time employee in the treasury department, BNP Paribas' assistance with building out the ideal cash management structure for Fareva, as well as putting in place the correct plumbing between systems and entities, would be more than welcome.

To this end, a key goal that Papier has been working on with BNP Paribas is to roll out a treasury management system (TMS) that includes SWIFTNet connectivity, across all of the countries where the company operates. "We knew that BNP Paribas would be able to assist us in this, since we have a very strong relationship with them in France and numerous other geographies," explains Papier.

One of those key territories is the US. Fareva has two sites across the Atlantic: a pharmaceutical and cosmetics/beauty factory in Richmond, Virginia, and a cosmetics facility in Morton Grove, near Chicago, Illinois. The company's total sales in the US market stood at around $250m in 2019, representing 13% of group sales globally. "And that figure is growing annually," Papier notes.

The fact that BNP Paribas has a US subsidiary, Bank of the West, was a benefit to Fareva when it came to the global scope of its SWIFTNet connectivity requirements. Corine Spier, Senior Cash Management Sales, BNP Paribas, explains: "Fareva wanted to have a best practice set-up – and rightly so. This meant that they were looking for just one connection to SWIFTNet. By working closely together with our colleagues at Bank of the West, we have been able to deliver this seamless SWIFTNet connectivity for Fareva, without any constraints."

Papier agrees, elaborating on the ins and outs of the arrangement: "The US leg of the project took a few months because we needed to work concurrently with Bank of the West in the US and BNP Paribas in Paris, who were managing the SWIFTNet hub. At the same time, we were also working on our TMS implementation with IT and a TMS consultant – so there were a lot of moving parts to align."

With so many different parties involved in this project, one could be forgiven for thinking that the finer details might slip through the cracks, but this was certainly not the case on Papier's watch. "We overcame the challenge of multiple stakeholders by ensuring that there was good communication and full transparency at every step of the project," he says. Indeed, Bernadette Durantin, Head of Cash Management Sales – French Corporates, BNP Paribas, adds that "regular calls and check-ins ensured that everything ran smoothly, with BNP Paribas colleagues working hand in hand with our Bank of the West counterparts, and synching up with the client in real time".

As a result, with the help of BNP Paribas, Fareva has so far implemented the TMS with SWIFTNet connectivity in ten countries – and has just completed the set-up in Brazil. "This project is still ongoing, and its forward momentum will be continued until the roll-out has reached all of Fareva's operational territories," confirms Durantin.

## Centralising treasury operations

Elsewhere, Fareva's lean treasury team has been extremely busy with a number of other optimisation initiatives, which together are helping to centralise the company's cash management. According to Papier: "The ultimate goal is to centralise all treasury activities at head office."

To this end, Fareva has "implemented an enhanced cash pooling structure, whereby we are centralising our cash through our main cash management bank and therefore through a BNP Paribas branch in Luxembourg." He continues: "There is a specific cash pool for euros, and for other currencies such as the US dollar. BNP Paribas' footprint, service, and cash management expertise has been invaluable in setting this up so smoothly."

In addition, the company is working on a handful of supply chain-related projects. Papier explains: "We have implemented several factoring / receivables financing solutions in the US, UK, France, Germany and Italy. The aim here is to have much greater visibility and control over our cash flows – and we are delighted with the results thus far."

Another important project that Fareva and BNP Paribas are working on together tackles the issue of cheques in the US. Spiers notes: "We are currently running a pilot for cheque-printing services that

### FAREVA

**39**
SITES

**12**
COUNTRIES

**€1.81bn**
TURNOVER IN 2019

OVER
**12,000**
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> *Our aim is to help treasurers have the slickest set-up possible, with cutting-edge cash management tools that adapt to the shifting environment with ease.*

essentially facilitates cheque payments through SWIFTNet in the US for Fareva. The beauty of this set-up is that Papier's treasury team can comply with local market practice in the US but still enjoy the centralised processes it has in its other markets."

## Forward momentum

While the cheque-printing service is not yet fully live, Fareva is busy working through the testing phase to ensure everything is running like clockwork. "But with this service nearing go-live, the future for the company's treasury looks very exciting," comments Durantin.

On top of this, the Fareva treasury team has a bank fee harmonisation project on the go and a working capital-related project.Papier is also very aware that the fledgling treasury function needs to be agile and future-proof in order to support the group's growth aspirations. He explains: "Fareva is a highly acquisitive company and I anticipate that we will make at least two or three acquisitions this year. As such, treasury needs to be ready for whatever comes next."

Part of that preparation, he says, is "having a good relationship with our banking partners, and ensuring they are able to serve us in new markets". He continues: "BNP Paribas has a strong global presence and we're very impressed with the collaborative approach they have taken to helping us achieve best practice in our cash management arrangements thus far".

Papier admits that he also appreciates BNP Paribas' knowledge of its own strengths. "There are never any surprises. BNP Paribas is one of the banks that does what is genuinely best for the client. Where they can help, they go over and above – and they truly are experts in the field of cash management. And on the odd occasion where they don't have reach in a region or a particular capability, they are clear about that, too. I really appreciate this transparency."

Here, Durantin explains that "the client always comes first. Our aim is to help treasurers have the slickest set-up possible, with cutting-edge cash management tools that adapt to the shifting environment with ease. We also recognise that the majority of treasurers operate in a multi-bank world, and we believe a collaborative mindset is essential for the good of our clients".

Despite the huge advances already achieved by Fareva and BNP Paribas, the journey is far from over. With the continuing TMS and SWIFTNet implementation, and cash centralisation projects in the pipeline, Papier will have his hands full for many years to come – but has confidence that BNP Paribas will help him to "carry the load". Even if, as he quips: "A treasurer's work is never done!" ■

**THOMAS PAPIER**

Group Treasurer, Fareva

**BERNADETTE DURANTIN**

Head of Cash Management Sales – French Corporates, BNP Paribas

**CORINE SPIER**

Senior Cash Management Sales, BNP Paribas

# FX Hedging

## Is Your Strategy Still Fit For Purpose?

By **Eleanor Hill**, Editor

**Managing currency-related risks is a growing concern for many corporates, given significant foreign exchange (FX) volatility. Nevertheless, an optimal hedging strategy should always be tailored around the business, rather than the market, says Toni Rami, Co-founder and Chief Growth Officer, Kantox. Here, he explains how treasurers can implement a dynamic FX risk management strategy, automate FX-related workflows, and gain a competitive edge – even in the most challenging of operating environments.**

As the Covid-19 pandemic has impacted global financial markets, many organisations have seen drastic changes in their business flows, relative to forecasts, and discovered failings in their FX risk management strategies. The importance of implementing an efficient and tailored FX hedging programme has never been clearer – it can mean the difference between profit, loss, and even bankruptcy.

Rami explains: "Covid-19 caught the world off-guard. Treasurers and CFOs suddenly found themselves working from home, battling the most significant market turbulence since the global financial crisis of 2007/8, and trying to gain visibility over their FX exposures and hedges. Companies without a streamlined FX workflow in place were scrambling to pull data together remotely, often from different systems."

Alongside the headache of achieving visibility in such a manual way, many decision-makers have been left questioning the accuracy, timeliness and reliability of the data received, says Rami. "Often, it is unclear what is a forecast and what is committed – this is a common complaint among treasury professionals, even in a typical working environment. This lack of clarity, combined with the deviations from forecasts, means that over-hedging is becoming a very real risk."

## Reflecting the business

In such uncertain times, it is understandable that firms are being cautious but over-hedging is symptomatic of a hedging strategy that is reactive, rather than proactive, Rami believes. "The Covid-19 crisis has exposed the weaknesses of FX policies that are tailored around the market, rather than the business. An optimal hedging strategy must be in sync with the way in which the business operates and how profits are generated." This is even more critical in an environment where business models are rapidly evolving.

"The global lockdown has accelerated the growth of e-commerce. Organisations are switching to digital business models, or upgrading and expanding their existing digital offerings," he notes. As a result, cross-border opportunities to conquer new markets are opening up and market share is being reshuffled as digitally enabled competitors enter the ring.

"The importance of having a flexible FX strategy, which is aligned with the business and the dynamics of the digital distribution channel, cannot be underestimated when conducting international e-commerce," cautions Rami. For example, selling the same product online in different currencies means that there might be an arbitrage opportunity for savvy shoppers. Pricing strategies therefore need to be carefully monitored and adjusted where necessary, and hedging programmes must be flexible enough to shift accordingly.

## Seeking home advantage

"The right hedging strategy can also create a competitive advantage for companies operating across borders by 'removing' the responsibility for managing FX risk from buyers and suppliers," says Rami. "If, for instance, your company buys raw materials from China in euros, the Chinese supplier will factor the currency conversion into the price – and likely look to increase their margin in the process. By buying the raw materials in Chinese yuan, rather than euros, you take responsibility for the FX risk – and can seek to achieve a better price and improved margin."

The same goes for buyers too – in particular those in geographies such as Russia, Brazil or Turkey. "If a client from one of these countries pays in US dollars, they might delay making an order because they are waiting for the exchange rate to be more advantageous. But if you sell to them in their local currency instead, and make the transaction FX neutral for them, orders may come in more quickly, and with greater regularity, as the buyer has certainty and visibility over pricing."

