In-House Banks
The Secret to a Speedy Corporate Recovery?

- Treasury Insights 2020 – The Results of the EACT Survey
- Asia’s Top Treasury Hotspots

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In-House Banks

The Secret to a Speedy Corporate Recovery?

Industry experts explain how in-house banks can help to restore profitability and reduce the risks of future crises, and assess the development of trends such as in-house-banking-as-a-service (IHBaaS).

Automating Transactional FX: Unlocking Efficiencies and Growth Opportunities

Sat Khuntia and Daniela Eder, Barclays

Building Corporate Resilience: Treasury Imperatives Now and Next

Patrick Peters-Bühler and Yan Li, Citi

A Bounce in Treasury's Step: The Feelgood Factor of Sustainable Finance

Ryan Wiener, Corrie MacColl

Fast-Track Treasury: Making the Most of Digital Business Models

Srinivas Kasturi and Daniela Eder, Barclays

A New Model for Assessing Risks and Opportunities in the Money Markets: Introducing Beta(m)™

Eleanor Hill, Editor

Beyond the Covid-19 Shock: Revisiting Capital Allocation

Shoaib Yaqub, Global Head, Financing Solutions and Advisory (FS&A) Team, Standard Chartered

The author describes a framework developed by Standard Chartered to help corporates reassess their capital allocation as they prepare for recovery and beyond.

EXECUTIVE INTERVIEW

Instant Gratification: The Rise of the On-Demand TMS

Interview with Anis Rahal, TreasuryXpress
Now more than ever, treasurers are looking for cloud-based technology that enables them to view a complete picture of their cash and treasury operations in one go – at any time, from anywhere, and on any device.

The two main treasury locations in Asia are Singapore and Hong Kong. Singapore has offered its Finance and Treasury Centre (FTC) incentive for three decades. Hong Kong traditionally competed with its low tax rate and zero withholding taxes.

David Blair, Independent Treasury Consultant, Acarate Consulting

Asia’s Top Treasury Hotspots, P40

The crisis has led to rapid shifts in business models, with companies embracing digital channels like never before.

François Masquelier, CEO, SimplyTREASURY

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Cash flow forecasting is the highest priority for treasury, indicated by 55% of respondents, continuing a longer-term theme and reflecting the importance of liquidity management during the crisis.

Sat Khuntia, Head of FX Sales, Barclays Corporate, Barclays

Automating Transactional FX - Unlocking Efficiencies and Growth Opportunities, P16

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Notes From the Pandemic

How Treasurers Have Responded to Covid-19

The economic downturn caused by Covid-19 has forced corporate treasurers to re-evaluate their cash management, trade finance and working capital strategies. Whether it be optimising account structures to maximise liquidity, digitising trade processes to ensure business continuity, or extending liquidity support to suppliers, treasurers have been drawing on a range of tools to maintain operations and minimise disruptions, explains Giovanni Solaroli, UniCredit’s Co-Head of Global Transaction Banking.

The past few months have been quite extraordinary for corporate treasurers, as they move to adapt to the economic shock caused by Covid-19. Liquidity, of course, has been the primary concern — needed to keep both companies and their suppliers in business. Meanwhile, the shift to remote working has thrown up technical challenges, requiring treasurers to identify ways in which trade and document signing processes, among others, can be carried out digitally. To address these, corporates have been turning to a combination of traditional tools and new platforms and solutions.

By Giovanni Solaroli, Co-Head of Global Transaction Banking
UniCredit
Pushing liquidity up and down the chain

Top of the list of priorities is adequate working capital. Whilst most large businesses have been able to draw on existing bank facilities to tide them over, this kind of financing is less readily available to those further down supply chains.

We’ve seen businesses move quickly to support their suppliers here, engaging their banks to make early payments based on approved invoices through supply chain finance or ‘reverse factoring’.

The weeks following the outbreak of the pandemic saw a spate of these programmes established or expanded. Italian retail store, Esselunga, for example, tapped UniCredit to extend its pre-existing reverse factoring facility to EUR 530m, accelerating payments to its suppliers and thereby stabilising its supply chain. Other clients, such as food retailer PAM Group and retail consortium Conad, were also quick off the block with similar programmes.

Buyers with the liquidity to spare have also set up similar dynamic discounting programmes to reach further down the chain – using their own surplus cash to offer smaller suppliers early payments in return for a scaled discount (i.e. the earlier the payment, the greater the discount).

A number of corporates, such as luxury goods retailer, Furla, and Italian chocolate and ice cream manufacturer, Venchi, are already benefiting from this kind of tool, working with UniCredit and its fintech partner FinDynamic to ensure the benefits of supply chain finance can be extended to the historically underserved ‘long tail’ of small suppliers, who were previously too numerous and expensive to onboard.

Optimising before borrowing

While borrowing to plug a possible liquidity gap will be essential for many, careful cash management can help corporates minimise the amount they borrow (and therefore the costs involved) by ensuring existing cash reserves are available and deployed effectively.

Earlier this year, sports equipment provider Tecnica sought to achieve this by centralising its liquidity through a European cash pool. Tecnica’s cash position had been split into independent subsidiary accounts across its sales and production network, which made it difficult to quickly assess cash positions and allocate liquidity where needed. However, by implementing a payment factory solution involving just two bank accounts per country and daily international sweeps from local accounts (including those held with other banks) into the company master account held in Italy, it was able to establish a centralised system with far greater control and flexibility.

These accounts are now managed through UniCredit’s e-banking portal – making it easy for the central treasury to check positions anytime and anywhere, including from home, drawing from this cash pool to meet ongoing liquidity needs. This kind of approach has allowed Tecnica and those running similar platforms to generate internal solutions before leaning on short-term borrowing – making their cash go further and future-proofing their treasury operations at a stroke.

Accelerating digitalisation

The transition to remote working also posed its own set of unique challenges – not least in terms of trade finance, where a typical cross-border transaction can involve as many as 35 physical documents changing hands.

In response, the banking industry has redoubled its already significant efforts to shift treasury interactions to a virtual plane. In addition to solutions for digital document signing and transmission, corporates have a host of options to digitalise almost every stage of the trade process. These run from contract discussions with trading partners, which can be taken online via solutions such as we.trade, through to custom-built platforms for trade finance (UniCredit’s Trade Finance Gate, for instance, lets clients configure and issue their own letters of credit and guarantees) and digital settlement through the new Bank Payment Undertaking.

The Covid-19 pandemic has undoubtedly upended traditional ways of working, but it’s pleasing to see how well businesses have been able to adjust.

The Covid-19 pandemic has undoubtedly upended traditional ways of working, but it’s pleasing to see how well businesses have been able to adjust.
My Life in Treasury

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

I was initially attracted to treasury through conversations with various treasury professionals. The role sounded interesting and challenging. As an auditor, my role was to check the reporting of the performance of a company whereas the role of treasurer has a direct impact on that performance so was inherently appealing to me as it felt more meaningful.

I’ve very much enjoyed making the move into treasury so, in hindsight, I’m pleased I switched.

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

My very first job was working for a civil engineering firm and included counting the number of trees on a city street – fun but I didn’t see a career in it. So, I quickly moved on from that and joined Deloitte to train as an accountant. This gave me...
a good overview of the corporate world and was a brilliant way to start my career proper. I also enjoyed working in large teams there as, during busy season, a strong team-spirit would often develop whilst we tried to get all our work completed in time.

I eventually moved into my first treasury job where I worked in a team of three, reporting into the Group Treasurer. Working in a small team gave me a great grounding in the profession since, as well as working on projects, I also acted as holiday cover for both the dealer and the accountant. I was therefore able to experience all areas of the treasury function and appreciate the skills required. Both the dealer and the accountant were very experienced and have now retired – I still feel a debt of gratitude to them and the Group Treasurer for guiding me in my first steps in the world of treasury. I’ve therefore taken on their ethos of seeking to train up the next generation in my career.

Since then I’ve worked my way up to Assistant Treasurer and then Group Treasurer which is my current role and have enjoyed the process as I get to know how treasury works in different businesses and different markets. They are the same core skills but the key is how best to apply them.

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

I feel very fortunate to have begun my treasury career whilst telephone dealing was still the norm. When I picked up the phone to ask for the two-way price on a cable swap, I had to be sure that I fully understood exactly what I was doing. I worry that the electronic dealing platforms of today make things too easy and so do not enable adequate training for junior staff. For example, it’s of course important for treasurers to understand the bid/offer spread but the platforms do not require this. That’s really been a fundamental change in treasury.

Secondly, treasury management systems have developed significantly during this time. Data is now readily available in a timely manner. This has presented the challenge of having to sift through this data and work out what’s important. As a result of the large volume of data, I do seem to spend a disproportionate amount of time trying to reconcile one report to another – another skill I’ve gained, but would rather have avoided!

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

Number one quality for me is ability to learn. Treasury can often be complicated so it’s important for people to be able to grasp the concepts involved. They may not know everything to start with but as long as they can learn they should be fine.

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

Having qualified as both a chartered accountant and corporate treasurer I do have strong views on this. I took my accountancy exams prior to moving into treasury where I studied for and achieved my treasury qualifications. Moving from accountancy into treasury felt like learning a new language as many of the concepts were unfamiliar to me and are simply not taught to accountants.

For example, most accountants I’ve encountered tend to view the forward points on an FX deal as the ‘cost of hedging’. This is fine as a shorthand for the accountant but it fails to recognise that forward points can be beneficial and are driven by the interest differential. As treasurers we can take advantage of this via our hedging strategies and it’s important that we understand the mechanics behind this so we know when this will or won’t work.

Furthermore, I found there was an important distinction between the accounting and treasury qualifications. The accounting qualifications cover a broad range of specialisms within the accountancy profession. These include tax, financial reporting, audit (internal and external), corporate finance and a small amount of treasury. I was working as an external auditor whilst I took these exams so it was only really the external audit modules that specifically covered what I did in my day job. In contrast to this, the
treasury qualifications directly cover what the treasurer does for a living. This not only makes them more immediately beneficial but also more interesting as they bring context to the day-to-day practical challenges of the treasurer.

So, for me, treasury qualifications are incredibly important.

**What about wider experience in the world of business. Is that valuable too?**

Again, some strong views. Yes, it’s absolutely important to understand the wider business world to be effective treasurers. We need to firstly understand the businesses that we are treasurers of – what drives the business’ cashflows; how sensitive the cashflows are to economic and other factors; and can they be managed effectively. Understanding the wider business context then helps us to appreciate this.

This knowledge also enables us to be more effective and sympathetic partners to the wider organisation. Appreciating the issues Finance Directors might have whilst knowing when it’s appropriate to challenge them.

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

Make sure to get the most out of each role that you are in before you look to move on – especially your first role. If you are still learning in a role and being challenged by it then that’s something to stick with.

**What would your ideal holiday be?**

I’m definitely not a beach person so for me it’s more about visiting places and doing things rather than going into complete shutdown. Like many people, I especially enjoy going for long walks to explore whilst on holiday.

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

I finally got around to reading News from Nowhere by William Morris, the textile designer, during lockdown. It’s completely bonkers but makes for a thought provoking and fun read. The book describes a Utopian future Britain which has undergone a communist revolution. It’s particularly interesting to read now as many of its ideas seem to be undergoing a resurgence.

Moving from accountancy into treasury felt like learning a new language as many of the concepts were unfamiliar to me and are simply not taught to accountants.
Tune in to TreasuryCast to catch up on informative insights from key figures in treasury, covering a variety of topics including departmental transformation, TMS implementation and much more!

Hear from corporate treasurers around the world. Recent guests include Petrofac, Ocean Network Express, Entertainment One, Avalon Health Care and Crowley Logistics.

Available on the TMI website, Spotify and Apple Music
www.treasury-management.com/podcast/
People in Focus

Tarek Tranberg has been appointed Head of Public Affairs & Policy of the European Association of Corporate Treasurers (EACT).

Tarek is an experienced public affairs expert, specialising in EU financial regulation, and has previously advised financial and non-financial companies across the entire financial services value chain on their EU policy advocacy strategies at FleishmanHillard. He has a profound understanding of the regulatory issues impacting treasury and of the strategic objectives of the EACT.

Tarek has German/Egyptian dual nationality and holds a Master’s degree in Political Economy and EU Politics from the London School of Economics and Political Science (LSE) as well as an undergraduate degree in Law from the University of Münster.

Welcoming Tarek’s appointment, Chair of the EACT Jean-Marc Servat said: “We are at a point in time where the pace of EU financial regulatory initiatives has reached levels not seen since the aftermath of the 2008/09 financial crisis. We are excited to have someone with Tarek’s proven regulatory expertise lead our European public affairs and drive forward the EACT’s strategic objectives on regulatory topics.”

Tarek said that he was delighted to be taking over this role and represent the interests of corporate treasurers in EACT member organisations and companies across Europe, adding “I am also looking forward to representing the EACT and the treasury profession across Europe at a time of renewed momentum behind EU financial regulation and against the backdrop of an ambitious EU financial services policy agenda that has both spillover effects and direct impact on treasurers.”
After starting and growing Reval into the leading SaaS provider for treasury and risk management, Jiro Okochi has taken on a new role as President of Tier 1 Financial Solutions, a customer relationship management (CRM) provider in the Capital Markets and Investment Banking vertical. Jiro started Reval, which was sold to the privately-owned fintech ION Group, in 1999. He spent the earlier years of his career in banking, working in the capital markets departments of major financial institutions in New York. He has a Bachelor of Science degree in Genetics from the University of California at Berkeley.

Tier 1 helps its banking clients solve the complexities of managing its client relationships which become very specialised in capital markets and investment banking. The need for tracking all customer interactions and collaborating virtually are all the more critical in this Covid-19 remote work environment where CRM has taken on a whole new meaning.

Daniel Leon has been appointed Global Head of Trading, Treasury Management & Global Solutions for HSBC. He has over 25 years’ experience in the industry, most recently at AXA Investment Managers (AXA IM) where he was Global Head of Trading, Security Financing and Derivatives, and before that Head of Client Solutions Development. Prior to that, he held other roles including CIO for Investment Solutions at AXA IM and Head of Structured Rates Trading for Europe and Asia at BNP Paribas.

In his new role with HSBC, Daniel will be responsible for the strategic direction and oversight of the firm’s trading and treasury management activities as well as for global investment solutions. On the trading side, he will be responsible for global counterparty relationships and for trading globally, enhancing investment performance and improving the trading platform. He will also establish a dedicated treasury management function to support client portfolios. On investment solutions, Daniel will work with existing teams to deliver client solutions that leverage the firm’s wide-ranging investment capabilities.
In-House Banks
The Secret to a Speedy Corporate Recovery?

By Eleanor Hill, Editor
As treasurers look to improve their departments’ resilience to help withstand future crises, in-house banks (IHBs) are back in the spotlight. TMI speaks to four industry experts to understand how IHBs can help restore profitability and reduce risks. We also examine trends such as in-house banking-as-a-Service (IHBaaS) and outline how IHB structures are evolving.

After months of Covid-19 ‘firefighting’, organisations are focusing once again on restoring profitability. Treasury departments are therefore recalibrating their roadmaps and exploring optimal set-ups for the emerging business landscape. As a result, IHBs are garnering greater attention.

François Masquelier, CEO, SimplyTREASURY, explains: “The silver lining to every financial crisis is the opportunity to change the organisation, revamp processes, and become more resilient. One of the treasury-related responses to this health and economic crisis is the need for further centralisation of financial operations and enhanced visibility. Therefore, the Covid crisis can be viewed as a catalyst for establishing an in-house bank. After all, the objective of such a central financing arm is to reduce costs, increase efficiency, reinforce internal controls and improve visibility on operations.”

In fact, Masquelier believes that “those multinational corporations not currently operating an IHB will inevitably consider it over the months ahead and address the question of how to implement one.” Christof Hofmann, Global Head of Payments and Collection Products, Deutsche Bank, agrees: “Of course, the crisis is not the sole driver of IHBs, but the benefits of such a set-up will likely increase interest levels in IHBs going forward. Those benefits include the ability to have a central view of your exposures 24/7/365, which in turn leads to vastly improved forecasting, and the flexibility to deploy liquidity across the group – without it being stranded locally.”

Improved liquidity and risk management

Most treasury departments have, naturally, focused on the liquidity angle since the pandemic began. Tim Morris, Manager, Zanders Treasury and Finance Solutions, comments: "Liquidity management and funding have been major concerns throughout the crisis, making visibility and mobility of cash across the organisation essential for day-to-day operations. Centralised reporting through a group treasury team allows for a quick and conclusive analysis of liquidity positions. This enables a company to move funds quickly and react according to operational demand during uncertain times. Automated cash pooling in an IHB structure improves visibility and mobility of cash and will remove uncertainty and reliance on manual interventions."

The ability to easily undertake intercompany loans via the IHB also helps to ensure adequate liquidity is where it’s needed for all participating subsidiaries across the company. However, Hugh Davies, Director, Zanders Treasury and Finance Solutions, says that it’s not been entirely plain sailing for IHBs in recent months, as unfortunately, the crisis has
Centralised management through an IHB enables treasury functions to be much more agile.

Brought about credit-rating downgrades for many multinational groups, Davies comments: “Rating downgrades will influence arm’s-length transfer pricing calculations, something already under the scrutiny of the Organisation for Economic Co-operation and Development (OECD). This will need to be properly and transparently accounted for with intercompany loans and within cash pooling structures. Intercompany lending terms may also need to be reviewed to grant flexibility to subsidiaries.”

Benefits of an IHB

Nevertheless, the business case for establishing an IHB remains compelling. Take the management of FX risk, for example. Morris notes: “Economic uncertainty and the possibility of recession have created FX volatility in the markets, with emerging market currencies seeing the greatest impact. Adverse market conditions have increased the cost of hedging due to wider spread forward points and reduced the ability to hedge with market restrictions and banned products. The ability to net positions and manage global exposures, not just local exposures, is a decisive benefit of an IHB. A reduction in financial transactions will aid treasurers to efficiently and cost-effectively manage FX exposures.”

There are further hidden benefits to IHBs, says Hofmann. “Centralised management through an IHB enables treasury functions to be much more agile, making it easier for them to implement new solutions and technologies such as SWIFT gpi. Moreover, cybersecurity and fraud risks can be significantly reduced through IHBs, given that external bank accounts are reduced to a minimum so that cash flow of affiliated group companies can be consolidated and points of entry are streamlined. Since many treasury teams are currently working from home, this benefit should not be overlooked.”

Morris picks up on this theme, explaining that not all organisations were adequately prepared for remote working at the start of the crisis. “Even now, many employees are using their home computers to access company portals, financial software and banking websites, which causes security headaches.”

Reduced security levels and changes to digitise treasury processes have opened

FIG 2: BENEFITS OF AN IN-HOUSE BANK STRUCTURE

- **Liquidity readily available at the Group Treasury**
- **Net positions reduces hedging in volatile markets with bigger spreads**
- **Less vulnerable to cybercrime due to centralised systems access and processes**
- **Centralised control at a cost to local knowledge and the ability to act quickly in-country**

Source: Zanders Treasury and Finance Solutions
the door for cybercriminals. “They seek out weaknesses in controls and attempt to infiltrate companies fraudulently; they also use phishing techniques to gain sensitive data, such as personally identifiable information, banking and credit card details, and passwords. As Christof mentioned, under an IHB structure, subsidiaries interact internally and only the group treasury units are required to connect with banking partners. This limits the number of users required to access the full range of financial systems and banking portals, thereby reducing the security exposure. In combination with eliminating manual processes, the opportunity for cybercrime can be significantly restricted through an IHB structure,” Morris believes.

### Points to consider

Despite the obvious benefits, setting up an IHB is not entirely straightforward. There are numerous considerations and hurdles to take into account, not least internal resistance to change. Hofmann cautions: “In the process of establishing an IHB and centralising treasury operations, power is taken away from local business entities. They no longer have the autonomy to make an emergency payment, for example, which can be unsettling for them. As such, managing change from a people perspective is a vital part of any successful IHB journey.” Local regulation can also be a headache for IHBs, especially when the organisation operates across disparate geographical markets. “Some IHB services will be prohibited in certain countries. This limits the extent to which the IHB can standardise its processes and also leads to a requirement for local knowledge,” explains Hofmann.

On the subject of local insight, Davies notes: “Countries all over the world have dealt with the pandemic in a variety of ways, which will see a staggered return to normality for operations. Local knowledge and entrenched bank relationships could prove to be vital when reacting to unforeseen issues worldwide. These can be crucial considerations when assessing the business case for an IHB.”

In spite of this, Hofmann says there are examples of corporates that are successfully running IHBs across a host of different countries. One tip he shares is to build ‘clusters’ of countries where IHB services are permitted. “Say the IHB has the potential to offer 15 services. In some countries, the IHB will be able to deploy all 15, in other countries, the IHB might be limited to 10 because of regulatory constraints. Rather than limiting all of the countries to just 10 services, it is more efficient to build clusters of countries where 10 and 15 services can be delivered. There is no need to settle for the lowest common denominator,” he notes.

By far the most significant constraint surrounding IHBs, however, may be the existing technology landscape, often coupled with the resource requirement for establishing one in the first place. Masquelier comments: “Although centralisation and standardisation are among the best ways to respond to the challenges raised by Covid, all companies will also be looking to cut costs. As such, from the treasurer’s perspective, the challenge will be ‘selling’ such a project internally, and convincing the C-suite to invest in the relevant technology.”

He continues: “While digitisation has been accelerated because of Covid-19, human resources remain low and stretched. Any technology implementation will likely need to happen without increasing staffing or employing an external consultant. Yet an IHB requires resources at implementation to be able to increase the productivity of the team. And if you develop an IHB with the same level of staffing, you need much better technology and automation to increase productivity – which requires additional budget. It is a real challenge in the current environment.”

### A different way

The good news is that an emerging trend could help treasurers to overcome some of the resource issues. This trend is in-house banking-as-a-Service (IHBaaS) – which essentially involves a cash management bank hosting the IHB on behalf of their clients. In the coming months, Deutsche Bank will be rolling out its new IHBaaS proposition. Hofmann explains: “We will deliver cloud-based IHB solutions for our clients, which can either be used as a complement to an existing IHB set-up, or can be leveraged to establish an IHB for the first time – without the typical resource requirements.”

Masquelier offers this guidance to anyone embarking on an IHB project: “First, assess the current situation and determine gaps and problem areas. Next, try to define your ideal set-up. In my experience, a vision based on a treasury roadmap is often missing.

“You will need then to outline the potential gains – quantitative and qualitative – of such a project. This step will be critical in convincing the C-suite of the merits of an IHB – ranging from enhanced visibility to improved risk mitigation and operational efficiency. As well as selecting the correct technology to support the IHB, it is vital to consider regulations – current and pending. This means understanding reporting and compliance requirements and initiatives such as the new BEPS [base erosion and profit shifting] tax rules.”
In terms of how it works, the bank’s IHBaaS platform will replace existing bank portals across the corporation. Hofmann continues: “Local bank portals are replaced by our virtual solution – meaning significantly reduced IT integration requirements. Local entities can request to make payments via the virtual ledger platform, which are consolidated and executed by the IHB. Effectively, your central treasury team gains a fully fledged cash and liquidity management tool that enables them to consolidate and operate your subsidiaries’ cash management activities on a single platform.”

Indeed, there is a wealth of features that can be adapted to the individual needs of each client – ranging from interest rate and FX risk management to tweaking the bank account hierarchy. And for those companies which already have an IHB set-up, the platform offers complementary services such as improved reporting at entity level, including intra-day reporting. What’s more, since it is a flexible technology solution for treasurers, there is no need for them to use all of the features from day one – it can be scaled and refined over time to address the organisation’s evolving pain points,” he adds.

The key takeaway around IHBaaS, says Hofmann, is that it is lowering the barriers to entry for establishing an IHB, which will not only make an IHB proposition viable for more corporates than an on-premise installation, but also deliver enhanced benefits. “That’s not to say that it is totally painless to set up an IHB; it is still a significant undertaking. And, as we spoke about earlier, there are also numerous tax and regulatory considerations to bear in mind. Nevertheless, IHBaaS means that IHBs are no longer just for the largest multinationals.”

Masquelier has his reservations, however. “Personally, I am slightly more sceptical on IHBaaS. The outsourcing principle makes sense. But I don’t think treasurers and CFOs will prioritise outsourcing the IHB. I imagine they would first look to outsource payment connectivity and to outsource or automate FX hedging processes and so on. Of course, IHBaaS may have its day. But treasurers are conservative by nature, and I’m not sure if they are ready for such a big move just yet.”

However, Hofmann counters this point on outsourcing, stating that in this model the treasurer is keeping full control of all treasury processes and decisions, and is simply leveraging a central cloud-based technology platform.