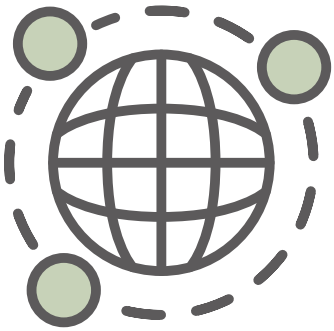
If buying and selling in local currencies seems like a significant leap, there are ways to minimise the risk. "Take micro-hedging, for example. This involves hedging each transaction as it occurs, regardless of the underlying value of the receivable or payable. Micro-hedging enables corporates to protect expected foreign currency cash flows from exchange rate volatility, locking in margins and improving forecasts in the process. In essence, this is a real-time hedging strategy that gives corporates peace of mind when buying or selling in currencies other than their functional currency," Rami notes.

### COMMON CURRENCY RISK MANAGEMENT PAIN POINTS

- FX volatility, causing a negative impact on the business
- Lack of visibility over FX exposure and unreliable forecasting
- Flawed manual processes to identify and capture FX exposure
- Inefficient treasury or financial risk management systems
- Immature or informal hedging practices
- Inability to analyse exposures and measure hedging results

> *The Covid-19 crisis has exposed the weaknesses of FX policies that are tailored around the market, rather than the business.*

> *The pandemic has provided an excellent opportunity for an honest reassessment of how coherent FX risk management policy and processes are.*



## Mining for sector secrets

Targeted industry insight can also assist in building an optimal FX hedging strategy, Rami believes. "By working with the dynamics of the industry, it is possible to create a competitive advantage through proper management of FX risk." He cites the meat industry as an example.

"Traditionally, meat producers have sold the majority of their goods close to home, but in the past year or so, a trend has emerged for international meat sales. Producers have discovered that certain parts of animals, such as offal, are more popular in markets such as China, Hong Kong, and Brazil, than in Western markets. The producers offering the most competitive prices in these new markets – by selling in local currency – are the ones making the biggest gains."

Sectors such as travel will also be reliant on extremely competitive pricing in order to re-establish growth as the economy rebounds. "There are two business models in the travel sector: the catalogue model where the client pays a fixed price for a package holiday via a tour operator; and the dynamic packaging model whereby individual elements of the holiday are sold separately and priced live at the time of purchase."

The catalogue model involves significant risk, and profit is based on large volumes. "As such, dynamic packaging is likely to rebound first as the risk to the operator is much smaller. However, consumers will be looking for excellent deals post-pandemic, so pricing will need to be aggressive – which makes having the right FX strategy even more important for tour operators."

Of course, hedging strategies are not 'one-size-fits-all'. "What works for one company in one sector cannot always be applied with the same results in another – but having these additional insights can make a big difference to the efficiency of the hedging strategy," Rami believes.

## Information from automation

Another way to gain valuable insights into FX risks, and grasp how to mitigate them more effectively, is through automation. This, says Rami, involves examining the scope for automation within the company's FX workflows, and analysing the incremental efficiencies that automation can bring to a company.

He adds that the benefits of automation are reflected in three dimensions: cost, risk, and growth. "Cost largely revolves around financial optimisation. This is not just about removing manual processes, but also about reviewing workflows and improving them to suit the way the business works. For example, it could be more time-efficient to hedge sales orders once a day rather than once a month, thus enabling the team to be more agile and capitalise on opportunities elsewhere."

Risk, meanwhile, comes in many forms when FX workflows are manual. "Human error is rife – mistakes in Excel formulae can be very costly," Rami cautions. "Manual processes also leave doors open for fraudsters, since there is limited security in place. Again, a breach can be very expensive and essentially increase the cost of hedging, due to insecure processes. Automation addresses these challenges and ensures the FX workflow is secure and compliant, while minimising the risk of error thanks to STP."

As for growth, the benefits present themselves in the form of removing risks, and therefore costs, from FX risk management. "In companies with manual processes, products are often marked up to offset sub-optimal risk management processes – making the

### TONI RAMI

**Co-founder and Chief Growth Officer, Kantox**

Antonio (Toni) Rami is the Chief Operating Officer and co-founder of Kantox, a leading currency management software company headquartered in London. He started the business in 2011 with Philippe Gelis and John Carbajal.

Rami has a background in strategy and operations having worked for Inveready Technology Investment Group and Deloitte before launching Kantox. He speaks regularly at events across Europe and is considered an FX and fintech leader. Rami holds a Master's degree in Business Administration from ESADE Business and Law School, Barcelona, and also from Singapore Management University.

company less competitive." Human resources are also tied up in manual work, preventing them from being more strategic. "Sales, for example, might only want to sell products priced in euro or dollar because they do not have time to manage additional currencies. An automated FX programme can remove these growth limitations and enable the company to operate to its true potential."

In short, many of the biggest FX challenges can be solved by automation. And as the economy starts to recover, automation of FX workflows will play a key role in enabling corporates to price their products more competitively, and take advantage of opportunities in new markets – whether through physical or digital operations.

It is important to remember, however, that none of the above can be achieved without a sound FX policy in place. "One of the biggest mistakes companies make is having an FX policy that is too high level. The devil is in the detail and it is important for companies to take the time to step back and scrutinise their current FX policy. They may find more inconsistencies than they imagine – and this can leave them making decisions in the dark," Rami warns.

Another common pitfall, he says, is using budget rates in the policy instead of pricing rates – keeping too much focus on the market, rather than the business. "This is an outdated way of thinking, and as I explained earlier, this can be detrimental to growth." An additional old-fashioned approach is the habit of measuring the effectiveness of the FX policy by the exchange rate losses it generates."Often the same 'big picture' can be perceived differently by the finance and commercial teams, and there needs to be a more coherent approach to reporting and measurement across departments". With the right tools in place, performance can be traced down to the minimal expression of exposure, providing real-time situation reporting."

## CORPORATE FX AUTOMATION

Thanks to FX automation, a broad array of FX hedging programmes is available for firms, depending on the specifics of each business. A highly customised FX strategy allows firms to capture the many benefits of buying and selling in local currencies, while keeping currency risk at bay. With profit margins safeguarded, corporates can become more competitive and look to increase market share.

Kantox's Dynamic Hedging solution enables treasurers to hedge small or large transactions individually or in bulk, and streamline FX workflows. These programmes can be tailored to protect a firm's entire budget, whatever its size, and whatever the number of currency pairs involved.

## Crisis catalyst

Taking all of this into account, there is clearly work for CFOs and treasurers to do around revisiting the FX policy and explaining proposed changes to the board. "The pandemic has provided an excellent opportunity for an honest reassessment of how coherent FX risk management policy and processes are," says Rami. He advises that any revamped policy should ideally be detail-rich, describing every step of the FX workflow, as opposed to improvised and decided on the spot. It should also be flexible enough to optimise financial variables once risk goals are set, i.e. always considering FX risk beforehand.

He adds: "When conducting this kind of review, it is important to remember that an optimal hedging strategy should be: tailored around the business, not around the market; automated, as opposed to manual; and designed to create a competitive advantage with currencies by removing FX risk from clients and suppliers."

In summary, today's treasurers and CFOs have a unique opportunity to do away with outdated practices and policies holding back their management of FX risk. "Boards are looking for efficiencies and are open to new ideas. They are also seeking growth opportunities in international markets. By rethinking the company's approach to FX risk management, the treasurer can demonstrate their strategic value to the organisation, while delivering tangible benefits in terms of cost, risk and growth." ■

# Central & Eastern Europe's Digital Treasury Revolution

By **Eleanor Hill**, Editor

**Treasury organisations and finance shared service centres in Central & Eastern Europe are changing: robots are taking over many of the manual tasks once performed by humans. At the same time, Big Data and predictive analytics are becoming more commonplace. But is treasury at risk of being sidelined in the rush to digitise corporate business models?**

Digital start-ups are thriving in Central & Eastern Europe (CEE). To date, the region has produced at least 10 so-called 'unicorns' – privately held start-up companies with a value of over $1bn[1]. One of the main reasons cited for this success is the abundance of local talent[2]. This is precisely why CEE is a favoured spot for finance shared service centres (SSCs), too.

Among the major multinationals that leverage the region for their finance SSCs is Corning Incorporated, a world-leading innovator in materials science. Located in Budapest, Corning Hungary Kft runs the European financial-processing operations of the parent company, as well as providing accounting services and managing liquidity, credit and collections processes.

Having local talent is important for Robert Vida, Finance Manager, EMEA Treasury Operations, Corning. "In Budapest, Hungary, we are able to employ well-educated staff who speak multiple business languages. The same goes for other countries in the CEE region, such as the Czech Republic or Poland, and given the high freedom of movement in the region, we can pull in talent from neighbouring locations if we wish – that's a great benefit when seeking top treasury talent."

Vida believes the CEE has an additional edge over other outsourcing hotspots thanks to its time zone: "We're at the heart of the globe – that leads to great communication opportunities with Asia, the rest of Europe and the Americas." And, importantly, he adds that: "compared with other geographies, CEE remains cost-effective from a human resources perspective".

Another multinational with operations in Hungary is Howmet Aerospace Inc. The company provides jet engine components, fastening systems and titanium structural parts to the aerospace industry and forged aluminium wheels to the commercial transport industry. The company was recently created when Arconic Inc. split into two entities: Arconic Corp. and Howmet.

Zoltán Szigethy, EMEA Treasury Manager, Howmet, believes Hungary is an excellent location for the finance team, among the countries where the company is present in Europe. "Our offices stand next to our manufacturing plant, and the infrastructure is excellent. This last point is very important from a production point of view because logistics play a huge role in our business – more than 90% of our revenues from the Hungary business come from exports. So, we have to be able to move the goods efficiently," he says.

## Let's get digital

The digital infrastructure in the country, and indeed the entire CEE region, is also improving. Szigethy continues: "With the Covid-19 crisis, we have all rapidly adapted to working from home. Communication tools like Skype have made it easy to stay in touch with team members, we have remote access to our systems, and the digital infrastructure in general has held up well in this challenging environment."

With this increasingly robust digital infrastructure, business models in the region are shifting – and so are the demands on treasury and finance SSCs. Radek Havlin, TTS Sales Head for CE5, Citi, explains: "With the advent of the Internet of Things, Big Data, artificial intelligence (AI), and accessible cloud services, business models are shifting. E-commerce is on the rise and technology platforms are enabling a direct-to-consumer approach."

Of course, this trend towards digital business has been accelerated by the Covid-19 crisis. "People are not going to shops, they are buying goods and services online. Governments are encouraging digital payments as a way to reduce cash and limit the spread of the coronavirus. With the temporary suspension of normal life, many B2B companies are also looking to B2C sales to act as new revenue streams," adds Havlin.

Vida agrees on the move towards B2C

**ROBERT VIDA**

**Finance Manager, EMEA Treasury Operations, Corning**

> *"We're at the heart of the globe – that leads to great communication opportunities with Asia, the rest of Europe and the Americas."*

sales, and says there is also a growing reseller market online. For treasury, the interesting trend emerging from this business model change, he believes, "is the shift towards a larger volume of lower-value payments. This will have a significant impact from a cash management perspective, and treasurers will need the right technology to help them adjust to the new normal".

## Here come the robots

Havlin echoes this, saying: "These new business models drive transaction volume up, while reducing transaction value. So, treasurers need to find smarter ways to work, especially when it comes to cash application. Robotics and machine learning are two tools that can be of particular use here, enabling treasurers to automate reconciliations and for computers to 'learn' from payer behaviours to help reduce the number of manual exceptions, for example."

Cash application is far from the only treasury activity that can benefit from robotic process automation (RPA), however. Szigethy identifies "monitoring of payments and financial reporting" as two potential use cases, for example. And Vida sees RPA as possibly being a useful tool for "extracting data around investments, enabling more time to be spent on the decision-making, rather than the data gathering itself".

Other commonly cited finance and treasury activities that can benefit from RPA include payment execution, deal confirmation, and accounting. Szigethy continues: "RPA is a real time-saver and enables treasury staff to be redeployed to more value-added tasks. So, not only does RPA do the job more quickly, and more accurately, it also makes your team happier as they do not have to waste time on repetitive, mundane tasks. This is not to say that robots will replace humans, of course. But they can help to reduce the manual workload."

Meanwhile, Vida believes that technologies such as Big Data and AI also have huge potential for treasury. "The utilisation of Big Data has become second nature at this point through many functions. We spend a lot of time analysing customer trends to help predict cash flows, especially where our subsidiaries are concerned. Recently, we implemented a solution which leverages business intelligence tools and supports our ability to provide a much clearer cash forecast to our Headquarters. After the delivery of another project, we now have visibility over all activities across the bank account portfolio, which enables us to draw conclusions and initiate actions to streamline and make our operations more efficient, for example the identification of candidates for our cash pool extension efforts or others that can, as a result, support us in different ways to reduce costs and complexity."

While investments in the types of business intelligence tools Vida mentions can seem costly upfront, he says that "when applied in the right manner, they deliver insights which far outweigh the value of the investment in the system over the longer term". He also believes such tools will be critical for the future of treasury, as the role becomes increasingly strategic.

Another technology that is garnering attention among finance and SSC leaders in the region is application programming interfaces (APIs). These enable systems to interact seamlessly, and so are "important for corporate-to-bank communication," says Szigethy. APIs are also assisting the e-economy by enabling greater integration of emerging payment channels into websites, including real-time payment options.

This is an important point for CEE treasurers to pay attention to, since the treasury function must be ready to support

> *"APIs are assisting the e-economy by enabling greater integration of emerging payment channels into websites, including real-time payment options."*

the growth of the business – "namely by having the correct infrastructure in place to mirror the company's strategic goals," comments Havlin. He explains that an "agile infrastructure should be able to swiftly respond to (or even better – to predict) the needs of internal and external stakeholders – this involves deploying efficient account, payment and liquidity management structures, supported by advanced connectivity channels, such as API".

## Avoiding the traps

Despite the obvious benefits, there are inevitable pitfalls that come with moving towards a more digital treasury set-up. Cybercrime is arguably one of the biggest challenges, with companies in the CEE region being no less prone to cyber-attacks than their counterparts in other regions. Havlin comments: "Technology enables higher rates of automation but also increases the potential for cyber-attack. This requires treasury and finance SSCs to implement much stronger control mechanisms to minimise and quickly identify and rectify frauds."

Treasurers are not alone in the fight against cybercrime, of course. "Banks like Citi are innovating in this area to help keep clients safe – ranging from biometrics for secure system log-ins to payment outlier detection tools. We also help to educate clients around the latest cyberthreats and best practice cybersecurity."

For Szigethy, it is the training that is most important. "Our IT team does a great job, as do our banks and system vendors. It's the people element of technology that introduces the most risk. You absolutely need to train your key people on how to mitigate cybercrime and ensure they work within those guidelines."

People can also pose a risk to digital projects in the planning stage, believes Vida. "One of the most common pitfalls when it comes to digitising processes is that people are too ambitious. In my experience, it is better to focus on smaller projects and to garner success with those, before building up to the bigger tasks."

Szigethy offers some additional advice: "It is also useful to review manual processes before digitising them and see how they can be improved. There is no point in simply turning an inefficient manual process into an inefficient digital process – this poses a significant risk to the return on investment."

While we may observe some positive shifts already, one of the key technology-related challenges facing treasurers, however, is the fact that "they do not always have a seat at the decision-making table when discussions around the company's business model and future digital plans are taking place," says Havlin. To remedy this, Vida urges his peers to equip themselves properly. "Understand the technical side of new digital tools and learn how to talk to the management team about these innovations in terms that mean something to the business. This is the best way to ensure that treasury is not sidelined."

Staying relevant also means "challenging banking partners to come up with innovative treasury solutions – perhaps in conjunction with a fintech," believes Havlin. "Treasurers should continue to come forward with the issues they are still facing and encourage banks to up their game in response: dialogue is essential to finding the best digital solution," he concludes. ■

> *One of the key technology-related challenges facing treasurers is the fact that they do not always have a seat at the decision-making table.*

**ZOLTÁN SZIGETHY**

EMEA Treasury Manager, Howmet

**RADEK HAVLIN**

TTS Sales Head for CE5, Citi

*Notes*
*1 https://www.eu-startups.com/2019/11/whats-up-with-the-cee-how-eastern-europes-tech-startup-ecosystem-is-booming/*
*2 https://www.pwc.com/sk/en/investicie/centra-zdielanych-sluzieb.html*

# Data-Driven Treasury

## Future-Proofing Your European Flows

By **Eleanor Hill**, Editor

**As businesses across Europe accelerate their digital transformations, savvy corporate treasurers have a unique opportunity to secure enriched data insights, says Daniela Eder, Head of Payments & Cash Management Europe, Barclays. In turn, this could enable treasury functions to become fitter, both operationally and financially, assuming technology budgets are deployed strategically and cybersecurity is prioritised.**

In recent years, it has often been said that 'data is the new gold'. But ever since the corporate treasury profession began in the 1970s, data has resided at the heart of the function. And as technology has evolved – and data has become more sophisticated – so too has the role of the treasurer.

Before the advent of online banking in the late 1990s and early 2000s, much of treasury's time was taken up gathering data through cumbersome channels such as telex and fax. With e-banking now commonplace, data flows freely into treasury functions, through portals and host-to-host connections into treasury management systems (TMSs) and enterprise resource planners (ERPs). And as emerging technologies – such as application programming interfaces (APIs) and artificial intelligence (AI) – take hold, a new breed of treasury function is being born: the data-driven treasury.

Eder explains: "As businesses across Europe, and the globe, embrace digital transformation, huge amounts of data are being generated and stored on servers, often located in the cloud. This proliferation of data represents a significant opportunity for corporate treasurers." By tapping into these 'data lakes', she believes treasury departments can become more efficient, more effective and more profitable – all while operating in real time. "Through data, treasurers can achieve smarter insights, greater transparency, faster decision-making, better use of working capital and more accurate and timely cash flow forecasting. These are just some examples of the potential benefits on offer."

But which technologies are likely to result in the largest data gains for treasury, and how can treasurers build the business case for them?