**Technology advancements**

Only time will tell whether IHBaaS takes off at speed, but in the meantime, there are other relevant technology developments for treasurers to watch.

**IHBS VS LOCAL BANK RELATIONSHIPS**

There are pros and cons of IHBs when it comes to existing bank relationships. As Davies outlines: “On the one hand, companies gain control of operations in a centralised location(s), but on the other hand, they lose local experience and bank relationships in key operational hubs.”

Nevertheless, from an operational perspective, subsidiaries hardly know the difference between having a bank account or an IHB account, says Davies. “They receive an IHB account statement that can be reconciled as if it were a bank account statement and complete settlements as before, leaving minimal or no impact.”

**TIM MORRIS**
Manager, Zanders Treasury and Finance Solutions

**HUGH DAVIES**
Director, Zanders Treasury and Finance Solutions

Working from home could be here to stay for the next 12 to 18 months and the added control, visibility, flexibility and security makes an IHB a valid solution for the long term.
– especially as they focus on the post-crisis future.

Morris comments: “Technology probably holds the key to future resilience and there is a wide variety of financial technology available supporting back, middle and front office operations. Digitisation is a common theme within solutions that aid treasury continuity and help to manage uncertainty. Looking ahead at the technology becoming available, we see an opportunity to strengthen IHB fundamentals and to create robust structures that will help companies withstand future shock events.”

He continues: “Combining IHB structures with the latest technology, such as RPA and AI, will enable treasury departments to push towards a partial or fully automated and virtual treasury function, operating in real time, in a flexible and secure working environment.”

Davies adds: “Working from home could be here to stay for the next 12 to 18 months and the added control, visibility, flexibility and security makes an IHB a valid solution for the long term.”

Looking to the future

Keeping an eye on the road ahead, Davies offers this advice: “Companies considering an IHB structure would do well to take action now. For those with an IHB structure already in place, improvements in technology will push new levels of precision and autonomy. In both scenarios, a treasury scan or benchmarking review can add value by identifying critical areas for improvement, comparing one treasury operation with others – and against best practice.”

Meanwhile, Masquelier reiterates that “establishing an IHB is a great project for those who have not yet adopted such an approach. It will help treasury functions to face future challenges and will assist in making the wider organisation more resilient to crises.”

In fact, he believes that “multinational corporations must consider an IHB as part of the modernisation of their finance function”. And in the wake of Covid-19, the imperative to rethink and rebuild treasury set-ups has never been stronger.

EMERGING TREASURY TECHNOLOGIES

“Application programming interfaces (APIs) have enabled treasury departments to move from intraday reporting and batch processing to real-time reporting and processing. Advances in cloud computing and Software-as-a-Service (SaaS) solutions have aided business continuity by providing flexible, scalable and secure virtual offices. Artificial intelligence (AI) will aid cash forecasting, liquidity management, payables and scenario analysis by processing historical data to perform tasks and resolve issues based on past workflows. Robotic process automation (RPA) can alleviate time spent on high-volume, repetitive tasks, meaning focus can be maintained on key tasks,” says Davies.

If you would like to discuss this topic further with Zanders’ consultants, please contact Hugh Davies h.davies@zanders.eu or Tim Morris t.morris@zanders.eu
Prior to the coronavirus crisis, few corporates had thoroughly reviewed the way they processed their foreign currency payments. But with remote working and rapid digitisation, treasurers are starting to explore the benefits of automating their transactional foreign exchange (FX) workflows. Sat Khuntia, Head of FX Sales, Barclays Corporate, and Daniela Eder, Head of Payments & Cash Management Europe, Barclays, examine the ways in which the FX payments ecosystem is evolving and outline a range of digital tools that could assist treasurers in the post-Covid-19 world.
There’s an old adage that says, “don’t fix something if it isn’t broken.” And many corporates had taken this attitude towards their transactional FX workflows, until the pandemic hit. Before the crisis, transactions were agreed with counterparties, spot FX deals were made, and cross-border payments were initiated. Transactional FX was simply part of business as usual – and, often, little thought was given to the potential for operational efficiencies and strategic gains by improving these workflows.

The turning point came when treasury practitioners across the globe began working from home and currency volatility skyrocketed. As Khuntia explains: “When the world went into lockdown, treasury staff were faced with the reality of making FX-related payments, dealing with foreign currency receipts, and managing the company’s working capital in multiple currencies, via remote channels. Initially, many struggled to access the necessary systems from home and the amount of manual work involved in transactional FX workflows was highlighted.”

Treasury leaders soon began to question the validity of such a manual approach in a world that was shifting rapidly towards digital and automated solutions. “The inherent risks involved in manual FX processes also became apparent - and the crisis has provided a huge incentive for treasurers to take greater control of risks, maximise operational efficiencies and unlock growth opportunities,” he continues.

Increased volatility in the FX market has also added to the interest in automated solutions, says Khuntia. “At the start of 2020, the economic environment was relatively benign. Volatility in the euro even reached a record low in mid-January1. Soon, though, markets caught wind of the emerging coronavirus crisis and volatility began to spike. By mid-March, the US dollar was in enormous demand as investors looked for a safe haven and a number of corporate treasurers were taken by surprise. FX volatility quickly rose up their list of concerns.”

This is borne out by the results of a new research report published by TMI, in partnership with Barclays, which surveyed 300+ treasury professionals and CFOs on current European treasury trends. According to the report, entitled New Europe: Is Your Treasury Fit for the Challenge?, 42% of respondents see FX volatility as their number one macroeconomic concern for the year ahead (see fig. 1).

Real-time transparency

With the full economic impact of global lockdown becoming apparent, cash flow uncertainty also became a significant concern for treasurers. Goods and
With the full economic impact of global lockdown becoming apparent, cash flow uncertainty also became a significant concern for treasurers.

BOX 1: SMARTER PAYMENTS

It is not just automated FX solutions that are enabling corporates to improve their transactional FX workflows. Advances in the payments’ ecosystem are also having a significant impact. Eder comments: “Instant payments are accelerating the move towards interoperable payment standards across the globe, with regulators working on adoption of ISO 20022. Initiatives such as SWIFT gpi are also looking to establish real-time cross-border payments as the ‘norm’ – and this brings with it the ability to gain much greater visibility and transparency over transactional FX.”

What Eder is alluding to here is the SWIFT gpi Tracker, which via a unique end-to-end transaction reference (UETR), enables corporates to view the progress of a payment between banks in the payment chain, as well as having complete visibility over any deducts, including fees and FX rates.

Thanks to regulations such as the revised Payment Services Directive (PSD2), new players – in the form of payment service providers (PSPs) – are also shaking up the cross-border payments space. “Corporates have more and more options for making international transactions. They can make payments via the cloud, through fintech services, for example. Banks are also increasingly partnering with PSPs as a way to offer the most innovative digital payments capabilities to their clients,” she notes.

The beauty of these solutions is not only the choice, speed and transparency they enable, but also the fact that they are digitally native. This enables easy automation of payments workflows.
functionality happens behind the scenes via API and has been a huge benefit for clients during the crisis.”

Ongoing evolution

On the subject of APIs, Eder believes this is one area where the automation of transactional FX will continue to evolve in the future. “APIs are already being used by many large corporates to consume FX rates and I believe this will be a growing trend,” she notes. Khuntia agrees, adding that “the benefits of the API solution are that it’s a live channel and on demand – the client’s computer requests FX rates and they are sent instantly from the bank. If the corporate wants to undertake a transaction, they then simply make the instruction and the deal happens instantly. APIs are also extremely secure, which is important in these days of heightened cyber risk”.

Making progress happen

For those treasurers looking to make efficiency gains and strategic advances in their transactional FX sooner rather than later, Eder shares some tips:

1. Don’t stop the continuous improvement journey. “Many corporates have been distracted by the Covid-19 crisis, when really it is a great opportunity to get things done. Focus on the areas that are clearly inefficient – like manual workflows around FX payments – and explore automated solutions,” she notes.

2. Educate yourself on the technologies available. “Not every solution is right for every corporate. As discussed, there are many payment technologies out there and numerous automated FX solutions. Speak with your banks, vendors and fintechs to understand the possibilities. Also interact with your peers to see what can be done in-house before adding external solutions,” Eder comments.

3. Implement those technologies. “Often corporates spend a long time researching technologies but never implement them, or wait too long before putting them in place and things have moved on. The only way to get ahead is to make the move!”, she suggests.

Khuntia echoes this, adding that automation of transactional FX processes could bring significant benefits in a post-pandemic environment. “The world of work is unlikely to return to its pre-crisis levels anytime soon. Treasurers will once again be looking to do more with less – and automation of FX workflows can lead to significant time savings, freeing up personnel to tackle more value-added tasks and make smarter, faster decisions. It will also reduce the risk associated with manual FX payments, which can only be a good thing.”

His final words of wisdom for treasurers looking to go down the automation path are to ensure that any digital treasury projects dovetail with the digital strategy of the wider business. “The crisis has led to rapid shifts in business models, with companies embracing digital channels like never before. To grow with the business, and help the company reach its international growth goals, treasury must be on the same page in its digital execution. This is not to say that treasury cannot lead the digital discussion – it absolutely can – especially when armed with up-to-date insight on the latest technologies,” he concludes.

Notes
2 https://www.forbes.com/sites/johnkoetsier/2020/06/12/covid-19-accelerated-e-commerce-growth-4-to-6-years/
The initial shock of the Covid-19 pandemic is starting to subside and companies are moving out of crisis management mode into planning for recovery and beyond. Patrick Peters-Bühler, Principal – EMEA, Treasury Advisory Group, Citi, and Yan Li, Senior Adviser – Greater China, Treasury Advisory Group, Citi, explain how corporates can develop strategies to become more resilient in the face of future uncertainty.
Visibility and control to resetting foreign exchange hedges. Over one quarter (26.7%) of corporates are currently at this stage. (See fig. 1.)

The third phase is restoring cash profitability. “The focus here is to reduce Operating Expense, tactically review CapEx (capital expenditure), actively engage all stakeholders, and essentially shift from responding to the crisis to forward planning instead. The fourth and final phase is building for the emerging new landscape, a large part of which involves improving corporate resilience,” he notes.

On the road to recovery

Of course, there is no one-size-fits-all approach to corporate resilience. There is, however, a four-pillar framework under which any company can make a resilience plan, says Yan Li. “The framework covers financial, operational, organisational, and technological resilience. Each of these pillars will have an impact on treasury operations and there is interplay between the pillars, so a holistic approach is required,” she explains.

Financial resilience

According to Peters-Bühler, the focus here should be on building liquidity and balance sheet strength – since extremely lean balance sheets are unlikely to be in favour for some time. From a treasurer’s perspective, “Working capital management should be front of mind,” he says. A company’s bargaining power within its buyer/supplier ecosystem will become increasingly important, he believes, and will help enable more flexibility and control over collections and payments. Treasurers may also wish to consider more long-term financing options to help support higher operating working capital, he suggests.

WHAT IS FINANCIAL RESILIENCE?

The financial resilience of a company is often measured by its liquidity, solvency, revenue, profitability, and capital. Companies need sufficient cash in the right currency to absorb a negative impact on cash flow. Firms need to be able to take a hit to their bottom line and have sufficient equity to absorb losses. In addition, leverage ratios must be carefully managed to ensure access to debt financing.

Yan Li, meanwhile, points out that in times of declining revenue, operating cost or fixed cost flexibility will also be critical – in order to protect margins and maintain profitability. “Many corporations have already started this process and may need to further scrutinise their fixed and variable cost structures to embed more resilience. Additional outsourcing could be considered for non-core functions, for instance.”

It will also be important to implement a maturity match of assets and liabilities to ensure short- to long-term cash-flow sustainability. Peters-Bühler adds: “Greater scrutiny of capital allocation is also required to help maintain balance sheet resilience. After all, a strong capital base and a disciplined leverage level should help to enable access to the capital market to address changing business conditions and seize potential business opportunities for M&A (mergers and acquisitions).”
Appropriate risk management should also be ensured when creating financial resilience, observes Yan Li. As such, corporates may need to revisit their risk management policies and processes. “Are there fundamental changes as to how a corporate views, identifies, measures, and mitigates financial risks after Covid-19? This is the starting point. Then more specific questions can follow, such as how to build flexibility and agility into the FX risk management process,” she comments. “Traditional KPIs (key performance indicators) may also need to be updated in light of shifting organisational goals.”