## Channelling data

"Naturally, it is vital to have a solid digital strategy in place and thoroughly investigate the suitability of technologies before any talk about investment budgets can take place. That said, there are four key technologies that form the foundations of digital transformation and data-driven treasury. These are: cloud computing, APIs, robotic process automation (RPA) and AI – in that order," comments Eder.

Explaining each technology in turn, she continues: "Cloud computing not only enables the storage of enormous amounts of data, it also facilitates software-as-a-service. This means that treasurers can access the latest digital tools more or less instantly, without the need for lengthy on-site installations, which typically come with a higher budget requirement. Since the cloud speeds up deployment of technology, this also enables treasury to be nimbler in accessing data," she notes.

Meanwhile, APIs act as a technological 'glue' between systems. "While they have been around for a decade or so, APIs are now coming into their own – especially in the treasury sphere," says Eder. "The power of APIs should not be underestimated. They allow for the seamless connection of systems that might previously have been difficult to interface. APIs also enable the transmission of bulk messages, and higher volumes of data at a much faster rate, and more securely, than we have been used to in the past. As such, they enable the creation of a real-time treasury environment, built upon data."

It is no surprise then, that 53% of treasurers are either already using APIs or planning to use them within the next 12 months, according to the findings of our recent research report – *New Europe: Is Your Treasury Fit for the Challenge*? – published by TMI in association with Barclays. RPA was also a popular choice of treasury tool, with 48% of respondents currently using bots, or planning to in the next year.

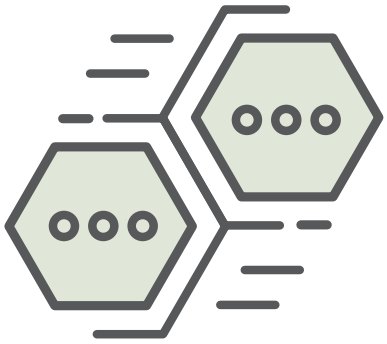
"These treasurers understand how RPA can help to minimise or even eliminate manual tasks, which are prone to errors and risks. What's more, RPA frees up treasury staff to be more strategic. RPA can be used for more or less any well-defined repetitive, manual task within treasury – ranging from reconciliations to exposure capture and reporting," notes Eder. It can also be used to extract data from multiple systems and consolidate it into a single source of truth.

"With RPA taking much of the manual burden off treasury teams, they can finally get creative with tools such as AI and machine learning. Often, there

**DANIELA EDER**

**Head of Payments & Cash Management Europe, Barclays**

> *As businesses across Europe, and the globe, embrace digital transformation, huge amounts of data are being generated and stored on servers, often located in the cloud.*



is resistance to this kind of technology, since it has a 'science fiction' reputation – and this could be why only 10% of survey respondents are currently using it. But the reality of AI is a world away from sci-fi: humans remain in control of the machine and it only executes programmed tasks. For example, AI algorithms could be built to enable treasury to analyse data in smarter and faster ways, helping them to make more accurate predictions around cash flows, trade finance costs, and foreign exchange activity."

## Making the case

Although the potential benefits of such technologies are clear, securing the budget for them is not always so straightforward. Indeed, 31% of respondents to the survey cited lack of technology budget as the main hurdle holding them back from reaching their treasury goals in the next 12 to 24 months.

"All too often, treasurers feel as though they have to approach digital evolution by themselves, but banks have much to offer in this space," says Eder. "At Barclays, we are well advanced in our digital journey and have made the necessary enhancements to support real-time payments, and therefore, the instant exchange of data. We also offer a range of services and solutions that can help treasurers work towards more data-driven goals. Examples include automated reconciliation tools and various APIs."

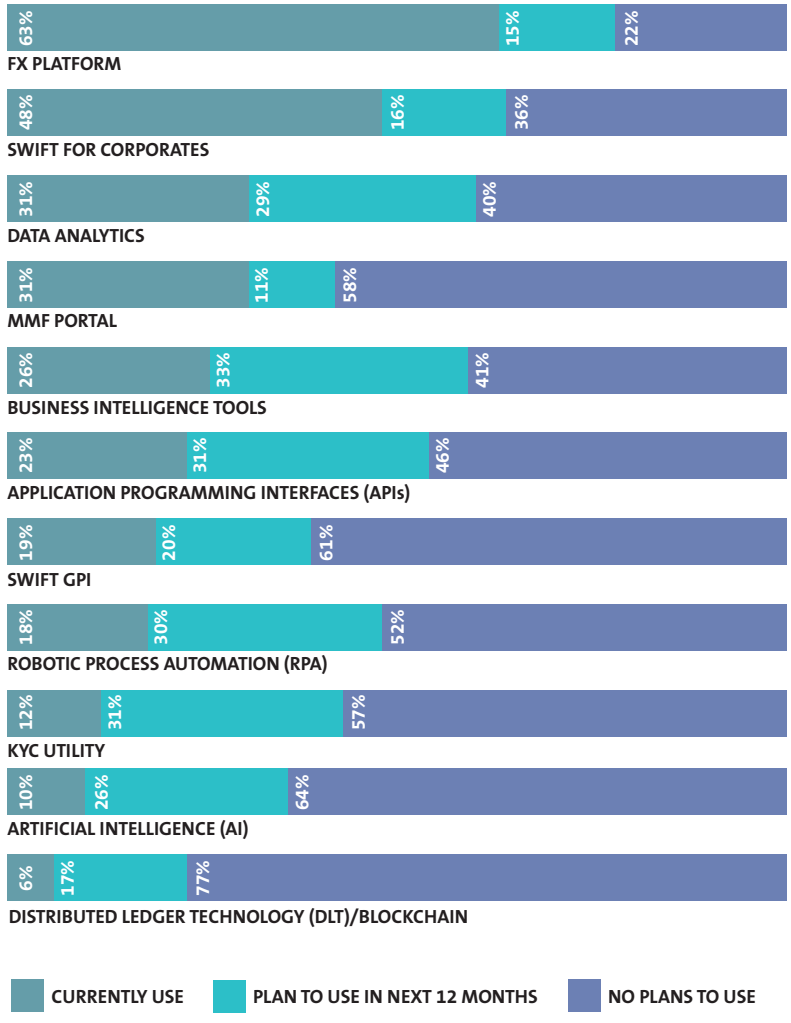
There is also ongoing collaboration with Barclays' corporate clients in Europe to help determine the direction of future digital innovation at the bank, including the switch to the ISO 20022 standard for TARGET2 payments. "Working together with our clients helps us to pinpoint future areas for digital transformation and new ways of using data. It's very much a joint journey," Eder insists. She adds that innovation is also ongoing with third parties, such as fintechs, creating an ecosystem of innovation around the corporate treasurer.

## Protecting corporate assets

Another area where banks can assist treasury teams in their digital journeys is cybersecurity. "Data is a corporate asset – and must be protected in the same way as financial assets. Installing and maintaining robust protection against cyber and fraud threats is therefore an indispensable part of building a data-driven treasury," she explains. "Cybercriminals thrive on data. The more they know about your organisation, the more authentic they will appear, and the easier it will be for them to make a 'successful' strike. Cybercrime is also constantly evolving, and attacks such as phishing and business email compromise are becoming increasingly sophisticated."

To help treasurers stay ahead of these risks, Barclays offers a variety of tools – from a confirmation of payee solution to help beat fraudulent payments, to malware detection software and biometric security. "In an environment where many treasury professionals are working from home, biometrics provide an additional layer of security. Additionally, some of our clients have finger vein readers to access their online banking with enhanced security. Others are protected by our behind-the-scenes use of behavioural biometrics, to help verify that the user is who they purport to be," Eder adds.

**FIG 1: WHICH OF THE FOLLOWING TREASURY TECHNOLOGIES DO YOU CURRENTLY USE OR PLAN TO START USING IN THE NEXT 12 MONTHS?**




*Source: TMI and Barclays research report: 'New Europe: Is Your Treasury Fit for the Challenge?'*

Nevertheless, corporates must still take their own cybersecurity extremely seriously, and invest accordingly. "There is no point having the latest technologies in place and accessing insightful data if the set-up is not secure. As such, budget must always be allocated first and foremost towards security – to protect the organisation and its corporate ecosystem," she explains.

## Reaching the next level

This is not to say that budget can't be deployed on functionality, of course. And to assist in building a convincing business case for data-driven tools, Eder suggests a four-step approach:

1. Define your data strategy – and ensure the quality of your data is high
2. Educate yourself on the range of tools available in the market and their suitability for your needs
3. Speak to your banking partner(s) to see which functionalities they can provide independently or in conjunction with a fintech
4. Look for synergies between your short- and long-term goals and those of other departments within the organisation

According to Eder, it is also worth taking the time to determine the potential return on investment of a certain technology in a detailed manner, including how many minutes or hours per day it could save treasury employees. "Speak the language of management – cost reduction and efficiency gains," she quips.

Her final suggestion for treasurers aspiring to a data-driven future is to "remember that this is a continuous journey. This is not a one-off project. Yes, there might be immediate cost control benefits, but there will be incremental gains too, if the technology deployed (and the associated workflows) are consistently tweaked and upgraded where appropriate. Fine-tuning is where the magic happens – and where data could become gold". ■

### ABOUT BARCLAYS

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# Intra-Group Treasury Operations Seen Through Tax Glasses

## The New OECD Transfer Pricing Guidance on Financial Transactions

By **Krzysztof Łukosz**, Associate Partner and **Martin Druga**, Manager, Transfer Pricing & Operating Model Effectiveness Group, EY Netherlands

**On 11 February 2020, the Organisation for Economic Co-operation and Development (OECD) published, as part of its Base Erosion and Profit Shifting (BEPS) project, the final guidance on transfer pricing aspects of intercompany financial transactions (the Report). For the first time ever, the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the OECD TP Guidelines) includes nearly 40 pages of groundbreaking guidance related to structuring and pricing of intercompany financial transactions. As the Report has been approved by the 137 member countries of the Inclusive Framework, its importance stretches beyond the OECD countries and will have significant impact on intra-group treasury operations of multinational companies from both non-financial and financial sectors. Here Krzysztof Łukosz, Associate Partner and his colleague Martin Druga, Manager, both from Transfer Pricing & Operating Model Effectiveness Group of EY Netherlands, provide an overview of the Report – with both the 'good and bad news'.**

## The OECD TP Guidelines become relevant for corporate treasurers

The OECD Guidelines are intended to help tax administrations (of both OECD member countries and non-member countries) and multinational companies to evaluate whether the conditions of commercial and financial relations between associated entities satisfy the arm's length principle. As Sections A-E of the Report are added to the OECD Guidelines as Chapter X, whereas the guidance on the determination of risk-free and risk-adjusted rates of return (Section F) is included in Chapter I, it is highly relevant for corporate treasurers to read through and understand the new OECD guidance. Treasury departments should subsequently evaluate existing group policies for intercompany financial transactions to see if they are in line with the arm's length principle. Otherwise, the group's exposure to transfer pricing disputes and double taxation is likely to increase.

Over recent years, transfer pricing of intra-group financing arrangements has remained an important area of tax controversy. This is expected to intensify, as less-developed countries have elevated their knowledge and experience by being part of this specific OECD workstream, and have already started applying the new concepts and approaches in practice. In many jurisdictions the guidance included in the Report will be directly applicable to both existing and new intercompany financial transactions.

## The scope of the Report is quite broad, covering various types of intercompany financial transaction

The Report is divided into five main sections, including:

- interaction with the guidance provided in section D.1 of the OECD TP Guidelines, i.e., accurate delineation of the transaction
- treasury function, including related transactions such as intra-group loans, cash pooling and hedging, and the application of credit ratings thereof
- guarantees
- captive insurance
- risk-free and risk-adjusted rates of return

For many jurisdictions, especially those in emerging markets and those that historically followed a more 'legalistic' rather than 'economic' approach to transfer pricing, the new guidance is expected to have far-reaching consequences. This is due to the fact that until recently local tax examiners may not have been familiar with specific definitions, concepts, economic approaches and market trends around financial transactions, especially those displaying complex attributes and characteristics.

By issuing the final guidance in its current form, the OECD recognises that the topic of financial transactions is important in the transfer pricing landscape and that it deserves additional clarifications as to how the principles outlined in the 2017 edition of the OECD TP Guidelines should be applied to various types of intra-group financing arrangements. It is noted that it took the OECD nearly seven years to release this guidance since it was announced for the first time as part of the BEPS Action Plan in 2013.

Given the extensive scope of the Report, those countries that were previously primarily focusing on intercompany loans are now expected to also scrutinise cash pool arrangements and current account structures, financial and performance guarantees, intercompany hedging, and

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**Associate Partner, Transfer Pricing & Operating Model Effectiveness Group, EY Netherlands**

Krzysztof Łukosz has specialised in transfer pricing (TP) services since 2007.

He has consulted on multiple projects for multinationals on issues including advance pricing agreements with tax authorities, TP controversy and dispute resolution, designing intra-group financing structures and TP frameworks for treasury centres, TP planning, M&As, benchmarking and documentation.

Łukosz, who holds a Master's degree in Mathematics from the Vrije University in Amsterdam and a Master's degree in Financial Mathematics from the Jagiellonian University in Kraków, Poland, frequently speaks at tax and treasury events, and is an author of many articles on tax, transfer pricing and treasury topics.

> *"Its importance stretches beyond the OECD countries and will have significant impact on intra-group treasury operations of multinational companies from both non-financial and financial sectors."*

other types of intercompany financial transactions (e.g., leasing, factoring).

## Transfer pricing analysis is broader than just pricing

One of the main takeaways is that a transfer pricing analysis of intra-group financial transactions should consist of two main steps:

1. Examination of business purpose, commercial rationality and terms and conditions of a respective transaction: i.e., the so-called delineation exercise
2. Determination of an arm's length price, once the transaction has been properly 'delineated': i.e. the pricing exercise

The first step (delineation exercise) is expected to create a significant compliance burden for taxpayers, nevertheless it is extremely important. Historically, multinationals and transfer pricing practitioners focused merely on pricing, under the assumption that the way the transaction was structured, including its terms and conditions, would be respected by tax administrations. However, the most recent tax controversy around intra-group financing arrangements clearly evidence that this assumption is no longer valid.


Following the 2015 BEPS guidance, tax authorities have successfully been challenging pricing of financial transactions by first delineating and re-characterising financial transactions. This also entails reassessing the contractually agreed terms and conditions, effectively resulting in a new 'term sheet' for transfer pricing purposes. In this respect, the Report indicates that while the conditions of financial transactions between independent entities are the result of various commercial considerations, in an intra-group context certain conditions may by influenced by tax considerations.

The OECD's concept of accurate delineation of a transaction refers to establishing economic substance of the transaction, rather than relying on its legal form. To ensure that a transaction was both structured and priced consistent with a third-party behaviour, taxpayers should consider and properly document the following five economically relevant characteristics:

- Contractual terms of the transaction
- Functions performed, assets used, and risks assumed by each of the parties to the transaction
- Characteristics of the financial instrument
- Economic circumstances of the parties and of the financial markets at the moment the transaction was entered
- Business strategies pursued by the parties to the transaction

With respect to the contractual terms, it is acknowledged in the Report that, between associated entities, the contractual arrangements may not always provide information in sufficient details or may be inconsistent with the actual conduct of the parties or other facts and circumstances. As such, it is therefore necessary to look to other documents, the actual conduct of the parties, and the economic principles that govern the relationship between independent parties in comparable circumstances. This obviously creates additional complexity and administrative burden in terms of transfer pricing compliance.

The new OECD guidance also emphasises the importance of analysing the group's policies, as they may inform the accurate delineation of the actual transactions through consideration of, for instance, how the group prioritises funding needs among different projects, whether the group is targeting a specific credit rating or debt-equity ratio, whether the group is adopting a different funding strategy from the one observed in the industry sector, etc.

Last, but not least, taxpayers should always keep in mind the two-sided perspective and options realistically available to the parties (e.g., an independent borrower would not enter into a subordinated loan, if it could still attract senior debt).

If a taxpayer fails to support contractually agreed terms and conditions of, for example, an intercompany loan, tax authorities may hypothesise collateral for an unsecured loan, assume presence of financial covenants, deem a subordinated loan as senior, adjust tenor, currency, and repayment terms, etc., and subsequently determine new arm's length interest rate.

## Loan or equity?

The OECD guidance supports the notion that it is possible to determine an arm's length capital structure (balance of debt and equity) of a borrowing group entity. In practice this means that tax authorities may attempt to re-characterise part or the whole amount of an intercompany loan into equity, denying interest deduction. As such taxpayers should be prepared to present a debt capacity analysis and a cash flow analysis, both aimed at supporting the borrower's ability to service interest payments and repay the outstanding debt amount when due.

It also appears that taxpayers may need to consider the arm's length debt structure (e.g. the most appropriate mix of senior secured, senior unsecured, and subordinated debt, if any), as the OECD stipulates that independent borrowers seek to optimise their weighted average cost of

capital. This entails that group borrowers are expected to first attract senior secured debt funding.

## Certain corporate treasury practices applied to intra-group treasury operations may not work any more

Based on our experience, certain standard approaches adopted by corporate treasurers to structure and price intercompany financial transactions are not necessarily in line with the arm's length principle. The list below provides the most important transfer pricing considerations, in addition to those addressed in the previous sections, that corporate treasurers should be aware of and consider going forward:

- **Legal entity's perspective**: multinationals should address and document the profitability level of financial group companies, treasury centres and cash pool leaders within the group. In general, entities providing treasury support and not exposed to financial risks are expected to report a relatively routine and stable profits (for example, based on cost plus reward). On the other hand, group treasury companies engaged in various types of external and intercompany financial transactions, performing complex treasury activities, and exposed to financial risks, may be entitled to higher profits (e.g. derived from the spread between arm's length borrowing and deposit rates).
- **Credit ratings**: a credit rating should be determined for each group company engaged in intra-group financing arrangements, taking into account both its standalone creditworthiness and the impact of (potential) parental support.
- **Interest rates and guarantee fees**: bank quotes do not represent valid benchmarking evidence for transfer pricing purposes; interest rates and guarantee fees should be established and documented in accordance with one of the OECD-accepted methods, for example by reference to loans and/or bonds between independent parties.
- **Cash pool benefits**: cash pool (netting) benefits are generally expected to be measured and (at least) partially allocated to cash pool participants.
- **People substance and financial capacity**: only entities that have both (i) sufficient people (functional) substance, e.g. full-time equivalents (FTEs) that perform relevant risk control functions, and (ii) adequate financial capacity to assume financial risks (such as credit, liquidity, interest rate and foreign exchange risk) are entitled to the risk premium. In case a group lender lacks (at least) one of the above elements, it should receive no more that a risk-free rate of return. Therefore, when setting up intra-group financing arrangements, functional and financial substance of the parties should be carefully considered.