**LIQUIDITY AND BALANCE SHEET STRENGTH: AREAS OF FOCUS**
- Place continuous focus on operational cash flow
- Improve operating cost flexibility to adapt to disruptions
- Ensure balance sheet capacity in liquidity and capital

**2. Operational resilience**
Sales and distribution models are changing, with companies quickly adapting to more online and multi-channel approaches as a result of Covid-19. Digital customer experiences are front and centre, as companies aim to cross-sell products to existing customers. Supply chains are also in the spotlight, with organisations increasingly looking at domestic and regional markets, and questioning the legitimacy of just-in-time models in a post-pandemic world. Peters-Bühler believes that organisations will hold more inventories in the future, as a means to de-risk and buffer supply chains. “This will have efficiency implications – both financially and logistically,” he notes.

Corporates will also want to avoid any disruptions to supply chains in future, so are likely to focus more on manufacturing interchangeability, he believes. “Specialist manufacturing techniques bring more risk into the supply chain. Companies are likely to move away from using one global specialist manufacturers to several regional ones. This will introduce greater supply chain complexity and potentially increase costs, but it will also improve resilience. There is a careful balance to be struck between supply chain resilience and maximising efficiency. The ultimate goal must remain achieving long-term, sustainable profitability.”

To this end, Yan Li believes that “corporates may look to help support sales by bolstering their order-to-cash process. They could do this by implementing an alternative credit policy and flexible payment terms, applicable under certain circumstances.”

**SUSTAINABILITY OF END-TO-END OPERATIONS: POINTS TO CONSIDER**
- Adapt sales and distribution – more online/multi-channel
- De-risk and ‘buffer’ supply chain – efficiency implications
- Improve manufacturing interchangeability – cost implications

**3. Organisational resilience**
Global lockdown has prompted a rapid shift towards digital business models. “It has also opened management’s eyes to the benefits of remote-working, thanks to employees leveraging standard processes, cloud-based solutions, and online collaboration tools. Virtual operations are now being considered as the way forward,” says Yan Li.

“As such, it could be that treasury centralisation is no longer sought after in the same way as it was pre-crisis. This is an excellent opportunity to rethink treasury organisation constructs and to weigh up the pros and cons of global process centralisation against capturing local market nuances.”

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*Of course, there is no one-size-fits-all approach to corporate resilience. There is, however, a four-pillar framework under which any company can make a resilience plan.*

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**PATRICK PETERS-BÜHLER**
Principal – EMEA, Treasury Advisory Group, Citi

**YAN LI**
Senior Adviser – Greater China, Treasury Advisory Group, Citi
To support this move towards virtual teams, the role of data is growing. Peters-Bühler adds: “Virtual rather than physical organisations represent an opportunity to use a single source of data to support less siloed decision-making and more seamless implementation of those decisions across the business.”

**VIRTUAL ORGANISATIONS: FOOD FOR THOUGHT**
- Rethink physical vs. virtual teams and enabling technology
- For informational symmetry: a single source of truth
- Aim for cross-organisational frictionless implementation of decisions

**4. Technology resilience**
With the move towards more digital operations, technology must also be upgraded - not only to enable the business to grow but also to protect it from cyber threats. As Peters-Bühler explains: “There is a dichotomy between the vital role that technology plays and the additional business risks that it introduces. The majority of organisations’ IT infrastructures were not ready for the workforce working remotely - both in terms of accessing systems in a flexible manner and providing the necessary security.”

*Considerable investment will be required going forward to upgrade wider technology infrastructures,* therefore. The rewards should be commensurate, however - not only in terms of resilience but also in improving competitiveness. “Upgrading the technology infrastructure opens up an opportunity to implement cross-organisational data lakes and make structured data more user-accessible. In turn, this feeds into the agile decision-making that I mentioned before - which can help to make organisations nimbler and provide a competitive edge.”

But to ensure true resilience, treasury technology must also be improved, especially in terms of increasing automation. He adds: “According to our research, 97% of damage that is inflicted on treasury departments is caused by human or process mistakes. For this reason, it is imperative that treasurers remove manual processes.”

Yan Li agrees: “Automation is a key part of the real-time treasury environment, which will only accelerate post-pandemic. Technologies such as Robotic Process Automation (RPA) and Artificial Intelligence (AI) can assist here. Treasurers must also consider how to transition away from batch processes and leverage real-time data analytics and visualisation - while maintaining security - in order to support the business to achieve its goals.”

**Treasury in the driving seat**
Taking all of this into account, where should treasurers focus their efforts in the year ahead to help build resilience? “Of course, it depends on the organisation, but clients we have spoken with are prioritising the five key areas outlined in Figure 2,” says Peters-Bühler.

Alongside these broader efforts, Yan Li believes that challenging the status quo will be critical - as will adapting mind-sets for the post-Covid operating environment. “Profound changes are coming. Balance sheets will be bigger and supply chains will require re-engineering and more investment. Digitisation will be accelerated, and capital allocation decisions will be under more scrutiny. Treasurers must be prepared on all fronts,” she suggests.

Finally, it is important to remember that resilience is not an end state. “It is an evolving goal,” says Peters-Bühler. “Corporates need to be looking at building resilience not only to achieve benefits now but also to help them seize competitive opportunities in the new normal - and beyond.”

*FIG 2:*

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting transformation of the business</td>
<td>28.6%</td>
</tr>
<tr>
<td>Strengthening liquidity management &amp; long-term funding planning</td>
<td>67.9%</td>
</tr>
<tr>
<td>Revisiting risk management policy &amp; processes for heightened uncertainty</td>
<td>14.3%</td>
</tr>
<tr>
<td>Accelerating treasury digitisation &amp; technology investment</td>
<td>53.6%</td>
</tr>
<tr>
<td>Strengthening cyber security &amp; data protection</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

*Source: Citi Treasury Advisory Group Research*
A Bounce in Treasury’s Step

The Feelgood Factor of Sustainable Finance

By Ben Poole, Columnist
Capitalising on a proven commitment to environmental, social and corporate governance, rubber industry giant Corrie MacColl recently obtained a unique sustainability-linked loan. Ryan Wiener, the company’s Global Head of Strategic Marketing, explains how the criteria of the loan were agreed, and how the choice of banking partner was made.

Environmental, social and corporate governance (ESG) lies at the core of Corrie MacColl’s business principles. A subsidiary of Halcyon Agri Corporation, the natural rubber producer owns and manages the world’s largest rubber plantation, 100,000 hectares, in Cameroon.

“Cameroon is not a traditional source of rubber,” admits Wiener. “So our aim is to solidify its place on the map.” Achieving this means going further than just producing rubber, he believes. “Our goal is to create a great product that doesn’t just minimise the environmental impact of its production, but also positively influences its place and people of origin to create a natural rubber that is truly sustainable.”

With this aim in mind, the company, which is the largest private-sector employer in Cameroon, has implemented a strategy to tackle the challenging task of marrying socio-economic development with environmental preservation. Over the past couple of years, among other progressive strides, Corrie MacColl has announced a zero-deforestation commitment in Cameroon, become a signatory to the United Nations Global Compact, and launched BOUNCE, the world’s first sustainable rubber movement anchored by the UN Sustainable Development Goals.

Embedding ESG in finance

With a high-level company commitment to sustainability, it is perhaps no surprise that Corrie MacColl has also applied its ESG principles to its finances. Specifically, in July 2020, it was announced that Deutsche Bank’s Corporate Bank had provided Corrie MacColl with a $25m sustainability-linked loan (SLL) facility with a three-year tenor, and an accordion feature to upsize the facility to US$75m.

The purpose of the facility is to finance the company’s capital expenditure (capex) investments for its rubber plantations in Cameroon and Malaysia. Rubber prices have been low for many years and have even been below production cost for some time, which has created a challenging environment for Corrie MacColl – hence the search for external financing.

“We have had to significantly invest in our plantations, particularly in Cameroon where we took over management in late 2016,” continues Wiener. “The sustainable projects that we have implemented over the past couple of years, such as our Social Action Plan and the preservation of 25,000 hectares of forest, have all helped to get us into a position where we would be eligible for a sustainability loan.”

The proceeds of the loan will be used for the maintenance of Halcyon’s rubber plantations while promoting its Cameroon Outgrower Programme, which aims to provide additional food security and boost the income of 13,000 local smallholder farmers.

“Unfortunately, when it comes to responsibility or sustainability, rubber is far behind other industries,” says Wiener. “There are no industry-wide standards which means that prices do not reflect sustainability investments. There is still a lot of work to be done socially with the surrounding communities,

With a high-level company commitment to sustainability, it is perhaps no surprise that Corrie MacColl has also applied its ESG principles to its finances.

RYAN WIENER

Global Head of Strategic Marketing, Corrie MacColl

As Global Head of Strategic Marketing, Ryan Wiener oversees commercial marketing, Group communication, branding and investor relations. Wiener joined Halcyon Agri, Corrie MacColl’s parent company, in 2014 where he worked as Manager, Strategic Development in Singapore. In 2017, he was relocated to Centrotrade Deutschland and subsequently Corrie MacColl Limited. Previously, Wiener spent five years in real-estate investment at Savills Singapore. He holds a bachelor degree in International Business from Bond University, Australia and a Graduate Certificate in Applied Finance from Kaplan Professional, Australia.
providing jobs and improving local living standards. That’s why we wanted the sustainability-linked loan, to facilitate further investment in and around the plantations.”

**Setting up the sustainable financing**

SLLs are used to incentivise the borrowers’ commitment to sustainability, and to promote and support environmentally and socially sustainable economic activity. Wiener explains: “The terms for these loans are linked to the borrower’s sustainability performance. In our case, this is measured by our ability to meet certain, mutually agreed upon, criteria over the term of the loan.”

When it came to selecting the right banking partner for the sustainable financing, Deutsche Bank was the preferred choice for Corrie MacColl. “Deutsche Bank plays a leading role in this space,” says Wiener. “We are working with other banks and will continue to leverage the experience with Deutsche Bank, but to start with a market leader has always been necessary for us.”

Environmental Resources Management (ERM) in Singapore was appointed by Deutsche Bank to determine the key performance indicators (KPIs) and set the sustainability performance targets (SPTs) that formed the framework for Corrie MacColl’s SLL. Following an extensive due-diligence process, the assessment was carried out according to the following tasks:

- Review of the ESG metrics and targets included in the borrower’s and Halcyon Agri Corporation’s Annual Report and policies
- Review of performance indicators reported in relevant internationally recognised standards, guidelines and certifications
- Synthesis and analysis to establish company-specific ESG criteria

While ESG conditions attached to loan rates are not unusual in corporate lending facilities, it is the comprehensive nature of the KPIs that will set a new standard for the rubber industry, making this commercial loan unique. Commenting at the time of the loan announcement, Jeremy Loh, CFO of Halcyon Agri Corporation, noted: “We are delighted to have chosen Deutsche Bank for this one-of-a-kind loan structure. It was important to us to ensure that we continue to support our clients in a sustainable way, supporting our overall corporate social responsibility strategy and in accordance with developing standards for sustainable financing in the rubber industry.”

**Sticking to high standards**

With the KPIs and SPTs decided and the financing agreed, the onus is now on Corrie MacColl to meet the agreed sustainability objectives throughout the lifetime of the loan. As such, reporting the firm’s ESG performance is now a yearly pursuit.

“The borrower is required to submit an annual report to the lender, which provides evidence of performance against each SPT,” explains Wiener. “The external consultant, ERM, will complete an independent review of the borrower’s performance against the SPTs on an annual basis.”

For other corporates considering a similar type of financing, Wiener has the following advice: “The term ‘sustainability’ is thrown around a lot today. It is important to understand what it really encompasses, and to receive input from experts in the field, such as non-governmental organisations (NGOs) and civil society organisations. You can then apply that knowledge as part of your core for profit. We will put this loan to good use so we can keep investing in the areas in which we operate and the people working with us.”
THAT MOMENT WHEN YOU SHOW JUST HOW SORRY YOU FEEL FOR ANYONE WHO FAILED TO PICK THE RIGHT TMS…

TreasuryLite
BY TREASURY LINE
The Cloud-based TMS for middle-market companies

- The power of large groups TMS packaged for middle-market companies
- Cloud-based solution
- Fast implementation
Reaching customers through digital channels has become a priority for organisations during global lockdown. But reaping the benefits of a digital business model requires treasury to be fully connected to the company’s overall digital strategy. Srinivas Kasturi, Head of Mass Payments and Country Product Management, Corporate Banking, Barclays, and Daniela Eder, Head of Payments & Cash Management Europe, Barclays, explain how treasurers can plug in to the potential upsides of digital business models – through tools such as instant payments – while outlining how to manage risks, including increased collection costs and greater foreign exchange (FX) exposures.
It’s no secret that Covid-19 has accelerated the adoption and evolution of digital business models – across almost every industry sector. Supermarkets have seen an explosion in online ordering. Healthcare providers have embraced video consultations. Virtual gyms and classrooms have become the norm for many. And the list goes on.