## Good and bad news: alternative views are possible

Before the BEPS era, tax legislation was less extensive and clearer. Today, there is a large variety of tax rules, which are often ambiguous and open to interpretation. The new OECD guidance on transfer pricing aspects of financial transactions follows this trend.

Specifically, the guidance introduces various alternative methods for determining arm's length prices of loans, guarantees, and cash pool arrangements, which are likely to result in different outcomes. Also, in terms of accurate delineation of actual transactions, there are vast possibilities as to how to structure respective types of financial transactions, and the guidance contained in the report lists many areas that are subjective and dependent on judgment.

Since the OECD does not force 'one-size-fits-all' approaches, on the one hand multinational companies may welcome the flexibility offered by the Report. On the other hand, such flexibility and the non-prescriptive nature of the OECD guidance pose significant threats to corporates. For example, as two reasonable and rational parties (a taxpayer and a tax administration) may arrive at completely different and opposite conclusions while following the OECD TP Guidelines, there is the likelihood of transfer pricing disputes and controversy.

## Next steps

Multinational groups should ideally assess whether their transfer pricing policies for intra-group financial arrangements are aligned with the new guidance and ensure they have required transfer pricing documentation in place to support both the structure and the price of individual transactions. ■

*The detailed summary by EY of all technical aspects of the OECD guidance can be accessed at: https://www.ey.com/en_gl/tax-alerts/oecd-releases-final-transfer-pricing-guidance-on-financial-transactions*

**MARTIN DRUGA**

**Manager, Transfer Pricing & Operating Model Effectiveness Group, EY Netherlands**

Martin Druga has specialised in general tax and transfer pricing (TP) services since 2013.

He has been involved in multiple projects for multinationals dealing with issues including designing TP structures, negotiating advance pricing agreements with tax authorities, TP controversy and dispute resolution, benchmarking and documentation.

Druga, who holds Master's and Bachelor's degrees in Business and Commerce from the University of Economics in Bratislava, Slovakia, previously held a role within EY Slovakia.

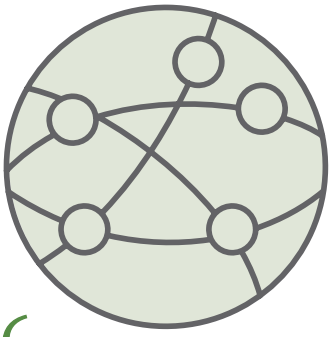
During that time he was an external expert consultant for Slovak legislators enforcing regulatory changes in the country's tax and TP environment.

# The Perfect Match

## Combining Working Capital Solutions for Comprehensive Supply Chain Support

By **Adeline de Metz**, Global Head of Working Capital Solutions, UniCredit

**In today's challenging economic environment, liquidity has become central to corporates' working capital strategies. For buyers in a relatively strong position, supporting their supply chains is also a key imperative. To do this they can draw upon a range of options – from traditional supply chain finance programmes through to cutting-edge, digital dynamic discounting tools, says Adeline de Metz, UniCredit's Global Head of Working Capital Solutions.**



The ongoing global economic downturn caused by the coronavirus outbreak has resulted in supply chain disruptions, payment delays and, in some cases, payment defaults.

With many businesses facing a dip in revenues over the short and perhaps medium term – while still contending with fixed costs such as payroll and rent – buyers will rightly be thinking about the measures they can take to extend support down their supply chains. This is not just a social good – the notion of supporting loyal partners in their hour of need – it is also a critical imperative from a business continuity perspective.

Making the right decisions as to which techniques are the best will, as ever, require a considered and nuanced analysis – with today's financial challenges unlikely to be resolved with a single silver bullet. Buyers looking to achieve the best results will need to think carefully about the unique needs and constraints of their situation and determine the best course of action for themselves and their suppliers, given the circumstances.

## Achieving supply chain stability

Buyers have a number of options to support their suppliers at their disposal, depending on their financial situation and size.

Traditionally, this has been done through supply chain finance (SCF) or 'reverse factoring' programmes. These represent a compelling option for supporting suppliers without having to compromise on existing payment terms and days payable outstanding (DPO). This technique sees a bank commit to paying a buyer's invoices to its suppliers, at an accelerated rate, in exchange for a discount. This solution strengthens the supply chain, helping buyers meet their payment terms and suppliers accelerate collection on their receivables – typically at a lower cost than if they were to simply factor the invoice.

This is something several UniCredit clients have taken advantage of in recent weeks. For example, in March, Italian retail store chain Esselunga extended additional financial support to its suppliers by expanding its pre-existing reverse factoring facility to €530m. This programme accelerates payments to Esselunga's suppliers, offering them liquidity in advance of invoice due dates.

This approach helps inject significant amounts of critical liquidity into supply chains as and when it is needed. However, the rigorous onboarding process means that it is best used for a relatively small number of suppliers – typically the largest in order to maximise impact. With this in mind, buyers with the requisite liquidity on their own books can consider supporting smaller suppliers directly, by offering to fulfil payments early, in exchange for a scaled discount in a technique known as dynamic discounting.

## Digitising to support remote working

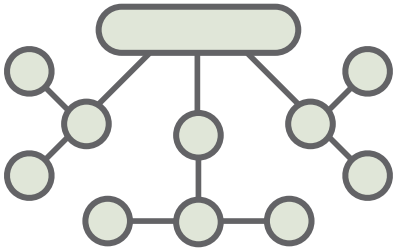
However, dynamic discounting programmes require careful monitoring and management, often involving the exchange of numerous phone calls, emails, and documents – a process that is particularly challenging when working from home.

The Covid-19 pandemic has had a huge impact on this process, with businesses around the world moving quickly to seek out innovative tools that fully digitalise treasury processes to ensure business continuity. The digitalisation of working capital management solutions is already well advanced in this respect and a number of possibilities are available, including digital platforms for dynamic discounting.

UniCredit offers a mobile and web-based dynamic discounting solution that enables suppliers to select the invoices they would like paid early, with

> *"Buyers looking to achieve the best results will need to think carefully about the unique needs and constraints of their situation and determine the best course of action for themselves and their suppliers, given the circumstances."*

> *In view of today's uncertain economic environment, it is crucial that businesses optimise their working capital strategies*



buyers able to choose which of these they would like to approve. Tools like this simplify administrative processes for both buyers and suppliers, removing barriers for businesses to ensure timely financing support.

## Combining payables and dynamic discounting

Italian luxury leather goods company Furla is a good case study as to how companies can use reverse factoring and dynamic discounting in a complementary way.

The company was seeking a working capital solution that could enable early payments not only to its biggest suppliers but also to smaller suppliers that are typically left out of bank-led SCF programmes. As is so often the case, they found their complex needs couldn't be solved with a single solution.

To meet this challenge, Furla worked closely with UniCredit to devise a two-layer programme. The first layer involved an efficient reverse factoring programme to finance early payments to a limited number of large suppliers. The second used a digital dynamic discounting platform to enable Furla's smaller suppliers to request early payments at any time up to the due date in exchange for a scaled discount.

By combining this digital dynamic discounting tool with traditional SCF, Furla was able to onboard a broad range of suppliers in an efficient way. Indeed, this combined approach is often the most effective – providing corporates of all sizes with the tools they need to support their suppliers and, in turn, strengthening the supply chain from end to end.

In view of today's uncertain economic environment, it is crucial that businesses optimise their working capital strategies as soon as possible to ensure business continuity and put in place the foundations for ramping up activities once the global economy opens up again.

Reverse factoring and digital dynamic discounting, which is seeing increased adoption during the crisis period, are just a couple of measures that can be taken today to effectively streamline SCF processes.

There are many more, depending on the circumstances and goals of the business in question. Whatever approach is necessary, swift action and the rapid adoption of digital innovation will be key for corporates looking to bounce back quickly. ■


### ADELINE DE METZ

**Global Head of Working Capital Solutions, UniCredit**

Adeline de Metz is UniCredit's Global Head of Working Capital Solutions, a role she assumed earlier this year, having previously served as Global Co-Head of Trade and Working Capital Solutions and before that, Head of Supply Chain Finance Solutions. Prior to joining UniCredit in 2012, Adeline was Head of Retail Industry Group and Deputy Head of Corporate Coverage at Natixis, having started her career as a relationship manager at the Banque Française du Commerce Extérieur. Adeline has been quoted widely across the trade press, writing features for publications such as *Global Trade Review*, *TRF News*, and the *World Supply Chain Finance Report 2019*.


# Optimising Treasury to Support the Business

By **Ben Poole**, Columnist, TMI

**Looking to enhance visibility over treasury data and to support an ambitious company growth plan, S&T AG decided to roll out a new treasury management system across the group. Here, Bettina Ludwig, the company's Head of Financing, Treasury and Insurance, reveals the twists and turns of the implementation journey and shares best practices from the experience.**

With the slogan 'We love IT' attached to its name, Austria-headquartered S&T AG is no stranger to high-tech concepts and systems. For the independent system integrator's treasury department, this has meant embarking on a journey to automate and digitise processes by implementing a new treasury management system (TMS).

"It's essential to have a complete overview of all issues going on in treasury, as the department has a wide remit," says Ludwig. "Cash is of course top of the list, but treasury also needs visibility over processes such as guarantee management. If you have everything in one system, it makes it much easier, not only for treasury, but for any internal entities that require that information – with the correct permissions, of course."

With this goal in mind, Ludwig's team felt it was time to implement a TMS to take their operations to the next level of efficiency.

## Group-wide system roll-out

Selecting the TMS provider was relatively simple for the S&T treasury. While Ludwig has been with the company for almost two years, the selection of BELLIN's tm5 originates back to discussions a few years earlier. "Back in 2016, S&T bought a group of entities in Germany and they were already using the BELLIN system," explains Ludwig. "This made the vendor selection decision much simpler, because employees who are already working with that system are used to it and think it works well. Safe in that knowledge, we decided to roll it out across the group, with entities located in 32 countries around the world."

As with all implementation projects, it took time to ensure all entities were onboard – in this case circa nine months. The reason for this extended timing, explains Ludwig, was largely down to the fact that the S&T treasury was working in parallel with Excel throughout the implementation stage.

"We didn't want to just leave all the employees with the system, we needed to err on the side of caution," notes Ludwig. "Essentially we were running a double data entry for that time. All users had to enter the same data twice, once into the new system, and once into Excel, and then provide this to us at the treasury headquarters. For the cash and credit facilities report, this was a little challenging!"

## Navigating challenges

On the subject of reporting, this has proved to be the biggest hurdle that S&T has faced with the implementation. "The most challenging thing is that if we want a specific report, the system is not configured to provide it in a customised way," Ludwig says. "We have spoken to other companies which use the system and they have the same problem. But in February 2020 BELLIN showed us a new version, an update to the system that gives many more possibilities – better reporting and the ability to customise it yourself. This is a big update for us as it will make things much easier."

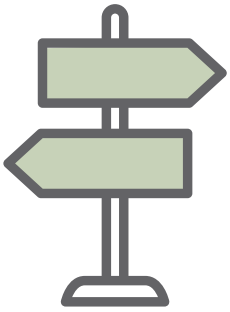
Although the update to the system offers the enhanced and specific reporting functionality that the S&T treasury was seeking, unfortunately it hasn't been implemented as yet, having fallen foul of the global Covid-19 pandemic. "We have had to postpone the update for one quarter unfortunately, due to the

### BETTINA LUDWIG

**Head of Financing, Treasury and Insurance, S&T AG**

Bettina Ludwig joined Austria-headquartered S&T AG, one of the leading suppliers of IT systems, services and solutions in Central and Eastern Europe, in July 2018. Her previous positions in the banking and insurance sectors saw her working with various international companies including a global water treatment plant manufacturer and operator and a NYSE-listed commodity trader. Ludwig holds a Master's degree in Economics and Business Administration from the Vienna University of Economics and Business and is a member of the Austrian Corporate Treasury Association (ACTA).

> *"My advice is to determine a strategy and to really think about what you need. This is particularly important when it comes to the reporting aspect."*



coronavirus, and actually there are still some open questions, which have to be clarified with the provider. Nevertheless, we are really looking forward to having the more optimised reports in place as they will be really beneficial for us in treasury," explains Ludwig.

"It is actually quite interesting being in limbo at the moment. Currently we know how it will work theoretically, but we don't yet know how this is going to work in a practical way, regarding reports, for example. Of course, we have the vendor reports, and if it is really working as well as they have presented it to us, then we will be OK."

## Best practice makes perfect

Reflecting on the implementation journey that the S&T treasury has been on, Ludwig stresses the importance of understanding the specific needs a treasury has before embarking on a group-wide roll-out. "My advice is to determine a strategy and to really think about what you need. This is particularly important when it comes to the reporting aspect. When you have the reports you require, you can undertake analysis and apply the results to specific areas in treasury management. But to achieve this, you need to know what the report output should look like and precisely what information you need – a rough estimate is not good enough."

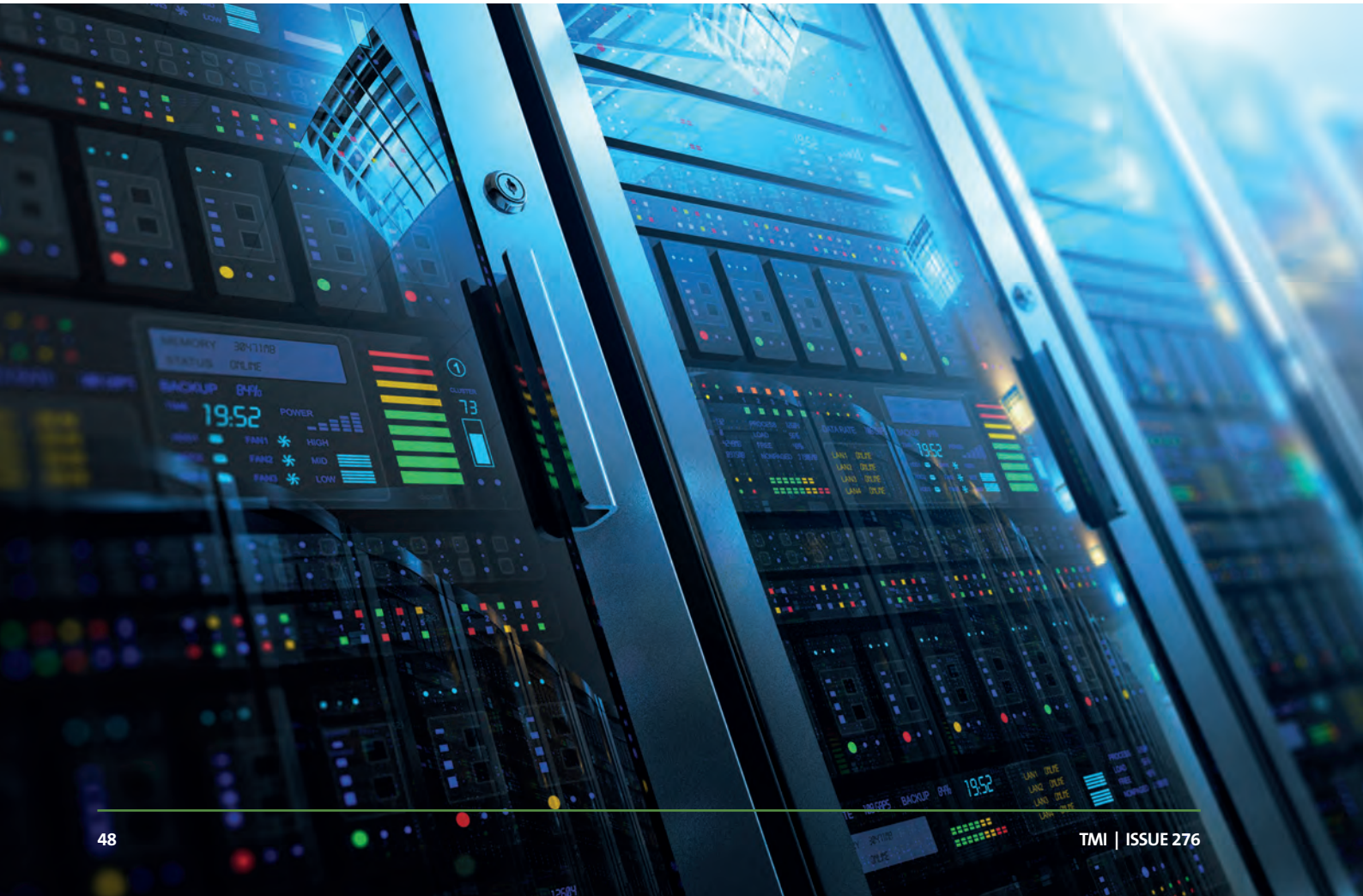
Having a clear understanding of your treasury system needs also enables better communication with TMS vendors during the selection process. Having those requirements in mind lets you interrogate the systems you are presented with, Ludwig advises, creating a checklist of functionality that can be used to compare different systems.

"With this kind of matrix, you can easily see which needs the systems can meet now, and what they can do in the meantime if it is not currently possible," says Ludwig. After all, no single system ticks all of the boxes. The good thing about the Bellin system, she notes, is that there is continuous development – the system is always being updated. "BELLIN takes on feedback from all the companies that use the system and enhances it based on those conversations. In turn, every company using it benefits from that."

## Treasury supporting business growth

With the BELLIN system now in place, and the update in the pipeline, Ludwig is keen to leverage the insights it produces to keep enhancing S&T's treasury processes to support the organisation's growth targets.