Perhaps more surprising than the range of digital services now available is the speed at which they have been rolled out. Data from consultancy firm McKinsey suggests that – in the space of just eight weeks – the world has jumped forward five years in terms of consumer and business digital adoption.

With this rapid rise in e-commerce, and reduced footfall in retail establishments, many companies have begun complementing their wholesale models with direct-to-consumer (D2C) sales. Heinz Kraft, for example, is now selling bundles of its most popular products straight to consumers via its website.

The benefits for customers are clear: convenience, a superior shopping experience, better service and more instant access to the products they want. For the C-suite, margins can be improved by cutting out the middlemen, revenue sources can be grown, and new markets can be entered without a physical presence.

But what does this shift towards digital business models mean for corporate treasurers? And how can they harness the opportunities on offer, while managing the inherent risks?

**Striking the right balance**

According to Eder, “Examining the D2C trend is a great way to understand the treasury impact of the wider shift towards digital channels, in both B2C and B2B segments.” The first and perhaps most obvious treasury ramification in the D2C space, she says, is the dramatic shortening of the order-to-cash (O2C) cycle.

“By settling the transaction direct with the end consumer, the treasurer no longer has to wait an average of 60 days for their cash – it could be in their account within 24-48 hours, or even a few minutes, if instant payments are used.” Reducing days sales outstanding (DSO) in this way has obvious working capital benefits, since treasurers will have more cash on hand. Nevertheless, this will “require an increasingly proactive approach to short-term investing – and expedited reporting,” she notes.

D2C cash flows also differ in terms of volume and value. “With wholesale customers, cash flows tend to be low volume, high value. They also have a certain level of predictability, as orders are often regular. For retail customers, the opposite is true. D2C sellers receive a very high volume of typically low value payments, and there is little predictability – these purchases may even be one-offs.”

For the treasurer, this shift brings several challenges, believes Kasturi. “A much greater number of incoming payments can significantly increase the cost of collections. As such, treasury will require robust, automated, high-volume connectivity, to process all of the receipts from direct sales. Clients may wish to look at establishing a receivables factory, and leveraging technology such as robotic process automation (RPA), to assist with those high volume receipts. Without significant efficiency on the collections side, the working capital benefits of the model could be negated,” he highlights.

**Making smart choices**

Naturally, the choice of payment method(s) offered to consumers can also affect the cost of collections. “Consumers’ use of debit or credit cards, or solutions such as PayPal, can significantly ramp up costs when transacting digitally. Bank APIs (application programming interfaces) and fintech led-solutions integrated into e-commerce sites are a more cost effective alternative, while still offering an excellent customer experience.
Another challenge with the shift to D2C is the increased range of currencies treasurers may encounter. According to Kasturi, “Digital business models enable companies to rapidly expand across borders. Inevitably, this brings new currencies into the cash management mix – ones that the company might not traditionally deal with. Leaving FX conversion to card providers can be costly, as wholesale rates are unlikely to be applied, and fluctuating prices can be confusing for the end customer. It is therefore important for treasurers to be on top of their transactional FX costs and deliver clarity of pricing for consumers at all times.”

**Taking positive action**

With these considerations in mind, how then can treasurers make the most of this increasingly digital environment? Eder and Kasturi share some useful tips:

1. **Make sure treasury has a seat at the boardroom table.** According to Eder: “All too often, treasurers are not consulted around the organisation’s digital sales strategy – even though they are the ones ensuring that cash still flows through the organisation in a seamless manner. As such, treasurers must be vocal around the vital role they play in enabling a successful digital business model – and demonstrate their knowledge about the most appropriate ways of collecting cash from customers, especially if a D2C model is being rolled out.”

2. **Review collection methods.** It makes sense, then, that another critical part of the digital journey is reviewing collection methods. Indeed, the results of a new research report published by TMI, in partnership with Barclays, which surveyed 300+ treasury professionals and CFOs on current European treasury trends, indicate that 59% of treasurers have already re-considered their collection methods in response to digitisation (see fig. 1). “The shift towards digital business models is an opportune moment to re-imagine the collections process. Legacy methods can be replaced by more efficient and even instant instruments. Reconciliations can also be improved through technologies such as RPA and artificial intelligence, to accelerate cash application,” she notes.

3. **Review payment methods.** Likewise, considering new payment methods for suppliers is vital when implementing a digital business model – and 68% of survey respondents have already done so. Kasturi explains: “A payment that arrives too late can amplify the fragility of the supply chain, which is far from desirable in uncertain economic times. Embracing real-time payments, like SEPA instant, and initiatives such as SWIFT gpi, can help to improve a corporate’s own liquidity management and support strategic counterparties through this difficult time. Paying promptly is part of being a responsible, digital business.”

4. **Embrace real-time treasury.** It is one thing implementing instant payments and collections, but to reap the full benefits, treasurers need to speed up the rest of their processes too – and move towards the broader definition of real-time treasury. Kasturi comments: “As Dani mentioned earlier, this means undertaking reporting in real- or near-real time. In turn, this should enable smarter, faster decision-making and help to make treasury more efficient – enhancing the department’s overall ‘fitness’ for the future.”

**FIG 2: HAVE YOU CONSIDERED HOW CHANGES IN CONSUMER/BUSINESS HABITS TOWARDS LEASING RATHER THAN BUYING GOODS (CIRCULAR ECONOMY) MIGHT IMPACT FUTURE CASH FLOWS - AND THE BALANCE SHEET?**

![Circular economy survey results](image)
5. **Don’t forget about data.** One of the major benefits of digital transactions is the data that accompanies them, especially now that the ISO 20022 standard is gaining traction. “The enriched data that is available with some of the newer payment methods, such as SEPA instant – which Barclays will soon be adopting – presents an opportunity to not only make processes such as reconciliation more efficient, but also to bolster intra-day liquidity monitoring and real-time decision-making,” says Eder.

6. **Engage your banking partners.** Many of the headaches treasurers are likely to encounter when accommodating a digital business model can be eased by banks. “Take FX, for example,” says Kasturi. “Barclays provides a solution which helps retailers and D2C sellers to display consistent prices by protecting the rates linked to each transaction.” Eder adds that banks can also assist treasurers to “put in place the necessary API connectivity to aid the high volume flow of real-time information that digital business models bring.”

### Thinking differently

When re-thinking fundamental treasury processes in light of digitisation, it is also worth considering how other potential business model changes might impact cash management. One such change is the growing consumer, and indeed business, trend towards sustainability. “There are many different types of sustainable business models. We’ve seen the sharing economy take off with Airbnb, for example. We are also seeing more companies leasing products to consumers, rather than selling them outright,” says Kasturi. “While sustainable business models are not - yet - as well established as digital ones, treasurers might want to factor sustainability-driven changes into their future-proofing processes. And we can see from the survey results (see fig.2) that 20% of companies are already witnessing shifts in this regard.”

Eder picks up on this, saying: “If leasing grows, as we are seeing among car manufacturers in Germany, for example, this will inevitably impact cash flows – as higher value one-off receipts will be replaced by regular, smaller value receipts. Under IFRS 16, leases must also now appear on the balance sheet, which adds another dimension for treasurers to consider.”

Of course, sustainable business models will impact some sectors sooner, and more dramatically, than others. But, as Covid-19 has demonstrated, the business environment can shift rapidly and unexpectedly. Before the pandemic, digital business models were still seen by many organisations as ‘nice to have’. Now, they are a ‘must have’.

Eder concludes: “As a result, treasurers have an open invitation to re-imagine payment and collection methods, and embrace developments such as real-time treasury. In addition to helping fast-track their organisation’s digital growth, it makes absolute sense for treasurers to consider other business model changes such as sustainability, given their increasingly strategic role within the organisation.”

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**Notes**

Beyond the Covid-19 Shock
Revisiting Capital Allocation

As the challenge of surviving Covid-19 gives way to the potential for growth, how can CFOs and treasurers make sure they’re ready for any opportunities that lie ahead?

For corporates, the next phase of the Covid-19 challenge is beginning. After a conversation dominated by the tragic human cost of the pandemic and, from a business perspective, liquidity and survival, the focus is shifting to how companies will come out of the crisis. Will there be a ‘new normal’ with...
respect to capital structure? And what’s the optimal way to manage both the challenges and opportunities presented by the post-lockdown world? At Standard Chartered, we have developed a framework to help corporates reassess their capital allocation – and we hope it will be useful to all treasurers as they prepare for recovery and beyond.

**Focus on the long term**

First, we must start with the end in mind. In other words, any new capital allocation structure needs to focus on the longer-term strategic objectives of the business. Yet with uncertainties around the economic recovery, as well as concerns about a second wave of the pandemic, financial agility must remain paramount.

Second, getting to where any corporate needs to be requires an assessment of where they are now. Specifically, how has the sector evolved since the previous crisis and, indeed, since before the 2007-08 financial collapse? And are these changes sustainable?

To help answer these questions, we have analysed capital allocation and indebtedness trends across large corporates over the past 15 years, and observed two key trends:

1. For a variety of sectors, the relationship between shareholders and corporates – with respect to how returns are achieved and valued – has changed.
2. Investor attitudes towards corporate debt levels have also evolved and now support an increase in leverage across the board.

**Shifting expectations**

With respect to shareholder returns, the sector differences are stark. They also clearly reflect how the market perceives – or is beginning to perceive – changes in the overall structure of some of these industries.

For instance, the Oil & Gas sector had the

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**What should an optimal capital allocation structure look like for the medium and long term?**

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**FIG1: 15-YEAR AVERAGE SHAREHOLDER RETURN BY SECTOR**

Size of bubbles represent average annual growth in share price

- **Share Buyback Return**
  - Tech
  - Aerospace & Defense
  - Pharma & Health
  - Non-Food Retail
  - Business Services
  - Capital Goods
  - Food Retail
  - Autos
  - Chemical
  - Metals & Mining
  - Consumer Durables
  - Transport
  - FMCG
  - O&G

- **Cash Dividend Return**
  - Hotel & Leisure
  - Utilities
  - Services
  - Metals & Media
  - Telecoms & Media

- **Size of bubbles** represent average annual growth in share price.
second-best average dividend returns over the past 15 years, after Utilities. Yet it suffers on a total-return basis due to the past decade’s underlying volatility and the emergence of environmental concerns.

Meanwhile, other sectors have been able to rely on steadily increasing stock market valuations to provide investor returns. Least surprising in this respect is the Tech sector, although the Non-Food Retail and the Fast-Moving Consumer Goods (FMCG – or ‘consumer products’) sectors also show strong value. Tech – as well as Aerospace & Defence and Hotels & Leisure – has offered incremental shareholder value via share buy-backs.

Taking all these attributes together, FMCG comes out on top over the 15-year period. Meanwhile, Oil & Gas, Utilities and some other more established sectors remain reliant on cash dividends to maintain investor loyalty.

Why is this important for the capital structure? Because, in each case, the investor base has some clear expectations that will permeate the thinking of any corporate treasurer when allocating capital – particularly when it comes to debt.

Rising debt levels

Despite a widespread expectation that corporate debt levels would decline after the global financial crisis, they rose across all sectors. Average debt-to-EBITDA ratios of the S&P 1200 – the largest global companies – increased from 1.9x over a 15-year average, to 2.0x over a 10-year average and a 2.3x average for 2019.

While the rise is inexorable, it is not a uniform picture, with some sectors seeing a disproportionately larger increase than others (see figure 2).

It is possible to conclude, therefore, that indebtedness has been increasing without any significant backlash from investors. And while there may be other factors underlying this tolerance, such as the low interest rate environment, it still marks a significant shift in investor attitudes.

**Optimal capital allocation**

What does this mean as we emerge from lockdown? As the focus shifts from being reactive to being more proactive – and even opportunistic – what should an optimal capital allocation structure look like for the medium and long term?

For most sectors, reinforcing balance sheet headroom, even if it is done to create a war-chest for potential M&A, will be critical. We see three possible routes to achieving this: ‘self-help’ solutions; generating a more efficient use of capital; or a wholesale rethink of the long-term capital structure.

‘Self-help’ centres upon factors within direct control of the company – such as cost optimisation and reducing capital expenditure. This means protecting margins while postponing investment in future income streams. Added to this may be an increased emphasis on disposals, which means selling non-core assets to raise capital and pay down debt.

Indeed, many Oil & Gas companies have managed to reduce (or not increase) their debt levels by doing exactly this, although arguably this also forms part of a conscious effort to ‘right-size’ the asset base to boost productivity. The capital efficiencies route, meanwhile, relies on making the existing capital structure work more effectively, particularly with respect to working capital. Leaders in the FMCG sector, for instance, have been quick to embrace supply chain finance and other innovative

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<table>
<thead>
<tr>
<th>Sector</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMCG</td>
<td>0.6x</td>
</tr>
<tr>
<td>M&amp;M</td>
<td>0.7x</td>
</tr>
<tr>
<td>Pharma &amp; Healthcare</td>
<td>0.9x</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.0x</td>
</tr>
<tr>
<td>O&amp;G</td>
<td>1.2x</td>
</tr>
</tbody>
</table>
mechanisms that enhance income flows and generate working capital efficiencies. Digitisation of transaction banking has helped improve cash flow forecasting. And while many see this as a chance to reduce debt, more ambitious corporates can utilise the enhanced cashflow to invest in top-line growth.

The third route involves the most change for an organisation and is often viewed as the last option. It requires a fundamental rethink of underlying indebtedness, including a bottom-up assessment of long-term liquidity needs, as well as the potential impact of regulatory, economic and societal changes on the corporate’s sector. The assessment should include a detailed and informed analysis of working capital requirements, revenues, acquisitions, and disposals – all targeted to generate the preferred capital structure.

Such a review may point to a fundamentally higher indebtedness level, although adopted as part of a proactive growth strategy. It should certainly mean the removal of any legacy or emotionally-driven target ratios that may now act less as a prudent benchmark and more as an albatross around the neck of a corporate treasurer.

A tailored approach in a recovering world

While the current pandemic is (hopefully) a once-in-a-generation event, it provides a clear measure of the required downside headroom for each industry. Of course, such a buffer may be a too-restrictive on an ongoing basis. Yet for benchmarking purposes, it is worth revisiting pre-crisis policy with respect to working capital requirements for weathering such a storm.

In addition, it is important to review how debt levels could impact the credit story of the business. Naturally, credit rating agencies have a role here, although the story is usually more complex – as illustrated by the deteriorating credit quality of the S&P 500 without the expected adverse impact on borrowing costs. Critical, here, will be a company’s long-term objectives, particularly with respect to growth – and its expectations around funding such growth.

Finally, we think it beneficial to widen the lens to assess situations with a similar underlying story. For example, do corporates in sectors such as Tech or Life Sciences – that have a higher portion of intrinsic value in future growth – retain higher levels of cash to allow greater balance sheet flexibility, or leverage-up to grow rapidly?

The above represents just part of the analysis companies should embark upon as we emerge from the crisis. It also shows that, far from there being one ‘new normal’, there are many – often highly dependent on the sector, but also on geography, and where the company sits in the lifecycle. Given this, do you feel your capital structure and balance sheet is fit for the future?

Notes
1 Based on an analysis of all corporates in S&P 1200 index above a market cap of US$10bn (~700 corporates) at year end 2019, excluding real estate and FIs

Corporate capital structures were changing before the pandemic, but how can you make sure they’re right for the next stage of the Covid-19 crisis?

Any analysis should be in three critical stages:

1. **Begin with the end in mind.** Decide on the long-term goals of the company – the overriding strategic objectives in terms of growth and how that should be achieved. This analysis needs to be closely aligned with sectoral trends.

2. **Examine what this means for your capital structure** – in terms of attitudes towards debt and the impact on shareholder expectations. Benchmark your plan against the sector and the market – what would the optimal capital structure look like?

3. **Develop a balance-sheet journey that can help achieve your agreed strategic goals.** This means positively engaging with shareholders and other stakeholders, including employees. It also means engaging the expertise required to help correctly adjust the capital structure – perhaps with new debt facilities, divestments, or acquisitions.

This process requires companies to be open to change. Maintaining a capital structure due to legacy or emotional concerns is surprisingly common, though it will prevent companies from reaping the opportunities being presented.
A New Model for Assessing Risks and Opportunities in the Money Markets

Introducing Beta(m)™

In the wake of Covid-19, corporates are reassessing their liquidity management strategies. To assist treasury managers in this endeavour, ICD and The Carfang Group have created a new quantitative model for assessing the risk/return relationships among money market instruments.

Justin Brimfield, Chief Marketing Officer, ICD, and Anthony J. Carfang, Managing Director, The Carfang Group, explain how the model works and outline how it can be used to health check short-term investment portfolios and sense check investment policies.

By Eleanor Hill, Editor
Group to develop a methodology to evaluate the risk, return and liquidity trade-offs in the money markets, with the aim of identifying opportunities for building a more optimised short-term investment portfolio."

**Model behaviour**

This collaboration has led to the creation of a new quantitative model, called Beta(m)™, based on Modern Portfolio Theory (MPT), but adapted to the money markets. Carfang explains: "MPT evaluates the overall securities market, most often using the S&P 500 as a proxy, and computes a beta for each portfolio to measure relative risks. This is much more difficult in the money markets, since different securities have different characteristics. Some are discounted, others pay interest or dividends, some fluctuate in value, and others trade at par or mature at par."

In order to be consistent across all these instruments, a ‘variance of total return’ methodology was used to construct Beta(m)™. And after testing 14 money market instruments (the most commonly used by corporate investors) over a five-year period, the one-month T-bill emerged as the most robust representative of overall short-term money market volatility. As such, the model measures the volatility of 13 other money market instruments against the one-month T-bill, which has a Beta(m)™ of 1.00.

March 2020 was the most profound stress test that money markets have seen since the post crisis regulations. As Covid-19 spread across the globe, and economic turmoil took hold, corporates shifted assets, drew down on credit lines and issued debt as a means to increase the liquidity and safety of their cash.

Carfang says: "There was an immediate emotional response to the coronavirus crisis. Investors were uncertain, so the majority sought a safe harbour. As a result, we saw trillion-dollar inflows into money market funds (MMFs)." Even since the ‘March madness’, assets in money market instruments have remained at historic levels.

Brimfield adds: ‘We expected to see some of the cash corporates are sitting on being reinvested into the business – to help make organisations more resilient post-pandemic and to bolster growth. Nevertheless, most of the over 400 corporates on ICD Portal have held on to their large cash balances. We are still very near record highs in assets on ICD Portal, well over $200bn.”

Moreover, investors want to make more informed decisions going forward, Brimfield believes. “In March, we saw emotion overtake disciplined investment philosophies. Now that the initial turmoil is behind us, it’s time for corporate treasurers to review what they’ve learnt and re-examine their liquidity management practices, based on concrete data. To help this process, ICD has teamed up with The Carfang Group to develop a methodology to evaluate the risk, return and liquidity trade-offs in the money markets, with the aim of identifying opportunities for building a more optimised short-term investment portfolio.”

**FIG 1: MONEY MARKET INSTRUMENTS - BETA(M)**

<table>
<thead>
<tr>
<th>June 2015 - May 2020</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instrument</td>
<td>Beta(m)</td>
<td></td>
</tr>
<tr>
<td>Treas MMF</td>
<td>0.82</td>
<td></td>
</tr>
<tr>
<td>Govt MMF</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Prime MMF</td>
<td>0.96</td>
<td></td>
</tr>
<tr>
<td>Treas/Govt ETF</td>
<td>0.99</td>
<td></td>
</tr>
<tr>
<td>1 mo T-bill</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>FICA</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>Fed Funds</td>
<td>1.02</td>
<td></td>
</tr>
</tbody>
</table>

Instrument | Beta(m) |
------------|---------|
3 mo T-bill | 1.06    |
IOER        | 1.10    |
1 yr Treas  | 1.14    |
90 day CP   | 1.22    |
Prime ETF   | 1.51    |
5 yr Treas  | 1.57    |
10 yr Treas | 1.81    |

**JUSTIN BRIMFIELD**

Chief Marketing Officer, ICD

Justin Brimfield is Chief Marketing Officer at ICD where he is responsible for driving the firm’s marketing and strategic partnerships. He brings deep domain expertise in treasury management with a career spanning over 20 years. During this time, he brought to market multiple technology solutions serving corporate treasury.

*There was an immediate emotional response to the coronavirus crisis. Investors were uncertain, so the majority sought a safe harbour.*
Practical usage

Of course, the definition of an efficient portfolio will vary from corporate to corporate – but this is where the beauty of the Beta(m)™ model comes into its own. Brimfield comments: "The model enables treasurers to easily evaluate the risk-weighted returns of money market instruments in a common way. It can be used to identify the best portfolio that will provide an acceptable level of risk, a liquidity profile that is in line with their investment policy, and the security they are looking for."

Carfang elaborates: "We can quantitatively demonstrate that for any instrument below the 'efficient frontier' line, a combination of instruments above the line can be used to create the same characteristics – and give a higher return. So, corporates can look at the investment options above the efficient frontier line that offer superior return at the same risk level and optimise their portfolio, assuming no constraints from their investment policy."

He shares an example: "Take a corporate that has a conservative investment policy that only allows the treasurer to invest in securities that are directly or derivatively guaranteed by the government, with 100% same-day liquidity. Using the efficient frontier, we can see that Treasury MMFs and Government MMFs are the only instruments above the line – so for this conservative investor, a mix of those two would be the optimal portfolio. But, if we then test those investment constraints by shifting the parameters to be 50% next-day liquidity and 50% same-day, then the Federal Insured Deposit Account becomes more attractive. Similarly, if the government guarantee constraint were lifted, Prime MMFs would form part of the optimal portfolio – while still retaining the liquidity requirements, yet delivering improved returns."

As such, the Beta(m)™ model empowers CFOs and treasurers to challenge investment policy restrictions and to present the board with concrete data around improved returns. Brimfield notes: "For the first time, finance leaders can conduct a cost/benefit analysis of every element in the investment policy – thanks to Beta(m)™. The board has never seen that before."

Assessing risks and returns

With this baseline established, the next step was to explore the 'efficient frontier' for money markets - as a means to define the risk-return trade-off. Says Carfang: "MPT holds that there is a definable trade-off between risk and return. Lower risks result in a sacrifice of returns, whereas higher returns require more risk on the part of the investor. It further holds that at each level of risk, there exists one portfolio, or instrument, that is superior to all others."

In a slight departure from how MPT identifies optimal portfolios, Beta(m)™ uses the efficient frontier in the money markets as a long-term indicator of the relative risks and returns of classes of instruments. To find this money market efficient frontier, The Carfang Group and ICD again statistically analysed the five-year returns of the 14 chosen instrument types in the money market universe. "The correlation was remarkable," says Carfang. "The low beta instruments indeed had the lowest returns and vice versa - and this demonstrates the efficiency of the money markets as a whole."

He continues: "Those instruments above the efficient frontier line on a short-term basis are where corporates want to be parking their cash, to achieve the best trade-off between liquidity, return, and risk. The reverse goes for those below the line. The model can be used to identify these short-term opportunities."

Now that the initial turmoil is behind us, it’s time for corporate treasurers to review what they’ve learnt and re-examine their liquidity management practices, based on concrete data.

UNDER THE HOOD OF BETA(M)™

An in-depth explanation of how Beta(m)™ was constructed falls beyond the scope of this article. Find out more about the methodologies used and the efficiency of individual money market instruments by downloading the accompanying white paper at https://bit.ly/30QHQQrg.
A healthy portfolio

The Beta(m)™ model is not designed to be used on a daily basis, of course. This new tool is designed more for a periodic review, a health check of the current portfolio to see how it is performing relative to how the market is operating – and to help identify how the treasurer can get the best market return while minimising risk.

“We truly believe that Beta(m)™ will change the way that treasurers look at their short-term investments. For the past 18 years, ICD has been creating solutions to help make short-term investing more efficient for treasurers, by bridging information gaps. And since we are an independent portal, the focus is entirely on helping clients determine the best portfolio composition to fit their needs,” says Brimfield.