"We want to optimise our working capital further. We currently have a factoring programme and a reverse factoring programme in place, but we would like to do more and we are negotiating with the banks around this. It's a topic we have been focused on since 2018, and we have made significant progress, but there is definitely further room for improvement – and hopefully the TMS will support us in this goal," she concludes. ■




## KAMRAN KHAN

### Head of ESG for Asia Pacific, Deutsche Bank

**Deutsche Bank has appointed Kamran Khan to the newly created role of Head of ESG for Asia Pacific. He will be responsible for developing and co-ordinating the regional business strategy around ESG across all of the bank's business divisions in the region.**

Kamran brings decades of experience in financial markets, sustainable development, and corporate and public advisory. He was appointed by the Obama White House to serve as head of global investments and operations at the US Millennium Challenge Corporation. Previously he established the World Bank Group Hub in Singapore and led the World Bank's Infrastructure Finance Practice in East Asia. Over the course of his career, Kamran has led investments in sustainable development across Asia, Africa, Latin America and Eastern Europe. Most recently, he founded and led an impact fund targeting companies focused on achieving UN Sustainable Development Goals.

Kamran will be based in Singapore, reporting regionally to Asia Pacific CEO Werner Steinmueller and locally to David Lynne, Singapore Chief Country Officer, Head of Corporate Bank APAC, and Head of Fixed Income and Currencies APAC. Werner Steinmueller commented on the appointment, "We have created this role as a statement of our intention to place ESG at the heart of our organisation and the service we provide to clients in this region. ESG is a key strategic priority for us globally and regionally, and one that spans the full spectrum of our businesses. We are pleased to have someone of Kamran's calibre joining to harness the strength of our platform and put our ambition into action."

## DAVE ALDRED

### TTS Head Middle East, North Africa Pakistan & Turkey, Citi

Citi has appointed Dave Aldred as TTS Head Middle East, North Africa, Pakistan & Turkey, effective immediately. Dave has been the TTS MENAPT Corporate and Public Sector Sales Head since 2014 and during this time has undertaken job rotations which involved leading the MENAPT Cash Product Management business in 2017 and double-hatting Sales and Cash Product Management in 2020. He succeeds Emre Karter who became CCO for Turkey earlier this year and will become a member of the TTS EMEA Executive Committee and the MENA Operating Committee. He will continue to be located in Dubai.

With over 32 years' experience in corporate and transaction banking, across both the developed and emerging markets, Dave will bring significant experience to the role. Before leading TTS MENAPT Corporate and Public Sector Sales, he had been the TTS EMEA Industry Sales Head for the Industrials, Energy, Power and Chemicals sectors, based in London. He joined Citi in 2010 and before that worked in the TTS equivalents of JPM and Deutsche Bank, having started his career in corporate banking at RBS.

Dave holds an MBA from Cardiff Metropolitan University and a Post Graduate Certificate in Business Research Methods from Heriot-Watt University. He is an Associate Member of the Association of Corporate Treasurers and the Chartered Institute for Securities & Investment.

# Reaching the Next Level of Treasury Digitisation

By **Eleanor Hill**, Editor

**Corporates all over the world have had to react quickly to the challenges posed by the Covid-19 pandemic. In a practical sense, this has meant seamlessly switching to remote working and virtual treasury operations. The digitisation journey that treasurers have been on in recent years has played a key part in making this a success. Karen Braithwaite, Global Head of Transaction Banking, Corporate Banking at Barclays, explains how moving forward with digitisation can bring even greater benefits.**

***Eleanor Hill, Editor, TMI (EH): How have companies coped with the swift change from physical to virtual treasury operations as a result of the Covid-19 pandemic? And what has Barclays done to support this?***

**Karen Braithwaite (KB):** When the pandemic hit and our clients started working remotely, naturally one of their main priorities was gaining access to the systems and tools they required. The majority of our clients were already using our online banking application, which made life easier for them. But to enable them to have remote access to all Barclays online channels we sent out a guide, together with a free software download. To put a sense of scale on the need here, we have seen around 60,000 software downloads since the start of the pandemic.

To maintain security when working remotely, around 10,000 additional smart cards or finger vein readers, for biometric account access, have also been sent to clients. We have also seen a huge uptake in digitally enabled servicing requests, with 88% of our digital servicing requests being processed by our online servicing module. This, in turn, led to our clients receiving quicker responses, since there was a commensurate reduction in calls into our servicing centre, so our teams were freed up to deal with the really critical issues for clients.

Thanks to internal collaboration, we were able to allow additional paperwork to be accepted by our digital signing channels. Our key focus was to enable our clients to get up and running, so that they could get on with their day jobs.

***EH: Do you think that the increased use of digitally enabled servicing requests will continue once we get back to some level of 'normality'?***

**KB:** Yes, I think it will. Remote working – and accessing systems and data digitally – is going to be with us for a while. I don't believe that behaviour will revert immediately to pre-lockdown norms and post-lockdown norms will likely involve a higher degree of remote working. Also, clients are now starting to understand the full benefits of digital channels. Our digital proposition has always been about customer choice, never about mandating. But now that treasurers have had to increasingly use online channels, they are realising that digital is actually the optimal way to work.

We're seeing a mindset shift in other areas too. For example, there has been much less use of physical cash and cheques in order to help stop the spread of Covid-19. This has driven clients towards electronic payments, which is something we've been encouraging clients to do for many years – but now we are seeing accelerated take-up. These digital alternatives are less costly for clients and provide real-time data, so there is a huge benefit and I don't see treasurers wanting to fully revert to pre-crisis methods.

***EH: How has treasury evolved in recent years to become more digital – and how has this helped prepare them for the current situation?***

**KB:** The treasury digitisation journey has been ongoing for some time, but it has received an exponential push over the past three months. Traditionally, industry segment and geographic reach have been key drivers of digitisation, with larger multinationals generally further ahead in their digitisation journey. In those international organisations, treasurers have been used to working with digital tools and remote colleagues, as well as transaction banks across different countries. That has driven their use of digital tools and helped them to be in a relatively good position to quickly carry on business as usual when the pandemic hit. Interestingly, the pandemic will result in a levelling of the playing field, somewhat – so smaller organisations and those in less tech-savvy industry sectors could catch up with the early movers, and that will be a trend to watch.

Use of solutions like virtual accounts has also been a significant plus for treasurers during the current crisis. Virtual accounts put the power in the hands of the treasurer around opening and closing bank accounts and moving funds across company subsidiaries in a way that they've never been able to do before. This reduces the amount of time and information normally needed to open an account, which is perfect in a time of crisis – and I believe we will see even greater use of virtual accounts post-pandemic.

> *"Real-time treasury management is another key issue. Treasurers want to know their cash position at any time of day, not just at the end of day."*

**KAREN BRAITHWAITE**

**Global Head of Transaction Banking, Corporate Banking, Barclays**

***EH:* How has treasury's role within the organisation changed as a result of digitisation?**

**KB:** The role of the treasurer has, in the past three to five years in particular, become far more strategic and has been recognised as such within organisations. Treasurers are very much at the heart of both shaping and delivering company strategy. In the past, this additional focus could have been a distraction to the regular day-to-day running of treasury, but digitisation has enabled treasury departments to become more streamlined and employ fewer people, whilst also hiring the right skillsets to shape the future of the business. On that note, I can absolutely see a data analyst sitting at the heart of a treasury team in the future, but there may not be a raft of back office reconciliation staff as there would have been in the past.

***EH:* What can treasurers do to reach the next level of digitisation? Which technologies might they want to explore for the future?**

**KB:** Treasurers invest a huge amount of money into treasury management and enterprise resource planning systems, and in my view, time would be well spent maximising the return on that investment. This could be achieved by more fully integrating and automating the movement of data, through SWIFT, through host-to-host, and increasingly through application programming interfaces (APIs), for example. So that is one piece of work which needs to continue in the vast majority of treasury functions.

Real-time treasury management is another key issue. Treasurers want to know their cash position at any time of day, not just at the end of day. And this kind of intra-day cash position is increasingly possible – the treasury team simply pings an API and receives that information back in the format that they want and can digest. This trend is being driven by real-time payment systems that have the capabilities to move money around the world in less than 10 seconds.

This instant information is changing the way that liquidity management is handled and therefore the way that treasurers operate. And as I mentioned earlier, traditional bank accounts can be replaced by suites of virtual accounts, which means treasurers can also handle new account opening in minutes. Capabilities such as this, combined with API integration into TMS and ERP systems is taking us towards 24/7 liquidity management – and that's the real sweet spot for treasury teams.

***EH:* What is Barclays' role in supporting treasurers to make the most of the digital tools available to them?**

**KB:** As we all know, transaction banking services are essentially commoditised. The fundamental differentiator for us is the extent to which our client experience is intuitive and digital in nature. That is why we're investing so heavily in our digital strategy. A key part of this is our mobile proposition. Everything that an individual can do to verify their identity on their phone to access online banking and be able to make payments, we want to be able to offer that kind of capability on multiple devices to our corporate clients.

Our digital focus is also foundational in our drive to expand our geographic footprint in Europe with a unified, streamlined European cash management platform. This platform is now live across 8 countries in Western Europe (not counting the UK), with Belgium our latest addition. Having a state-of-the-art technology platform in place to support European corporates will mean our clients' experience is absolutely the same wherever they happen to be, whether that's in Germany, Portugal, Spain or beyond. ■