“After the financial crisis of 2008, we created Transparency Plus to help deliver insight into credit exposures. Now, after Covid-19, Beta(m)™ is the next evolution of our mission to help clients understand where the market is, and to identify where they could optimise their portfolio. We’re excited to see treasurers use this quantitative model to health check their short-term investment portfolios and potentially encourage tweaks to investment portfolios – on the back of solid data analysis. Knowledge is indeed power.”

We truly believe that Beta(m)™ will change the way that treasurers look at their short-term investments.

ANTHONY CARFANG
Managing Director, The Carfang Group

Tony Carfang is Managing Director of The Carfang Group and has a distinguished background in consulting, writing, speaking, thought leadership and advocacy in the area of treasury management payments, liquidity and banking. Carfang was founder of the Treasury Strategies consultancy which later merged with Novantas, Inc. Now leading The Carfang Group, he is transforming years of treasury management innovation into robust strategies for clients.
Asia has evolved rapidly this century, especially from a treasury perspective. From the internationalisation of Chinese yuan (CNY) to the roll-out of instant payments in India and beyond, the scope of treasury in Asia has been widening. The need for in-region treasury presence has followed, and countries from Hong Kong to Thailand have responded with incentives to draw treasury hubs to their shores. New alternatives have both enriched and complicated Asian treasury location decision-making.

By David Blair, Treasury Consultant, Acarate Consulting Singapore

Businesses seeking the best location for a treasury hub have to weigh up many factors ranging from tax incentives to political risk. Here, David Blair offers an insight into the pros and cons of five Asian financial centres.
Treasury centres vs shared service centres

A treasury centre (TC) is an entity comprising high-skilled treasury staff managing balances and flows and risks across a group of legal entities typically in different countries. Normally it is also a booking centre where money market and foreign exchange and other derivative transactions are recorded and taxed.

Therefore, treasury centres seek tax-efficient and open financial centres, since these tend to attract a deep talent pool with suitable experience, wide and liquid financial markets in which to trade, an open ecosystem that enables maximum coverage, and a tax regime that does not hinder treasury effectiveness.

A shared service centre (SSC) is an entity comprising large numbers of clerical staff processing high volumes of generally low-value transactions and maximising scale efficiencies. SSCs focus on cost reduction and thus seek low labour and other costs. SSCs tend to carry out transaction processing on behalf of operating entities, and therefore they are not in themselves booking centres, and are not tax sensitive. The main requirements for SSCs are a large pool of low-cost clerical and accounting competence, and language skills to work internationally.

It is true that shared services are increasingly taken over by digitisation and automation. In this case, there is no ‘centre’ per se – the work is dematerialised, normally onto the cloud.

From figure 1, it is apparent that the locations for TCs and SSCs will be very different. TCs seek tax-efficient financial centres. This is why, in Asia, they have tended to be in Singapore and Hong Kong. Of the other financial centres in Asia, Tokyo is neither international nor tax efficient and Shanghai remains too regulated despite improvements in recent decades.

SSCs seek large pools of clerical skills with the required language capabilities. They have tended to operate in countries such as India, Malaysia, and the Philippines, which have relatively large clerical talent pools with reasonable English skills. This article focuses on the needs of TCs.

Treasury centre vs in-house bank

Treasury centres are sometimes called in-house banks (IHBs) because they carry out wholesale banking transactions such as money market and foreign exchange and other derivative transactions with internal counterparties (and then trade away net positions with external banks and markets).

In the system and process context, IHB refers to a process of centralising payment and collections to an internal entity (which may be a treasury centre or other suitable entity) using on-behalf-of (OBO). The IHB executes payables-on-behalf-of operating entities (POBO), and collects receivables-on-behalf-of operating entities (ROBO or COBO).

Whereas TCs focus on financial transactions such as money market and foreign exchange and other derivative transactions, the IHB process intrinsically deals with commercial flows such as payables and receivables. This article focuses on the needs of treasury centres.

Asian treasury locations

The two main treasury locations in Asia are Singapore and Hong Kong. Singapore has offered its Finance and Treasury Centre (FTC) incentive for three decades. Hong Kong traditionally competed with its low tax rate and zero withholding taxes. To rectify some disadvantages in its tax regime, Hong Kong introduced its Corporate Treasury Centre (CTC) legislation in 2016.

With increasing liberalisation of capital

From the internationalisation of Chinese yuan to the roll-out of instant payments in India and beyond, the scope of treasury in Asia has been widening.

FIG 1: TREASURY CENTRES VS SHARED SERVICE CENTRES

<table>
<thead>
<tr>
<th></th>
<th>Legal entity</th>
<th>Booking centre</th>
<th>Volumes</th>
<th>Values</th>
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<tr>
<td>TC</td>
<td>Yes</td>
<td>Yes</td>
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<td>High</td>
</tr>
<tr>
<td>SSC</td>
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<td>No</td>
<td>High</td>
<td>Low</td>
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<table>
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<tr>
<th></th>
<th>Staff education</th>
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<th>Tax sensitive</th>
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<td>TC</td>
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<td>Finance</td>
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<td>Yes</td>
</tr>
<tr>
<td>SSC</td>
<td>Clerical</td>
<td>Accounting</td>
<td>Low</td>
<td>No</td>
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</tbody>
</table>
controls and the spread of better market infrastructures, other countries in Asia have started offering incentives to set up treasury, including Malaysia, Thailand and China.

China remains financially restricted and has in the past few years tightened controls on treasury activities, so it remains an implausible location for a treasury hub. Malaysia and Thailand have introduced appealing legislation for treasury and have substantially liberalised foreign currency activity, which is what matters for international treasury. Nonetheless, both Malaysia and Thailand have shallow financial markets, no real treasury talent pool, and limited language skills. This makes them both difficult locations in which to set up treasury hubs.

In addition to financial, fiscal, talent and ecosystem considerations, the choice of treasury location depends heavily on the company's locus of operations. All else being equal, treasury will prefer to co-locate with regional or global headquarters to enhance business proximity. In this regard, Singapore’s popularity as a regional headquarters location has symbiotically helped the development of its treasury status. Hong Kong, in contrast, has traditionally been focused on Chinese business (which is also important, given that China is the largest economy in the region). According to a June 2019 study by Ernst & Young, Singapore was the location of 4,200 regional headquarters compared with 1,389 in Hong Kong (and 531 in Tokyo and 470 in Shanghai).

**Singapore**

Approval is required from the Singapore Economic Development Board (EDB) to benefit from FTC incentives, and it is valid for between five and 10 years.

Qualifying activities currently benefit from an 8% income tax rate and an exemption from withholding tax. Singapore is a major international financial centre, a top-three FX trading centre, with a deeply experienced talent pool with very strong English skills. It also has a deep and broad talent pool for treasury activities, benefiting from three decades as the pre-eminent treasury location in Asia. Singapore offers an excellent quality of life and a supportive ecosystem for both locals and foreigners, including a variety of good schools and accommodation. Singapore Changi Airport is both highly rated and has one of the widest route networks. Telecommunications and support services are world class, and the commercial legal system is strong and independent. Singapore’s geographic location between India and China has made it extremely popular as a regional headquarters and treasury location for Asia.
Hong Kong

No approval is required to benefit from the CTC - tax benefits are claimed by classifying qualifying activities appropriately in the income tax return. Qualifying activities currently benefit from half the normal income tax rate of 16.5%, i.e. 8.25%. There is no withholding tax in Hong Kong. Hong Kong is an established international financial centre with strong capital markets expertise due to its proximity to China. But its English language skills lag behind those of Singapore. Hong Kong’s talent pool, which is strong in debt capital markets, is weaker in treasury because there has historically been less corporate treasury activity there. Quality of life is generally good, but air quality can be a problem due to the proximity of China’s industrial heartland in the Pearl River Delta. Hong Kong International Airport is world class although focused on its role as a gateway for China. Telecommunications and support services are strong. Recent moves by the Chinese Communist Party carry the risk of compromising Hong Kong’s previously independent judiciary, and this is a concern for many multinational corporations.

China

In the past decade China has made rapid progress in opening up financially to support its efforts to internationalise Chinese yuan (CNY). This included allowing cross-border intercompany loans in both foreign currencies and CNY. China introduced ‘FX Pool Header’ accounts in the China (Shanghai) Pilot Free Trade Zone (SHFTZ), located in Pudong New Area, to encourage businesses to run their cash pools from Shanghai.

Unfortunately, in 2017 treasurers were reminded that China remains a restricted market and that these openings remain fragile. This occurred when China sought to stop capital flight with so called ‘window guidance’ - ordering banks to restrict cross-border flows, without actually changing the legislation. China remains a difficult country for treasury and is thus an unlikely TC location. English skills are limited or expensive, and in general costs are rising fast in the more developed eastern and southern provinces and major cities.

Malaysia

Malaysia introduced its Treasury Management Centre (TMC) incentives in 2010. TMC requires approval from Malaysian Investment Development Authority (MIDA) and is valid for five years. Qualifying activities currently enjoy a 7.5% income tax rate and exemption from withholding tax. There is partial exemption from Malaysian exchange controls.

A major constraint is that qualifying banking must be carried out with on-shore banks – since Malaysian banks are far less competitive and sophisticated than international banks, this is a significant constraint. English skills and financial talent are a challenge in Malaysia, which is why TMC comes with concessions for expat work permits and personal income tax benefits. To date, TMC appeals mainly to Malaysian corporates.

Thailand

The TC incentive in Thailand is an extension of the existing International Head Quarters (IHQ) scheme and qualifying treasury centres inherit most IHQ benefits. The TC status requires Bank of Thailand and Ministry of Finance approval and is valid for 15 years.

Qualifying cross-border activities are tax exempt and qualifying domestic currently enjoy a 10% income tax rate. Qualifying activities are exempt from withholding tax and most exchange controls, which means an approved TC can function much like a TC within the Singapore FTC, including transacting with banks in Singapore and other financial centres. However, Thailand remains challenging for English skills and financial talent.

Experience and agility

The treasury environment has evolved positively for practitioners over the past decade on many levels including infrastructure, regulation, tax, and ecosystems. Nonetheless, Singapore remains the most popular treasury location for Asia, thanks to its long experience in treasury and to its agility in adapting to changing circumstances. Hong Kong remains popular with China-focused businesses, but on-going uncertainty as to its legal independence is a concern for many multinational corporations.

China, Thailand and Malaysia have all made great progress in facilitating cross-border treasury activities in their locations, but they remain challenging in many ways, so treasuries establishing themselves there will often have an overarching business imperative. The wider locus of the underlying business will always be a major factor in treasury location decisions.

”Treasury centres seek tax-efficient and open financial centres, since these tend to attract a deep talent pool with suitable experience.”

David Blair

Treasury Consultant, Acarate Consulting Singapore

david.blair@acarate.com
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Find us at: treasury-management.com/follow
Although the EACT Summit unfortunately could not take place this year, 200 treasury professionals from across Europe shared their thoughts on treasury’s role and priorities as part of the EACT survey. Survey responses were received between 11 March and 15 April 2020, a period that coincided with the start of Covid-19 lockdown in many locations. Although some participants responded before the official lockdown in their countries, many companies had already implemented measures such as stopping business travel and moving to home working. Markets were also experiencing significant volatility at the start of the survey period and supply chains had been disrupted. Consequently, it would seem fair to assume that most people responded to the survey in the context of crisis-related issues.

EXECUTIVE SUMMARY

- 200 treasury professionals from across Europe responded to the survey between mid-March and mid-April 2020.
- Cash flow forecasting is the highest priority for treasury, indicated by 55% of respondents, continuing a longer-term theme and reflecting the importance of liquidity management during the crisis.
- 62% use, or plan to use, data analytics, compared with 43% in 2019.
- 35% use, or plan to use, application programming interfaces (APIs) to facilitate integration for on-demand or real-time exchange of transactions or data.
- Just over half (52%) of treasurers are interested in the opportunities to exchange information in real-time information, and 47% in real-time liquidity and real-time payments and collections.
- 37% reported that working capital management (WCM) is a significant priority for treasury, but more than half (56%) indicated that they have neither role nor influence in working capital decision-making, although they are responsible for WCM.
- Although treasury centralisation has been a long-term trend, it remains a priority for 28% of respondents. Fragmentation and lack of standardisation across processes and controls, bank relationships and account structures, and technology platforms remain the biggest challenges to centralisation.
- Treasurers are motivated to support their companies’ environmental, social and governance (ESG) agenda, but most of this involvement is at an operational level, such as shifting from manual, paper-based processes (50%), reducing business travel and encouraging home working (41%).
Identifying priorities

Cash flow forecasting was the highest treasury priority for 55% of respondents. This is not surprising bearing in mind that cash and liquidity profiles, supply chains and customer behaviour were already affected by the pandemic before lockdowns were imposed. However, the focus on cash flow forecasting is not a ‘crisis phenomenon’. The issue has consistently appeared at the top of treasurers’ list of priorities, as reflected in the most recent bi-annual PwC Global Treasury Benchmarking Surveys in 2017 and 2019.

Likewise, technology and treasury digitalisation, and working capital management have remained significant priorities. The value of automation and digitalisation has been emphasised by the pandemic, particularly as people rapidly shifted to home working, with manual, paper-based processes becoming all but impossible. Similarly, optimising working capital has become essential, not simply improving individual metrics, e.g. days payable outstanding (DPO) and days sales outstanding (DSO) but a holistic approach to optimise liquidity and increase supply chain resilience.

Leveraging technologies

Treasurers have always been motivated and engaged by the opportunities to leverage innovative technologies to solve problems and add value to the business in new ways. Even so, there has been a notable jump in treasurers’ current or planned use of new technology capabilities over the past year, a trend that seems likely to have accelerated since the start of the Covid-19 crisis. A significant 62% of respondents noted that they were already using, or intend to leverage, data analytics to create intelligent insights into liquidity and risk dynamics, compared with 43% in 2019. Analytic tools are becoming more widely available in treasury management systems (TMS) and enterprise resource planning (ERP) platforms, as well as specialist solutions. The need for analytics to understand and respond to fast-changing, exceptional market and economic conditions has also been amplified during the crisis. Likewise, treasurers are increasingly recognising the potential of robotic process automation (RPA) to replace high-volume manual input, and enrich the data on which analytics can be performed. In 2019, 24% of respondents were using RPA, but in 2020, 46% already do so, or are planning to in the short term.

Use of, or interest in, application programming interfaces (APIs) was not covered in previous EACT surveys, but current or planned use of APIs was highlighted by 35% of survey participants this year. In treasury, APIs are increasingly used to enable the real-time exchange of transactions and data between banks and corporates’ TMS or ERP, and to embed
banking and payment services into internal or customer platforms.

Artificial intelligence (AI) is the sector of current or planned use of innovation that shows the biggest increase, with a leap from 6% in 2019 to 22% in 2020. AI capabilities are increasingly part of banks’ and technology vendors’ solutions such as predictive analytics, cash flow forecasting, bank account reconciliation and fraud prevention tools.

Themes and trends

‘Treasury on Demand’ is one of the themes of this year’s Journeys to Treasury report, and the trend towards ‘real time’, including transactions, processes and data exchange, has become more apparent in 2020 than in any previous year. Of the respondents 52% expressed an interest in real-time information, and 47% in both real-time liquidity and real-time payments and collections. These themes, as well as APIs (for real-time integration) and 24/7 availability, are closely related, and will create new demands on banks and technology vendors to offer real-time solutions, such as for liquidity and risk, and the ability to handle real-time data. There are also procedural implications as treasurers need to consider how they will adapt their processes and decision-making to reflect the availability of real-time data.

Working capital management: influence and responsibility

Treasurers’ involvement in working capital management, and the value of treasurers’ contribution in this area, is explored as one of the themes in this year’s Journeys to Treasury report, and was also covered in the recent Covid-19 special edition. Although identified as a priority by 37% in the first section of the survey, treasurers report varying degrees of influence and responsibility for working capital. For example, 45% note that they are involved in working capital, but do not have direct responsibility. Only 30% are responsible for working capital.

As protecting both physical and financial supply chains has become a higher priority, while market liquidity may be more difficult to access in many cases, treasurers are likely to pay more attention to working capital and potentially take on a greater role.

Centralisation challenges

Although many treasurers have centralised their treasury functions at a regional or global level, centralisation remains a challenge for many, particularly those with a decentralised organisational structure and/or those that are highly acquisitive. Of the respondents in section 1, 28% indicated that centralisation would be a priority over the next one or two years.

The biggest obstacles to centralisation involve challenges posed by fragmentation and lack of standardisation in areas such as processes and controls (43%) bank relationships and account structures (33% and 21% respectively) and technology platforms (28%). Some of these issues are explored more fully in this year’s Journeys to Treasury report.
Lack of resources, budget and organisational support, both at senior management and business unit level, are also obstacles to centralisation. However, ironically, the Covid-19 crisis could boost this support and fast-track the availability of resources. Treasuries that have achieved a high level of centralisation, standardisation and automation have found it easier to adapt quickly to new business practices during the crisis. The importance of managing liquidity and risk at a group level has also been emphasised, particularly as many business units’ liquidity position has changed markedly, making the business case for centralised liquidity and risk management more compelling.

The ESG agenda

While treasurers’ primary responsibilities are around liquidity and risk, many organisations are implementing a group culture in which every employee and department plays a role in the environmental, social and governance (ESG) agenda. Although Covid-19 has diverted some immediate attention from the need to tackle climate change and environmental and social sustainability, it remains a primary strategic focus for most organisations.

The survey responses reveal that most of treasurers’ involvement in ESG is at an operational level, such as shifting from manual, paper-based processes (50%), reducing business travel and encouraging home working (41%). Given that these have become normal business practice during the early phases of the pandemic, it seems highly likely that these efforts will continue and become more firmly embedded into organisations’ working cultures.

Conclusion

The Covid-19 crisis has highlighted the importance of treasury’s role in managing existential issues around liquidity and risk, the value of digitisation to support automated processes and decision-making, and the potential for real-time data and transactions to accelerate supply chains and cash cycles. Real-time and on-demand intelligence also enhances treasurers’ visibility over, and response to, fast-changing conditions. The crisis has also rapidly altered the way that treasury functions operate, perhaps heralding a permanent change in working practices.

Treasurers have been adaptable and responsive to the immediate demands of the crisis. At the same time, their priorities, challenges and areas of interest have remained largely consistent. This suggests that treasurers are motivated by a longer-term, strategic view of the needs of their business, as opposed to reacting impulsively to the day-to-day demands of the crisis. The survey results illustrate, however, the growing role that technology innovation is likely to play in equipping treasurers with the automation and decision-making tools they need to fulfil their responsibilities more effectively, and deliver greater value to the organisation.

Notes
3 https://www.journeystotreasury.com/special-edition
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The Rise of the On-Demand TMS

As digitisation accelerates and organisations rethink their technology requirements as a result of Covid-19, treasurers are questioning whether their treasury management systems (TMSs) are still fit for purpose. Anis Rahal, Founder and CEO, TreasuryXpress, explains how fintech-driven TMS solutions can provide the intelligent functionality treasurers need, at a price they can afford, with the added bonus of flexibility in the face of innovation.

Eleanor Hill, Editor, TMI (EH): We’ve been talking about digital transformation for a number of years now, but how has Covid-19 changed the rules of the game? And what does this mean for TMS vendors, such as TreasuryXpress?

Anis Rahal (AR): First, it’s important to recognise the human cost of the pandemic. The scale and impact of Covid-19 on the global population cannot be underestimated. Of course, there has been a negative effect on the global economy too – and many companies will...
be rebuilding for years to come.

One of the silver linings to emerge from the pandemic, however, is the rapid shift towards digital business models. With global lockdown, organisations have embraced remote-working and e-commerce has taken off. At the same time, the digital agenda has advanced significantly within treasury functions. The pitfalls of Excel-based workflows have become very clear when working from home, as have the limitations of on-premise technology solutions and physical tokens for accessing online banking portals.

Now more than ever, treasurers are looking for cloud-based technology that enables them to view a complete picture of their cash and treasury operations in one go – at any time, from anywhere, and on any device. They are also keen to migrate as much of their physical operations as possible across to digital channels, while embracing automation and benefiting from top-grade cybersecurity, cutting-edge functionality, and a rapid implementation time.

It’s not just treasurers who are looking to upgrade their treasury technology, either. Interestingly, increasing numbers of banks have been approaching us throughout the pandemic to see how we can team up with them to provide their corporate clients with agile technology. So that’s an interesting trend to watch.

EH: How prepared was TreasuryXpress for a scenario like Covid-19? And how have you been able to support clients through the crisis?

AR: Honestly, no one was totally prepared for the pandemic in terms of the impacts to society and the global economy. However, from a technology perspective, we were in the fortunate position of being a digitally native fintech organisation and we have always prioritised the agility and strength of our offering. As such, we were able to offer a Treasury Technology Relief Programme, which involved giving away free subscriptions to our self-service treasury management tool, which supports centralised cash and financial instrument visibility, cash forecasting and positioning, as well as bank account reconciliations.

And, critically, we were able to get this up and running for treasurers in a matter of days, not several months. Rapid implementation is increasingly important in the digital age, but even more so during times of crisis. We were able to achieve this quick-start solution because of the nature of our on-demand TMS. Unlike more traditional, resource-intensive TMS models to digital, TreasuryXpress leverages the latest innovations, such as open API-powered bank connectivity, to make its deployment and maintenance as light-touch as possible.

So, the pandemic was really a huge test for our founding vision – to be an open and agile TMS provider. And I’m delighted that we were able to respond to treasurers’ needs during extremely challenging times not only from a solution perspective but from a services perspective as well in terms of implementation.

Pre-Covid, circa 80% of our implementations happened with no physical contact, with many clients preferring virtual project management. The remaining 20% of our clients preferred in-person collaboration and meetings. The physical aspect could involve meetings with multiple stakeholders – ranging from banks to consultants and in-house IT teams. Ideally, we would like to create a 100% virtual implementation model. And, again, the pandemic is helping us to work towards this goal as the counterparties we interact with, such as the banks, are now upgrading their connectivity channels. In turn, this should make it even easier to conduct no-(physical) contact implementations in the future.

EH: One technology trend we’re hearing more about is the shift away from all-in-one systems to a selection of best-of-breed solutions. How might this impact the TMS market?

AR: As a former treasurer, I am of the opinion that no single financial system can do everything. Sometimes you need specialist technologies and capabilities on top of your foundational system in order to achieve the best overall solution. So, this is where the idea of best-of-breed solutions comes in – and this is the founding vision I had for TreasuryXpress.

In fact, we built TreasuryXpress to act

So, the pandemic was really a huge test for our founding vision – to be an open and agile TMS provider.
as a backbone technology, into which we can connect specialists and niche providers via open API. For example, we offer FX conversion functionality within TreasuryXpress, which is delivered by a third party that concentrates solely on FX, and does it really well. We scour the market to find best-of-breed providers to work with, but we also listen to our clients’ needs – and can quickly adapt the system to connect to third parties that our clients require access to.

**EH**: What are the downsides of the best-of-breed approach?

**AR**: If a treasurer were to look to build this kind of set-up themselves, rather than using TreasuryXpress, they would face the challenge of having multiple contracts and contact points. The time spent liaising with these different parties could also start to erode the benefits of working with niche providers.

The beauty of TreasuryXpress’ approach is to remove all friction and extra work for the treasurers. To do this, we take care of all of those contracts and relationships behind the scenes. We do all the due diligence on those third parties too, since they are our business partners. So, through one relationship with TreasuryXpress, the treasurer benefits from the knowledge and functionality of all of the best-of-breed solution providers that make up our ecosystem. Our open structure and flexibility also mean that we can plug in more APIs without compromising the speed, efficiency, or security of the system – so it is built with a future-focus in mind.

As we create this frictionless ecosystem, we like to take in feedback from our clients and potential clients as to which partners are the most relevant to our client community and complementary to our technology. But delivering this experience, we can truly make the TMS an on-demand platform – giving clients the functionality they need without long, complex and costly buying and implementation processes.

**EH**: On that note, how do you see TreasuryXpress’ offering developing going forward? And how can treasurers prepare for this brave new world?

**AR**: We are working on publishing APIs for cash flow forecasting and in-house banking. Again, these will be developed with best-of-breed partners and we see this approach delivering great value benefits for treasurers. We will also continue to work on the 100% virtual implementations that I mentioned earlier.

To this end, my advice for treasurers would be to forget the days of legacy TMS, both on-premise solutions and older, inflexible Cloud solutions, embrace the accelerated move towards digitisation, and – above all – to encourage their banks to upgrade their connectivity options. Only with a fit-for-purpose digital ecosystem in place will treasurers be able to reap the full rewards that best-of-breed providers can offer, within the safety of a tried-and-tested on-demand TMS solution.
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